



Namoi Cotton Limited

FORMERLY

(Namoi Cotton Co-operative Ltd)

ABN 76 010 485 588

www.namoicotton.com.au

Appendix 4D incorporating the Interim Financial Report

**For the Half-Year Ended
31 August 2017**



This is a half-year financial report. It is to be read in conjunction with the most recent annual financial report.

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APPENDIX 4D

The information contained in this report is for the half-year ended 31 August 2017 and the previous corresponding period, 31 August 2016.

RESULTS FOR ANNOUNCEMENT TO MARKET

	% Change	\$'000
Revenues from ordinary activities	Up 38%	to 413,175
Profit from ordinary activities after tax attributable to members	Up 112%	to 15,757
Net profit for the period attributable to members	Up 112%	to 15,757

Dividends (distributions)	Amount per Security	Franked Amount per Security
Final distribution - (Refer Note 4)	Nil	-
Interim distribution	Nil	-
Record date for determining entitlements to the interim dividend	N/A	

Brief explanation of any of the figures reported above and short details of any bonus or cash issue or other item(s) of importance not previously released to the market:

For further explanation of the half-year financial results please refer to the Review of Operations shown in Page 4 of this report.

Earnings per Share

	31 August 2017	31 August 2016
Basic earnings per ordinary security	14.3 cents	6.8 cents

Net tangible assets per security

	31 August 2017	31 August 2016
Net tangible asset backing per ordinary security*	127 cents	119 cents

*Net tangible assets per security is a non-IFRS measure which is calculated as "Net assets" per the Balance Sheet of \$139,584,000 divided by "Capital stock at the end of the period" per note 15 of 109,843,000 securities, and is presented in cents per security

In compiling this half-year financial report Australian Accounting Standards have been utilised. The half-year financial report has been subject to review and is not subject to qualification.

DIRECTORS REPORT

Financial report for the half-year ended 31 August 2017

Your directors submit their report for the half-year ended 31 August 2017.

Directors

The names and qualifications of the Group's directors that held office during the half-year and up to the date of this report, unless otherwise indicated, are as follows:

Stuart C Boydell, Chairman, Non-executive Director, 70

Richard Anderson, Non-executive Director, 71, OAM, B Com, FCA, FCPA

Michael Boyce, Non-executive Director, 74, FCA, FAICD, B Com, HDA

Ben Coulton, Non-executive Director, 62

Glen Price, Non-executive Director, 62, B Rural Science (Hons)

Robert Green, Non-executive Director, 60, B Bus (QAC) MAICD

Tim Watson, Non-executive Director, 56

Restructure

On 26 September 2017 Grower Members and Namoi Capital Stockholders overwhelmingly approved the proposed restructure of Namoi Cotton from a Co-operative to an ASX listed public company with a single class of quoted ordinary shares for Grower Members and Namoi Capital Stockholders to be named Namoi Cotton Limited. The NSW Supreme Court approved the restructure on 3 October 2017 and on 10 October 2017 Namoi Cotton was incorporated as Namoi Cotton Limited, a fully listed public company. The Board is now working through the details of a capital raising to enable implementation of Namoi Cotton's strategic plan. Refer to Note 20 on page 25 for further details.

2017-2018 half-year financial results

Namoi Cotton recorded a net profit after tax of \$15.8m for the half year ended 31 August 2017, compared with a net profit after tax of \$7.4m in the previous half year. A 38% increase in the 2017 Australian crop size was underpinned by improved irrigation water availability in most valleys. Namoi Cotton's ginning and cotton seed volumes along with Namoi Cotton Alliance's (NCA) lint procurement volumes all benefited from the increased crop size, improving from the prior half year. Cotton seed trading margins improved considerably through effective risk and position management, market volatility trading opportunities and seed yield management. Ginning margins were pressured through increased unit variable costs associated with reduced productivity from poorer quality cotton. The contribution from Namoi Cotton's investment in NCA improved from the prior half year and was underpinned by a more stable environment for Australian basis (Australian cotton quality premium) and effective position risk management. These factors all combined to deliver a \$6.4m improvement from the prior half year in net cash flows from operating activities. Our forecast full year net cash flows from operating activities is expected to be within our previous market guidance range of between \$17m and \$22m.

The directors have elected not to declare an interim dividend (2016: nil cents).

No Grower Member rebate has been recorded within the half-year financial results for the period up to and including the date of the restructure consistent with the prior period.

Review of operations

The area planted to cotton for the 2017 cotton crop was 472,000 hectares nationally. Post planting, the crop experienced limited rainfall events and exceptionally hot and dry conditions in January and February. These conditions significantly impacted dryland crops and reduced the yields of irrigated crops. The overall 2017 Australian cotton crop is estimated to have yielded 3.75m bales representing a 38% increase from the previous year's crop of 2.71m bales. Irrigated yields have averaged approximately 10 bales per hectare compared with 11.5 the previous year. In addition to the lower yields, the quality of the 2017 crop has been negatively impacted by the planting conditions, in crop growing weather and challenging defoliation parameters.

Namoi Cotton completed ginning in late August 2017 having ginned 1,015,000 bales (including 100% of joint operations bales) of the 2017 crop (2016: 689,000 bales). The increased ginning volumes are directly related to the larger crop size. The quality of the cotton crop required a reduction in ginning throughput rates to maximize cotton quality output and limit discounts for the grower. The slower throughput rates have been the primary driver of a 10% increase in unit ginning variable costs from the prior half year reducing ginning gross margins. We continued to invest in our ginning network to improve service offerings to growers and drive productivity improvements in the ginning business completing significant projects prior to the commencement of ginning. These projects included a \$1m upgrade of the Merah North gin yard doubling its static storage capacity and a press upgrade, the addition of a fourth gin stand and associated cleaning equipment and press upgrade at Boggabri catering for the expanding southern upper Namoi valley production, the addition of a third gin stand and associated cleaning equipment at North Bourke and an upgrade to our lint cleaning equipment at the Ashley gin. Our continued commitment to workplace health and safety has resulted in a 34% improvement in our lost time injury frequency rate from the previous half year.

Our cotton seed business shipped 224,000mt (2016: 140,000mt) in the first half of the year with profitability from the seed business a strong contributor to the half year results. Seed prices remained firm into the commencement of ginning supported by the dry conditions and Chinese demand. Market prices in China along with a slowing of demand associated with Bollgard 3 cotton seed import requirements resulted in cotton seed being sold back into the domestic market and slowed the movement of cotton seed from gin sites pressuring prices in the second half of the ginning period. The continued dry conditions have seen a rebound in current market prices. Effective risk management combined with contractual yield management have significantly widened cotton seed trading margins from the previous half year.

Our investment in Cargill Oilseeds Australia has resulted in a loss of \$0.29m for the reporting period compared to a loss of \$0.42m in the previous period. Lower than sustainable volumes, the continuing high price for cottonseed relative to substitutable protein feeds and slower meal demand from both beef and dairy markets are the key drivers.

NCA to the end of August has procured total marketing volumes for the 2017 crop of 634,000 bales (2016: 507,000 bales). Namoi Cotton's contribution from the joint venture for the period was \$1.9m (2016: \$1.2m). Continued speculative involvement in the cotton futures market throughout the first half of the year provided growers with opportunities to sell cotton to merchants above historically attractive levels and this created a very competitive environment in the origination of cotton. The declining crop size extended local competition for cotton with merchants looking to cover short positions. In the export markets, Bangladesh continued fill the demand vacuum left by China whilst it moved through its lower import program to reduce its massive stockpile for the second year running. Chinese demand was also replaced by increased consumption in Vietnam while NCA's more traditional markets of Thailand and Indonesia remained reasonably consistent year on year. These factors combined with a more stable period for Australian basis relative to the prior period and effective position risk management resulted in an improvement in trading margins from the prior half year period. The joint venture's containerised packing operations have seen an increase in packing volumes by 139% period on period, underpinned by an increase in grains packing which was facilitated by carryover 2016 crop chick peas, favourably impacting the overall logistics utilisation for NCA. The dry weather conditions that have existed since April 2017 have taken a toll on winter crops including chickpeas and will impact NCA's commodity packing volumes in the second half of the year. NCA forecasts to pack slightly in excess of 100,000mt of chickpeas in the second half of the financial year across the three packing sites.

Finance costs have remained consistent to the prior reporting period. In August 2017, Namoi Cotton repaid \$5.5m of its long-term interest-bearing liabilities and now has term debt of \$42m down from the \$47.5m at August 2016.

2018 season (2018/19 financial year)

At the end of August 2017, public dam storage levels in most cotton growing areas exceeded those levels from the same time in the previous year. Central irrigation valleys of the Namoi and Gwydir continue to operate at less than optimum public water storage levels. The extremely wet weather conditions that hampered ground preparation for the 2017 crop, particularly in the Macquarie and southern NSW valleys have not re-occurred and should therefore not impact yields as they did in 2017. These factors are supportive of a larger 2018 crop with the southern NSW valleys to potentially represent 25% of overall national production. Planting of the 2018 crop as at the date of this report is approximately 75% complete. Our current estimate of the 2018 Australian crop will approximate 4.2m bales, up 11% from the 2017 crop.

Namoi Cotton anticipates, as a function of the increased 2018 crop production, ginning and cotton seed volumes to marginally improve. Our current forecast ginning volumes are between 1.05m bales and 1.15m bales, including 100% of joint operation gins, representing an increase of between 3% and 13% from the 2017 crop. Cotton seed volumes are expected to increase proportionally in line with ginning volumes from the 2017 crop and margins are anticipated to narrow through reduced seed yields.

NCA is targeting to increase its market share in cotton lint marketing volumes in what should be a larger 2018 crop. NCA's containerized commodity packing volumes are targeting to be higher than the current year supported by a larger cotton crop and improved conditions likely for winter crops including chickpeas which has now secured its position as a rotation crop for cotton growers.

Auditor's Independence Declaration

The auditor's independence declaration is included on page 7 of the financial report.

Rounding

The amounts contained in this report and in the half-year financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. (The Company is an entity to which the Instrument applies).

Signed in accordance with a resolution of the directors on behalf of the board.

On behalf of the board



S C BOYDELL

Director

Brisbane

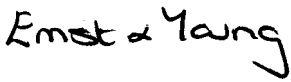
24 October 2017

Auditor's Independence Declaration to the Directors of Namoi Cotton Limited (formerly Namoi Cotton Co-Operative Ltd)

As lead auditor for the review of Namoi Cotton Limited for the half-year ended 31 August 2017, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Namoi Cotton Limited and the entities it controlled during the financial year.



Ernst & Young



Paula McLuskie
Partner
24 October 2017

Independent Auditor's Review Report to the Members of Namoi Cotton Limited (formerly Namoi Cotton Co-Operative Ltd)

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Namoi Cotton Limited (the Company) and its subsidiaries (collectively the Group), which comprises the balance sheet as at 31 August 2017, the statement of profit and loss and other comprehensive income, statement of changes in equity and cash flow statement for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 August 2017 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

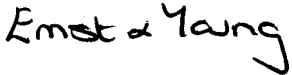
Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 August 2017 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



Ernst & Young



Paula McLuskie
Partner
Brisbane
24 October 2017

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

for the half-year ended 31 August 2017

		Consolidated \$'000	
	Note	31 Aug 2017	31 Aug 2016
Revenue	2a	413,175	299,316
Financial instrument gains/(losses)			
Currency derivatives		317	(121)
Purchase contracts		(14,991)	1,668
Sales contracts		15,466	(479)
Net financial instrument gains/(losses)		792	1,068
Other income	2b	-	62
Share of profit/(loss) of joint ventures and associates	9	1,602	749
Changes in inventories of finished goods		9,549	9,481
Raw materials and consumables used		(368,541)	(276,320)
Employee benefits expense	2c	(18,131)	(11,754)
Depreciation		(6,886)	(5,273)
Finance costs	2d	(1,468)	(1,424)
Other expenses	2e	(7,667)	(5,306)
Profit before income tax		22,425	10,599
Income tax expense	3	(6,668)	(3,176)
Profit attributable to equity holders of the parent		15,757	7,423
Other comprehensive income		-	-
Profit and total comprehensive income attributable to equity holders of the parent		15,757	7,423
		Cents	
		31 Aug 2017	31 Aug 2016
Earnings per capital stock unit	20		
Basic earnings per unit		14.3	6.8
Diluted earnings per unit		14.3	6.8

The above statement of profit and loss and other comprehensive income should be read in conjunction with the accompanying notes.

BALANCE SHEET

as at 31 August 2017

	Note	Consolidated \$'000		
		31 Aug 2017	28 Feb 2017	31 Aug 2016
Current assets				
Cash and cash equivalents	5	6,058	2,256	2,935
Trade and other receivables	6	59,631	5,288	40,435
Inventories	7	16,312	7,614	13,928
Prepayments		762	541	828
Derivative financial instruments	8	1,509	14,665	3,851
Total current assets		84,272	30,364	61,977
Non-current assets				
Investments in associates accounted for using the equity method	9	43,478	41,876	42,715
Property, plant and equipment	12	135,221	138,473	136,756
Total non-current assets		178,699	180,349	179,471
Total assets		262,971	210,713	241,448
Current liabilities				
Trade and other payables	13	58,497	8,401	44,369
Interest bearing liabilities	14	8,513	16,590	5,277
Provisions		2,749	1,979	2,273
Derivative financial instruments	8	846	14,141	3,899
Total current liabilities		70,605	41,111	55,818
Non-current liabilities				
Interest bearing liabilities	14	43,633	43,330	48,838
Provisions		899	863	823
Co-operative grower member shares		447	447	447
Deferred tax liability		7,803	1,134	4,555
Total non-current liabilities		52,782	45,774	54,663
Total liabilities		123,387	86,885	110,481
Net assets		139,584	123,828	130,967
Equity				
Contributed equity	15	1,098	1,098	1,098
Reserves	17	101,844	101,845	101,844
Retained earnings		36,642	20,885	28,025
Equity attributable to the equity holders of the parent		139,584	123,828	130,967
Total equity		139,584	123,828	130,967

The above balance sheet should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENT

for the half-year ended 31 August 2017

	Consolidated \$'000	
	31 August 2017	31 August 2016
Cash flows from operating activities		
Receipts from customers	443,695	326,343
Net commodity/currency derivative flows	549	142
Payments to suppliers and employees	(66,996)	(44,358)
Payments to suppliers - growers	(360,658)	(271,691)
Interest received	6	2
Borrowing costs	(1,365)	(1,684)
Net cash inflow/(outflow) from operating activities	15,231	8,754
Cash flows from investing activities		
Payments for property, plant and equipment	(2,708)	(735)
Proceeds from sale of property, plant and equipment	75	64
Loans advanced	(5)	(22)
Proceeds from loans receivable	8	12
Net cash inflow/(outflow) from investing activities	(2,630)	(681)
Cash flows from financing activities		
Proceeds from borrowings	5,519	6,023
Repayment of borrowings	(12,980)	(10,503)
Loans advanced to growers	(360)	(2,287)
Proceeds from repayment of grower loans	360	2,287
Repayment of finance lease and hire purchase principle	(519)	(376)
Net cash inflow/(outflow) from financing activities	(7,980)	(4,856)
Net increase/(decrease) in cash	4,621	3,217
Add cash at the beginning of the financial year	1,437	(282)
Cash at end of period	6,058	2,935

The above cash flow statement should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

for the half-year ended 31 August 2017

		CCU	Asset		
	Issued	Premium	Revaluation	Retained	Total
Consolidated \$'000	Capital	Reserve	Reserve	Earnings	Equity
Total equity at 1 March 2017	1,098	35,381	66,463	20,885	123,827
Profit and total comprehensive income for the period	-	-	-	15,757	15,757
Total equity at 31 August 2017	1,098	35,381	66,463	36,642	139,584

		CCU	Asset		
	Issued	Premium	Revaluation	Retained	Total
Consolidated \$'000	Capital	Reserve	Reserve	Earnings	Equity
Total equity at 1 March 2016	1,098	35,381	66,463	20,602	123,544
Profit and total comprehensive income for the period	-	-	-	7,423	7,423
Total equity at 31 August 2016	1,098	35,381	66,463	28,025	130,967

The above statement of changes in equity should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the Annual Financial Report of Namoi Cotton Limited as at 28 February 2017. It is also recommended that the half-year financial report be considered together with any public pronouncements made by Namoi Cotton Limited and its controlled entities during the half-year ended 31 August 2017 in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

a) Basis of accounting

This half-year financial report is a general purpose financial report, which has been prepared in accordance with applicable Accounting Standards including AASB 134 Interim Financial Reporting, other authoritative pronouncements of the Australian Accounting Standards Board, the Corporations Act 2001 and Chapter 4 of the ASX Listing Rules.

It is prepared in accordance with the historical cost convention, except for ginning assets which are carried at fair value and derivative financial instruments and cotton inventory that are measured at fair value.

Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards as issued by the International Accounting Standards Board. For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

b) Significant accounting policies

This half-year consolidated financial report has been prepared by adopting identical accounting policies as those adopted in the annual financial statements for the year ended 28 February 2017. Some revisions to Australian Accounting Standards have occurred on or after 1 March 2017, however management have determined that none of the revisions have had a material impact on the financials.

c) Seasonality of operations

Cotton Ginning, one of Namoi Cottons business segments, operates on a seasonal basis whereby ginning normally occurs between March to August each year. Accordingly, that segment traditionally generates profits in the first half year and incurs losses in the second half year during the ensuing maintenance period.

The ginning segment takes delivery of cottonseed from growers largely in the first half of the year between March and August. Under Namoi Cotton's accounting policies, profits on cottonseed are recognized when delivery occurs.

The lint cotton marketing business is undertaken by the Namoi Cotton Alliance (NCA) Associate. Namoi continues to purchase bales from growers which it on-sells to NCA. NCA normally takes delivery of lint cotton from Namoi in the first half of the year and under NCA's accounting policies, profits from this activity arise on receipt of the lint cotton. Namoi equity accounts for its share of the NCA joint venture net result (refer Note 9) which is reflected in the share of profits from joint ventures and associates in the Statement of Profit and Loss and Other Comprehensive Income.

The Balance Sheet and any associated Notes have been presented with three columns representing the prior half year end, the prior year end and current half year end balances. This additional information has been provided for the benefit of users in comparing the effects of the seasonal nature of the business arising between the half year and year end.

2. Revenue and Expenses

	Consolidated \$'000	
	31 Aug 2017	31 Aug 2016
a) Revenue		
Sale of lint, seed and other goods	357,033	259,968
Rendering of ginning services	55,935	39,136
Rental revenue	110	106
Other service revenue	90	104
Finance revenue	7	2
	413,175	299,316
b) Other income		
Net gain on disposal of property, plant and equipment	-	62
	-	62
c) Employee benefits expense		
Salaries, wages, on-costs and other employee benefits	17,249	11,068
Defined contribution benefits expense	882	686
	18,131	11,754
d) Finance costs		
Interest on bank loans and overdrafts	1,399	1,400
Interest expense - interest rate derivatives	69	24
	1,468	1,424
e) Other expenses		
Maintenance	2,248	1,649
Net loss on disposal of property, plant and equipment	42	-
Insurance	357	352
Motor vehicle related	867	542
Consulting fees	313	263
Audit fees	132	133
Business travel	331	233
Minimum operating lease payments	263	255
Strategic restructuring-consulting ¹	1,157	213
Other	1,957	1,666
	7,667	5,306

¹ Includes the engagement of external corporate, legal and taxation advisors in relation to the corporate restructure proposal.

3. Income Tax

	Consolidated \$'000	
	31 Aug 2017	31 Aug 2016
Statement of Profit and Loss and Other Comprehensive Income		
Accounting profit from continuing operations before income tax expense	22,425	10,599
At the Group's statutory income tax rate of 30% (2016: 30%)	6,728	3,180
Non-assessable or non-deductible items	(60)	(4)
Income tax expense/(benefit) recorded in the statement of comprehensive income	6,668	3,176

4. Distributions Paid or Provided on Co-operative Capital Units

	Consolidated \$'000	
	31 Aug 2017	31 Aug 2016
<i>Distributions paid during the half-year (unfranked)</i>		
Final distribution for the year ended 28 February 2017 of Nil cents per unit of Capital Stock (2016: Nil cents)	-	-
<i>Distributions provided in the previous period</i>	-	-
Net distributions paid or provided during the period	-	-

	Cents per unit	
	31 Aug 2017	31 Aug 2016
Distributions paid or provided per capital stock unit		
In respect of the financial years ended:		
28 February 2018	Nil	
28 February 2017	Nil	
29 February 2016		Nil

5. Cash and Cash Equivalents
Reconciliation to Statement of Cash Flows

For the purposes of the Statement of Cash Flows, cash comprises the following items:

Cash at bank and on hand

Bank overdraft

Consolidated \$'000		
31 Aug 2017	28 Feb 2017	31 Aug 2016
6,058	2,256	2,935
-	(819)	-
6,058	1,437	2,935

6. Trade and Other Receivables
Current

Trade debtors from material joint venture¹

Trade debtors and receivables

Less: allowance for impairment loss

Consolidated \$'000		
31 Aug 2017	28 Feb 2017	31 Aug 2016
41,382	-	31,951
18,254	5,293	8,489
(5)	(5)	(5)
59,631	5,288	40,435

¹Trade debtors from material joint venture represents funds due from Namoi Cotton Alliance in respect of lint cotton bale deliveries. Receipt of funds coincides with settlement of Namoi Cotton's lint payment obligations to growers, with the liability for those amounts reflected in trade creditors and accruals.

7. Inventories

Cotton seed (at fair value less costs to sell)

Moss and mote (at cost)

Operating supplies and spares (at cost)

Consolidated \$'000		
31 Aug 2017	28 Feb 2017	31 Aug 2016
10,652	1,792	9,780
689	-	501
4,971	5,822	3,647
16,312	7,614	13,928

8. Derivative Financial Instruments

	Consolidated \$'000		
	31 Aug 2017	28 Feb 2017	31 Aug 2016
Current assets			
Foreign exchange contracts	177	444	-
Sale contracts (cottonseed)	1,332	-	3,851
Purchase contracts (cottonseed and lint cotton)	-	14,221	-
	1,509	14,665	3,851
Current liabilities			
Foreign exchange contracts	-	-	209
Interest rate swap contracts	69	-	179
Sale contracts (cottonseed)	7	14,141	-
Purchase contracts (cottonseed)	770	-	3,511
	846	14,141	3,899

The fair value methodology for financial instruments is set out in Note 18.

9. Investments in Associates and Joint Ventures using the equity method

	Consolidated \$'000		
	31 Aug 2017	28 Feb 2017	31 Aug 2016
Investment in associates (material)	2,292	2,671	3,049
Investment in joint ventures (material)	41,932	40,010	41,199
Investment in joint ventures (non material)	(746)	(805)	(1,533)
	43,478	41,876	42,715
Material investment in associates			
(i) <i>Share of associates results</i>			
Cargill Oilseeds Australia Partnership ('COA')	(479)	(872)	(462)
Cargill Processing Ltd ('CPL')	100	70	38
Group share of associates profit/(loss)	(379)	(802)	(424)
(ii) <i>Carrying amount of investments in associates</i>			
Cargill Oilseeds Australia Partnership ('COA')			
Balance at the beginning of the financial year	(755)	117	117
Distribution paid out of retained earnings	-	-	-
Share of associates profits/(losses) for the financial year	(479)	(872)	(462)
	(1,234)	(755)	(345)
Cargill Processing Ltd ('CPL')			
Balance at the beginning of the financial year	3,426	3,356	3,356
Share of associates profits/(losses) for the financial year	100	70	38
	3,526	3,426	3,394
Group carrying amount of investment in associates at the end of the financial period	2,292	2,671	3,049
Material investments in joint ventures: NCA			
(i) <i>Material joint venture results</i>			
Group share of joint venture profit/(loss)	1,922	60	1,249
(ii) <i>Carrying amount of investments in joint ventures</i>			
Balance at the beginning of the financial year	40,010	39,950	39,950
Distribution paid out of retained earnings	-	-	-
Share of associates profits/(losses) for the financial year	1,922	60	1,249
Group carrying amount of investment in associates at the end of the financial period	41,932	40,010	41,199
Share of non material investments in joint ventures: ACS and NCPS			
(i) <i>Non material joint venture results</i>			
Profits/(losses) and total comprehensive income from continuing operations	58	652	(76)
Share of profit/(loss) of associates and joint ventures	1,602	(90)	749
Ownership interest (%)			
Cargill Oilseeds Australia Partnership ('COA')	15%	15%	15%
Cargill Processing Ltd ('CPL')	15%	15%	15%
Australian Classing Services Pty Ltd ('ACS')	50%	50%	50%
Namoi Cotton Alliance ('NCA')	51%	51%	51%
NC Packing Services Pty Ltd ('NCPS')	51%	51%	51%

Principal activities

COA processes and markets cottonseed, canola and other oilseeds.

CPL owns facilities used in the processing and marketing of cottonseed, canola and other oilseeds by COA.

ACS provides independent classing services to the Australian cotton industry.

NCA markets Australian lint cotton and owns significant up-country warehousing and logistics facilities to support the marketing operations.

NCPS operates containerised commodity packing facilities primarily packing cottonseed, coarse grains and pulses.

NCA and NCPS are 51% owned by the Group, however, the two entities are jointly controlled due to the joint venture agreement terms in relation to committee decision making and the Group's representation on the respective committees.

10. Interest in Joint Operations

		Consolidated		
		31 Aug	28 Feb	31 Aug
Name	Balance Date	2017	2017	2016
(a) Ownership interest (%)				
Wathagar Ginning Company ('WGC')	28 February	50%	50%	50%
Moomin Ginning Company ('MGC')	28 February	50%	50%	50%

(b) Principal activities

The joint operations provide ginning services to cotton growers in the Gwydir valley located in NSW.

11. Interest in Jointly Controlled Assets

Namoi Cotton jointly owns the white cottonseed handling and storage facilities at Mungindi, NSW. Namoi Cotton holds a 40% ownership interest in these assets with a book carrying value of \$2,251,000 (Feb 2017: \$2,277,000).

12. Property, Plant and Equipment
a) Acquisitions and disposals

During the half-year ended 31 August 2017 the group acquired assets of \$3,752,143 (2016: \$735,000) and disposed of assets with a net carrying value \$117,328 (2016: \$1,900).

b) Impairment

No impairment losses have been recognised or reversed in the current or comparative half-year.

13. Trade and Other Payables

	Consolidated \$'000		
	31 Aug 2017	28 Feb 2017	31 Aug 2016
<i>Current</i>			
Trade creditors and accruals ¹	58,074	8,231	44,179
Grower deposits	57	38	55
Customer deposits	366	132	135
	58,497	8,401	44,369

¹Trade creditors include grower lint creditors which are seasonally higher at the half year end.

14. Interest Bearing Liabilities

Financing arrangements

The extent to which the economic entity's finance facilities provided by Commonwealth Bank of Australia (CBA) were available and utilised is listed below.

	Facility Limits - Consolidated AUD \$'000		
	31 Aug 2017	28 Feb 2017	31 Aug 2016
<i>AUD Facilities</i>			
Short term	2,500	2,500	2,500
Working capital finance ¹	10,000	10,000	10,000
Term debt ²	42,000	47,480	47,481
Equipment Finance ³	2,500	2,500	2,500
	57,000	62,480	62,481

Facility Use - Consolidated AUD \$'000			
	31 Aug 2017	28 Feb 2017	31 Aug 2016
Current			
<i>AUD Facility Use</i>			
Short term	-	819	-
Working capital finance ¹	7,500	9,500	4,500
Term debt ²	-	5,500	-
	7,500	15,819	4,500
<i>Other Liabilities</i>			
Lease liability - bank finance ³	940	702	691
Lease liability - other finance	73	69	86
	1,013	771	777
	8,513	16,590	5,277
Non Current			
<i>AUD Facility Use</i>			
Term debt ²	42,000	41,980	47,481
	42,000	41,980	47,481
<i>Other Liabilities</i>			
Lease liability - bank finance ³	1,365	1,005	1,357
Lease liability - other finance	268	345	-
	1,633	1,350	1,357
	43,633	43,330	48,838

Facility description and use

¹Working capital finance

Working capital lines are utilised to fund day to day expenses of the business including specific funding needs for operating consumables, cottonseed inventory and debtors.

Namoi Cotton has negotiated the following finance facility limits:

- Committed cotton seed and ginning consumables multi option working capital facility (non-amortising) - facility limit of AUD\$10 million (2016: AUD\$10 million).

²Term debt finance

- Namoi Cotton has negotiated the following finance facility limits:
- Committed term debt facility A (non-amortising) - facility limit of AUD\$35 million (2016: AUD\$25 million) with a facility end date of 28 February 2020;
- Committed term debt facility B (non-amortising) – facility limit was reduced from AUD\$12.5 million to AUD\$7 million during the year (2016: AUD\$10.5 million), the facility limit was reduced as a result of repaying AUD\$5.5 million of term debt. The facility end date is 28 February 2020; and
- Committed term debt facility C (non-amortising) - facility limit of AUD\$nil as consolidated into term debt A and B (2016: AUD\$12.0 million).

³Equipment finance

Equipment finance lease facilities were provided to facilitate the upgrade of mobile plant.

The current financing agreement with CBA was effected 24 February 2017 (and as amended) and contained a number of financial covenant compliance requirements. No breaches of financial covenants have occurred in the reporting period. At the date of this report, term facilities are due to expire on 28 February 2020, whilst the working capital facility has an end date of 17 March 2018.

The Directors expect the facilities will be renewed thereafter and at appropriate levels for Financial Year 2019 operations.

15. Contributed Equity

	No. 000's		\$ '000	
	31 Aug 2017	28 Feb 2017	31 Aug 2017	28 Feb 2017
Capital stock at the beginning of the financial year	109,843	109,843	1,098	1,098
Issued during the year	-	-	-	-
Redeemed through on-market buy-back	-	-	-	-
Capital stock at the end of the period	109,843	109,843	1,098	1,098

16. Segment Information

Business segments Half-year ended 31 August 2017	Ginning \$'000	Marketing ¹ \$'000	Commodities \$'000	Unallocated \$'000	Consolidated \$'000
Sales to external customers	138,483	274,539	36	117	413,175
Segment Result (Pre-tax)	24,417	2,717	49	(4,758)	22,425
Business segments Half-year ended 31 August 2016	Ginning \$'000	Marketing \$'000	Commodities \$'000	Unallocated \$'000	Consolidated \$'000
Sales to external customers	96,254	202,905	50	107	299,316
Segment Result (Pre-tax)	12,176	1,505	52	(3,134)	10,599

	Consolidated \$'000	
	31 Aug 2017	31 Aug 2016
Included in the unallocated results for the period are:		
Rental Revenue	110	105
Finance Revenue	7	2
Total Unallocated Revenue	117	107
Employee benefits expense	(1,917)	(1,703)
Depreciation	(177)	(166)
Finance costs	(20)	(29)
Other corporate administrative expenses	(2,760)	(1,343)
	(4,875)	(3,241)
Total Unallocated Result	(4,758)	(3,134)

¹ Marketing revenue remains inclusive of lint sales values upon transfer of bales from Namoi to NCA. The segment result represents the share of profits from the NCA joint venture plus the margin on sales from Namoi to NCA.

17. Reserves

Capital stock (CCU) premium reserve

By virtue of rule 15.2 of the co-operative rules, the capital stock premium reserve is used to record amounts received in respect of capital stock issued at a premium and are to be regarded as paid up capital of the co-operative.

The balance standing to the credit of this account may be applied in any one or more of the following ways:

- In the payment of dividends if those dividends are satisfied by the issue of shares to the members of the co-operative;
- In writing off the preliminary expenses of the co-operative; or
- In providing for the premium payable on redemption of shares, debentures or co-operative capital units.

Asset revaluation reserve

The asset revaluation reserve is used to record increases in the fair value of ginning and warehouse assets and decreases to the extent that such decreases relate to an increase on the same asset previously recognised in equity. The reserve can only be used to pay dividends in limited circumstances.

18. Fair Value Measurement - Financial Instruments

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables and current interest bearing liabilities approximate their fair value.

Non-current interest bearing liabilities have a carrying amount of \$43.6 million and have a fair value of \$43.4 million. The fair value of the non-current interest bearing liabilities is determined by using a discounted cash flow ("DCF") method that reflects the issuer's borrowing rate as at the end of the reporting period.

Fair value on foreign exchange contracts are determined by comparing the contracted rate to the market rates for contracts of the same maturity. All movements in fair value are recognised in the statement of profit and loss and other comprehensive income in the period they occur.

Cotton seed sales contracts are forward dated and deliverable contracts with customers. The fair value of cotton seed commodity contracts is determined by reference to market prices and foreign exchange rates.

Cotton seed commodity purchase contracts are forward dated and deliverable contracts with cotton growers or brokers. The fair value of cotton seed commodity contracts is determined by reference to market prices and foreign exchange rates.

The group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1

The fair value is calculated using quoted prices in active markets. Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs.

Level 2

The fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). For financial instruments not quoted in active markets, the group uses various valuation techniques that compare to other similar instruments for which market observable prices exist and also other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

Level 3

The fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair value of unlisted debt securities are based on valuation techniques using market data that is not observable (Level 3 in the fair value hierarchy). The grower shares are issued and can be redeemed for a fixed

amount of \$2.70 per share. The fair value of the instruments was determined by an independent expert to be \$7.00 per share (as stated in note 20). The fair value was determined using the DCF method and took into account the fixed redemption of \$2.70 per share and a sustainable rebate.

Financial instruments that use valuation techniques with only observable market inputs or unobservable inputs that are not significant to the overall valuation include interest rate swaps, forward commodity contracts and foreign exchange contracts not traded on a recognised exchange.

The fair value of Cotton Seed Contracts (Purchase and Sale) and Cotton Seed Inventory (at fair value less cost to sell) is determined with reference to an observable market, reports and adjustments for freight premiums and discounts which are unobservable. During the period there has not been a change in unobservable inputs (i.e. freight premiums, discounts and cost to sell), accordingly no gains or losses have been recognised as a result in changes of unobservable inputs during the year. (2016: nil). The nature of the market used to determine the Cotton Seed Price is assessed as being illiquid given the low volume of transactions, accordingly the contracts are classified as level 3 and the value of all derivatives are stated in note 8.

19. Contingent Assets, Liabilities and Commitments

Since the last annual reporting date, there has been no material change in any contingent assets, liabilities or commitments.

20. Significant Events after Balance Date

On 26 September 2017 Namoi Cotton Cooperative Ltd grower members and cooperative capital unit holders voted in favour of schemes of arrangement to convert the Cooperative (registered under the Cooperatives National Law) to a company limited by shares (registered under the Corporations Act). The vote received final regulatory approval and became effective on 10 October 2017.

The restructure also resulted in the grower member shares (previously recorded as a financial liability) being settled via the issuance of ordinary shares. In accordance with accounting standards, the financial liability was revalued to fair value prior to being settled with ordinary shares. The fair value of the grower member shares was determined to be \$7.00 per share at the restructure date, by an Independent Expert. The increase in the carrying value of the grower member shares from \$2.70 to \$7.00 per share resulted in a fair value decrement to profit and loss of \$0.712 million subsequent to 31 August 2017.

The grower share liability of \$1.16 million, cooperative capital unit premium reserve of \$35.38 million and the contributed equity of \$1.098 million were reclassified to share capital in accordance with the restructure subsequent to 31 August 2017.

The restructure will result in an additional 32.81 million shares being issued which will increase the shares on issue to 142.65 million as at 10 October 2017. The increase in shares on issue will impact the earnings per share in future reporting periods.

The event is a non-adjusting event given that the condition that triggered the impacts on the financial statements (e.g. settlement of the grower member shares in accordance with the vote) occurred after the reporting date.

No other events of a material nature have occurred between 31 August 2017 and the date of this report which are not disclosed elsewhere within this half-year financial report.

21. Related Party Disclosures

Significant related party transactions entered into with other related parties during the six months ended 31 August 2017 and 2016:

ACS leased HVI machines from the parent during the period for \$17,953 (2016: \$17,953)

Sales of white cotton seed to the COA Partnership were \$32,645,079 (2016: \$18,002,024) and purchases of white cotton seed from the COA Partnership were \$1,262,599 (2016: \$NIL).

Transactions with Namoi Cotton Alliance

Management fees received by Namoi for services provided to Namoi Cotton Alliance \$1.25m (inclusive of bale handling fees) (2016: \$1.25m).

Lint Cotton Sales from Namoi to Namoi Cotton Alliance \$273.1m (2016: \$206.3m).

22. Other Non-Financial Information

Namoi Cotton Limited
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AFSL 267863

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Computershare Investor Services Pty Ltd
GPO Box 7045
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Investor Inquiries: 1300 855 080

Bankers
Commonwealth Bank of Australia

Auditors
Ernst & Young
Brisbane, Australia

DIRECTORS DECLARATION

Financial report for the half-year ended 31 August 2017

In accordance with a resolution of the directors of Namoi Cotton Limited, I state that:

In the opinion of the directors:

- a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - i) giving a true and fair view of the consolidated entity's financial position as at 31 August 2017 and of its performance for the half-year ended on that date; and
 - ii) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001; and
- b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the board



S C BOYDELL
Director
Brisbane
24 October 2017