



## **Namoi Cotton Co-operative Ltd**

ABN 76 010 485 588  
[www.namoicotton.com.au](http://www.namoicotton.com.au)

### **Appendix 4D incorporating the Interim Financial Report**

**For the Half-Year Ended  
31 August 2014**



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

## Contents

<b>Appendix 4D .....</b>	<b>3</b>
<b>Directors Report .....</b>	<b>4</b>
<b>Auditor's Independence Declaration .....</b>	<b>7</b>
<b>Report on the Interim Financial Report .....</b>	<b>8</b>
<b>Statement of Profit and Loss and Other Comprehensive Income .....</b>	<b>10</b>
<b>Balance Sheet .....</b>	<b>11</b>
<b>Cash Flow Statement .....</b>	<b>12</b>
<b>Statement of Changes in Equity .....</b>	<b>13</b>
<b>Notes to the Financial Statements .....</b>	<b>14</b>
1. Summary of Significant Accounting Policies .....	14
2. Revenue and Expenses.....	15
3. Joint Operation Acquisition.....	16
4. Income Tax .....	17
5. Distributions Paid or Provided on Co-operative Capital Units .....	18
6. Trade and Other Receivables .....	19
7. Inventories .....	19
8. Derivative Financial Instruments .....	19
9. Investments in Associates and Joint Ventures using the equity method .....	20
10. Interest in Joint Operations .....	21
11. Interest in Jointly Controlled Assets.....	21
12. Property, Plant and Equipment.....	21
13. Trade and Other Payables.....	22
14. Interest Bearing Liabilities.....	22
15. Contributed Equity .....	24
16. Segment Information .....	25
17. Reserves .....	25
18. Fair Value Measurement.....	26
19. Contingent Assets, Liabilities and Commitments.....	27
20. Significant Events after Balance Date .....	27
21. Other Non-Financial Information.....	27
<b>Directors Declaration.....</b>	<b>28</b>

**APPENDIX 4D**

The information contained in this report is for the half-year ended 31 August 2014 and the previous corresponding period, 31 August 2013.

**RESULTS FOR ANNOUNCEMENT TO MARKET**

	<b>% Change</b>	<b>\$'000</b>
Revenues from ordinary activities	Down 14%	to 351,303
Profit from ordinary activities after tax attributable to members	Up 26%	to 15,738
Net profit for the period attributable to members	Up 26%	to 15,738

<b>Dividends (distributions)</b>	<b>Amount per Security</b>	<b>Franked Amount per Security</b>
Final distribution - (Refer Note 5)	Nil	-
Interim distribution - to be paid 31 October 2014	0.5 cents	-
Record date for determining entitlements to the interim dividend	17 October 2014	

*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**

	<b>31 August 2014</b>	<b>31 August 2013</b>
Basic earnings per ordinary security	14.3 cents	11.3 cents

**Net tangible assets per security**

	<b>31 August 2014</b>	<b>31 August 2013</b>
Net tangible asset backing per ordinary security	122 cents	115 cents

*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 2014

Your directors submit their report for the half-year ended 31 August 2014.

#### Directors

The names and qualifications of the Co-operative'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, 67*

*Richard Anderson, Non-executive Director, 68, OAM, B Com, FCA, FCPA*

*Michael Boyce, Non-executive Director, 71, FCA, FAICD, B Com, HDA*

*Bruce S Longworth, Non-executive Director, 61*

*Ben Coulton, Non-executive Director, 59*

*Glen Price, Non-executive Director, 59, B Rural Science (Hons)*

*Robert Green, Non-executive Director, 57, B Bus (QAC) MAICD*

#### 2014-2015 half-year financial results

Namoi Cotton recorded a strong net profit after tax of \$15.7m for the half year ended 31 August 2014, compared with a net profit after tax of \$12.5m in the previous half year. Improved ginning throughput rates and ginning market share combined with an effective cotton seed trading risk management program to deliver a 5% improvement in ginning segment results, all assisted in achieving the improved result. A strong operating contribution from Namoi Cotton Alliance (NCA) combined with effective cost management, significantly lower finance costs and no material residual marketing business impacts have also contributed to the overall result. These strong half year results continue to have Namoi Cotton well positioned to deliver on its current forecast net profit after tax and rebate for FY 2015 of between \$6.0m and \$7.5m.

The directors have elected to pay an interim distribution of 0.5 cents (2013: nil) per unit of Namoi Capital Stock and will consider a final distribution once the full-year result is finalised. The interim distribution has been recorded in the half year financials.

No rebate has been recorded within the half-year financial results.

#### Review of operations

The 2014 Australian cotton crop is anticipated to total 3.8m bales, representing a 14% decline from the previous year's crop of 4.4m bales. Unseasonable March 2014 rainfall impacted the crop in a number of regions with cotton colour quality deteriorating and a delayed commencement of ginning.

Namoi Cotton completed ginning in late September 2014 having ginned 1,124,000 bales (including 100% of joint venture bales) of the 2014 crop (2013: 1,244,000 bales). The reduction in volumes is largely consistent with the reduced Australian crop size offset in part by the strategic acquisition of the remaining 50% share in the ACGC ginning facility. A further 7% improvement in weighted average hourly ginning throughput rates has underpinned strong underlying earnings contribution from our core ginning business validating the continued resource and capital investment in our ginning network, which remains the largest in Australia. Our ginning business was placed under pressure to ensure consistency of operations and assist in the avoidance of contractual penalty for growers associated with inverted marketing contracts for their cotton. This consistency was achieved despite the late commencement to the season. The delayed commencement to the season has also reduced our moss and mote revenues from the previous half year albeit this will be recovered in the second half of this financial year.

Our cotton seed business shipped 223,000mt (2013: 274,000mt) in the first half year. Despite this reduced volume the aggregate cotton seed trading margin has remained a constant contributor to the overall results. Effective trading margins have primarily been a function of strong domestic demand associated with the persisting dry weather conditions. This domestic demand saw a reduction in our cotton seed export program and provided greater early season logistics capacity to the NCA cotton lint marketing business.

Our investment in Cargill Oilseeds Australia has contributed a profit of \$0.7 million in the reporting period compared to a profit of \$0.4m in the previous period.

NCA has contributed strongly with \$4.3m (2013: \$1.9m) to the overall Namoi Cotton result. Total marketing volumes procured at reporting date for the 2014 season reflected 567,000 bales (2013: 571,000 bales). The reduction from the comparative period reflected a reduced Australian crop size and effective risk management of the inverted market conditions. The joint venture's containerised cotton seed packing operations packed 56,000mt (2013: 103,000mt) with volumes reduced as a result of greater domestic cotton seed demand.

Finance costs have reduced by \$2.6m in the reporting period with interest bearing liabilities decreasing from \$141.2m at February 2013 to \$59.1m at August 2014 despite the drawing of \$9.5m to finance the remaining 50% ACGC ginning facility acquisition and the seasonal requirements of working capital lines. Namoi Cotton completed scheduled debt amortisations of \$9.0m on 29 August 2014 from strong operating cash flows.

Strategically the first half of this financial year has seen Namoi Cotton consolidate its finance facilities to being provided solely by Commonwealth Bank of Australia. This has supported a reduction in finance costs and provided greater flexibility and scale to our business operations. As has been highlighted above, in June 2014 we completed the acquisition of the remaining 50% interest in the ACGC ginning facility at Hillston, NSW. In the 2014 crop the Hillston gin processed 150,000 bales and is forecast to be earnings accretive by circa \$1.5m in the financial year ending 28 February 2015.

#### **2015 season (2015-2016 financial year)**

Planting of the 2015 crop as at the date of this report is approximately 30% complete and will potentially continue through until December as growers seek to maximize the period for potential rainfall to be received. Industry forecasts estimate the 2015 Australian crop will approximate 2.0m bales. This represents a 47% decrease in production from the previous year's crop of 3.8m bales. Irrigated production will underpin overall crop volumes although water security and dam levels have generally reduced in the majority of regions.

Recent announcements from the Chinese government regarding a reduction in their cotton import plans for the coming year combined with the largest US cotton crop in the past 6 years has depressed cotton futures and resulted in current trading values of just above US60 cents per pound. A weakening Australian dollar particularly over the course of the last two months has in part buffered the prevailing cotton price decline, although current ex gin prices remain trading between AUD\$410/bale and \$440/bale. Cotton growers have had various opportunities over the past 12 months to obtain attractive prices for a portion of their 2015 crop, although in general, water security has limited forward marketing commitments. To date it is estimated approximately 25% to 30% of the 2015 crop has been forward sold by growers to merchants.

The decline in the overall crop size is expected to impact Namoi Cotton's ginning and cotton seed volumes. Based on current industry forecasts we anticipate ginning between 0.5m bales and 0.6m bales including 100% of joint venture gins. Cotton seed trading volumes are expected to decline in proportion to the reduction in the overall crop size and will be supported by a strong focus on trade seed. NCA is targeting to increase its market share in marketing volumes in 2015 through an aggressive trading strategy and outlook whilst focusing on maximizing utilization of the joint venture's extensive up country on rail warehouse and shipping assets and network. NCA's containerized commodity packing volumes will be impacted by reduced cotton seed production although the business is targeting increased participation in the containerized coarse grain and pulse sector in the second half of 2015.

## **NAMOI COTTON CO-OPERATIVE LIMITED**

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The Board continues to work through a strategic planning review process to develop a longer term strategic plan which will enable our vision to be the leading processor, marketer and service provider to cotton farmers and customers of the Australian cotton industry. The strategic plan will be seeking to leverage Namoi Cotton's fundamental business strengths, strong market position, reputable brand, quality infrastructure assets and critically skilled human capacity so as to capitalize on the evolving landscape for Australian agriculture which is experiencing strong global and domestic interest, increased international demand for food and fibre along with scale investment. The development and implementation of our long term strategic plan will facilitate Namoi Cotton being able to further deliver on its intended strategic outcomes and sustainable growth.

### **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 Class Order 98/0100. The Co-operative is an entity to which the Class Order applies.

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

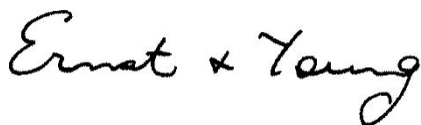
On behalf of the board



S C BOYDELL  
Director  
Toowoomba  
21 October 2014

## Auditor's Independence Declaration to the Directors of Namoi Cotton Co-Operative Ltd

In relation to our review of the financial report of Namoi Cotton Co-Operative Ltd for the half-year ended 31 August 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



Mark Hayward  
Partner  
21 October 2014

## To the members of Namoi Cotton Co-Operative Ltd

### Report on the Interim Financial Report

We have reviewed the accompanying interim financial report of Namoi Cotton Co-Operative Ltd, which comprises the balance sheet as at 31 August 2014, 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 and other explanatory information, and the directors' declaration of the consolidated entity comprising the co-operative and the entities it controlled at the half-year end or from time to time during the half-year.

#### *Directors' Responsibility for the Interim Financial Report*

The directors of the co-operative are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards, the Co-operatives Act 1992 (NSW) and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the interim 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 interim 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, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 August 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* and Co-operatives ACT 1992 (NSW). As the auditor of Namoi Cotton Co-operative Ltd and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of the interim 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*

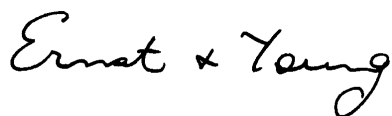
In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the co-operative a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.



## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim financial report of Namoi Cotton Co-operative Ltd is not in accordance with the Co-operatives Act 1992 (NSW) and *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 August 2014 and of its 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*.



Ernst & Young



Mark Hayward  
Partner  
Brisbane  
21 October 2014

**STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME**

for the half-year ended 31 August 2014

	Note	Consolidated \$'000	
		31 Aug 2014	31 Aug 2013
Revenue from continuing operations	2a	351,303	410,704
Financial instrument gains/(losses)			
Commodity derivatives		-	(263)
Currency derivatives		1,291	(6,828)
Purchase contracts		(16,321)	2,722
Sales contracts		16,846	(11,915)
Net financial instrument gains/(losses)		1,816	(16,284)
Other income	2b	11	9,032
Share of profit/(loss) of joint ventures and associates	9	4,992	2,102
Changes in inventories of finished goods		17,294	(41,815)
Raw materials and consumables used		(319,149)	(309,108)
Employee benefits expense	2c	(15,061)	(16,389)
Depreciation		(8,921)	(8,849)
Finance costs	2d	(1,924)	(4,534)
Other expenses	2e	(7,878)	(8,237)
<b>Profit/(Loss) before income tax</b>		<b>22,483</b>	<b>16,622</b>
Income tax expense	4	(6,745)	(4,160)
<b>Profit/(Loss) from continuing operations</b>		<b>15,738</b>	<b>12,462</b>
Profit from discontinued operations		-	-
<b>Profit/(Loss) and total comprehensive income attributable to the members of Namoi Cotton Co-operative Ltd</b>		<b>15,738</b>	<b>12,462</b>
		Cents	
		31 Aug 2014	31 Aug 2013
<b>Earnings per capital stock unit</b>			
Basic earnings per unit		14.3	11.3
Diluted earnings per unit		14.3	11.3

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 2014

		Consolidated \$'000		
	Note	31 Aug 2014	28 Feb 2014	31 Aug 2013
<b>Current assets</b>				
Cash and cash equivalents		1,995	418	65
Trade and other receivables	6	44,218	8,679	60,965
Inventories	7	24,987	8,088	29,493
Prepayments		738	606	1,330
Derivative financial instruments	8	217	16,420	2,725
<b>Total current assets</b>		<b>72,155</b>	<b>34,211</b>	<b>94,578</b>
<b>Non-current assets</b>				
Investments in associates accounted for using the equity method	9	53,115	50,163	52,987
Property, plant and equipment	12	131,504	128,129	128,790
Deferred tax assets		-	1,061	-
<b>Total non-current assets</b>		<b>184,619</b>	<b>179,353</b>	<b>181,777</b>
<b>Total assets</b>		<b>256,774</b>	<b>213,564</b>	<b>276,355</b>
<b>Current liabilities</b>				
Trade and other payables	13	53,049	19,326	71,938
Interest bearing liabilities	14	12,062	54,338	67,411
Provisions		3,491	2,790	3,176
Derivative financial instruments	8	190	17,015	5,829
<b>Total current liabilities</b>		<b>68,792</b>	<b>93,469</b>	<b>148,354</b>
<b>Non-current liabilities</b>				
Interest bearing liabilities	14	47,002	1	35
Provisions		825	807	798
Co-operative grower member shares		441	447	447
Deferred tax liability		5,685	-	732
<b>Total non-current liabilities</b>		<b>53,953</b>	<b>1,255</b>	<b>2,012</b>
<b>Total liabilities</b>		<b>122,745</b>	<b>94,724</b>	<b>150,366</b>
<b>Net assets</b>		<b>134,029</b>	<b>118,840</b>	<b>125,989</b>
<b>Equity</b>				
Parent entity interest:				
Contributed equity	15	1,098	1,098	1,098
Reserves	17	95,341	95,341	95,341
Retained earnings		37,590	22,401	29,550
<b>Total parent entity interest in equity</b>		<b>134,029</b>	<b>118,840</b>	<b>125,989</b>
<b>Total equity</b>		<b>134,029</b>	<b>118,840</b>	<b>125,989</b>

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

# CASH FLOW STATEMENT

for the half-year ended 31 August 2014

	Consolidated \$'000	
	31 August 2014	31 August 2013
<b>Cash flows from operating activities</b>		
Receipts from customers	384,053	409,901
Commodity/currency derivative flows	1,062	(6,765)
Payments to suppliers and employees	(91,469)	(98,981)
Payments to growers	(284,965)	(245,784)
Interest received	30	22
Borrowing costs	(1,712)	(3,948)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>6,999</b>	<b>54,445</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(24)	(2,301)
Payments for ACGC 50% share acquisition	(9,481)	-
Proceeds from sale of property, plant and equipment	90	30,380
Transaction costs paid in forming NCA	-	(2,297)
Equity contribution to joint venture	-	(10,200)
Loans advanced	(62)	(19)
Proceeds from loans receivable	15	8
Joint venture distribution received	2,040	-
<b>Net cash inflow/(outflow) from investing activities</b>	<b>(7,422)</b>	<b>15,571</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of grower member shares	2	-
Payments for repurchases of grower member shares	(9)	(160)
Proceeds from issuing capital units	-	3,658
Proceeds from borrowings <sup>1</sup>	13,607	483,167
Repayment of borrowings <sup>1</sup>	(9,014)	(554,686)
Loans advanced to growers	(260)	(800)
Proceeds from repayment of grower loans	260	800
Repayment of finance lease and hire purchase principle	(179)	-
<b>Net cash inflow/(outflow) from financing activities</b>	<b>4,407</b>	<b>(68,021)</b>
<b>Net increase/(decrease) in cash</b>	<b>3,984</b>	<b>1,995</b>
Add cash at the beginning of the financial year	(1,989)	(1,930)
<b>Cash at end of period</b>	<b>1,995</b>	<b>65</b>

<sup>1</sup> In the prior period, the structured inventory financing product was required to be reset on a frequent basis, resulting in a significant volume of transactions, resulting along with the formation of the NCA joint venture and a net decrease in borrowings of \$71.5m.

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 2014

Consolidated \$'000	Issued Capital	CCU Premium Reserve	Asset Revaluation Reserve	Retained Earnings	Total Equity
<b>Total equity at 1 March 2014</b>	1,098	35,382	59,959	22,401	118,840
Profit/(Loss) and total comprehensive income for the period	-	-	-	15,738	15,738
CCU dividends <sup>1</sup>	-	-	-	(549)	(549)
<b>Total equity at 31 August 2014</b>	<b>1,098</b>	<b>35,382</b>	<b>59,959</b>	<b>37,590</b>	<b>134,029</b>

Consolidated \$'000	Issued Capital	CCU Premium Reserve	Asset Revaluation Reserve	Retained Earnings	Total Equity
<b>Total equity at 1 March 2013</b>	955	31,867	76,941	106	109,869
Profit/(Loss) and total comprehensive income for the period	-	-	-	12,462	12,462
Asset disposal (net of tax)	-	-	(16,982)	16,982	-
CCU's issued	143	3,515	-	-	3,658
<b>Total equity at 31 August 2013</b>	<b>1,098</b>	<b>35,382</b>	<b>59,959</b>	<b>29,550</b>	<b>125,989</b>

<sup>1</sup> Refer Note 5

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 Co-operative Ltd as at 28 February 2014. It is also recommended that the half-year financial report be considered together with any public pronouncements made by Namoi Cotton Co-operative Ltd and its controlled entities during the half-year ended 31 August 2014 in accordance with the Co-operatives Act 1992 (NSW) and 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 Co-operatives Act 1992 (NSW), 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 and warehousing 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.

Certain comparative information has been restated to comply with the presentation adopted in the most recent annual financial report.

#### 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 2014. No revisions to Australian Accounting Standards have occurred on or after 1 March 2014.

#### c) Seasonality of operations

Cotton Ginning, one of Namoi Cottons business segments, operates on a seasonal basis whereby ginning normally occurs between March to July 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 previously undertaken by Namoi in its own right was transferred to Namoi Cotton Alliance Associate (NCA) in a transaction settling in April 2013.

## NAMOI COTTON CO-OPERATIVE LIMITED

Namoi Cotton retained lint marketing sales revenues from its mill clients for the bales held as at February 2013 (2012 crop bales) with this included in the comparative period revenues. For the 2013 crop onwards 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 2014	31 Aug 2013
<b>a) Revenue from continuing operations</b>		
Sale of goods	291,347	352,543
Rendering of services	59,654	57,822
Rental revenue	97	76
Financial service provider revenue	179	249
Finance revenue	26	14
	<b>351,303</b>	<b>410,704</b>
<i>Breakdown of finance revenue:</i>		
Interest revenue from grower finance	4	6
Interest revenue from non-related entities	22	8
	<b>26</b>	<b>14</b>
<b>b) Other income</b>		
Net gain on disposal of property, plant and equipment	11	-
Net gain on disposal of lint marketing and packing businesses	-	9,032
	<b>11</b>	<b>9,032</b>
<b>c) Employee benefits expense</b>		
Salaries, wages, on-costs and other employee benefits	14,240	15,615
Defined contribution benefits expense	821	774
	<b>15,061</b>	<b>16,389</b>
<b>d) Finance costs</b>		
Interest on bank loans and overdrafts	1,727	4,502
Interest expense - interest rate derivatives	197	32
	<b>1,924</b>	<b>4,534</b>

	Consolidated \$'000	
	31 Aug 2014	31 Aug 2013
<b>e) Other expenses</b>		
Maintenance	2,984	3,370
Insurance	835	775
Motor vehicle	781	947
Consulting fees	437	710
Audit fees	165	204
Business travel	317	369
Minimum operating lease payments	220	251
Other	2,139	1,611
	<b>7,878</b>	<b>8,237</b>

### 3. Joint Operation Acquisition

#### Summary of joint operation acquisition

On 29 May 2014, Namoi Cotton finalised the acquisition from Twynam Cotton Pty Ltd and Twynam Pastoral Co Pty Ltd ("Twynam") of the remaining 50% interest in Australian Cotton Ginning Company ("ACGC").

Prior to the transaction, the Group owned a 50% interest in the ginning activities and associated assets. The fair value of the assets and liabilities acquired were:

<b>Assets</b>	
Cash at Bank	1,102
Trade Receivables	351,576
Inventory	80,907
Other Current Assets	35,654
Property, Plant and Equipment (Ginning Assets)	9,178,446
	<b>9,647,685</b>
<b>Liabilities</b>	
Trade Creditors	150,438
Provisions	16,707
	<b>167,145</b>
Total consideration paid and transaction costs	<b>9,480,540</b>

The group has previously recorded its interest in the joint operation at fair value and has not recorded a gain or loss on acquisition as a result of the transaction.

Items included in the profit and loss since acquisition (for additional 50% acquired) are:

Revenue	4,179,201
Net profit before tax	1,645,649



4. Income Tax

	Consolidated \$'000	
	31 Aug 2014	31 Aug 2013
<b>Statement of Profit and Loss and Other Comprehensive Income</b>		
Accounting profit from continuing operations before income tax expense	22,483	16,622
At the Group's statutory income tax rate of 30% (2013: 30%)	6,745	4,987
Tax losses of subsidiary previously not recognised	-	(62)
Temporary differences previously not recognised <sup>1</sup>	-	(765)
Income tax expense/(benefit) recorded in the statement of comprehensive income	<b>6,745</b>	<b>4,160</b>
Unrecognised deferred tax assets (of subsidiary)	3	38
Unrecognised tax losses (of subsidiary)	1,038	1,010
	<b>1,041</b>	<b>1,048</b>

<sup>1</sup> The prior period includes a previously unrecognized capital gains tax base for assets subject to CGT in the prior year from the establishment of Namoi Cotton Alliance.

***Tax consolidated group and tax sharing arrangements***

Namoi Cotton Co-operative Ltd is the head entity of the tax consolidated group comprising all wholly owned controlled entities. The group has applied the group allocation method in determining the appropriate amount of current and deferred taxes to allocate to the members of the tax consolidated group. Members of the group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in these financial statements in respect of this agreement on the basis that the possibility of default is remote.

**5. Distributions Paid or Provided on Co-operative Capital Units**

	<b>Consolidated \$'000</b>	
	<b>31 Aug 2014</b>	<b>31 Aug 2013</b>
<i>Distributions paid during the half-year (unfranked)</i>		
Final distribution for the year ended 28 February 2014 of Nil cents per unit of Capital Stock (2013: Nil cents)	-	-
<i>Distributions declared before the reporting date and recognised as a liability:</i>		
Interim distribution for the half-year ended 31 August 2014 of 0.5 cents per unit (2013: N/a) to be paid on 31 October 2014 (2013: N/a)	549	-
<b>Net distributions paid or provided during the period</b>	<b>549</b>	<b>-</b>

	<b>Cents per unit</b>	
	<b>31 Aug 2014</b>	<b>31 Aug 2013</b>
<b>Distributions paid or provided per capital stock unit</b>		
In respect of the financial years ended:		
28 February 2015	0.5	
28 February 2014	Nil	
28 February 2013		Nil

**6. Trade and Other Receivables**

	Consolidated \$'000		
	31 Aug 2014	28 Feb 2014	31 Aug 2013
<i>Current</i>			
Trade debtors from material joint venture <sup>(1)</sup>	35,310	(110)	42,985
Other trade debtors and receivables	9,343	8,886	18,088
Less: allowance for impairment loss	(435)	(97)	(108)
	<b>44,218</b>	<b>8,679</b>	<b>60,965</b>

<sup>1</sup>Trade 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**

	Consolidated \$'000		
	31 Aug 2014	28 Feb 2014	31 Aug 2013
Cotton seed (at fair value less costs to sell)	19,292	2,767	16,002
Moss and mote (at cost)	769	-	357
Lint Cotton (at fair value less costs to sell)	-	-	8,032
Grains (at cost)	19	19	19
Operating supplies and spares (at cost)	4,907	5,302	5,083
	<b>24,987</b>	<b>8,088</b>	<b>29,493</b>

**8. Derivative Financial Instruments**

	Consolidated \$'000		
	31 Aug 2014	28 Feb 2014	31 Aug 2013
<b>Current assets</b>			
Foreign exchange contracts	110	6	-
Sale contracts (cottonseed and lint cotton)	14	-	702
Purchase contracts (cottonseed and lint cotton)	93	16,414	2,023
	<b>217</b>	<b>16,420</b>	<b>2,725</b>
<b>Current liabilities</b>			
Foreign exchange contracts	-	179	1,587
Interest rate swap contracts	190	4	39
Sale contracts (cottonseed and lint cotton)	-	16,832	3,594
Purchase contracts (cottonseed and lint cotton)	-	-	609
	<b>190</b>	<b>17,015</b>	<b>5,829</b>

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 2014	28 Feb 2014	31 Aug 2013
Investment in associates (material)	6,374	5,879	9,039
Investment in joint ventures (material)	46,417	44,172	43,178
Investment in joint ventures (non material)	324	10	770
	<b>53,115</b>	<b>50,061</b>	<b>52,987</b>
<b>Material investment in associates</b>			
(i) <i>Share of associates results</i>			
Cargill Oilseeds Australia Partnership ('COA')	450	779	(154)
Cargill Processing Ltd ('CPL')	45	132	74
<b>Group share of associates profit/(loss)</b>	<b>495</b>	<b>911</b>	<b>(80)</b>
(ii) <i>Carrying amount of investments in associates</i>			
Cargill Oilseeds Australia Partnership ('COA')			
Balance at the beginning of the financial year	2,666	6,036	6,036
Distribution paid out of retained earnings	-	(4,149)	-
Share of associates profits/(losses) for the financial year	450	779	(154)
	<b>3,116</b>	<b>2,666</b>	<b>5,882</b>
Cargill Processing Ltd ('CPL')			
Balance at the beginning of the financial year	3,213	3,081	3,081
Share of associates profits/(losses) for the financial year	45	132	74
	<b>3,258</b>	<b>3,213</b>	<b>3,155</b>
<b>Group carrying amount of investment in associates at the end of the financial period</b>	<b>6,374</b>	<b>5,879</b>	<b>9,037</b>
<b>Material investments in joint ventures: NCA</b>			
(i) <i>Material joint venture results</i>			
<b>Group share of joint venture profit/(loss)</b>	<b>4,285</b>	<b>2,352</b>	<b>1,358</b>
(ii) <i>Carrying amount of investments in joint ventures</i>			
Balance at the beginning of the financial year	44,172	-	-
Acquisition of joint venture	-	31,620	31,620
Contribution to working capital	-	10,200	10,200
Distribution paid out of retained earnings	(2,040)	-	-
Share of associates profits/(losses) for the financial year	4,285	2,352	1,358
<b>Group carrying amount of investment in associates at the end of the financial period</b>	<b>46,417</b>	<b>44,172</b>	<b>43,178</b>
<b>Share of non material investments in joint ventures: ACS and NCPS</b>			
(i) <i>Non material joint venture results</i>			
<b>Profits/(losses) and total comprehensive income from continuing operations</b>	<b>212</b>	<b>165</b>	<b>823</b>
<b>Ownership interest (%)</b>			
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, course grains and pulses.

**10. Interest in Joint Operations**

		Consolidated	
		31 Aug 2014	31 Aug 2013
Name	Balance Date		
(a) Ownership interest (%)			
Wathagar Ginning Company ('WGC')	28 February	50%	50%
Moomin Ginning Company ('MGC')	28 February	50%	50%

**(b) Principal activities**

The joint ventures provide ginning services to cotton growers in the Gwydir and Lachlan valleys located in NSW.

During the period, Namoi Cotton completed the acquisition of the remaining 50% interest in Australian Cotton Ginning Company ("ACGC") (refer Note 3).

**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 \$2,737,000 (Feb 2014: \$2,801,000).

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

During the half-year ended 31 August 2014 the group acquired assets of \$9,505,000 including ACGC (2013: \$2,301,000) and disposed of assets with a carrying value \$24,300 (2013: \$nil). Assets acquired include the 50% share of Hillston gin assets and associated transaction costs in the amount of \$9,178,446 (refer Note 3).

**b) Impairment**

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

**c) Fair value**

The fair value methodology for ginning assets is set out in Note 18.

### 13. Trade and Other Payables

	Consolidated \$'000		
	31 Aug 2014	28 Feb 2014	31 Aug 2013
<i>Current</i>			
Trade creditors and accruals	52,958	16,082	71,701
Grower deposits	54	40	43
Customer deposits	37	3,204	194
	<b>53,049</b>	<b>19,326</b>	<b>71,938</b>

Trade 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. Foreign denominated balances have been converted at spot exchange rates.

	Facility Limits - Consolidated AUD \$'000		
	31 Aug 2014	28 Feb 2014	31 Aug 2013
<i>AUD Facilities</i>			
Short term	2,500	2,500	2,500
Working capital finance <sup>2</sup>	10,000	16,000	20,000
Term debt <sup>3</sup>	46,481	40,000	40,000
Equipment Finance <sup>4</sup>	2,500	-	-
<i>USD Facilities</i>			
Inventory finance <sup>1</sup>	-	-	11,208
	<b>61,481</b>	<b>58,500</b>	<b>73,708</b>

<b>Facility Use - Consolidated</b>			
<b>AUD \$'000</b>			
	<b>31 Aug</b>	<b>28 Feb</b>	<b>31 Aug</b>
	<b>2014</b>	<b>2014</b>	<b>2013</b>
<b>Current</b>			
<i>AUD Facility Use</i>			
Short term	-	2,407	-
Working capital finance <sup>2</sup>	10,000	11,900	19,500
Term debt <sup>3</sup>	1,500	40,000	40,000
	<b>11,500</b>	<b>54,307</b>	<b>59,500</b>
<i>USD Facility Use</i>			
Inventory finance <sup>1</sup>	-	-	7,880
	-	-	7,880
<i>Other Liabilities</i>			
Lease liability - bank finance <sup>4</sup>	455	-	-
Lease liability - other finance	107	31	31
	<b>562</b>	<b>31</b>	<b>31</b>
	<b>12,062</b>	<b>54,338</b>	<b>67,411</b>
<b>Non Current</b>			
<i>AUD Facility Use</i>			
Term debt <sup>3</sup>	44,981	-	-
	<b>44,981</b>	-	-
<i>Other Liabilities</i>			
Lease liability - bank finance <sup>4</sup>	1,871	-	-
Lease liability - other finance	150	1	35
	<b>2,021</b>	<b>1</b>	<b>35</b>
	<b>47,002</b>	<b>1</b>	<b>35</b>

*Facility description and use*

<sup>1</sup> Inventory finance

Prior year inventory borrowings relate to secured structured inventory financing arrangements that enabled Namoi Cotton to effectively manage cash flow requirements associated with the delivery of purchased lint cotton from growers throughout its storage until shipment to spinning mills.

Lint purchases since 29 April 2013 are funded by Namoi Cotton Alliance with proceeds payable to Namoi on the same payment terms as those between Namoi and the growers. On 4 October 2013 lint cotton inventory facilities relating to bales pending shipment from the prior crop were fully repaid. Namoi as a result no longer requires a lint inventory finance facility.

<sup>2</sup> Working 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. Drawdowns during the period of \$4.1m were offset by a scheduled amortising of \$6.0m on the 29 August 2014.

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 (2013: AUD\$10 million cotton seed only); and
- Committed Working Capital facility (amortising) - facility limit of AUD\$0 million (Feb 2014: AUD\$6 million and Aug 2013: AUD\$10 million).

<sup>3</sup> Term debt finance

Namoi Cotton has negotiated the following finance facility limits:

- The Hillston gin 50% share acquisition increased term debt by \$9.5m in May 2014;
- Committed term debt facility (non-amortising) - facility limit of AUD\$25 million (2013: AUD\$25 million) with a facility end date of 17 March 2017;
- Committed term debt facility (amortising) - facility limit of AUD\$15 million (2013: AUD\$41 million) with reductions of AUD\$3 million by 31 August 2014 and AUD\$1.5 million by 28 February 2015;

<sup>4</sup> Equipment finance

During the period equipment finance lease facilities were provided to facilitate the upgrade of mobile plant.

The current financing agreement with CBA was effected 17 March 2014 and contained a number of financial covenant compliance requirements as well as various non-financial requirements including step downs in facility limits. No breaches of financial covenants have occurred and scheduled amortisations have been met during the period. At the date of this report, term facilities are due to expire on 17 March 2017, whilst seasonal facilities remain subject to annual review on or before 17 March 2015. Security is provided by a fixed and floating charge over the assets and undertakings of the group.

**15. Contributed Equity**

	<b>No. 000's</b>		<b>\$ '000</b>	
	<b>31 Aug 2014</b>	<b>28 Feb 2014</b>	<b>31 Aug 2014</b>	<b>28 Feb 2014</b>
Capital stock at the beginning of the financial year	109,843	95,517	1,098	955
Issued during the year <sup>(1)</sup>	-	14,326	-	143
Redeemed through on-market buy-back	-	-	-	-
Capital stock at the end of the period	<b>109,843</b>	<b>109,843</b>	<b>1,098</b>	<b>1,098</b>

<sup>(1)</sup> Issued to Louis Dreyfus Commodities Asia Pte. Ltd. upon formation of the Namoi Cotton Alliance Joint Venture on 26 April 2013.



## 16. Segment Information

Business segments Half-year ended 31 August 2014	Ginning \$'000	Marketing <sup>(1)</sup> \$'000	Commodities \$'000	Unallocated \$'000	Consolidated \$'000
Segment Revenue	136,961	214,083	136	123	351,303
Segment Result (Pre-tax)	21,235	4,897	111	(3,760)	22,483

Business segments Half-year ended 31 August 2013	Ginning \$'000	Marketing \$'000	Commodities \$'000	Unallocated \$'000	Consolidated \$'000
Segment Revenue	137,224	272,527	863	90	410,704
Segment Result (Pre-tax)	20,204	70	333	(3,985)	16,622

	Consolidated \$'000	
	31 Aug 2014	31 Aug 2013
Included in the unallocated results for the period are:		
Rental Revenue	97	76
Finance Revenue	26	14
<b>Total Unallocated Revenue</b>	<b>123</b>	<b>90</b>
Employee benefits expense	(2,055)	(2,065)
Depreciation	(96)	(96)
Finance costs	(42)	(16)
Other corporate administrative expenses	(1,690)	(1,898)
	<b>(3,883)</b>	<b>(4,075)</b>
<b>Total Unallocated Result</b>	<b>(3,760)</b>	<b>(3,985)</b>

During the previous period a number of changes were made to the segments of Namoi Cotton, including:

- Marketing segment – the marketing and packing business assets were transferred into the new NCA joint venture as at 26 April 2013;
- Marketing segment – after the above transfer, Namoi Cotton's share of the results of NCA have been included in this segment;

<sup>(1)</sup> 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 interest bearing liabilities approximate their fair value.

Fair value on foreign exchange contracts, cotton futures and option 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.

Lint cotton sales contracts are forward dated and deliverable contracts with spinning mills. The fair value of lint cotton commodity contracts is determined by reference to cotton futures, foreign exchange rates and prevailing cotton basis levels for Australian cotton.

Lint cotton commodity purchase contracts are forward dated and deliverable contracts with cotton growers. The fair value of lint cotton commodity contracts is determined by reference to cotton futures, foreign exchange rates and prevailing cotton basis levels for Australian cotton.

Cotton seed sales contracts are forward dated and deliverable contracts with customers. The fair value of lint 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. 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 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.

All derivative financial assets and liabilities stated at fair value are based on market observable inputs (Level 2 in fair value hierarchy) 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

No other events of a material nature have occurred between 31 August 2014 and the date of this report which are not disclosed elsewhere within this half-year financial report.

## 21. Other Non-Financial Information

Namoi Cotton Co-operative Ltd  
ABN 76 010 485 588  
AFSL 267863

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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 2014

In accordance with a resolution of the directors of Namoi Cotton Co-operative Ltd, I state that:

In the opinion of the directors:

- a) the financial statements and notes of the consolidated entity are in accordance with the *Co-operatives Act 1992 (NSW)* and the *Corporations Act 2001*, including:
  - i) giving a true and fair view of the consolidated entity's financial position as at 31 August 2014 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  
Toowoomba  
21 October 2014