RIDLEY

# Nutrition. Performance. Growth.

ANNUAL REPORT 2017

# CONTENTS



**Ridley AgriProducts**

As one of the largest domestic consumers of Australian grown cereal grains and a significant employer in farming communities, Ridley is continually providing support to primary producers and rural Australia. The Ridley AgriProducts operation is a pivotal and trusted supplier of high performance nutrition to the major food producers in the dairy, poultry, pig, aquaculture, sheep and beef industries, to the laboratory animals in the research sector, and to the equine and canine markets in the recreational sector.

Ridley's product range includes finished products, in bulk or in bags, and mostly in pellet form, the exception being a mash offering in certain markets, raw materials, additives and supplements, and animal meals. The Ridley animal meals, which include meat and bone meal, poultry meal, hydrolysed feather meal, blood meal, fish meal and animal fats, are an important and valuable source of protein produced from otherwise surplus raw materials that are subjected to a process called rendering.

With major brands including Barastoc, Rumevite, Cobber and Primo, and with a product range to accommodate starter feed solutions, Ridley has developed a portfolio that provides a first-class lifecycle solution.


ABN 33 006 708 765


# ABOUT THE COMPANY

Ridley Corporation proudly stands as an Australian-based agribusiness focused on being the country's leading producer of premium quality, high performance animal nutrition solutions.

# 2017 FEATURES

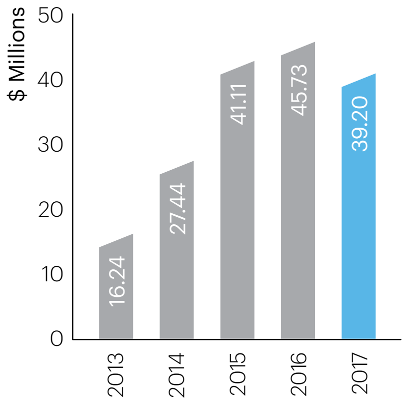
- Resilient core business operating result of $45.8 million EBIT in light of Dairy, Aquafeed and energy headwinds.
- Worldwide licence secured for Novacq™ for all non-human and non-crustacean species, with previously unlicensed crustacean markets also secured.
- Minimum five-year strategic alliance formed with CSIRO for further Novacq™ development.
- Long term lease secured at Chanthaburi, Thailand, for overseas production of Novacq™.
- Commercial dispute settlement reached with Huon for full net debt recovery.
- Commitment to aquafeed restructure comprising new Tasmanian aquafeed mill, divestment of interest in CME, and major capital works at Narangba.
- Completion of Wasleys feedmill rebuild from fire devastation.

# FIVE YEAR SUMMARY

| A$'000 unless otherwise stated | 2017 Actual | 2016 Actual | 2015 Actual | 2014 Actual | 2013 Actual |
|---|---|---|---|---|---|
| **Operating results** | | | | | |
| Revenue | **852,923** | 912,561 | 909,850 | 873,625 | 783,226 |
| Other income | **8,581** | 12,121 | 4,649 | 5,972 | 321 |
| Earnings before interest, tax, depreciation and amortisation (EBITDA)[1] | **54,484** | 60,723 | 51,061 | 41,012 | 1,252 |
| **Earnings Before Interest and Tax (EBIT)[1]** | **39,264** | 45,734 | 41,108[3] | 27,436 | (13,272) |
| Net interest expense/finance charge | **4,977** | 5,419 | 5,059 | 5,392 | 7,737 |
| **Operating profit before tax[1]** | **34,287** | 40,315 | 36,049[3] | 22,043 | (21,009) |
| Tax expense[1] | **8,472** | 13,112 | 10,306[3] | 4,430 | (4,423) |
| **Net profit after tax and significant items[1]** | **25,815** | 27,203 | 25,743[3] | 17,613 | (16,586) |
| Profit/(loss) from discontinued operation (net of tax) | **-** | 403[3] | (4,572)[3] | - | (5,108) |
| **Profit/loss attributable to members** | **25,815** | 27,606 | 21,171[3] | 17,613 | (21,694) |
| **Financial position** | | | | | |
| Ridley shareholders' funds | **259,823** | 247,884 | 229,834 | 219,774 | 207,553 |
| Intangible assets | **79,284** | 76,355 | 78,194 | 80,491 | 77,979 |
| Total assets | **490,603** | 484,850 | 476,553 | 423,091 | 410,626 |
| Total liabilities | **230,780** | 236,966 | 246,719 | 203,317 | 203,073 |
| Net debt | **51,544** | 40,967 | 32,702 | 36,343 | 17,835 |
| Market capitalisation | **426,327** | 430,944 | 384,771 | 244,715 | 230,863 |
| Enterprise value | **477,871** | 471,911 | 417,473 | 281,058 | 248,698 |
| Operating cash flow | **29,655** | 17,612 | 47,059 | 31,349 | 52,583 |
| Closing share price (cents) | **138.50** | 140.00 | 125.00 | 79.50 | 75.00 |
| Weighted average number of shares on issue – non-diluted (thousands) | **307,817** | 307,817 | 307,817 | 307,817 | 307,817 |
| Number of employees (number)[4] | **697** | 676 | 685 | 658 | 649 |
| **Key profitability ratios** | | | | | |
| Return on shareholders' funds (%)[1] | **10.2** | 11.4 | 9.4 | 7.8 | (6.8) |
| Earnings per share (EPS) (cents)[1] | **8.4** | 8.8 | 6.9 | 5.7 | (7.0) |
| Total shareholder returns (%) | **1.8** | 15.2 | 61.6 | 8.0 | (19.1) |
| EPS growth (%) | **(6.6)** | 28.5 | 20.2 | (181.2) | (212.7) |
| EBIT growth (%) | **(14.1)** | 11.3 | 31.7 | 306.7 | (137.2) |
| Operating cash flow/EBITDA (times) | **0.5** | 0.3 | 0.9 | 0.8 | 42.0 |
| Operating cash flow per share (cents) | **9.6** | 5.7 | 15.3 | 10.2 | 17.1 |
| Share price/operating cash flow (times) | **14.4** | 24.5 | 8.2 | 7.8 | 4.4 |
| EBIT per employee (A$'000) | **56.3** | 67.7 | 52.8 | 41.7 | (20.5) |
| **Capital market and structure ratios** | | | | | |
| EBITx (market cap/EBIT) (times)[1] | **10.9** | 9.4 | 10.6 | 8.9 | (17.4) |
| EBITDA per share (cents)[1] | **17.7** | 19.7 | 16.6 | 13.3 | 0.4 |
| EBITDA growth (%)[1] | **(10)** | 19 | 25 | 3,175 | (97) |
| EBITDAx (market cap/EBITDA) (times)[1] | **7.8** | 7.1 | 7.5 | 6.0 | 184.4 |
| Enterprise value/EBITDA (times)[1] | **8.8** | 7.8 | 8.2 | 6.9 | 198.6 |
| P/E ratio (times)[1] | **16.5** | 15.8 | 18.1 | 13.9 | (10.6) |
| Net debt/shareholders' equity (%) | **19.8** | 16.5 | 14.2 | 16.5 | 8.6 |
| Equity/total assets (%) | **53.0** | 51.1 | 48.2 | 51.9 | 50.5 |
| Net debt/EBITDA (times)[1] | **0.9** | 0.7 | 0.6 | 0.9 | 14.2 |
| EBIT/net interest (times)[1] | **7.9** | 8.4 | 7.1 | 5.1 | (1.7) |
| Net tangible asset backing per share (cents) | **58.7** | 55.7 | 49.3 | 45.2 | 42.1 |
| Dividends per share (cents) | **4.00** | 4.00 | 3.50 | 3.50 | 7.50[2] |
| Dividend payout ratio (%) | **48** | 44 | 51 | 61 | -[2] |
| Percentage franked (%) | **100** | 100 | 100 | 50 | -[2] |

1. Before discontinued operation.
2. Capital return of 7.5 cents per share brought to account in FY13 and paid in FY14.
3. FY16 Dry Creek operations prior to sale and FY15 comparative reflected as a discontinued operation.
4. Continuing operations only and therefore excluding Cheetham Salt Ltd employees.

## EBIT from continuing operations*

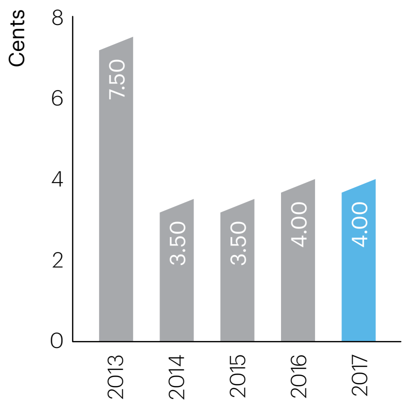



* 2013 before business restructuring.

## Consolidated net profit^

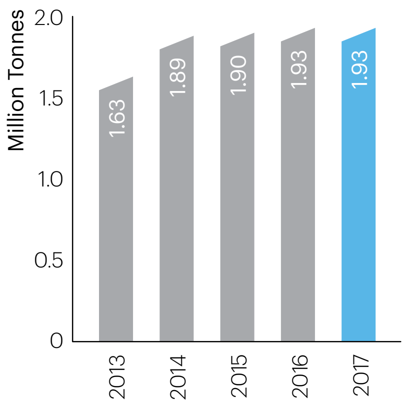

^ 2013 after restructure including sale of Cheetham Salt Ltd.

## Dividends and distributions per share#

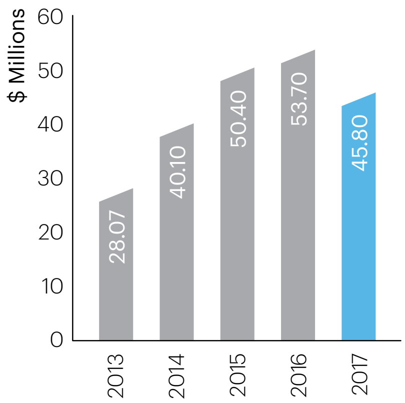



\# 2013 distribution to shareholders by way of 7.50 cents capital return.

## Ridley AgriProducts volume




## Ridley AgriProducts operating EBIT

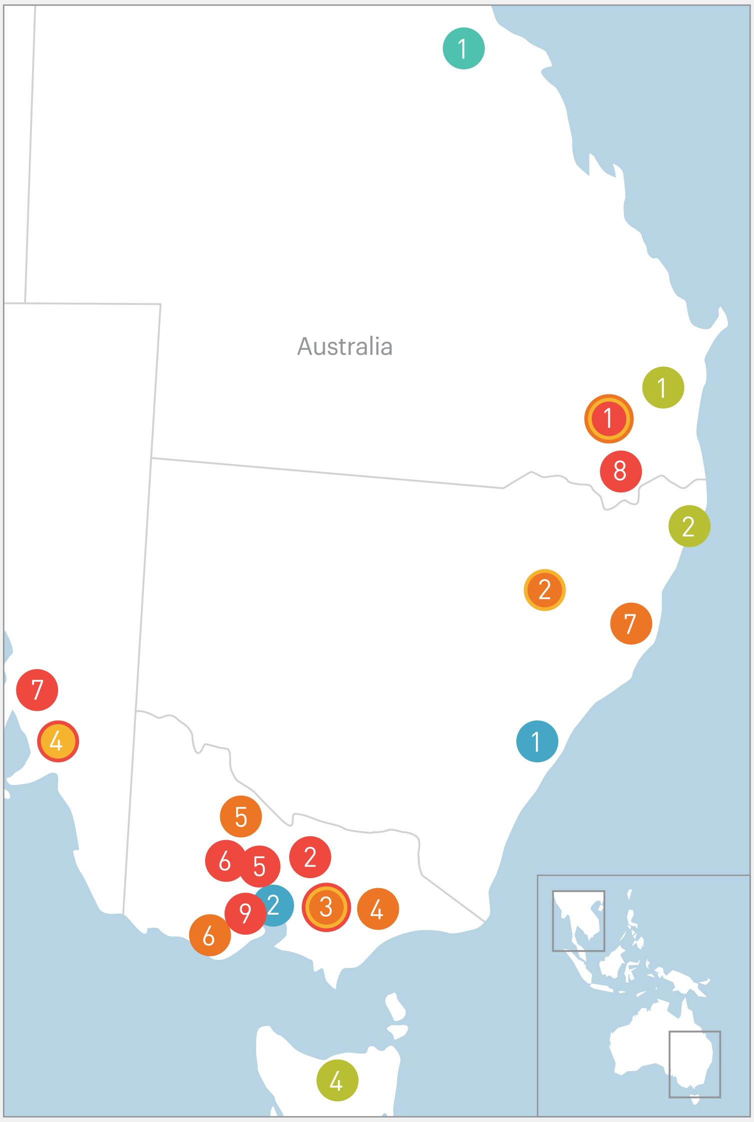



# RIDLEY LOCATIONS AND SECTORS

## From field to food

Ridley is a proud partner of Australian agriculture, driving productivity and performance in response to the needs of an ever-growing population and the welfare of our agriculture community.

### Ridley Locations and Sectors


| Business Unit | Structure |
|---|---|
| **Monogastric** | Pellets, meals, concentrates and pre-mixes for poultry and pigs |
| **Ruminant** | Pellets, meals, blends, concentrates and pre-mixes for dairy cattle, beef cattle and sheep |
| **Packaged Products** | Bagged poultry, dairy, dog, horse and lifestyle animal feed |
| **Aquafeeds** | Extruded and steam pelleted products for all major finfish and prawns, and novel feed ingredients |
| **Supplements** | Block and loose lick supplements |
| **Rendering** | Rendered poultry, red meat and fish products for the pet food, stock feed and aquaculture sectors |

**Business Unit**

| Ridley Assets | Monogastric | Ruminant | Packaged | Aquafeeds | Supplements | Rendering |
|---|---|---|---|---|---|---|
| 1 | Toowoomba | Toowoomba | Toowoomba | Narangba | Townsville | Maroota |
| 2 | Mooroopna | Tamworth | Tamworth | Yamba – Novacq™ production site | | Laverton |
| 3 | Pakenham | Pakenham | Pakenham | Chanthaburi – 49% interest | | |
| 4 | Murray Bridge | Maffra | Murray Bridge | Westbury (intention to build) | | |
| 5 | Bendigo | Gunbower | | | | |
| 6 | St Arnaud | Terang | | | | |
| 7 | Wasleys | Taree | | | | |
| 8 | Clifton | | | | | |
| 9 | Lara | | | | | |

# CHAIRMAN'S ADDRESS

"Despite the challenges arising from these conditions, our core business Earnings Before Interest and tax (EBIT) result for the year of $45.8 million excluding non-recurring insurance proceeds is our third highest on record."

**Dr Gary Weiss**
Chair

Wasleys – post rebuild.

The 2017 financial year has been another productive year for Ridley in terms of milestones achieved and progress made, despite the strong headwinds experienced in two of our main sectors of operation, namely the Dairy and Aquafeed sectors. The severe curtailing of demand for dry season blocks due to the abundant natural pasture across northern Australia, plus soaring energy prices, also placed additional strain on the business as it follows its long term growth trajectory.

Despite the challenges arising from these conditions, our core business Earnings Before Interest and Tax (EBIT) result for the year of $45.8 million excluding non-recurring insurance proceeds, is our third highest on record.

The important contributors to the operating performance are covered in the Managing Director's Review, so I will again reflect on some of the other features of another successful year for Ridley.

The second half of the financial year saw the commissioning of the new, state-of-the-art poultry and pig feedmill at Lara, near Geelong in Victoria. We are starting to consistently reach the targeted production performance for the new mill and the Commercial Feed team is actively pursuing new business in the region armed with a compelling value proposition.

The partial rebuild of the Wasleys feedmill in South Australia was also completed during the year, with significant improvements in site layout and operating efficiency achieved through the new for old replacement of damaged plant funded by the $3.6 million of insurance claim proceeds received in the year.

During the year we also received total sales proceeds of $3.5 million from the sale of our investment in the CME feedmilling operation at Inverell in NSW and the sale of the storage facility at Noorat. The Noorat storage facility located close to the Terang feedmill in western Victoria was no longer required following the prior year upgrade of the Terang feedmill. The CME overspill extrusion production facility at Inverell will continue to manufacture certain products for Ridley through an arm's length toll manufacturing agreement until such time as the new Aquafeed mill in Tasmania is commissioned, at which time all Ridley feed products will be manufactured in-house.

The proposed new feedmill in Tasmania, announced in January 2017, is an exciting development and demonstrates the commitment of Ridley to the future growth of the Tasmanian salmon industry and our capability to provide salmon feed of the highest quality from the hatchery to the grow out pens. We are continuing to work through the development process, the conclusion of which in the coming months will enable us to complete the land acquisition transaction, place firm orders for plant and equipment, which has a delivery lead time of several months, and commence the infrastructure works required for the greenfield site.

The Aquafeed team has worked hard during the year to restructure its operations and replace the sales volumes to Huon, which were terminated by Ridley in July 2016 and followed by action to recover the outstanding debt. Reaching an agreed solution through mediation, followed by the receipt of the full $17.7 million receivable owing to Ridley on 20 July 2017 (offset by full usage of the $1.0 million provision for non-recovery) is a positive outcome to the dispute, which enables both parties to refocus their attention on core business growth.

The production and harvesting process for Novacq™ at Yamba has come a long way in the last 18 months, with the focus now centred on dewatering and drying technologies as well as continuous improvement to lift yield and drive down the operating costs through further innovation.

The two Novacq™ licence agreement extensions executed during the year represent a decisive step forward in securing all previously unlicensed commercial opportunities for the project. With the crustacean application already licensed in China and Vietnam, Ridley has been able to secure the rest of the world licence for crustacean and the entire world for every other non-human species. Although there is no currently available data to support the efficacy of Novacq™ in species other than crustacean, there is a reasonable likelihood that it may have additional applications and we intend to prioritise and test its application in the other species where we have expertise and its application is considered prospective.

To assist with the worldwide and species expansion for the Novacq™ project, we have secured a minimum five-year strategic alliance with the CSIRO, which discovered the benefits of Novacq™ and was the first to produce Novacq™ outside of its natural estuarine environment at its Bribie Island facility. The 2018 annual program of work between the parties has been prepared and approved at the second meeting of the Management Committee held in Brisbane in July 2017. Although presently a somewhat distant and highly speculative outcome, it is worth noting that under the alliance agreement, Ridley and CSIRO are tenants in common of any new intellectual property that may emerge from the alliance and would share equally in any licensing or royalty arrangement should there be a human application for Novacq™.

Having secured a 10-year lease over 14 ponds in Chanthaburi, Thailand, in June 2017, Ridley is now moving swiftly towards local production of Novacq™ in Thailand to service the feedmill in which we acquired a 49% ownership interest in the prior year. In the meantime, we have shipped over 100kg of Novacq™ produced at Yamba to Chanthaburi for inclusion in feed used to conduct local trials at our feedmill partner's prawn farm, adjacent to the feedmill. We expect to have trial data to release to the market by the end of the September 2017 quarter.

Ridley is also looking to secure formal Thailand Board of Investment approval in the coming year to manufacture and operate two plants in Thailand to enable the blending of locally produced Novacq™ with other key feed ingredients to provide a 'Coca Cola'-style pre-mix to which the staple raw material ingredients will be added in order to produce a prawn feed.

An ever-decreasing component of our overall business – and with annualised holding costs reduced to just under $1.0 million – surplus land activity for the year has centred around the hand back of expired Crown leased land at Lara and a subdivision of the lower-valued portion of the Ridley-owned land to generate opportunities for the establishment of a small aquaculture hub. The Nelson Cove project at Moolap has been in a holding pattern for most of the year as we awaited the delayed outcomes from the regional review being conducted by the State Government of Victoria. Together with our development partner, Sanctuary Living, we are now exploring our options following the release of a draft framework plan in which our proposed development concept was not addressed positively. Our value proposition remains one of economic stimulus for the region with the generation of jobs and increased overall prosperity, plus a privately funded solution for the regional inundation and stormwater treatment issues that are expected to increase in severity over time as a result of sea level rise.

The $10.0 million of proceeds from the prior year sale of Ridley Dry Creek Pty Ltd were received on schedule during the 2017 financial year, with the final $6.0 million instalment due by 31 December 2017.

I would like to express my appreciation to my fellow Board members for their dedication and support throughout the year, not only through our routinely scheduled meetings, but also whenever the need has arisen to arrange Board meetings at short notice to address important and unforeseen issues as they have arisen.

I would also like to particularly acknowledge the efforts of the Ridley team in delivering another productive result for the year. We have an outstanding group of people at Ridley and, on behalf of the Board, I thank them for their commitment not only to the Company, but also to delivering our value proposition to customers and other stakeholders to the highest standards.

## Outlook

The Managing Director's Review provides a sector by sector outlook, so I shall limit my comments to a high level.

I believe the future for Ridley is very bright, as we continue to strive for excellence in our day-to-day operations to provide the best value for money nutrition performance solutions in the marketplace.

We are very excited at the prospects for Novacq™, and are keen to understand its performance potential not only in prawns, but also in other species now that we have secured the extended licence.

As well as focusing our attention on Novacq™ and organic growth, including a number of potential feedmill opportunities, a small but dedicated team is always considering and evaluating a significant number of acquisition opportunities to identify strategic targets to assist with the implementation of the Ridley strategy.

**Dr Gary Weiss**
Chair

# MANAGING DIRECTOR'S REVIEW

"Five years ago such a strong result would not have been achievable in similar trading conditions and the business is now far more resilient."

**Tim Hart**
Managing Director and Chief Executive Officer

After three successive years of record earnings, the core business earnings have dipped below the long term trend line, with core business Earnings Before Interest and Tax (EBIT) of $45.8 million reported for the year. The average operating EBIT for the last three years is $50.0 million. This result has been achieved in challenging trading conditions for two of our main sectors, being Dairy and Aquafeed, while the Supplements business unit has contributed to overhead recovery but generated an operating loss on low volumes caused by a wet dry season in northern Australia, which delivered an abundance of natural pasture. The significant energy price increases and the challenge of not being able to pass through all of these costs has also impacted the operating result for the year and may similarly influence the years ahead absent any government intervention.

Five years ago such a strong result would not have been achievable in similar trading conditions and the business is now far more resilient and able to navigate the seasonal and cyclical variations of a manufacturing operation exposed to agribusiness. Sector by sector performance is provided later in my report.

The strength and resilience of a business can be measured in many ways, but I believe that how well it performs under adverse conditions is a key measure, and it is for this reason that I am very proud of the performance of the Ridley team in FY17. In addition, as I will discuss later in this report, we have made significant progress on a number of key strategic initiatives that are headlined by our potentially game-changing Novacq™ development project.

## Safety

Our number one focus at Ridley will always be the safety of all persons associated with Ridley, whether employees, contractors, suppliers, customers, service providers or simply visitors to Ridley sites.

Our Medically Treated Injuries, or MTI, count of four for FY17 is the lowest we have achieved to date and is encouraging in our drive towards zero injuries. Our reporting of hazards and near misses for the year was our highest on record and, with a positive spread across all Ridley operating sites, is an indicator of the progress we are making in instilling a cultural mindset where safety always comes first. All logs are reviewed and actions taken as appropriate to address the issues giving rise to safety concerns.

The Long Term Injury Frequency Rate, or LTIFR, measured as the number of injuries incurring lost time for every million hours worked, was 4.43 for FY17. This is an unfavourable increase from the 2.20 recorded for FY16, the 2.26 recorded for FY15, and the 3.29 and 3.65 recorded in the two prior years, that we will work hard to reverse in the year ahead.

The Total Recordable Frequency Rate, or TRFR, represents our total injury rate, and at 7.38 for FY17, is a favourable decrease from the 9.52 recorded for FY16 and is our second lowest result on record.

The levels of LTIFR and TRFR in FY17 are a timely reminder that we must remain diligent at all times and cannot afford to have even momentary lapses of concentration when it relates to the safety and wellbeing of all Ridley and associated persons.

"The strength and resilience of a business can be measured in many ways, but I believe that how well it performs under adverse conditions is a key measure, and it is for this reason that I am very proud of the performance of the Ridley team in FY17."

# MANAGING DIRECTOR'S REVIEW CONTINUED

## Core business operating performance for the 2017 financial year

The core business performance of $45.8 million of EBIT for FY17, excluding non-recurring items, comprises a strong performance in Poultry, Pig and Packaged Products, a small improvement in the aggregate Rendering performance, and a decline in the Dairy, Aquafeed and Supplements business units.

The non-recurring items comprise $3.6 million of pre-tax insurance proceeds attributable to the Wasleys insurance claim, which was finalised during FY17, plus $0.7 million pre-tax profit on disposal of the joint venture accounted investment in CME. The combined tax effect on these two items is $1.1 million.

### (i) Dairy, beef and sheep

The Dairy sector started the year on the back foot, with farmers trying to make sense of their cash flows and understand the loan repayment plans being offered by their existing milk processors. Herd management strategies were also affected, with a number of farms drying off their herds earlier than planned and realigning herd numbers based on expected production requirements for the coming year. The focus for our Ruminant team throughout this difficult period was to support our customer base and continue to deliver a meaningful value proposition to optimise the farmers' margin over their feed cost.

As a result of the significant contraction of the market, overall FY17 Dairy sales volumes were down on the prior year and margins also affected. There was some relief for the farmers in the form of continuing low raw material prices and the availability of on-farm forage, but the retrospective adjustment to the milk price at the end of the prior year created uncertainty and a focus on short term cash flows.

There are positive signs for the year ahead, with a number of milk processors offering higher prices in the year ahead in an endeavour to recover lost processing volume. Farmer sentiment remains very cautious, with initiatives to increase herds and milk production slowly recovering in the dairy heartland of Victoria.

Lara feedmill.

Lara feedmill storage silos.

Lara feedmill pre-mix addition area.

Lara feedmill warehouse.

Sales of supplementary feed for beef and sheep are generally driven by the availability of forage and finishing prices. FY17 volumes were down on the prior year as a function of generally improved levels of pasture coverage and the absence of any extreme regional weather patterns to significantly influence demand one way or the other.

### (ii) Poultry and pig

The compounding 2% to 3% increase in domestic consumption of poultry products has been a consistent trend for many years now, and our sales volumes increased by 10.6% over the prior year. Broiler and layer volumes for the first time represented 60% of all Ridley traded volumes (2016: 54%). Consumers continue to support poultry products for their health benefits and being the cheapest source of animal protein.

The new poultry and pig feedmill at Lara was commissioned on schedule in mid FY17 to service the Geelong and neighbouring livestock production regions. It has taken several months to transfer all of the appropriate tonnages across from the Pakenham mill, however the manufacturing costs per tonne targeted in the capital expenditure approval submission are now being achieved on a regular basis.

The Commercial Feed team has activated its plan to secure new volume for the Lara feedmill, which can provide a very competitive product range for the region with its operating efficiency and plentiful supply of local raw materials.

FY17 Pig sector volume increased by 9%, over the prior year as the reinvestment in technical experts and resources in this sector started to deliver the anticipated returns. The outlook for the Pig industry remains positive, with continued investment by producers to service the increasing requirement for fresh pork. Consumption of fresh pork is on a strong growth path, with a positive exposure from the various television cooking series, the marketing of lean cuts, and the ability to infuse the meat with a wide variety of flavours.

The poultry layer sector (as opposed to broilers, which are reared for their meat) has continued its resurgence, with the rise in prominence of eggs as a positive source of protein and the retraction from health professionals of claims linking egg consumption to high cholesterol. Producers have continued to invest to meet the changing and growing demand for egg consumption. We continue to work with our layer customers to provide a compelling value proposition and meet their expanding nutrition solution requirements.

**"Novacq™ produced at our Yamba site was used in the feed trials at Mackay, which delivered a 37% uplift in survival rate."**

### (iii) Aquafeed

The prawn, barramundi and kingfish components of the business performed well, despite the outbreak of White Spot Disease in certain prawn farms located in the Logan River region. The reduction in salmon volume following the cessation of supply to Huon in July 2016 has impacted production recoveries and sales volumes significantly, and the implementation of plans to replace this volume will take some time.

The industry outlook remains one of continuing growth in domestic salmon consumption and investment in biomass by the Tasmanian salmon producers, thereby increasing animal feed requirements in the years ahead. Ridley is committed to supporting this industry growth and has executed a contract to acquire land located at Westbury, in northern Tasmania just west of Launceston and south of Burnie, upon which to construct a new feedmill. The new mill will manufacture and supply feed primarily to Tasmania's salmon industry, as well as other aquaculture species on the mainland and in New Zealand. Based on committed and anticipated volume from existing customers, the proposed new feedmill has passed internal financial hurdle return rates with upside in the form of spare capacity, which will be available to target new and returning customers and general industry growth.

The relocation of salmon feed manufacture from the existing plant at Narangba, Brisbane, will provide significant supply chain savings and bring Ridley much closer to its Tasmanian customers, who will benefit from the shorter delivery lead times and from being able to collaborate more closely on new product development and dietary enhancements.

In addition to committing to a new Tasmanian feedmill, a major upgrade and restructure of the Narangba operations is in progress and will facilitate the transition over time of products manufactured externally and through our former 25% interest in CME, the divestment of which was announced on 31 January 2017. The CME extruder plant

# MANAGING DIRECTOR'S REVIEW CONTINUED


located at Inverell, NSW, was for a number of years an ideal and cost-effective overflow outlet for aquafeed and pet food and will continue to assist Ridley on a toll manufacturing basis until such time as the new Tasmanian feedmill is fully operational, whereupon all aquafeed and packaged product volumes are expected to be manufactured in-house.

### (iv) Rendering or proteins

The rebuilding of dairy herds following the prior year profit taking when carcass prices were at a high point in the cycle has restricted red meat raw material supply throughout FY17. The competition to secure processing volumes has been intense, and prices paid for raw materials have risen to record levels accordingly. Selling prices for meat and bone meal (MBM) rendered products have also risen, but not to the same extent when the effective processing yields are taken into account, and this has squeezed the MBM operating margins at the Laverton plant in Victoria.

With Maroota operations restricted to the processing and trading of white meat and fish, a different dynamic exists whereby processing volumes have risen but the selling prices have fallen on a prior year comparison.

The overall impact when aggregating both rendering sites is a slight increase in FY17 earnings compared to the prior year.

Although a number of profit improvement projects have been successfully implemented during FY17 and in the second half of the prior year, the energy intensive nature of rendering operations is such that the efficiency savings have been consumed by the material increases in energy prices experienced during the last 18 months.

"The Packaged Products business unit has delivered a fourth successive year of earnings growth."

The outlook is for further energy price rises, which heightens the requirement for continuous improvement in all aspects of the operations at both sites.

### (v) Packaged products

The Packaged Products business unit has delivered a fourth successive year of earnings growth. Although sales volumes have been eroded during this period, improved understanding of market dynamics and margin management, product refreshes and SKU rationalisation, and entry into long term supply agreements with stronger store presence have all combined to deliver sustained earnings growth. The focus for the year ahead is for volume stabilisation and then growth of our realigned and repositioned product range while sustaining the margin improvement of the last four years.

### (vi) Supplements

There are two primary operating seasons for the Supplements business, a wet and a dry season, with its product range designed to specifically cater for each. With one of the wettest dry seasons on record experienced in FY17, the demand for dry season blocks was very low. A number of plant improvement initiatives implemented in the lead-up period successfully generated a stockbuild of high-quality product, however with demand severely curtailed, this product remains unsold and carried forward for sale in the coming season.

While still of merchantable quality, the existence of this carry over product will affect the stockbuild and plant operating requirements in the year ahead. Nevertheless, after the restructuring of recent years, the Supplements business is now in a position to deliver positive earnings in a financial year of traditional wet and dry seasons.

## Investment in Thailand feedmill

In January 2016, Ridley announced the acquisition of a 49% joint venture interest in Pen Ngern Feed Mill Co., Ltd. (PNFM), an entity domiciled in Thailand that owns and operates a dedicated aquafeed manufacturing facility, for an investment of AUD$1.3 million. With an existing capacity of 30,000 tonnes per annum and the infrastructure in place to expand to 55,000 tonnes per annum for a relatively low capital outlay, the mill is ideally placed to service the Chanthaburi region's prawn feed requirements.

The biomass losses of recent years in Thailand due to the widespread outbreaks of the serious disease of prawn known as Early Mortality Syndrome have drained the prawn farmers of not only their cash flow, but also their confidence to restock their ponds. Consequently, many of the region's prawn ponds are lying fallow and the farmers are looking for inspiration and cash flow support. Production and sales for the PNFM feedmill since its acquisition have been sporadic, and the positive harvest results emerging from our partner's prawn farm, coupled with the benefits derived from Novacq™ inclusion in the diets, are expected to provide the catalyst for a gradual recovery of a nationwide industry approximately 100 times larger than the Australian market.

## Commercialisation of Novacq™

We are now more than half way through a five-year program of applied research and development (R&D) for the commercialisation of Ridley's investment in Novacq™. Novacq™ is a prawn feed additive that has the capability of transforming the prawn feed industry through the substantial acceleration of growth rates, improvement in feed conversion rates, enhancement of animal wellbeing and survival rates through an increased resistance to viral and bacterial attacks, and reduction in nitrogen emissions from the prawn biomass.

During FY17, we have secured the long term supply arrangements for the set of equipment required to effectively manage the production of Novacq™, comprising the aeration and continuous cycle harvesting equipment. The process to test the available technologies for dewatering and drying the Novacq™ prior to transportation to the feedmill has been extensive, and we expect to make a final technology selection in the coming weeks. Once fully tested at Yamba, the technology can be transported to Thailand, where we are undertaking the final preparations to 14 ponds to commence production of Novacq™ adjacent to our feedmill interest in Chanthaburi.

While there have been no significant changes to the images of the site at Yamba as provided in last year's Annual Report, a great deal of progress has been made during the year in terms of testing and improving the day-to-day production and harvesting processes. Product from the site was used in the feed trials from which a 37% uplift in prawn survival rate was reported on 3 April 2017. Over 100kgs of product has already been shipped to Thailand to conduct trials ahead of commencement of local Novacq™ production. The results of these trials are expected by the end of the first quarter of FY18.

On 22 June 2017 we announced the execution of a 10-year lease (six plus four years at Ridley's option) over 14 ponds and adjacent infrastructure land located within the Sureerath Prawn Farm commencing on 1 July 2017. The ponds, covering an area of 10.9 hectares in total and adjacent to the PNFM feedmill, have previously been used for growing prawns. The ponds are being converted for the production of commercial quantities of Novacq™, a process that involves levelling and lining of the pond floor and the introduction of dedicated production, harvesting, dewatering and drying equipment, which is being developed at Ridley's domestic Novacq™ production site in Yamba, NSW.

For each of the 14 ponds we are targeting approximately 50 metric tonnes of pure (dry weight) Novacq™ production per annum. With annual Novacq™ production in the vicinity of 700 metric tonnes and assuming a 5% feed inclusion rate, the leased area would be able to supply enough Novacq™ to produce c.14,000 tonnes of prawn feed. The estimated committed spend for these initial 14 ponds is AUD$7.5 million.

The local production, harvesting and drying of Novacq™ and its sale to the Chanthaburi feedmill for inclusion in the diets will be at arm's length, i.e. will be 100% owned and controlled by Ridley. Sales of Novacq™-inclusive prawn feed by the feedmill joint venture to the local prawn farmers, including the Sureerath Prawn Farm, will be on a full commercial basis, thereby preserving the maximum value for Ridley shareholders.

# MANAGING DIRECTOR'S REVIEW CONTINUED

The securing of our Novacq™ production site in Chanthaburi is a very positive development for us in the execution of our strategy to service the Asian prawn feed market. Using Ridley diets and knowhow, we are targeting a full product offering incorporating locally produced Novacq™ in the feed manufactured at the PNFM feedmill. We have partnered with the region's most prominent and renowned local prawn farmer, with whom we can conduct the required scientific trial studies.

We will update the market as soon as we have reliable and validated data from the Thailand trials, and expect them to demonstrate the efficacy and commercial benefits of feeding the prawn biomass a range of Ridley-formulated diets, including an appropriate percentage of Novacq™ in the bill of material. A Novacq™-inclusion range of 5-10% is currently thought to be appropriate, however further work is still to be conducted to fully understand the optimum inclusion rate from a growth, health, protein substitution and nitrogen reduction perspective.

The results of the above trials will be important in encouraging local prawn farmers to restock their ponds, many of which are currently lying fallow following the disease issues experienced in recent years.

The pictures above show the 14 leased ponds, the second of which shows the proximity to the feedmill whose tower is visible in the background. The first picture also shows in the foreground the construction of a concrete pad where the necessary infrastructure will be located.


Leased ponds and infrastructure pad.


Leased ponds with feedmill in the distance.

## CSIRO alliance

On 27 March 2017 Ridley announced through the ASX Announcements Platform the extension of the existing CSIRO Novacq™ licence and the formation of a strategic alliance with CSIRO.

Under the new licence, the territory licensed to Ridley for crustacean application was extended to include the whole world excluding China and Vietnam, which are already licensed by CSIRO to other parties. Ridley does, however retain its entitlement to market and sell Australian made diets incorporating Novacq™ into China and Vietnam. The extended territory under the amended licence agreement is exclusive to Ridley except in respect of India, which converts to an exclusive entitlement on 1 January 2018.

The superseded 20-year licence agreement (which was refreshed on 27 June 2016 to include Thailand as a licensed territory in addition to the pre-existing territories of Australia, Indonesia, Malaysia and the Philippines,) has been extended in time by resetting the 20-year term and also in its scope. The amended scope now covers improvements to the Novacq™ technology and new applications, including potentially using Novacq™ as a feed additive for species other than prawn and crustaceans, but excluding any human application.

The same 27 March 2017 ASX release included the formation of a minimum five-year strategic Alliance Agreement with CSIRO with the objective of conducting collaborative research that will maximise the development of new Novacq™ applications beyond the existing application for prawn and crustaceans.

Under the terms of the Alliance Agreement, Ridley will contribute annual cash funding of AUD$1.0 million to CSIRO for the parties to work together for the purpose of further advancing collaborative research relating to the existing Novacq™ technology. Under the Alliance Agreement, Ridley has the option to extend the term of the relationship for an additional period of up to five years.

Managed through a Management Committee of equal representation, an annual program of research will be established, which will be designed to target the potential applications most likely to improve the application of Novacq™ as a stock feed additive potentially in a range of species.

The strategic research alliance with CSIRO will be looking to develop a comprehensive platform of Novacq™ data, to establish rapid bio-test assays to demonstrate Novacq™ activity, to understand this activity spectrum and mechanisms of prawn growth, and ultimately determine the bioactive(s) within Novacq™. All of these activities will contribute to a characterisation profile that will then be used to identify those species most likely to be positively impacted by the inclusion of Novacq™ into their feed.

It was agreed that any human application developed from the alliance was beyond Ridley's expertise and would be licensed to an appropriate third party with the skills and networks to optimise the commercial opportunity. As tenants in common of the Intellectual Property (IP) from the Alliance Agreement, Ridley and CSIRO will share in equal proportion any licensing fees and royalties applicable to such an application.

While there is limited technical data available to date, there is a logical extension for Novacq™ to have a positive application in other species, not only in the most likely application for fin fish, but also potentially for land-based animals. Improvement in growth and survival rates at a fraction of what has been demonstrated to date in prawns, could similarly revolutionise the poultry industry for example, where very small improvements in Feed Conversion Ratios (FCRs) lead to significant commercial returns due to the sheer volume of birds being processed on a daily basis.

The first two meetings of the Management Committee have been held and the plan for FY18 approved in accordance with the strategic objectives as stated above.

"Under the terms of the Alliance Agreement, Ridley will contribute annual cash funding of AUD$1.0 million to CSIRO for the parties to work together for the purpose of further advancing collaborative research relating to the existing Novacq™ technology.

# MANAGING DIRECTOR'S REVIEW CONTINUED

## Property

By 30 June 2017, we had banked $29.0 million of the $35.0 million proceeds from the June 2016 divestment of Dry Creek, with the final instalment due by 31 December 2017.

The Nelson Cove project has been in a holding pattern for most of FY17 as we have awaited the release of the Victorian State Government's plan and vision for the region. The release of the draft MOOLAP coastal strategic framework PLAN (MCSFP) was delayed to April 2017, and divided the review area into several precincts, with Ridley's interest being reflected as the 'Saltworks and Wetlands Precinct', referred to in this report as the SWP.

The SWP comprises Ridley-owned land plus land managed by Ridley under Crown lease. The recommended land use for the Crown owned part of the land is stated as 'Environmental with complementary tourism,' while the primary direction for the Ridley-owned land is 'Environmental/ tourism investigation'. Potential land uses are listed as:

- the management and conservation of environment and heritage assets;
- coastal inundation;
- coastal protection structures;
- drainage outlets and retarding basins;
- wetland habitats;
- low impact water, heritage and nature-based tourism and commercial facilities;
- recreation areas and public access; and
- interpretive information facilities and viewing paths and platforms.

In response to the MCSFP, Ridley and development partner Sanctuary Living, have formulated and submitted a development concept for the Ridley-owned land only, and are currently awaiting feedback on this concept from the Victorian State Government. Depending upon the nature of the feedback received, Ridley and Sanctuary Living will review the realistic short term options for the site and develop an appropriate plan and budget for the year ahead.

On a more positive note, the Crown leases at Lara expired during the year and the land was handed back to the Victorian State Government, with whom a cost sharing arrangement has been entered into to manage the Crown land and Ridley-owned land. The Ridley-owned land other than the two major plots available for sale has been subdivided during the year to provide flexibility for future activity.

Pinery bushfire approaching Wasleys feedmill.

Same view of Wasleys feedmill post rebuild.

An assessment is underway to evaluate the potential net returns from undertaking a second stage subdivision that could facilitate the creation of an aquaculture precinct in proximity to Corio Bay.

## Wasleys

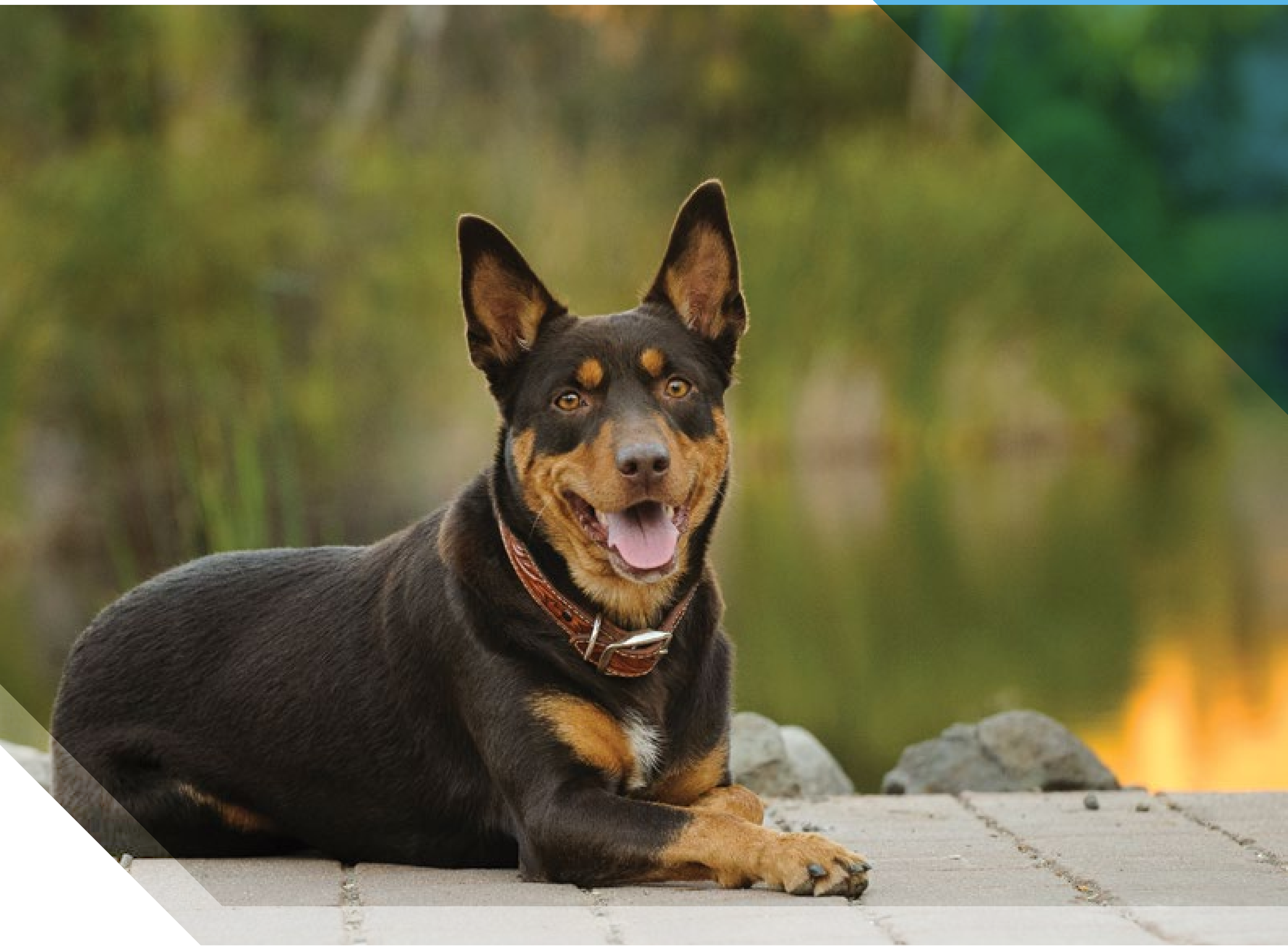
During the year the rebuild of the Wasleys feedmill in South Australia was completed. From the aftermath of the initial devastation caused by the Pinery bushfire in November 2015, the Wasleys story has been a very positive one. We were able to successfully engage the Disaster Recovery Plan and ensure the continuity of supply to all of our customers, acknowledging the help we received from our existing customer base and industry relationships.

The adequacy of the insurance policy coverage was stress tested and the overall insurance claim process well managed to secure new for old replacement of damaged items. With insurance proceeds treated as income items under the accounting standards and the purchase of fixed assets being recorded on the balance sheet and subsequently depreciated, there has been a net, non-recurring gain in the profit and loss for the year of $3.6 million. In addition, the rebuild has facilitated a more effective site layout and an effective modernisation of many components of the feedmill.

Shown above are two photographs, the first showing the fire approaching the site and the second showing the rebuilt feedmill.

## Our people and communities

There have been two changes to the executive lead team in FY17, the first being for the Information Technology Services group to report to the General Manager Safety, People and Technical Development following the July 2016 departure of the CIO, and the second being the promotion of senior nutritionist Briannon Avery to the role of General Manager Product Strategy and Communications. Briannon is co-managing the development of the



Ridley Ingredients Strategy to secure novel and value adding raw materials and is Ridley's point of contact for government and regulatory body liaison.

The management team has worked diligently and energetically to deliver the reported operating result within a safe and harmonious working environment. We have continued our bi-annual training program for the next level of management to provide succession planning and career development, and to foster internal relationships and business understanding.

We remain committed to our chosen community programs with the Garvan Institute and Aussie Helpers, and our continuing contribution was again recognised at the Garvan Institute annual general meeting and awards ceremony. More details of each of these initiatives, and of our community influence and sustainability programs, are provided in the Safety, People and Innovation section of this 2017 Annual Report.

## Outlook

As previously reported, difficult trading conditions were experienced throughout the 2017 financial year in the Dairy, Aquafeed and, to a lesser extent, the Supplements sectors, and this pulled the operating result back from last year's third successive record operating result. Continued growth was experienced in the Poultry and Pig and Packaged Products sectors, with positive rendered poultry growth offset by reductions in red meat raw material supply providing a counterbalance of overall performance in the Rendering business sector.

The 12-month outlook for the Dairy sector is more positive this year than last year, when the industry was still reeling from the imposition of retrospective reductions in milk price payments. With a return to more conventional milk pricing policies and a stronger milk price forecast, coupled with the prospect of continuing low grain prices as a result of last year's record harvest, Dairy farmer sentiment is more positive as we start the new financial year, but understandably fragile and not helped by the recent fluctuations witnessed in local grain prices driven by market speculation on the outlook for rain and its impact on the coming harvest cycle.

# MANAGING DIRECTOR'S REVIEW CONTINUED


While the replacement of Huon salmon sales volumes is a longer term prospect, the existing and potential salmon customer base continues to grow at a healthy rate. Ridley's commitment to invest in aquaculture in Tasmania and restructure its operations at Narangba provides a strong signal of support to the salmon industry following a stressful period of warm water, El Nino and environmental and oxygenation issues in Macquarie Harbour.

The Supplements business unit trading volumes were severely impacted by the effective absence in FY17 of a dry season in northern Australia. The consequent abundance of natural pasture effectively closed the seasonal trading window for dry season lick blocks compared to the prior year. A return to a more traditional dry season weather pattern is expected to return the Supplements business unit to profitability.

All of our other core business sectors are expected to move forward in a positive manner, with a full year of operation from the new Lara feedmill and conversion of opportunities to secure new volumes and customers by virtue of the location and efficiency of the new, state-of-the-art plant.

The securing of the Novacq™ production ponds at Chanthaburi as announced on 23 June 2017 is a significant milestone in moving the project forward in Thailand, and we are expeditiously preparing the ponds for commencement of local production. The inclusion of locally produced Novacq™ in prawn feed manufactured at our 49% owned feedmill in Chanthaburi to be trialled at our partner's on-site prawn farm is the next stage gate for the project in Thailand.

At our Novacq™ production site at Yamba, NSW, we are looking to finalise testing and select our preferred dewatering and drying technologies and to export them to Thailand to complete the entire production cycle. We will be conducting further product development in the coming domestic prawn season as we continue to frame up the overall value proposition for the industry.

While great progress has already been made in improving efficiency and driving down costs of production and harvesting of Novacq™ from a daily process of continuous improvement, we are still in the third quarter of a five-year program of applied R&D and there is a body of work still to be conducted prior to full scale commercial launch of the Novacq™ inclusive range of diets.

To complement the expected organic growth for the core business, we are continuing to develop the concepts and plans for the modernisation of our feedmills in a number of key regions, and to identify and secure the combination of incremental volume and freight/logistics savings or arbitrages needed for any new feedmill to pass the internal Ridley project hurdle rates.

In addition to organic growth through a program of mill modernisation, Ridley is continually looking for acquisition opportunities consistent with its long term strategy to be Australia's leading producer of premium quality, high performance animal nutrition solutions.

**Tim Hart**
Managing Director and
Chief Executive Officer

# FINANCIAL REVIEW

"The consolidated group has recorded Earnings Before Interest and Tax (EBIT) of $34.9 million, comprising an operating result of $45.8 million, less corporate costs of $9.9 million and property costs of $1.0 million."

**Alan Boyd**
Chief Financial Officer
and Company Secretary

| Table 1 | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Profit from continuing operations before income tax | 34,287 | 40,315 |
| Income tax expense | (8,472) | (13,112) |
| **Profit from continuing operations after tax** | 25,815 | 27,203 |
| Profit from discontinued operation after tax | - | 403 |
| **Net profit attributable to members of Ridley Corporation Limited** | 25,815 | 27,606 |

## Operating result

For statutory reporting purposes, the consolidated profit and loss (Table 1) reports a net consolidated after tax profit of $25.8 million and a pre-tax profit from continuing operations of $34.3 million.

From an investor and analytical perspective, the consolidated group has recorded Earnings Before Interest and Tax (EBIT) of $34.9 million (Table 2), comprising an operating result of $45.8 million, less corporate costs of $9.9 million and property costs of $1.0 million.

The reported operating EBIT of $45.8 million is $7.9 million below last year's $53.7 million record as a result of the previously reported weakness in the Dairy and Aquafeed sectors combined with the absence of a northern Australia dry season, which affected the performance of the Supplements business unit. The significant energy price increases and the challenge of not being able to pass through all of these costs has also impacted the operating result for the year and may similarly influence the years ahead absent any government intervention.

Corporate costs have been contained to be comparable with last year's result despite expensing $1.1 million in legal costs to resolve the Huon legal dispute, which was settled on 23 June 2017 and the funds remitted after balance date on 20 July 2017.

The $1.0 million reduction in property costs compared to the prior year reflects a combination of the scale back of activity at Moolap and the June 2016 sale of Dry Creek, for which deferred consideration proceeds of $10.0 million were received in FY17, with the final $6.0 million due by 31 December 2017.

Net finance costs for the year of $5.0 million reflect interest on bank debt and the trade payables facility and the amortisation of establishment and other fees, offset by $0.6 million for the unwinding of the discount on deferred consideration from the sale of Dry Creek.

The $7.3 million expense and 24.4% effective tax rate for FY17 continuing operations reflect an overprovision in the prior year and a significant increase in research and development (R&D) activity, much of which is associated with the Novacq™ project and a full year of applied R&D activities at Yamba in NSW.

The pre-tax non-recurring items of $4.3 million comprises $3.6 million of non-recurring, taxable sundry income generated through the finalisation of the Wasleys insurance claim, plus $0.7 million profit on disposal of the investment in CME. The tax effect of these two transactions is $1.1 million.

During FY17, $3.6 million of proceeds were received to replace on a 'new for old' basis the feedmill assets damaged by the Pinery, South Australia, bushfire at Ridley's Wasleys feedmill. The new assets are reflected in the balance sheet and are being depreciated over their effective lives.

The sale of the equity accounted joint venture investment in CME generated a non-recurring, pre-tax profit during the year of $0.7 million.

## Profit and loss

| Table 2 in $ million | 2017 | 2016 | Movement |
|---|---|---|---|
| **Earnings before finance income and expense and tax expense (EBIT):** | | | |
| Ridley AgriProducts operations | **45.8** | 53.7 | (7.9) |
| Corporate | **(9.9)** | (9.6) | (0.3) |
| Property – other than Dry Creek | **(1.0)** | (2.0) | 1.0 |
| **EBIT before non-recurring costs** | **34.9** | 42.1 | (7.2) |
| Net finance costs | **(5.0)** | (5.4) | 0.4 |
| Income tax expense – continuing | **(7.3)** | (12.6) | 5.3 |
| **Net profit after tax before non-recurring items** | **22.6** | 24.1 | (1.5) |
| Discontinued operation – Dry Creek after tax | **-** | 0.4 | (0.4) |
| Other non-recurring items before tax | **4.3** | 3.6 | 0.7 |
| Tax on other non-recurring items | **(1.1)** | (0.5) | (0.6) |
| **Reported net profit** | **25.8** | 27.6 | (1.8) |
| Earnings per share (cents): | | | |
| (i) continuing | **8.4** | 8.8 | (0.4) |
| (ii) reported | **8.4** | 9.0 | (0.6) |

The profit and loss summary with a prior period comparison provided in Table 2 above has been sourced from the audited accounts but has not been subject to separate review or audit. The Directors believe that the presentation of the unaudited non-IFRS profit and loss summary in Table 2 is useful for users as it reflects the underlying profits of the business.

## Balance Sheet

There have been the following material movements in the Balance Sheet over the last 12 months:

(i) An increase of $10.5 million in net debt for the year as explained in the following section.

(ii) An increase in current receivables of $5.1 million to $117.5 million, which includes the non-payment during the year of $17.7 million of Huon debt, which was received in full on 21 July 2017, with a corresponding payment of $1.0 million being made by Ridley which fully utilised the provision for non-recovery.

(iii) A $4.0 million reduction in inventory, which is a result of an ongoing effort to reduce the number and ageing of inventory items.

(iv) A $4.7 million reduction in non-current receivables that reflects the transfer of the final Dry Creek deferred consideration payment of $5.5 million from non-current to current, offset by the $0.8 million prepayment of long term pond lease rental in Thailand.

(v) A $22.6 million increase in property, plant and equipment, which reflects completion of the new Lara feedmill at north east Geelong and a number of profit maintaining and improving projects across a number of Ridley sites, including Narangba and Yamba and completion of the rebuild at Wasleys.

## Cash flow and working capital

The operating cash inflow for the year (Table 3) after working capital movements and maintenance capital expenditure was $37.1 million, an improvement of $17.8 million on last year's $19.3 million.

Maintenance capital expenditure of $14.2 million continues to be managed below the $15.2 million aggregate charge for depreciation and amortisation. Ridley has invested $19.6 million in development projects during the year, the largest of which reflects completion of the new state-of-the-art feedmill at Lara.

Payments for intangible assets of $3.6 million reflect the capitalisation of Novacq™ development costs.

Dividends paid comprise the 2016 final dividend of 2.5 cents per share paid on 31 October 2016 and the interim FY17 dividend of 1.5 cents per share, which was paid on 1 May 2017.

$10.0 million of the $35.0 million proceeds from the prior year sale of Dry Creek were received during the year and the final $6.0 million of proceeds are scheduled to be received by 31 December 2017.

Proceeds from the sale of property assets comprise the disposal of the equity accounted investment in CME ($2.8 million) and sale of Noorat storage site in western Victoria ($0.7 million).

Tax payments of $14.7 million were made during the year compared to $13.9 million in the prior year. The reduction in the effective tax rate for FY17, combined with the cumulative tax instalment payments, will generate a lower final tax payment to be made by 1 December 2017.

> "Ridley has invested $19.6 million in development projects during the year, the largest of which reflects completion of the new state-of-the-art feedmill at Lara."

## Cash flows for the year

| Table 3 in $ million | Year ended 30 June 2017 | 30 June 2016 |
|---|---|---|
| EBIT from operations after transaction costs and before discontinued operation and non-recurring costs | **34.9** | 42.1 |
| Net cash flow from discontinued operation and non-recurring items | **4.3** | 4.0 |
| Depreciation and amortisation | **15.2** | 15.0 |
| **Consolidated Group EBITDA** | **54.4** | 61.1 |
| (Increase)/decrease in working capital | **(2.6)** | (19.3) |
| Maintenance capital expenditure | **(14.2)** | (14.9) |
| **Operating cash flow** | **37.6** | 26.9 |
| Development capital expenditure | **(19.6)** | (19.3) |
| Payment for intangibles | **(3.6)** | (0.7) |
| Dividends paid | **(12.2)** | (10.6) |
| Share-based payments | **(4.2)** | (1.0) |
| Proceeds from sale of discontinued operation (Dry Creek) | **10.0** | 19.0 |
| Proceeds from sale of property assets and associate | **3.5** | 3.0 |
| Payment for investment in Thailand joint venture | **-** | (1.3) |
| Net finance cost payments | **(5.5)** | (5.4) |
| Net tax payments | **(14.7)** | (13.9) |
| Other items | **(1.8)** | (5.0) |
| **Cash flow for the period** | **(10.5)** | (8.3) |
| Opening net debt balance at 1 July | **(41.0)** | (32.7) |
| **Closing net debt balance at 30 June** | **(51.5)** | (41.0) |

The cash flow summary with a prior period comparison provided in Table 3 above has been sourced from the audited accounts but has not been subject to separate review or audit. The Directors believe that the presentation of the unaudited non-IFRS cash flow summary in Table 3 is useful for users as it reflects the underlying cash flows of the business.


BARASTOC
RABBIT PELLET
A COMPLETE FEED FOR RABBITS

# FINANCIAL REVIEW CONTINUED

## Earnings Per Share

The continuing earnings per share of 8.4 cents reflects the result on a stable equity platform. The prior year earnings per share of 9.0 cents reflects the impact of the discontinued operation from the sale of Dry Creek in FY16.

| | 2017 | 2016 |
|---|---|---|
| Basic earnings per share – continuing | 8.4c | 8.8c |
| Basic earnings per share | 8.4c | 9.0c |

## Gearing

Gearing is reported as debt to equity in accordance with the covenants of the Group banking facility.

| Gearing | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Gross debt | 68,079 | 69,435 |
| Less: cash | (16,535) | (28,468) |
| Net debt | 51,544 | 40,967 |
| Total equity | 259,823 | 247,884 |
| Gearing ratio | 19.8% | 16.5% |

## Capital movements

During FY17, a total of 3,023,250 (FY16: 735,552) shares were acquired by the Company on market for an outlay of $4.2 million (FY16: $1.0 million) in satisfaction of:

(i) the issue of 2,400,000 (FY16: 59,649) shares allocated to Ridley employees under the Ridley Long Term Incentive Plan; and

(ii) 623,250 (FY16: 675,903) shares allocated under the Ridley Employee Share Scheme.

There were no new issues of capital during either financial year.

## Dividend

The Board paid a 2016 final dividend of 2.5 cents per share, fully franked, on 31 October 2016 and a 2017 interim dividend of 1.5 cents per share, fully franked, on 1 May 2017. Ridley does not have a formal dividend policy but its intention is to adopt a consistent dividend profile in the future that reflects the earnings and cash flow conversion of the business and the growth opportunities prevalent and foreseeable at the time of dividend declaration.

After the Balance Sheet date, a 2017 final dividend of 2.75 cents per share fully franked and payable on 31 October 2017 was declared by the Directors. The financial effect of this dividend has not been brought to account in the consolidated financial statements for the year ended 30 June 2017 and will be recognised in subsequent financial reports.

**Alan Boyd**
Chief Financial Officer
and Company Secretary

# SAFETY, PEOPLE AND INNOVATION

"FY17 has been another solid year of progress on the safety front, both in the number of injuries/incidents recorded, and in the extent to which safety is now embedded as a core part of our day-to-day operations and culture."

**Michael Murphy**
General Manager Safety, People and Technical Development

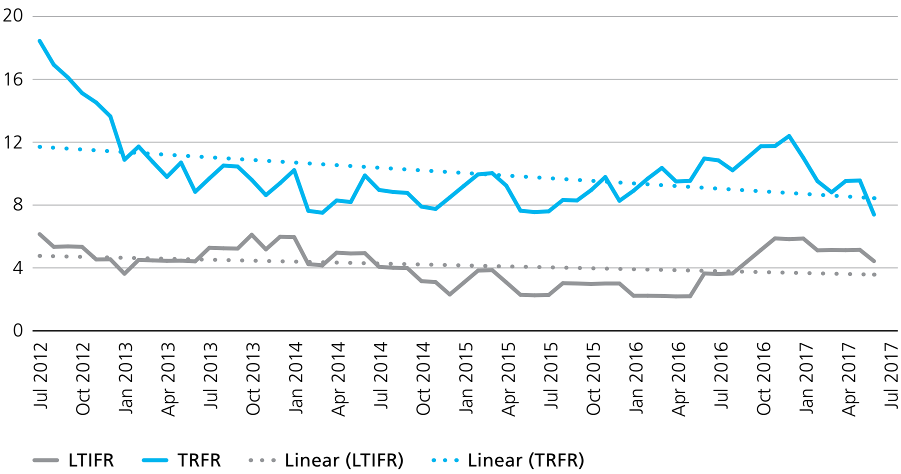
## Safety

As the following chart illustrates, the downward trend in both our Lost Time Injury Frequency Rate (LTIFR) and Total Recordable Frequency Rate (TRFR) continued during FY17. It was particularly gratifying to see the TRFR hit a record low of 7.4, driven by a significant reduction in Medically Treated Injuries (MTI).

Whilst LTIFR and TRFR are obviously critical metrics to monitor, it is important to remember that these are 'lag indicators' (measuring historical injury rates), and that it is equally critical to establish and monitor 'lead indicators' (such as hazards and near misses) because ultimately these lead indicators allow us to help prevent injuries occurring in the first place.

In this context, I am pleased to report a substantial improvement in the number of hazards and near misses identified and reported during FY17, which represented an increase of approximately 100% on the prior year. These logs are evidence of our people proactively embracing safety as a core part of their daily roles, and of course it also gives us the chance to eliminate or mitigate the hazards identified.

LTIFR and TRFR history and trend




LTIFR = Lost Time Injuries expressed as a ratio of hours worked.

TRFR = aggregate of [Lost Time Injuries + Medically Treated Injuries] expressed as a ratio of hours worked.

Our three other key lead indicators are Monthly Good Manufacturing Practice Audits, Close-out of Priority Actions and Safety Training, which recorded positive results for the year of 100%, 98% and 98% respectively.

As a further exercise in establishing safety as a core part of our workplace culture, we ran a dedicated safety awareness campaign over the summer months of 2016–17, including the Christmas and new year holiday period. These months were selected as our analysis showed a historical tendency for injuries to peak during the holiday season. The campaign received very positive feedback from our staff and, most importantly, saw a significant reduction in injuries over this period.

Finally, as noted above, FY17 was also notable for a substantial reduction in MTI. This reduction was achieved in large part due to a focus on head and hand protection following a review of historical data, which revealed a disproportionate number of injuries to hands and fingers. After a period of consultation with our workers, we recently invested in the latest range of dedicated gloves and other hand and head protection, and this investment has improved the comfort of our workers in performing their roles while reducing the risk of injury.

## People

It has been a particularly busy year on the people front, not least the welcoming of three new teams to the wider Ridley family:

- In December 2016, we were delighted to confirm our investment in the local economy in Geelong with the recruitment of the Operations team (plus contractors) at our new Lara feedmill. The Lara team has since responded superbly by getting the new mill up and running and hitting its targets in the first six months of operation.
- Around the same time as we were recruiting for the Lara feedmill, we also started to recruit a small team at our dedicated Novacq™ production site at Yamba, NSW, which now comprises six full-time employees.
- At the time of writing, we are also starting to welcome our first employees to our wholly owned Thai subsidiary Ridley Corporation (Thailand) Co., Ltd., which is an exciting development in the Chanthaburi prawn growing region of eastern Thailand.

Outside of our recruitment activities, FY17 saw us invest in a number of internal communication programs to help drive the engagement and alignment of our people. This investment included the refresh and publication of our Vision and Mission Statement, together with focused daily stand-up meetings at our operational sites, covering all key metrics such as safety, quality and production targets.


Furthermore, a dedicated Continuous Improvement (CI) program is now in the third year of its existence, and it is very pleasing to see the results of this program come to fruition in a number of innovative and valuable operational improvements at our sites, for the most part designed by the employees themselves.

Finally, the training and development of our people is a fundamental part of our strategy to build a business with sustainable profits and growth prospects well into the future and, in this context, it was pleasing to see a number of senior vacancies filled by internal candidates this year.

We are also currently sponsoring three employees as PhD candidates, this being in addition to the number of completed PhD doctorates already held within the business and to the external PhDs that Ridley is sponsoring as part of its Aquaculture Research Initiative with Deakin University.

## Technical development

Technical development consists of our activities in applied research and development (R&D) and innovations in our products, technology and Information Technology Services (ITS).

The flagship project in our R&D portfolio is of course Novacq™ (covered in the Managing Director's Review section of this 2017 Annual Report), but it is by no means our only successful project. FY17 was notable for the launch of a new 'sow block', designed to improve animal health and behaviour in the pork industry, as well as a novel Poultry Protein Concentrate (PPC) in our Rendering business.

PPC is a high-protein, high-digestibility ingredient, which importantly, can act as a substitute for fishmeal in diets. This is a major advantage given the declining global stocks of fishmeal and the imperative to find a more sustainable solution. The launch of PPC can be considered as a particular milestone in that it was developed 100% within the business, and required the collaboration of a number of internal commercial teams and business functions.

Following on from the success of Novacq™ in prawns, the extension of our alliance with CSIRO to explore applications in other species was a logical and exciting step, and we are developing relationships with universities and recognised experts in other species to ensure that our diets and feed products remain at the forefront of the latest learnings and technologies.

Finally with respect to ITS, in FY17 we have successfully launched a number of exciting new applications across the Ridley business, ranging from state-of-the-art sales tools to enable our sales staff to identify and execute sales in the field, to best in class upgrades to our software to look after our diet formulations and production technologies. In this fascinating period of the digital age, we are also starting to explore the potential application of the latest analytics and predictive modelling tools to drive further efficiencies in our operations.

## Sustainability


In addition to generating returns for our shareholders, at Ridley we also understand the importance of our responsibilities from a social and environmental perspective.

Ridley has a framework of 'Water, Waste and Energy' as a focus for its efforts to achieve more sustainable practices and outcomes. By the nature of our business, energy consumption and water use is unavoidable, but we strive to utilise these precious resources responsibly and to minimise our impact on the environment.

The Rendering business unit is not only a recycler of animal by-products to produce a range of red meat, poultry and fish meal and oil products, it is also a recycler of water and plant waste.

## Water

Ridley is always looking for opportunities to reduce water usage. We have implemented water management plans at key sites, identifying and implementing effective solutions to reduce water consumption.

From a water perspective, Ridley's water bioremediation system at its rendering plant at Maroota, NSW, is an industry-leading recycling solution comprising two covered anaerobic ponds that allow the site to recycle all of its water requirements and function on a 100% self-sufficient basis in terms of water supply. In addition, gas is generated and used as a source of energy for the on-site boilers and cookers.

## Waste

Sustained efforts are being made throughout the Ridley organisation to minimise waste, and we are continually reviewing site practices to establish if there are further opportunities to reduce our waste. Segregated waste streams are operative across all manufacturing facilities, and innovative schemes are in place to recycle and reuse commercial waste.

Some examples of sustainability initiatives by site are listed below:

- Maroota: a bulka bag waste compactor allows the bulka bags to be recycled rather than go to landfill.
- Mooroopna: our organic waste is recycled through a local business that turns this waste by-product into compost for sale.
- Pakenham: in conjunction with a local worm farm operator, the worm farm utilises an estimated 160 tonnes of biodegradable waste stream products per annum, such as non-conforming feed, out of date packaged products and waste screenings.
- Toowoomba: 100% of cardboard, plastic and scrap metal is segregated and recycled, while spilt grain, sweepings and old out of date stock is captured and mulched.
- Tamworth: plastic, cardboard and bulka bags are recycled by Challenge Recycling, a local business providing training and employment opportunities for people with disabilities.
- Yamba: the inclusion of the ground-breaking novel feed ingredient Novacq™ that acts as a metabolic stimulant enhancing the prawn's ability to utilise the feed more efficiently, will help reduce the reliance on scarce fishery resources such as fish meal in prawn diets, which is important for consumers, retailers and overall industry sustainability.

## Energy

Ridley is constantly reviewing its operations with the objective of reducing the consumption of energy. Ridley is continually replacing and upgrading old equipment, machinery and motors with significantly more energy efficient equipment.

During the year, a number of mills installed power factor correction equipment to reduce their electricity energy costs.

Ridley regularly conducts energy audits across our sites and we have found opportunities for improvement in boiler efficiency, pellet presses and compressors. We submit reports to the National Greenhouse and Energy Reporting Authority and report our annual energy usage as required. From this we are able to develop baseline data, which will help us benchmark our performance and ultimately establish targets for energy and emissions reductions.


Business Clean Up Australia Day team at Pakenham.

## Australian Packaging Covenant signatory

The Australian Packaging Covenant (APC) is a sustainable packaging initiative that aims to change business culture to design more sustainable packaging, increase recycling rates and reduce packaging litter. Since 2012, Ridley has been a signatory of the APC and has committed to developing and implementing an action plan that will see the business contribute to the APC objective and goals of 'Design, Recycling and Product Stewardship'.

Each year Ridley is required to submit a report on our achievements throughout the year. This year's commendable achievements include a recycling rate of over 60% for both the Pakenham and St Arnaud sites, as well as development of new and innovative products such as Novacq™, which, through its commercial use, will reduce the reliance on scarce fishery resources.

Ridley is recognised as an APC High Performer due to our consistent and strong progress over the last five years, with the efforts of the business in the sustainability space recognised by receipt of the 2016 Australian Packaging Covenant High Performer award.

## Sustainability Working Group

In 2017, an employee-led Sustainability Working Group (SWG) was established to increase and maintain awareness within Ridley and to engage and motivate employees in the conduct of their daily business activities. The SWG comprises a passionate employee group representing a range of roles and business units within Ridley. Significant steps forward in sustainability often start with small changes across multiple sites and locations, and this is exactly the approach Ridley has taken this year with the formation of the SWG.

Some of the achievements of the SWG include:

- Introduction of the commitment for all sites to buy only 100% recycled paper.
- Purchasing of 100% recycled toilet paper, paper towels and tissues whereby 50% of profits are donated to build toilets in the developing world.
- Recycling of all electronic waste.
- Participation in Business Clean Up Australia Day at a local community reserve in Pakenham, Victoria, with over 80kg of household refuse such as plastic bags, containers, paper, bottles and cans removed in just over an hour.

## Community

Ridley is proud to support employees, suppliers, customers and the communities where we operate. Our support of the Garvan Institute and Aussie Helpers continued in FY17 and is now entering its fifth year, with the focus on providing assistance to rural Australia as detailed in the following pages.

## Garvan Institute – promoting 'Healthy Families, Healthy Communities' in regional Australia

In 2012, the Garvan Institute of Medical Research (Garvan) and Ridley joined forces to raise awareness about health and wellbeing in regional and rural Australia through the establishment of the *Healthy Families, Healthy Communities* program. This program continues to:

- advocate the importance of medical research to rural and regional Australia;
- share important health messages with rural and regional Australia; and
- convey messages supporting healthy living and risk mitigation.

Ridley supports improving the health outcomes of Australians in regional and remote areas, and in the coming years, *Healthy Families, Healthy Communities* will continue to focus on delivering health and awareness messages in regional and rural communities.

> **"Our support of the Garvan Institute and Aussie Helpers continued in FY17 and is now entering its fifth year, with the focus on providing assistance to rural Australia."**

## Garvan Institute – promoting 'Healthy Families, Healthy Communities' in regional Australia continued

In FY17, the *Healthy Families, Healthy Communities* program was showcased at the National Farmers' Federation (NFF) National Congress 2016. At the Congress, Ridley was awarded the Life Governor's Award by Garvan. This award applauds the support of leading philanthropists, both individuals and businesses, who have contributed more than $500,000 towards advancing medical research at the Garvan and acknowledges our investment into building healthy and sustainable communities across rural and regional Australia.

Our Ridley site at Tamworth hosted its second community *Healthy Families, Healthy Communities* free forum at the Ibis Tamworth on 20 November 2016. The focus was on osteoporosis in the rural community and was presented by the Garvan's Dr Paul Baldock.

The *Healthy Families, Healthy Communities* program also contributes content for a regular health awareness column in the *QantasLink Spirit Magazine*, and as Australia's largest regional airline, this provides 5.2 million passengers per annum access to information on various health awareness topics.

In October 2016, Garvan released a new Garvan Rural Health Report titled 'A Rural Perspective: Cancer and Medical Research'. This new report provides Australians, rural stakeholders and policy makers with a consolidation of data into the incidence and impact of cancer in rural Australia. It offers an insight into how our understanding and treatment of cancer can be transformed and the role medical research can play. It also supports evidence that improvements that are being experienced in major cities are often not seen in the rural communities.

Dr Wolfgang Jarolimek, Megan Gourlay (Ridley), Dr Thomas Cox (Garvan).

Importantly, the various Garvan reports consider the role that medical research and, in particular, personalised medicine can play in the health of all Australians. Moving forward, Garvan will extend its purpose into rural and regional Australia by launching a series of reports and round tables on each of the national health priorities.

## The Ridley Ken Davies Award

The Ridley Ken Davies Award is an annual award presented to a Garvan researcher with a $50,000 prize. Ridley has also established a Workplace Giving program to establish ongoing support for the Ridley Ken Davies Award.

The 2017 Ridley Ken Davies Award was awarded to Dr Thomas Cox, Leader of Garvan's Matrix and Metastasis Group within the Cancer Division. Dr Cox will use the funding, in collaboration with Sydney-based pharmaceutical company Pharmaxis Pharmaceutical Ltd, to examine the level of two enzymes that have been linked to the development and progression of breast cancer.

"This pilot study will allow us to assess whether these two enzymes, which have been linked to the presence of, and poor outcomes in, breast cancer, can be used as an early indicator of the disease, allowing for earlier diagnosis and treatment," explained Dr Cox. "Thankyou to Ridley for this award. It allows my team and me to ask a question that would otherwise not be possible. While we know that these enzymes are detected when a patient has breast cancer, nobody has asked whether they can be used as early indicators, i.e. before clinical signs develop."

## Aussie Helpers

Aussie Helpers supports farmers who are experiencing real hardship. The majority of these people would not ask for help nor expect it. Originally started by a husband and wife team, the organisation has expanded over the years and remains unique in its aim to not only encourage financial support for struggling farmers, but also in respect of donations of time.

Aussie Helpers is a direct link to the rural communities where Ridley operates. Aussie Helpers visits to farming families are not meant or able to resolve major problems, however at times just knowing that someone cares about them and their difficult and often remote situation offers a little hope of better days ahead.

Aussie Helpers has helped thousands of farmers who have been affected by fire, flood, drought and rising costs of living. We have been actively helping Aussie Helpers since becoming a sponsor and believe that this organisation is very well placed and committed to assist farmers.

Ridley's relationship with Aussie Helpers is consistent with our strategy of working closely with the communities where our staff, suppliers and customers live. During the year, Ridley donated cash and many tonnes of animal feed directly to Aussie Helpers to distribute to struggling farmers. Ridley also donates surplus computer equipment to farming families and holds an annual Christmas collection drive at our Bourke Street Head Office and at some of our sites to donate gifts to embattled farming families.

## Local community

Ridley is also proud when employees support a range of charitable activities. By way of example, Ridley employees Robin Campbell and Vaughan Chenoweth, supported in part through Ridley's site donation program, actively championed and participated in the 2016 and 2017 Tour de Cure. The Tour de Cure is a bike ride for charity that promotes the key messages around health and wellbeing, as well as raising precious funds to fund research against cancer.

A group of employees also completed the Run Melbourne Fun Run in July 2017, which gives participants the opportunity to raise a significant amount of funds for Garvan.

Robin Campbell on the Tour de Cure.


Ridley Run Melbourne Fun Run team.

Ridley are proudly helping the Heart of our Country

AUSSIE HELPERS

RIDLEY

www.aussiehelpers.org.au

# BOARD OF DIRECTORS

## Dr Gary H Weiss

LLB (Hons) LLM (NZ) JSD (Cornell, NY)

### Independent Non-Executive Director and Chair

Appointed in June 2010, Dr Weiss is an Executive Director of Ariadne Australia Ltd and a former executive director with Guinness Peat Group plc (now Coats plc). Gary has LLB (Hons) and LLM (Dist) degrees from Victoria University of Wellington, New Zealand, and a JSD from Cornell University, New York. Gary has extensive experience in international capital markets and is a Director of a number of public and private companies. Gary was appointed Ridley Chair on 1 July 2015.

#### Other current listed company directorships

Ariadne Australia Limited from 1989.

Premier Investments Limited from 1994.

Tag Pacific Limited from 1988.

Pro-Pac Packaging Limited from 2012.

Thorney Opportunities Limited from 2013.

The Straits Trading Company Limited from 2014.

Estia Health Ltd from 24 February 2016.

#### Former listed company directorships in the last three years

Clearview Wealth Limited from October 2012 until May 2016.

Mercantile Investment Company Limited from 2012 until February 2015.

Dr Weiss resigned as a non-executive director and acts as an Alternate Director for Mr Daniel Weiss.

## Tim Hart

BSc, MM(T), MMkting, MEd (Melb), PGDIPSI (Oxon), FAICD, FIML

### Chief Executive Officer and Managing Director

Mr Hart commenced employment with Ridley on 2 April 2013 as CEO Designate, was appointed a Director on 24 June 2013, and was formally appointed as Chief Executive Officer and Managing Director on 1 July 2013. Tim was previously CEO of Sugar Australia and Sugar New Zealand, being joint ventures between Wilmar/CSR and Mackay Sugar Limited. Prior to that, Tim held management positions with SCA Hygiene Australasia, Carter Holt Harvey, ACI Plastics Packaging, Amcor Limited and Pasminco Limited.

#### Other current listed company directorships

iSignthis Limited.

#### Former listed company directorships in the last three years

None.

## Patria M Mann

BEc CA FAICD

### Independent Non-Executive Director

Appointed in March 2008, Mrs Mann is currently a Non-Executive Director of Event Hospitality & Entertainment Limited and Allianz Australia Limited. Formerly a partner at KPMG and an experienced director, Patria brings strong audit, investigation, risk management and governance experience to the Board. Patria is a Chartered Accountant and a Fellow of the Institute of Company Directors.

#### Other current listed company directorships

Event Hospitality & Entertainment Limited from October 2013.

#### Former listed company directorships in the last three years

Bellamy's Australia Limited from 10 March 2016 to 18 May 2017.

## Professor Robert J van Barneveld

B.Agr.Sc. (Hon), PhD, R.An.Nutr., FAICD

### Independent Non-Executive Director

Appointed in June 2010, Professor van Barneveld is a registered animal nutritionist, has a Bachelor of Agricultural Science with a major in Animal Production and a PhD from the University of Queensland. Rob brings to the Board a wealth of experience in the agricultural sector, and is the Group CEO and Managing Director of the Sunpork Group, which includes farms, abattoirs, value-adding and food businesses. Rob also serves on the Boards of Pork CRC Ltd and Roseworthy Piggery Pty Ltd, is Deputy Chair of Autism CRC Ltd and Chairman of Social Skills Training Pty Ltd. Rob is an adjunct Professor in the School of Environmental and Rural Science at the University of New England.

### Other current listed company directorships

None.

### Former listed company directorships in the last three years

None.

## Ejnar Knudsen

CFA

### Mr Knudsen represents the interests of 19.73% shareholder AGR Agricultural Investments LLC (formerly known as Insitor Holdings, LLC) and AGR Partners, LLC.

Appointed in June 2013, Mr Knudsen is the CEO of AGR Partners, LLC, an associated entity of Ridley's largest shareholder, AGR Agricultural Investments LLC (formerly known as Insitor Holdings, LLC). Ejnar has more than 20 years of experience investing in and operating food and agriculture companies. Ejnar was Executive Vice President of Western Milling, a start-up California grain and feed milling company that grew to over $1 billion in sales. Ejnar spent 10 years as Vice President for Rabobank in New York managing a loan portfolio, equity investments, and corporate advisory services. Prior to founding AGR Partners, Ejnar was Co-Portfolio Manager of Passport Capital's Agriculture Fund and Craton Capital.

### Other current listed company directorships

None.

### Former listed company directorships in the last three years

None.

## David Lord

MBA (Executive) MBS, Grad. Dip. Bus (Management) (Monash) MAICD

### Independent Non-Executive Director

Appointed in April 2016, Mr Lord has enjoyed a senior management career primarily in consumer products and agribusiness, most recently as President and Chief Operating Officer of Saputo Dairy Division (Australia) and as CEO and Managing Director of Warrnambool Cheese and Butter Factory Company Limited (WCB) from 2010 to 2015. Between the years 2002 and 2009, David was CEO and Managing Director of Parmalat Australia, a national dairy food manufacturing company known for its Pauls, Ice Break, Vaalia and Smarter White brands. David has extensive experience in supply chain and in the domestic markets for consumer and industrial food products, and the marketing of Australian dairy products in the international commodity marketplace.

### Other current listed company directorships

None.

### Former listed company directorships in the last three years

Managing Director Warrnambool Cheese and Butter Factory Company Holdings Limited until May 2014.

# FINANCIAL REPORT

# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 JUNE 2017

The Directors of Ridley Corporation Limited (Ridley or the Company) present their report for the Group (the Group), being the Company and its subsidiaries, and the Group's interest in equity accounted investments at the end of, or during, the financial year (FY) ended 30 June 2017.

### 1. Directors

The following persons were Directors of Ridley Corporation Limited during the whole of the financial year and up to the date of this report unless otherwise stated:

GH Weiss

TJ Hart

PM Mann

RJ van Barneveld

E Knudsen

DJ Lord

### 2. Principal activities

The principal continuing activities of the Group during the year were the production of premium quality, high performance animal nutrition solutions.

### 3. Results

For statutory reporting purposes, the Consolidated Statement of Comprehensive Income (page 52) reports a net consolidated after tax profit of $25.8 million and a pre-tax profit from continuing operations of $34.3 million.

| Table 1 | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Profit from continuing operations before income tax | 34,287 | 40,315 |
| Income tax expense | (8,472) | (13,112) |
| **Profit from continuing operations after tax** | 25,815 | 27,203 |
| Profit from discontinued operation after tax | - | 403 |
| **Net profit attributable to members of Ridley Corporation Limited** | 25,815 | 27,606 |

### 4. Review of operations

#### Operating result

The consolidated Group has recorded Earnings Before Interest and Tax (EBIT) of $34.9 million (Table 2 overleaf), comprising a Ridley operating result of $45.8 million, less corporate costs of $9.9 million and property costs of $1.0 million.

The Ridley operating EBIT of $45.8 million is $7.9 million below last year's $53.7 million record as a result of the previously reported challenges in the Dairy and Aquafeed sectors combined with the absence of a northern Australia dry season, which affected the performance of the Supplements business unit. The significant energy price increases and the challenge of not being able to pass through all of these costs have also impacted the operating result for the year and may similarly influence the years ahead absent any government intervention.

Corporate costs have been contained to be comparable with last year's result despite expensing $1.1 million in legal costs to resolve the Huon legal dispute, which was settled on 23 June 2017 and the funds remitted after balance date on 20 July 2017.

The $1.0 million reduction in property costs compared to the prior year reflects a combination of the scale back of activity at Moolap and the June 2016 sale of Dry Creek, for which deferred consideration proceeds of $10.0 million were received in FY17, with the final $6.0 million due by 31 December 2017.

Net finance costs for the year of $5.0 million reflect interest on bank debt and the trade payables facility and the amortisation of establishment and other fees, offset by $0.5 million for the unwinding of the discount on deferred consideration from the sale of Dry Creek.

The $7.3 million tax expense and 24.4% effective tax rate for FY17 continuing operations reflect an overprovision in the prior year and a significant increase in research and development (R&D) activity, much of which is associated with the Novacq™ project and a full year of applied R&D activities at Yamba in NSW.

## 4. Review of operations continued

Other non-recurring items before tax of $4.3 million comprise $3.6 million of non-recurring, taxable sundry income generated through the finalisation of the Wasleys insurance claim plus $0.7 million profit on disposal of the investment in Consolidated Manufacturing Enterprise (CME), an equity accounted joint venture investment. The tax effect of these two transactions is $1.1 million. The insurance proceeds income was received to replace on a 'new for old' basis the feedmill assets damaged by the Pinery, South Australia, bushfire at Ridley's Wasleys feedmill. The new assets are reflected in the balance sheet and are being depreciated over their effective lives.

### Profit and loss

| Table 2 in $ million | 2017 | 2016 | Movement |
|---|---|---|---|
| **Earnings from operations before finance income and expense and tax expense (EBIT):** | | | |
| Ridley AgriProducts operations | **45.8** | 53.7 | (7.9) |
| Corporate | **(9.9)** | (9.6) | (0.3) |
| Property – other than Dry Creek | **(1.0)** | (2.0) | 1.0 |
| **EBIT from operations before non-recurring costs** | **34.9** | 42.1 | (7.2) |
| Net finance costs | **(5.0)** | (5.4) | 0.4 |
| Income tax expense – continuing | **(7.3)** | (12.6) | 5.3 |
| **Net profit from continuing operations after tax before non-recurring items** | **22.6** | 24.1 | (1.5) |
| Discontinued operation – Dry Creek after tax | **-** | 0.4 | (0.4) |
| Other non-recurring items before tax | **4.3** | 3.6 | 0.7 |
| Tax on other non-recurring items | **(1.1)** | (0.5) | (0.6) |
| **Reported net profit** | **25.8** | 27.6 | (1.8) |
| Earnings per share (cents): | | | |
| (i) continuing | **8.4** | 8.8 | (0.4) |
| (ii) reported | **8.4** | 9.0 | (0.6) |

The profit and loss summary with a prior period comparison provided in Table 2 above has been sourced from the audited accounts but has not been subject to separate review or audit. The Directors believe that the presentation of the unaudited non-IFRS profit and loss summary in Table 2 is useful for users as it reflects the underlying profits of the business.

### Core business operations

Sales revenue for FY17 of $852.9 million was down $59.7 million (6.5%) on last year's $912.6 million, and reflects 1.93 million (2016: 1.94 million) tonnes of stockfeed and rendered product sold.

The core business recorded an operating result for the full year of $45.8 million, which is a resilient result achieved in a difficult trading period for two of Ridley's major sectors, Dairy and Aquafeed. Furthermore, the absence of a dry season in northern Australia adversely impacted demand for dry season blocks and caused a significant turnaround in performance for the Supplements business unit from the prior year.

The earnings performance of the Poultry, Pig, and Packaged Products sectors for FY17 were strong, while a positive aggregate Rendering result was achieved with the reduction in red meat raw material supply to the Laverton plant compensated by strong poultry processing and trading volumes.

Poultry and Pig volumes were both up on the prior year and enjoy the prospect of further growth in the future. The lower manufacturing cost per tonne achieved by switching volume to the newly commissioned Lara feedmill is expected to generate margin improvement in the year ahead, and the commercial team will continue execution of its customer plan to attract new business to the Lara feedmill.

Rendering raw material intake volumes were down at Laverton but average selling prices up, whereas raw material intake was up but selling prices were down at Maroota compared to the equivalent prior period. The variation in performance drivers reflects the different markets for red and white meat and fish, with the overall Rendering result for the year up on the prior year. Improved plant reliability and reduced operating costs have been a feature for the year at Laverton, however much of the gains have been consumed by significant increases in energy costs. The challenge for the year ahead is to continue to generate processing efficiencies to offset further rises in energy costs and to maintain pricing and improve raw material intake volumes in a highly competitive market.

Margin management and product range remain the keys to a fourth successive performance improvement for Packaged Products, with a number of new product ranging and brand refresh campaigns successfully run to consolidate sales volumes and build a platform for future growth.

In the previous year, Ridley's Dairy earnings were at a historical high on the back of a high milk price and low raw material grain prices for the first 10 months and despite a sudden collapse of confidence in May and June 2016 as a result of the imposition of retrospective reductions to the milk price offered by the industry's largest milk processors.

In FY17, Dairy sector volumes were down 58,000 tonnes on last year, with a corresponding impact recorded in the manufacturing cost per tonne arising from the underutilisation of Dairy feedmill capacity. Positive sentiment for a Dairy sector recovery has carried through to create a far more positive outlook at the start of the new year compared to 12 months ago.

Without the Huon salmon sales volumes, the full year Aquafeed volumes were 18,000 tonnes down on last year, with a commensurate reduction in earnings. Ridley remains positive on the medium to long term outlook for aquaculture, and announced on 20 January 2017 its intention to build a new aquafeed mill in Tasmania. Since the announcement date, Ridley has executed a contract to acquire its feedmill site at Westbury, situated between Burnie and Launceston in northern Tasmania, and is working through the development approval process to complete the contract and commence construction in the coming year.

The Supplements business was severely impacted in FY17 by the absence of a dry season in northern Australia, with the abundance of natural pasture resulting in significantly lower demand for the lick blocks compared to the prior year. The year ended on a more positive note due to the second half year focus on a strategic pricing and marketing strategy for wet season blocks and loose mix products and on sourcing new markets for the sale of magnesium capsules.

## Balance Sheet

There have been the following material movements in the Balance Sheet over the last 12 months:

(i) An increase of $10.5 million in net debt for the year as explained in the following section.

(ii) An increase in current receivables of $5.1 million to $117.5 million, which includes the non-payment during the year of $17.7 million of Huon debt, which was recovered in full on 20 July 2017, with Ridley making a payment, net of insurance, to Huon of $1.0 million which fully utilised the provision for non-recovery.

(iii) A $4.0 million reduction in inventory, which is a result of an ongoing effort to reduce the number and ageing of inventory items.

(iv) A $4.7 million reduction in non-current receivables that reflects the transfer of the final Dry Creek deferred consideration payment of $5.5 million from non-current to current, offset by the $0.8 million prepayment of long term pond lease rental in Thailand.

(v) A $22.6 million increase in property, plant and equipment, which reflects completion of the new Lara feedmill at north east Geelong and a number of profit maintaining and improving projects across a number of Ridley sites, including Narangba and Yamba and completion of the rebuild at Wasleys.

## Cash flow and working capital

The operating cash inflow for the year (Table 3) after working capital movements and maintenance capital expenditure was $37.6 million, an improvement of $10.7 million on last year's $26.9 million.

Maintenance capital expenditure of $14.2 million continues to be managed below the $15.2 million aggregate charge for depreciation and amortisation.

Ridley has invested $19.6 million in development projects during the year, the largest of which reflects completion of the new state-of-the-art feedmill at Lara.

Payments for intangible assets of $3.6 million reflect the capitalisation of Novacq™ development costs.

Dividends paid comprise the 2016 final dividend of 2.5 cents per share paid on 31 October 2016 and the interim FY17 dividend of 1.5 cents per share, which was paid on 1 May 2017.

$10.0 million of the $35.0 million proceeds from the prior year sale of Dry Creek were received during the year and the final $6.0 million of proceeds is scheduled to be received by 31 December 2017.

Proceeds from the sale of property assets comprise the disposal of the equity accounted investment in CME and sale of Noorat storage site in western Victoria.

Tax payments of $14.7 million were made during the year compared to $13.9 million in the prior year. The reduction in the effective tax rate for FY17, combined with the cumulative tax instalment payments, will generate a lower final tax payment to be made by 1 December 2017.

## 4. Review of operations continued

### Cash flows for the year

| Table 3 in $ million | Year ended 30 June 2017 | Year ended 30 June 2016 |
|---|---|---|
| EBIT from operations after transaction costs and before discontinued operation and non-recurring costs | **34.9** | 42.1 |
| Net cash flow from discontinued operation and non-recurring items | **4.3** | 4.0 |
| Depreciation and amortisation | **15.2** | 15.0 |
| **Consolidated Group EBITDA** | **54.4** | 61.1 |
| (Increase)/decrease in working capital | **(2.6)** | (19.3) |
| Maintenance capital expenditure | **(14.2)** | (14.9) |
| **Operating cash flow** | **37.6** | 26.9 |
| Development capital expenditure | **(19.6)** | (19.3) |
| Payment for intangibles | **(3.6)** | (0.7) |
| Dividends paid | **(12.2)** | (10.6) |
| Share-based payments | **(4.2)** | (1.0) |
| Proceeds from sale of discontinued operation (Dry Creek) | **10.0** | 19.0 |
| Proceeds from sale of property assets and associate | **3.5** | 3.0 |
| Payment for investment in Thailand joint venture | **-** | (1.3) |
| Net finance cost payments | **(5.5)** | (5.4) |
| Net tax payments | **(14.7)** | (13.9) |
| Other items | **(1.8)** | (5.0) |
| **Cash flow for the period** | **(10.5)** | (8.3) |
| Opening net debt balance at 1 July | **(41.0)** | (32.7) |
| **Closing net debt balance at 30 June** | **(51.5)** | (41.0) |

The cash flow summary with a prior period comparison provided in Table 3 above has been sourced from the audited accounts but has not been subject to separate review or audit. The Directors believe that the presentation of the unaudited non-IFRS cash flow summary in Table 3 is useful for users as it reflects the underlying cash flows of the business.

### Segments

The ongoing reportable segments are as follows:

**AgriProducts** Australia's leading supplier of premium quality, high performance animal nutrition solutions.

**Property** Realisation of opportunities in respect of surplus property assets and sales of residual property site assets. The residual sites are now the former salt fields at Moolap and Lara.

### Risks

The following is a summary of the key continuing significant operational risks facing the business and the way in which Ridley manages these risks:

- **Cyclical fluctuations impacting the demand for animal nutrition products** – by operating in several business sectors within the domestic economy (namely Poultry and Pig, Dairy, Aqua, Beef and Sheep, Packaged Products and Rendering), some of which have a positive or negative correlation with each other, Ridley is not dependent upon a single business sector and is able to spread the sector and adverse event risk across a diversified portfolio.
- **Influence of the domestic grain harvest** – through properly managed procurement practices and many of our customers retaining responsibility for the supply of raw materials, the impact of fluctuations in raw material prices associated with domestic and world harvest cycles is mitigated.
- **Influence of natural pasture on supplementary feed decision making** – whilst not being able to control the availability of natural pasture, Ridley believes there is a compelling commercial justification for supplementary feeding in each of its sectors of operation, whether that be measured in terms of milk yield and herd wellbeing or feed conversion ratios in poultry, pig and aquafeed.
- **Impact on domestic and export markets in the event of disease outbreak** – Ridley has a strategy of mill segregation in place to effectively manage its own risk of product contamination across the various species sectors. Ridley also has a footprint of mills dispersed across the eastern states of Australia that provides a geographical segregation of activities. The risk to Ridley is therefore more of a third party market risk, such as what happened with the outbreaks of Avian Influenza three years ago, which effectively closed most of the export markets for poultry meal products.
- **Customer concentration and risk of regional consolidation** – Ridley endeavours to enter into long term sales and supply contracts with its customers and suppliers. This provides surety of volumes required to plan appropriate shift structures, procurement and supply chain activities in the short term and capital expenditure programs in the long term, while actively managing the risk of stranded assets and backward integration into feed production by significant customers.

- **Surplus property holdings** – following the realisation of the majority of its surplus land assets, Ridley has released its dedicated property team. Ridley has retained in-house legal resources supported when needed by external experts to manage the maintenance of existing and potential new operating sites. Ridley continues to engage with the State Government and alongside its development partner to secure appropriate redevelopment approvals to optimise the realisation of shareholder value from the remaining surplus property at Lara and Moolap.
- **Corporate** – risks such as safety, recruitment and retention of high-calibre employees, inadequate innovation and new product development, customer credit risk, interest rate, foreign exchange and inappropriate raw material purchases are all actively managed through the Company's risk management framework, which includes review and monitoring by the executive lead team.

## Earnings per share

The continuing earnings per share of 8.4 cents reflects the result on a stable equity platform. The prior year earnings per share of 9.0 cents reflects the impact of the discontinued operation from the sale of Dry Creek in FY16.

| | 2017 | 2016 |
|---|---|---|
| Basic earnings per share – continuing | 8.4c | 8.8c |
| Basic earnings per share | 8.4c | 9.0c |

## Gearing

Gearing is reported as debt to equity in accordance with the covenants of the Group banking facility.

| Gearing | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Gross debt | 68,079 | 69,435 |
| Less: cash | (16,535) | (28,468) |
| Net debt | 51,544 | 40,967 |
| Total equity | 259,823 | 247,884 |
| Gearing ratio | 19.8% | 16.5% |

## Capital movements

During FY17, a total of 3,023,250 (FY16: 735,552) shares were acquired by the Company on-market for an outlay of $4.2 million (FY16: $1.0 million) in satisfaction of:

(i) the issue of 2,400,000 (FY16: 59,649) shares allocated to Ridley employees under the Ridley Long Term Incentive Plan; and

(ii) 623,250 (FY16: 675,903) shares allocated under the Ridley Employee Share Scheme.

There were no new issues of capital during either financial year.

## Dividend

The Board paid a 2016 final dividend of 2.5 cents per share, fully franked, on 31 October 2016 and a 2017 interim dividend of 1.5 cents per share, fully franked, on 1 May 2017. Ridley does not have a formal dividend policy, but its intention is to adopt a consistent dividend profile in the future that reflects the earnings and cash flow conversion of the business and the growth opportunities prevalent and foreseeable at the time of dividend declaration.

After the balance sheet date, a 2017 final dividend of 2.75 cents per share fully franked and payable on 31 October 2017 was declared by the Directors. The financial effect of this dividend has not been brought to account in the consolidated financial statements for the year ended 30 June 2017 and will be recognised in subsequent financial reports.

## Property

A two-stage application for subdivision is in progress for the southern section of the Lara site, which excludes the two large plots of Ridley-owned land at Lara, which remain available for purchase. The first stage of the subdivision was approved during the year and the new land titles are expected to be issued after balance date. The expected net returns will be examined in the coming year to determine whether or not to proceed to stage two of the plan, which will provide opportunity for further small lot sales and development of a local aquaculture precinct for the region.

With regard to the proposed Nelson Cove development at Moolap, the Victorian State Government's published vision for the leased and Ridley-owned land at Moolap was disappointing and a missed opportunity to generate jobs and prosperity for the region. Ridley and its development partner's endeavour to engage with the government in meaningful discussion on value creation will continue in the year ahead, but with property holding costs restricted to only essential and value-adding activities.

## 4. Review of operations continued

### Outlook

As previously reported, difficult trading conditions were experienced throughout the 2017 financial year in the Dairy, Aquafeed and, to a lesser extent, the Supplements sectors, and this pulled the operating result back from last year's third successive record operating result. Continued growth was experienced in the Poultry and Pig and Packaged Products sectors, with positive poultry growth offset by reductions in red meat raw material supply providing a counterbalance of overall performance in the Rendering business sector.

The 12-month outlook for the Dairy sector is a lot more positive this year than last year, when the industry was still reeling from the imposition of retrospective reductions in milk price payments. With a return to more conventional milk pricing policies and a stronger milk price forecast, coupled with the prospect of continuing low grain prices as a result of a record harvest, dairy farmer sentiment is more positive as we start the new financial year.

While the replacement of Huon salmon sales volumes is a longer term prospect, the existing and potential salmon customer base continues to grow at a healthy rate. Ridley's commitment to invest in aquaculture in Tasmania and restructure its operations at Narangba provides a strong signal of support to the salmon industry following a stressful year of warm water, El Nino and environmental and oxygenation issues in Macquarie Harbour.

The Supplements business unit trading volumes were severely impacted by the absence in FY17 of a dry season in northern Australia. The consequent abundance of natural pasture effectively closed the seasonal trading window for dry season lick blocks compared to the prior year. A return to a more traditional dry season weather pattern is expected to return the Supplements business unit to profitability.

Our other core business sectors are expected to move forward in a positive manner, with a full year of operation from the new Lara feedmill and conversion of opportunities to secure new volumes and customers by virtue of the location and efficiency of the new, state-of-the-art plant.

The securing of the Novacq™ production ponds at Chanthaburi as announced on 23 June 2017 is a significant milestone in moving the project forward in Thailand, and we are expeditiously preparing the ponds for commencement of local production. The inclusion of locally produced Novacq™ in prawn feed manufactured at our 49% owned feedmill in Chanthaburi to be trialled at our partner's on-site prawn farm is the next stage gate for the project in Thailand.

At our Novacq™ production site at Yamba, NSW, we are looking to select our preferred dewatering and drying technologies and to export them to Thailand to complete the entire production cycle. We will be conducting further feed trials in the coming prawn season as we continue to develop the overall value proposition for the industry.

While great progress has already been made in improving efficiency and driving down costs of production and harvesting from a daily process of continuous improvement, we are still in the third quarter of a five-year program of applied R&D and there is a body of work still to be conducted prior to full scale commercial launch of the Novacq™ inclusive range of diets.

To complement the expected organic growth, we are continuing to develop the concepts and plans for the modernisation of our feedmills in a number of key regions, and to identify and secure the combination of incremental volume and freight/logistics savings or arbitrages needed for a new feedmill to pass the internal Ridley project hurdle rates.

In addition to organic growth through a program of mill modernisation, Ridley is continually looking for acquisition opportunities consistent with its long term strategy to be Australia's leading producer of premium quality, high performance animal nutrition solutions.

## 5. Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the year ended 30 June 2017.

## 6. Dividends and distributions to shareholders

Dividends paid to members during the financial year were as follows:

| | 2017 $'000 |
|---|---|
| **Interim dividend** | |
| In respect of the 2017 financial year paid on 1 May 2017 of 1.5 cents, 100% franked | 4,618 |
| **Final dividend** | |
| In respect of the 2016 financial year paid on 31 October 2016 of 2.5 cents, 100% franked | 7,695 |
| | 12,313 |

## 7. Environmental regulation

The Group's manufacturing activities are subject to environmental regulation. Management ensures that any registrations, licences or permits required for the Group's operations are obtained and observed.

Ridley has environmental risk management reporting processes that provide senior management and the Directors with periodic reports on environmental matters, including rectification actions for any issues as discovered. In accordance with its environmental procedures, the Group monitors environmental compliance of all of its operations on an ongoing basis. The Directors are not aware of any environmental matters likely to have a material financial impact.

### Greenhouse gas reporting requirements

The Group is subject to the reporting requirements of the *National Greenhouse and Energy Reporting Act 2007* (Cth) (NGER), which governs the reporting and dissemination of information about greenhouse gas emissions, greenhouse gas projects and energy use and production. Ridley has submitted its Annual Report in compliance with its reporting requirements.

## 8. Directors' and executives' remuneration

Refer to the Remuneration Report.

## 9. Share options and performance rights

Unissued ordinary shares of Ridley Corporation Limited and controlled entities under options and performance rights at the date of this report are as follows:

| | Number | Expiry date |
|---|---|---|
| Ridley Corporation Long Term Incentive Plan (performance rights) | 7,925,000 | Various |
| Ridley Employee Share Scheme (options)* | 4,625,847 | Various |

* The share grant and supporting loan together in substance comprise a share option.

No holder has any right under the above plan and scheme to participate in any other share issue of the Company or of any other entity. The Company will issue shares when the options and performance rights are exercised. Further details are provided in note 24 in the Notes to the Financial Statements and in the Remuneration Report.

The names of all persons who currently hold options granted under the option plans are entered in the register kept by the Company, pursuant to section 215 of the *Corporations Act 2001*. The register is available for inspection at the Company's registered office.

## 10. Information on Directors

Particulars of shares and options in the Company held by Directors, together with a profile of the Directors, are set out in the Board of Directors section in the Annual Report and in the Remuneration Report.

## 11. Post balance date events

The amount of $17.7 million owing from Huon was the subject of legal recovery proceedings that commenced in August 2016. The legal proceedings were settled by mediation in June 2017 and the receivable was recovered in full on 20 July 2017. As part of the settlement, Ridley made a payment, net of insurance, of $1.0 million to Huon, which fully utilised its provision for non-recovery.

No other matters or circumstances have arisen since 30 June 2017 that have significantly affected, or may significantly affect:

(i) the Group's operations in future financial years, or

(ii) the results of those operations in future financial years, or

(iii) the Group's state of affairs in future financial years.

## 12. Company Secretary

The Company Secretary during the year was Mr Alan Boyd, who was appointed on 27 July 2009. Mr Boyd is the Group's Chief Financial Officer and is a fellow of the Governance Institute of Australia and a member of the Chartered Accountants Australia and New Zealand.

## 13. Insurance

Regulation 113 of the Company's Constitution indemnifies officers to the extent now permitted by law.

A Deed of Indemnity (Deed) was approved by shareholders at the 1998 Annual General Meeting. Subsequent to this approval, the Company has entered into the Deed with all the Company's Directors, the secretary of the Company, and the Directors of all the subsidiaries.

The Deed requires the Company to maintain insurance to cover the Directors in relation to liabilities incurred while acting as a Director of the Company or a subsidiary and costs involved in defending proceedings.

During the year the Company paid a premium in respect of such insurance covering the Directors and secretaries of the Company and its controlled entities, and the general managers of the Group.

## 14. Meetings of Directors

The number of Directors' meetings and meetings of committees of Directors held during the financial year, and the number of meetings attended by each Director as a committee member, are as follows:

| Directors | Board | | Audit and Risk Committee | | Remuneration Committee | | Ridley Innovation and Operational Committee | |
|---|---|---|---|---|---|---|---|---|
| | H | A | H | A | H | A | H | A |
| GH Weiss | 13 | 13 | 4 | 4 | 4 | 4 | - | - |
| TJ Hart | 13 | 13 | - | - | - | - | 4 | 4 |
| PM Mann | 13 | 13 | 4 | 4 | - | - | - | - |
| RJ van Barneveld | 13 | 12 | 4 | 4 | - | - | 4 | 4 |
| E Knudsen | 13 | 11 | - | - | - | - | 4 | 4 |
| DJ Lord | 13 | 13 | - | - | 4 | 4 | - | - |

H: Number of meetings held during period of office.

A: Number of meetings attended.

## 15. Non-audit services

The Company may decide to employ the auditor (KPMG) on assignments in addition to the statutory audit function where the auditor's expertise and experience with the Company and/or the Group are important and valuable.

The Board has considered the non-audit services and, in accordance with the advice received from the Audit and Risk Committee, is satisfied that the provision of such expertise on separately negotiated fee arrangements is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company, or jointly sharing economic risk and rewards.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 51 and forms part of this report.

During the year the following fees were paid or payable for non-audit services provided by the auditor of the parent entity and its related practices:

| | $ |
|---|---|
| Tax services | 107,950 |
| Transaction advisory and other services | 5,000 |
| Total | 112,950 |

## 16. Rounding of amounts to nearest thousand dollars

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the 'rounding off' of amounts in the Directors' Report and financial statements. Amounts in the Directors' Report and the consolidated financial statements have been rounded off to the nearest thousand dollars in accordance with that legislative instrument, unless otherwise indicated.

Signed in Melbourne on 23 August 2017 in accordance with a resolution of the Directors.

G H Weiss
Director

T J Hart
Director

# REMUNERATION REPORT – AUDITED

The Directors of Ridley Corporation Limited (Ridley or Company) present the Remuneration Report prepared in accordance with section 300A of the Corporations Act 2001 for the Company and the Group, being the Company and its subsidiaries (Group), and the Group's interest in equity accounted investments, for the financial year ended 30 June 2017. This report forms part of the Directors' Report for the year ended 30 June 2017.

## Remuneration Committee

The Remuneration Committee (throughout the Remuneration Report referred to as the Committee), consisting of at least two independent Non-Executive Directors, advises the Ridley Board of Directors (Board) on remuneration policies and practices generally and makes specific resolutions in its own right and recommendations to the Board on remuneration packages and other terms of employment for the Managing Director, other senior executives and Non-Executive Directors. The Committee is not responsible for evaluating the Board's performance, reviewing Board size and composition and setting the criteria for membership and candidates to fill vacancies; these responsibilities are managed by the Ridley Board.

Executive remuneration and other terms of employment are reviewed annually by the Committee, having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice.

The number of meetings held during the year is shown as item 14 of the Directors' Report.

## Services from remuneration consultants

The Committee has previously engaged both the Godfrey Remuneration Group (GRG) and Hay Group (Hay) as remuneration consultants to the Board. GRG and Hay were engaged to provide remuneration recommendations relating to key management personnel (KMP) of the Group, to provide advice outlining retention strategies for key senior managers in the event of a change in control event for the Group, and to provide recommendations in relation thereto. The Board adopted these recommendations in prior years and have continued to apply the existing policies and practices throughout the 2017 financial year.

## Remuneration of Directors and executives

### Principles used to determine the nature and amount of remuneration

Remuneration packages are set at levels that are intended to attract and retain Directors and executives capable of directing and managing the Group's operations and achieving the Group's strategic objectives.

Executive remuneration is thoroughly benchmarked against a Comparator Group of Companies comprised of ASX, globally listed and private companies of similar function and size to Ridley.

Executive remuneration is structured to align reward with the achievement of annual objectives, successful business strategy implementation and shareholder returns. The remuneration strategy is to:

(i) offer a base Total Employment Package (TEP) that can attract talented people;

(ii) provide short term performance incentives to encourage personal performance;

(iii) provide long term incentives to align the interests of executives more closely with those of Ridley shareholders; and

(iv) reward sustained superior performance, foster loyalty and staff retention.

The overall level of executive reward takes into account the performance of the Group primarily for the current year.

## Consequences of performance on shareholder wealth

In considering the Group's performance and benefits for creation of shareholder wealth, the Committee has regard for the following indices in respect of the current financial year and the previous four financial years.

| | | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|
| Profit/(loss) attributable to members of Ridley Corporation Ltd | $'000 | **25,815** | 27,606 | 21,171 | 17,613 | (21,694) |
| Earnings Before Interest, Tax, Depreciation and Amortisation | $'000 | **54,484** | 61,125 | 51,456 | 41,011 | (3,856) |
| Earnings Before Interest and Tax | $'000 | **39,264** | 45,734 | 36,141 | 27,435 | (13,272) |
| Cash flow from operating activities | $'000 | **29,655** | 17,612 | 47,059 | 31,349 | 52,583 |
| Return on shareholders' funds before significant items and discontinued operations | % | **10.2** | 11.4 | 9.4 | 7.8 | (6.8) |
| Dividends paid | $'000 | **12,313** | 10,774 | 10,774 | 4,617 | 11,543 |
| TSR# | % | **1.8** | 15.0 | 62.0 | 8.0 | (19.1) |
| Short term incentive to KMP | $'000 | **-** | 1,322 | 1,559 | 1,142 | 862 |

# Total shareholder returns (TSR) is calculated as the change in share price for the year plus dividends paid per share for the year, divided by the opening share price.

## Non-Executive Directors

### Directors' fees

Non-Executive Directors' fees are determined within an aggregate Non-Executive Directors' fee pool limit, which is reviewed periodically with proposed amendments recommended to shareholders for approval. The maximum currently stands at $700,000 as approved at the 2003 Annual General Meeting. The Chair receives incremental fees, and the Chair of the Audit and Risk Committee and Ridley Innovation and Operational Committee each receive $10,000 of incremental fees, in addition to the base Director fees. The total amount paid to Non-Executive Directors in FY17 was $535,000 (FY16: $601,133).

## Executives

The executive pay and reward framework comprises the three components of base pay and benefits, short term incentives and long term incentives.

## Base pay and benefits

Executives receive a base package that may be delivered as a mix of cash and, at the executive's discretion, certain prescribed non-financial benefits, including superannuation in excess of the superannuation contribution guarantee payments.

External consultants provide analysis and advice to ensure the base package and benefits for non-executive staff are set to reflect the market rate for a comparable role. An executive's pay may also be reviewed on promotion.

The Group sponsors the Ridley Superannuation Plan – Australia (the Fund), and contributes to other employee nominated superannuation plans. The Fund provides benefits on a defined contribution basis for employees or their dependants on retirement, resignation, total and permanent disability, death and, in some cases, on temporary disablement.

## Short term incentives

Executives and employees in senior positions are eligible for short term incentive (STI) payments based on two components, being the financial performance of the Group (60%) and the overall performance of the individual (40%) as measured against personal key performance indicators (KPIs) (FY16: financial to personal split 60%:40%).

Each year, appropriate KPIs are set to align the STI plan with the priorities of the Group through a process that includes setting stretch target and minimum performance levels required to be achieved prior to any payment of an STI. KPIs are initially set by the Board for the Managing Director based on the adopted business strategy, and then these are cascaded down to the KMPs, CEO Direct Reports and then throughout the business, recognising the relative contributions required of each role within the organisation.

The Group financial performance component of the STI is assessed against budgeted Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) and against Net Profit After Tax (NPAT). The measures of personal performance include targets on safety, training, operational excellence, customer focus, sustainability and community, and people values and development.

Following the end of the 2017 financial year, the financial results and each individual's performance against KPIs have been reviewed to determine STI payments for each executive. For FY17, the Committee assessed the financial performance hurdles as being 83%.

## Short term incentives continued

Given the shortfall in consolidated financial performance to budget and to the prior year for the reasons as outlined In the Review of Operations Section 4 of the Directors' Report, the Committee recommended that no STI be awarded In respect of FY17. The Committee's recommendations were adopted by the Board. When awarded, the STI is ordinarily payable in cash in September, after the release of the full year financial results.

STI incentives by role range from 100% of the base package for the CEO down to 10% of the base package for the least senior participants in the plan. The KPIs are designed to incentivise successful and sustainable financial outcomes, instil a culture where safety is paramount, and encourage excellence, innovation and behaviour in compliance with the Ridley Code of Conduct.

## Long term incentives

In the year ended 30 June 2017, executives' and employees' long term incentives were provided by way of participation in the Company-wide Ridley Employee Share Scheme. There was also an annual issue of performance rights to senior executives and officers under the Ridley Long Term Incentive Plan with an effective grant date of 1 July 2016 and standard terms and conditions as stated below.

The long term incentive programs align the interests of executives more closely with those of Ridley shareholders in rewarding sustained superior performance, whilst also fostering Company-wide loyalty and staff retention through the Ridley Employee Share Scheme. Company policy prohibits employees from entering into any transaction that is designed or intended to hedge any exposure to Ridley securities.

## Current long term incentive plans

### Ridley Corporation Long Term Incentive Plan (LTIP)

The purpose of the LTIP is to provide long term rewards through the delivery of long term, sustainable business objectives that are directly linked to the generation of shareholder returns.

Under the LTIP, which was introduced in October 2006, selected executives and the Managing Director may be offered a number of performance rights (Right). Each Right provides the entitlement to acquire one Ridley share at nil cost.

Rights vest subject to continued employment (with an exclusion for cessation of employment for a Qualifying Reason such as death, disability or redundancy) and to TSR performance relative to the companies ranked from 101 to 300 in the ASX/S&P 300 as defined at the date of grant. Performance is measured over the three-year period from the effective date of grant. 50% of the Rights vest if Ridley ranks at the 50th percentile, and 100% vest if Ridley ranks at the 75th percentile or above. There is straight line proportionate vesting of the balance from 50% to 100% between the 51st percentile and 75th percentiles. The TSR of Ridley and the comparator companies is measured at the end of the performance test period by an independent third party which submits a report detailing the extent of any vesting in accordance with the above rules. To the extent that the performance criteria are met, the Rights are automatically exercised to acquire shares. If the performance criteria are not satisfied, the Rights lapse.

TSR is the Company's preferred performance measure as it provides a comprehensive measure of Company performance against a comparator peer group from the perspective of value delivered to shareholders through a combination of share price growth, dividends and capital returns.

If Ridley is subject to a change of control during the vesting period, the Rights may vest to participants at that time, subject to performance testing and the discretion of the Board.

If a participant ceases employment prior to the end of the vesting period due to retirement, redundancy, permanent disability or death any unvested Rights may vest to that participant, subject again to performance testing and the discretion of the Board. If a participant ceases employment prior to the end of the vesting period due to resignation, dismissal or any other reason that makes the participant no longer eligible to participate under the rules of the plan, any unvested Rights will lapse.

The shares to satisfy awards under the plan may be newly issued or purchased on-market, with the practice in recent years being to purchase the shares on-market.

During the year ended 30 June 2017, 2,825,000 (2016: 2,800,000) Rights were issued under the LTIP, of which 1,300,000 (2016: 1,350,000) were granted as remuneration to KMP and the balance issued to other, non-KMP senior executives within the organisation.

## Summary of Ridley TSR performance

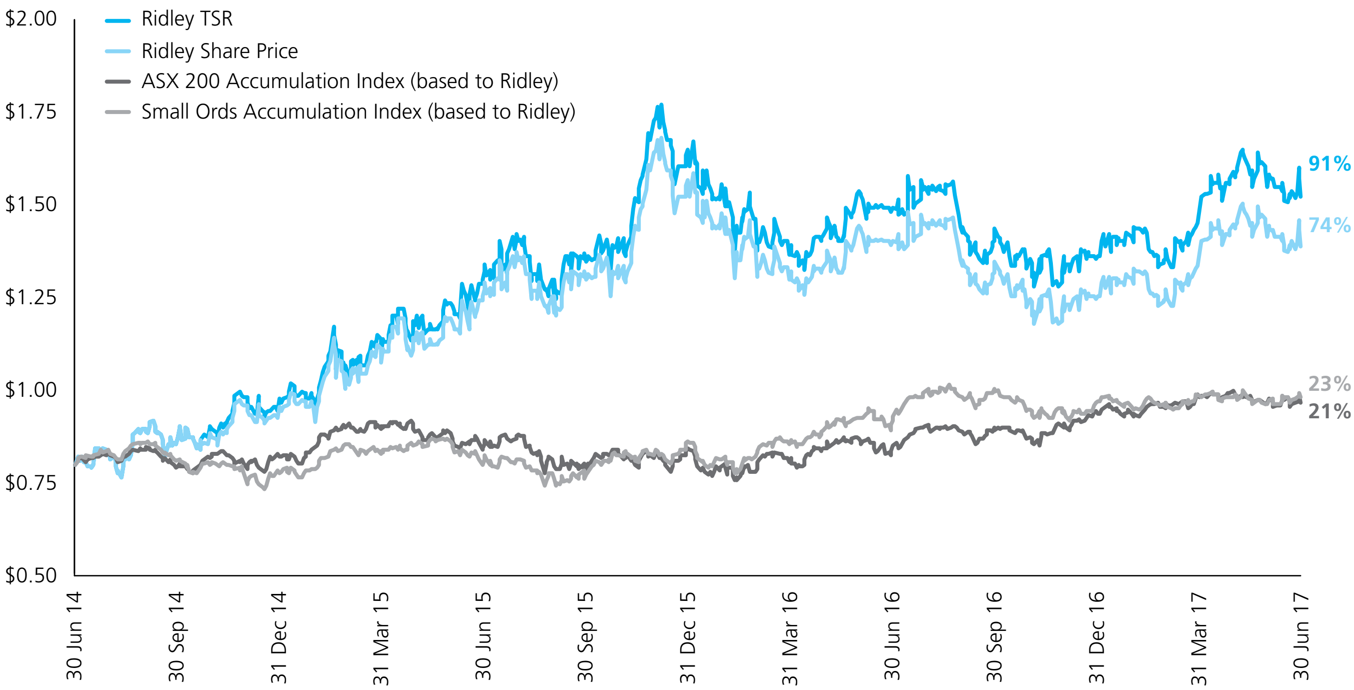
The following table provides a summary of Ridley TSR performance for each tranche of the LTIP Rights on issue at year end measured against the median percentage rankings amongst competitors and using 30 June 2017 as the hypothetical end date. TSR calculations use a 30-day average period rather than a single day start date for the commencement of each vesting period.

| Start date | TSR Ridley | Median TSR comparison | Percentile | Number of rights on issue | Hypothetically vested at 30 Jun 2017 | Hypothetically vested at 30 Jun 2017 |
|---|---|---|---|---|---|---|
| 1 July 2014 | 85.6% | 3.5% | 83.0 | 2,450,000 | 2,450,000* | 100% |
| 1 July 2015 | 21.8% | 7.0% | 60.7 | 2,675,000 | 1,878,073 | 70.2% |
| 1 July 2016 | 1.9% | 4.3% | 46.7 | 2,800,000 | - | - |

* All 2,450,000 Rights vested and 2,450,000 shares awarded after balance date.

## Graph: Ridley share price performance (last three years)

Comparison of growth of Ridley (RIC) share price to the ASX Small Ords and ASX 200 Accumulation Index for FY17:




## Ridley Corporation Special Retention Plan

The Ridley Corporation Special Retention Plan (SRP) was developed specifically to retain and motivate key executives. Under the SRP, selected executives and the Managing Director may be offered a number of performance rights (SRP Rights). The Plan offer is made in accordance with the rules of the Ridley Long Term Incentive Plan except that there are no disposal restrictions and the cessation of employment has been superseded, such that the SRP Rights under this offer vest in full on the earlier occurrence of either completion of two years of service from the date of grant; ceasing to be an employee of Ridley because of a sale of a subsidiary entity; and occurrence of a change of control event. Each SRP Right provides the entitlement to acquire one Ridley share at the end of the service period. During the year ended 30 June 2017, 150,000 (2016: nil) SRP Rights were issued under the SRP, of which nil (2016: nil) were granted as remuneration to KMP but to employees critical to the success of the Novacq™ project.

## Ridley Employee Share Scheme (Scheme)

Under the Scheme, shares are offered to all permanent Australian employees with a minimum of 12 months' service prior to the offer date, at a discount of up to 50%, and financed by an interest-free loan secured against the shares. The maximum discount per employee is limited to $1,000 annually in accordance with current Australian taxation legislation. Dividends on the Scheme shares are applied against any loan balance until such balance is fully extinguished. The amount of the discount and number of shares allocated is at the discretion of the Board. The purpose of the Scheme is to align employee and shareholder interests. 623,250 (2016: 675,903) shares were acquired on-market and allocated to participating employees under the Scheme during the year. The total value of the shares purchased on-market was $885,000 (2016: $962,000).

# REMUNERATION REPORT – AUDITED CONTINUED

## Current long term incentive plans continued

### Shares purchased on-market

The following table reflects the number and total market value of shares that were acquired on-market and allocated to participating employees under the incentive plans during the financial year.

| | Number of shares | | Market value | |
|---|---|---|---|---|
| Incentive plan | 2017 | 2016 | 2017 $'000 | 2016 $'000 |
| Employee Share Scheme | **623,250** | 675,903 | **885** | 962 |
| Long Term Incentive Plan* | **2,400,000** | 59,649 | **3,392** | 88 |
| Total | **3,023,250** | 735,552 | **4,277** | 1,050 |

* Shares awarded under the Long Term Incentive Plan are issued on a pro-rata basis in respect of employees whose departure from the Ridley Group is for a qualifying reason as defined In the Plan rules.

## Directors and key management personnel

The following persons were the Directors and executives with the greatest authority for the strategic direction and management of the Group (Key Management Personnel or KMP) throughout the current financial year unless otherwise stated.

| Name | Position | Status |
|---|---|---|
| **Directors** | | |
| GH Weiss | Chair | |
| TJ Hart | Managing Director and CEO | |
| PM Mann | Director | |
| RJ van Barneveld | Director | |
| E Knudsen | Director | |
| DJ Lord | Director | |
| **Executives** | | |
| AM Boyd | Chief Financial Officer and Company Secretary | |
| M Murphy | General Manager Safety, People and Technical Development | |
| CW Klem | General Manager Rendering | |
| AI Lochland | General Manager Packaged Products, Aqua-Feed & Supplements | |
| AM Mooney | General Manager Commercial Feed | |
| S Butler | General Manager Ridley Land Corporation Pty Ltd | Made redundant on 1 July 2016 |

## Details of remuneration

Details of the remuneration of each Director of Ridley Corporation Limited and each of the KMP of the Group during the financial year are set out below. In accordance with the requirements of Section 300A of the *Corporations Act 2001* and Regulation 2M.3.03, the remuneration disclosures for the 2016 and 2017 financial years only include remuneration relating to the portion of the relevant periods that each individual was considered a KMP.

All values are in A$ unless otherwise stated. The salary package may be allocated at the executive's discretion to cash, superannuation (subject to legislative limits), motor vehicle and certain other benefits.

| 2017 | Short term benefits | | | Post-employment benefits | Share-based payments | | | |
|---|---|---|---|---|---|---|---|---|
| Name | Directors' fees and cash salary $ | STI $ | Other benefits $ | Super-annuation $ | Performance rights/ options $ | Total $ | %[1] | %[2] |
| **Directors** | | | | | | | | |
| GH Weiss – Chair | 159,091 | - | - | 15,909 | - | 175,000 | - | - |
| TJ Hart – Managing Director | 730,101 | - | - | 34,808 | 381,168 | 1,146,077 | 33% | 33% |
| PM Mann | 86,364 | - | - | 8,636 | - | 95,000 | - | - |
| RJ van Barneveld[3] | 95,000 | - | - | - | - | 95,000 | - | - |
| E Knudsen[3] | 85,000 | - | - | - | - | 85,000 | - | - |
| DJ Lord | 77,273 | - | - | 7,727 | - | 85,000 | - | - |
| **Total Directors** | **1,232,829** | **-** | **-** | **67,080** | **381,168** | **1,681,077** | | |
| **Executives** | | | | | | | | |
| AM Boyd | 431,879 | - | - | 25,000 | 127,835 | 584,714 | 22% | 22% |
| M Murphy | 300,447 | - | - | 24,353 | 50,585 | 375,385 | 13% | 13% |
| CW Klem | 310,785 | - | - | 31,078 | 80,335 | 422,198 | 19% | 19% |
| AI Lochland | 310,785 | - | - | 31,078 | 80,335 | 422,198 | 19% | 19% |
| AM Mooney | 339,778 | - | - | 30,000 | 79,167 | 448,945 | 18% | 18% |
| S Butler[4] | - | - | 193,961 | - | - | 193,961 | - | - |
| **Total executives** | **1,693,674** | **-** | **193,961** | **141,509** | **418,257** | **2,447,401** | | |
| **Total** | **2,926,503** | **-** | **193,961** | **208,589** | **799,425** | **4,128,478** | | |

1. Percentage remuneration consisting of performance rights/options.
2. Percentage remuneration performance related.
3. Director fee paid to a Company or Family Trust.
4. Made redundant on 1 July 2016.

# REMUNERATION REPORT – AUDITED CONTINUED

## Details of remuneration continued

| 2016 | Short term benefits | | | Post-employment benefits | Share-based payments | | | |
|---|---|---|---|---|---|---|---|---|
| Name | Directors' fees and cash salary $ | STI $ | Other benefits $ | Super-annuation $ | Performance rights/ options $ | Total $ | %[1] | %[2] |
| **Directors** | | | | | | | | |
| GH Weiss – Chair[3] | 159,091 | - | - | 15,909 | - | 175,000 | - | - |
| TJ Hart – Managing Director | 692,630 | 594,104 | - | 50,000 | 323,257 | 1,659,991 | 19% | 55% |
| AL Vizard[4,5] | 95,000 | - | 35,178 | - | - | 130,178 | - | - |
| PM Mann | 86,364 | - | - | 8,636 | - | 95,000 | - | - |
| RJ van Barneveld[4] | 96,979 | - | - | 4,156 | - | 101,135 | - | - |
| E Knudsen[4] | 85,000 | - | - | - | - | 85,000 | - | - |
| DJ Lord[6] | 13,473 | - | - | 1,347 | - | 14,820 | - | - |
| **Total Directors** | **1,228,537** | **594,104** | **35,178** | **80,048** | **323,257** | **2,261,124** | | |
| **Executives** | | | | | | | | |
| AM Boyd | 418,572 | 184,552 | - | 25,000 | 108,590 | 736,714 | 15% | 40% |
| M Murphy[7] | 234,073 | 76,800 | - | 23,567 | 28,090 | 362,530 | 8% | 29% |
| M Robbins[8] | 132,439 | - | 186,354 | 18,866 | 24,167 | 361,826 | 7% | 7% |
| CW Klem | 301,732 | 75,782 | - | 30,173 | 67,083 | 474,770 | 14% | 30% |
| AI Lochland | 301,732 | 80,834 | - | 30,173 | 68,340 | 481,079 | 14% | 31% |
| AM Mooney | 329,018 | 92,900 | - | 29,990 | 67,083 | 518,991 | 13% | 31% |
| S Butler[9] | 196,988 | 216,686 | - | 19,699 | 1,257 | 434,630 | - | 50% |
| J Murray[10] | 36,364 | - | 153,774 | 3,636 | - | 193,774 | - | - |
| **Total executives** | **1,950,918** | **727,554** | **340,128** | **181,104** | **364,610** | **3,564,314** | | |
| **Total** | **3,179,455** | **1,321,658** | **375,306** | **261,152** | **687,867** | **5,825,438** | | |

1. Percentage remuneration consisting of performance rights/options.
2. Percentage remuneration performance related.
3. Appointed Chair 1 July 2015 after JM Spark resigned on 1 July 2015.
4. Director fee paid to a Company or Family Trust. Remuneration includes back pay for chairing the Ridley Innovation and Operational Committee.
5. Resigned on 31 March 2016. Other benefits reflect the payment of the 2003 retirement allowance scheme.
6. Appointed on 29 April 2016.
7. Appointed to a General Manager, KMP role on 11 January 2016.
8. Resigned on 4 December 2015. Other benefits reflect benefits paid on departure.
9. Made redundant on 1 July 2016.
10. Resigned on 31 December 2015. Other benefits reflect payment of preserved leave entitlements.

## Contracts of employment

Remuneration and other terms of employment for the Managing Director are formalised in a service agreement that includes provision of performance related bonuses and other benefits, eligibility to participate in the Ridley Corporation LTIP, STI and Ridley Employee Share Scheme. Other major provisions of the agreements relating to remuneration are set out below:

### TJ Hart, CEO and Managing Director

- Base remuneration, inclusive of superannuation and any elected benefits, of $764,909 for FY17, increasing by 3% to $787,856 on 1 July 2017.
- Full scheme participation up to 100% of total base package based on the achievement of certain agreed KPIs as approved by the Board. The 60% of Ridley financial performance measures for FY17 included a mix of performance against budgeted EBITDA and Net Profit After Tax, excluding property. The measures of personal performance include targets on safety, training, operational excellence, customer focus, sustainability and community, and people values and development.
- Eligible to participate in the Ridley LTIP and Ridley to use its best endeavours to obtain shareholder approval for the issue of equity securities under the scheme. Shareholder approval was received on 29 November 2016 for the 600,000 performance rights issued to Mr Hart in FY17 with a three-year performance test period commencing on 1 July 2016.
- Ridley may terminate the contract immediately for cause and with a 12-month period of notice without cause, being inclusive of any redundancy benefits payable to the executive. Payment of termination benefits on early termination by the employer is not to exceed the threshold above which shareholder approval is required under the *Corporations Act 2001*, and comprises any amount of the total remuneration package accrued but unpaid at termination, plus accrued but unpaid leave entitlements, and any other entitlements accrued under applicable legislation.
- The Managing Director may resign at any time and for any reason by giving Ridley three months' notice in writing.

Other senior executives have individual contracts of employment but with no fixed term of employment.

### Notice periods

The notice period for terminating employment of KMP ranges from three months to six months for executives and 12 months for the Managing Director.

For each STI and grant of options and performance rights included in the above remuneration tables, the percentage of the available STI or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria, are set out in the following table.

| | | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|
| Name | STI percentage range of TEP % | STI payment in $ | Paid % | Forfeited % | Paid % | Forfeited % |
| TJ Hart | 0–100 | - | - | 100% | 80 | 20 |
| AM Boyd | 0–50 | - | - | 100% | 82 | 18 |
| M Murphy | 0–30 | - | - | 100% | 80 | 20 |
| CW Klem | 0–30 | - | - | 100% | 76 | 24 |
| AI Lochland | 0–30 | - | - | 100% | 81 | 19 |
| AM Mooney | 0–30 | - | - | 100% | 85 | 15 |
| S Butler | (i) | - | - | - | 100 | - |

(i) Mr Butler had individual STI targets based on the achievement of property management and realisation objectives. Mr Butler was made redundant on 1 July 2016.

## Equity instrument disclosures relating to Directors and executives

### Performance rights provided as remuneration

Details of Rights over ordinary shares in the Company provided as remuneration to the Managing Director of Ridley Corporation Limited and each of the other key management personnel of the Group are set out below. When exercisable, each Right is convertible into one ordinary share of Ridley Corporation Limited. Non-Executive Directors do not participate in the LTIP and are therefore ineligible to receive Rights.

### Long Term Incentive Plan (LTIP)

| Recipients of LTIP rights | Balance at 1 July 2016 | Granted [1] | Vested [2] | Balance at 30 June 2017 [3] |
|---|---|---|---|---|
| **Directors** | | | | |
| TJ Hart | 1,800,000 | 600,000 | (600,000) | 1,800,000 |
| **Key management personnel** | | | | |
| AM Boyd | 600,000 | 200,000 | (200,000) | 600,000 |
| M Murphy | 150,000 | 125,000 | (50,000) | 225,000 |
| CW Klem | 375,000 | 125,000 | (125,000) | 375,000 |
| AI Lochland | 375,000 | 125,000 | (125,000) | 375,000 |
| AM Mooney | 375,000 | 125,000 | (125,000) | 375,000 |
| S Butler | - | - | - | - |
| **Total issued to Directors and key management personnel** | **3,675,000** | **1,300,000** | **(1,225,000)** | **3,750,000** |

1. The fair value per option at the grant date of 1 July 2016 was $0.71 per share.
2. Vested at the end of the performance period on 1 July 2016. The value at the date of exercise was $1.40 per share.
3. Performance rights are due to vest between July 2017 through to July 2019.

### Shareholdings

The numbers of shares in the parent entity held during the financial year by each Director of Ridley Corporation Limited and each of the KMP of the Group who hold shares, including their personally related entities, are set out in the table below.

### Number of shares held in Ridley Corporation Limited

| | Balance at 1 July 2016 | Received during the year [1] | Acquired/ (disposed) during the year | Balance at 30 June 2017 |
|---|---|---|---|---|
| GH Weiss | 150,000 | - | 120,000 | 270,000 |
| TJ Hart | 28,262 | 601,385 | 32,242 | 661,889 |
| PM Mann | 96,625 | - | - | 96,625 |
| RJ van Barneveld | 58,900 | - | 24,153 | 83,053 |
| E Knudsen | 703,286 | - | - | 703,286 |
| DJ Lord | 18,200 | - | - | 18,200 |
| **Total Directors** | **1,055,273** | **601,385** | **176,395** | **1,833,053** |
| A M Boyd | 900,145 | 201,385 | - | 1,101,530 |
| M Murphy | 8,063 | 51,385 | - | 59,448 |
| CW Klem | 329,329 | 126,385 | - | 455,714 |
| AI Lochland | 3,262 | 126,385 | - | 129,647 |
| AM Mooney | 370,324 | 125,000 | - | 495,324 |
| S Butler | - | - | - | - |
| **Total executives** | **1,611,123** | **630,540** | **-** | **2,241,663** |
| **Total key management personnel** | **2,666,396** | **1,231,925** | **176,395** | **4,074,716** |

1. Received from the vesting of performance rights and/or through the Ridley Employee Share Scheme.

# LEAD AUDITOR'S INDEPENDENCE DECLARATION

KPMG

## Lead Auditor's Independence Declaration under Section 307C of the *Corporations Act 2001*

To the directors of Ridley Corporation Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Ridley Corporation Limited for the financial year ended 30 June 2017 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Chris Sargent
Partner

Melbourne

23 August 2017

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 30 JUNE 2017

| | Note | 2017 $'000 | 2016 $'000 |
|---|---|---|---|
| Revenue from continuing operations | 4 | 852,923 | 912,561 |
| Cost of sales | | (781,826) | (832,329) |
| **Gross profit** | | 71,097 | 80,232 |
| Finance income | | 49 | 183 |
| Other income | 4 | 8,581 | 12,121 |
| Expenses from continuing operations: | | | |
| Selling and distribution | | (12,863) | (13,400) |
| General and administrative | 5(d) | (27,559) | (33,235) |
| Finance costs | 5(b) | (5,026) | (5,602) |
| Share of net profits from equity accounted investments | 13 | 8 | 16 |
| Profit from continuing operations before income tax expense | | 34,287 | 40,315 |
| Income tax expense | 6 | (8,472) | (13,112) |
| Profit from continuing operations after income tax expense | | 25,815 | 27,203 |
| Profit/(loss) from discontinued operation (net of tax) | 30 | - | 403 |
| **Net Profit After Tax attributable to members of Ridley Corporation Limited** | | 25,815 | 27,606 |
| **Other comprehensive income for the year, net of tax** | | - | - |
| **Total comprehensive income for the year** | | 25,815 | 27,606 |
| **Total comprehensive income for the year attributable to:** | | | |
| Ridley Corporation Limited | | 25,815 | 27,606 |
| **Earnings per share** | | | |
| Basic earnings per share – continuing | 1 | 8.4c | 8.8c |
| Basic earnings per share | 1 | 8.4c | 9.0c |
| Diluted earnings per share – continuing | 1 | 8.4c | 8.8c |
| Diluted earnings per share | 1 | 8.4c | 9.0c |

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

# CONSOLIDATED BALANCE SHEET
## AS AT 30 JUNE 2017

| | Note | 2017 $'000 | 2016 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 7 | **16,535** | 28,468 |
| Receivables | 8 | **117,491** | 112,352 |
| Inventories | 9 | **83,717** | 87,683 |
| Tax asset | 14 | **380** | - |
| **Total current assets** | | **218,123** | 228,503 |
| **Non-current assets** | | | |
| Receivables | 8 | **840** | 5,537 |
| Investment properties | 10 | **3,181** | 3,140 |
| Property, plant and equipment | 11 | **182,794** | 160,209 |
| Intangible assets | 12 | **79,284** | 76,355 |
| Investments accounted for using the equity method | 13 | **1,324** | 3,663 |
| Deferred tax asset | 14 | **5,057** | 7,443 |
| **Total non-current assets** | | **272,480** | 256,347 |
| **Total assets** | | **490,603** | 484,850 |
| **Current liabilities** | | | |
| Payables | 15 | **148,580** | 145,916 |
| Provisions | 16 | **13,540** | 12,909 |
| Tax liability | 14 | **-** | 8,260 |
| **Total current liabilities** | | **162,120** | 167,085 |
| **Non-current liabilities** | | | |
| Borrowings | 17 | **68,079** | 69,435 |
| Provisions | 16 | **581** | 446 |
| **Total non-current liabilities** | | **68,660** | 69,881 |
| **Total liabilities** | | **230,780** | 236,966 |
| **Net assets** | | **259,823** | 247,884 |
| **Equity** | | | |
| Share capital | 18 | **214,445** | 214,445 |
| Reserves | 19 | **2,895** | 2,170 |
| Retained earnings | 19 | **42,483** | 31,269 |
| **Total equity** | | **259,823** | 247,884 |

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 JUNE 2017

| | Share capital $'000 | Share-based payment reserve $'000 | Retained earnings $'000 | Total $'000 |
|---|---|---|---|---|
| **Balance at 1 July 2016** | **214,445** | **2,170** | **31,269** | **247,884** |
| Profit for the year | - | - | 25,815 | 25,815 |
| Other comprehensive income | - | - | - | - |
| **Total comprehensive income for the year** | **-** | **-** | **25,815** | **25,815** |
| **Transactions with owners recorded directly in equity** | | | | |
| Dividends paid | - | - | (12,313) | (12,313) |
| Share-based payment transactions | - | 725 | (2,288) | (1,563) |
| **Total transactions with owners recorded directly in equity** | **-** | **725** | **(14,601)** | **(13,876)** |
| **Balance at 30 June 2017** | **214,445** | **2,895** | **42,483** | **259,823** |

| | Share capital $'000 | Share-based payment reserve $'000 | Retained earnings $'000 | Total $'000 |
|---|---|---|---|---|
| **Balance at 1 July 2015** | **214,445** | **853** | **14,536** | **229,834** |
| Profit for the year | - | - | 27,606 | 27,606 |
| Other comprehensive income | - | - | - | - |
| **Total comprehensive income for the year** | **-** | **-** | **27,606** | **27,606** |
| **Transactions with owners recorded directly in equity** | | | | |
| Dividends paid | - | - | (10,774) | (10,774) |
| Share-based payment transactions | - | 1,317 | (99) | 1,218 |
| **Total transactions with owners recorded directly in equity** | **-** | **1,317** | **(10,873)** | **(9,556)** |
| **Balance at 30 June 2016** | **214,445** | **2,170** | **31,269** | **247,884** |

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 30 JUNE 2017

| | Note | 2017 $'000 | 2016 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 938,609 | 1,007,469 |
| Payments to suppliers and employees | | (897,361) | (979,510) |
| Interest received | | 49 | 183 |
| Other income received | | 8,581 | 8,926 |
| Interest and other costs of finance paid | | (5,499) | (5,484) |
| Income tax payment | | (14,724) | (13,972) |
| **Net cash inflow from operating activities** | 7 | 29,655 | 17,612 |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | (33,779) | (34,170) |
| Payments for intangibles | | (3,593) | (698) |
| Proceeds from sale of discontinued operation | 30 | 10,000 | 19,000 |
| Proceeds from sale of non-current assets | | 3,520 | 3,000 |
| Acquisition of investment in joint venture entity | 13 | - | (1,324) |
| **Net cash (outflow) from investing activities** | | (23,852) | (14,192) |
| **Cash flows from financing activities** | | | |
| Share-based payment transactions | | (4,221) | (1,050) |
| (Repayment)/drawdown of borrowings | | (1,356) | 1,742 |
| Dividends paid | 2 | (12,159) | (10,635) |
| **Net cash (outflow) from financing activities** | | (17,736) | (9,943) |
| **Net (decrease) in cash held** | | (11,933) | (6,523) |
| **Cash at the beginning of the financial year** | | 28,468 | 34,991 |
| **Cash at the end of the financial year** | 7 | 16,535 | 28,468 |

There were no non-cash financing and investing activities during the current or prior years.

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

# INDEX OF NOTES
## TO AND FORMING PART OF THE FINANCIAL REPORT

# NOTES TO THE FINANCIAL STATEMENTS

## Note 1 – Earnings per share

| | 2017 Cents | 2016 Cents |
|---|---|---|
| Basic earnings per share – continuing | **8.4** | 8.8 |
| Basic earnings per share | **8.4** | 9.0 |
| | | |
| Diluted earnings per share – continuing | **8.4** | 8.8 |
| Diluted earnings per share | **8.4** | 9.0 |

| | 2017 Earnings per share | | 2016 Earnings per share | |
|---|---|---|---|---|
| | Basic $'000 | Diluted $'000 | Basic $'000 | Diluted $'000 |
| **Earnings used in calculating earnings per share:** | | | | |
| Profit after income tax – continuing operations | **25,815** | **25,815** | 27,203 | 27,203 |
| Profit after income tax – discontinued operation | **-** | **-** | 403 | 403 |
| Total | **25,815** | **25,815** | 27,606 | 27,606 |
| | | | | |
| **Weighted average number of shares** | Basic | Diluted | Basic | Diluted |
| Weighted average number of shares used in calculating basic and diluted earnings per share | **307,817,071** | **307,817,071** | 307,817,071 | 307,817,071 |

### Options

There are 7,925,000 (2016: 7,650,000) performance rights outstanding that have been excluded from the determination of diluted earnings per share calculation as the Group purchases shares on-market to satisfy vesting performance rights. Details relating to the performance rights are set out in note 24.

### Earnings per share

#### (i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares on issue during the financial year.

#### (ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## Note 2 – Dividends

| Dividends paid during the year | Franking | Payment date | Per share (cents) | 2017 $'000 | 2016 $'000 |
|---|---|---|---|---|---|
| Interim dividend in respect of the current financial year | Fully franked | 1 May 2017 (2016: 29 April 2016) | 1.5 (2016: 1.5) | **4,618** | 4,618 |
| Final dividend in respect of the prior financial year | Fully franked | 31 October 2016 (2016: 30 October 2015) | 2.5 (2016: 2.0) | **7,695** | 6,156 |
| | | | | **12,313** | 10,774 |
| Paid in cash | | | | **12,159** | 10,635 |
| Non-cash dividends paid on employee in-substance options | | | | **154** | 139 |
| | | | | **12,313** | 10,774 |

**Since the end of the financial year, the Directors declared the following dividend:**

| | | |
|---|---|---|
| 2017 final dividend of 2.75 cents per share, fully franked, payable on 31 October 2017 | **8,465** | 7,695 |

**Dividend franking account**

| | | |
|---|---|---|
| Amount of franking credits available at 30 June to shareholders of Ridley Corporation Limited for subsequent financial years | **20,934** | 11,487 |

## Note 3 – Operating segments

The Group determines and presents operating segments based on information that internally is provided to and used by the Managing Director, who is the Group's Chief Operating Decision Maker. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The financial results of each operating segment are regularly reviewed by the Group's Managing Director in order to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Managing Director include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

The Group has two reportable segments, as described below, which are the Group's strategic business units until such time as all surplus property assets have been realised, whereupon the property segment will cease to exist. The operating segments identified by management are consistent with the manner in which products are sold or how future economic benefits will be realised.

The following summary describes the operations in each of the Group's reportable segments:

**AgriProducts** Australia's leading supplier of premium quality, high performance animal nutrition solutions.

**Property** Realisation of opportunities in respect of surplus property assets and sales of residual property site assets.

The basis of inter-segmental transfers is market pricing. Results are calculated before consideration of net borrowing costs and tax expense. Segment assets exclude deferred tax balances and cash, which have been included as unallocated assets.

## Geographical segments

The Group predominantly operates in Australasia.

| 2017 financial year<br>$'000 | AgriProducts | Property | Unallocated | Consolidated total |
|---|---|---|---|---|
| Total sales revenue – external (note 4) | 852,923 | - | - | 852,923 |
| Other revenue (note 4) | 7,738 | 213 | 630 | 8,581 |
| **Total revenue** | **860,661** | **213** | **630** | **861,504** |
| Share of profits of equity accounted investments (note 13) | 8 | - | - | 8 |
| Depreciation and amortisation expense (note 5) | (14,967) | (18) | (235) | (15,220) |
| Interest income | - | - | 49 | 49 |
| Finance costs (note 5) | - | - | (5,026) | (5,026) |
| **Reportable segment profit/(loss) before income tax** | **50,131** | **(789)** | **(15,055)** | **34,287** |
| Segment assets | 452,300 | 3,181 | 33,798 | 489,279 |
| Investments accounted for using the equity method | 1,324 | - | - | 1,324 |
| Total segment assets | 453,624 | 3,181 | 33,798 | 490,603 |
| Segment liabilities | 160,826 | - | 69,954 | 230,780 |
| Acquisitions of property, plant and equipment, intangibles and other non-current segment assets (excluding the impact of business combinations) | 40,972 | - | - | 40,972 |

| 2016 financial year<br>$'000 | AgriProducts | Property | Unallocated | Total | Property (discontinued operations) | Consolidated total |
|---|---|---|---|---|---|---|
| Total sales revenue – external (note 4) | 912,561 | - | - | 912,561 | - | 912,561 |
| Other revenue (note 4) | 8,415 | 2,638 | 1,068 | 12,121 | 381 | 12,502 |
| Total revenue | 920,976 | 2,638 | 1,068 | 924,682 | 381 | 925,063 |
| Share of profits of equity accounted investments (note 13) | 16 | - | - | 16 | - | 16 |
| Depreciation and amortisation expense (note 5) | (14,611) | (13) | (364) | (14,988) | - | (14,988) |
| Interest income | (1,053) | - | - | (1,053) | - | (1,053) |
| Finance costs (note 5) | - | - | 183 | 183 | - | 183 |
| | - | - | (5,602) | (5,602) | - | (5,602) |
| Reportable segment profit/(loss) before income tax | 55,168 | (2,060) | (12,793) | 40,315 | 2,597 | 42,912 |
| Segment assets | 425,867 | 3,140 | 52,180 | 481,187 | - | 481,187 |
| Investments accounted for using the equity method | 3,663 | - | - | 3,663 | - | 3,663 |
| Total segment assets | 429,530 | 3,140 | 52,180 | 484,850 | - | 484,850 |
| Segment liabilities | 156,181 | - | 80,785 | 236,966 | - | 236,966 |
| Acquisitions of property, plant and equipment, intangibles and other non-current segment assets (excluding the impact of business combinations) | 34,868 | - | - | 34,868 | - | 34,868 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## Note 4 – Revenue and other income

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Revenue from continuing operations | | |
| Sale of goods | **852,923** | 912,561 |
| | | |
| Other income from continuing operations | | |
| Business services | **630** | 917 |
| Rent received | **330** | 567 |
| Insurance proceeds – note 5(d) | **4,156** | 7,832 |
| Profit on sale of associate | **717** | - |
| Profit on sale of land | **92** | 2,242 |
| Foreign exchange gains – net | **-** | 121 |
| Other | **2,656** | 442 |
| | **8,581** | 12,121 |

### Revenue recognition

Revenue from the sale of goods in the course of ordinary business is measured at the fair value of the consideration received or receivable, net of returns, trade allowances and duties and taxes paid. Sales revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer. The Group recognises revenue when pervasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

Interest income is recognised using the effective interest rate method. Dividend income is recognised as revenue when the right to receive payment is established.

## Note 5 – Expenses

Profit from continuing operations before income tax is arrived at after charging the following items:

| (a) Depreciation and amortisation [i] | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Buildings | **1,516** | 1,314 |
| Plant and equipment | **11,889** | 11,078 |
| Software | **1,064** | 1,846 |
| Intangible assets | **751** | 750 |
| | **15,220** | 14,988 |

(i) The depreciation and amortisation charge is included within general and administrative expenses in the Consolidated Statement of Comprehensive Income.

### (b) Finance costs

| | 2017 | 2016 |
|---|---|---|
| Interest expense | **5,414** | 5,405 |
| Amortisation of borrowing costs | **144** | 317 |
| Unwind of discount on deferred consideration | **(499)** | - |
| Capitalisation of borrowing costs | **(33)** | (120) |
| | **5,026** | 5,602 |

Finance costs include interest and amortisation of ancillary costs incurred in connection with the arrangement of borrowings. Borrowing costs are expensed as incurred unless they relate to qualifying assets, being assets that normally take more than 12 months from commencement of activities necessary to prepare for their intended use or sale to the time when substantially all such activities are complete. Where funds are borrowed specifically for the production of a qualifying asset, the interest on those funds is capitalised, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average interest rate.

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **(c) Other expenses** | | |
| Employee benefits expense | 76,623 | 78,633 |
| Operating lease expense# | 3,947 | 3,583 |
| Bad and doubtful debt expense – net of recoveries | 33 | 371 |
| Research and development (note 12) | 9,030 | 5,875 |

# A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits of ownership of leased non-current assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Consolidated Statement of Comprehensive Income on a straight line basis over the period of the lease.

| (d) General and administrative expenses include, in respect of the Wasleys feedmill | | |
|---|---|---|
| Incremental operating costs, clean up and removal of debris | 556 | 4,466 |
| Impairment loss on property, plant and equipment | - | 1,053 |
| Inventory write-offs and write-downs | - | 910 |
| | 556 | 6,429 |

On 25 November 2015, the Pinery Bushfire in South Australia caused significant damage to Ridley's feedmill at Wasleys, giving rise to an impairment of damaged assets. The assets, plus the lost profits and Additional Increased Costs of Working (AICW) to accommodate customer commitments, subject to a deductible of $250,000, are covered by insurance, the claim for which was concluded during the 2017 financial year.

Based on the damaged assets, lost profits and AICW, total insurance revenue of $11,988,000 (2017: $4,156,000; 2016: $7,832,000 has been received and brought to account (refer other income – insurance claim proceeds in note 4).

There is a net Consolidated Statement of Comprehensive Income gain for the year (before income tax) of $3,600,000 (2016: $1,403,000) between insurance claim proceeds income and incremental general and administrative expenses incurred. The income tax on the insurance proceeds received has been brought to account within the income tax expense for the 2016 and 2017 financial years.

## Note 6 – Income tax expense

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and by unused tax losses.

Ridley Corporation Limited and its wholly owned Australian controlled entities are part of a tax consolidated group. The entities in the tax consolidated group are party to a tax sharing agreement which limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Ridley Corporation Limited. The agreement provides for the allocation of income tax liabilities between the entities should Ridley Corporation Limited default on its tax payment obligations. At balance date the possibility of default is considered to be remote.

| (a) Income tax expense | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Current tax | 7,207 | 14,633 |
| Deferred tax | 2,386 | 221 |
| (Over)/under provided in prior year | (1,121) | 453 |
| **Aggregate income tax expense** | 8,472 | 15,307 |
| | | |
| Income tax expense is attributable to: | | |
| Profit from continuing operations | 8,472 | 13,112 |
| Profit from discontinued operation | - | 2,195 |
| | 8,472 | 15,307 |

### (b) Reconciliation of income tax expense and pre-tax accounting profit

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Profit from continuing operations before income tax expense | 34,287 | 40,315 |
| Profit from discontinued operation before income tax expense | - | 2,597 |
| | 34,287 | 42,912 |
| | | |
| Income tax using the Group's tax rate of 30% | 10,286 | 12,874 |
| Tax effect of amounts that are not deductible/(taxable) in calculating taxable income: | | |
| Share-based payments | 23 | 36 |
| Non-deductible expenses | 396 | 343 |
| (Over)/under provision in prior year | (1,121) | 453 |
| Research and development allowance | (1,191) | (238) |
| Disposal of discontinued operation | - | 2,476 |
| Disposal of non-current assets | 118 | (381) |
| Other | (39) | (256) |
| Income tax expense | 8,472 | 15,307 |

### (c) Income tax recognised directly in equity

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Aggregate current and deferred tax arising in the period and not recognised in net comprehensive income but directly debited or (credited) to equity | - | - |

## Note 7 – Cash and cash equivalents

Cash and cash equivalents comprise cash balances in Australian dollars and foreign currencies.

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Cash at bank | 16,535 | 28,468 |

### Reconciliation of net cash inflow from operating activities to profit after income tax

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Net profit after tax for the year** | 25,815 | 27,606 |
| **Adjustments for non cash items:** | | |
| Depreciation and amortisation (note 5(a)) | 15,220 | 14,988 |
| Net profit from discontinued operation | - | (4,469) |
| Net profit on sale of non-current assets | (789) | (2,242) |
| Non-cash insurance proceeds receivable (note 5(d)) | - | (832) |
| Share of profit from equity accounted investment | (8) | (16) |
| Non-cash share-based payments | 2,210 | 2,049 |
| Non-cash finance movements | (355) | 317 |
| Bad debts expense | 33 | 339 |
| Foreign exchange losses/(gains) | 441 | (121) |
| Other non-cash movements | 260 | (546) |
| **Change in operating assets and liabilities, net of effects from purchase and sale of controlled entities and businesses:** | | |
| Decrease/(increase) in receivables | (9,933) | (1,765) |
| Decrease/(increase) in inventories | 4,702 | (5,980) |
| Increase/(decrease) in trade creditors | 2,318 | (12,809) |
| Increase/(decrease) in provisions | 766 | 202 |
| Increase/(decrease) in net income tax liability | (8,639) | 1,112 |
| Increase/(decrease) in deferred income tax | (2,386) | (221) |
| **Net cash inflow from operating activities** | 29,655 | 17,612 |

## Note 8 – Receivables

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Current** | | |
| Trade debtors | 103,808 | 100,904 |
| Less: Allowance for doubtful debts (a) | (1,000) | (1,000) |
| | 102,808 | 99,904 |
| Prepayments and other receivables | 4,363 | 1,819 |
| Other receivable – joint venture entity (b) | 4,487 | - |
| Dry Creek deferred consideration receivable | 5,833 | 9,797 |
| Insurance income receivable | - | 832 |
| | 117,491 | 112,352 |
| **Non-current** | | |
| Prepayments | 840 | - |
| Dry Creek deferred consideration receivable | - | 5,537 |
| | 840 | 5,537 |

## Note 8 – Receivables continued

### Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less allowance for doubtful debts. Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off.

The allowance for doubtful debts is established when there is objective evidence that the Group may not be able to collect all amounts owing in accordance with the original terms of the receivable and where suitable insurance arrangements or collateral do not cover any uncollected amounts. In determining the recoverability of the receivables, the Group considers any material changes in the credit quality of the receivable on an ongoing basis. The allowance for doubtful debts and the receivables written off are included in 'general and administrative' expense in the Consolidated Statement of Comprehensive Income.

The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited in the Consolidated Statement of Comprehensive Income.

| (a) Movement in the allowance for doubtful debts: | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Balance brought forward at 1 July | 1,000 | 32 |
| Provision for impairment movement during the year | 33 | 1,339 |
| Receivables written off during the year | (33) | (371) |
| Balance carried forward at 30 June | 1,000 | 1,000 |

As at 30 June 2017, trade receivables against which a provision for doubtful debts has been raised totals $17,707,000 (2016: $5,563,000). This is considered to be adequate provision against the balance of any overdue receivables to the extent they are not covered by collateral and/or credit insurance. Based on historic default rates and having regard to the ageing analysis referred to immediately below, the Group believes that, apart from those trade receivables that have been impaired, no further impairment allowance is necessary in respect of trade receivables not past due or past due by up to 30 days, as receivables relate to customers that have a good payment record with the Group.

### Ageing analysis

At 30 June 2017, the age profile of trade receivables that were past due amounted to $23,188,000 (2016: $11,157,000) as shown in the following table. As at the date of this report, the value of an overdue receivable relating to one major customer, Huon, totals $17,707,000, which was the subject of legal recovery proceedings which commenced in August 2016. The legal proceedings were settled by mediation in June 2017 and the receivable was recovered in full on 20 July 2017. As part of the settlement, Ridley made a payment, net of insurance, of $1.0 million to Huon, which fully utilised its provision for non-recovery.

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| The ageing analysis of trade receivables is shown as follows: | | |
| Past due by 1–30 days | 4,544 | 9,068 |
| Past due by 31–60 days | 590 | 1,729 |
| Past due by 61–90 days | 138 | 178 |
| Past due by greater than 90 days | 17,916 | 182 |
| | 23,188 | 11,157 |

### (b) Other receivable – joint venture entity

During the year the parent entity provided an unsecured loan to the Pen Ngern Feed Mill Co., Ltd. joint venture entity in order to secure the release from its banking arrangements with Bangkok Bank Ltd. The amount utilised at 30 June 2017 was $4,487,000 (2016: nil). The loan has a two-year term commencing on 1 July 2017 and is capped at 120 million Baht, or approximately AUD$4.8 million at an exchange rate of 25 Baht:AUD$1. Interest on the loan is charged at 5% and capitalised for the first 12 months of the loan.

## Note 9 – Inventories

| | | 2017 $'000 | 2016 $'000 |
|---|---|---|---|
| **Current** | | | |
| Raw materials and stores | – at cost | **46,116** | 48,573 |
| Finished goods | – at cost | **36,733** | 39,110 |
| | – at net realisable value | **868** | - |
| | | **83,717** | 87,683 |

Write-downs of inventories to net realisable value of $0.1 million (2016: nil) has been recognised as an expense during the year.

Inventories are valued at the lower of cost and net realisable value. Costs are determined on the first in, first out and weighted average cost methods. Costs included in inventories consist of materials, labour and manufacturing overheads which are related to the purchase and production of inventories. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

## Note 10 – Investment properties

Investment property is property held either to earn rental income, for capital appreciation or for both, but not for sale in the ordinary course of business, for use in the production or supply of goods or services, or for administrative purposes.

Investment property is measured at cost on initial recognition. Cost includes expenditure that is directly attributable to the acquisition of the investment property. Expenditure capitalised to investment properties includes the cost of acquisition, capital and remediation additions. Any gain or loss on disposal and impairments of an investment property are recognised in the Consolidated Statement of Comprehensive Income. Depreciation is calculated using the straight line method to allocate deemed cost, net of residual values, over the estimated useful lives of the assets, and for buildings over a 40-year period.

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Movement in investment properties** | | |
| Carrying amount at cost at 1 July | **3,140** | 3,153 |
| Additions | **59** | - |
| Depreciation expense | **(18)** | (13) |
| **Carrying amount at cost at 30 June** | **3,181** | 3,140 |

Investment properties comprise former salt field sites at Lara and Moolap that have ceased operating and are held for the purpose of property realisation.

A fair value range for the sites at Lara and Moolap cannot be determined reliably at the present time given that the respective locations do not have local established industrial or residential infrastructure, which would enable a reliable valuation benchmark to be determined. Furthermore, the value of each site also varies significantly depending upon which stage of the progressive regulatory approvals required for redevelopment has been attained at balance date. Consequently, the value of these sites has been recorded at cost less impairment and depreciation.

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Amounts recognised in profit and loss for investment properties:** | | |
| Direct operating expenses that did not generate rental income | **546** | 965 |

## Note 11 – Property, plant and equipment

| | Land and buildings | Plant and equipment | Total $'000 |
|---|---|---|---|
| **2017** | | | |
| Cost at 1 July 2016 | 60,509 | 222,903 | 283,412 |
| Accumulated depreciation | (6,050) | (117,153) | (123,203) |
| **Carrying amount at 1 July 2016** | 54,459 | 105,750 | 160,209 |
| Additions | 170 | 37,209 | 37,379 |
| Disposals | (98) | (140) | (238) |
| Transfers to intangible assets | - | (1,151) | (1,151) |
| Transfers from plant under construction | 3,811 | (3,811) | - |
| Depreciation | (1,516) | (11,889) | (13,405) |
| **Carrying amount at 30 June 2017** | 56,826 | 125,968 | 182,794 |
| | | | |
| **At 30 June 2017** | | | |
| Cost | 64,345 | 254,181 | 318,526 |
| Accumulated depreciation | (7,519) | (128,213) | (135,732) |
| **Carrying amount at 30 June 2017** | 56,826 | 125,968 | 182,794 |
| | | | |
| **2016** | | | |
| Cost at 1 July 2015 | **57,815** | **202,071** | **259,886** |
| Accumulated depreciation | **(4,988)** | **(115,355)** | **(120,343)** |
| **Carrying amount at 1 July 2015** | **52,827** | **86,716** | **139,543** |
| Additions | 257 | 33,913 | 34,170 |
| Impairment | (5) | (1,048) | (1,053) |
| Transfers to intangible assets | - | (59) | (59) |
| Transfers from plant under construction | 2,694 | (2,694) | - |
| Depreciation | (1,314) | (11,078) | (12,392) |
| **Carrying amount at 30 June 2016** | **54,459** | **105,750** | **160,209** |
| | | | |
| **At 30 June 2016** | | | |
| Cost | **60,509** | **222,903** | **283,412** |
| Accumulated depreciation | **(6,050)** | **(117,153)** | **(123,203)** |
| **Carrying amount at 30 June 2016** | **54,459** | **105,750** | **160,209** |

### Property, plant and equipment

Land and buildings, plant and equipment are stated at cost, or deemed cost, less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All repairs and maintenance are charged to the Consolidated Statement of Comprehensive Income during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 13 to 40 years |
| Plant and equipment | 2 to 30 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the Consolidated Statement of Comprehensive Income.

### Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in comprehensive income over the period necessary to match them with the costs that they are intended to compensate. The value of government grants relating to the purchase of property, plant and equipment is deducted from the carrying amount of the asset. The grant is recognised in comprehensive income over the life of the depreciable asset as a reduced depreciation expense.

A Victorian Government Grant of $800,000 was awarded by, and $529,000 (2016:$191,000) received in the current year from, the Geelong Region Innovation & Investment Fund (GRIIF) as a contribution to plant and equipment purchased for Ridley's new feedmill at Lara, Geelong, Victoria. The balance of the grant was received in July 2017 upon satisfaction of the final project milestone and commissioning of the new feedmill that services poultry and pig customers in the region.

## Note 12 – Intangible assets

| | Software $'000 | Goodwill $'000 | Contracts $'000 | Assets under development $'000 | Total $'000 |
|---|---|---|---|---|---|
| **2017** | | | | | |
| Carrying amount at 1 July 2016 | 3,558 | 68,950 | 2,250 | 1,597 | **76,355** |
| Transfer from property, plant and equipment/additions | 1,151 | - | - | 3,593 | **4,744** |
| Amortisation charge | (1,064) | - | (751) | - | **(1,815)** |
| Carrying amount at 30 June 2017 | **3,645** | **68,950** | **1,499** | **5,190** | **79,284** |
| | | | | | |
| **At 30 June 2017** | | | | | |
| Cost | **15,213** | **69,903** | **4,500** | **5,190** | **94,806** |
| Accumulated amortisation/ impairment losses | **(11,568)** | **(953)** | **(3,001)** | **-** | **(15,522)** |
| Carrying amount at 30 June 2017 | **3,645** | **68,950** | **1,499** | **5,190** | **79,284** |

The amortisation charge is included within general and administrative expenses in the Consolidated Statement of Comprehensive Income.

## Note 12 – Intangible assets continued

| | Software $'000 | Goodwill $'000 | Contracts $'000 | Assets under development $'000 | Total $'000 |
|---|---|---|---|---|---|
| **2016** | | | | | |
| Carrying amount at 1 July 2015 | 5,345 | 68,950 | 3,000 | 899 | **78,194** |
| Transfer from property, plant and equipment/additions | 59 | - | - | 698 | **757** |
| Amortisation charge | (1,846) | - | (750) | - | **(2,596)** |
| Carrying amount at 30 June 2016 | **3,558** | **68,950** | **2,250** | **1,597** | **76,355** |
| | | | | | |
| **At 30 June 2016** | | | | | |
| Cost | 14,062 | 69,903 | 4,500 | 1,597 | **90,062** |
| Accumulated amortisation/impairment losses | (10,504) | (953) | (2,250) | - | **(13,707)** |
| Carrying amount at 30 June 2016 | **3,558** | **68,950** | **2,250** | **1,597** | **76,355** |

### Intangible assets

#### (i) Software

Software has a finite useful life and is carried at cost less accumulated amortisation and impairment losses. The cost of system development, including purchased software, is capitalised and amortised over the estimated useful life, being three to eight years. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

#### (ii) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates, accounted for using the equity method. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to Cash Generating Units for the purpose of impairment testing.

$56.6 million of goodwill has been recognised in the Rendering Cash Generating Unit (CGU), whilst the balance has been accumulated from a combination of other CGUs over many years as summarised below:

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Rendering | **56,616** | 56,616 |
| AgriProducts | **12,334** | 12,334 |
| Total goodwill | **68,950** | 68,950 |

#### (iii) Contracts

The Contracts Intangible asset represents acquired contractual legal rights that have a finite useful life and that are amortised over a period of six years, according to the period of the contractual legal rights. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

#### (iv) Assets under development

Assets under development include the applied R&D activities being conducted at Yamba in NSW and Chanthaburi in Thailand in respect of the novel feed ingredient Novacq™ project. Items of plant and equipment purchased as part of the project are being separately capitalised as capital work in progress. Both sites are expected to remain in the development stage of the Novacq™ project throughout FY18.

## Research and development expenditure

Research and development expenses of $9,030,000 have been incurred in the current year (2016: $5,875,000), which have been included as eligible research and development in the R&D Tax Incentive schedule.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the Consolidated Statement of Comprehensive Income as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends, and has sufficient resources, to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Capitalised development expenditure is measured at cost less accumulated depreciation and accumulated impairment losses as part of either intangibles or property, plant and equipment.

## Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that the carrying amount may no longer be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows, which are largely independent of the cash inflows from other assets or groups of assets (Cash Generating Units). Non-financial assets other than goodwill that have previously suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

## Impairments during the year

There were no impairments of intangible assets during the year.

## Impairment testing

The recoverable amount of a CGU is based on value-in-use calculations. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing. These assumptions have been used for the analysis in each CGU.

(i) Cash flow forecasts are based on the Board approved FY18 budget, projected for four years plus a terminal value.

(ii) Forecast growth rates are based on management's expectations of future performances. The growth rate represents a steady indexation rate that does not exceed the Group's expectations of the long term average growth rate for the business in which each CGU operates. The growth rates applied to cash flows beyond one year were 2% (2016: 2%). A growth rate of 2% is applied to the terminal value (2016: 2%).

(iii) Discount rates used are the weighted average cost of capital for the Group. The post-tax discount rate applied to cash flows was 8.1% (2016: 9.2%).

A sensitivity analysis was undertaken to examine the effect of a change in each key variable on each CGU. For all CGUs, excluding supplements, a reasonably possible change in these inputs would not cause the recoverable amount to be below the carrying amount.

## Impact of possible changes in key assumptions

Whilst all CGUs in the Group have been tested for impairment and have met their required hurdle rates to support the current carrying values, the reduction in earnings for the year for the Supplements CGU (part of the AgriProducts CGU) has eroded the CGUs impairment assessment headroom. Return to a more traditional dry season weather pattern combined with improvements in manufacturing efficiencies and waste and water management are expected to improve the outlook for this sector, however any deterioration in the discount rate or earnings profile for the Supplements CGU will raise impairment concerns in the future.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## Note 13 – Investments accounted for using the equity method

| Name of Company | Principal activity | Country of incorporation | Ownership interest 2017 % | Ownership interest 2016 % | Carrying amount 2017 $'000 | Carrying amount 2016 $'000 |
|---|---|---|---|---|---|---|
| **Associate:** | | | | | | |
| Consolidated Manufacturing Enterprise Pty Ltd and Swanbrook Road Holding Trust[1] | Feed production | Australia | - | 25 | - | 2,339 |
| **Joint venture entities:** | | | | | | |
| Ridley Bluewave Pty Ltd[2] | Animal protein production | Australia | 50 | 50 | - | - |
| Nelson Landholdings Pty Ltd as Trustee for Nelson Landholdings Trust[3] | Property realisation | Australia | 50 | 50 | - | - |
| Pen Ngern Feed Mill Co. Ltd[4] | Aquafeed production | Thailand | 49 | 49 | 1,324 | 1,324 |
| **Investments accounted for using the equity method** | | | | | 1,324 | 3,663 |

1. Interest disposed of on 1 February 2017. Ridley's 25% of the cash proceeds was $3.3 million with a pre-tax accounting profit of $0.7 million.
2. Ridley Bluewave Pty Ltd is an incorporated joint venture established to produce animal proteins but has not traded to date.
3. The Company and unit trust are the corporate structure through which any ultimate development of the Moolap site will be managed. There are a number of restrictions for this entity to protect the interests of each party, being Ridley and development partner Sanctuary Living, which cause the entity to be reported as a joint venture rather than controlled entity. Despite this classification for reporting purposes, Ridley retains full control of the value and use of the land at Moolap until such time as Ridley resolves to commit the land to the project.
4. On 28 January 2016, the Group acquired a 49% interest in Pen Ngern Feed Mill Co., Ltd. (PNFM) for an investment of $1.3 million. PNFM is an entity domiciled in Thailand that owns and operates a dedicated aquafeed manufacturing facility. PNFM operations had been suspended prior to the investment by Ridley. Ridley's share of the start-up activities conducted prior to balance date is not material, and its cumulative share of profits or losses since acquisition of the investment will be brought to account within its joint venture accounted share of the PNFM operating result for FY18. The 49% ownership interest in PNFM, rather than an equal or controlling equity stake, is a reflection of Thai law, which can impose certain restrictions on Thai businesses whose shares owned by non-Thai nationals exceed 49%. The pertinent contracts have been structured, however such that governance and management of the business will be effectively on a 50:50 basis between Ridley and the other party.

Investments in associates and joint venture entities are accounted for in the consolidated financial statements using the equity method of accounting, and are carried at cost by the respective parent entity. The common balance date of the associate and joint venture entities is 30 June, except for PNFM, which is 31 December.

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Carrying amount of investments accounted for using the equity method** | | |
| Opening carrying amount at 1 July | 3,663 | 2,323 |
| Share of operating profits after income tax | 8 | 16 |
| Disposal of Consolidated Manufacturing Enterprise Pty Ltd and Swanbrook Road Holding Trust | (2,347) | - |
| Acquisition of Pen Ngern Feed Mill Co. Ltd. | - | 1,324 |
| Closing carrying amount at 30 June | 1,324 | 3,663 |

Summarised financial information of equity accounted investees, not adjusted for the percentage ownership held by the Group, is provided following.

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Current assets | 148 | 3,985 |
| Non-current assets | 5,401 | 8,387 |
| Total assets | 5,549 | 12,372 |
| Current liabilities | 184 | 4,051 |
| Non-current liabilities | 4,905 | 4,733 |
| Total liabilities | 5,089 | 8,784 |
| **Net assets** | 460 | 3,588 |
| | | |
| Revenue | 1,757 | 12,505 |
| Net profit after tax | 32 | 64 |

There are no material reserves or contingent liabilities of the equity accounted investees.

## Note 14 – Tax assets and liabilities

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Current** | | |
| Tax asset | 380 | - |
| Tax liability | - | 8,260 |
| | | |
| **Non-current** | | |
| Deferred tax asset | 5,057 | 7,443 |
| | | |
| **Movement in deferred tax asset:** | | |
| Opening balance at 1 July | 7,443 | 1,476 |
| Credited/(charged) to the Statement of Comprehensive Income (note 6) | (2,386) | (221) |
| Disposal of subsidiary | - | 6,188 |
| Closing balance at 30 June | 5,057 | 7,443 |

### Recognised deferred tax assets and liabilities

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 |
| **Consolidated** | | | | | | |
| Intangibles | - | - | (2,293) | (1,627) | (2,293) | (1,627) |
| Doubtful debts | - | - | - | - | - | - |
| Property, plant and equipment | 3,183 | 3,748 | (789) | (109) | 2,394 | 3,639 |
| Employee entitlements | 4,262 | 5,057 | - | - | 4,262 | 5,057 |
| Provisions | - | 81 | - | - | - | 81 |
| Other | 105 | 293 | 589 | - | 694 | 293 |
| **Tax assets/(liabilities)** | 7,550 | 9,179 | (2,493) | (1,736) | 5,057 | 7,443 |

### Movement in net deferred tax assets and liabilities

| | Balance 1 July 2015 $'000 | Recognised in profit or loss $'000 | Disposal of subsidiary $'000 | Balance 30 June 2016 $'000 | Recognised in profit or loss $'000 | Balance 30 June 2017 $'000 |
|---|---|---|---|---|---|---|
| **Consolidated** | | | | | | |
| Intangibles | (1,917) | 290 | - | (1,627) | (666) | (2,293) |
| Doubtful debts | 10 | (10) | - | - | - | - |
| Property, plant and equipment | (3,084) | 535 | 6,188 | 3,639 | (1,245) | 2,394 |
| Employee entitlements | 5,152 | (95) | - | 5,057 | (795) | 4,262 |
| Provisions | 291 | (210) | - | 81 | (81) | - |
| Other | 1,024 | (731) | - | 293 | 401 | 694 |
| **Tax assets/(liabilities)** | 1,476 | (221) | 6,188 | 7,443 | (2,386) | 5,057 |

## Note 14 – Tax assets and liabilities continued

### Income tax

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability.

No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable comprehensive income.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

## Note 15 – Payables

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Current** | | |
| Trade creditors and accruals | **148,580** | 145,916 |

### Trade payable facility

The Group has a trade payable facility which is an unsecured funding arrangement for the purposes of funding trade related payments associated with the purchase of various raw materials from approved suppliers. Trade bills of exchange are paid by the facility direct to the importer and the Group pays the facility on 180-day terms within an overall facility limit of $50,000,000 (2016: $50,000,000). The amount utilised and recorded within trade creditors at 30 June 2017 was $48,639,345 (2016: $36,004,244).

## Note 16 – Provisions

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Current** | | |
| Employee entitlements | **13,540** | 12,909 |
| **Non-current** | | |
| Employee entitlements | **581** | 446 |

### Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

#### Provision for employee entitlements

Current liabilities for wages and salaries, including non-monetary benefits, short term incentive payments, annual leave, accumulating sick leave and long service leave expected to be settled within 12 months of the reporting date, are recognised in accruals and provisions for employee entitlements in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. Employee benefit on-costs, including payroll tax, are recognised and included in both employee benefit liabilities and costs.

The non-current liability for long service leave expected to be settled more than 12 months from the reporting date is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the timing of estimated future cash outflows.

## Note 17 – Borrowings

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Non-current** | | |
| Bank loans | 68,079 | 69,435 |

The bank loans are subject to bank covenants based on financial ratios of the Group. As at 30 June 2017, and throughout all relevant times during the financial year ended 30 June 2017, the Group was in compliance with these covenants. The bank loans are unsecured.

### Total loan facilities available to the Group in Australian dollars

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Limits $'000 | Utilised $'000 | Limits $'000 | Utilised $'000 |
| Long term loan facility (a) | 160,000 | 68,500 | 160,000 | 70,000 |
| Cash | - | (16,535) | - | (28,468) |
| | 160,000 | 51,965 | 160,000 | 41,532 |

### (a) Long term loan facility

The Group's dual bank long term loan facility is a combination of floating core debt funding of $80 million plus an additional $80 million of fixed term project funding with a maturity date of 18 April 2021. The borrowing facility comprises unsecured bank loans with floating interest rates subject to negative pledge arrangements which require the Group to comply with certain minimum financial requirements. The key covenant ratios under the facility remain interest cover, debt cover, gearing and consolidated net worth. The Group is in compliance with all facility covenants.

### Offsetting of financial instruments

The Group does not set off financial assets with financial liabilities in the consolidated financial statements. Under the terms of the loan facility agreement, if the Group does not pay an amount when due and payable, the bank may apply any credit balance in any currency in any account that the Group has with the bank, in or towards satisfaction of that amount.

As at 30 June 2017, the value of legally enforceable cash balances, which upon default or bankruptcy would be applied to the loan facility, is $16,535,000 (2016: $28,468,000).

## Note 18 – Share capital

| | Parent entity | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| **Fully paid up capital:** | | |
| 307,817,071 ordinary shares with no par value (2016: 307,817,071) | 214,445 | 214,445 |

There were no movements in issued capital or the number of shares on issue in either of the financial years.

### Ordinary shares

Ordinary shares are classified as share capital. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Ordinary shares entitle the holder to receive dividends and the proceeds on winding up the interest in proportion to the number of shares held. On a show of hands, every shareholder present at a shareholders' meeting in person or by proxy is entitled to one vote, and upon a poll each share is entitled to one vote.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## Note 18 – Share capital continued

### Capital risk management

The Group manages capital to ensure it maintains optimal returns to shareholders and benefits for other stakeholders. The Group also aims to maintain a capital structure that ensures the optimal cost of capital available to the Group.

The Group reviews and, where appropriate, adjusts the capital structure to take advantage of favourable costs of capital or high returns on assets. The Group may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital through the gearing ratio (net debt/total equity). The gearing ratios as at 30 June are as follows:

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Gross debt | **68,079** | 69,435 |
| Less: cash | **(16,535)** | (28,468) |
| Net debt | **51,544** | 40,967 |
| Total equity | **259,823** | 247,884 |
| Gearing ratio | **19.8%** | 16.5% |

## Note 19 – Reserves and retained earnings

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Reserves** | | |
| Share-based payments reserve | | |
| Opening balance at 1 July | **2,170** | 853 |
| Options and performance rights expense | **2,210** | 2,049 |
| Share-based payment transactions | **(3,773)** | (831) |
| Retained earnings transfer | **2,288** | 99 |
| Closing balance at 30 June | **2,895** | 2,170 |

The share-based payments reserve is used to recognise the fair value of performance rights and options issued to employees in relation to equity settled share-based payments.

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Retained earnings** | | |
| Opening balance at 1 July | **31,269** | 14,536 |
| Net profit for the year | **25,815** | 27,606 |
| Dividends paid | **(12,313)** | (10,774) |
| Share-based payments reserve transfer | **(2,288)** | (99) |
| Closing balance at 30 June | **42,483** | 31,269 |

## Note 20 – Investment in controlled entities

The ultimate parent entity within the Group is Ridley Corporation Limited.

| Name of entity | Country of incorporation | Class of shares | Ownership interest 2017 | Ownership interest 2016 |
|---|---|---|---|---|
| **Ridley AgriProducts Pty Ltd and its controlled entity** | Australia | Ordinary | 100% | 100% |
| CSF Proteins Pty Ltd | Australia | Ordinary | 100% | 100% |
| **Barastoc Stockfeeds Pty Ltd** | Australia | Ordinary | 100% | 100% |
| **Ridley Corporation (Thailand) Co. Ltd** [1] | Thailand | Ordinary | 100% | - |
| **RCL Retirement Pty Limited** | Australia | Ordinary | 100% | 100% |
| **Ridley Land Corporation Pty Ltd and its controlled entities** | Australia | Ordinary | 100% | 100% |
| Lara Land Development Corporation Pty Ltd | Australia | Ordinary | 100% | 100% |
| Moolap Land Development Corporation Pty Ltd | Australia | Ordinary | 100% | 100% |

1. Entity incorporated during the year in Thailand to manage the Novacq™ Thailand operations.

## Note 21 – Parent entity

As at 30 June 2017 and throughout the financial year ending on that date, the parent company of the Group was Ridley Corporation Limited.

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Result of the parent entity** | | |
| Profit for the year | 29,506 | 11,147 |
| Comprehensive income for the year | - | - |
| Total comprehensive income for the year | 29,506 | 11,147 |
| | | |
| **Financial position of the parent entity at year end** | | |
| Current assets | 15,808 | 15,938 |
| Non-current assets | 314,594 | 310,398 |
| Total assets | 330,402 | 326,336 |
| | | |
| Current liabilities | 1,699 | 11,892 |
| Non-current liabilities | 68,156 | 69,530 |
| Total liabilities | 69,855 | 81,422 |
| **Net assets** | 260,547 | 244,914 |
| | | |
| **Total equity of the parent entity comprising of:** | | |
| Share capital | 214,445 | 214,445 |
| Share-based payment reserve | 2,895 | 2,170 |
| Retained earnings | 43,207 | 28,299 |
| **Total equity** | 260,547 | 244,914 |

### Parent entity guarantees in respect of debts of its subsidiaries

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees the debts of certain of its subsidiaries which are party to the deed.

Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed are disclosed in note 22.

## Note 22 – Deed of Cross Guarantee

Ridley Corporation Limited, Ridley AgriProducts Pty Ltd and CSF Proteins Pty Ltd are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the other entities.

The above companies represent a Closed Group for the purposes of the ASIC Class Order, which governs the operation and establishment of the Deed of Cross Guarantee. As there are no other parties to the Deed of Cross Guarantee that are controlled but not wholly owned by Ridley Corporation Limited, they also represent the Extended Closed Group.

### (a) Summarised Consolidated Statement of Comprehensive Income

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Profit before income tax | 34,287 | 40,315 |
| Income tax expense | (8,472) | (13,112) |
| Profit from discontinued operation (net of tax) | - | 403 |
| **Profit after income tax** | 25,815 | 27,606 |

## Note 22 – Deed of Cross Guarantee continued

### (b) Balance sheet

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | 16,535 | 28,468 |
| Receivables | 117,491 | 112,352 |
| Inventories | 83,717 | 87,683 |
| Tax asset | 380 | - |
| **Total current assets** | 218,123 | 228,503 |
| **Non current assets** | | |
| Receivables | 840 | 5,537 |
| Property, plant and equipment | 182,794 | 160,209 |
| Intangible assets | 79,284 | 76,355 |
| Investments accounted for using the equity method | 1,324 | 3,663 |
| Deferred tax asset | 5,057 | 7,443 |
| **Total non-current assets** | 269,299 | 253,207 |
| **Total assets** | 487,422 | 481,710 |
| | | |
| **Current liabilities** | | |
| Payables | 145,399 | 142,776 |
| Tax liabilities | - | 8,260 |
| Provisions | 13,540 | 12,909 |
| **Total current liabilities** | 158,939 | 163,945 |
| **Non-current liabilities** | | |
| Borrowings | 68,079 | 69,435 |
| Provisions | 581 | 446 |
| **Total non-current liabilities** | 68,660 | 69,881 |
| **Total liabilities** | 227,599 | 233,826 |
| **Net assets** | 259,823 | 247,884 |
| | | |
| **Equity** | | |
| Share capital | 214,445 | 214,445 |
| Reserves | 2,895 | 2,170 |
| Retained earnings | 42,483 | 31,269 |
| **Total equity** | 259,823 | 247,884 |

# Note 23 – Related party disclosures

## Investments

Information relating to investments accounted for using the equity method is set out in note 13.

Transactions with associated entities are on normal commercial terms and conditions in the ordinary course of business, unless terms and conditions are covered by shareholder agreements.

## Other related parties

Contributions to superannuation funds on behalf of employees are disclosed in note 25.

## Transactions with related parties

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Transactions with related parties were as follows:** | | |
| Sales of products – associate | 2,622 | 4,407 |
| Purchases of products/services – associate | 6,716 | 12,994 |
| – joint venture entity | 21 | - |
| **Outstanding balances with related parties were as follows:** | | |
| Current receivable – joint venture entity (note 8(b)) | 4,487 | - |
| Current payable – associate | - | 375 |

Outstanding balances are unsecured and repayable in cash.

## Key management personnel compensation

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Short term employee benefits | 2,926,503 | 4,501,113 |
| Post-employment benefits | 208,589 | 261,152 |
| Other benefits | 193,961 | 375,306 |
| Share-based payments | 799,425 | 687,867 |
| **Total key management personnel compensation** | 4,128,478 | 5,825,438 |

# Note 24 – Share-based payments

## Share-based payment expense

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Shares issued under the Employee Share Scheme | 525 | 575 |
| Performance rights issued under Long Term Incentive Plan | 1,685 | 1,474 |
| Total share-based payment expense | 2,210 | 2,049 |

## Share-based payment arrangements

### Ridley Corporation Long Term Incentive Plan

The purpose of the Ridley Corporation Long Term Incentive Plan (LTIP) is to provide long term rewards that are linked to shareholder returns. Under the LTIP, selected executives and the Managing Director may be offered a number of performance rights (Right). Each Right provides the entitlement to acquire one Ridley share at nil cost subject to the satisfaction of performance hurdles.

The fair value of performance rights granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured by an independent third party expert at grant date and recognised over the three-year vesting period during which the employees become unconditionally entitled to the performance rights.

The fair value at grant date is determined using a binomial option pricing model that takes into account the exercise price, term of the option, vesting and performance criteria, impact of dilution, non-tradeable nature of the performance rights, share price at grant date and expected price volatility of the underlying share, expected dividend yield and the risk-free interest rate for the term of the performance rights.

## Note 24 – Share-based payments continued

### Ridley Corporation Special Retention Plan

The Ridley Corporation Special Retention Plan was developed specifically to retain and motivate key executives. Under the Special Retention Plan, selected executives and the Managing Director may be offered a number of performance rights (SRP Rights). The Plan offer is made in accordance with the rules of the Ridley Long Term Incentive Plan except that there are no Disposal restrictions and the cessation of employment has been superseded, such that the SRP Rights under this offer vest in full on the earlier occurrence of (i) completion of two years of service from the date of grant; (ii) ceasing to be an employee of Ridley because of a sale of a subsidiary entity; and (iii) occurrence of a change of control event. Each SRP Right provides the entitlement to acquire one Ridley share at the end of the service period.

### (i) Current year issues under the Ridley Corporation Long Term Incentive Plan and Special Retention Plan

The model inputs for the performance rights granted during the reporting period under the LTIP included:

| | Rights | SRP Rights |
|---|---|---|
| Grant date | 1 July 2016 | 1 January 2017 |
| Expiry date | 30 June 2019 | 1 January 2020 |
| Share price at grant date | $1.40 | $1.25 |
| Fair value at grant date | $0.71 | $1.13 |
| Expected price volatility of the Company's shares | 25% | 25% |
| Expected dividend yield | 3.6% | 3.4% |
| Risk-free interest rate | 1.5% | 2.0% |

The expected share price volatility is based on the historic volatility (based on the remaining life of the performance rights), adjusted for any expected changes to future volatility due to publicly available information.

Details of performance rights outstanding under the plans at balance date are as follows:

**2017**

| Grant date | Expiry date | Balance at start of the year | Granted during the year | Cancelled during the year | Vested during the year | Balance at end of the year |
|---|---|---|---|---|---|---|
| **Long Term Incentive Plan** | | | | | | |
| 1 July 2013 | 1 July 2016 | 2,400,000 | - | - | (2,400,000) | - |
| 1 July 2014 | 1 July 2017 | 2,575,000 | - | (125,000) | - | 2,450,000 |
| 1 July 2015 | 1 July 2018 | 2,675,000 | - | - | - | 2,675,000 |
| 1 July 2016 | 1 July 2019 | - | 2,825,000 | (25,000) | - | 2,800,000 |
| | | 7,650,000 | 2,825,000 | (150,000) | (2,400,000) | 7,925,000 |
| **Special Retention Plan** | | | | | | |
| 1 January 2017 | 1 January 2020 | - | 150,000 | - | - | 150,000 |
| | | | | | | |
| | | **7,650,000** | **2,975,000** | **(150,000)** | **(2,400,000)** | **8,075,000** |

**2016**

| Grant date | Expiry date | Balance at start of the year | Granted during the year | Cancelled during the year | Vested during the year | Balance at end of the year |
|---|---|---|---|---|---|---|
| **Long Term Incentive Plan** | | | | | | |
| 1 July 2013 | 1 July 2016 | 2,400,000 | - | - | - | 2,400,000 |
| 1 July 2014 | 1 July 2017 | 2,700,000 | - | (65,351) | (59,649) | 2,575,000 |
| 1 July 2015 | 1 July 2018 | - | 2,800,000 | (125,000) | - | 2,675,000 |
| | | 5,100,000 | 2,800,000 | (190,351) | (59,649) | 7,650,000 |

## Ridley Employee Share Scheme

At the 1999 Annual General Meeting, shareholders approved the introduction of the Ridley Employee Share Scheme. Under the scheme, shares are offered to all permanent Australian employees with a minimum of 12 months' service as at the date of offer and at a discount of up to 50%. The maximum discount per employee is limited to $1,000 annually in accordance with relevant Australian taxation legislation. The amount of the discount and number of shares allocated is at the discretion of the Directors. The purpose of the scheme is to align employee and shareholder interests.

Shares issued to employees under the Ridley Employee Share Scheme vest immediately on grant date. Employees can elect to receive an interest free loan to fund the purchase of the shares. Dividends on the shares are allocated against the balance of any loan outstanding. The shares issued are accounted for as 'in-substance' options, which vest immediately. The fair value of these 'in-substance' options is recognised as an employee benefit expense with a corresponding increase in equity. The fair value at grant date is independently determined using a binomial option pricing model.

The fair value at grant date of the options issued during the year through the Ridley Employee Share Scheme was measured based on the binomial option pricing model using the following inputs:

| | |
|---|---|
| Grant date | 19 May 2017 |
| Restricted life | 3 years |
| Fair value at grant date | $0.84 |
| Expected price volatility of the Company's shares | 25% |
| Expected dividend yield | 3.4% |
| Risk-free interest rate | 2.5% |

### Ridley Employee Share Scheme movements
### 2017 Number of shares

| Grant date | Date shares become unrestricted | Weighted average exercise price | Balance at start of the year | Granted during the year | Exercised during the year | Balance at end of the year | Exercisable at end of the year |
|---|---|---|---|---|---|---|---|
| 29 January 2002 | 29 January 2005 | $0.82 | 35,000 | - | (5,000) | 30,000 | 30,000 |
| 28 January 2003 | 28 January 2006 | $0.74 | 63,450 | - | (6,750) | 56,700 | 56,700 |
| 5 April 2005 | 5 April 2008 | $0.77 | 88,740 | - | (10,440) | 78,300 | 78,300 |
| 10 April 2006 | 10 April 2009 | $0.66 | 113,700 | - | (15,160) | 98,540 | 98,540 |
| 13 April 2007 | 13 April 2010 | $0.57 | 131,925 | - | (14,072) | 117,853 | 117,853 |
| 11 April 2008 | 11 April 2011 | $0.56 | 175,714 | - | (25,102) | 150,612 | 150,612 |
| 3 April 2009 | 3 April 2012 | $0.34 | 298,556 | - | (32,516) | 266,040 | 266,040 |
| 30 April 2010 | 30 April 2013 | $0.61 | 227,920 | - | (30,932) | 196,988 | 196,988 |
| 30 April 2011 | 30 April 2014 | $0.66 | 242,788 | - | (39,208) | 203,580 | 203,580 |
| 30 April 2012 | 30 April 2015 | $0.61 | 284,488 | - | (38,042) | 246,446 | 246,446 |
| 26 April 2013 | 26 April 2016 | $0.41 | 683,111 | - | (109,395) | 573,716 | 573,716 |
| 23 May 2014 | 23 May 2017 | $0.48 | 829,500 | - | (101,910) | 727,590 | 727,590 |
| 31 May 2015 | 31 May 2018 | $0.66 | 700,719 | - | (64,188) | 636,531 | - |
| 20 May 2016 | 20 May 2019 | $0.85 | 675,903 | - | (56,202) | 619,701 | - |
| 19 May 2017 | 19 May 2020 | $0.84 | - | 623,250 | - | 623,250 | - |
| | | | **4,551,514** | **623,250** | **(548,917)** | **4,625,847** | **2,746,365** |
| Weighted average exercise price | | | $0.59 | $0.84 | $0.57 | $0.63 | $0.52 |

The 'Exercisable at end of the year' column in the above and following tables reflects the fact that the options outstanding have a weighted average contractual life of three years (2016: three years).

## Note 24 – Share-based payments continued

### 2016 Number of shares

| Grant date | Date shares become unrestricted | Weighted average exercise price | Balance at start of the year | Granted during the year | Exercised during the year | Balance at end of the year | Exercisable at end of the year |
|---|---|---|---|---|---|---|---|
| 29 January 2002 | 29 January 2005 | $0.82 | 37,000 | - | (2,000) | 35,000 | 35,000 |
| 28 January 2003 | 28 January 2006 | $0.74 | 68,850 | - | (5,400) | 63,450 | 63,450 |
| 5 April 2005 | 5 April 2008 | $0.77 | 97,875 | - | (9,135) | 88,740 | 88,740 |
| 10 April 2006 | 10 April 2009 | $0.66 | 122,796 | - | (9,096) | 113,700 | 113,700 |
| 13 April 2007 | 13 April 2010 | $0.57 | 147,756 | - | (15,831) | 131,925 | 131,925 |
| 11 April 2008 | 11 April 2011 | $0.56 | 200,816 | - | (25,102) | 175,714 | 175,714 |
| 3 April 2009 | 3 April 2012 | $0.34 | 345,852 | - | (47,296) | 298,556 | 298,556 |
| 30 April 2010 | 30 April 2013 | $0.61 | 280,016 | - | (52,096) | 227,920 | 227,920 |
| 30 April 2011 | 30 April 2014 | $0.66 | 295,568 | - | (52,780) | 242,788 | 242,788 |
| 30 April 2012 | 30 April 2015 | $0.61 | 352,302 | - | (67,814) | 284,488 | 284,488 |
| 26 April 2013 | 26 April 2016 | $0.41 | 773,058 | - | (89,947) | 683,111 | 683,111 |
| 23 May 2014 | 23 May 2017 | $0.48 | 912,450 | - | (82,950) | 829,500 | - |
| 31 May 2015 | 31 May 2018 | $0.66 | 770,256 | - | (69,537) | 700,719 | - |
| 20 May 2016 | 20 May 2019 | $0.85 | - | 675,903 | - | 675,903 | - |
| | | | **4,404,595** | **675,903** | **(528,984)** | **4,551,514** | **2,345,392** |
| Weighted average exercise price | | | $0.54 | $0.85 | $0.55 | $0.59 | $0.53 |

## Note 25 – Retirement benefit obligations

### Superannuation

The Group sponsors the Ridley Superannuation Plan – Australia, which is administered by Mercer. The fund provides available benefits on a defined contribution basis for employees or their dependents on retirement, resignation, total and permanent disability, death and in some cases on temporary disablement. The members and the Group make contributions as specified in the rules of the plan.

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in comprehensive income in the periods during which services are rendered by employees.

Group contributions in terms of awards and agreements are legally enforceable and, in addition, contributions for all employees have to be made at minimum levels for the Group to comply with its obligations. Other contributions are in the main not legally enforceable, with the right to terminate, reduce or suspend these contributions upon giving written notice to the trustees.

Benefits are based on an accumulation of defined contributions. The amount of contribution expense recognised in the Consolidated Statement of Comprehensive Income for the year is $5,398,000 (2016: $5,180,000).

## Note 26 – Financial risk management

The Group's activities expose it to a variety of financial risks: market risk including currency, interest rate, commodity, credit and liquidity risk. The Group's overall financial risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group may use derivative financial instruments, such as foreign exchange contracts and interest rate swaps, to manage certain risk exposures.

Risk management is carried out by management under policies approved by the Board. Management evaluates and hedges financial risks where appropriate. The Board approves written principles for overall risk management, as well as written policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risks and investing excess liquidity.

## (a) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the relevant entity's functional currency. The Group is exposed to foreign exchange risk through the purchase and sale of goods in foreign currencies.

Forward contracts and foreign currency bank balances are used to manage foreign exchange risk. Management is responsible for managing exposures in each foreign currency by using external forward currency contracts and purchasing foreign currency that is held in US dollar, New Zealand dollar and Euro bank accounts. Where possible, borrowings are made in the currencies in which the assets are held in order to reduce foreign currency translation risk. The Group does not hedge account on forward foreign currency contracts.

### Foreign currency cash and forward exchange contracts

The Group holds foreign currency bank accounts in US dollars, New Zealand dollars and Euros, which are translated into AUD using spot rates. These foreign currency bank accounts, and at times forward foreign exchange contracts, are entered into for purchases and sales denominated in foreign currencies. The Group classifies forward foreign exchange contracts as financial assets and liabilities and measures them at fair value. At 30 June 2017, the net fair value of forward exchange contracts resulting in a liability of nil (2016: nil) has been recognised by the Group for the fair value of forward foreign exchange contracts.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollars, was as follows:

| | 2017 | | | | 2016 | | |
|---|---|---|---|---|---|---|---|
| **$'000 Australian dollars** | **USD** | **NZD** | **EUR** | **THB** | **USD** | **NZD** | **EUR** |
| Cash | 4,356 | 258 | 476 | 510 | 12,338 | 945 | 4,512 |
| Payables | - | - | - | (1,526) | - | - | (953) |
| **Net balance sheet exposure** | 4,356 | 258 | 476 | (1,016) | 12,338 | 945 | 3,559 |

### Foreign currency sensitivity

A change of a 10% strengthening or weakening in the closing exchange rate of the foreign currency bank balances at the reporting date for the financial year would have decreased by $465,000 (2016: $1,618,000) or increased by $567,000 (2016: $1,977,000) the Group's reported comprehensive income and the Group's equity. A sensitivity of 10% has been selected as this is considered reasonable taking into account the current level of exchange rates and the volatility observed both on a historical basis and on market expectations for future movements. The Directors cannot and do not seek to predict movements in exchange rates.

## (b) Interest rate risk

As the Group has no significant interest bearing assets, the Group's income and operating cash inflows are substantially independent of changes in market interest rates.

The Group's main interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group policy is to ensure that the interest cover ratio does not fall below the ratio limit set by the Group's financial risk management policy. At balance date, bank borrowings of the Group were incurring an average variable interest rate of 4.0% (2016: 4.0%).

### Interest rate risk exposures

The Group's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out below. Exposures arise predominantly from assets and liabilities bearing variable interest rates as the Group intends to hold fixed rate assets and liabilities to maturity.

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Interest rate** | **$'000** | **Interest rate** | **$'000** |
| *Variable rate instruments* | | | | |
| Cash | - | 16,535 | - | 28,468 |
| Bank loans | 4.0% | 68,500 | 4.0% | 70,000 |

### Interest rate sensitivity

A change of 100 basis points in interest rates at the reporting date annualised for the financial year would have increased or decreased the Group's reported comprehensive income and equity by $477,000 (2016: $486,000).

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## Note 26 – Financial risk management continued

### (c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and the risk arises principally from the Group's receivables from customers.

Refer to Note 8 and Note 31 in respect of actions initiated by Ridley since balance date to recover overdue debts. The Group has no other significant concentrations of credit risk that are not covered by collateral and/or credit insurance. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The Group holds collateral and/ or credit insurance over certain trade receivables.

Derivative counterparties and cash transactions are limited to financial institutions with a high credit rating. The Group has policies that limit the amount of credit exposure to any one financial institution.

The maximum exposure to credit risk at the reporting date was:

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Trade receivables** | 102,808 | 99,904 |
| Other receivables | 11,821 | 15,920 |
| Cash and cash equivalents | 16,535 | 28,468 |
| | 131,164 | 144,292 |

Further credit risk disclosures on trade receivables are disclosed in note 8.

### (d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The ultimate responsibility for liquidity risk management rests with the Board, which has established an appropriate risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group's corporate treasury function manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, and by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Details of finance facilities are set out in note 17.

The following tables disclose the contractual maturities of financial liabilities, including estimated interest payments:

| | Carrying amount $'000 | Less than 1 year $'000 | 1 to 2 years $'000 | 2 to 3 years $'000 | 3 to 4 years $'000 | 4 to 5 years $'000 | Total contractual cash flows $'000 |
|---|---|---|---|---|---|---|---|
| **2017** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and other payables | 148,580 | 148,580 | - | - | - | - | 148,580 |
| Bank loans | 68,079 | 5,959 | 5,959 | 5,959 | 74,038 | 5,959 | 97,874 |
| | 216,659 | 154,539 | 5,959 | 5,959 | 74,038 | 5,959 | 246,454 |
| **2016** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and other payables | 145,916 | 145,916 | - | - | - | - | 145,916 |
| Bank loans | 69,435 | 5,382 | 5,382 | 5,382 | 5,382 | 74,817 | 96,345 |
| | 215,351 | 151,298 | 5,382 | 5,382 | 5,382 | 74,817 | 242,261 |

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

## (e) Financial instruments

### (i) Non-derivative financial assets

The Group initially recognises loans, receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through comprehensive income) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

### (ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through comprehensive income) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans, borrowings, trade and other payables. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

### (iii) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in the Consolidated Statement of Comprehensive Income.

## (f) Fair values

### Fair values versus carrying amounts

The carrying amount of financial assets and liabilities approximates their fair value.

## Note 27 – Commitments for expenditure

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Expenditure contracted for but not recognised as liabilities: | | |
| Capital Plant and equipment | **15,901** | 14,512 |
| CSIRO Novacq™ Research Alliance (a) | **4,750** | - |
| | **20,651** | 14,512 |
| | | |
| Total Group commitments for non-cancellable operating leases: | | |
| Due within one year | **4,644** | 4,431 |
| Due within one to two years | **3,545** | 3,407 |
| Due within two to five years | **4,162** | 5,214 |
| Due after five years | **1,485** | 657 |
| | **13,836** | 13,709 |

The Group has leases for land, buildings and equipment under operating leases.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## Note 27 – Commitments for expenditure continued

### (a) CSIRO Novacq™ Research Alliance

On 24 March 2017, a five-year strategic alliance was executed with CSIRO to conduct collaborative research to maximise the development of new Novacq™ applications beyond the former application for prawn and crustacean species. Ridley's annual cash commitment to the alliance is $1 million, and Ridley has the option to extend the relationship for a further five years. Having paid the first instalment for the fourth quarter of FY17, a total outstanding commitment of $4.75 million prevailed at year end. The quarterly payments are being capitalised into the Novacq™ project reflected in the Balance Sheet as a non-current intangible asset.

## Note 28 – Contingent liabilities

### Guarantees

The Group is, in the normal course of business, required to provide certain guarantees and letters of credit on behalf of controlled entities, associates and related parties in respect of their contractual performance obligations. These guarantees and letters of credit only give rise to a liability where the entity concerned fails to perform its contractual obligations.

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Bank guarantees | **954** | 954 |

### Litigation

At the time of preparing this Financial Report, some companies included in the Group are parties to pending certain legal proceedings, the outcome of which is not known. The entities are defending, or prosecuting, these proceedings as they are entitled to do. The Directors have assessed the impact on the Group from the individual actions to be immaterial. No material losses are anticipated in respect of any of the above contingent liabilities. There were no other material contingent liabilities in existence at balance date.

## Note 29 – Auditor's remuneration

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **(a) Audit and review of Financial Reports** | | |
| Auditors of the Company | | |
| KPMG Australia | **344,020** | 342,058 |
| **(b) Other services** | | |
| Auditors of the Company | | |
| KPMG Australia – in relation to other assurance, taxation and due diligence services | **112,950** | 109,522 |
| Total remuneration of auditors | **456,970** | 451,580 |

## Note 30 – Discontinued Operations

### Discontinued operations in the year ended 30 June 2016

On 6 November 2015, the Group announced the signing of a Share Sale Agreement (SSA) to divest 100% of the share capital of Ridley Dry Creek Pty Ltd for gross proceeds of $35 million, the net present value of which at completion was $34.3 million. Completion occurred on 2 June 2016.

$19 million of proceeds relating to the SSA were received during the 2016 financial year, $10 million of proceeds were received during the 2017 financial year, with the balance of $6 million receivable by 31 December 2017.

### (a) Statement of profit or loss for discontinued operation

The financial performance and cash flow information presented are for the period 1 July 2015 to 2 June 2016.

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Results of discontinued operation** | | |
| Other income | - | 381 |
| Expenses – General and administrative | - | (4,351) |
| **Loss before income tax** | - | (3,970) |
| | | |
| **Income tax benefit:** | | |
| Current tax | - | 1,293 |
| Deferred tax | - | 1,399 |
| | - | 2,692 |
| **Loss after income tax** | - | (1,278) |
| | | |
| Profit on sale before income tax and transaction expenses | - | 7,067 |
| Transaction related expenses | - | (499) |
| | - | 6,568 |
| | | |
| Capital gain on disposal | - | (8,601) |
| Utilisation of brought forward tax losses | - | 3,714 |
| Net income tax payable on disposal of discontinued operation | - | (4,887) |
| | | |
| **Profit on sale of discontinued operation after income tax** | - | 1,681 |
| | | |
| **Profit/(loss) from discontinued operation after income tax** | - | 403 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## Note 30 – Discontinued Operations continued

### (b) Effect of disposal on the financial position of the Group

The carrying amounts of assets and liabilities as at the date of sale completion (2 June 2016) were:

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Assets** | | |
| Assets held for sale: Property, plant and equipment | - | 33,456 |
| Deferred tax | - | 857 |
| **Total assets** | - | 34,313 |
| **Liabilities** | | |
| Deferred tax | - | (7,045) |
| **Carrying amount of net assets sold** | - | 27,268 |
| | | |
| Cash consideration received | - | 19,000 |
| Deferred consideration receivable | - | 16,000 |
| Discount on deferred consideration | - | (665) |
| **Total consideration** | - | 34,335 |
| **Profit on carrying amount of net assets sold before transaction costs** | - | 7,067 |

### (c) Cash flows from discontinued operation

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Net cash (outflow) from ordinary activities | - | (4,018) |
| Net cash inflow from investing activities* | 10,000 | 19,000 |
| Net cash inflow | 10,000 | 14,982 |

* Comprises cash consideration received of $10 million (2016: $19 million).

## Note 31 – Events occurring after the balance sheet date

The amount of $17.7 million owing from Huon was the subject of legal recovery proceedings which commenced in August 2016. The legal proceedings were settled by mediation in June 2017 and the receivable was recovered in full on 20 July 2017. As part of the settlement, Ridley made a payment, net of insurance, of $1.0 million to Huon, which fully utilised its provision for non-recovery.

No other matters or circumstances have arisen since 30 June 2017 that have significantly affected, or may significantly affect:

(i) the Group's operations in future financial years; or

(ii) the results of those operations in future financial years; or

(iii) the Group's state of affairs in future financial years.

## Note 32 – Corporate information and accounting policy summary

Ridley Corporation Limited (the Company) is a company limited by shares, incorporated and domiciled in Australia, and whose shares are publicly traded on the Australian Securities Exchange. The consolidated financial statements as at, and for the year ended, 30 June 2017 comprise Ridley Corporation Limited, the 'parent entity'', its subsidiaries and the Group's interest in equity accounted investments. Ridley Corporation Limited and its subsidiaries together are referred to in this Financial Report as 'the Group'. The Group is a for-profit entity and is primarily involved in the manufacture of animal nutrition solutions.

The Financial Report was authorised for issue by the Directors on 23 August 2017.

The principal accounting policies adopted in the preparation of the financial report are set out in either the relevant note to the accounts or below. These policies have been consistently applied to all the years presented. Certain comparative amounts have been reclassified to conform with the current year's presentation.

## Basis of preparation

### Statement of compliance

These consolidated financial statements are general purpose Financial Statements prepared in accordance with Australian Accounting Standards (AASBs) (including Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

### Application of new and revised accounting standards and interpretations

The Group has adopted all of the new and revised standards and interpretations issued by the AASB that are relevant to its operations and effective for the current year. New and revised standards and amendments thereof, and interpretations effective for the current year that are relevant to the Group, include:

- **AASB 2016-3 Withdrawal of AASB 1031 Materiality**

The application of the new and revised standards has had no material impact on the disclosures or on the amounts recognised in the current or prior period, and are not likely to affect future periods.

The following standards, amendments and interpretations, are effective for annual periods beginning after 1 July 2017 and have been identified as those which may impact the Group in the period of initial application. They have not been applied in preparing this consolidated Financial Report.

- **AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9**

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The Group plans to adopt IFRS 9 for the year ending 30 June 2018.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Financial assets will either be measured at amortised cost, fair value through other comprehensive income (FVTOCI) or fair value through profit or loss (FVTPL). Financial assets are measured at amortised cost or FVTOCI if certain restrictive conditions are met. All other financial assets are measured at FVTPL. All investments in equity instruments will be measured at fair value. For those investments in equity instruments that are not held for trading, there is an irrevocable election to present gains and losses in OCI. Dividends are recognised in profit or loss.

A new impairment model which is now based on an 'expected loss' model rather than an 'incurred loss' model. A simplified impairment model applies to trade receivables and lease receivables.

Hedging changes reflect new principles which are less complex, with the removal of the strict 80–125% highly effectiveness threshold. While the Group currently does not apply hedge accounting, the new standard makes it easier to apply hedge accounting and also expands the type of instruments that can be easily used (for example, options are now a more effective hedging instrument).

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The actual impact of adopting IFRS 9 on the Group's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future.

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below. The Group plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognised in retained earnings and reserves as at 1 July 2017.

## Note 32 – Corporate information and accounting policy summary continued

- **AASB 15 Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual periods beginning on or after 1 January 2018. The Group plans to adopt IFRS 15 for the year ending 30 June 2018.

The Group has completed an initial assessment of the potential impact of the adoption of IFRS 15 on its consolidated financial statements, however this assessment has not progressed to the stage of modelling financial outcomes.

For the sale of products, revenue is currently recognised when the goods are delivered to the customers' premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognised at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods.

Under IFRS 15, revenue will be recognised when a customer obtains control of the goods. IFRS 15 states that "control of an asset refers to the ability to direct the use of and obtain substantially all of the remaining benefits from the asset".

A customer must have the present right to direct the use of, and obtain substantially all of the remaining benefits from, an asset for an entity to recognise revenue. For example, in a contract that requires a manufacturer to produce an asset for a customer, it might be clear that the customer will ultimately have the right to direct the use of, and obtain substantially all of the remaining benefits from, the asset. However, the entity should not recognise revenue until the customer has actually obtained that right which can only occur once the feed is available for the customer to access, which depending on the structure of the contract, can be the point in time the goods are delivered to the customers' premises.

The Group plans to apply the new standard using the modified retrospective approach. The Group plans to use the practical expedients for completed contracts. This means that completed contracts that began and ended in the same comparative reporting period, as well as the contracts that are completed contracts at the beginning of the earliest period presented, are not restated.

The Group is currently performing a detailed assessment of the impact resulting from the application of IFRS 15, including the implications for rebates and other existing contractual arrangements.

- **AASB 16 Leases**

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short term leases and leases of low value items.

The standard is effective for annual periods beginning on or after 1 January 2019. The Group plans to adopt IFRS 16 for the year ending 30 June 2019. The Group has started an initial assessment of the potential impact on its consolidated financial statements. So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of some sites and machinery/forklifts.

In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The Group has not yet decided whether it will use the optional exemptions as part of transition.

As a lessee, the Group can either apply the standard using a retrospective approach or a modified retrospective approach with optional practical expedients. The lessee applies the election consistently to all of its leases. The Group has not yet determined which transition approach to apply.

## Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis (unless otherwise stated) except for the following items in the balance sheet:

- derivative financial instruments at fair value through comprehensive income; and
- cash settled share-based payment arrangements, which are measured at fair value.

## Functional and presentation currency

The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

## Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the 'rounding off' of amounts in the Directors' Report and financial statements. Amounts in the Directors' Report and the consolidated financial statements have been rounded off to the nearest thousand dollars in accordance with that legislative instrument, unless otherwise indicated.

## Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

### (i) Estimated impairment of goodwill and other non-current assets

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy for intangible assets. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units, or CGUs). Refer to note 12 for further details on impairment testing.

### (ii) Investment properties

The Group measures investment properties at cost. A fair value range cannot be determined reliably given that the respective locations do not have local established industrial or residential infrastructure which would enable a reliable valuation benchmark to be determined. Furthermore, the value of each site also varies significantly depending upon which stage of the progressive regulatory approvals required for redevelopment has been attained at balance date. Where reliable estimates of fair value are obtainable, they are factored into the annual assessment of the property's carrying value. The valuation of investment properties requires judgement to be applied in selecting appropriate valuation techniques and setting valuation assumptions. The Group periodically engages independent valuers to provide an indicative value for its material investment properties in the context of assessing for impairment. Refer to note 10 for further details on investment properties.

## Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions in determining fair values is disclosed in the notes specific to that asset or liability.

### (i) Derivative financial instruments

The fair values of forward exchange contracts are estimated using listed market prices if available. If a listed market price is not available, then the fair value is estimated by discounting the contractual cash flows at their forward price and deducting the current spot rate. The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated cash flows based on the terms and maturity of each contract and using market interest rates for similar instruments at the measurement date.

### (ii) Non-derivative financial assets and liabilities

The net fair value of cash and non-interest bearing monetary financial assets and liabilities of the Group approximates their carrying amounts.

## Note 32 – Corporate information and accounting policy summary continued

### Basis of consolidation – Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

### Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group.

### Interests in equity-accounted investees

Associates are those entities where the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net amounts of the arrangement, rather than rights to its assets and obligations for liabilities. Investments in associates and joint venture entities are accounted for in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates and joint venture entities includes goodwill identified on acquisition, net of any accumulated impairment losses.

The Group's share of its associates' and joint venture entities' post-acquisition profits or losses is recognised in the Consolidated Statement of Comprehensive Income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable reduce the carrying amount of the investment.

Unrealised gains on transactions between the Group and its associates and joint venture entities are eliminated to the extent of the Group's interests in the associates and joint venture entities. Accounting policies of associates and joint venture entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

### Foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Statement of Comprehensive Income.

# DIRECTORS' DECLARATION

1. In the opinion of the Directors of Ridley Corporation Limited (the Company):

   (a) The consolidated financial statements and notes set out on pages 52 to 90 and the Remuneration Report are in accordance with the *Corporations Act 2001*, including:

      (i) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*, and

      (ii) giving a true and fair view of the Group's financial position as at 30 June 2017 and its performance for the financial year ended on that date.

   (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.

2. In the opinion of the Directors, as at the date of this declaration, there are reasonable grounds to believe the members of the Extended Closed Group identified in note 22 will be able to meet any obligations or liabilities to which they are or may be become subject, by virtue of the Deed of Cross Guarantee, between the Company and those group entities pursuant to ASIC Class Order 98/1418.

3. The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2017.

4. The financial statements also comply with International Financial Reporting Standards as disclosed in note 32.

This declaration is made in accordance with a resolution of the Directors.

GH Weiss
Director

TJ Hart
Director

Melbourne
23 August 2017

# Independent Auditor's Report

To the shareholders of Ridley Corporation Limited

## Report on the audit of the Financial Report

### Opinion

We have audited the ***Financial Report*** of Ridley Corporation Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated balance sheet as at 30 June 2017
- Consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

### Basis for opinion

*We conducted our audit in accordance with Australian Auditing Standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.*

*Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Report section of our report.*

*We are independent of the Group in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.*

KPMG

## Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Recoverability of non-current assets including goodwill and capitalised development costs
- Accounting for inventory, including consideration of valuation risks

***Key Audit Matters*** are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Recoverability of non-current assets including goodwill and capitalised development costs

Refer to Note 12 *Intangible assets* to the financial report.

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| Recoverability of non-current assets including goodwill and capitalised development costs is a key audit matter due to the:<br>• complexity in auditing the forward-looking assumptions applied to the Group's discounted cash flow models for each Cash Generating Unit (CGU) given the potential variability in demand from customers operating in the agriculture industry, which increases the risk of inaccurate forecasting. We focused on the key assumptions the Group applied in the cash flow models including terminal value calculations, annual growth rates and discount rates; and<br>• complexity in auditing the Group's forecasts relating to the recoverability of capitalised development costs for new products due to the judgement applied by the Group for the timing and amount of future benefits from ultimate commercialisation of the product. The industry is evolving through technology advancements by the Group and its competitors, which can lead to shifts in market demand for products. We focused on gathering evidence for the critical judgements in the forecast being the timing and amount of future benefits. | Our procedures included:<br>• testing the key controls over the cash flow models, including review and Board approval of key assumptions and budgets which form the basis of the cash flow forecasts;<br>• assessing the Group's discounted cash flow models and key assumptions by:<br>– assessing the appropriateness of the discounted cash flow model against accounting standard requirements;<br>– checking the relevant cash flow forecasts to the Board approved budgets;<br>– comparing cash flows to signed customer contracts continuing into the forecast cash flow period (where relevant);<br>– checking the accuracy of previous Group forecasts to inform our evaluation of current forecasts incorporated in the model. We considered previous trends where volatility in earnings in the agriculture industry existed and how this volatility impacted the business;<br>– using our industry knowledge and information published by regulatory and other bodies, we challenged the Group's cashflow assumptions and the impacts of technology, market and regulatory changes on those assumptions; and<br>– involving our valuation specialists to assess the discount rate by comparing the economic assumptions relating to cost of debt and cost of equity to publicly available market data of a group of comparable companies.<br>• comparing recoverable values of CGUs to available market data, such as implied earnings and asset |

| | |
|---|---|
| | multiples of comparable entities;<br>• considering the sensitivity of the model by varying key assumptions, such as annual growth rates, terminal valuations and discount rates, within a reasonably possible range to identify those assumptions at higher risk of bias or inconsistency in application and to focus our further procedures;<br>• using our industry knowledge to challenge forecasts relating to new products, including the timing and amount of future benefits for new products. This involved giving consideration to the outcome of commercial trials, licencing approvals, market analysis and development timetables; and<br>• assessing the appropriateness of the related disclosures in the financial report against accounting standard requirements. |

**Accounting for inventory, including consideration of valuation risks**

Refer to Note 9 *Inventories* to the financial report.

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| Inventory valuation is a key audit matter due to the audit effort arising from the extent of judgement involved by the Group in determining the recoverable value, particularly in relation to any slow moving or excessive stock or inventory items which may require reprocessing prior to sale.<br><br>The Group has a diverse and broad product range, and sells to different market segments, which increases the amount of judgement required in assessing the valuation of inventory.<br><br>Such judgements may have a significant impact on the calculation of the provision for stock obsolescence (including slow moving or excessive stock), and therefore the overall valuation of inventories, necessitating our audit effort thereon. | Our procedures included:<br>• assessing the completeness and accuracy of the inventory balance via testing controls and performance of physical counts at key locations;<br>• examining processes and testing controls relating to inventory movements, standard costing and valuation;<br>• assessing the appropriateness of inventory valuation accounting policies applied by the Group against the requirements of accounting standards;<br>• evaluating the completeness of at-risk slow moving or excessive stock items identified by the Group by comparing inventory listings against historical sales information, and against our observations of inventory condition at the physical counts we attended at key locations, to identify any additional at-risk items;<br>• comparing a sample of inventory values against current selling prices for products to identify any items selling for less than their carrying value; and<br>• challenging the Group's judgements relating to the provision for stock obsolescence (including slow moving or excess stock), by comparing current inventory levels to forecast sales. We assessed the level of provision in light of our knowledge of the industry the Group operates in, and from discussions with key personnel. |

## Other Information

Other Information is financial and non-financial information in Ridley Corporation Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

## Responsibilities of Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the Audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's Report.

KPMG

## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Ridley Corporation Limited for the year ended 30 June 2017, complies with *Section 300A* of the *Corporations Act 2001*.

### Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

### Our responsibilities

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Chris Sargent
*Partner*

Melbourne

23 August 2017

# SHAREHOLDER INFORMATION

| | Number of holders | Number of securities | % Held by 20 largest shareholders |
|---|---|---|---|
| **Holdings of securities – ordinary shares** | | | |
| Each fully paid | 6,936 | 307,817,071 | 76.0% |

| Number held | Number of ordinary share holders | Number of ordinary shares held |
|---|---|---|
| 1 – 1,000 | 1,256 | 553,486 |
| 1,001 – 5,000 | 2,464 | 7,515,386 |
| 5,001 – 10,000 | 1,369 | 10,587,596 |
| 10,001 – 100,000 | 1,757 | 43,119,019 |
| 100,001 – 9,999,999,999 | 90 | 246,041,584 |
| **Total** | **6,936** | **307,817,071** |

There are 580 holders of unmarketable parcels (comprising shareholdings less than 363 shares at $1.38 per share) of ordinary shares.

| 20 Largest fully paid shareholders | Number of ordinary shares | % of fully paid ordinary shares |
|---|---|---|
| Citicorp Nominees Pty Limited | 83,524,444 | 27.13 |
| HSBC Custody Nominees (Australia) Limited | 67,216,726 | 21.84 |
| JP Morgan Nominees Australia Limited | 41,846,241 | 13.59 |
| BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C> | 11,952,548 | 3.88 |
| National Nominees Limited | 9,296,422 | 3.02 |
| BNP Paribas Noms Pty Ltd <DRP> | 8,708,821 | 2.83 |
| RBC Investor Services Australia Nominees Pty Ltd <VFA A/C> | 2,318,962 | 0.75 |
| LJ Thomson Pty Ltd | 1,550,000 | 0.50 |
| RCL Retirement Pty Ltd | 1,216,785 | 0.40 |
| Mr James Fong Seeto | 1,050,000 | 0.34 |
| Alan Boyd | 701,530 | 0.23 |
| Moggs Creek Pty Ltd <Moggs Creek Super A/C> | 663,000 | 0.22 |
| Mr Russell N Lyons | 646,448 | 0.21 |
| Timothy Hart | 604,647 | 0.20 |
| Pacific Salt Superannuation Pty Limited <Employees Retire Fund A/C> | 500,000 | 0.16 |
| Mrs Anne-Marie Hasna Mooney | 495,323 | 0.16 |
| Charles Klem | 455,713 | 0.15 |
| Garmaral Pty Ltd | 426,377 | 0.14 |
| Abeille Investments Pty Ltd | 423,000 | 0.14 |
| K Mcleod Investments Pty Limited <Mcleod Super Fund A/C> | 350,793 | 0.11 |
| **Top 20 ordinary fully paid shareholders** | **233,947,780** | **76.00** |
| **Balance of ordinary fully paid shareholders** | **73,869,291** | **24.00** |

| Substantial shareholders | Holding | % Holding |
|---|---|---|
| Insitor Holdings LLC/AGR Partners LLC | 60,727,615 | 19.73 |
| Lazard Asset Management | 45,827,977 | 14.89 |
| Dimensional Fund Advisors Group | 15,954,589 | 5.18 |

# SHAREHOLDER INFORMATION CONTINUED

## Directors' holdings

On 7 September 2017, the Directors of Ridley Corporation Limited had an interest in the following shares and performance rights of the Company.

| | Fully paid ordinary shares | Ridley performance rights |
|---|---|---|
| GH Weiss | 270,000 | - |
| TJ Hart | 661,889 | 1,800,000* |
| PM Mann | 96,625 | - |
| RJ van Barneveld | 83,053 | - |
| E Knudsen | 703,286 | - |
| DJ Lord | 18,200 | - |
| | 1,833,053 | 1,800,000 |

* Mr TJ Hart's performance rights were approved at the 2014, 2015 and 2016 Ridley Annual General Meetings. 600,000 of the current holding of 1,800,000 performance rights, which were approved at the 2014 Annual General Meeting, were tested on 1 July 2017 and have fully vested, thereby converting into 600,000 ordinary fully paid shares in accordance with the terms and conditions of the Ridley Long Term Incentive Plan. These performance rights will be reflected as shares once the on-market purchases and shareholder allocation has been completed.

## Voting rights

As at 7 September 2017, the number of holders of fully paid ordinary shares with full voting rights was 6,936. On a show of hands, every person who is a member or a representative of a member has one vote. On a poll, each shareholder is entitled to one vote for each fully paid ordinary share held. A shareholder may appoint a maximum of two proxies to represent them at a general meeting.

# GLOSSARY

| | |
|---|---|
| AASB | Australian Accounting Standards Board |
| AASBs | Australian Accounting Standards |
| AGM | Annual General Meeting |
| APC | Australian Packaging Covenant |
| ASX | Australian Securities Exchange |
| Board | Ridley Board of Directors |
| CEO | Ridley Chief Executive Officer and Managing Director |
| CGU | Cash Generating Unit |
| CI | Continuous Improvement |
| Committee | Remuneration Committee within the Remuneration Report |
| Company | Ridley Corporation Limited |
| CSF Proteins | Rendering businesses at Laverton, Victoria, and Maroota, NSW |
| CSIRO | Commonwealth Scientific and Industrial Research Organisation |
| Deed | Deed of Indemnity between Company and its Directors and executive officers |
| Disc Ops | Discontinued Operations |
| EBIT | Earnings Before Interest and Tax |
| EBITDA | Earnings Before Interest, Tax, Depreciation and Amortisation |
| EEO | Equal Employment Opportunity |
| EPS | Earnings Per Share |
| FCR | Feed Conversion Ratio(s) |
| Fund | Ridley Superannuation Plan – Australia |
| FY14 | 2014 Financial year |
| FY15 | 2015 Financial year |
| FY16 | 2016 Financial year |
| FY17 | 2017 Financial year |
| Garvan | Garvan Institute of Medical Research |
| GRG | Godfrey Remuneration Group |
| Group | Ridley Corporation Limited and its subsidiaries |
| GST | Goods and Services Tax |
| Hay | The Hay Group |
| IASB | International Accounting Standards Board |
| IFRS | International Financial Reporting Standards |
| IP | Intellectual property |
| ITS | Information Technology Services |
| KMP | Key Management Personnel |
| KPI | Key Performance Indicators |

# GLOSSARY CONTINUED

| | |
|---|---|
| KPMG | Independent external auditor of Ridley |
| LTIFR | Long Term Injury Frequency Rate |
| LTIP | Ridley Corporation Long Term Incentive Plan |
| Managing Director | Ridley Chief Executive Officer and Managing Director |
| MBM | Meat and Bone Meal |
| MCSFP | MOOLAP coastal strategic framework PLAN |
| MTI | Medically Treated Injury/ies |
| NFF | National Farmers Federation |
| NGER | National Greenhouse and Energy Reporting Act 2007 (Cth) |
| NPAT | Net Profit After Tax |
| NSW | New South Wales |
| P/E | Ratio of share Price to Earnings |
| PNFM | Pen Ngern Feed Mill Co., Ltd. |
| PPC | Poultry Protein Concentrate |
| R&D | Research and development |
| Ridley | Ridley Corporation Limited |
| Rights | Performance rights issued under the LTIP |
| RIOC | Ridley Innovation and Operational Committee |
| Scheme | Ridley Employee Share Scheme |
| SRP | Special Retention Plan |
| SRP Rights | Special Retention Plan Rights |
| STI | Short Term Incentive |
| SWG | Sustainability Working Group |
| SWP | Saltworks and Wetland Precinct |
| TEP | Total Employment Package |
| TRFR | Total Recordable Frequency Rate |
| TSR | Total Shareholder Return |
| US | United States of America |
| VWAP | Volume Weighted Average Price |

# CORPORATE DIRECTORY

**Ridley Corporation Limited**
ABN 33 006 708 765

**Corporate office and registered office**
Level 4, 565 Bourke Street
Melbourne Victoria 3000 Australia

| | |
|---|---|
| Telephone | 03 8624 6500 |
| Facsimile | 03 8624 6505 |
| Email | secretary@ridley.com.au |

www.ridley.com.au

ASX code RIC

**Head office**
Level 4, 565 Bourke Street
Melbourne Victoria 3000 Australia

| | |
|---|---|
| Telephone | 03 8624 6500 |
| Facsimile | 03 8624 6505 |

**Ridley AgriProducts Pty Limited**
ABN 94 006 544 145

www.agriproducts.com.au

**CSF Proteins Pty Limited**
ABN 77 000 499 918

www.csfproteins.com.au