

Rural Funds Group first half results in line with expectations

On track to pay distributions of 4.26cpu for H2

Canberra, Thursday, 27 February 2014: Rural Funds Group (ASX: RFF), which offers investors access to a diversified portfolio of leased Australian agricultural assets, today reported its results for the six months to 31 December 2013.

The period included the merger of RFM Chicken Income Fund (CIF), RFM Australian Wine Fund (AWF) and RFM RiverBank on 19 December 2013 to form Rural Funds Group. These results (revenue of \$5.47 million and an underlying after-tax loss of \$3.59 million), therefore, include six months of RFF (formerly RiverBank) and 13 days of CIF and AWF, and are not an indication of Rural Funds Group's future performance. The profit after adjustment for transaction costs associated with the merger was \$1,206,187.

Rural Funds Management (RFM) has managed the RFF assets for over 10 years and provides investors with access to Australia's first diversified agricultural fund without operating risk. Structured as a real estate investment trust, RFF is a simple landlord business model with a high level of earnings stability and revenue underpinned by high quality tenants, including two ASX-listed companies. RFF assets are predominantly located in NSW, Vic and SA and are diversified by sector and tenant.

Total assets at 31 December 2013 were \$247.3 million, including cash balances of \$6.6 million, and net assets were \$1.01 per unit.

The fund remains on track to achieve its forecast for the full year and expects to pay 4.26 cents per unit in distributions to unitholders for second half FY14.

The fund offers quarterly distributions, with the next distribution of 2.13 cents per unit announced separately today. With minimal capital expenditure required, the payout ratio of funds from operations is expected to be 90%. RFF has a portfolio of 27 leased properties with a 13 year weighted average lease expiry (WALE).

David Bryant, managing director of Rural Funds Management, RFF's manager said: 'Rural Funds Group provides investors with the opportunity to gain exposure to a range of agricultural assets without taking on operational risk. The fund benefits from high quality assets, a stable

revenue stream, and strong industry dynamics however, due to the timing of the merger, these results are not an indication of its future performance.

‘The fund is targeting growth agricultural markets both domestically and internationally. The almond market continues to benefit from growing global demand and strengthening almond prices. Our almond orchards are at or near maturity and ready to supply this expanding market. Our vineyards, particularly in the Barossa Valley, provide premium quality grapes to Australia’s largest wine maker. Our poultry infrastructure assets supply Australia’s largest poultry processor growing approximately 30 million birds per annum.

‘These results are in line with our expectations and position RFF to deliver on our full year targets. As manager of the newly listed fund, we continue to focus on building its awareness, controlling costs, as well as identifying a range of investment and acquisition opportunities that may allow the fund to grow and diversify its earnings. We remain on track to pay distributions of 4.26cpu for the second half of FY2014.’

Almond orchards and water rights – HY14 revenue: \$4.13 million

The fund’s 1,814ha of almond orchards and water licences are located in Hillston, NSW. The majority are leased to Select Harvests Ltd, an ASX-listed company, with the remaining orchards leased to three managed investment schemes for which RFM is also the responsible entity.

The orchards are some of the most productive in Australia. The trees, which have a lifespan of approximately 25 years, were planted between 2006 and 2008 and have most of their productive life ahead of them. The WALE date for these assets is November 2028.

Poultry infrastructure – HY14 revenue: \$0.37 million (13 days of revenue)

Poultry infrastructure includes 17 poultry growing farms at Griffith, NSW and Lethbridge, Victoria. The farms are located in close proximity to key markets and processing infrastructure which is operated by one of Australia’s largest poultry processors. RFF leases all poultry infrastructure to RFM Poultry, which has managed the growing operations since 2003. RFF’s poultry infrastructure generates all of its income from the rental of the land and infrastructure, with a WALE date of April 2027.

Vineyard leasing – HY14 revenue: \$0.14 million (13 days of revenue)

Rural Funds Group owns seven vineyards with six in South Australia (in the Barossa Valley, Adelaide Hills and Coonawarra) and one in the Grampians in Victoria. All vineyards produce premium quality grapes and are leased to ASX-listed Treasury Wine Estates until June 2022. The lease terms provide for rental indexation and market review.

A large proportion of the fund’s vineyard lease income is generated from 500 hectares in the Barossa Valley. Grapes from these vineyards have been used in the production of Penfolds Grange, one of Australia’s finest red wines.

Other activities – HY14 revenue: \$0.83 million

The fund has a 43.85% shareholding in RFM StockBank, a scheme managed by RFM, which operates a livestock leasing business. Livestock are leased to landowners who are responsible for managing them until they are sold. StockBank divides its investment approximately 80% cattle and 20% sheep.

During the period, RFF sold two non-core water assets. In July 2013, it sold 2,808 megalitres (ML) of excess ground water for \$700 per ML. In December, the fund also sold 949 ML of high security Lachlan river water for \$1,050 per ML.

Bank facilities

At the end of December 2013 RFF entered into a new \$94 million arrangement with the Australia and New Zealand Banking Group Limited (ANZ). Following completion of the listing on the Australian Securities Exchange on 14 February 2014, ANZ agreed to increase the facility to \$97.5m with a term of five years.

Outlook

RFF's investment objective is to generate a competitive and stable income stream for investors, derived from lease rentals to sound operators. RFM will seek to grow RFF consistent with this strategy over time.

RFF's aim is to be the leading provider of property and infrastructure leasing solutions to the Australian agricultural sector through collaboration with quality Australian agricultural operators. The fund is positioned to capitalise on growing export demand for soft commodities required to feed a growing global population.

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Background information

On February 14, 2014 RFF successfully completed its listing on the Australian Securities Exchange (ASX).

Rural Funds Management Pty. Ltd, the manager of the fund, is one of the oldest and most experienced agricultural funds management organisations in Australia. It is focused on delivering returns to investors generated from the high quality management of Australian farmland and rural infrastructure

Managing director David Bryant established Rural Funds Management in 1997. The company has offices in Canberra, Sydney, Melbourne and the Riverina district and employs around 50 staff in fund and asset management activities. Guy Paynter, former director of broking firm JB Were, is chairman and experienced agricultural director Michael Carroll is a non-executive director.