

Rural Funds Group (RFF)

Rural Funds Management Ltd

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Subject: Flow through taxation status for Rural Funds Group

The RFM Board has approved the final transaction required for the Rural Funds Group to become a flow through or 'passive' entity for taxation purposes. This was foreshadowed in the Explanatory Memorandum dated 21 October 2013.

The transaction entails the sale at market value of the remaining operational assets of the fund. These plant and equipment assets have a market value of approximately \$2.7m and the purchaser is RF Active ARSN 168 740 805, a registered unit trust owned by RFM's almond funds. RFM is the responsible entity of both RF Active and the almond funds. To facilitate the transaction vendor finance of \$0.6m has been provided with the cash balance of \$2.1m applied to reduce the Rural Funds Group plant and equipment financing facility.

The complete separation of all operational assets is intended to result in the fund and its subsidiaries only holding assets that derive rental or other 'passive' income. This will mean (subject to the finalisation of sale and finance documentation prior to 1 July 2014) that the Rural Funds Group, from 1 July 2014, will no longer be classified as a public trading trust for taxation purposes and will be a flow through fund.

When the Rural Funds Group is no longer a public trading trust, it will cease to be liable for tax at the corporate tax rate and income from its operations and investments would be distributed on a 'pre tax' basis to Members.

Tax will therefore be paid by Members on their share of the net (taxable) income of the Fund, consistent with other investment funds that do not have trading operations; including for example Real Estate Investment Trusts (REITS).

If the Rural Funds Group is categorised as a flow through fund as intended, then net deferred tax liabilities amounting to \$18.5m (based on the December audited accounts) will no longer be recognised as a liability in net assets. This decrease in liabilities will increase the consolidated net asset position of the Fund in the order of 15.8 cents per unit.

About Rural Funds Group (RFF) ARSN 112 951 578

RFF owns a diversified portfolio of high quality Australian agricultural assets. RFF's investment objective is to generate a stable income stream derived from leasing its assets to suitable counterparts and capital growth through any appreciation in the value of those assets. Rural Funds Management Ltd (RFM) is the responsible entity of RFF.

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