



Rural Funds Group (ASX: RFF)

Financial results presentation half year ended 31 December 2014

24 February 2015

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1. Highlights and results summary
2. Forecasts
3. Strategy
4. Appendices

RFM attendees



David Bryant
Managing Director



Stuart Waight
*Chief Operating
Officer*



Daniel Yap
Financial Controller



James Powell
*Investor Relations &
Distribution Manager*

Highlights and results summary



Highlights first half FY2015

Achievements

- Stapling of Rural Funds Trust (RFT) to RF Active collectively called the Rural Funds Group
- Acquisition of Tocabil Station for purposes of leasing and almond development

Financial

- Net profit before income tax \$3.9m
- Adjusted funds from operations (AFFO) \$5.0m

Capital management

- Debt of \$101.8m equals 41.1% gearing and includes debt of \$5.9m relating to Tocabil Station

Forecasts FY15

- AFFO of \$5.0m in line with previous forecast
- Distributions of 8.6 cents per unit forecast for 12 months ended 30 June 2015 in line with previous forecast

Results summary

Metrics as at 31 December 2014

Income	Net profit before income tax	3,903,000
	Total comprehensive income	3,904,000
	Adjusted funds from operations	4,997,000
	AFFO per unit	4.3 cents
	Earnings per unit ¹	3.3 cents
Portfolio	Net asset value (NAV)	136,686,000
	NAV per unit	1.16
Balance sheet	Total assets	247,432,000
	External borrowings	101,763,000
	Gearing	41.1%
Distributions	Declared at:	
	September 2014	2,519,000
	December 2014	2,522,000
	CPU per distribution	2.15 cents

- AFFO \$5.0m (pre-tax) in line with previous forecast to 30 June 2015
- Result includes 2.5 months of RF Active following the stapling transaction

Note:

¹For reconciliation see slide 16

First half FY2015 results

Summarised statement of comprehensive income

	6 mths ended 31 Dec 2014	6 mths ended 31 Dec 2013 ¹
Property revenue	10,686,000	4,862,000
Almond revenue	-	605,000
Revenue	10,686,000	5,467,000
Other income	139,000	98,000
Share of net profit – equity accounted investments	38,000	-
Almond cost of goods sold	-	(606,000)
Property expenses and overheads	(2,004,000)	(1,795,000)
Management fees	(1,227,000)	(677,000)
Property revaluations	19,000	(438,000)
Finance costs	(2,632,000)	(1,788,000)
Change in fair value of derivatives	(960,000)	410,000
Depreciation and impairments	(153,000)	(91,000)
Profit / (loss) on sale of assets	(3,000)	70,000
Merger related transactions	-	(3,124,000)
Profit / (loss) before tax	3,903,000	(2,474,000)
Income tax benefit / (expense)	1,000	(1,506,000)
Profit / (loss) after tax	3,904,000	(3,980,000)
Other comprehensive income	-	(30,000)
Total comprehensive income	3,904,000	(4,010,000)

- Result includes \$0.96m unrealised loss relating to interest rate swaps and decrease in market interest rates
- RFT for the first time treated as a flow through trust for tax purposes. Income tax relates to RF Active and AWF²
- Reconciliation to AFFO provided in slide 16

Notes:

¹The results have been revised to reflect actual merger transaction costs

²RFM Australian Wine Fund is a subsidiary of RFT that has formed a tax consolidated group

First half FY2015 adjusted funds from operations

Composition of AFFO (pre-tax)

	6 mths ended 31 Dec 2014	6 mths ended 31 Dec 2013
Property revenue	10,686,000	4,862,000
Direct property costs	(581,000)	(192,000)
Net property income	10,105,000	4,670,000
Other income	139,000	98,000
Share of net profit – equity accounted investments	38,000	-
Fund overheads	(1,426,000)	(804,000)
Management fees	(1,227,000)	(677,000)
EBIT	7,629,000	3,287,000
Finance costs	(2,632,000)	(1,788,000)
Adjusted funds from operations	4,997,000	1,499,000

- AFFO is pre-tax and excludes fair value adjustments, depreciation and impairment to represent RFF's property rental business
- Reconciliation to net profit after tax provided in slide 16

Debt metrics as at 31 December 2014

Term debt facility limit	\$103.0m
Term debt drawn	\$99.3m
Headroom	\$3.7m
Loan to Value Ratio (LVR) ¹	43.8%
Debt Facility expiry	18 Dec 2018
Interest Cover Ratio (6 mths to Dec 14)	3.30x
Hedging policy	>50%
Proportion hedged ²	72.8%
Weighted average hedge expiry ³	30 Sep 2017
Effective hedge rate ³	3.44%
Effective cost of total debt (6 mths to Dec 14)	5.39%

Note:

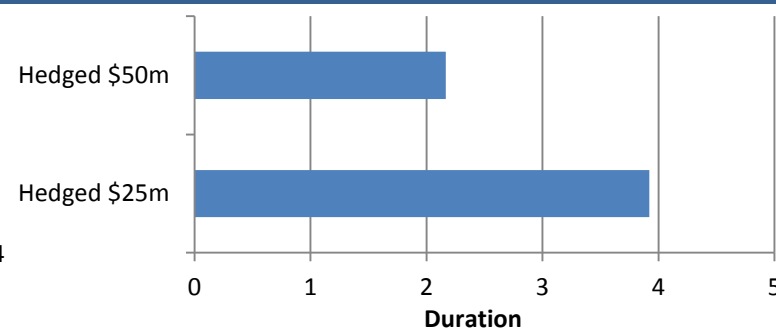
¹LVR calculated as: facility limit / directly secured assets valued at 31 December 2014

²Proportion hedged calculated as: total hedges / facility limit

³Hedge expiry and rate excludes unhedged debt and bank margin

- \$2 million per annum amortisation commencing 30 September 2016
- Key financial covenants:
 - LVR <50%
 - Interest Cover Ratio (ICR) >2.25x
 - Permitted distributions where ICR >2.5x
 - Net Tangible Assets >\$100 million
- Security:
 - Real property mortgages
 - General security agreement
 - Cross guarantees between RFF and subsidiaries
- RFF's interest rate hedges currently under review due to all time low long term borrowing costs

Hedging instruments as at 31 December 2014



RFF market price performance

Comparison of RFF to S&P/ASX 300 A-REIT index¹

RFF market price movement from 14 February 2014 (listing date) to 31 December 2014



Note:

¹ RFF is not part of the S&P/ASX 300 A-REIT index

Sources:

- RFF closing prices – IRESS
- S&P/ASX 300 A-REIT index – au.spindices.com/indices/equity/sp-asx-300-a-reit-sector

Forecasts



- AFFO and distributions on track to previously forecast result to 30 June 2015
- Total comprehensive income is below forecast due to approximately \$0.96m or 0.82 cents per unit impact of interest rate swaps. Previous disclosure dated 29 August 2014 provided sensitivity analysis

Distributions

Record date	CPU
30 September 2014 (expected to be tax deferred)	2.15
30 December 2014 (expected to be tax deferred)	2.15
31 March 2015 f	2.15
30 June 2015 f	2.15

Key forecasts FY15 at disclosure date 29 August 2014

AFFO (\$)	10,791,000
AFFO (before tax) per unit	9.2 cents
Total comprehensive income (\$)	10,747,000
Total comprehensive income per unit	9.1 cents
Distribution payout ratio	94%
Distributions per unit	8.6 cents
Distribution payment frequency	Quarterly
Interest cover	3.24x



Strategy

- The Tocabil Station acquisition and proposed development closely adheres to RFF's previously stated long term objectives
- Tocabil Station is currently leased for cotton and wheat farming
- RFM is continuing discussions with a potential lessee
- Other comments:
 - RFM is optimistic about the potential for future expansion in the almond sector (see slide 20)
 - Lower AUD has significantly improved conditions for many of RFF's lessees
 - RFM will continue to pursue suitable opportunities across the agricultural investment spectrum (see slide 23)

Appendices



First half FY2015 results

Reconciliation of net profit after tax to AFFO

	6 mths ended 31 Dec 2014	6 mths ended 31 Dec 2013 ¹
Net profit after tax	3,904,000	(3,980,000)
Adjusted for merger transaction	-	3,124,000
Adjusted for merger related costs ²	-	731,000
Net profit after tax adjusted for merger transaction	3,904,000	(125,000)
Other items:		
Property revaluations	(19,000)	439,000
Change in fair value of derivatives	960,000	(410,000)
Depreciation and impairment	153,000	89,000
Write back of income tax expense	(1,000)	1,506,000
AFFO	4,997,000	1,499,000
AFFO per unit	4.3 cents	1.3 cents

- Table adds back non cash items to reconcile net profit after tax to AFFO
- Major items for first half FY2015
 - Unrealised loss on interest rate hedges
 - Depreciation

Notes:

¹The results have been revised to reflect actual merger transaction costs

²The adjustments for merger related costs include external and internal costs incurred as part of the merger transaction

First half FY2015 results

Summarised balance sheet

	As at 31 December 2014	As at 30 June 2014
Cash	800,000	2,723,000
Property investments	238,045,000	227,204,000
Deferred tax assets	1,596,000	1,576,000
Other assets	6,991,000	9,730,000
Total assets	247,432,000	241,233,000
Interest bearing liabilities		
- Current	751,000	-
- Non-current	101,012,000	94,300,000
Deferred tax liabilities	-	-
Other liabilities	8,982,000	9,462,000
Total liabilities	110,746,000	103,762,000
Net assets	136,686,000	137,471,000
Units on issue	117,458,512	117,099,159

- Net assets \$136.7m
- NAV per unit \$1.16
- Change in total assets primarily due to:
 - Tocabil Station acquisition \$5.9m (debt funded)
 - Stapling transaction \$3.2m
 - Capital expenditure \$1.9m
- Total interest bearing liabilities \$101.8m
- Gearing ratio 41.1%

First half FY2015 results

Property investment reconciliation

	Investment property	Biological assets	Intangible assets ¹	Plant and equipment	Total
Balance as at 30 June 2014	138,108,000	65,506,000	23,590,000	-	227,204,000
Acquisition – Tocabil Station	3,525,000		2,369,000	-	5,894,000
Acquisition – RF Active stapling transaction	-	-	-	3,175,000	3,175,000
Additions net of disposals	1,563,000	136,000	-	207,000	1,906,000
Depreciation	-	-	-	(153,000)	(153,000)
Fair value adjustment ²	(1,345,000)	1,364,000	-	-	19,000
Balance as at 31 December 2014	141,851,000	67,006,000	25,959,000	3,229,000	238,045,000

Note:

¹Accounting standards require water entitlements to be recorded as intangible assets

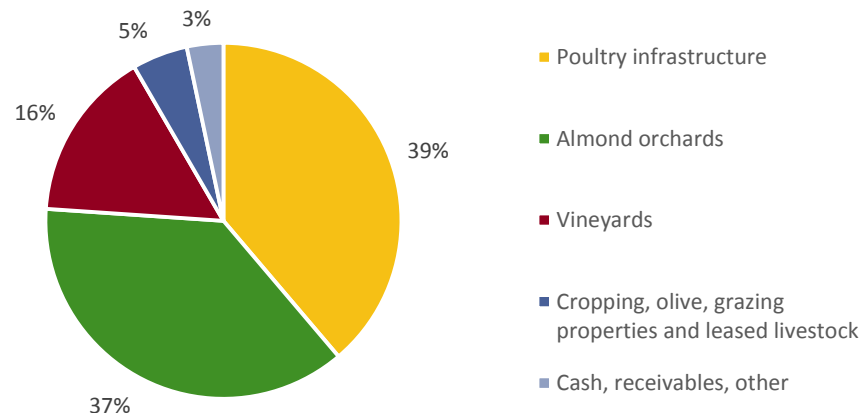
²Fair value adjustments as part of Directors' valuations at 31 December 2014. Investment property is assumed to decrease due to expected useful life of poultry property and infrastructure assets. Growth of biological assets are based on increases in the value of almond orchards and vines.

Diversified assets and counterparts

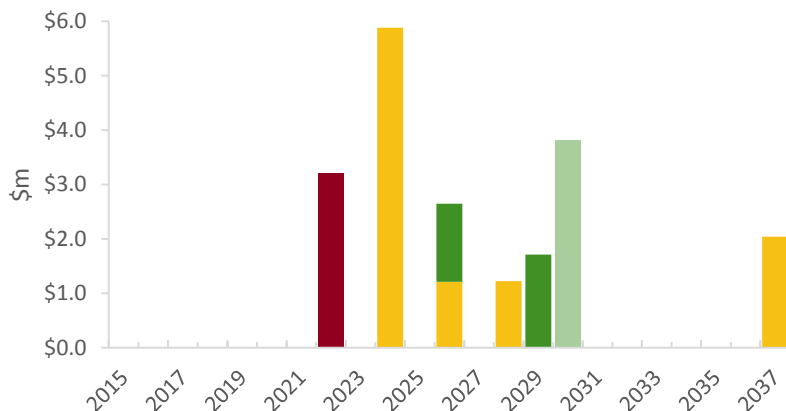
RFF portfolio highlights include:

- 27 properties
- 100% occupancy
- 12.2 year WALE (as at 31 December 2014)
- diversification by geographic region, commodity and counterparty

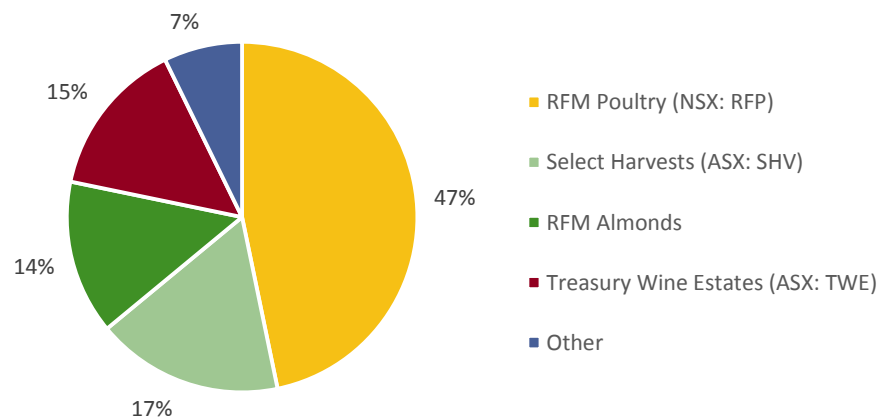
Portfolio diversification by asset values as at 31 Dec 2014¹



Lease expiry profile based on forecast FY15 revenue



Tenant diversification by forecast FY15 revenue



Note:

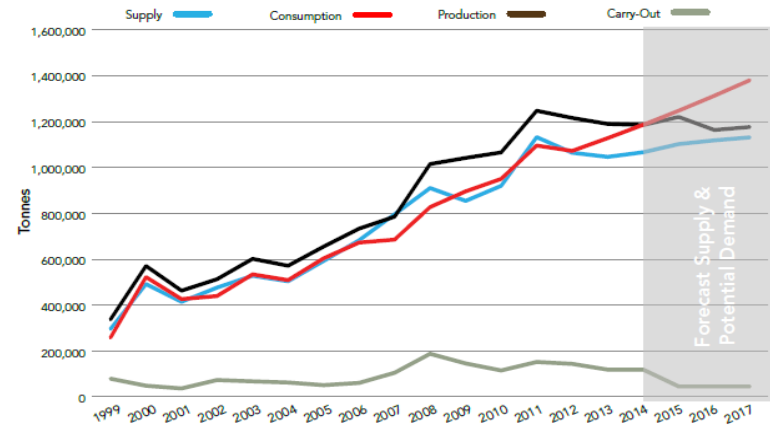
¹Tocabil Station included in cropping, olive, grazing properties and leased livestock

Almond industry outlook

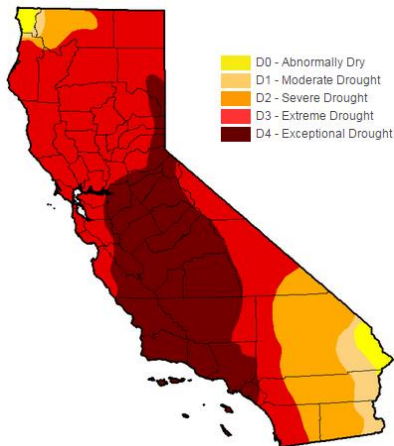
Three key factors provide a promising outlook for the Australian almond industry:

1. Difficult conditions for Californian growers, source of 80% of the world's almonds;
2. Declining AUD, favourable for Australian growers as almonds traded in USD; and
3. Long term increasing demand for almonds, demand continues to increase whilst supply is constrained by limited natural resources

Improving supply and demand outlook



Exceptional Californian drought



Declining AUD



Key assets further details

Poultry infrastructure



13 poultry farms consisting of 134 sheds located in Griffith, NSW and 20 sheds on 4 farms in Lethbridge, Vic. Aged between 5 and 28 years

Griffith assets are located within a 8km radius of the processing facility and contribute ~50% throughput. Limited additional development potential within similar proximity to processing facility

RFM has successfully managed chicken growing operations since 2003, now operated by RFP

Gross lease rate¹: 10.7%

WALE: 12.3 yrs

Indexation: 65% of CPI capped at 2%

Valuer: CBRE Valuations Pty Limited

Almond orchards



Two almond orchards located near Hillston NSW of which 1,221 ha leased to SHV, 551 ha leased to RFM Almond Funds and 42 ha to RFM

Almond trees planted between 2006 and 2008 and orchards are now mature with minimal future capital expenditure required

RFM Almond Fund lessees were cash flow positive from 2013

Gross lease rate¹: 7.7%

WALE: 14.1 yrs

Indexation and market review: 2.5% p.a and market review (SHV) on 1 July 2016

Valuer: CBRE Valuations Pty Limited

Vineyards



Seven vineyards with 666 ha planted to vines leased to TWE. Principally located in the Barossa Valley (499 ha planted primarily to Shiraz) as well as Adelaide Hills, Coonawarra and Grampians.

Vineyards have historically contributed essential quantities of Icon, A and B grade fruit for key premium labels

Gross lease rate¹: 8.5%

WALE: 7.5 yrs

Indexation and market review: 2.5% p.a and market review on 1 July 2017

Valuer: Colliers International Consultancy

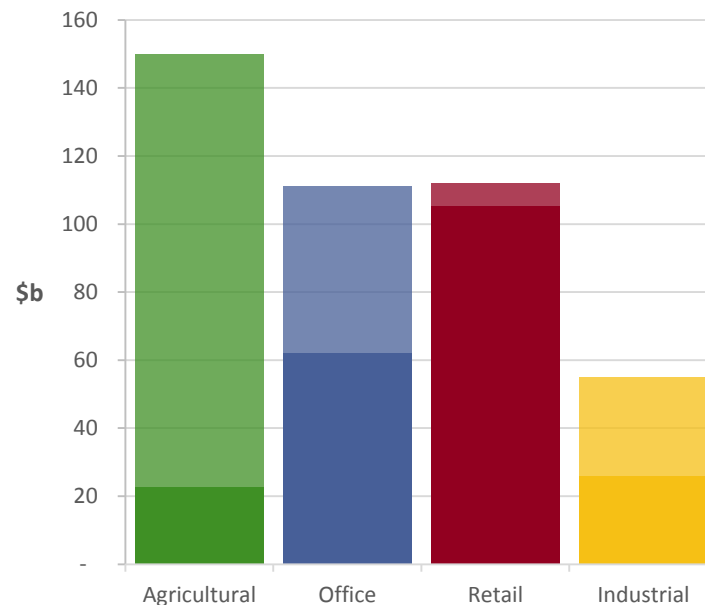
Note:

¹Based on 30 June 2014 independent valuations

- Observations:
 - Academic research demonstrates that leasing assets provides capital management benefits and flexibility to lessees and is linked to higher company returns
 - The combined value of Australian commercial real estate is \$280 billion of which an average of 70% is leased
 - Australian agricultural property represents \$150 billion in investment grade assets (of which an estimated 5% are leased)
 - Agricultural property leasing is common in mature agricultural markets such as the US and parts of Europe (approx. 40% of property)

- Conclusions:
 - Leasing agricultural property and assets to suitable companies provides a mutual benefit
 - The agricultural property leasing sector in Australia is under serviced
 - A REIT is a preferable structure for investors to gain exposure to the agricultural thematic (combination of asset ownership and low volatility yield)

Australian property sectors



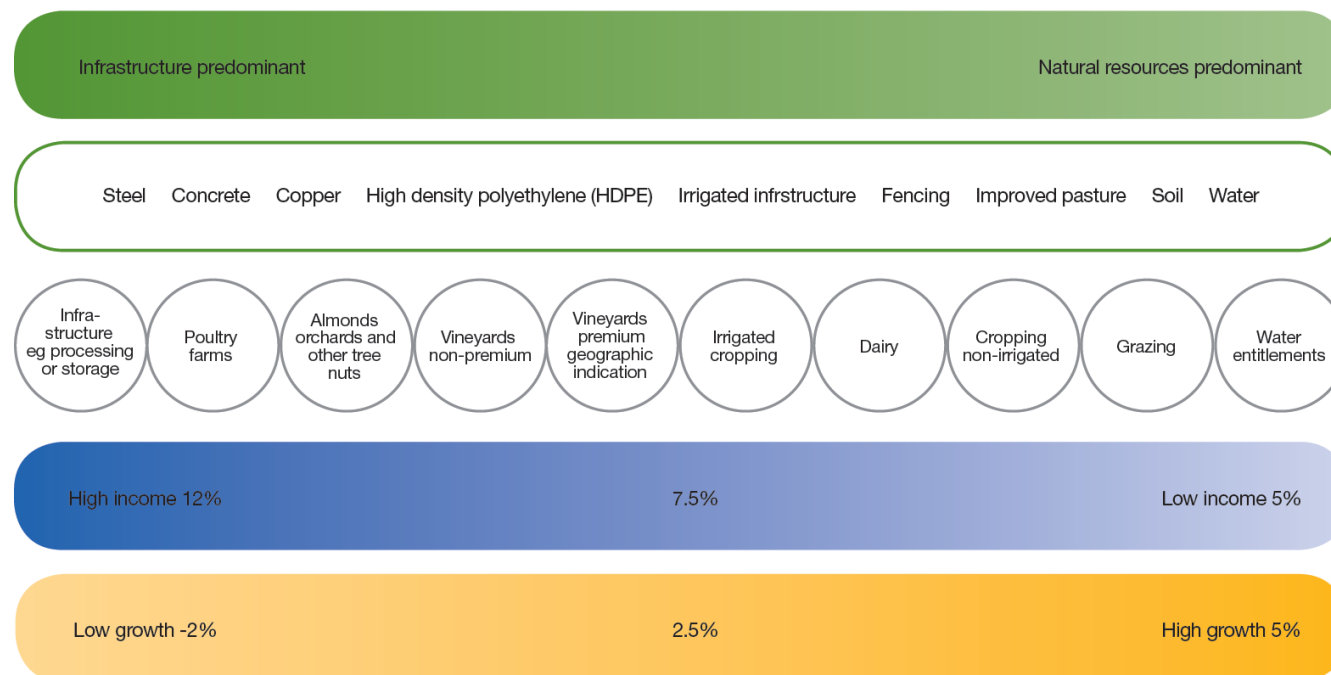
Note: the heavily shaded portion denotes proportion of institutional ownership

Spectrum of investment opportunities

RFF has identified a range of investment opportunities

- RFF will pursue acquisitions of additional assets to grow the quantum and diversity of its earnings
- The investment strategy is to invest across the full range of the asset continuum shown below, with the objective of ensuring the asset mix can continue to fund distributions consistent with current levels
 - Natural resource predominant assets that offer capital growth will be balanced by infrastructure predominant assets that generate higher initial yields

Spectrum of investment opportunities



RFM is one of the oldest and most experienced agricultural funds management organisations in Australia

- Rural Funds Management Limited (RFM) is an experienced fund and asset manager that specialises in Australian agriculture
- Established in 1997, RFM has historically operated as an external manager and is currently the responsible entity for 7 agricultural investment funds which as at 31 December 2014 had approximately \$313m of assets under management in New South Wales, South Australia and Victoria and a combined FY15 turnover of approximately \$85m
- RFM holds units in each of the listed funds that it manages
- RFM manages additional operational entities enabling RFF to benefit from shared services
- The RFM management team includes specialist fund managers, finance professionals, horticulturists, livestock managers, and agronomists. This team provides RFM with the specialised skills and experience required to manage the agricultural assets
- RFM employs 24 full time corporate staff (offices in Canberra, Sydney and Melbourne) and 14 full time farm staff
- RFM has a simple and transparent fee structure for managing and administering RFF:
 - Fund and Asset Management Fees totalling 1.05% p.a. of gross asset value
 - Reimbursement of all reasonable expenses; and
 - Constitution provides for a termination fee of 1.5% of gross asset value in the event RFM is removed as responsible entity

RFM board and management team

RFF is externally managed and governed by a highly experienced management team and board

Board of directors



Guy Paynter
Non-executive
Chairman

- Former director of broking firm JBWere with more than 30 years' experience in corporate finance
- Guy was former member of the ASX
- Agricultural interests include cattle breeding in the Upper Hunter region in New South Wales



David Bryant
Managing
Director

- Established RFM in February 1997
- Responsible for leading the RFM Executive and sourcing and analysing new investment opportunities
- Responsible for over \$300m in assets acquisitions across eight Australian agricultural regions, including negotiating the acquisition of more than 25 properties and over 60,000 megalitres of water entitlements



Michael Carroll
Non-Executive
Director

- Serves a range of food and agricultural businesses in a board and advisory capacity, including Tassal Group Ltd, Select Harvests Ltd, Sunny Queen Ltd and the Gardiner Dairy Foundation
- Senior executive experience in a range of companies, including establishing and leading NAB's Agribusiness division

Contact



Stuart Waight
Chief Operating Officer

- Joined RFM in 2003
- Responsible for reviewing and optimising the performance of the RFM funds, and analysing future developments, acquisitions, and investments
- Oversees the Asset Management activities, as well as the Farm Management activities of the National Manager of each of Poultry, Vines, Almonds, and Cotton



Andrea Lemmon
Executive Manager,
Funds Management

- Joined at inception in 1997
- RFM company secretary
- Responsible for the development of new products, the continuous improvement of existing products, management of research activities, and the provision of services and communications to investors and advisers



Tim Sheridan
Senior Analyst

- Joined RFM in 2008
- Responsible for the analysis of RFF financial performance, and the analysis of future development and investment opportunities



James Powell
Investor Relations and
Distribution Manager

- Joined RFM in 2006
- Responsible for overseeing RFM's sales and distribution activities, development of key relationships required to increase the awareness of RFM's investment opportunities and part of the product development division

Corporate information



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