Rural Funds Management

RURAL FUNDS GROUP
ANNUAL REPORT

for the year ended 30 June 2017

Rural Funds Group (ASX: RFF) stapled group comprising:
Rural Funds Trust ARSN 112 951 578 and
RF Active ARSN 168 740 805
Responsible Entity: Rural Funds Management Limited
ACN 077 492 838 AFSL 226701

Issued on: 27 September 2017

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LETTER FROM THE MANAGING DIRECTOR

Dear Unitholder,

We are pleased to present to you the accounts for the Rural Funds Group (ASX: RFF) for the year ended 30 June 2017 (FY17).

RFF at 30 June 2017

RFF ended the financial year in a good financial position. Funds from operations slightly exceeded forecast at 12.5 cents per unit and distributions per unit (DPU) of 9.6 cents were paid to investors, representing an 8% growth on the prior year. Gearing at the end of the period of 29% was at the lower end of the target range, positioning the fund to pursue acquisitions.

RFF now has a low payout ratio of 80%, designed to support DPU growth target of 4% p.a. The weighted average lease expiry (WALE) of 13.2 years provides a long term contracted lease income stream.

Review of financial year 2017

In July 2016, RFF raised $61 million through a non-renounceable Entitlement Offer. The proceeds, in combination with debt and retained earnings, were used to fund the purchase of three Queensland cattle properties and the associated breeding herd. This included two breeding properties, Mutton Hole and Oakland Park, situated near the Gulf of Carpentaria, for $18.4 million, and Rewan Station, a high value backgrounding and finishing property located near Rolleston in central Queensland, for $31.6 million.

The proceeds also contributed to the funding of the Kerarbury orchard expansion at Darlington Point, NSW and the purchase of three macadamia orchards near Bundaberg, Queensland, which were initially debt funded.

In December 2016, RFF purchased a 9,549 megalitre Murrumbidgee River high security water entitlement for $34.4 million. This transaction represents one of the largest trades of Murrumbidgee River high security water entitlements. Rural Funds Management (RFM) will seek to lease the water on a long-term basis as part of a horticultural development. In the interim, revenue will be generated from the sale of the annual water allocations from FY18.

Also in December 2016, RFF purchased the 4,880 ha cotton property 'Lynora Downs' for $26.5 million. Located 130 km south of Emerald, Central Queensland, the asset diversified RFF into a new sector and supports the climatic diversification strategy of the Fund.

Following the debt funded acquisition of the water entitlements and cotton property, RFF completed a $78.6 million Entitlement Offer in June 2017 reducing gearing to 29%.

The 2018 financial year

In FY18, RFM, your Fund's manager, will pursue acquisitions in the cattle and cotton sectors. RFF entered both sectors in FY17, and it is possible additional assets can be acquired that complement the Fund.

The acquisition of the three Queensland cattle properties by RFF, and operation of these properties by the lessee, has confirmed an investment strategy whereby underutilised assets can be made more productive, and in time, more valuable.

Since acquiring the properties, stocking rates have increased such that they now carry 27% more stock than their initially assessed capacity. In addition, RFF has funded improvements on these assets, including additional water infrastructure and pasture improvement, with the aim of further improving carrying capacity – expenditure that accrues additional rent. It is anticipated that this investment will increase carrying capacity by 25%, and in time these productivity gains will be reflected in the property valuations.

Productivity gains generated by good management and targeted capital improvements are most achievable on assets that are predominantly natural resource based. For this reason, RFM is observing that natural resource predominant assets tend to present opportunities for a greater total return than infrastructure type assets in the current market.

This strategy of increasing productivity is underpinned by a manager who has operational knowledge in the sectors in which assets are leased. RFM will seek to leverage this understanding of the management of cattle and cotton properties to repeat this strategy of acquisition and development in FY18.

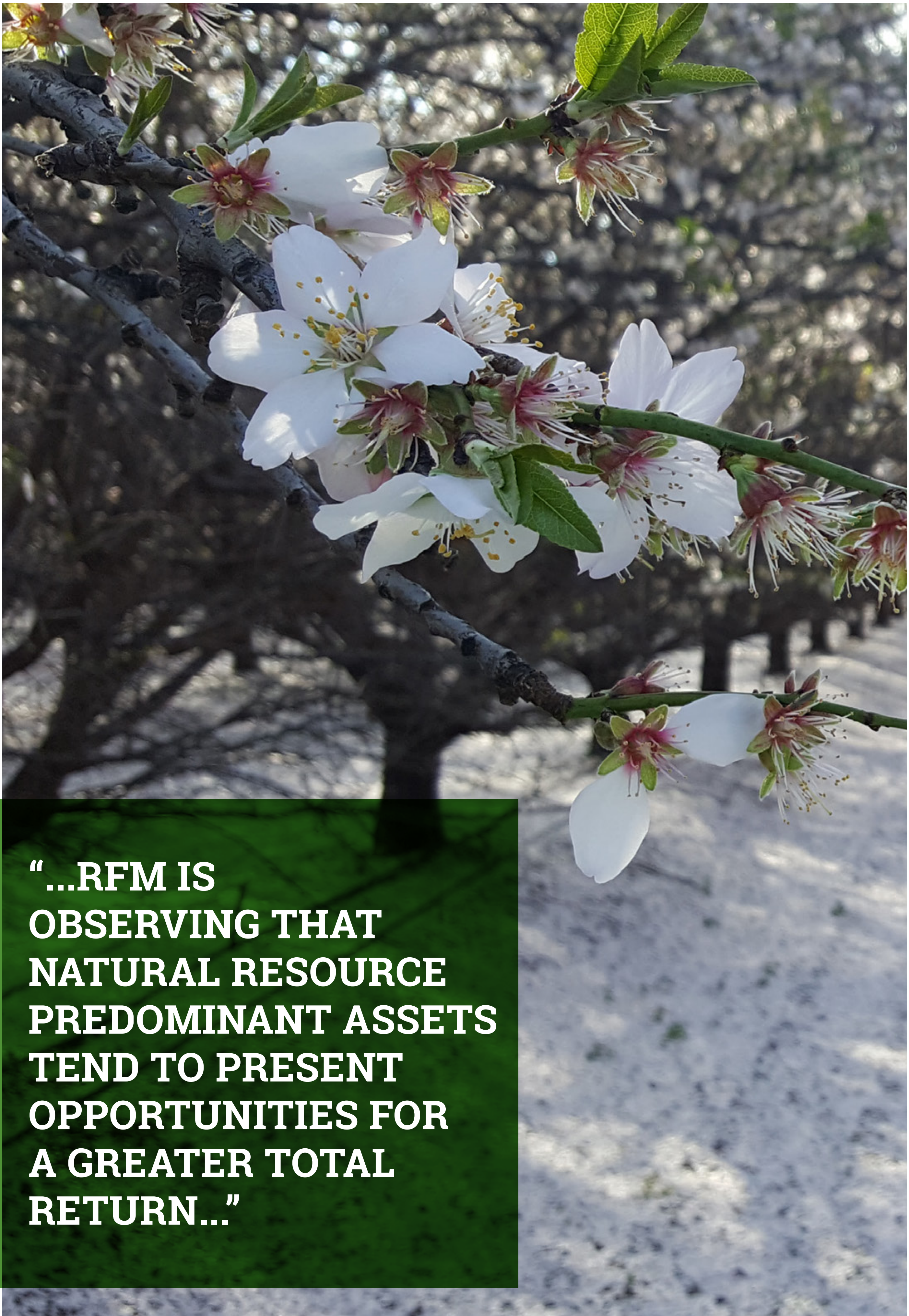
While increased asset values are positive, this does not immediately translate into increased income for RFF unitholders. This is because contracted lease payments do not increase until the valuation of the property increases and a rent review is completed – generally at the fifth anniversary of the lease. For this reason, this investment strategy should produce shorter term increases in asset values, followed by longer term increases in rental income.

RFM will continue to work closely with its lessees to manage RFF's current portfolio of assets. A key part of ongoing management is the identification and funding of development and capital expenditure programs. It is expected that RFF will spend $81 million on capital development over the next three years. This expenditure, occurring on assets in all sectors in which RFF owns properties, aims to make the properties more productive for the lessee and attracts rent as it is deployed.

In conclusion, during this current financial year RFF will see expansion of its asset base and revenues due to existing capital expenditure programs, possible increases in asset values and contractual rental indexation mechanisms. This growth will be funded by cash retained after payment of distributions. RFF has sufficient additional funds to complete an acquisition in the cattle sector and RFM will continue to investigate further opportunities that can enhance the financial performance and diversity of the Fund.

Yours faithfully,

David Bryant
Managing Director
Rural Funds Management Limited



"…RFM IS OBSERVING THAT NATURAL RESOURCE PREDOMINANT ASSETS TEND TO PRESENT OPPORTUNITIES FOR A GREATER TOTAL RETURN…"

CORPORATE GOVERNANCE STATEMENT

Definitions

AFSL	Australian Financial Services Licence
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange or ASX Limited
Corporations Act	Corporations Act 2001

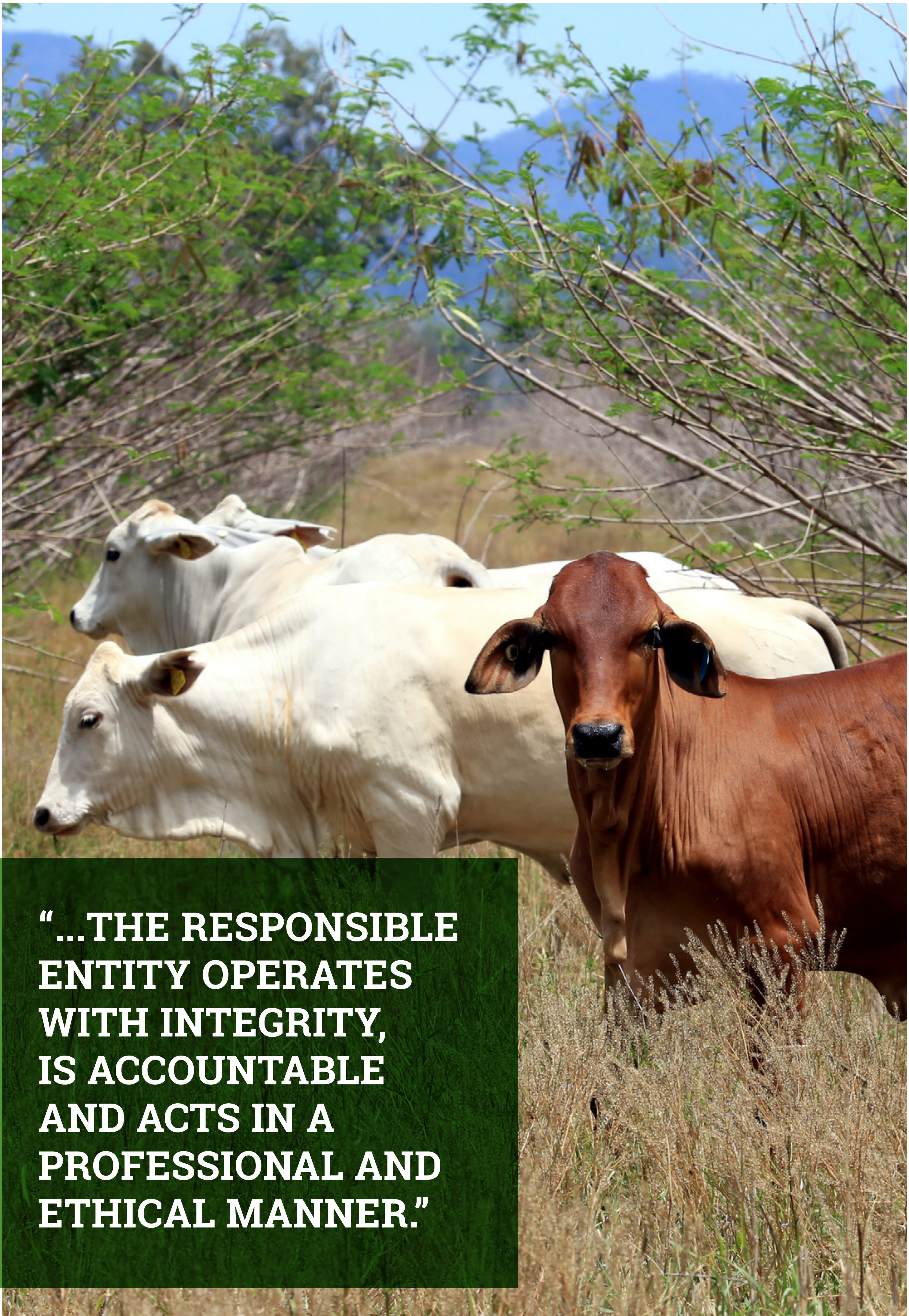
Rural Funds Group (the Fund) is listed on the ASX and is a stapled entity comprising Rural Funds Trust and RF Active, both registered managed investment schemes under the Corporations Act. Units in Rural Funds Trust are stapled to units in RF Active. Rural Funds Management Limited (the Responsible Entity) is the Responsible Entity for the Fund and has established and oversees the corporate governance of the Fund. The Responsible Entity holds an Australian Financial Services Licence (AFSL) authorising it to operate the Fund. It has a duty to act in the best interest of unitholders of the Fund. The Fund has a compliance plan that has been lodged with ASIC and a copy of the compliance plan can be obtained from ASIC or by contacting the Responsible Entity. The Responsible Entity publishes a number of its corporate governance related policies on its website at:

http://ruralfunds.com.au/rural-funds-group/about/corporate-governance/

The Board takes its corporate governance responsibilities seriously. The Board is comprised of four directors and has a mix of the experience and skills necessary to oversee the corporate governance requirements of the Responsible Entity. This ensures the Responsible Entity operates with integrity, is accountable and acts in a professional and ethical manner. The Board works together and its collective ability facilitates effective decision making to lead a viable, profitable and efficient business.

To the extent that they are applicable and appropriate for the Fund, the Responsible Entity has adopted and complies with the ASX *Corporate Governance Council's Corporate Governance Principles and Recommendations 3rd Edition*. In accordance with ASX Listing Rule 4.10.3, set out below are the ASX Corporate Governance Council's eight principles of good corporate governance, and the extent to which there is compliance with the recommendations for each principle. The statement has been approved by the Board of the Responsible Entity and applies to the period 1 July 2016 to 30 June 2017 ("Statement Period").

At the time of printing this statement, there have been no material changes to the corporate governance policies and practices since 30 June 2017.



"...THE RESPONSIBLE ENTITY OPERATES WITH INTEGRITY, IS ACCOUNTABLE AND ACTS IN A PROFESSIONAL AND ETHICAL MANNER."

PRINCIPLE 1

Lay solid foundations for management and oversight

A listed entity should establish and disclose the respective roles and responsibilities of its board and management and how their performance is monitored and evaluated.

ASX RECOMMENDATION	FUND'S RESPONSE
1.1	The business of the Fund is managed under the direction of the Board of the Responsible Entity comprising: > Chair: Guy Paynter (independent non-executive director) > Managing Director: David Bryant > Non-Executive Director: Michael Carroll (independent non-executive director) > Non-Executive Director: Julian Widdup (independent non-executive director) The conduct of the Board is governed by the Constitution of the Fund and the Corporations Act. The broad functions and responsibilities of the Board are set out in sections 2.3 – 2.4 of the Corporate Governance Charter. The specific responsibilities are set out in section 2.5. The Board has delegated responsibility for the day-to-day management of the Fund to the Managing Director of the Responsible Entity. The delegations are outlined in the Corporate Governance Charter. The Managing Director, David Bryant, is responsible for financial; continuous disclosure and compliance oversight; media and analyst briefings and responses to member questions; and ensuring the Board is provided with information to make fully informed decisions. The Constitution of the Fund is available by contacting the Responsible Entity. The Corporate Governance Charter is available on the Responsible Entity's website.
1.2	As an externally managed scheme, recommendation 1.2 does not apply to the Fund.
1.3	All directors of the Responsible Entity receive letters of appointment setting out the key terms and conditions of their appointment. All executives of the Responsible Entity enter into an employment agreement setting out the key terms and conditions of their employment including a position description, duties, rights, responsibilities, remuneration and entitlements on termination.
1.4	The Company Secretary of the Responsible Entity is accountable to the Board, through the Chair, on all matters to do with the proper functioning of the Board. As stated in the Corporate Governance Charter, the Company Secretary reports directly to the Managing Director.

ASX RECOMMENDATION	FUND'S RESPONSE
1.5	The Responsible Entity has a diversity policy, which is reviewed annually with any changes approved by the Board. The policy provides the framework by which the Responsible Entity actively manages and encourages diversity and inclusion. It recognises that its employees are one of its greatest assets and it has a range of employees with skills and capabilities that ensure the ongoing strength, continuity and stability of the Responsible Entity. The policy addresses issues of diversity in developing selection criteria, skills mix and process when recommending candidates for appointment to the Board. Additionally, the Responsible Entity seeks to attract a diverse pool of suitably skilled candidates for available positions within the organisation. Due to the size of the Responsible Entity's Board and its senior management team, and the limited turnover of personnel at this level, it has not set quantitative gender diversity objectives. The Responsible Entity will endeavour to maintain, or improve, its current level of gender diversity as senior management vacancies arise. A copy of the policy is available on the Responsible Entity's website. The Responsible Entity's senior executive team includes one female executive (out of a total of four executives). Of the 82 staff, 30.4% are female.
1.6	The performance of the Board, its committees and individual directors is outlined in the Corporate Governance Charter. The performance of individual Board members is reviewed annually in accordance with the timelines outlined in the Responsible Entity's Performance Management Policy.
1.7	The performance of senior executives is formally reviewed annually, in accordance with the timelines outlined in the Responsible Entity's Performance Management Policy. The annual process reviews each individual's past performance, their achievement of key performance indicators over the previous 12 months, sets key performance indicators for the coming 12 months, and identifies training and development opportunities. The formal process provides an opportunity for the senior executive and the Managing Director to focus solely on performance and development. Informal reviews providing feedback about key projects are conducted on an ongoing basis.

PRINCIPLE 2

Structure the board to add value

A listed entity should have a board of an appropriate size, composition, skills and commitment to enable it to discharge its duties effectively.

ASX RECOMMENDATION	FUND'S RESPONSE
2.1	As an externally managed scheme, recommendation 2.1 does not apply to the Fund. Additionally, due to the small size of the Responsible Entity's Board, it is usual that all of the Board members are involved in the full spectrum of discussion and decisions on matters. As a result, they bring the full complement of skills and experience available to address matters as they arise. If, and when gaps are identified, external advice is sought from senior consultants such as specialist tax, legal or business advisers to address any skills gaps.
2.2	As an externally managed scheme, recommendation 2.2 does not apply to the Fund.
2.3	The Responsible Entity Board comprises four members, three of whom are independent non-executive directors.

DIRECTOR	COMMENCEMENT	INDEPENDENT
David Bryant	17 February 1997	No
Guy Paynter	15 April 2010	Yes
Michael Carroll	15 April 2010	Yes
Julian Widdup	17 February 2017	Yes

Guy Paynter is an Independent Director, holds the role of Chair of the Board and is a member of the Audit Committee and Remuneration Committee.

Guy Paynter is a former director of broking firm JB Were and brings to the Responsible Entity more than 30 years of experience in corporate finance. Guy is a former member of the ASX and a former associate of the Securities Institute of Australia (now known as the Financial Services Institute of Australasia). Today, Guy is Chair of Bill Peach Group Limited (previously known as Aircruising Australia Limited).

Guy's agricultural interests include cattle breeding in the Upper Hunter region in New South Wales.

Guy holds a Bachelor of Laws from the University of Melbourne.

ASX RECOMMENDATION	FUND'S RESPONSE
2.3 continued	 **David Bryant is the Managing Director.** David holds 79.08% of shares on issue in the Responsible Entity. David Bryant established RFM in February 1997 and since that time has led the team that is responsible for the acquisition of large-scale agricultural property assets and associated water entitlements. As at 30 June 2017, RFM manages over $640 million of agricultural assets. On a day-to-day level, David is responsible for leading the RFM Executive, maintaining key commercial relationships and sourcing new business opportunities. David holds a Diploma of Financial Planning from the Royal Melbourne Institute of Technology (RMIT) University and a Master of Agribusiness from The University of Melbourne.
	 **Michael Carroll is a Non-Executive Director and is the Chair of the Audit Committee and the Remuneration Committee.** Michael Carroll serves in a board and advisory capacity for a range of agribusiness entities. Michael is a Director of Tassal Group Ltd, Select Harvests Ltd, Paraway Pastoral Company and Sunny Queen Ltd. Former board positions include the Australian Farm Institute, Warrnambool Cheese & Butter Factory Company Holdings Ltd, Meat & Livestock Australia, Queensland Sugar Ltd, the Gardiner Dairy Foundation and Rural Finance Corporation of Victoria. Michael has senior executive experience in a range of companies, including establishing and leading the National Australia Bank Agribusiness division. Michael holds a Bachelor of Agricultural Science from La Trobe University and a Master of Business Administration (MBA) from the University of Melbourne's Melbourne Business School. Michael has completed the Advanced Management Program at Harvard Business School, Boston, and is a Fellow of the Australian Institute of Company Directors.

ASX RECOMMENDATION	FUND'S RESPONSE

2.3 continued

Julian Widdup is a Non-Executive Director and is a member of the Audit Committee and Remuneration Committee.

Julian Widdup is a former executive of infrastructure investment management companies, Palisade Investment Partners and Access Capital Advisers (now Whitehelm Capital) where he was responsible for the acquisition and asset management of major infrastructure assets, risk management, portfolio construction, institutional client management and overseeing all aspects of investment operations.

Previously Julian had worked with Towers Perrin (now Willis Towers Watson) as an asset consultant, the Australian Bureau of Statistics and the Insurance and Superannuation Commission (now APRA).

Julian brings extensive experience to the RFM Board, having previously served as a director of Palisade Investment Partners, Darwin International Airport, Alice Springs Airport, NZ timberland company Taumata Plantations Limited, Regional Livestock Exchange Investment Company, Merredin Energy power generation company, Victorian AgriBioscience Research Facility, Casey Hospital in Melbourne and Mater Hospital in Newcastle.

Julian holds a Bachelor of Economics from the Australian National University, is a Fellow of the Institute of Actuaries of Australia and a Fellow of the Australian Institute of Company Directors.

Further information on the composition of the Responsible Entity's Board, executive management and asset and business management profiles; and the skills, knowledge and experience of the individual members can be found on the Responsible Entity's website.

The independence of the Non-Executive Directors has been ascertained in compliance with the Corporations Act and the ASX Listing Rules, and there are no other factors which might reasonably be seen as undermining their independence. All directors must declare actual or potential conflicts of interest and excuse themselves from discussions on issues where an actual or potential conflict of interest arises. The directors' interests and any subsequent changes have been disclosed to the ASX. The Responsible Entity directors are subject to director rotation consistent with the Responsible Entity's constitution.

ASX RECOMMENDATION	FUND'S RESPONSE
2.4	As an externally managed scheme, recommendation 2.4 does not apply to the Fund; however, as outlined in 2.3, the Responsible Entity's Board is comprised of a majority of independent directors.
2.5	As an externally managed scheme, recommendation 2.5 does not apply to the Fund; however, Independent Non-Executive Director, Guy Paynter, holds the role of Chair of the Responsible Entity.
2.6	As an externally managed scheme, recommendation 2.6 does not apply to the Fund; however, any new directors would be provided with an induction relevant to the Responsible Entity and the Fund. Additionally, directors are provided with opportunities to develop and maintain their skills and knowledge, through both formal and informal training and networking opportunities.

PRINCIPLE 3

Act ethically and responsibly

A listed entity should act ethically and responsibly.

ASX RECOMMENDATION	FUND'S RESPONSE
3.1	The Responsible Entity has adopted a Directors' Code of Conduct (the Code) that sets out the minimum acceptable standards of behaviour. The Code seeks to give directors guidance on how best to perform their duties, meet their obligations and understand the company's corporate governance practices. The Code focuses on directors' obligations to comply with codes and law, their general duties, their application of business judgement, the application of independent and sound decision making, confidentiality, improper use of information, cooperation, personal interests and conflicts, conduct and complaints. In addition to the Directors' Code of Conduct, the Responsible Entity has a general Code of Conduct that is applicable to directors and all staff. The Corporate Governance Charter which includes the Directors' Code of Conduct is available on the Responsible Entity's website. Both codes are reviewed annually to ensure that they remain current and relevant.

PRINCIPLE 4

Safeguard integrity in corporate reporting

A listed entity should have formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting.

ASX RECOMMENDATION	FUND'S RESPONSE
4.1	The Board of Directors of the Responsible Entity has established an Audit Committee. The purpose of the Audit Committee is to assist the Board in overseeing the integrity of financial reporting, financial controls and procedures in respect of the Fund as well as the independence of the Fund's external auditors. The Audit Committee is comprised of three members, all of whom are non-executive independent directors. An independent director, who is not the Chair of the Board of the Responsible Entity, is Chair of the Committee. The relevant qualifications and experience of the members is available on the Responsible Entity's website. The Audit Committee will routinely invite other individuals to attend meetings, including executive management and management members of the Responsible Entity and the Auditor of the Fund. The Audit Committee and invitees will review the financial reports and provide commentary to the Board as required. Three meetings of the Audit Committee were held in relation to the accounts during the Statement Period. The Audit Committee ordinarily holds two meetings per year, or more if required. The Audit Committee has a formal charter that details the roles and responsibilities of the Audit Committee and its obligations to report to the Board. The charter sets out the powers of the Audit Committee, the meeting procedure framework, the process for selection of external auditors and audit planning. The Audit Committee charter can be found in Schedule 1 of the Corporate Governance Charter on the Responsible Entity's website.
4.2	The Board has received a declaration from the Managing Director and the Chief Operating Officer that, in their opinion: > the financial records of the Fund have been properly maintained in accordance with section 286; > the financial statements and notes referred to in paragraph 295(3)(b) for the financial year comply with the accounting standards; > the financial statements and notes give a true and fair view of the financial position and performance of the entity; and > the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.
4.3	As an externally managed scheme, recommendation 4.3 does not apply to the Fund. The Fund has not held an Annual General Meeting during the Statement Period.

PRINCIPLE 5

Make timely and balanced disclosure

A listed entity should make timely and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its securities.

ASX RECOMMENDATION	FUND'S RESPONSE
5.1	The Responsible Entity has adopted a Continuous Disclosure Policy that applies to all directors and employees of the Responsible Entity. The policy is available on the Responsible Entity's website. The policy reflects the desire to promote a fair market in the Fund's units, honest management and timely, full and fair disclosure. It complies with the disclosure requirements of the ASX and explains the Fund's disclosure obligations, the types of information that need to be disclosed, and identifies who is responsible for disclosure. It also explains how employees of the Responsible Entity can contribute. The policy underlines the Board's commitment to ensuring that unitholders are provided with accurate and timely information about the Fund's activities.

PRINCIPLE 6

Respect the rights of security holders

A listed entity should respect the rights of its security holders by providing them with appropriate information and facilities to allow them to exercise those rights effectively.

ASX RECOMMENDATION	FUND'S RESPONSE
6.1	The Responsible Entity is a boutique fund and asset manager specialising in the rural property sector. The Responsible Entity was established in 1997 to provide retail investors with an opportunity to invest in Australian rural assets. The management team includes specialist fund managers, finance professionals, horticulturists, agricultural managers and livestock managers. This team provides the Responsible Entity with the specialised skills and experience required to manage the agricultural assets. The Responsible Entity also utilises the best available consultants and supporting resources to achieve desired outcomes and has a substantial network available to ensure that, where appropriate, tasks can be outsourced. The Responsible Entity has the primary responsibility for managing the Fund on behalf of unitholders. Information about the Responsible Entity, the Fund, and corporate governance practices and policies is available on the Responsible Entity's website.
6.2	The Responsible Entity's website has information available to unitholders to facilitate two-way communication. The investment products tab on the website provides a link to the Fund's website which provides a Fund overview, sector, asset and lease information, strategy and investment process, financial information, key documents, news and announcements and details about how to contact the Responsible Entity and the Registry. In addition, unitholders are encouraged to contact the Responsible Entity using any of the following methods: **Email:** investorservices@ruralfunds.com.au **Website:** https://ruralfunds.com.au/contact-us/ **Phone:** 1800 026 665 **Fax:** 1800 625 518 **By visiting the Responsible Entity's office:** Level 2, 2 King St, Deakin ACT 2600 From time to time, the Responsible Entity arranges tours of the assets of the Fund. Unitholders are invited to attend these tours. Additionally, unitholders are welcome to make their own arrangements to visit the assets by contacting investor services by any of the methods mentioned above.

ASX RECOMMENDATION	FUND'S RESPONSE
6.3	As an externally managed scheme that does not hold periodic meetings, recommendation 6.3 does not apply to the Fund. However, if the Responsible Entity was required to hold a Unitholder meeting, it could use a web-conferencing and/or a teleconferencing facility for remote Unitholders along with an online polling system provided by the Registry, enabling Unitholders to vote online at any meeting.
6.4	The Responsible Entity encourages all investors to communicate with it and with the Fund's registry (Boardroom Pty Limited) electronically; however, the Responsible Entity continues to communicate with any investor via traditional methods (mail and phone) when appropriate.

PRINCIPLE 7

Recognise and manage risk

A listed entity should establish a sound risk management framework and periodically review the effectiveness of that framework.

ASX RECOMMENDATION	FUND'S RESPONSE
7.1	The Responsible Entity has not established a risk committee. Due to the size of the Board and the nature of the business, the Board has determined that risk oversight should be managed by the full Board. The Board has ultimate responsibility for overseeing the risk management framework and for approving and monitoring compliance with the framework. The Board receives monthly reports on all material business risks in relation to the Fund, including a report on all risks rated extreme or high. The ongoing management of identified risks is undertaken by the relevant executive and/or asset managers of each business area, who report to the Board on the effectiveness of control measures. The Responsible Entity has established a Risk Management Policy which documents the Responsible Entity's policy for the oversight and management of material business risks. It ensures that risks are identified and assessed, and that measures to monitor and manage each of the material risks are implemented. The Risk Management Policy is based on standards set out in the International Standards ISO 31000:2009. The Risk Management Policy is available on the Responsible Entity's website.
7.2	The Responsible Entity's risk management framework is reviewed annually, or more often if there has been a change in the relevant legislation or in business requirements. An annual risk review was performed during the Statement Period. The annual risk review requires each risk owner to review each risk and assess whether the existing risk rating is appropriate. This results in all risks being re-evaluated. In some cases, the risks may be re-rated and the residual risk amended depending on changes in the likelihood of the risk occurring, the consequence if the risk did occur, and the effectiveness of control measures in place.

ASX RECOMMENDATION	FUND'S RESPONSE
7.3	The Responsible Entity has an Internal Compliance Committee that provides assistance to the Board in evaluating the risk management framework and material business risks on an ongoing basis. Whilst not an internal audit committee, this Committee reports to the Board quarterly and may make recommendations to the Board for changes to processes and systems to ensure compliance with legal and regulatory requirements. The Internal Compliance Committee was comprised of: > Executive Manager Funds Management > Manager Corporate Services > Financial Controller > Client Services Supervisor (until 23 February 2017) > Senior Fund Administrator (from 11 May 2017) > Compliance Officer > Business Manager – Rural Funds Group, Almond and Macadamia Projects (invitee) > Business Manager – RFM StockBank, RFM Poultry, Cattle JV and Cotton JV (invitee) > National Manager Cropping and Livestock (from 2 February 2017) (invitee) > National Manager Cattle (from 7 November 2016) (invitee) This broad representation of roles on the Committee ensures it is fully informed of matters, and there is sufficient skills and experience among its members to make decisions as necessary.
7.4	The Responsible Entity is committed to undertaking the Fund's business activities in a responsible and ethical manner and ensuring that it remains sustainable. Environmental, social and governance (ESG) issues are embedded in many of its policies and procedures and are considered when making investment decisions. RFF's core activity is the leasing of agricultural land, water and infrastructure, and thus the Fund is largely passive in nature. Lessees are required to adopt practices that retain or improve the integrity of the Fund's assets. The information presented below details the Responsible Entity's consideration of those ESG matters of greatest materiality to the Fund and its investors.

ASX RECOMMENDATION	FUND'S RESPONSE	
7.4 continued	Environment	
	Management of natural resources, including water resources	RFF is the owner of a quality portfolio of Australian agricultural assets and the stewardship of these assets is of critical importance to the performance and growth of RFF. RFF's properties are leased to operators who are required to use best practice agricultural production methods when operating the properties. Wherever practical, the Fund will: > monitor industry developments and adopt farm management practices that incorporate the latest research findings and technologies, to minimise environmental impacts and better utilise the natural resources; > maximise water use efficiency through the utilisation of modern, well managed irrigation systems; > ensure water management practices take account of water quality and minimise run-off; > use communication technologies to access water use data remotely, that assists to optimise water use; > adopt nutrient management practices which improve long term soil health and ensure that pest and weed management requiring the use of chemicals, occurs in a safe and environmentally responsible manner; and > ensure that lessees and staff understand and are focused on sustainable farming principles and adhere to environmental legislation and regulations.
	Climate change	RFM monitors the impact of climate change on RFF's portfolio of assets and has implemented a climatic diversification strategy. The strategy promotes the acquisition of assets across different growing regions and asset classes. A Climate Diversification Discussion Paper was released to the ASX on 20 June 2016.
	Energy use	RFM regularly reviews assets and infrastructure to identify more efficient technologies to reduce RFF's energy consumption and carbon footprint. RFF's assets in the cattle and poultry sectors have achieved savings from solar technologies. Other examples of energy savings are the RFF almond and macadamia assets which benefit from technology that measures tree sap flow, resulting in energy savings through the delivery of exact water requirements water.

ASX RECOMMENDATION	FUND'S RESPONSE	
7.4 continued	Social	
	Community engagement	Community engagement is an integral part of RFM's corporate culture and is key to maintaining the support of the communities where RFF owns assets. RFM's first preference is to seek potential personnel with suitable skills and expertise from local communities, for employment and contracting opportunities in the areas where it operates. In addition to being an employer in various areas of rural and regional Australia, RFM regularly provides support via donations, labour and other means to local community organisations.
	Human capital management	As RFF does not directly employ staff, RFM is responsible for human capital management associated with the management and operation of the Fund. RFM has implemented a range of policies in relation to its management of human capital, including: Code of Conduct, Environmental, HSE (Health, Safety and Environment), Incident Management, Diversity, and Equal Employment Opportunity. The aim of these policies is to create a safe, diverse and equitable work place. The Responsible Entity takes its obligations under Workplace Health and Safety legislation seriously and has an extensive HSE management system implemented to educate personnel and protect them from harm. The RFM Board receives a monthly report on workplace health and safety issues and incidents. RFM also periodically reviews arrangements with contractors to determine if practices and standards meet legislative requirements and contractual obligations.

ASX RECOMMENDATION	FUND'S RESPONSE	
7.4 continued	Social continued	
	Animal welfare	RFF owns properties that are leased to entities where cattle and chicken production occur. RFM has policies and procedures with respect to animal treatment and welfare while they are under the control of RFM and its employees. The following information is provided about the cattle and chicken growing sectors. **Poultry:** > The birds produced at RFF's poultry sheds are accredited under the RSPCA's Approved Farming Scheme Standards — Meat Chickens. Ongoing compliance with the Standards is monitored through RSPCA audits, with each farm being audited twice each year, in addition to random audits. > Chickens are raised in large sheds with prescribed stocking densities and the freedom to express normal behaviours in accordance with the RSPCA's Standards. **Cattle:** RFF's cattle properties comprise an integrated breeding to finishing operation and the lessees have adopted and practise "low stress" stock handling methods. Fattened animals are generally sold domestically, to either a processor or feedlot. A small proportion of the cattle may not be suited to being finished and may be sold to the live export market. In FY17 live export sales represented less than 10% of all sales.
	Governance	
	Corporate governance	RFM as Responsible Entity, has primary responsibility for the management of RFF on behalf of its Unitholders. The Board takes its corporate governance responsibilities seriously. The Board, which has a majority of independent directors, including an independent Chairman, is comprised of four directors with the experience and skills necessary to oversee the corporate governance requirements of the Responsible Entity. The Board works together, and their collective ability facilitates effective decision making to lead a viable, profitable and efficient business. In addition, RFM has established an Internal Compliance Committee (ICC) which reports to the Board monthly. The ICC monitors and reports on compliance with RFM's AFSL and compliance program to ensure that it is effective in meeting RFM's compliance requirements. The ICC also provides a supporting role to the Compliance Officer. The members of the Committee are structured to include representation from different business units to ensure compliance monitoring and review are well embedded across RFM.

ASX RECOMMENDATION	FUND'S RESPONSE	
7.4 continued	Governance continued	
	Conflicts of interest and related party transactions	RFM manages a number of entities, including in its role as Responsible Entity for six funds. Where related party transactions occur between RFF and another RFM managed entity, they are subject to the RFM Conflict of Interest Management Policy. RFM's responsibilities and contractual obligations are set out in the Fund's Constitution, the Corporations Act and in the Responsible Entity's AFSL. As Responsible Entity, RFM must always act in the best interests of the Unitholders, and if there is a conflict between the Unitholder's interest and its own interests, it must give priority to the Unitholders' interests. RFM has also established protocols, including appointing separate personnel to act for each entity with separate external advisers. To monitor compliance with these obligations, the RFM Board receives a monthly written report from the RFM Compliance Officer, who reports on Responsible Entity compliance, conflicts of interests and related party transactions.
	Ethical conduct by staff	RFM employees are obligated to conduct themselves according to the standards set out in the RFM Code of Conduct, the Corporate Governance Charter and other related policy documents. This means that our employees conduct themselves with integrity, and in compliance with legislative requirements and our internal policies and procedures. Employee performance is monitored through a combination of ongoing informal reviews and formal annual reviews. RFM's recruitment process includes reference checking of all potential employees, as well as national police checks and bankruptcy checks for sensitive roles. We believe that acting ethically while doing business must underpin our approach.
	The Responsible Entity manages the above risks in accordance with its Risk Management Policy available on the Responsible Entity's website.	

PRINCIPLE 8

Remunerate fairly and responsibly

An externally managed listed entity should clearly disclose the terms governing the remuneration of the Responsible Entity.

ASX RECOMMENDATION	FUND'S RESPONSE
8.1	The Responsible Entity has adopted the ASX's alternative recommendations for externally managed entities and provides the following details governing the remuneration to the Responsible Manager: > Fund Management Fee – up to 1.0% p.a. of the gross asset value of the Fund; > Asset Management Fee – up to 1.0% p.a. of the gross asset value of the Fund; and > Termination Fee – 1.5% of the gross asset value of the Fund. The fees listed above represent the maximum allowed under the Fund's Constitution. At present, the Responsible Entity charges total fees (fund management and asset management fees) of 1.05% of the gross asset value of the Fund. The Board of Directors of the Responsible Entity established a Remuneration Committee on 17 February 2017. The purpose of the Remuneration Committee is to advise on remuneration and issues relevant to the remuneration policies and practices for senior executives and non-executive directors. The Remuneration Committee is comprised of three members, all of whom are non-executive independent directors. An independent director, who is not the Chair of the Board of the Responsible Entity, is Chair of the Committee. The relevant qualifications and experience of the members is available on the Responsible Entity's website. The Remuneration Committee will routinely invite other individuals to attend meetings, including executive management and management members of the Responsible Entity. The Remuneration Committee and invitees will review the remuneration and diversity report and provide commentary to the Board as required. One meeting of the Remuneration Committee was held in relation to remuneration during the Statement Period. The Remuneration Committee ordinarily holds two meetings per year, or more if required. The Remuneration Committee has a formal charter that details the responsibilities of the Remuneration Committee and its obligations to report to the Board. The charter sets out the powers of the Remuneration Committee and the meeting procedure framework. The Remuneration Committee charter can be found in Schedule 2 of the Corporate Governance Charter on the Responsible Entity's website.
8.2	Refer to 8.1
8.3	Refer to 8.1

ASX ADDITIONAL INFORMATION

Additional information required by the ASX Limited (ASX) Listing Rules and not disclosed elsewhere in this report is set out below. This information is effective as at 14 September 2017.

(a) Distribution of Equity Securities

HOLDING SIZE	UNITHOLDERS	CLASS
1 – 1,000	1,670	Ordinary fully stapled securities
1,001 – 5,000	3,168	Ordinary fully stapled securities
5,001 – 10,000	1,727	Ordinary fully stapled securities
10,001 – 100,000	3,169	Ordinary fully stapled securities
100,001 and over	184	Ordinary fully stapled securities

(b) Substantial unitholders

The number of substantial unitholders and their associates are set out below:

UNITHOLDER	NUMBER OF UNITS	%
J P Morgan Nominees Australia Limited	38,861,088	15.258
HSBC Custody Nominees (Australia) Limited	19,365,019	7.603
Netwealth Investments Limited <Wrap Services A/C>	14,718,201	5.779

(c) Holders of less than marketable parcels

The number of holders of less than marketable parcels, being $500 based on the ASX unit closing price of $2.27 as at 14 September 2017 is set out below:

NUMBER OF UNITHOLDERS	NUMBER OF UNITS
151	3,565

(d) Voting rights

The voting rights attaching to the ordinary units, set out in Section 253C of the Corporations Act 2001, are:

i. on a show of hands, each member of a registered scheme has 1 vote; and

ii. on a poll, each member of the scheme has 1 vote for each dollar of the value of the total interests they have in the scheme.

(e) Twenty largest unitholders at 14 September 2017

UNITHOLDER	NUMBER OF UNITS	%
J P Morgan Nominees Australia Limited	38,861,088	15.258
HSBC Custody Nominees (Australia) Limited	19,365,019	7.603
Netwealth Investments Limited <Wrap Services A/C>	14,718,201	5.779
Citicorp Nominees Pty Limited	9,248,062	3.631
Rural Funds Management Ltd	9,110,507	3.577
Argo Investments Limited	5,407,750	2.123
Netwealth Investments Limited <Super Services A/C>	4,071,711	1.599
National Nominees Limited	3,334,544	1.309
Bryant Family Services Pty Ltd <BFS Super Fund>	2,151,404	0.845
BNP Paribas Noms Pty Ltd <DRP>	1,437,901	0.565
Sccasp Holdings Pty Ltd <H & R Super Fund A/C>	1,279,287	0.502
One Managed Investment Funds Limited Folkstone Maxim A-Reit Securities A/C Level 11	900,000	0.353
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	881,665	0.346
Boskenna Pty Ltd	814,696	0.320
Bond Street Custodians Limited <SHAWK1 – V04785 A/C>	601,049	0.236
Wf Super Pty Ltd <Wilson Family Super Fund AC>	592,566	0.233
Noeljen Pty Ltd <N & J Peters Family A/C>	547,617	0.215
Brispot Nominees Pty Ltd <House Head Nominee A/C>	544,248	0.214
Mrs Jocelyn Alleyne Besly	528,831	0.208
Bond Street Custodians Limited <SHAWK1 – V04790 A/C>	481,119	0.189

(f) On-market buy-back

As at 14 September 2017, RFF confirms there is no on-market buy-back facility in operation.

(g) Material lease details subsequent to listing rule 10.1 waiver

RFM provides the following disclosure subsequent to listing rule 10.1 waiver (WLC140177-002). Further details of all leases are contained in the FY17 Financial Results Presentation provided to the ASX on 22 August 2017.

LESSEES:	AETL AS CUSTODIAN AND RFM AS RESPONSIBLE ENTITY RFM ALMOND FUND 2006	AETL AS CUSTODIAN AND RFM AS RESPONSIBLE ENTITY FOR RFM ALMOND FUNDS 2007 & 2008	AETL AS CUSTODIAN AND RFM AS RESPONSIBLE ENTITY FOR RFM POULTRY
Area:	272 hectares of almond orchards	279 hectares of almond orchards	303,216 sq metres of poultry sheds
Property and location:	Mooral, Hillston NSW	Mooral, Hillston, NSW	13 farms (134 sheds) Griffith, NSW, and 4 farms (20 sheds) Lethbridge, VIC.
Expiry:	30-Jun-26	2-Jul-28	Weighted average lease expiry 15-Jan-23
FY18 forecast rent:	$1.6m	$2.0m	$10.7m
Capital commitments:	Capex required to meet orchard development requirements and replacement capital items on account of lessor, both subject to additional rental.	Capex required to meet orchard development requirements and replacement capital items on account of lessor, both subject to additional rental.	R&M and ongoing capital expenditure on account of lessee
Indexation:	2.5% per annum	2.5% per annum	65% of CPI capped at 2%
Payment frequency:	Annually in October	Quarterly in advance	Quarterly in advance

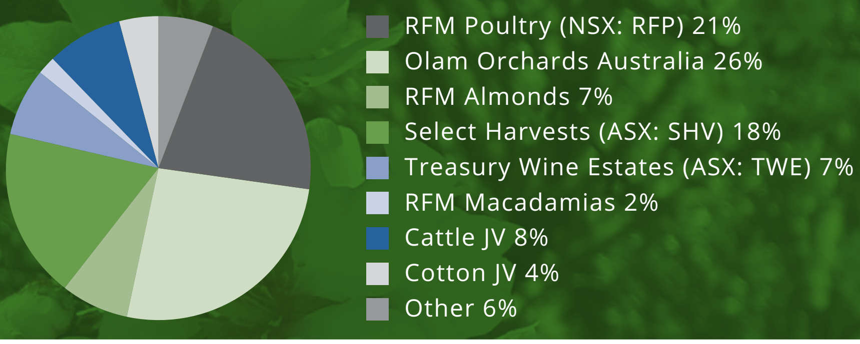
Securities exchange

The Trust is listed on ASX. ASX reserves the right (but without limiting its absolute discretion) to remove Rural Funds Trust (RFT), or RF Active (RFA) from the official list if any of their securities cease to be “stapled” together, or any securities are issued by RFA which are not stapled to equivalent securities in RFT, or any securities are issued by RFT which are not stapled to equivalent securities in RFA.

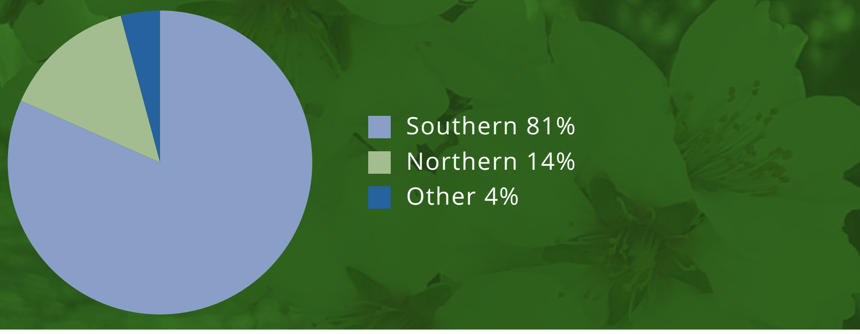
Investment strategy

RFM's investment strategy for RFF focuses on the management of the existing portfolio and expansion through acquisitions. This strategy has the aim of increasing; earnings and distribution growth, sector and climatic diversification, liquidity and scale.

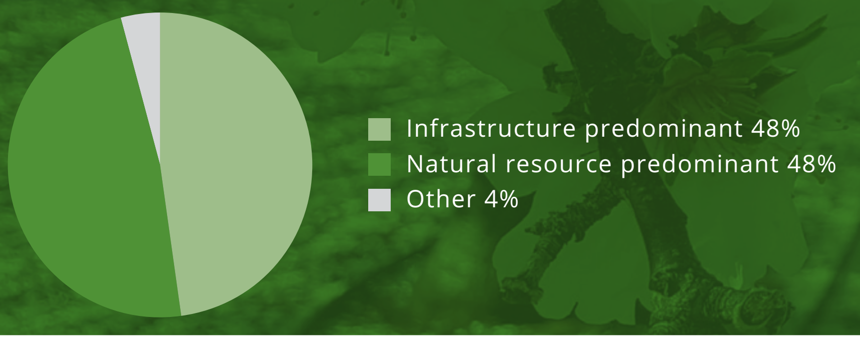
Lessees



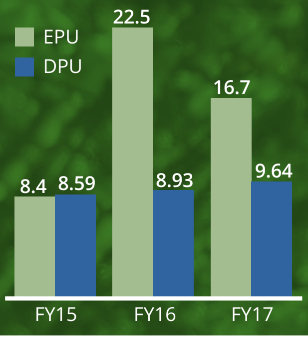
Climatic zone



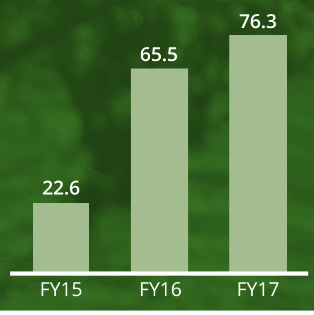
Sector type



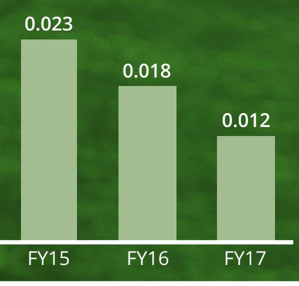
EPU and DPU (cents)[1]



Liquidity (units traded – mil)



Fund overheads per unit (cents)



1 Earnings per unit (EPU) and Distributions per unit (DPU). EPU calculated as Total Comprehensive Income / weighted average units.

FY17 results highlights

Key financial metrics

EPU driven by AFFO (adjusted funds from operations) growth and revaluations of almond orchards and vineyards.

AFFO growth of 34.4% primarily a result of almond developments and market rent reviews.

EPU 16.71 cents[1]

AFFO 12.51 cpu[2]

DPU 9.64 cents

QUARTERLY
DPU FREQUENCY

77%
AFFO PAYOUT RATIO

Balance sheet metrics

Adjusted total assets increased primarily due to: almond developments; acquisitions in the cattle and cotton sectors; and revaluations.

Gearing reduction provides balance sheet capacity to pursue future acquisitions.

$587.5m adj. total assets[3]

Debt
$167.7m

$1.58
ADJ. NAV PER UNIT

28.5%
GEARING

FY18 forecasts

Payout ratio 80% providing funding for capex, which attracts additional lease income.

DPU in line with annual growth target of 4%.

AFFO 12.5 cpu

DPU 10.03 cents

4.0%
FY18 DPU GROWTH

5.0%
FORECAST YIELD[4]

Capital management

Syndicated debt facility incorporating a limit and tenor increase and interest cost reduction.

Term debt facility $250m

Term debt drawn
$164.5m

53.5%
DEBT HEDGED

4.08%
12 MTH INTEREST RATE

1 EPU calculated as Total Comprehensive Income / weighted average units.
2 Cents per unit.
3 Adjusted assets incorporates most recent independent property valuations, inclusive of water entitlements.
4 FY18 forecast DPU of 10.03 cents divided by 14 August 2017 closing price of $2.01.

Fund overview

Rural Funds Group

Rural Funds Group (RFF) is an agricultural real estate investment trust (REIT) which owns a diversified portfolio of high quality Australian agricultural assets that are leased to experienced agricultural operators (tenants). Assets are diversified across six agricultural sectors and leased to a range of ASX-listed and privately owned lessees.

Investment approach

RFM has outlined a number of principles which underpin its approach to the assessment of new investments:

> Maintain REIT structure, with direct agricultural risks borne by tenants rather than RFF;

> Acquire quality assets, leased to suitable tenants;

> Enhance sector diversification to achieve a suitable balance between infrastructure predominant and natural resource 'growth' assets;

> Strategic investment in different climatic zones to increase geographic diversification;

> Identify investments which may benefit from productivity capex to deliver asset value growth, rental growth, and improve counterparty profitability over time; and

> Invest in sectors where RFM has direct operational knowledge.

Cattle

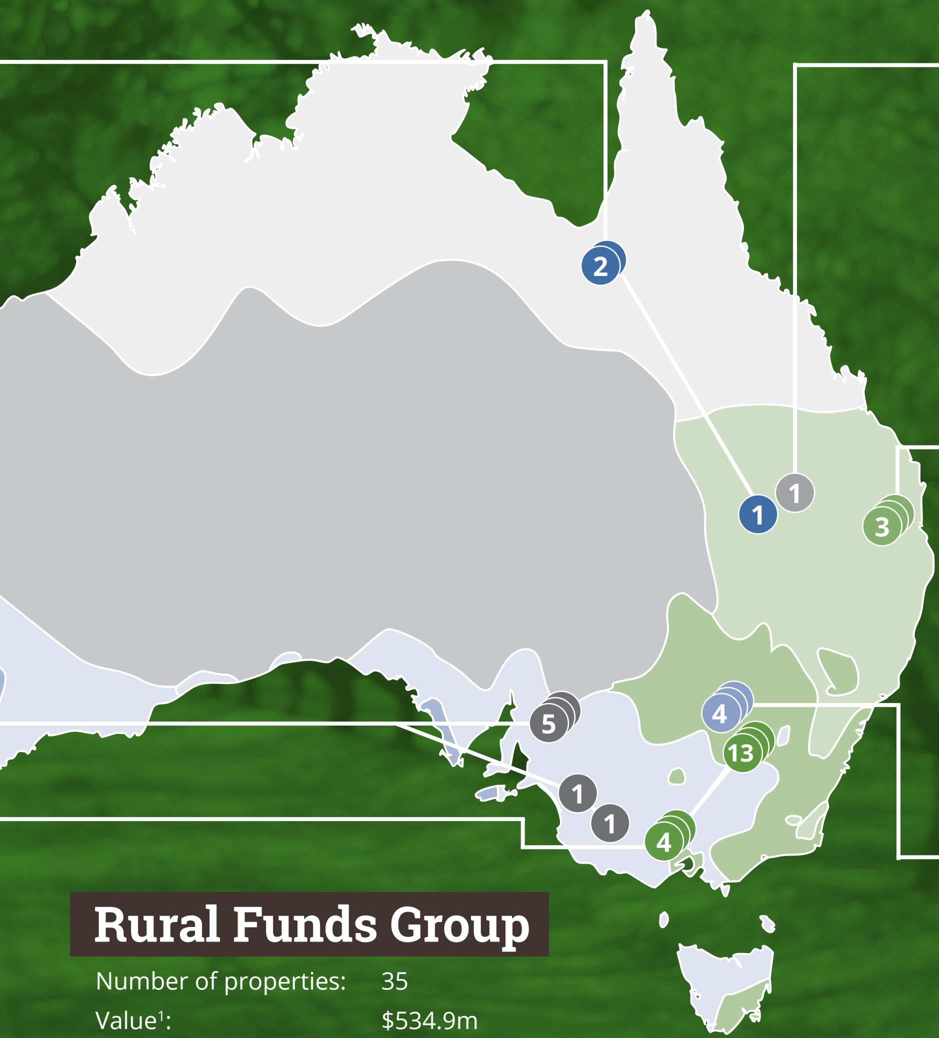
Properties:	3
Value:	$54.5m
Lessee:	Cattle JV
WALE:	9.0 yrs
FY18 f'cast rent:	$4.2m
% of FY18 revenue:	8%

Vineyards

Properties:	7
Value:	$46.8m
Lessee:	TWE
WALE:	8.9 yrs
FY18 f'cast rent:	$3.5m
% of FY18 revenue:	7%

Poultry

Properties:	17 farms (154 sheds)
Value:	$85.7m
Lessee:	RFM Poultry
WALE:	10.3 yrs
FY18 f'cast rent:	$10.7m
% of FY18 revenue:	21%



Cotton

Properties:	1
Value:	$27.8m
Lessee:	Cotton JV
WALE:	4.8 yrs
FY18 f'cast rent:	$2.1m
% of FY18 revenue:	4%

Macadamias

Properties:	3
Value:	$8.9m
Lessee:	2007 Macgrove Project & RFM
WALE:	12.7 yrs
FY18 f'cast rent:	$0.9m
% of FY18 revenue:	2%

Almonds

Properties:	4
Value:	$311.2m
Lessee:	SHV, Olam, RFM Almond Schemes & RFM
WALE:	16.4 yrs
FY18 f'cast rent:	$25.3m
% of FY18 revenue:	51%

Rural Funds Group

Number of properties:	35
Value[1]:	$534.9m
Sectors:	6
Weighted Average Lease Expiry (WALE)[2]:	13.2 years
FY18 forecast rent[3]:	$46.7m

1 Includes water entitlements held at fair value.

2 2017 lease expiries weighted by forecast FY18 rental income, expressed in years from 30 June 2017.

3 Excludes plant & equipment lease income.

* Shaded areas in map denote different climatic zones. Source: Bureau of Meteorology (BOM).

FINANCIAL STATEMENTS

for the year ended 30 June 2017

Rural Funds Group (ASX: RFF) stapled group comprising:
Rural Funds Trust ARSN 112 951 578 and
RF Active ARSN 168 740 805
Responsible Entity: Rural Funds Management Limited
ACN 077 492 838 AFSL 226701

Rural Funds Group

Corporate Directory

Registered Office	Level 2, 2 King Street DEAKIN ACT 2600
Responsible Entity	Rural Funds Management Limited ABN 65 077 492 838 AFSL 226701 Level 2, 2 King Street DEAKIN ACT 2600 Ph: 1800 026 665
Directors	Guy Paynter David Bryant Michael Carroll Julian Widdup
Company Secretaries	Andrea Lemmon Stuart Waight
Custodian	Australian Executor Trustees Limited ABN 84 007 869 794 Level 22, 207 Kent Street SYDNEY NSW 2000
Auditors	PricewaterhouseCoopers One International Towers Sydney Watermans Quay BARANGAROO NSW 2000
Share Registry	Boardroom Pty Limited Level 12, 225 George Street SYDNEY NSW 2000 Ph: 1300 737 760
Bankers	Australia and New Zealand Banking Group Limited (ANZ) 242 Pitt Street SYDNEY NSW 2000 Rabobank Australia Group Darling Park Tower 3 201 Sussex Street SYDNEY NSW 2000
Stock Exchange Listing	Rural Funds Group units (Rural Funds Trust and RF Active form a stapled investment vehicle) are listed on the Australian Securities Exchange (ASX)
ASX Code	RFF

Rural Funds Group

Directors' Report

30 June 2017

Rural Funds Group (RFF or the Group) comprises the stapled units in two Trusts, Rural Funds Trust (RFT) (ARSN 112 951 578) and RF Active (RFA) (ARSN 168 740 805) (collectively, the Trusts). The Directors of Rural Funds Management Limited (RFM) (ACN 077 492 838, AFSL 226701), the Responsible Entity of Rural Funds Group present their report on the Group for the year ended 30 June 2017.

In accordance with AASB 3 *Business Combinations*, the stapling arrangement referred to above is regarded as a business combination and Rural Funds Trust has been identified as the parent for the purpose of preparing the consolidated financial report.

The Directors' report is a combined report that covers both Trusts. The financial information for the Group is taken from the Consolidated Financial Statements and notes.

Directors

The following persons held office as Directors of the Responsible Entity during the year and up to the date of this report:

Guy Paynter	Non-Executive Chairman
David Bryant	Managing Director
Michael Carroll	Non-Executive Director
Julian Widdup	Non-Executive Director (appointed 15 February 2017)

Principal activities and significant changes in nature of activities

The principal activity of the Group during the year was the leasing of agricultural properties and equipment. The Group is a lessor of agricultural property with revenue derived from leasing almond orchards, macadamia orchards, poultry property and infrastructure, vineyards, cattle properties, cotton properties, agricultural plant and equipment, and water rights.

The following activities of the Group changed during the year:

- The Group purchased three cattle properties, Rewan, Mutton Hole and Oakland Park, in central and far north Queensland, leased to Cattle JV Pty Limited (CJV), a wholly owned subsidiary of RFM.
- The Group purchased Lynora Downs, a 4,880 hectare cotton property located in Central Queensland. Cotton JV Pty Limited, a joint venture between RFM and Queensland Cotton Corporation Pty Limited (a subsidiary of Olam International Limited), operates and has leased Lynora Downs for a period of five years, with an option to extend for a further five years; and
- The Group acquired a 9,549 megalitre (ML) high security Murrumbidgee River water entitlement which will generate revenue through the sale of annual water allocations until it is required for future horticultural developments.

Operating results

The consolidated net profit after income tax of the Group for the year ended 30 June 2017 amounted to $43,326,000 (restated 2016: $483,000 loss). The consolidated total comprehensive income of the Group for the year ended 30 June 2017 amounted to $34,238,000 (2016: $34,774,000).

The Group holds investment property, bearer plants and derivatives at fair value. After adjusting for the effects of fair value adjustments, depreciation, impairments and one-off transaction costs during the year the profit before tax would have been $25,599,000 (2016: $14,342,000) representing adjusted funds from operations (AFFO).

Directors' Report

30 June 2017

Adjusted funds from operations (AFFO)

	2017 $'000	Restated 2016 $'000
Net profit before income tax	**45,167**	439
Change in fair value of investment property	**(17,191)**	(3,343)
Change in fair value of plant and equipment - bearer plants	**2,498**	9,029
Change in fair value of interest rate swaps	**(5,311)**	7,116
Depreciation and impairments	**1,568**	939
Gain on sale of assets	**(33)**	(290)
Share of net profit of associate attributable to change in fair value of investment property	**(1,099)**	-
One-off transaction costs	**-**	452
AFFO	**25,599**	14,342
AFFO cents per unit	**12.51**	9.26

Having eliminated fair value adjustments and one-off transaction costs, the adjusted funds from operations (AFFO) effectively represents funds from operations from the property rental business.

Financial position

The net assets of the consolidated Group have increased to $357,678,000 at 30 June 2017 from $207,864,000 at 30 June 2016.

At 30 June 2017 the Group had total assets of $543,003,000 (2016: $379,039,000).

At 30 June 2017, the Group held total water entitlements (including investments in Barossa Infrastructure Limited (BIL) and Coleambally Irrigation Co-operative Limited (CICL)) at a book value of $121,469,000 (2016: $69,534,000). Independent valuations as at 30 June 2017 were received on the established almond orchard properties and vineyards that attribute a value to the water entitlements held by the Group. The Directors consider that these valuations remain reasonable estimates of the fair value at 30 June 2017 and on this basis the fair value of water entitlements at 30 June 2017 was $166,012,000 (2016: $97,949,000). The value of water entitlements is illustrated in the table below:

	2017 $'000	2016 $'000
Intangible assets (water entitlements)	**108,738**	59,691
Investment in CICL	**12,222**	9,334
Investment in BIL	**509**	509
Total book value of water entitlements	**121,469**	69,534
Revaluation of water entitlements per valuation	**44,543**	28,415
Adjusted total water entitlements	**166,012**	97,949

Rural Funds Group

Directors' Report

30 June 2017

Financial position (continued)

Adjusted net asset value

The following depicts the net assets of the Group following the revaluation of water entitlements comprising intangible assets and investments in BIL and CICL per these valuations.

	2017 $'000	2016 $'000
Net assets per Consolidated Statement of Financial Position	**357,678**	207,864
Revaluation of water entitlements per valuation	**44,543**	28,415
Adjusted net assets	**402,221**	236,279
Adjusted NAV per unit	**1.58**	1.43

Significant changes in state of affairs

In July 2016, the Group successfully completed a non-renounceable rights issue of $61,000,000 (1 new unit for every 4 existing units) in order to fund the acquisition of three cattle properties, as well as macadamia orchards located near Bundaberg, QLD, which were acquired in March 2016, and an additional 1,000 hectares of almond development at the Kerarbury property.

In July 2016, the Group negotiated an increase to its debt facility from $147,500,000 to $200,000,000.

In July and August 2016 the Group acquired three cattle properties: Rewan, a 17,479 hectare cattle finishing property near Rolleston, QLD and two breeding properties, Oakland Park and Mutton Hole, located near the Gulf of Carpentaria in far north Queensland and comprising a combined area of 225,800 hectares. The properties and livestock has been be leased for ten years to Cattle JV Pty Limited, a wholly owned subsidiary of RFM.

In December 2016, the Group acquired a 9,549 megalitre (ML) high security Murrumbidgee River water entitlement. The acquisition represents one of the largest ever sales of high security Murrumbidgee River water entitlements and will provide a cornerstone resource for future horticultural developments. In the interim, the Group will generate revenue from the sale of annual water allocations.

In December 2016, the Group acquired Lynora Downs, a 4,880 hectare cotton property located in Central Queensland. RFM and Queensland Cotton Corporation Pty Limited, a subsidiary of Olam International Limited, have established a joint venture, Cotton JV Pty Limited, which leases and operates Lynora Downs for a period of five years, with an option to extend for a further five years.

In December 2016, the Group negotiated an increase to its debt facility from $200,000,000 to $250,000,000 along with a one year extension to the facility expiry, now being December 2019. Concurrent to this process, the debt facility was syndicated with Rabobank Australia Group (Rabobank) with existing financier Australia and New Zealand Banking Group Limited (ANZ).

In June 2017, the Group successfully completed a non-renounceable rights issue of $78,623,000 (2 new units for every 9 existing units), in order to reduce gearing and create balance sheet capacity to further build the Group's portfolio of quality agricultural assets. The equity proceeds raised were also applied against the debt drawn to acquire the Lynora Downs cotton property and a parcel of Murrumbidgee River high security water entitlements, both of which were acquired using debt in December 2016.

In the opinion of the Directors, there were no other significant changes in the state of affairs of the Group during the year.

Directors' Report
30 June 2017

Property leasing

At 30 June 2017 the Group held 35 properties as follows:

- 17 poultry farms (303,216 square metres);
- 3 almond orchards (2,414 planted hectares);
- 1 almond orchard under development (2,500 planted hectares at completion);
- 7 vineyards (666 planted hectares);
- 3 macadamia orchards (259 planted hectares);
- 3 cattle properties (243,300 hectares).
- 1 cotton property (1,038 irrigable hectares)

During the year ended 30 June 2017, the properties held by the Group recorded a fair value of investment properties increment of $17,191,000 (2016: $3,343,000) and a fair value of bearer plants decrement of ($11,687,000) (2016: $26,495,000 increment).

Almond orchards

Established almond orchard properties (including water entitlements) are located near Hillston, NSW and are leased to tenants who make regular rental payments. On these properties, 2,414 hectares (2016: 2,414 hectares) are applied to almond growing: 1,006 hectares (2016: 1,006) at Yilgah, 808 hectares (2016: 808) at Mooral and 600 hectares at Tocabil (2016: 600). The full almond area is under lease to the following tenants:

- Select Harvests Limited (SHV) 1,221 hectares (2016: 1,221);
- RFM Almond Fund 2006 (AF06) 272 hectares (2016: 272);
- RFM Almond Fund 2007 (AF07) 73 hectares (2016: 73);
- RFM Almond Fund 2008 (AF08) 206 hectares (2016: 206);
- Olam Orchards Australia Pty Limited (Olam) 600 hectares (2016: 600);
- Rural Funds Management Limited (RFM) 42 hectares (2016: 42).

The Group underwent a rent review for the properties leased to Select Harvests Limited which was effective from 1 July 2016.

The Group had two almond orchards which are under lease to Olam. Tocabil was leased to Olam in March 2015. The full 600 hectares of almond orchard at Tocabil is established and fully leased. The Kerarbury property was leased to Olam from September 2015. A 2,500 hectare almond orchard is being developed in accordance with the lease of this property.

For its almond orchards the Group owns water entitlements of 77,922ML (2016: 59,985ML). During the year, a total of 17,937ML (2016: 26,766ML) of water entitlements were purchased. At 30 June 2017 no deposits were paid for an additional water entitlements (2016: 6,591ML).

For its almond orchards the Group also owns 21,430ML (2016: 21,430ML) of water delivery entitlements.

Poultry property

The poultry property and infrastructure held by the Group includes 17 poultry growing farms located in Griffith, NSW and Lethbridge, VIC and 1,432ML of water entitlements (2016: 1,432ML). Leases are in place with RFM Poultry, a scheme managed by RFM, for 100% (2016: 100%) of the poultry property and infrastructure, with remaining lease terms between 7 and 19 years. The poultry growing operations are performed by RFM Poultry which is contracted with Baiada Poultry Pty Limited and Turi Foods Pty Limited.

Vineyards

The vineyard properties held by the Group include seven vineyards, with six located in South Australia, in the Barossa Valley, Adelaide Hills and Coonawarra regions, and one located in the Grampians in Victoria. For its vineyards, the Group owns 936ML of water entitlements (2016: 936ML). All vineyards are leased to Treasury Wine Estates and produce premium quality grapes. Six of the vineyards are leased until June 2026 and one is leased until June 2022.

Directors' Report

30 June 2017

Property leasing (continued)

Macadamia orchards

Established macadamia orchards located near Bundaberg, QLD are leased to the following tenants:

- 2007 Macgrove Project (M07) 234 hectares (2016: 234);
- Rural Funds Management Limited (RFM) 25 hectares (2016: 25).

Cattle property

Cattle properties held by the Group comprise a total of 243,279 hectares and are leased to Cattle JV Pty Limited, a wholly owned subsidiary of RFM, for ten years. Rewan is a 17,479 hectare cattle finishing property located near Emerald, QLD. Oakland Park and Mutton Hole are neighbouring breeding properties near Normanton, QLD with a combined total of 225,800 hectares.

Cotton property

A 4,880 hectare cotton property was acquired during the year and is located near Emerald, QLD. 18,487ML of water entitlements were acquired with the property. The property is leased to Cotton JV Pty Limited (CotJV), a joint venture between RFM and Queensland Cotton Corporation Pty Limited (a subsidiary of Olam International Limited), for five years.

Other activities

The Group held a 33.50% stake in RFM StockBank (2016: 33.50%), a scheme managed by RFM, which operates a livestock leasing business. Under the livestock leasing operation, RFM StockBank retains ownership of the livestock and leases them to farmers in return for a placement fee which is similar to interest, and an upfront fee from the livestock agent. RFM, as Responsible Entity for RFM StockBank, has commenced the windup of RFM StockBank. A final capital return was paid to investors on 9 August 2017.

Agricultural plant and equipment with a net book value of $5,127,000 (2016: $4,178,000) is owned by the Group and leased to AF06, AF07, AF08, M07, Cotton JV and Cattle JV.

Breeder assets with a net book value of $10,953,000, acquired during the year, are leased to Cattle JV Pty Limited.

The Group sold its 8.96% interest in Perth Markets Limited (PML), a stapled entity which owns the Market City site in Canning Vale, WA. RFF acquired 5,275,000 PML securities at $1 per security in February 2016, and sold them during March 2017 at $1.147 per security.

Banking facilities

At 30 June 2017 the core debt facility available to the Group was $250,000,000 (2016: $147,500,000), with a drawn down balance of $164,500,000 (2016: $146,500,000). The facility limit was increased to $250,000,000 in December 2016 with a one year extension to the facility expiry, being December 2019. Concurrent to this process, the debt facility has been syndicated with Rabobank Australia Group (Rabobank) selected as part of a syndicate with existing financier Australia and New Zealand Banking Group Limited (ANZ). At 30 June 2017 RFF had active interest rate swaps totaling 53.5% (2016: 60%) of the drawn down balance to manage interest rate risk.

Distributions

	Cents per unit	Total $
Distribution paid 29 July 2016	2.2325	3,691,602
Distribution paid 28 October 2016	2.4100	4,986,940
Distribution paid 31 January 2017	2.4100	4,996,810
Distribution paid 28 April 2017	2.4100	5,006,323
Distribution declared 7 June 2017, paid 31 July 2017	2.4100	6,130,580

Rural Funds Group

Directors' Report
30 June 2017

Earnings per unit

Net profit after income tax for the year ($'000)	43,326
Weighted average number of units on issue during the year	204,617,207
Basic and diluted earnings per unit (total) (cents)	21.17

Indirect cost ratio

The indirect cost ratio (ICR) is the ratio of the Group's management costs over the Group's average net assets for the year, expressed as a percentage.

Management costs include management fees and reimbursement of other expenses in relation to the Group, but do not include transactional and operational costs such as brokerage. Management costs are not paid directly by the unitholders of the Group.

The ICR for the Group for the year ended 30 June 2017 is 3.29% (2016: 2.43%). The ICR for the year has been impacted by costs associated with the rights issue completed in July 2016 and June 2017.

Matters subsequent to the end of the year

No matter or circumstance has arisen since the end of the year that has significantly affected or could significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

Likely developments and expected results of operations

The Group expects to continue to derive its core future income from the holding and leasing of investment property, bearer plants and water entitlements. Management is continually looking for growth opportunities in agricultural and related industries.

Environmental regulation

The operations of the Group are subject to significant environmental regulations under the laws of the Commonwealth and States or Territories of Australia. Water usage for irrigation, domestic and levee purposes, including containing irrigation water from entering the river, water course or water aquifer are regulated by the *Water Management Act 2000*. Water licences are leased to external parties who are then responsible to meet the legislative requirements of these licences. There have been no known significant breaches of any environmental requirements applicable to the Group.

Units on issue

254,380,898 units in Rural Funds Trust were on issue at 30 June 2017 (2016: 165,357,290). During the year 89,023,608 units were issued by the Trust (2016: 33,215,055) and nil (2016: nil) were redeemed.

Indemnity of Responsible Entity and Custodian

In accordance with its constitution, Rural Funds Group indemnifies the Directors, Company Secretaries and all other officers of the Responsible Entity and Custodian when acting in those capacities, against costs and expenses incurred in defending certain proceedings.

Rounding of amounts

The Group is an entity to which ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 applies and accordingly amounts in the consolidated financial statements and Directors' report have been rounded to the nearest thousand dollars.

Directors' Report
30 June 2017

Information on Directors of the Responsible Entity

Guy Paynter	Non-Executive Chairman
Qualifications	Bachelor of Laws from The University of Melbourne
Experience	Guy Paynter is a former director of broking firm JB Were and brings to RFM more than 30 years of experience in corporate finance. Guy is a former member of the Australian Securities Exchange (ASX) and a former associate of the Securities Institute of Australia (now known as the Financial Services Institute of Australasia). Guy is also Chairman of Bill Peach Group Limited (previously known as Aircruising Australia Limited). Guy's agricultural interests include cattle breeding in the Upper Hunter region in New South Wales.
Special responsibilities	Member of Audit Committee and Remuneration Committee
Directorships currently held in other listed entities and during the three years prior to the current year	RFM Poultry
David Bryant	Managing Director
Qualifications	Diploma of Financial Planning from the Royal Melbourne Institute of Technology and a Masters of Agribusiness from The University of Melbourne.
Experience	David Bryant established RFM in February 1997 and since that time has led the team that is responsible for the acquisition of large scale agricultural property assets and associated water entitlements. RFM manages over $600 million of agricultural assets. On a day-to-day level, David is responsible for leading the RFM Executive, maintaining key commercial relationships and sourcing new business opportunities.
Special responsibilities	Managing Director
Directorships currently held in other listed entities and during the three years prior to the current year	RFM Poultry
Michael Carroll	Non-Executive Director
Qualifications	Bachelor of Agricultural Science from La Trobe University and a Masters of Business Administration from The University of Melbourne's Melbourne Business School. Michael has completed the Advanced Management Program at Harvard Business School, Boston, and is a Fellow of the Australian Institute of Company Directors.
Experience	Michael Carroll serves a range of food and agricultural businesses in a board and advisory capacity. Michael is on the boards of Tassal Group Limited, Select Harvests Limited, Paraway Pastoral Company, Sunny Queen Pty Limited, and the Gardiner Dairy Foundation. Michael also has senior executive experience in a range of companies, including establishing and leading the National Australia Bank (NAB) Agribusiness division.
Special responsibilities	Chairman of Audit Committee and Remuneration Committee
Directorships currently held in other listed entities and during the three years prior to the current year	Michael is on the Board of Tassal Group Limited, RFM Poultry and Select Harvests Limited.

Directors' Report
30 June 2017

Information on Directors of the Responsible Entity (continued)

Julian Widdup	Non-Executive Director
Qualifications	Bachelor of Economics from the Australian National University. Julian is a Fellow of the Institute of Actuaries of Australia and a Fellow of the Australian Institute of Company Directors.
Experience	Julian brings extensive experience to the RFM board having previously served as a director of Palisade Investment Partners, Darwin International Airport, Alice Springs Airport, NZ timberland company Taumata Plantations Limited, Regional Livestock Exchange Investment Company, Merredin Energy power generation company, Victorian AgriBioscience Research Facility, Casey Hospital in Melbourne and Mater Hospital in Newcastle.
Special responsibilities	Member of Audit Committee and Remuneration Committee.
Directorships currently held in other listed entities	RFM Poultry
Directorships held in other listed entities during the three years prior to the current year	None noted

Interests of Directors of the Responsible Entity

	Guy Paynter Units	David Bryant Units	Michael Carroll Units
Balance at 30 June 2015	382,156	3,656,191	-
Additions	151,100	3,987,152	-
Balance at 30 June 2016	**533,256**	**7,643,343**	-
Additions	281,440	4,034,839	19,389
Balance at 30 June 2017	**814,696**	**11,678,182**	**19,389**

Company Secretaries of the Responsible Entity

Stuart Waight and Andrea Lemmon are RFM's joint company secretaries. Stuart joined RFM in 2003, is a Chartered Accountant and is RFM's Chief Operating Officer. Andrea has been with RFM since 1997 and is RFM's Executive Manager Funds Management.

Meetings of Directors of the Responsible Entity

During the financial year 16 meetings of Directors (including committees of Directors) were held. Attendances by each Director during the year were as follows:

	Directors meetingsp		Audit Committee meetings		Remuneration Committee meetings	
	No. eligible to attend	No. attended	No. eligible to attend	No. attended	No. eligible to attend	No. attended
Guy Paynter	16	15	1	1	1	1
David Bryant	16	16	-	-	-	-
Michael Carroll	16	14	1	1	1	1
Julian Widdup	7	7	1	1	1	1

Rural Funds Group

Directors' Report
30 June 2017

Non-audit services

During the year ended 30 June 2017 fees of $6,369 (2016: $6,121) were paid or payable to PricewaterhouseCoopers for compliance audit services provided.

Auditor's independence declaration

The auditor's independence declaration in accordance with section 307C of the *Corporations Act* 2001 for the year ended 30 June 2017 has been received and is included on page 44 of the financial report.

The Directors' report is signed in accordance with a resolution of the Board of Directors of Rural Funds Management Limited.

David Bryant
Director

21 August 2017

Auditor's Independence Declaration

As lead auditor for the audit of Rural Funds Group for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

This declaration is in respect of Rural Funds Group and the entities it controlled during the period.

CMC Heraghty
Partner
PricewaterhouseCoopers

Sydney
21 August 2017

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Rural Funds Group

Consolidated Statement of Comprehensive Income
For the year ended 30 June 2017

	Note	30 June 2017 $'000	Restated* 30 June 2016 $'000
Revenue	6	**41,573**	26,549
Other income		**72**	76
Management fees		**(4,393)**	(3,165)
Property expenses		**(1,473)**	(1,256)
Finance costs		**(7,891)**	(5,612)
Other expenses		**(2,494)**	(2,763)
Share of net profit - equity accounted investments		**1,304**	61
Gain on sale of assets		**33**	290
Depreciation and impairments		**(1,568)**	(939)
Change in fair value of plant and equipment - bearer plants		**(2,498)**	(9,029)
Change in fair value of investment property	12	**17,191**	3,343
Change in fair value of interest rate swaps		**5,311**	(7,116)
Net profit before income tax		**45,167**	439
Income tax expense	7	**(1,841)**	(922)
Net profit/(loss) after income tax		**43,326**	(483)
Other comprehensive income:			
Revaluation (decrement)/increment - bearer plants	24	**(9,189)**	35,524
Revaluation decrement other	24	**-**	(14)
Income tax relating to these items	7	**101**	(253)
Other comprehensive income/(loss) for the year, net of tax		**(9,088)**	35,257
Total comprehensive income attributable to unitholders		**34,238**	34,774
Total comprehensive income for the year attributable to unitholders arising from:			
Rural Funds Trust		**34,131**	34,644
RF Active (non-controlling interest)		**107**	130
		34,238	34,774
Earnings per unit			
Basic and diluted earnings per unit from continuing operations:			
Per stapled unit (cents)	26	**21.17**	(0.31)
Per unit of Rural Funds Trust (cents)	26	**21.12**	(0.39)
Per unit of RF Active (cents)	26	**0.05**	0.08

* Refer to note 2 for details of restatement as a result of the amendments made to Accounting Standards AASB 116 *Property, Plant and Equipment* and AASB 141 *Agriculture* in relation to bearer plants.

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Financial Position

As at 30 June 2017

	Note	2017 $'000	Restated* 2016 $'000	Restated* 2015 $'000
ASSETS				
Current assets				
Cash and cash equivalents	9	**3,838**	3,034	712
Trade and other receivables	10	**4,608**	7,239	2,729
Other current assets	13	**1,800**	2,501	307
Total current assets		**10,246**	12,774	3,748
Non-current assets				
Investments accounted for using the equity method	15	**-**	9,041	3,903
Financial assets	14	**23,916**	10,078	617
Plant and equipment	11	**5,127**	4,178	3,153
Plant and equipment - bearer plants	11	**121,193**	113,206	67,581
Investment property	12	**273,783**	168,951	142,379
Intangible assets	16	**108,738**	59,691	28,965
Deferred tax assets	21,22	**-**	1,120	2,317
Total non-current assets		**532,757**	366,265	248,915
Total assets		**543,003**	379,039	252,663
LIABILITIES				
Current liabilities				
Trade and other payables	17	**5,138**	6,920	2,038
Interest bearing liabilities	18	**3,204**	3,030	657
Income tax payable		**-**	-	29
Distributions payable	25	**6,368**	3,901	2,947
Total current liabilities		**14,710**	13,851	5,671
Non-current liabilities				
Interest bearing liabilities	18	**164,500**	146,500	91,451
Other non-current liabilities	19	**1,634**	1,634	1,553
Derivative financial liabilities	20	**3,878**	9,190	2,048
Deferred tax liabilities	21,22	**603**	-	-
Total non-current liabilities		**170,615**	157,324	95,052
Total liabilities (excluding net assets attributable to unitholders)		**185,325**	171,175	100,723
Net assets attributable to unitholders		**357,678**	207,864	151,940
Total liabilities		**543,003**	379,039	252,663

* Refer to note 2 for details of restatement as a result of the amendments made to Accounting Standards AASB 116 *Property, Plant and Equipment* and AASB 141 *Agriculture* in relation to bearer plants.

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Financial Position
As at 30 June 2017

	Note	2017 $'000	Restated* 2016 $'000	Restated* 2015 $'000
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS				
Unitholders of Rural Funds Trust				
Issued units		**252,880**	134,110	111,711
Asset revaluation reserve	24	**27,575**	36,663	1,406
Accumulated profit		**73,860**	35,218	37,427
Parent entity interest		**354,315**	205,991	150,544
Unitholders of RF Active				
Issued units		**3,066**	1,683	1,323
Accumulated profit		**297**	190	73
Non-controlling interest		**3,363**	1,873	1,396
Total net assets attributable to unitholders		**357,678**	207,864	151,940

Water entitlements are held at cost in the Consolidated Statement of Financial Position in accordance with accounting standards. Refer to note 5 for disclosure of the Directors' valuation of water entitlements, which are supported by independent property valuation.

* Refer to note 2 for details of restatement as a result of the amendments made to Accounting Standards AASB 116 *Property, Plant and Equipment* and AASB 141 *Agriculture* in relation to bearer plants.

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the year ended 30 June 2017

2017	Note	Issued units	Retained earnings	Asset revaluation reserve	Total	Non-controlling interest	Total
		$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2016 Restated		**134,110**	**35,218**	**36,663**	**205,991**	**1,873**	**207,864**
Other comprehensive income		**-**	**-**	**(9,088)**	**(9,088)**	**-**	**(9,088)**
Total other comprehensive income		**-**	**-**	**(9,088)**	**(9,088)**	**-**	**(9,088)**
Profit before income tax		**-**	**45,050**	**-**	**45,050**	**117**	**45,167**
Income tax expense	7	**-**	**(1,831)**	**-**	**(1,831)**	**(10)**	**(1,841)**
Total comprehensive income for the year		**-**	**43,219**	**(9,088)**	**34,131**	**107**	**34,238**
Issued units							
Units issued during the year	23	**140,577**	**-**	**-**	**140,577**	**1,420**	**141,997**
Issue costs	23	**(5,264)**	**-**	**-**	**(5,264)**	**(37)**	**(5,301)**
Total issued units		**135,313**	**-**	**-**	**135,313**	**1,383**	**136,696**
Distributions to unitholders	25	**(16,543)**	**(4,577)**	**-**	**(21,120)**	**-**	**(21,120)**
Balance at 30 June 2017		**252,880**	**73,860**	**27,575**	**354,315**	**3,363**	**357,678**

2016 Restated*	Note	Issued units	Retained earnings	Asset revaluation reserve	Total	Non-controlling interest	Total
		$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2015		111,711	37,440	1,406	150,557	1,383	151,940
Other comprehensive income		-	-	35,257	35,257	-	35,257
Total other comprehensive income		-	-	35,257	35,257	-	35,257
Profit before income tax		-	388	-	388	51	439
Income tax expense	7	-	(1,001)	-	(1,001)	79	(922)
Total comprehensive income for the year		-	(613)	35,257	34,644	130	34,774
Issued units							
Units issued during the year	23	36,449	-	-	36,449	368	36,817
Issue costs	23	(1,661)	-	-	(1,661)	(8)	(1,669)
Total issued units		34,788	-	-	34,788	360	35,148
Distributions to unitholders	25	(12,389)	(1,609)	-	(13,998)	-	(13,998)
Balance at 30 June 2016		134,110	35,218	36,663	205,991	1,873	207,864

* Refer to note 2 for details of restatement as a result of the amendments made to Accounting Standards AASB 116 *Property, Plant and Equipment* and AASB 141 *Agriculture* in relation to bearer plants.

The accompanying notes form part of these financial statements.

Rural Funds Group

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		**48,600**	29,255
Payments to suppliers		**(13,672)**	(9,492)
Interest received		**95**	80
Finance costs		**(8,109)**	(5,612)
Net cash inflow from operating activities	32	**26,914**	14,231
Cash flows from investing activities			
Payments for acquisition of macadamia leasing business		**-**	(7,291)
Payments for investment property		**(87,641)**	(23,275)
Payments for bearer plants		**(19,673)**	(13,606)
Payments for intangible assets		**(49,758)**	(30,381)
Payments for financial assets		**(13,882)**	(9,359)
Payments for plant and equipment		**(1,788)**	(1,760)
Payments for deposits		**-**	(2,242)
Payments for equity accounted investments		**-**	(5,275)
Proceeds from sale of investment property		**-**	1,162
Proceeds from sale of assets		**60**	348
Proceeds from sale of / Distributions from equity accounted investments		**10,345**	234
Distributions received		**11**	11
Net cash outflow from investing activities		**(162,326)**	(91,434)
Cash flows from financing activities			
Proceeds from issue of units		**136,696**	35,148
Proceeds from borrowings		**18,174**	58,079
Repayment of borrowings		**-**	(657)
Distributions paid		**(18,654)**	(13,045)
Net cash inflow from financing activities		**136,216**	79,525
Net increase in cash and cash equivalents held		**804**	2,322
Cash and cash equivalents at the beginning of the period		**3,034**	712
Cash and cash equivalents at the end of the period	9	**3,838**	3,034

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

30 June 2017

1 General information

This financial report covers the consolidated financial statements and notes of Rural Funds Trust and its Controlled Entities including RF Active (Rural Funds Group, the Group or collectively the Trusts). Rural Funds Group is a for profit entity domiciled in Australia. The Directors of the Responsible Entity authorised the Financial Report for issue on 21 August 2017 and have the power to amend and reissue the Financial Report.

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

The separate financial statements and notes of the parent entity, Rural Funds Trust, have not been presented within this financial report as permitted by amendments made to the *Corporations Act 2001*. Parent entity information is included in note 34.

2 Summary of significant accounting policies

Basis of preparation

The accounting policies that have been adopted in respect of the financial report are those of Rural Funds Management (RFM) as Responsible Entity of the Trusts.

The Trusts have common business objectives and operate as an economic entity collectively known as Rural Funds Group.

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, and other authoritative pronouncements of the Australian Accounting Standards Board, the *Corporations Act 2001* and the Trusts' Constitution. The report has been prepared on a going concern basis.

The financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board. The significant accounting policies used in the preparation and presentation of these financial statements are provided below and are consistent with prior reporting periods unless otherwise stated. The financial statements are based on historical cost, except for the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

As permitted by ASIC Corporations (Stapled Group Reports) Instrument 2015/838, issued by the Australian Securities and Investments Commission, these financial statements are consolidated financial statements and accompanying notes of both Rural Funds Trust and RF Active.

Principles of consolidation

The consolidated financial statements include the financial position and performance of controlled entities from the date on which control is obtained until the date that control is lost.

Intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities in the consolidated Group have been eliminated in full for the purpose of these financial statements.

Appropriate adjustments have been made to the controlled entity's financial position, performance and cash flows where the accounting policies used by that entity were different from those adopted by the consolidated entity. All controlled entities have a 30 June financial year end.

Notes to the Financial Statements
30 June 2017

2 Summary of significant accounting policies (continued)

Principles of consolidation (continued)

Controlled entities

In accordance with AASB 3 *Business Combinations*, Rural Funds Trust is deemed to control RF Active from the stapling date of 16 October 2014. Rural Funds Trust is considered to be the acquirer of RF Active due to the size of the respective entities and as the stapling transaction and capitalisation of RF Active was funded by a distribution from Rural Funds Trust that was compulsorily used to subscribe for units in RF Active.

Associates

Associates are entities over which the Group has significant influence but not control or joint control, generally accompanying a holding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends or distributions receivable from associates are recognised as a reduction in the carrying amount of the investment.

Business combinations

Business combinations are accounted for by applying the acquisition method which requires an acquiring entity to be identified in all cases. The acquisition date under this method is the date that the acquiring entity obtains control over the acquired entity.

The fair value of identifiable assets and liabilities acquired are recognised in the consolidated financial statements at the acquisition date.

Goodwill or a discount on acquisition may arise on the acquisition date, this is calculated by comparing the fair value of the consideration transferred and the amount of non-controlling interest in the acquirer with the fair value of the net identifiable assets acquired. Where the consideration is greater than the identifiable assets, the excess is recorded as goodwill. Where the net assets acquired are greater than the consideration, the measurement basis of the net assets are reassessed and then a discount on acquisition recognised in the Consolidated Statement of Comprehensive Income.

All acquisition-related costs are recognised as expenses in the periods in which the costs are incurred except for costs to issue debt or equity securities.

Any contingent consideration which forms part of the combination is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity then it is not remeasured and the settlement is accounted for within equity. Otherwise subsequent changes in the value of the contingent consideration liability are measured through the statement of comprehensive income.

Comparative amounts

Comparative amounts have been restated to reflect changes in accounting standards relating to bearer plants, as disclosed in the Plant and equipment – bearer plants section of note 2 to the financial statements.

2 Summary of significant accounting policies (continued)

Revenue

Revenue is recognised when the amount of the revenue can be measured reliably, it is probable that economic benefits associated with the transaction will flow to the entity and specific criteria relating to the type of revenue as noted below, have been satisfied.

Revenue from the leasing of investment property, water rights, bearer plants, property, plant and equipment and infrastructure, where the Group is a lessor, is recognised in income over the lease term on an accruals basis. The respective leased assets are included in the Consolidated Statement of Financial Position based on that nature.

Interest revenue is recognised using the effective interest rate method.

All revenue is stated net of the amount of goods and services tax (GST).

Income tax

The charge for current income tax expense is based on the profit adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is charged/credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on management’s judgement, the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Goods and services tax (GST)

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as part of trade and other receivables or payables in the consolidated statement of financial position.

Cash flows in the consolidated statement of cash flows are included on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

Rural Funds Group

Notes to the Financial Statements
30 June 2017

2 Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term investments with less than 3 months of original maturity which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Bank overdrafts also form part of cash equivalents for the purpose of the consolidated statement of cash flows and are presented within current liabilities on the consolidated statement of financial position.

Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less an allowance for doubtful debts.

Collectability of trade receivables is reviewed on an ongoing basis. Individual impairment is identified at a counterparty specific level following objective evidence that a financial asset is impaired. This may be after an interest or principal payment is missed or when information comes to hand that would indicate an inability to meet repayments. An allowance for doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the originally assessed effective interest rate and taking into account the amount of security held. The amount of the allowance is recognised in the income statement.

Debts which are known to be uncollectible are written off when identified. Write-offs are charged against accounts previously established for impairment allowance or directly to the income statement.

Where the debt is in relation to amounts due on almond groves and the impact of non-payment would result in the cancellation of the almond grove rights, which would revert to the Group, then the impairment provision is measured against the value of the rights that would be obtained by the Group.

Intangible assets

Water rights

Permanent water rights and entitlements are recorded at historical cost less accumulated impairment losses. Such rights have an indefinite life, and are not depreciated. The carrying value is tested annually for impairment as well as for possible reversal of impairment. If events or changes in circumstances indicate impairment, or reversal of impairment, the carrying value is adjusted to take account of impairment losses.

Financial instruments

Financial instruments are recognised initially using trade date accounting, i.e. on the date that the Group becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

a. Financial assets

Financial assets are divided into the following categories which are described in detail below:

- loans and receivables; and
- financial assets at fair value through profit or loss.

2 Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant to the way it is measured and whether any resulting income and expenses are recognised in profit or loss or in other comprehensive income.

b. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers but also incorporate other types of contractual monetary assets.

After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss.

Discounting is omitted where the effect of discounting is considered immaterial.

Significant receivables are considered for impairment on an individual asset basis when they are past due at the reporting date and when objective evidence is received that a specific counterparty will default.

The amount of the impairment is the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

For trade receivables, impairment provisions are recorded in a separate allowance account with the loss being recognised in profit or loss. When confirmation has been received that the amount is not collectable, the gross carrying value of the asset is written off against the associated impairment provision.

Subsequent recoveries of amounts previously written off are credited against other income in profit or loss.

In some circumstances, the Group renegotiates repayment terms with customers which may lead to changes in the timing of the payments, the Group does not necessarily consider the balance to be impaired, however assessment is made on a case-by-case basis.

c. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets:

- acquired principally for the purpose of selling in the near future;
- designated by the entity to be carried at fair value through profit or loss upon initial recognition; or,
- which are derivatives not qualifying for hedge accounting.

The Group has some derivatives which are designated as financial assets at fair value through profit or loss.

Assets included within this category are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in finance income or expenses in profit or loss.

Any gain or loss arising from derivative financial instruments is based on changes in fair value, which is determined by direct reference to active market transactions or using a valuation technique where no active market exists.

2 Summary of significant accounting policies (continued)

Financial instruments (continued)

d. Financial liabilities

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges are reported in profit or loss are included in the income statement line items "finance costs".

Financial liabilities are classified as either financial liabilities ‘at fair value through profit or loss’ or other financial liabilities depending on the purpose for which the liability was acquired. Although the Group uses derivative financial instruments in economic hedges of interest rate risk, it does not hedge account for these transactions.

The Group‘s financial liabilities include borrowings and trade and other payables, which are measured at amortised cost using the effective interest rate method.

All of the Group‘s derivative financial instruments that are not designated as hedging instruments in accordance with the strict conditions explained in AASB 139 *Financial Instruments: Recognition and Measurement* are accounted for at fair value through profit or loss.

e. Impairment of financial assets

At the end of the reporting period the Group assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired.

f. Financial assets at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of the estimated future cash flows discounted at the financial assets original effective interest rate.

Impairment on loans and receivables is reduced through the use of an allowance account, all other impairment losses on financial assets at amortised cost are taken directly to the asset.

Plant and equipment

Classes of plant and equipment other than bearer plants are measured using the cost model as specified below.

The asset is carried at its cost less any accumulated depreciation and any impairment losses. Costs include purchase price, other directly attributable costs and the initial estimate of the costs of dismantling and restoring the asset, where applicable.

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 other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

The depreciation rates used for each class of depreciable asset are shown below:

Fixed asset class:	Depreciation rate:
Capital works in progress	Nil
Plant and equipment	3-16 years
Motor vehicles	6-16 years

Notes to the Financial Statements
30 June 2017

2 Summary of significant accounting policies (continued)

Plant and equipment (continued)

At the end of each annual reporting period, the depreciation method, useful life and residual value of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

Plant and equipment - bearer plants

Amendments to AASB 116 *Property, Plant and Equipment* and AASB 141 *Agriculture* distinguish bearer plants from other biological assets. Bearer plants are solely used to grow produce over their productive lives and are seen to be similar to an item of machinery. They will therefore now be accounted for under AASB 116 *Property, Plant and Equipment*.

The Group's wine grape vines, almond trees and macadamia trees qualify as bearer plants under the new definition in AASB 141 *Agriculture*. As required under the standards, the change in accounting policy has been applied retrospectively to the earliest period presented in the financial statements. As a consequence, the vines and trees were classified to property, plant and equipment effective 1 July 2015 and prior year financial statement balances restated with the fair value at 1 July 2015 adopted as the cost base of the asset.

The bearer plants continue to be measured at fair value, any increase in the carrying amount above cost is recognised in asset revaluation reserve, and any decrease in the carrying amount below cost is recognised in profit and loss. The financial effect of this change is shown in the table below.

Consolidated Statement of Comprehensive income (extract)	**As originally stated**		**Restated**
	For the year ended	**Increase/ (Decrease)**	**For the year ended**
	30 June		**30 June**
	2016		**2016**
	$'000	**$'000**	**$'000**
Change in fair value of biological assets	**26,495**	(35,524)	**(9,029)**
Net profit before income tax	**35,963**	(35,524)	**439**
Income tax (expense)/benefit	**(1,175)**	253	**(922)**
Net profit after income tax	**34,788**	(35,271)	**(483)**
Other comprehensive income	**(14)**	35,271	**35,257**
Total comprehensive income	**34,774**	-	**34,774**
Earnings per unit (cents)	**22.46**	(22.77)	**(0.31)**

Notes to the Financial Statements
30 June 2017

2 Summary of significant accounting policies (continued)

Plant and equipment - bearer plants (continued)

The effect of this change on the financial position is shown in the extract from the statement of financial position below.

Consolidated Statement of Financial Position (extract)	As originally stated		Restated	As originally stated		Restated
	30 June 2016 $'000	Increase/ (Decrease) $'000	30 June 2016 $'000	1 July 2015 $'000	Increase/ (Decrease) $'000	1 July 2015 $'000
Biological assets	**113,206**	(113,206)	**-**	**67,581**	(67,581)	**-**
Plant and equipment - bearer plants	**-**	113,206	**113,206**	**-**	67,581	**67,581**
Total assets	**379,039**	-	**379,039**	**252,663**	-	**252,663**
Total liabilities	**171,175**	-	**171,175**	**100,723**	-	**100,723**
Net assets	**207,864**	-	**207,864**	**151,940**	-	**151,940**
Retained earnings	**70,489**	(35,271)	**35,218**	**37,440**	-	**37,440**
Asset revaluation reserve	**1,392**	35,271	**36,663**	**1,406**	-	**1,406**
Total equity	**207,864**	-	**207,864**	**151,940**	-	**151,940**

2 Summary of significant accounting policies (continued)

Investment property

Investment properties, comprise land, buildings and integral infrastructure including irrigation and trellising.

Investment properties are held for long-term rental yields and are not occupied by the Group. They are carried at fair value and changes in fair value are presented in the income statement.

Leases

Leases of fixed assets or biological assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred from the lessor, are classified as finance leases.

Lease payments for operating leases, where substantially all of the risks and benefits have not been transferred from the lessor, are charged as expenses on a straight-line basis over the life of the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured at the present value of management's best estimate of the outflow required to settle the obligation at the end of the reporting period. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the unwinding of the discount is taken to finance costs in the income statement.

Provisions for distributions

Provision is made for the amount of any distribution declared, being appropriately authorised and no longer at the discretion of the Group, on or before the end of the reporting period but not distributed at the end of the reporting period.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they are incurred.

Earnings per unit

Basic earnings per unit are calculated on net profit attributable to unitholders of the Group divided by the weighted average number of issued units.

Interest bearing liabilities

Interest bearing liabilities are initially recognised at fair value less any related transaction costs. Subsequent to initial recognition, interest bearing liabilities are stated at amortised cost. Any difference between cost and redemption value is recognised in the statement of comprehensive income over the entire period of the borrowings on an effective interest basis. Interest-bearing liabilities are classified as current liabilities unless the Group has an unconditional right to defer the settlement of the liability for at least twelve months from the balance sheet date.

Notes to the Financial Statements

30 June 2017

2 Summary of significant accounting policies (continued)

Issued units

Ordinary units are classified as liabilities in accordance with AASB 132 *Financial Instruments: Presentation*. Incremental costs directly attributable to the issue of ordinary units and unit options which vest immediately are recognised as a deduction from net assets attributable to unitholders, net of any tax effects. There is no equity relating to the Group.

Rounding of amounts

The Group is an entity to which ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 applies and accordingly amounts in the consolidated financial statements and Directors' report have been rounded to the nearest thousand dollars.

Parent entity information

The financial information of the parent entity, Rural Funds Trust, disclosed in note 34 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are accounted for at historical cost less any accumulated impairment. Distributions received from equity investments are recognised in the parent entity's profit or loss when its right to receive the distribution is established.

New accounting standards and interpretations

Standard Name	Effective date for the Group	Requirements	Impact
AASB 15 Revenue from contracts with customers	1 Jan 2018	Recognise contracted revenue when control of a good or service transfers to a customer. The notion of control replaces the existing notion of risks and rewards.	It is not expected that this standard will have a material impact on the Group.
AASB 16 Leases	1 Jan 2019	Introduces a single lease accounting model and requires lessees to recognise on the balance sheet an asset (right of use) and a corresponding liability (lease commitment) for leases with a term of more than 12 months.	There is no impact on reported financial position or performance expected for the Group as it is a lessor in nature.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods.

3 Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements, estimates and assumptions in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Management has identified the following critical accounting policies for which significant judgements, estimates or assumptions are made.

Valuations

Directors obtain independent valuations where appropriate. Directors have considered independent valuations and market evidence where appropriate to determine the appropriate fair value to adopt. Independent property valuations were obtained for almond orchard properties, from independent valuer, CBRE Valuations Pty Limited in June 2017. Independent property valuations were obtained for vineyard properties from independent valuer, Gaetjens Pickett Valuers in June 2017. Independent property valuations were obtained for the cattle properties situated near the Gulf of Carpentaria in Queensland from independent valuer, Herron Todd White in June 2017.

Independent valuations were completed for properties within the last 12 months for the Central Queensland cattle and cotton properties and the Tocabil almond orchard property. CBRE Valuations Pty Limited completed the valuation on the cattle property in December 2016, and the cotton property in October 2016. Colliers International Consultancy and Valuation Pty Limited completed the valuation on the Tocabil property in November 2016. The Directors have concluded that there has been no material change to the industry and geographical conditions in which the independent valuers previously assessed these assets. Valuations have not been commissioned for the year end and as such, Directors’ valuations have been adopted for these properties in the financial statements.

Independent valuations were not completed during the year for the poultry property and infrastructure and the macadamia orchard properties. The poultry property and infrastructure have not been independently valued due to the Directors adopting a more conservative view in line with assumptions applied with those assets. The macadamia orchard properties have not been independently valued due to the value of the assets and as there has been no material change to the industry and geographical conditions of the properties in which the independent valuers previously assessed these assets. Directors’ valuations have been adopted for these properties in the financial statements.

The Group’s properties, including those under development, are valued at fair value excluding the value of water rights. Water rights are treated as intangible assets, which are held at historical cost less accumulated impairment losses. The valuation model used judgement by using discount rates, capitalisation rates and comparable sales in calculating the values and allocating those values over investment property and bearer plants.

Recognition of deferred tax assets

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. To determine future taxable profits, reference is made to the latest available profit forecasts. Where the temporary differences are related to losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits.

Recognition therefore involves judgement regarding the future financial performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. Historical differences between forecast and actual taxable profits have not resulted in material adjustments to the recognition of deferred tax assets.

Notes to the Financial Statements

30 June 2017

3 Significant accounting judgements, estimates and assumptions (continued)

Valuation of Barossa Infrastructure Limited and Coleambally Irrigation Co-operative Limited shares

The shares in Barossa Infrastructure Limited (BIL) and Coleambally Irrigation Co-operative Limited (CICL) have been valued using the number of megalitres of water that the Group is entitled to under the BIL and CICL schemes as supported by an external valuation on an 'in use' basis, or at initial cost. These methods are used due to a lack of evidence of trading in BIL and CICL shares.

4 Working capital

The deficiency in working capital at 30 June 2017 is due to the timing of distributions. Based on the forecast cash flows, the Group believes it can pay all of its debts as and when they fall due.

5 Segment information

The Group operates in one operating segment (2016: one segment), being the holding and leasing of agricultural property and equipment.

Water rights and entitlements

The Board reviews the business based on the internal and external valuations of its properties.

Permanent water rights and entitlements are held at historical cost less accumulated impairment losses. The book value of the water rights (including investments in BIL and CICL) at 30 June 2017 is $121,469,000 (2016: $69,534,000).

In June 2017 independent property valuations were performed by CBRE Valuations Pty Limited on the almond orchard properties that attribute a value to the water entitlements held by the Group. The Directors consider that these valuations are reasonable estimates of the fair value at 30 June 2017. These valuations value the water rights at 30 June 2017 at $166,012,000 (2016: $97,949,000) representing a movement in the value of the water rights above cost of $44,543,000 (2016: $28,415,000).

The following is a comparison of the book value at 30 June 2017 to an adjusted value based on the Directors' valuation of the water rights.

	Per Statutory Consolidated Statement of Financial Position	Revaluation of water entitlements per Directors' valuation	Adjusted Consolidated Statement of Financial Position
	$'000	$'000	$'000
Assets			
Total current assets	10,246	-	**10,246**
Total non-current assets	532,757	44,543	**577,300**
Total assets	543,003	44,543	**587,546**
Liabilities			
Total current liabilities	14,710	-	**14,710**
Total non-current liabilities	170,615	-	**170,615**
Total liabilities (excluding net assets attributable to unitholders)	185,325	-	**185,325**
Net assets attributable to unitholders	357,678	44,543	**402,221**
Net asset value per unit ($)	1.41	0.17	**1.58**

Notes to the Financial Statements
30 June 2017

6 Revenue

	2017 $'000	2016 $'000
Rental revenue	**41,479**	26,469
Interest received	**94**	80
Total	**41,573**	26,549

7 Income tax expense

The major components of income tax expense comprise:

	2017 $'000	Restated 2016 $'000
Current tax	**-**	-
Deferred tax	**2,021**	957
Adjustments in respect of current income tax of previous years	**-**	(29)
Adjustments in respect of deferred income tax of previous years	**(180)**	(6)
Income tax expense/(benefit) reported in the Statement of Comprehensive Income	**1,841**	922

Income tax expense is attributable to:		
Profit from continuing operations	**1,841**	922
Total	**1,841**	922

Deferred income tax expense/(benefit) included in income tax expense comprises:		
Decrease in deferred tax assets	**1,120**	2,332
Increase/(decrease) in deferred tax liabilities	**721**	(1,382)
Total	**1,841**	950

Amounts charged or credited directly to equity	2017 $'000	Restated 2016 $'000
Capitalised issue costs	**(16)**	(6)
Change in fair value taken through asset revaluation reserve	**(101)**	253
Total	**(117)**	247

Numerical reconciliation of income tax expense to prima facie tax payable

	2017 $'000	Restated 2016 $'000
Accounting profit before tax from continuing operations	**45,167**	439
At the statutory income tax rate of 30% (2016: 30%)	**13,550**	132
Tax effect of amounts that are not deductible/(taxable) in determining taxable income	**(11,504)**	884
Adjustments in respect of tax of previous years	**(180)**	(35)
Imputation credits received	**(25)**	(59)
Total	**1,841**	922

Notes to the Financial Statements
30 June 2017

7 Income tax expense (continued)

From 1 July 2014 both Rural Funds Trust and RFM Chicken Income Fund (a subsidiary of Rural Funds Trust) are flow through trusts for tax purposes. As a result, it is no longer probable that a lax liability will be incurred in these entities in relation to future sale of assets for a gain or through trading.

Franking credits

At 30 June 2017 there are $156,000 of franking credits available to apply to future RF Active income distributions (2016: $59,000).

8 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Group:

	2017	2016
	$	$
PricewaterhouseCoopers Australia:		
Audit and review of financial statements	**250,637**	210,508
Compliance audit	**6,370**	6,121
Total	**257,007**	216,629

9 Cash and cash equivalents

	2017	2016
	$'000	$'000
Cash at bank	**3,838**	3,034
Total	**3,838**	3,034

Reconciliation of cash

Cash and cash equivalents reported in the Consolidated Statement of Cash Flows are reconciled to the equivalent items in the Consolidated Statement of Financial Position as follows:

Cash and cash equivalents	**3,838**	3,034

10 Trade and other receivables

	2017	2016
	$'000	$'000
Current		
Trade receivables	**1,756**	6,056
Sundry receivables	**1,175**	433
Receivables from related parties	**1,677**	750
Total	**4,608**	7,239

Trade receivables are non-interest bearing and are generally on 30 day terms.

Notes to the Financial Statements
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11 Plant and equipment

2017	Capital works in progress	Plant and equipment	Bearer Plants - Almonds	Bearer Plants - Macadamias	Bearer Plants - Vineyards	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Opening net book amount	379	3,799	89,614	6,143	17,449	117,384
Additions	-	1,788	19,250	-	424	21,462
Disposals	-	(27)	-	-	-	(27)
Depreciation and impairment	-	(812)	-	-	-	(812)
Transfers	(379)	379	-	-	-	-
Change in fair value	-	-	(13,579)	(24)	1,916	(11,687)
Closing net book amount	-	5,127	95,285	6,119	19,789	126,320

2016 Restated	Capital works in progress	Plant and equipment	Bearer Plants - Almonds	Bearer Plants - Macadamias	Bearer Plants - Vineyards	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Opening net book amount	44	3,109	42,735	-	24,846	70,734
Additions	335	1,484	12,200	6,930	-	20,949
Disposals	-	(58)	-	-	-	(58)
Depreciation	-	(736)	-	-	-	(736)
Change in fair value	-	-	34,679	(787)	(7,397)	26,495
Closing net book amount	379	3,799	89,614	6,143	17,449	117,384

Notes to the Financial Statements
30 June 2017

12 Investment property

	2017	2016
	$'000	$'000
Opening balance	**168,951**	142,379
Acquisitions	**64,452**	1,116
Additions	**23,189**	23,275
Change in fair value	**17,191**	3,343
Disposals	**-**	(1,162)
Total	**273,783**	168,951

Amounts recognised in profit and loss

Rental income from investment property, bearer plants and water entitlements	**39,077**	25,319
Change in fair value	**17,191**	3,343

Direct operating expenses incurred during the year that did not generate rental income amounted to $97,000 (2016: $100,000).

Leasing arrangements

Minimum lease payments receivable under non-cancellable operating leases of investment properties, bearer plants, plant and equipment and water rights not recognised in the financial statements, are receivable as follows:

Within one year	**44,683**	35,318
Later than one year, but not later than five years	**204,238**	156,153
Later than five years	**547,107**	458,560
Total	**796,028**	650,031

13 Other current assets

	2017	2016
	$'000	$'000
Prepayments	**401**	118
Deposits	**1,399**	1,066
Deposits - water purchases	**-**	1,317
Total	**1,800**	2,501

Notes to the Financial Statements
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14 Financial assets

	2017 $'000	2016 $'000
Non-current		
Investment - BIL	**509**	509
Investment - CICL	**12,222**	9,334
Investment - RFM Poultry	**130**	133
Finance Lease - Breeders	**10,953**	-
Investment - Macadamias Processing Co	**102**	102
Total	**23,916**	10,078

Coleambally Irrigation Co-operative Limited (CICL) is Australia's fourth largest irrigation company and is wholly owned by its farmer members. CICL's irrigation delivery system delivers water to 400,000 hectares of area across the Coleambally Irrigation District, in the Riverina, near Griffith, NSW.

15 Investments accounted for using the equity method

	RFM StockBank		Perth Markets Limited	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Summarised financial information for associates				
Summarised balance sheet				
Total current assets	**568**	14,670	**-**	6,714
Total non-current assets	**-**	-	**-**	135,014
Total current liabilities	**(568)**	(3,053)	**-**	(2,506)
Total non-current liabilities	**-**	-	**-**	(81,777)
Net assets	**-**	11,617	**-**	57,445
Reconciliation to carrying amounts				
Opening net assets	**11,617**	11,643	**57,445**	-
Net assets at date of gaining significant influence through:				
- Initial equity issue			**-**	56,416
Profit for the period	**238**	588	**24,027**	1,029
Distributions paid during the period	**(11,406)**	-	**(3,471)**	-
Other comprehensive income	**-**	-	**3,077**	-
Distributions provided for	**(449)**	(614)	**-**	-
Disposal of interest in Perth Markets Limited during the year	**-**	-	**(81,078)**	-
Closing net assets	**-**	11,617	**-**	57,445
Group's share in %	**33.50%**	33.50%	**0.00%**	8.96%
Group's share in $'000	**-**	3,894	**-**	5,147
Carrying value of investment	**-**	3,894	**-**	5,147

Rural Funds Group

Notes to the Financial Statements
30 June 2017

15 Investments accounted for using the equity method (continued)

	RFM StockBank		Perth Markets Limited	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Summarised statement of comprehensive income				
Revenue	**741**	2,328	**11,303**	5,764
Profit from continuing operations	**239**	588	**24,027**	1,029
Other comprehensive income	**-**	-	**3,077**	-
Total comprehensive income	**239**	588	**27,104**	1,029
Distributions received or receivable from associate	**4,018**	173	**323**	-

The Group sold its 8.96% interest in Perth Markets Limited (PML), a stapled entity which owns the Market City site in Canning Vale, WA. RFF acquired 5,275,000 PML securities at $1 per security in February 2016, and sold them during March 2017 at $1.147 per security.

RFM, as Responsible Entity for RFM StockBank, has commenced the windup of RFM StockBank. A final capital return was paid to investors on 9 August 2017.

There are no commitments or contingencies relating to investments accounted for using the equity method.

Rural Funds Group

Notes to the Financial Statements
30 June 2017

16 Intangible assets

Intangible assets are made up of water rights and entitlements. Refer to note 5 for Directors' valuation of water rights and entitlements.

2017	Almonds $'000	Poultry infrastructure $'000	Vineyards $'000	Macadamias $'000	Cotton $'000	Other $'000	Total $'000
Non-current							
Opening net book amount	**57,540**	**1,049**	**500**	**602**	**-**	**-**	**59,691**
Additions	**11,450**	**-**	**-**	**206**	**3,672**	**34,430**	**49,758**
Impairment	**(657)**	**-**	**-**	**-**	**-**	**(54)**	**(711)**
Closing net book amount	**68,333**	**1,049**	**500**	**808**	**3,672**	**34,376**	**108,738**
Cost	**69,193**	**1,049**	**500**	**808**	**3,672**	**34,430**	**109,652**
Accumulated amortisation and impairment	**(860)**	**-**	**-**	**-**	**-**	**(54)**	**(914)**
Net book amount	**68,333**	**1,049**	**500**	**808**	**3,672**	**34,376**	**108,738**

2016	Almonds $'000	Poultry infrastructure $'000	Vineyards $'000	Macadamias $'000	Cotton $'000	Other $'000	Total $'000
Non-current							
Opening net book amount	27,416	1,049	500	-	-	-	28,965
Additions	30,327	-	-	54	-	-	30,381
Acquisitions	-	-	-	548	-	-	548
Impairment	(203)	-	-	-	-	-	(203)
Closing net book amount	57,540	1,049	500	602	-	-	59,691
Cost	57,743	1,049	500	602	-	-	59,894
Accumulated amortisation and impairment	(203)	-	-	-	-	-	(203)
Net book amount	57,540	1,049	500	602	-	-	59,691

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17 Trade and other payables

	2017 $'000	2016 $'000
Trade payables	**1,087**	659
Accruals	**1,375**	694
Sundry creditors	**2,676**	5,567
Total	**5,138**	6,920

18 Interest bearing liabilities

	2017 $'000	2016 $'000
Current		
Equipment loans (ANZ)	**3,204**	3,030
Total	**3,204**	3,030
Non-current		
Borrowings (ANZ)	**105,280**	146,500
Borrowings (Rabobank)	**59,220**	-
Total	**164,500**	146,500

Notes to the Financial Statements
30 June 2017

18 Interest bearing liabilities (continued)

Borrowings with Australian and New Zealand Banking Group (ANZ) and Rabobank Australia Group (Rabobank) are secured by:

- a fixed and floating charge over the assets held by Australian Executor Trustee Limited (AETL) as custodian for Rural Funds Trust, RFM Chicken Income Fund, RFM Australian Wine Fund (a subsidiary of Rural Funds Trust) and RF Active; and
- registered mortgages over all property owned by the Rural Funds Trust and its subsidiaries provided by AETL as custodian for Rural Funds Trust and its subsidiaries.

The following assets are pledged as security over the loans:

2017	Investment property	Water licences	Plant and equipment - Bearer Plants	Financial assets	Plant and equipment	TOTAL
	$'000	$'000	$'000	$'000	$'000	$'000
Mortgage: Leased Properties	273,783	74,362	121,193	12,833	-	482,171
Other assets	-	34,376	-	11,083	-	45,459
Equipment loans	-	-	-	-	5,127	5,127
Total	**273,783**	**108,738**	**121,193**	**23,916**	**5,127**	**532,757**

Restated 2016	Investment property	Water licences	Plant and equipment - Bearer Plants	Financial assets	Plant and equipment	TOTAL
	$'000	$'000	$'000	$'000	$'000	$'000
Mortgage: Leased Properties	168,951	59,691	113,206	9,843	-	351,691
Equipment loans	-	-	-	-	4,178	4,178
Total	168,951	59,691	113,206	9,843	4,178	355,869

Notes to the Financial Statements

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18 Interest bearing liabilities (continued)

Loan amounts are provided at the Bankers' floating rate, plus a margin. For bank reporting purposes, these assets are valued at market value. Refer to note 5 for Directors' valuation of water rights and entitlements.

Borrowings

At 30 June 2017 the core debt facility available to the Group, and due to expire in December 2019, was $250,000,000 (2016: $147,500,000). As at 30 June 2017 RFF had active interest rate swaps totalling 53.5% (2016: 60%) of the drawn down balance to manage interest rate risk.

Loan covenants

Under the terms of the borrowing facility, the Group is required to comply with the following financial covenants:

- maintenance of a maximum loan to value ratio of 50%;
- maintenance of net tangible assets (including water entitlements) in excess of $200,000,000; and,
- an interest cover ratio for the Group not less than 2.75:1.00.

Rural Funds Group has complied with the financial covenants of its borrowing facilities during the year.

19 Other non-current liabilities

	2017	2016
	$'000	$'000
Lessee deposits	**1,634**	1,634
Total	**1,634**	1,634

20 Derivative financial instruments

	2017	2016
	$'000	$'000
Non-current		
Interest rate swaps	**3,878**	9,190
Total other liabilities	**3,878**	9,190

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21 Deferred tax

	2017 $'000	2016 $'000
Deferred tax liabilities		
Plant and equipment - bearer plants	**4,103**	3,513
Plant & equipment	**1,936**	2,381
Fair value investment property	**1,519**	515
Gross deferred tax liabilities	**7,558**	6,409
Set off of deferred tax assets	**(6,955)**	(6,409)
Net deferred tax liabilities	**603**	-

	2017 $'000	2016 $'000
Deferred tax assets		
Investments	**227**	227
Legal costs	**36**	80
Other	**53**	21
Unused income tax losses	**6,639**	7,201
Gross deferred tax assets	**6,955**	7,529
Set off of deferred tax liabilities	**(6,955)**	(6,409)
Net deferred tax assets	**-**	1,120

The deferred tax assets include an amount of $6,955,000 (2016: $7,200,000), which includes $6,615,000 (2016: $7,151,000) of carried forward tax losses of the RFM Australian Wine Fund. The Group has concluded that the deferred tax assets will be recoverable using the estimated future taxable income based on budgets and the contracted cash flows of the subsidiary. The losses can be carried forward indefinitely and have no expiry date.

22 Recognised tax assets and liabilities

	Current income tax		Deferred income tax	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Opening balance	**-**	(29)	**1,120**	2,317
Credited/(charged) to income	**-**	29	**(1,841)**	(950)
Credited to equity	**-**	-	**118**	(247)
Closing balance	**-**	-	**(603)**	1,120
Tax expense/(credit) in the Consolidated Statement of Comprehensive Income			**1,841**	922
Amounts recognised in the Consolidated Statement of Financial Position:				
Deferred tax asset			**-**	1,120
Deferred tax liability			**(603)**	-

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23 Issued units

	2017		2016	
	No.	**$'000**	**No.**	**$'000**
Units on issue at the beginning of the year (thousands)	**165,357**	**135,793**	132,142	113,034
Units issued during the year (thousands)	**89,024**	**136,696**	33,215	35,148
Distributions to unitholders	**-**	**(16,543)**	-	(12,389)
Units on issue at the end of the year	**254,381**	**255,946**	165,357	135,793

The holders of ordinary units are entitled to participate in distributions and the proceeds on winding up of the Group. On a show of hands at meetings of the Group, each holder of ordinary units has one vote in person or by proxy, and upon a poll each unit is entitled to one vote.

The Group does not have authorised capital or par value in respect of its units.

24 Asset revaluation reserve

	2017	Restated 2016
	$'000	**$'000**
Opening balance	**36,663**	1,406
Bearer plants revaluation	**(9,189)**	35,524
Net decrement in financial assets	**-**	(14)
Total comprehensive income	**(9,189)**	35,510
Income tax applicable	101	(253)
Closing balance	**27,575**	36,663

25 Distributions

The Group paid and declared the following distributions in the year:

	Cents per unit	Total $
Distribution paid 29 July 2016	2.2325	3,691,602
Distribution paid 28 October 2016	2.4100	4,986,940
Distribution paid 31 January 2017	2.4100	4,996,810
Distribution paid 28 April 2017	2.4100	5,006,323
Distribution declared 7 June 2017, paid 31 July 2017	2.4100	6,130,580

26 Earnings per unit

	2017	Restated 2016
Per stapled unit		
Net profit after income tax for the year ($'000)	**43,326**	(483)
Weighted average number of units on issue during the year	**204,617,207**	154,854,317
Basic and diluted earnings per unit (total) (cents)	**21.17**	(0.31)

Notes to the Financial Statements
30 June 2017

26 Earnings per unit (continued)

	2017	Restated 2016
Per unit of Rural Funds Trust		
Net profit after income tax for the year ($'000)	**43,219**	(613)
Weighted average number of units on issue during the year	**204,617,207**	154,854,317
Basic and diluted earnings per unit (total) (cents)	**21.12**	(0.39)
Per unit of RF Active		
Net profit after income tax for the year ($'000)	**107**	130
Weighted average number of units on issue during the year	**204,617,207**	154,854,317
Basic and diluted earnings per unit (total) (cents)	**0.05**	0.08

27 Capital commitments

Significant capital expenditure relating to the Kerarbury almond development, contracted for but not recognised as liabilities is as follows:

	2017 $'000	Restated 2016 $'000
Bearer plants	**26,265**	67,955
Investment property	**42,024**	33,039
Intangible assets	**16,032**	39,655
Total	**84,321**	140,649

28 Fair value measurement of assets and liabilities

Fair value hierarchy

This note explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the Australian Accounting Standards.

AASB 13 *Fair Value Measurement* requires all assets and liabilities measured at fair value to be assigned to a level in the fair value hierarchy. The level in the fair value hierarchy is determined having regard to the nature of inputs used to determine fair value. The hierarchy is as follows:

Level 1	Fair value based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date (such as publicly traded equities).
Level 2	Fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3	One or more significant inputs to the determination of fair value is based on unobservable inputs for the asset or liability.

28 Fair value measurement of assets and liabilities (continued)

Financial assets and liabilities

Fair value hierarchy

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2017				
Recurring fair value measurements				
Financial assets				
Equity securities (listed)	**130**	**-**	**-**	**130**
Equity securities (unlisted)	**-**	**-**	**12,833**	**12,833**
Total	**130**	**-**	**12,833**	**12,963**
Financial liabilities				
Derivatives	**-**	**3,878**	**-**	**3,878**
Total	**-**	**3,878**	**-**	**3,878**
2016				
Financial assets				
Equity securities (listed)	133	-	-	133
Equity securities (unlisted)	-	-	9,945	9,945
Total	133	-	9,945	10,078
Financial liabilities				
Derivatives	-	9,190	-	9,190
Total	-	9,190	-	9,190

The Group’s policy is to recognise transfers into and out of fair value hierarchy levels at the end of the reporting period. There were no transfers in the current year (2016: nil).

Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments;
- the present value of the estimated future cash flows based on observable yield curves to determine the fair value of the interest rate swaps; and,
- discounted cash flow analysis to determine the fair value of the remaining financial instruments.

All of the resulting fair value estimates are included in level 1 or 2 except for unlisted equity securities which are level 3, where the fair values have been determined based on present values and the discount rates used were adjusted for counterparty or own credit risk.

28 Fair value measurement of assets and liabilities (continued)

Financial assets and liabilities (continued)

Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the years ended 30 June 2017 and 30 June 2016:

	2017 $	2016 $
Unlisted equity securities		
Opening balance	**9,945**	520
Additions	**2,888**	9,437
Losses recognised in other comprehensive income	**-**	(12)
Closing balance	**12,833**	9,945

Valuation inputs and relationship to fair value

Description	Fair value $'000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Investment in BIL	**509**	Price of water entitlements	+/- 10%	+/- $50,000
Investment in CICL	**12,222**	Price of water entitlements	+/- 10%	+/- $121,000
Investment in MPC	**102**	Price of macadamias	+/- 10%	+/- $10,000
Closing balance	**12,833**	-	-	-

The Group's investment in Macadamia Processing Co. Limited is held at cost.

Non-financial assets

Fair value hierarchy

This note explains the judgements and estimates made in determining fair values of the non-financial assets that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its non-financial assets and liabilities into the three levels prescribed under Australian Accounting Standards as mentioned above. At 30 June 2017 all non-financial assets are level 3.

Notes to the Financial Statements
30 June 2017

28 Fair value measurement of assets and liabilities (continued)

Non-financial assets (continued)

	Level 3 $'000	Total $'000
2017		
Investment properties		
Almond orchard property	**95,605**	**95,605**
Poultry property and infrastructure	**83,011**	**83,011**
Vineyard property	**25,435**	**25,435**
Macadamia orchard property	**2,015**	**2,015**
Cotton property	**24,157**	**24,157**
Cattle property	**43,560**	**43,560**
Plant and equipment - bearer plants		
Almond orchard	**95,285**	**95,285**
Vines	**19,789**	**19,789**
Macadamia orchard	**6,119**	**6,119**
Total non-financial assets	**394,976**	**394,976**
Restated		
2016		
Investment properties		
Almond orchard property	58,329	58,329
Poultry property and infrastructure	86,011	86,011
Vineyard property	23,156	23,156
Macadamia orchard property	1,455	1,455
Plant and equipment - bearer plants		
Almond orchard	89,614	89,614
Vines	17,449	17,449
Macadamia orchard	6,143	6,143
Total non-financial assets	282,157	282,157

The Group's policy is to recognise transfers in to and transfers out of fair value hierarchy levels as at the end of the reporting period. There were no transfers between levels for recurring fair value measurements during the year.

Valuation techniques used to determine level 3 fair values

Directors obtain independent valuations where appropriate. At the end of each reporting period, the Directors update their assessment of fair value of each property, taking into account the most recent independent valuations. The Directors determine a property's value within a range of reasonable fair value estimates.

Rural Funds Group

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28 Fair value measurement of assets and liabilities (continued)

The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available the Directors consider information from a variety of sources including:

- current prices in an active market for properties of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences;
- discounted cash flow projections based on reliable estimates of future cash flows; and
- capitalised income projections based upon a property's estimated net market income, and a capitalisation rate derived from an analysis of market evidence.

All resulting fair value estimates for properties are included in level 3.

Fair value measurements using significant unobservable inputs (level 3)

	Investment property						Plant and equipment - bearer plants			
	Almond orchard property	Poultry property and infrastructure	Vineyard property	Macadamia orchard property	Cotton property	Cattle property	Almond orchard	Vines	Macadamia orchard	Total
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Opening balance 1 July 2016	**58,329**	**86,011**	**23,156**	**1,455**	**-**	**-**	**89,614**	**17,449**	**6,143**	**282,157**
Additions	**19,292**	**-**	**-**	**560**	**2,079**	**1,258**	**19,250**	**424**	**-**	**42,863**
Acquisitions	**-**	**-**	**-**	**-**	**22,935**	**41,517**	**-**	**-**	**-**	**64,452**
Fair value adjustment	**17,984**	**(3,000)**	**2,279**	**-**	**(857)**	**785**	**(13,579)**	**1,916**	**(24)**	**5,504**
Closing balance 30 June 2017	**95,605**	**83,011**	**25,435**	**2,015**	**24,157**	**43,560**	**95,285**	**19,789**	**6,119**	**394,976**
Opening balance 1 July 2015	36,927	91,917	13,535	-	-	-	42,735	24,846	-	209,960
Additions	23,138	-	-	137	-	-	12,200	-	1,405	36,880
Acquisitions	-	-	-	1,116	-	-	-	-	5,525	6,641
Disposals	(1,162)	-	-	-	-	-	-	-	-	(1,162)
Fair value adjustment	(574)	(5,906)	9,621	202	-	-	34,679	(7,397)	(787)	29,838
Closing balance 30 June 2016	58,329	86,011	23,156	1,455	-	-	89,614	17,449	6,143	282,157

Notes to the Financial Statements
30 June 2017

28 Fair value measurement of assets and liabilities (continued)

Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements. See above for the valuation techniques adopted.

Description	Fair value at		Unobservable inputs*	Range of inputs		Relationship of unobservable inputs to fair value
	2017 $'000	2016 $'000		2017 %	2016 %	
Almond orchard property (excluding water licences)**	**190,890**	147,943	Discount rate Capitalisation rate	**8.75%** **8.50%**	9.00% n/a	The higher the discount and capitalisation rate, the lower the fair value.
Poultry property and infrastructure (excluding water licences)**	**83,011**	86,011	Capitalisation rate	**10.75% - 14.20%**	10.75% - 13.00%	The higher the capitalisation rate, the lower the fair value.
Vineyard (excluding water licences)**	**45,224**	40,605	Discount rate	**9.55%**	9.75%	The higher the discount rate, the lower the fair value.
Cotton property and infrastructure (excluding water licenses)**	**24,157**	-	Discount rate $ per ha of land area by use	**9.00%** **$1,200 - $17,000**	n/a	The higher the discount rate, the lower the fair value. The higher the value per hectare of land, the higher the value.
Cattle property and infrastructure (excluding water licenses)**	**43,560**	-	Discount rate $ per adult equivalent carrying capacity	**9.00%** **$650 - $4,250**	n/a	The higher the discount rate, the lower the fair value. The higher the value per each adult equivalent carrying capacity, the higher the value.
Macadamia orchard property (excluding water licences)**	**8,134**	7,598	Discount rate	**9.00%**	9.00%	The higher the capitalisation rate, the lower the fair value.

* There were no significant inter-relationships between unobservable inputs that materially affect fair values.
** Water licences are held at historical cost less accumulated impairment, as detailed in note 16 to the consolidated financial statements.

28 Fair value measurement of assets and liabilities (continued)

Valuation processes

Directors obtain independent valuations where appropriate. Directors have considered independent valuations and market evidence where appropriate to determine the appropriate fair value to adopt.

The main level 3 inputs used by the Group include discount rates and capitalisation rates estimated in the respective valuations based on comparable transactions and industry data. Changes in level 3 fair values are analysed at each reporting date during the valuation discussion between management and external valuers. As part of this discussion management presents updated model inputs and explains the reason for any fair value movements.

29 Financial risk management

The Group is exposed to a variety of financial risks through its use of financial instruments. This note discloses the Group's objectives, policies and processes for managing and measuring these risks. The Group's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets.

The Group does not speculate in financial assets.

The most significant financial risks which the Group is exposed to are described below:

Specific risks

- Market risk - interest rate risk and price risk
- Credit risk
- Liquidity risk

Financial instruments used

The principal categories of financial instrument used by the Group are:

- Trade receivables
- Cash at bank
- Bank overdraft
- Trade and other payables
- Floating rate bank loans
- Interest rate swaps

Financial risk management policies

Risks arising from holding financial instruments are inherent in the Group's activities and are managed through a process of ongoing identification, measurement and monitoring.

The Responsible Entity is responsible for identifying and controlling the risks that arise from these financial instruments.

The risks are measured using a method that reflects the expected impact on the results and net assets attributable to unitholders of the Group from changes in the relevant risk variables. Information about these risk exposures at the reporting date, measured on this basis, is disclosed below.

Concentrations of risk arise where a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

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29 Financial risk management (continued)

Liquidity risk and capital management

The table below reflects all contractually fixed repayments and interest resulting from recognised financial assets and liabilities as at 30 June 2017. The amounts disclosed in the table are the contractual undiscounted cash flows, except for interest rate swaps and bills of exchange where the cash flows have been estimated using interest rates applicable at the reporting date.

	Less than 6 months		6 months to 1 year		1 to 3 years		3 to 5 years		Over 5 years		Total	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Financial assets												-
Cash and cash equivalents	**3,838**	3,034	**-**	-	**-**	-	**-**	-	**-**	-	**3,838**	3,034
Trade and other receivables	**4,608**	7,239	**-**	-	**-**	-	**-**	-	**-**	-	**4,608**	7,239
Finance Lease - Breeders	**601**	-	**601**	-	**2,413**	-	**2,413**	-	**15,344**	-	**21,372**	-
Investment - BIL	**-**	-	**-**	-	**-**	-	**-**	-	**509**	509	**509**	509
Investment - CICL	**-**	-	**-**	-	**-**	-	**-**	-	**12,222**	9,334	**12,222**	9,334
Investment - MPC	**-**	-	**-**	-	**-**	-	**-**	-	**102**	102	**102**	102
Investment - RFP	**-**	-	**-**	-	**-**	-	**-**	-	**130**	133	**130**	133
Total	**9,047**	10,273	**601**	-	**2,413**	-	**2,413**	-	**28,307**	10,078	**42,781**	20,351
Financial liabilities												-
Interest bearing liabilities	**2,201**	2,560	**2,201**	3,560	**173,306**	155,740	**-**	-	**-**	-	**177,708**	161,860
Trade and other payables	**5,138**	6,920	**-**	-	**-**	-	**-**	-	**-**	-	**5,138**	6,920
Equipment loans	**531**	485	**494**	447	**1,566**	1,564	**874**	803	**154**	149	**3,619**	3,448
Interest rate swaps	**-**	568	**-**	-	**877**	1,301	**294**	244	**2,707**	7,077	**3,878**	9,190
Total	**7,870**	10,533	**2,695**	4,007	**175,749**	158,605	**1,168**	1,047	**2,861**	7,226	**190,343**	181,418

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

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30 June 2017

29 Financial risk management (continued)

Liquidity risk and capital management (continued)

The Responsible Entity of the Group defines capital as net assets attributable to unitholders. The Group's objectives when managing capital are to safeguard the going concern of the Group and to maintain an optimal capital structure.

The Group is able to maintain or adjust its capital by divesting assets to reduce debt or adjusting the amount of distributions paid to unitholders.

Interest rate swaps held for hedging

Interest rate risk is managed by using a floating rate debt and through the use of interest rate swap contracts. The Group does not speculate in the trading of derivative instruments.

Interest rate swap transactions are entered into by the Trust to exchange variable and fixed interest payment obligations to protect long-term borrowings from the risk of increasing interest rates. The economic entity has variable interest rate debt and enters into swap contracts to receive interest at variable rates and pay interest at fixed rates.

The notional principal amounts of the swap contracts approximates 53.5% (2016: 60%) of the Group's drawn down debt at 30 June 2017.

At balance date, the details of the interest rate swap contracts are:

	Effective average interest rate payable		Balance	
	2017	2016	2017	2016
	%	%	$'000	$'000
Maturity of notional amounts				
Settlement - between 0 to 3 years	**3.40**	3.44	**35,000**	75,000
Settlement - 3 to 5 years	**2.70**	-	**15,000**	-
Settlement - greater than 5 years	**3.19**	3.42	**38,000**	13,000
Total			**88,000**	88,000

Notes to the Financial Statements
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29 Financial risk management (continued)

Interest rate swaps held for hedging (continued)

The following interest rate swap contracts have been entered into at 30 June 2017 but are not yet effective.

	Effective average interest rate payable		Balance	
	2017	2016	2017	2016
	%	%	$'000	$'000
Maturity of notional amounts				
Settlement - between 3 to 5 years	**-**	2.50	**-**	10,000
Settlement - greater than 5 years	**3.04**	3.10	**100,000**	75,000
Total			**100,000**	85,000

The net gain recognised on the swap derivative instruments for the year ended 30 June 2017 was $5,311,000 (2016: $7,116,000 loss).

At 30 June 2017 the Group had the following mix of financial assets and liabilities exposed to variable interest rates:

	2017	2016
	$'000	$'000
Cash	**3,838**	3,034
Interest bearing liabilities	**(164,500)**	(146,500)
Total	**(160,662)**	(143,466)

At 30 June 2017, 1.91% (2016: 2.03%) of the Group's debt is fixed, excluding the impact of interest rate swap contracts.

Credit risk

The maximum exposure to credit risk (excluding the value of any collateral or other security) at balance date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets. This has been disclosed in the Consolidated Statement of Financial Position and notes to the financial statements.

Credit risk for derivative financial instruments arises from the potential failure by counterparties to the contract to meet their obligations.

Notes to the Financial Statements
30 June 2017

29 Financial risk management (continued)

Market risk

Interest rate risk (sensitivity analysis)

At 30 June 2017, the effect on profit before tax and equity as a result of changes in the interest rate, net of the effect of interest rate swaps, with all other variables remaining constant, would be as follows:

	2017 $'000	2016 $'000
Change in profit before income tax:		
Increase in interest rate by 1%	**10,395**	6,556
Decrease in interest rate by 1%	**(11,525)**	(7,221)
Change in equity:		
Increase in interest rate by 1%	**10,395**	6,556
Decrease in interest rate by 1%	**(11,525)**	(7,221)

30 Key management personnel

Directors

The Directors of RFM are considered to be key management personnel of the Group. The Directors of the Responsible Entity in office during the year and up to the date of this report are:

Guy Paynter
David Bryant
Michael Carroll
Julian Widdup (appointed 15 February 2017)

Interests of Directors of the Responsible Entity

Units in the Group held by Directors of RFM or related entities controlled by Directors of RFM as at 30 June 2017 are:

	Guy Paynter Units	David Bryant Units	Michael Carroll Units
Balance at 30 June 2015	382,156	3,656,191	-
Additions	151,100	3,987,152	-
Balance at 30 June 2016	**533,256**	**7,643,343**	-
Additions	281,440	4,034,839	19,389
Balance at 30 June 2017	**814,696**	**11,678,182**	**19,389**

Notes to the Financial Statements

30 June 2017

30 Key management personnel (continued)

Other key management personnel

In addition to the Directors noted above, RFM, as Responsible Entity of the Group is considered to be key management personnel with the authority for the strategic direction and management of the Group.

The constitutions of Rural Funds Trust and RF Active (the stapled entities forming the Group) are legally binding documents between the unitholders of the Group and RFM as Responsible Entity. Under the constitutions, RFM is entitled to the following remuneration:

- Management fee: 0.6% per annum (2016: 0.6%) of the gross value of Group assets; and,
- Asset management fee: 0.45% per annum (2016: 0.45%) of the gross value of Group assets.

Compensation of key management personnel

No amount is paid by the Group directly to the Directors of the Responsible Entity. Consequently, no compensation as defined in AASB 124 *Related Party Disclosures* is paid by the Group to the Directors as key management personnel. Fees paid to RFM as Responsible Entity are disclosed in note 31.

Notes to the Financial Statements
30 June 2017

31 Related party transactions

Transactions between the Group and related parties are on commercial terms and conditions.

Responsible Entity (Rural Funds Management) and related entities

Transactions between the Group and the Responsible Entity and its associated entities are shown below:

	30 June 2017 $'000	30 June 2016 $'000
Management fee	**1,883**	1,809
Asset management fee	**2,510**	1,356
Total management fees	**4,393**	3,165
Expenses reimbursed to RFM	**2,491**	2,231
Expenses reimbursed to RFM Poultry	**229**	-
Expenses due to Murdock Viticulture	**-**	199
Distribution paid/payable to RFM	**834**	376
Total amount paid to RFM and related entities	**7,947**	5,971
Rental income received from RFM Almond Fund 2006	**2,029**	1,945
Rental income received from RFM Almond Fund 2007	**606**	588
Rental income received from RFM Almond Fund 2008	**1,549**	1,498
Rental income received from RFM	**336**	372
Rental income received from RFM Farming Pty Limited	**148**	390
Rental income received from Cattle JV	**2,694**	-
Rental income received from Cotton JV	**991**	-
Rental income received from RFM Poultry	**10,520**	10,449
Rental income received from 2007 Macgrove Project	**744**	140
Rental income received from RMA Macadamias	**290**	-
Finance lease income from Cattle JV	**790**	-
Expenses charged to RFM Poultry	**1**	54
Distribution received/receivable from RFM Poultry	**14**	14
Distribution received/receivable from RFM StockBank	**4,018**	234
Water sale proceeds from RFM Almond Fund 2006	**44**	59
Water sale proceeds from RFM Almond Fund 2007	**12**	16
Water sale proceeds from RFM Almond Fund 2008	**34**	44
Water sale proceeds from RFM	**7**	9
Water sale proceeds from RFM Farming Pty Limited	**30**	52
Interest income from Cattle JV	**9**	-
Total amounts received from RFM and related entities	**24,866**	15,864

Murdock Viticulture is a vineyard manager 28% owned by RFM.

Notes to the Financial Statements
30 June 2017

31 Related party transactions (continued)

Debtors (including finance lease receivable)

	2017 $'000	2016 $'000
RFM Farming Pty Limited	**27**	3
RFM	**3**	41
RFM Macadamias Pty Limited	**-**	20
2007 Macgrove Project	**345**	538
Cattle JV	**11,770**	-
Cotton JV	**485**	-
Total	**12,630**	**602**

Creditors

	2017 $'000	2016 $'000
RFM	**472**	153
Total	**472**	153

Entities with influence over the Group

	Units	2017 %	Units	2016 %
Rural Funds Management Limited	**8,632,418**	**3.39**	5,153,833	3.12

Interest in related parties

	Units	2017 %	Units	2016 %
RFM StockBank	**3,897,259**	**33.50**	3,897,259	33.50
RFM Poultry	**108,615**	**1.58**	108,615	1.58

Notes to the Financial Statements
30 June 2017

32 Cash flow information

Reconciliation of net profit/(loss) after income tax to cash flow from operating activities:

	2017	Restated 2016
	$'000	$'000
Net profit/(loss) after income tax	**43,326**	(483)
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit		
Share of net profit - equity accounted investments	**(1,304)**	(61)
Change in fair value of bearer plants	**2,498**	8,776
Change in fair value of investment property	**(17,191)**	(3,343)
Change in fair value of interest rate swaps	**(5,311)**	7,116
Depreciation and impairments	**1,568**	939
Gain on sale of assets	**(33)**	(290)
Distributions received	**-**	(36)
Changes in operating assets and liabilities		
(Increase)/decrease in trade and other receivables	**2,618**	(4,510)
Decrease in other assets	**701**	48
Increase/(decrease) in trade and other payables	**(1,782)**	4,878
Decrease in deferred tax asset (net)	**1,824**	1,197
Net cash inflow from operating activities	**26,914**	14,231

Notes to the Financial Statements

30 June 2017

33 Events after the reporting date

No matter or circumstance has arisen since the end of the year that has significantly affected or could significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

34 Parent entity

The individual financial statements of the parent entity, Rural Funds Trust, show the following aggregate amounts:

	2017 $'000	Restated 2016 $'000
Statement of Financial Position		
ASSETS		
Current assets	**9,977**	13,285
Non-current assets	**499,645**	340,371
Total assets	**509,622**	353,656
LIABILITIES		
Current liabilities	**11,126**	10,578
Non-current liabilities	**170,013**	157,324
Total liabilities (excluding net assets attributable to unitholders)	**181,139**	167,902
Net assets attributable to unitholders	**328,483**	185,754
Total liabilities	**509,622**	353,656
Statement of Comprehensive Income		
Net profit after income tax	**37,386**	(1,365)
Other comprehensive income for the period, net of tax	**(8,850)**	34,664
Total comprehensive income attributable to unitholders	**28,536**	33,299

Rural Funds Group

Directors' Declaration

30 June 2017

In the Directors of the Responsible Entity's opinion:

1 The financial statements and notes of Rural Funds Group set out on pages 45 to 89 are in accordance with the *Corporations Act 2001*, including:

   a. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

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

2 There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Note 2 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the persons performing the chief executive officer and chief financial officer functions as required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Board of the Directors of Rural Funds Management Limited.

David Bryant
Director

21 August 2017

Independent auditor's report

To the stapled security holders of Rural Funds Group

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Rural Funds Trust (the Registered Scheme) and its controlled entities (including RF Active) (together Rural Funds Group, or the Group) is in accordance with the *Corporations Act 2001*, including:

(a) 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 then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2017
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in net assets attributable to unitholders for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of 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 also fulfilled our other ethical responsibilities in accordance with the Code.

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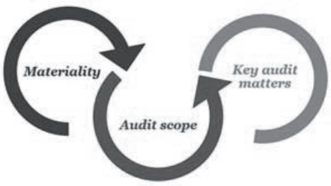
Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

The structure of Rural Funds Group is commonly referred to as a "stapled group". In a stapled group the securities of two or more entities are 'stapled' together and cannot be traded separately. In the case of the Group, the units in Rural Funds Trust have been stapled to the units in RF Active. For the purposes of consolidation accounting, Rural Funds Trust is 'deemed' the parent and the consolidated report reflects the consolidation of Rural Funds Trust and its controlled entities, including RF Active.



Materiality

- For the purpose of our audit we used overall Group materiality of $3.5 million, which represents approximately 1% of the Group's net assets.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group net assets because, in our view, it is the benchmark against which the financial position of the Group is most reliably measured.
- We used a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit scope

Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.

The audit of the group was performed by a team primarily in Sydney which included individuals with industry expertise and valuation experts.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit 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. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit Committee.

Key audit matter	***How our audit addressed the key audit matter***
Valuation of investment properties *(Refer to note 3, 12) $273.8m* Investment properties are carried at fair value. All agricultural assets, which comprise investment properties, bearer plants, and water entitlements have been externally valued in the last 12 months, with the exception of the Poultry property and infrastructure and the macadamia orchard properties which were externally valued at 30 June 2016. The directors monitor and update the key inputs of the valuation model and consider whether any significant market indicators suggest that the valuation has changed and as such an updated external valuation is needed. Key variables in the valuation model included discount rates, capitalisation rates, passing rents and comparable sales. Factors such as prevailing market conditions, and the individual nature, condition, location and the expected future income of these properties impacted these variables. This was a key audit matter because of the: • size of the investment property balance in the consolidated statement of financial position • quantum of revaluation gains that could directly impact the consolidated statement of comprehensive income through the net fair value gain/loss of investment properties • inherently subjective nature of investment property valuations due to the use of assumptions and estimates in the valuation model • sensitivity of valuations to key inputs/assumptions in the model such as the discount rate and capitalisation rates.	We compared a sample of inputs used in the valuation model, such as rental income and lease terms, to the relevant tenancy schedules and lease agreements. We compared the market rents, discount rates and capitalisation rates used in the valuation models for a sample of investment properties to an acceptable range which we determined based on benchmark market data. Where the rates used fell outside of our anticipated range, we discussed the rationale supporting the rates applied in the valuation with management and obtained supporting documents for the rationale provided. Where an external valuation of investment properties was obtained: • We assessed the competency, qualifications, experience and objectivity of any external valuers used by the Group. • We read the valuers' terms of engagement - we did not identify any terms that might affect their objectivity or impose limitations on their work relevant to the valuation. • We inspected the final valuation reports and agreed the fair value as per the valuation to the value recorded in the Group's accounting records.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td></td><td></td></tr>
<tr><td>Valuation of bearer plants
(Refer to note 11) $121.2m

The Group's bearer plants include almond trees, macadamia trees and wine grape vines, which are classified as Plant and equipment and carried at fair value.

The valuations described in the Valuation of investment properties key audit matter above are determined for the agricultural assets as a whole. The valuers also determine the value of the investment property and water entitlements in isolation. As a result, the directors determine the fair value of bearer plants as the residual value after deducting the fair value of land and water entitlements from the value of the agricultural assets. The fair value of water entitlements are determined based on the volume of water and the market rates for water. For reference, water entitlements are carried at historic cost and assessed for impairment annually.

This was a key audit matter because of the:

• size of the bearer plants on the consolidated statement of financial position

• quantum of revaluation gains that could directly impact the consolidated statement of comprehensive income through the net fair value gain/loss of bearer plants

• inherently subjective nature and sensitivity of the valuations due to the use of assumptions and estimates as described in the Valuation of investment properties key audit matter.</td><td>In addition to the audit procedures described in the Valuation of investment properties key audit matter, we performed the below procedures, amongst others, with respect to the value of bearer plants.

We reperformed the calculation of the fair value of bearer plants, by deducting the fair value of land and infrastructure and water entitlements from the fair value of the agricultural asset.

In respect of the fair value of water entitlements, we
• agreed the volume of water to water entitlements certificates
• agreed the water rate to market rates as quoted by the external valuers engaged to value the agricultural assets.

We evaluated the directors' estimation of the fair value of land and infrastructure by, for example, considering comparable sales transactions.

We considered whether the methodology used to determine the value of bearer plants was in line with the requirements of Australian Accounting Standards.</td></tr>
<tr><td>Related party transactions
(Refer to note 31)

The Group's Responsible Entity, along with other funds for which it is the Responsible Entity, are considered related parties of the Group. Key transactions with these parties include:
• Lease of investment properties, land, building and plant and equipment
• Lease of bearer plants
• Lease of cattle for breeding
• Lease of water entitlements.</td><td>• We obtained an understanding of the Group's processes for identifying related parties and related party transactions, through discussions with management.

• For significant contracts entered into during the year, we verified that the transactions were approved in accordance with internal procedures including involvement of key personnel at the appropriate level by inspecting relevant supporting documents.</td></tr>
</table>

Key audit matter	*How our audit addressed the key audit matter*
• Management fees • Asset management fees • Distributions from investments • Recharge of operating expenses We considered the related party transactions to be a key audit matter due to the influence of related parties on the Group, as well as the potential impact of these transaction on the results of the Group. Additionally, because of their nature, they are pervasive and material to the presentation of and disclosures within the financial report.	• For a sample of lease income received during the year, we agreed the lease income to the relevant supporting documents including the lease agreements and evaluated the directors' assertion that the transactions were at arm's length by comparing the transactions to the market data which was used by the external valuers in their valuation of the related investment property. • For management and asset management fees, we compared the rates used to determine fees to the rates disclosed in the prospectus documents for the related funds. • We discussed the related party transactions with management to obtain an understanding of the business rationale for the transactions. • For a sample of related party agreements, we assessed the rights and obligations of the parties as per the terms and conditions of the agreements and, taking these into account, whether the transactions were recorded appropriately by the Group. • We assessed the adequacy of the disclosures in Note 31, of related party relationships and transactions in light of the requirements of Australian Accounting Standards.

Other information

The directors of Rural Funds Management Limited (the Responsible Entity of the Group) (the directors) are responsible for the other information. The other information included in the Group's annual report for the year ended 30 June 2017 comprises the *Directors' Report*, and *ASX additional information* (but does not include the financial report and our auditor's report thereon), which we obtained prior to the date of this auditor's report. We also expect information to be made available to us after the date of this auditor's report, including *Letter from the Managing Director* and *Corporate governance statement*.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, 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.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the other information not yet received as identified above, if we conclude that there is a material misstatements therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Responsible Entity 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 objectives are 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 the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 the 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_responsibilities/ar1.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

CMC Heraghty
Partner

Sydney
21 August 2017

Rural Funds Management