

# Rural Funds Group (RFF)

Financial Statements  
For the Half Year Ended 31 December 2017

# Rural Funds Group

## Contents

Corporate Directory	1
Directors' Report	2
Auditor's Independence Declaration	8
Consolidated Statement of Comprehensive Income	9
Consolidated Statement of Financial Position	10
Consolidated Statement of Changes in Net Assets Attributable to Unitholders	12
Consolidated Statement of Cash Flows	13
Notes to the Financial Statements	14
Directors' Declaration	29
Independent Auditor's Review Report	30

# 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

31 December 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 half year ended 31 December 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 half 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

### Principal activities and significant changes in nature of activities

The principal activity of the Group during the half 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, cattle and water rights.

The following activities of the Group changed during the half year:

- In December 2017, the Group purchased three contiguous cattle properties, Natal Downs, Longton and Narellan near Charters Towers in north Queensland. The three properties, collectively referred to as the Natal aggregation, encompass an area of 390,600 hectares and are leased to DA & JF Camm Pty Limited, a member of the Camm Agricultural Group, for ten years. As part of the transaction, the Group has provided the lessee a \$5,000,000 cattle financing facility to fund the purchase of trade cattle. The facility was not drawn during the half year. In addition, a \$10,000,000 secured loan with a term of ten years was extended to the lessee as part of the lease agreement.

### Operating results

The consolidated net profit after income tax of the Group for the half year ended 31 December 2017 amounted to \$16,749,000 (31 December 2016: \$17,159,000). The consolidated total comprehensive income of the Group for the half year ended 31 December 2017 amounted to \$16,749,000 (31 December 2016: \$19,814,000).

The Group holds investment property, bearer plants and derivatives at fair value. After adjusting for the effects of fair value adjustments, depreciation and impairments during the half year the profit before tax would have been \$15,406,000 (31 December 2016: \$12,634,000) representing adjusted funds from operations (AFFO).

# Rural Funds Group

## Directors' Report

31 December 2017

### Adjusted funds from operations (AFFO)

	31 December 2017 \$'000	31 December 2016 \$'000
<b>Net profit before income tax</b>	<b>17,059</b>	17,533
Change in fair value of investment property	<b>(4,051)</b>	2,194
Change in fair value of plant and equipment – bearer plants	-	(527)
Change in fair value of interest rate swaps	<b>1,970</b>	(5,622)
Depreciation and impairments	<b>440</b>	620
Gain on sale of assets	<b>(12)</b>	(22)
Share of net profit of associate attributable to change in fair value of investment property	-	(1,542)
<b>AFFO</b>	<b>15,406</b>	12,634
<b>AFFO cents per unit</b>	<b>6.0</b>	6.3

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 \$362,794,000 at 31 December 2017 from \$357,678,000 at 30 June 2017.

At 31 December 2017 the Group had total assets of \$641,118,000 (30 June 2017: \$543,003,000).

At 31 December 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 \$119,678,000 (30 June 2017: \$121,469,000). An independent valuation for the half year ended 31 December 2017 was received for unattached water entitlements, including the high security Murrumbidgee River water entitlements. 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 31 December 2017 and on this basis the fair value of water entitlements at 31 December 2017 was \$165,962,000 (30 June 2017: \$166,012,000). The value of water entitlements is illustrated in the table below:

	31 December 2017 \$'000	30 June 2017 \$'000
Intangible assets (water entitlements)	<b>106,947</b>	108,738
Investment in CICL	<b>12,222</b>	12,222
Investment in BIL	<b>509</b>	509
<b>Total book value of water entitlements</b>	<b>119,678</b>	121,469
Revaluation of intangible assets per valuation	<b>46,284</b>	44,543
<b>Adjusted total water entitlements</b>	<b>165,962</b>	166,012

# Rural Funds Group

## Directors' Report

31 December 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.

	<b>31 December 2017 \$'000</b>	<b>30 June 2017 \$'000</b>
Net assets per Consolidated Statement of Financial Position	<b>362,794</b>	357,678
Revaluation of intangible assets per valuation	<b>46,284</b>	44,543
<b>Adjusted net assets</b>	<b>409,078</b>	402,221
<b>Adjusted NAV per unit</b>	<b>1.60</b>	1.58

### Significant changes in state of affairs

In December 2017, the Group purchased three contiguous cattle properties, Natal Downs, Longton and Narellan in north Queensland.

In December 2017, the Group negotiated an increase to its syndicated debt facility from \$250,000,000 to \$275,000,000 with no change to the facility expiry, being December 2019.

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

### Property leasing

At 31 December 2017 the Group held 38 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 on completion);
- 7 vineyards (666 planted hectares);
- 3 macadamia orchards (259 planted hectares);
- 6 cattle properties (633,900 hectares).
- 1 cotton property (1,272 irrigable hectares)

During the half year ended 31 December 2017, the properties held by the Group recorded a fair value of investment properties increment of \$4,051,000 (31 December 2016: \$2,194,000 loss) and a fair value of bearer plants increment of nil (31 December 2016: \$3,197,000 gain).

#### *Almond orchards*

The three fully established almond orchard properties (including water entitlements) are located in Hillston, NSW and are leased to tenants who make regular rental payments. These encompass a planted area of 2,414 hectares (31 December 2016: 2,414 hectares):

- Yilgah 1,006 planted hectares (31 December 2016: 1,006);
- Moorral 808 planted hectares (31 December 2016: 808);
- Tocabil 600 planted hectares (31 December 2016: 600).

# Rural Funds Group

## Directors' Report

31 December 2017

### Property leasing (continued)

#### *Almond orchards (continued)*

These properties are under lease to the following tenants:

- Select Harvests Limited (SHV) 1,221 planted hectares (31 December 2016: 1,221);
- Olam Orchards Australia Pty Limited (Olam) 600 planted hectares (31 December 2016: 600);
- RFM Almond Fund 2006 (AF06) 272 planted hectares (31 December 2016: 272);
- RFM Almond Fund 2007 (AF07) 73 planted hectares (31 December 2016: 73);
- RFM Almond Fund 2008 (AF08) 206 planted hectares (31 December 2016: 206);
- Rural Funds Management Limited (RFM) 42 planted hectares (31 December 2016: 42).

The Kerarbury property is located in Darlington Point, NSW and is leased to Olam Orchards Australia Pty Limited. It is under development with a planned planted area of 2,500 hectares.

For its almond orchards the Group owns water entitlements of 65,743ML (31 December 2016: 57,617ML) comprising groundwater, high security river water, general security river water, and supplementary river water. In addition, the Group owns 21,430ML (31 December 2016: 21,430ML) of water delivery entitlements that provide access to water delivery through CICL, with a low annual allocation expected to be provided.

#### *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 (31 December 2016: 1,432ML). Leases are in place with RFM Poultry, a scheme managed by RFM, for 100% (31 December 2016: 100%) of the poultry property and infrastructure, with remaining lease terms between 6 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 (31 December 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.

The Group underwent a rent review for the properties leased to Treasury Wine Estates which was effective from 1 July 2017.

#### *Macadamia orchards*

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

- 2007 Macgrove Project (M07) 234 hectares (31 December 2016: 234);
- Rural Funds Management Limited (RFM) 25 hectares (31 December 2016: 25).

#### *Cattle properties*

Cattle properties are located in QLD, comprising of cattle breeding, backgrounding and finishing properties. These are Rewan, near Rolleston in central Queensland and Mutton Hole and Oakland Park in far north Queensland. The Natal aggregation is located near Charters Towers in north Queensland. The properties comprise a combined 633,900 hectares and are leased to the following tenants:

- Cattle JV Pty Limited, a wholly owned subsidiary of RFM, leasing Rewan, Mutton Hole and Oakland Park (243,300 hectares);
- DA & JF Camm Pty Limited, a member of the Camm Agricultural Group, leasing the Natal aggregation (390,600 hectares).

The lease transaction of the Natal aggregation includes a \$10 million secured loan provided to the lessee and a \$5 million cattle financing facility to fund the purchase of trade cattle.

# Rural Funds Group

## Directors' Report

31 December 2017

### Property leasing (continued)

#### *Cotton property*

A 4,880 hectare cotton property located near Emerald, QLD is leased to Cotton JV Pty Limited, a joint venture between RFM and Queensland Cotton Corporation Pty Limited (a subsidiary of Olam International Limited), for five years.

### Other activities

Agricultural plant and equipment with a net book value of \$5,538,000 (30 June 2017: \$5,127,000) is owned by the Group and leased to AF06, AF07, AF08, M07 and Cattle JV Pty Limited.

Breeder assets with a net book value of \$14,024,000 (30 June 2017: \$10,953,000) are leased to Cattle JV Pty Limited.

### Banking facilities

At 31 December 2017 the core debt facility available to the Group was \$275,000,000 (30 June 2017: \$250,000,000), with a drawn down balance of \$253,500,000 (30 June 2017: \$164,500,000). The facility expires in December 2019. At 31 December 2017, RFF had active interest rate swaps totaling 42.6% (30 June 2017: 53.5%) of the drawn down balance to manage interest rate risk.

### Distributions

	Cents	Total
	per unit	\$
Distribution declared 7 June 2017, paid 31 July 2017	2.4100	6,130,580
Distribution declared 30 August 2017, paid 31 October 2017	2.5075	6,386,447
Distribution declared 1 December 2017, paid 31 January 2018	2.5075	6,393,099

### Earnings per unit

Net profit after income tax for the year (\$'000)	16,749
Weighted average number of units on issue during the year	254,729,029
Basic and diluted earnings per unit (total) (cents)	6.58

### 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 half year ended 31 December 2017 is 1.39% (31 December 2016: 3.11%). The ICR for the prior period was impacted by costs associated with the rights issue completed in July 2016.

### Matters subsequent to the end of the half 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.



# Rural Funds Group

## Directors' Report

31 December 2017

### 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

254,959,086 units in Rural Funds Trust were on issue at 31 December 2017 (31 December 2016: 207,336,535). During the half year 578,188 units were issued by the Trust (31 December 2016: 41,979,245) and nil (31 December 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.

### Auditor's independence declaration

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001* for the half year ended 31 December 2017 has been received and is included on page 8 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

20 February 2018



## Auditor's Independence Declaration

As lead auditor for the review of Rural Funds Group for the half-year ended 31 December 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 review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

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

A handwritten signature in black ink, appearing to be 'J. Heraghty', written over a horizontal line.

CMC Heraghty  
Partner  
PricewaterhouseCoopers

Sydney  
20 February 2018

---

**PricewaterhouseCoopers, ABN 52 780 433 757**

One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001  
T: +61 2 8266 0000, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124  
T: +61 2 9659 2476, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.

# Rural Funds Group

## Consolidated Statement of Comprehensive Income For the half year ended 31 December 2017

	Note	31 December 2017 \$'000	31 December 2016 \$'000
Revenue	6	24,141	19,642
Other income		86	120
Management fees		(2,886)	(2,091)
Property expenses		(568)	(626)
Finance costs		(4,017)	(3,503)
Other expenses		(1,350)	(1,073)
Share of net profit - equity accounted investments		-	1,707
Gain on sale of assets		12	22
Depreciation and impairments		(440)	(620)
Change in fair value of plant and equipment - bearer plants		-	527
Change in fair value of investment property		4,051	(2,194)
Change in fair value of interest rate swaps		(1,970)	5,622
<b>Net profit before income tax</b>		<b>17,059</b>	17,533
Income tax expense		(310)	(374)
<b>Net profit after income tax</b>		<b>16,749</b>	17,159
<b>Other comprehensive income:</b>			
Revaluation increment - bearer plants		-	2,670
Income tax relating to these items		-	(15)
<b>Other comprehensive income for the year, net of tax</b>		<b>-</b>	2,655
<b>Total comprehensive income attributable to unitholders</b>		<b>16,749</b>	19,814
<b>Total comprehensive income for the year attributable to unitholders arising from:</b>			
Rural Funds Trust		16,723	19,612
RF Active (non-controlling interest)		26	202
		<b>16,749</b>	19,814
<b>Earnings per unit</b>			
Basic and diluted earnings per unit from continuing operations:			
Per stapled unit (cents)		6.58	8.55
Per unit of Rural Funds Trust (cents)		6.57	8.45
Per unit of RF Active (cents)		0.01	0.10

The accompanying notes form part of these financial statements.

# Rural Funds Group

## Consolidated Statement of Financial Position

As at 31 December 2017

		31 December 2017 \$'000	30 June 2017 \$'000
	Note		
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		2,553	3,838
Trade and other receivables		8,133	4,608
Other current assets		400	1,800
<b>Total current assets</b>		<b>11,086</b>	<b>10,246</b>
<b>Non-current assets</b>			
Financial assets	7	36,987	23,916
Plant and equipment		5,538	5,127
Plant and equipment - bearer plants	8	137,411	121,193
Investment property	8	343,149	273,783
Intangible assets	9	106,947	108,738
<b>Total non-current assets</b>		<b>630,032</b>	<b>532,757</b>
<b>Total assets</b>		<b>641,118</b>	<b>543,003</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		6,609	5,138
Interest bearing liabilities	10	3,260	3,204
Distributions payable		6,561	6,368
<b>Total current liabilities</b>		<b>16,430</b>	<b>14,710</b>
<b>Non-current liabilities</b>			
Interest bearing liabilities	10	253,500	164,500
Other non-current liabilities		1,634	1,634
Derivative financial liabilities		5,849	3,878
Deferred tax liabilities		911	603
<b>Total non-current liabilities</b>		<b>261,894</b>	<b>170,615</b>
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<b>278,324</b>	<b>185,325</b>
Net assets attributable to unitholders		362,794	357,678
<b>Total liabilities</b>		<b>641,118</b>	<b>543,003</b>

The accompanying notes form part of these financial statements.

# Rural Funds Group

## Consolidated Statement of Financial Position

As at 31 December 2017

		31 December 2017 \$'000	30 June 2017 \$'000
	Note		
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>			
<b>Unitholders of Rural Funds Trust</b>			
Issued units	11	241,908	252,880
Asset revaluation reserve		27,575	27,575
Accumulated profit		89,909	73,860
<b>Parent entity interest</b>		<b>359,392</b>	354,315
<b>Unitholders of RF Active</b>			
Issued units	11	3,079	3,066
Accumulated profit		323	297
<b>Non-controlling interest</b>		<b>3,402</b>	3,363
<b>Total net assets attributable to unitholders</b>		<b>362,794</b>	357,678

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.

# Rural Funds Group

## Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the half year ended 31 December 2017

31 December 2017	Note	Issued units	Retained earnings	Asset revaluation reserve	Total	Non-controlling interest	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 July 2017</b>		<b>252,880</b>	<b>73,860</b>	<b>27,575</b>	<b>354,315</b>	<b>3,363</b>	<b>357,678</b>
Other comprehensive income		-	-	-	-	-	-
<b>Total other comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Profit before income tax		-	17,018	-	17,018	41	17,059
Income tax expense		-	(295)	-	(295)	(15)	(310)
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>16,723</b>	<b>-</b>	<b>16,723</b>	<b>26</b>	<b>16,749</b>
<b>Issued units</b>							
Units issued during the year		1,123	-	-	1,123	11	1,134
Issue costs		11	-	-	11	2	13
<b>Total issued units</b>	11	<b>1,134</b>	<b>-</b>	<b>-</b>	<b>1,134</b>	<b>13</b>	<b>1,147</b>
Distributions to unitholders	12	(12,106)	(674)	-	(12,780)	-	(12,780)
<b>Balance at 31 December 2017</b>		<b>241,908</b>	<b>89,909</b>	<b>27,575</b>	<b>359,392</b>	<b>3,402</b>	<b>362,794</b>
<b>31 December 2016</b>							
		Issued units	Retained earnings	Asset revaluation reserve	Total	Non-controlling interest	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 July 2016</b>		134,110	34,952	36,916	205,978	1,886	207,864
Derecognise reserves to retained earnings		-	1,392	(1,392)	-	-	-
Other comprehensive income		-	-	2,670	2,670	-	2,670
Income tax expense		-	-	(15)	(15)	-	(15)
<b>Total other comprehensive income</b>		<b>-</b>	<b>1,392</b>	<b>1,263</b>	<b>2,655</b>	<b>-</b>	<b>2,655</b>
Profit before income tax		-	17,257	-	17,257	276	17,533
Income tax expense		-	(301)	-	(301)	(73)	(374)
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>18,348</b>	<b>1,263</b>	<b>19,611</b>	<b>203</b>	<b>19,814</b>
<b>Issued units</b>							
Units issued during the period		61,392	-	-	61,392	619	62,011
Issue costs		(2,402)	-	-	(2,402)	(24)	(2,426)
<b>Total issued units</b>		<b>58,990</b>	<b>-</b>	<b>-</b>	<b>58,990</b>	<b>595</b>	<b>59,585</b>
Distributions to unitholders		(7,488)	(2,496)	-	(9,984)	-	(9,984)
<b>Balance at 31 December 2016</b>		<b>185,612</b>	<b>50,804</b>	<b>38,179</b>	<b>274,595</b>	<b>2,684</b>	<b>277,279</b>

The accompanying notes form part of these financial statements.

# Rural Funds Group

## Consolidated Statement of Cash Flows

For the half year ended 31 December 2017

	Note	31 December 2017 \$'000	31 December 2016 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		22,727	22,191
Payments to suppliers		(1,656)	(4,166)
Interest received		42	60
Finance costs		(4,495)	(3,324)
<b>Net cash inflow from operating activities</b>		<b>16,618</b>	<b>14,761</b>
<b>Cash flows from investing activities</b>			
Payments for investment property		(65,315)	(74,101)
Payments for plant and equipment - bearer plants		(16,218)	(7,236)
Payments for intangible assets		(8)	(44,420)
Payments for financial assets		(13,095)	(12,519)
Payments for plant and equipment		(897)	(1,081)
Proceeds from sale of assets		9	-
Distributions from equity accounted investments		-	3,248
Distributions received		5	120
<b>Net cash outflow from investing activities</b>		<b>(95,519)</b>	<b>(135,989)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of units	11	1,147	59,585
Proceeds from borrowings		89,056	72,019
Distributions paid		(12,587)	(8,679)
<b>Net cash inflow from financing activities</b>		<b>77,616</b>	<b>122,925</b>
<b>Net (decrease)/increase in cash and cash equivalents held</b>		<b>(1,285)</b>	<b>1,697</b>
Cash and cash equivalents at the beginning of the period		3,838	3,034
<b>Cash and cash equivalents at the end of the period</b>		<b>2,553</b>	<b>4,731</b>

The accompanying notes form part of these financial statements.

# Rural Funds Group

## Notes to the Financial Statements

31 December 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 20 February 2018 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*.

### 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 accounting policies adopted for the half year ended 31 December 2017 are consistent with those of the financial year ended 30 June 2017.

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.

This general purpose financial report for the half year ended 31 December 2017 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the full financial report.

It is recommended that the half year financial report be read in conjunction with the annual financial report for the financial year ended 30 June 2017 and any public announcements made by the Group during the half year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

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.



# Rural Funds Group

## Notes to the Financial Statements

31 December 2017

### 2 Summary of significant accounting policies (continued)

#### 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 would be expected to have a material impact on the entity in the current or future reporting periods.

#### 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.

#### 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.

# Rural Funds Group

## Notes to the Financial Statements

31 December 2017

### 2 Summary of significant accounting policies (continued)

#### *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.

### 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 for properties every 2 years or more often when deemed appropriate. Directors have considered independent valuations and market evidence where appropriate to determine the fair value to adopt. Independent property valuations were obtained for unallocated water entitlements, including the high security Murrumbidgee River water entitlements, the cotton property, and the cattle properties located near Rolleston in central Queensland and Charters Towers in north Queensland, from independent valuer, CBRE Valuations Pty Limited for the half year ended 31 December 2017.

Directors' valuations have been performed on almond orchards and associated properties, poultry property and infrastructure, macadamia orchards, vineyard properties and cattle properties in far north Queensland for the 31 December 2017 financial statements which have been based on valuation methodologies adopted in previous external valuations and applying Directors' assumptions. A value-in-use approach has been applied to value assets.

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 models 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.

# Rural Funds Group

## Notes to the Financial Statements

31 December 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 31 December 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 (31 December 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 31 December 2017 is \$119,678,000 (30 June 2017: \$121,469,000).

The value of any water entitlements are evaluated as part of any external valuations obtained. The Directors consider the previous valuations as reasonable estimates of the fair value at 31 December 2017. An independent valuation for the half year ended 31 December 2017 was received for unallocated water entitlements, including the high security Murrumbidgee River water entitlements. These valuations value the water rights at 31 December 2017 at \$165,962,000 (30 June 2017: \$166,012,000) representing a movement in the value of the water rights above cost of \$46,284,000 (30 June 2017: \$44,543,000).

The following is a comparison of the book value at 31 December 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
<b>Assets</b>			
Total current assets	11,086	-	11,086
Total non-current assets	630,032	46,284	676,316
<b>Total assets</b>	<b>641,118</b>	<b>46,284</b>	<b>687,402</b>
<b>Liabilities</b>			
Total current liabilities	16,430	-	16,430
Total non-current liabilities	261,894	-	261,894
<b>Total liabilities (excluding net assets attributable to unitholders)</b>	<b>278,324</b>	<b>-</b>	<b>278,324</b>
<b>Net assets attributable to unitholders</b>	<b>362,794</b>	<b>46,284</b>	<b>409,078</b>
Net asset value per unit (\$)	1.42	0.18	1.60

# Rural Funds Group

## Notes to the Financial Statements

31 December 2017

<b>6</b>	<b>Revenue</b>	<b>31 December 2017 \$'000</b>	<b>31 December 2016 \$'000</b>
	Rental revenue	23,435	19,253
	Finance income	706	389
	<b>Total</b>	<b>24,141</b>	<b>19,642</b>
<b>7</b>	<b>Financial assets</b>	<b>31 December 2017 \$'000</b>	<b>30 June 2017 \$'000</b>
	<b>Non-current</b>		
	Investment - BIL	509	509
	Investment - CICL	12,222	12,222
	Investment - RFM Poultry	130	130
	Finance Lease - Breeders	14,024	10,953
	Investment - Macadamias Processing Co	102	102
	Term Loan - DA & JF Camm Pty Limited	10,000	-
	<b>Total</b>	<b>36,987</b>	<b>23,916</b>

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.

A \$10,000,000 secured loan with a term of ten years was extended to DA & JF Camm Pty Limited as part of the lease of the Natal aggregation located near Charters Towers, QLD.

## 8 Fair value measurement of assets and liabilities

### *Fair value hierarchy*

This note provides an update on the judgements and estimates made by the group in determining the fair values of the financial instruments since the last annual financial report. 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.

# Rural Funds Group

## Notes to the Financial Statements

31 December 2017

### 8 Fair value measurement of assets and liabilities (continued)

#### Financial assets and liabilities

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>31 December 2017</b>				
<b>Recurring fair value measurements</b>				
<b>Financial assets</b>				
Equity securities (listed)	130	-	-	130
Equity securities (unlisted)	-	-	12,833	12,833
<b>Total</b>	<b>130</b>	<b>-</b>	<b>12,833</b>	<b>12,963</b>
<b>Financial liabilities</b>				
Derivatives	-	5,849	-	5,849
<b>Total</b>	<b>-</b>	<b>5,849</b>	<b>-</b>	<b>5,849</b>
<b>30 June 2017</b>				
<b>Financial assets</b>				
Equity securities (listed)	130	-	-	130
Equity securities (unlisted)	-	-	12,833	12,833
<b>Total</b>	<b>130</b>	<b>-</b>	<b>12,833</b>	<b>12,963</b>
<b>Financial liabilities</b>				
Derivatives	-	3,878	-	3,878
<b>Total</b>	<b>-</b>	<b>3,878</b>	<b>-</b>	<b>3,878</b>

There were no transfers between levels for recurring fair value measurements during the half year.

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 half year (30 June 2017: 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.

#### **Non-financial assets**

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 31 December 2017 all non-financial assets are level 3.

# Rural Funds Group

## Notes to the Financial Statements

31 December 2017

### 8 Fair value measurement of assets and liabilities (continued)

#### Non-financial assets (continued)

<b>31 December 2017</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Investment properties</b>		
Almond orchard property	105,248	105,248
Poultry property and infrastructure	81,511	81,511
Vineyard property	25,435	25,435
Macadamia orchard property	2,128	2,128
Cotton property	26,438	26,438
Cattle property	102,389	102,389
<b>Plant and equipment - bearer plants</b>		
Almond orchard	110,556	110,556
Vines	20,736	20,736
Macadamia orchard	6,119	6,119
<b>Total non-financial assets</b>	<b>480,560</b>	<b>480,560</b>
<b>30 June 2017</b>		
<b>Investment properties</b>		
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
<b>Plant and equipment - bearer plants</b>		
Almond orchard	95,285	95,285
Vines	19,789	19,789
Macadamia orchard	6,119	6,119
<b>Total non-financial assets</b>	<b>394,976</b>	<b>394,976</b>

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 for properties every 2 years or more often when deemed 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

## Notes to the Financial Statements

31 December 2017

### 8 Fair value measurement of assets and liabilities (continued)

#### Non-financial assets (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			Total
	Almond orchard property	Poultry property	Vineyard property	Macadamia orchard property	Cotton property	Cattle property	Almond orchard	Vines	Macadamia orchard	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Opening balance 1 July 2017</b>	<b>95,605</b>	<b>83,011</b>	<b>25,435</b>	<b>2,015</b>	<b>24,157</b>	<b>43,560</b>	<b>95,285</b>	<b>19,789</b>	<b>6,119</b>	<b>394,976</b>
Acquisitions	-	-	-	-	-	53,156	-	-	-	53,156
Additions	9,643	-	-	113	1,747	656	15,271	947	-	28,377
Fair value adjustment	-	(1,500)	-	-	534	5,017	-	-	-	4,051
<b>Closing balance 31 December 2017</b>	<b>105,248</b>	<b>81,511</b>	<b>25,435</b>	<b>2,128</b>	<b>26,438</b>	<b>102,389</b>	<b>110,556</b>	<b>20,736</b>	<b>6,119</b>	<b>480,560</b>
<b>Opening balance 1 July 2016</b>	58,329	86,011	23,156	1,455	-	-	89,614	17,449	6,143	282,157
Acquisitions	-	-	-	-	41,517	22,935	-	-	-	65,155
Additions	8,710	-	-	236	703	-	7,087	149	-	16,182
Fair value adjustment	-	(1,500)	-	-	163	(857)	2,620	601	(24)	1,003
<b>Closing balance 31 December 2016</b>	<b>67,039</b>	<b>84,511</b>	<b>23,156</b>	<b>1,691</b>	<b>42,383</b>	<b>22,078</b>	<b>99,321</b>	<b>18,199</b>	<b>6,119</b>	<b>364,497</b>

# Rural Funds Group

## Notes to the Financial Statements

31 December 2017

### 8 Fair value measurement of assets and liabilities (continued)

#### Non-financial assets (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
	31 December 2017 \$'000		31 December 2017	
Almond orchard property (excluding water licences)**	215,804	Discount rate	8.75%	The higher the discount the lower the fair value.
Poultry property and infrastructure (excluding water licences)**	81,511	Capitalisation rate	10.75% - 14.80%	The higher the capitalisation rate, the lower the fair value.
Vineyard (excluding water licences)**	46,171	Discount rate	9.50%	The higher the discount rate, the lower the fair value.
Cotton property and infrastructure (excluding water licences)**	26,438	Discount rate \$ per ha of land area by use	9.00% \$1,200 - \$17,000	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 licences)**	102,389	Discount rate \$ per adult equivalent carrying capacity	9.00% \$650 - \$4,550	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)**	8,247	Discount rate	9.25%	The higher the discount 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 9 to the consolidated financial statements.



# Rural Funds Group

## Notes to the Financial Statements

31 December 2017

### 8 Fair value measurement of assets and liabilities (continued)

#### Non-financial assets (continued)

##### *Valuation processes*

Directors obtain independent valuations for properties every 2 years or more often when deemed appropriate. Directors have considered independent valuations and market evidence where appropriate to determine the 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.

# Rural Funds Group

## Notes to the Financial Statements

31 December 2017

### 9 Intangible assets

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

31 December 2017	Almonds \$'000	Poultry infrastructure \$'000	Vineyards \$'000	Macadamias \$'000	Cotton \$'000	Other \$'000	Total \$'000
<b>Non-current</b>							
<b>Opening net book amount</b>	68,333	1,049	500	808	3,672	34,376	108,738
Additions	1	-	-	7	-	-	8
Transfers	(2,693)	-	-	-	-	2,693	-
Disposals	(1,853)	-	-	-	-	-	(1,853)
Reversal of impairment	-	-	-	-	-	54	54
<b>Closing net book amount</b>	63,788	1,049	500	815	3,672	37,123	106,947
Cost	67,341	1,049	500	815	3,672	34,430	107,807
Accumulated amortisation and impairment	(860)	-	-	-	-	-	(860)
<b>Net book amount</b>	66,481	1,049	500	815	3,672	34,430	106,947
<b>30 June 2017</b>							
	Almonds \$'000	Poultry infrastructure \$'000	Vineyards \$'000	Macadamias \$'000	Cotton \$'000	Other \$'000	Total \$'000
<b>Non-current</b>							
<b>Opening net book amount</b>	57,540	1,049	500	602	-	-	59,691
Additions	11,450	-	-	206	3,672	34,430	49,758
Impairment	(657)	-	-	-	-	(54)	(711)
<b>Closing net book amount</b>	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)
<b>Net book amount</b>	68,333	1,049	500	808	3,672	34,376	108,738

# Rural Funds Group

## Notes to the Financial Statements

31 December 2017

10 Interest bearing liabilities	31 December 2017 \$'000	30 June 2017 \$'000
<b>Current</b>		
Equipment loans (ANZ)	3,260	3,204
<b>Total</b>	<b>3,260</b>	<b>3,204</b>
<b>Non-current</b>		
Borrowings (ANZ)	162,240	105,280
Borrowings (Rabobank)	91,260	59,220
<b>Total</b>	<b>253,500</b>	<b>164,500</b>

Borrowings with Australia 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.

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 31 December 2017 the core debt facility available to the Group, and due to expire in December 2019, was \$275,000,000 (30 June 2017: \$250,000,000). As at 31 December 2017 RFF had active interest rate swaps totalling 42.6% (30 June 2017: 53.5%) of the drawn down balance to manage interest rate risk. Hedging requirements under the terms of the borrowing facility may vary with bank consent.

### *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;
- a hedging requirement of 50% of debt drawn under the borrowing facility; and
- an interest cover ratio for the Group not less than 2.95:1.00 (2017: 2.75:1.00) with distributions permitted if the interest cover ratio is not less than 3.15:1.00 (2017: 2.95:1.00)

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

# Rural Funds Group

## Notes to the Financial Statements

31 December 2017

### 11 Issued units

	31 December 2017		31 December 2016	
	No.	\$'000	No.	\$'000
Units on issue at the beginning of the period	254,380,898	255,946	165,357,290	135,793
Units issued during the half year	578,188	1,147	41,979,245	59,585
Distributions to unitholders	-	(12,106)	-	(7,488)
<b>Units on issue</b>	<b>254,959,086</b>	<b>244,987</b>	207,336,535	187,890

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.

### 12 Distributions

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

	Cents per unit	Total \$
Distribution declared 30 June 2017, paid 31 July 2017	2.4100	6,130,580
Distribution declared 30 August 2017, paid 31 October 2017	2.5075	6,386,447
Distribution declared 29 December 2017, paid 31 January 2018	2.5075	6,393,099

### 13 Capital commitments

Significant capital expenditure across all properties, largely relating to the Kerarbury development, contracted for but not recognised as liabilities is as follows:

	31 December 2017	30 June 2017
	\$'000	\$'000
Bearer plants	20,144	26,265
Investment property	18,211	42,024
Intangible assets	19,866	16,032
<b>Total</b>	<b>58,221</b>	84,321

# Rural Funds Group

## Notes to the Financial Statements

31 December 2017

### 14 Other Commitments

Other significant commitments contracted for but not recognised as a liability relate to the provision of the \$5 million cattle financing facility to DA & JF Camm Pty Limited. The facility was not drawn during the half year ended 31 December 2017.

### 15 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:

	31 December 2017 \$'000	31 December 2016 \$'000
Management fee	1,687	1,171
Asset management fee	1,199	920
<b>Total management fees</b>	<b>2,886</b>	<b>2,091</b>
Expenses reimbursed to RFM	1,376	1,091
Expenses due to Murdock Viticulture	947	254
Distribution paid/payable to RFM	457	455
<b>Total amount paid to RFM and related entities</b>	<b>5,666</b>	<b>3,891</b>
Rental income received from RFM Almond Fund 2006	1,026	1,019
Rental income received from RFM Almond Fund 2007	283	304
Rental income received from RFM Almond Fund 2008	800	779
Rental income received from RFM	254	168
Rental income received from RFM Farming Pty Limited	109	75
Rental income received from Cattle JV Pty Limited	1,704	1,148
Rental income received from Cotton JV Pty Limited	940	118
Rental income received from RFM Poultry	5,335	5,260
Rental income received from 2007 Macgrove Project	488	492
Finance income from Cattle JV Pty Limited	635	329
Distribution received/receivable from RFM Poultry	5	8
Distribution received/receivable from RFM StockBank	-	3,188
<b>Total amounts received from RFM and related entities</b>	<b>11,579</b>	<b>12,888</b>

Murdock Viticulture is a vineyard manager 28% (31 December 2016: 28%) owned by RFM.

# Rural Funds Group

## Notes to the Financial Statements

31 December 2017

### 15 Related party transactions (continued)

*Debtors (including finance lease receivable)*

	31 December 2017 \$'000	30 June 2017 \$'000
RFM Farming Pty Limited	679	27
RFM	72	3
RFM Macadamias Pty Limited	32	-
2007 Macgrove Project	31	345
Cattle JV Pty Limited	14,516	11,770
Cotton JV Pty Limited	557	485
<b>Total</b>	<b>15,887</b>	<b>12,630</b>

*Creditors*

	31 December 2017 \$'000	31 December 2016 \$'000
RFM	161	143
<b>Total</b>	<b>161</b>	<b>143</b>

*Entities with influence over the Group*

	31 December 2017		30 June 2017	
	Units	%	Units	%
Rural Funds Management	9,110,507	3.57	8,632,418	3.39

*Interest in related parties*

	31 December 2017		30 June 2017	
	Units	%	Units	%
RFM StockBank	-	-	3,897,259	33.50
RFM Poultry	108,615	1.58	108,615	1.58

### 16 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.

# Rural Funds Group

## Director's Declaration

31 December 2017

In the Directors of the Responsible Entity's opinion:

- 1 The financial statements and notes of Rural Funds Group set out on pages 9 to 28 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 31 December 2017 and of its performance for the half 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.

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

A handwritten signature in black ink, appearing to read 'David Bryant', is written over a faint, light-colored rectangular stamp or watermark.

David Bryant  
Director

20 February 2018



## **Independent auditor's review report to the stapled security holders of Rural Funds Group**

### ***Report on the Half-Year Financial Report***

We have reviewed the accompanying half-year financial report of Rural Funds Trust (the Registered Scheme) and its controlled entities (including RF Active) (together Rural Funds Group, or the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in net assets attributable to unitholders and consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Rural Funds Group. The consolidated entity comprises the Registered Scheme and the entities it controlled during that half-year.

### ***Directors' responsibility for the half-year financial report***

The directors of Rural Funds Management Limited (the Responsible Entity of the Group) are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors of the Responsible Entity determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Rural Funds Trust, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### ***Independence***

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

---

**PricewaterhouseCoopers, ABN 52 780 433 757**

One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001

T: +61 2 8266 0000, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124

T: +61 2 9659 2476, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.





### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Rural Funds Trust is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in cursive script, likely belonging to CMC Heraghty.

CMC Heraghty  
Partner

Sydney  
20 February 2018

### Responsible Entity

Rural Funds Management Limited  
ABN 65 077 492 838  
AFSL 226 701

Level 2, 2 King Street  
Deakin ACT 2600

[www.ruralfunds.com.au](http://www.ruralfunds.com.au)

Telephone (Investor Services)  
1800 026 665

Telephone (Adviser Services)  
1300 880 295

Facsimile  
1800 625 518