

# Rural Funds Group

ASX:  
RFF

Managed by:  
 Rural  
Funds  
Management



## Financial results presentation

For the year ended 30 June 2018

16 August 2018

# Disclaimer

This presentation has been prepared by Rural Funds Management Limited (ACN 077 492 838, AFSL 226 701) (**RFM**) as the responsible entity of Rural Funds Group (**RFF**). RFF is a stapled security, incorporating Rural Funds Trust (ARSN 112 951 578) and RF Active (ARSN 168 740 805). The information contained in this presentation is not investment or financial product advice and is not intended to be used as the basis for making an investment decision. Please note that, in providing this presentation, RFM has not considered the investment objectives, financial circumstances or particular needs of any particular recipients.

This presentation is not, and does not constitute, an offer to sell or the solicitation, invitation or recommendation to purchase any securities, and neither this presentation nor anything contained herein shall form the basis of any contract or commitment. In particular, this presentation does not constitute an offer to sell, or a solicitation of an offer to buy, any securities in the United States. This presentation must not be released or distributed in the United States. Any securities described in this presentation have not been, and will not be, registered under the *US Securities Act of 1933* and may not be offered or sold in the United States except in transactions exempt from, or not subject to, registration under the *US Securities Act* and applicable US state securities laws.

RFM has prepared this presentation based on information available to it at the time of preparation. No representation or warranty is made as to the fairness, accuracy or completeness of the information, opinions and conclusions contained in this presentation or any other information that RFM otherwise provides. To the maximum extent permitted by law, RFM, its related bodies corporate and its officers, employees and advisers are not liable for any direct, indirect or consequential loss or damage suffered by any person as a result of relying on this presentation or otherwise in connection with it.

This presentation includes “forward-looking statements”. These forward-looking statements are based on current views, expectations and beliefs as at the date they are expressed. They involve known and unknown risks, uncertainties and other factors which could cause the actual results, performance or achievements of RFF to be materially different from those expressed or implied by the forward-looking statements. Accordingly, there can be no assurance or guarantee regarding these statements and you must not place undue reliance on these forward-looking statements. RFM and RFF disclaim any responsibility for the accuracy or completeness of any forward-looking statements.

1. Financial results
2. Capital management
3. Portfolio update
4. Outlook
5. Appendices

## RFM presenters

---



**David Bryant**  
*Managing Director*



**Stuart Waight**  
*Executive*

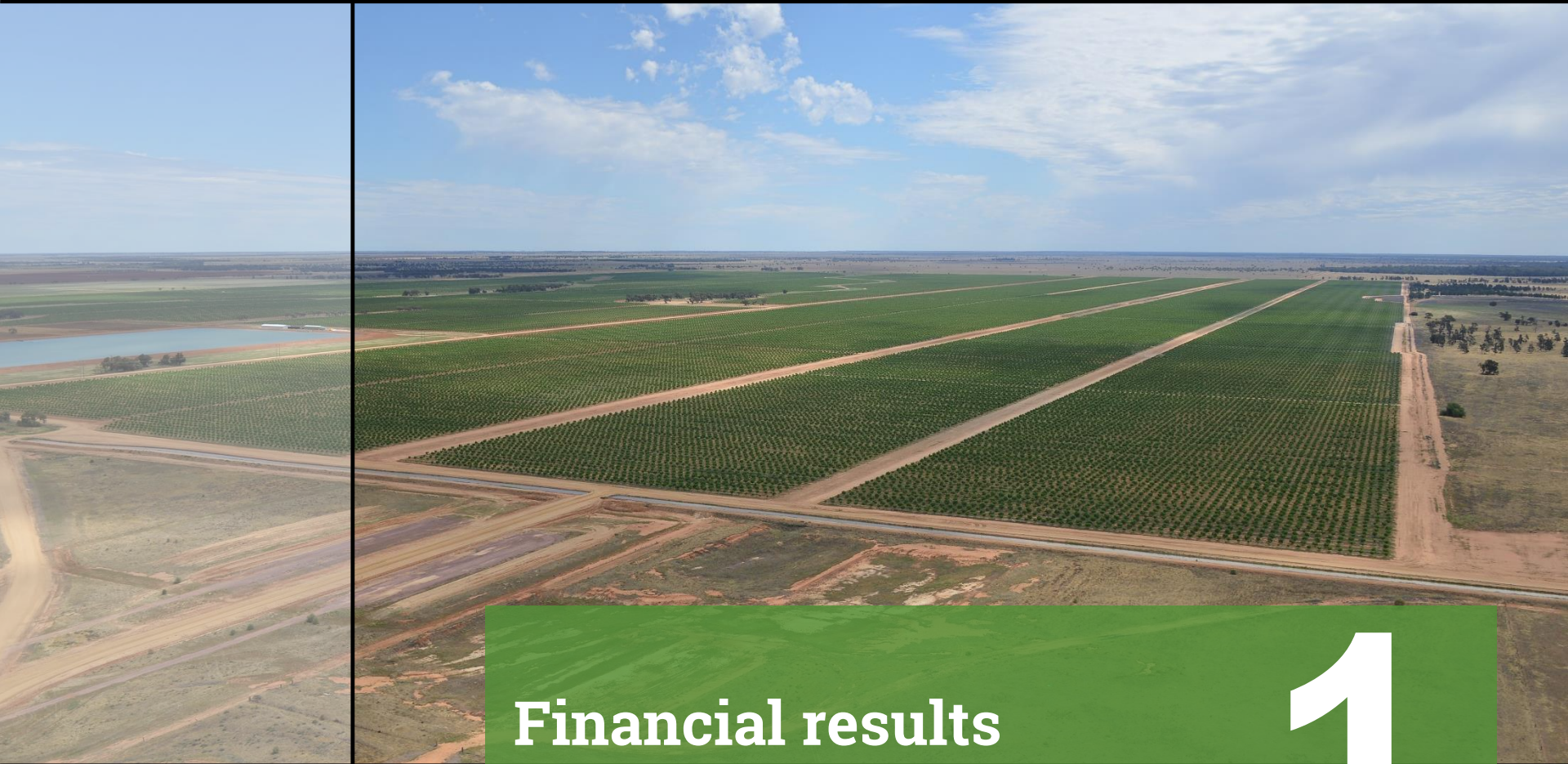


**Daniel Yap**  
*Financial Controller*



**James Powell**  
*General Manager -  
Investor Relations &  
Marketing*





# Financial results

# 1

*Completed 2,500 ha almond orchard development, Kerarbury, Darlington Point,  
New South Wales, October 2017*

# FY18 financial results

## Income and earnings metrics

	12mths ended 30 June 2018	12mths ended 30 June 2017
Property revenue	51,087,000	41,573,000
Total comprehensive income (TCI)	44,012,000	34,238,000
Earnings per unit (EPU) <sup>1</sup>	17.3 cents	16.7 cents
Adjusted funds from operations (AFFO)	32,323,000	25,599,000
AFFO per unit	12.7 cents	12.5 cents
Distributions per unit (DPU)	10.03 cents	9.64 cents
AFFO payout ratio	79%	77%

## Forecasts

	FY19	FY18
AFFO per unit forecast	13.2 cents	12.7 cents
DPU forecast	10.43 cents	10.03 cents
AFFO payout ratio forecast	79%	79%

- Property revenue and AFFO higher for the period due to additional lease income from acquisitions, development capital expenditure and indexation (see page 7).
- TCI and EPU for the period higher mainly due to additional lease income (from investment described above) and non-cash changes in the fair value of investment properties (see page 7).
- FY18 AFFO per unit of 12.7 cents consistent with forecast.
- Forecast FY19 AFFO per unit of 13.2 cents and DPU of 10.43 cents reaffirmed. DPU forecast for FY19 consistent with 4% p.a. growth target.
- Forecast AFFO payout ratio of 79% provides capacity for continuing DPU growth and can be deployed to income generating investments.
- Refer to pages 23 to 27 for further information.

Note:

1. Calculated TCI/weighted average units (see page 23).

# FY18 financial results

## Balance sheet summary

	Pro forma 30 June 2018 <sup>1</sup>	As at 30 June 2018	As at 30 June 2017
Total assets	743,100,000	673,808,000	543,003,000
Adjusted for water at fair value	49,841,000	49,841,000	44,543,000
Adjusted total assets <sup>2</sup>	792,941,000	723,649,000	587,546,000
External borrowings	198,161,000	273,161,000	167,704,000
Gearing <sup>3</sup>	25.0%	37.7%	28.5%
Net asset value (NAV)	523,027,000	378,735,000	357,678,000
NAV per unit	1.57	1.48	1.41
Adjusted NAV <sup>2</sup>	572,868,000	428,576,000	402,221,000
Adjusted NAV per unit <sup>2</sup>	1.72	1.68	1.58

- Increase in total assets to 30 June 2018 predominantly due to the acquisition of the Natal cattle property aggregation (settled December 2017), almond orchard development capital expenditure and valuation uplifts (see page 7).
- Pro forma provided to present balance sheet and portfolio metrics following the \$149.5m Entitlement Offer and transactions announced 12 July 2018.
- Pro forma gearing of 25% below revised target of 30-35%.
- Pro forma WALE of 12.3 yrs provides stability of income and long term rental growth via a mix of indexation mechanisms.
- Refer to pages 23 to 27 for further information.

## Key portfolio metrics

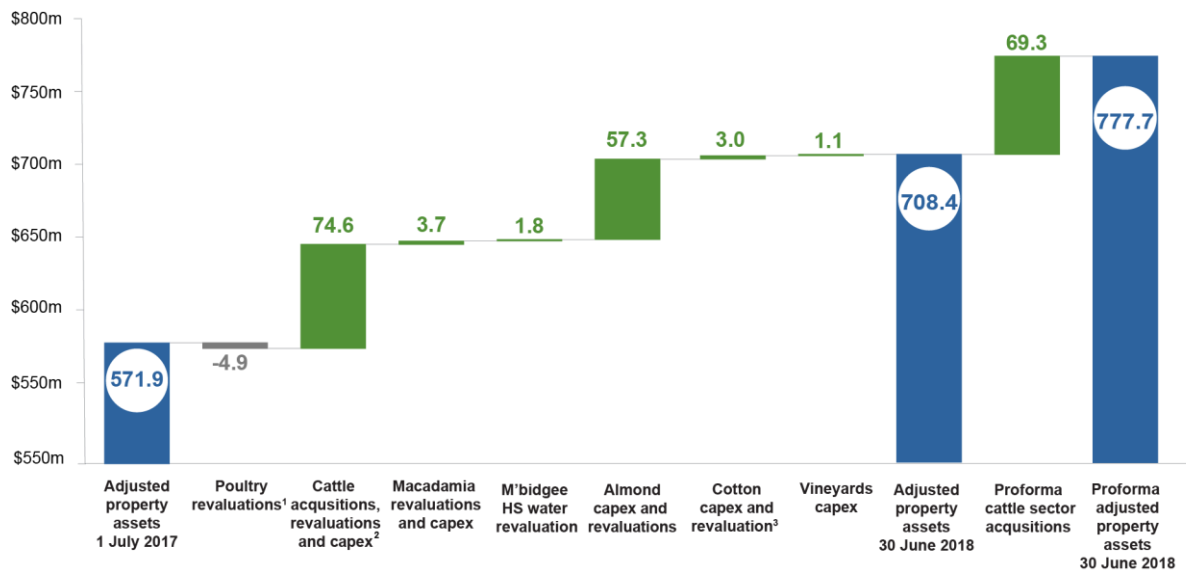
	Pro forma 30 June 2018 <sup>1</sup>	As at 30 June 2018	As at 30 June 2017
Number of properties	44	38	35
Weighted average lease expiry (WALE)	12.3 yrs	12.4 yrs	13.2 yrs
CPI linked vs fixed indexation	57% / 41%	60% / 38%	63% / 35%
Units on issue	332.3m	255.6m	254.4m

### Notes:

1. Pro forma for \$149.5m equity raising at \$1.95 per unit. Funds raised applied to acquisition of Comanche (\$16.6m), acquisition of feedlots (\$52.7m), provision of a guarantee (\$75.0m) and transaction costs (\$5.2m). Guarantee does not require a transfer of cash and will be initially used to reduce debt.
2. Assets adjusted for the independent valuation of water entitlements which are recognised at the lower of cost or fair value on balance sheet.
3. Gearing calculated as external borrowings/adjusted total assets.

# FY18 financial results

## Adjusted property assets movements (\$m)



- Cattle acquisitions, valuation uplift and capex of \$74.6m includes:
  - acquisition of Natal aggregation<sup>2</sup> for \$65.0m settled December 2017.
  - valuation increase for Rewan of \$5.4m or 17%.
  - breeder acquisitions and capex of \$4.1m.
- Macadamia orchard valuation uplifts for Swan Ridge, Moore Park & Bonmac of \$3.3m or 37%.
- Almond orchard valuation uplifts for Moorah, Yilgah & Tocabil of \$14.9m or 8%.
- Pro forma cattle sector acquisitions of \$69.3m include Comanche for \$16.6m (settled July 2018) and JBS feedlots for \$52.7m (expected to settle progressively between October and December 2018).
- See pages 15, 28 & 31 for further details on capex and valuations.

### Notes:

1. Directors' valuation applied to certain poultry assets, consistent with management's approach to reflect increasing average age of the infrastructure.
2. Natal acquisition includes \$53.1m cattle property aggregation acquisition, \$10m loan to secure first-mortgage security over two additional properties and capitalisation of \$1.9m lease incentive.
3. Cotton capex of \$2.4m and revaluation of \$0.5m.





# Capital management

*Geier Vineyard , Barossa Valley, South Australia, March 2018*

# 2



# Capital management

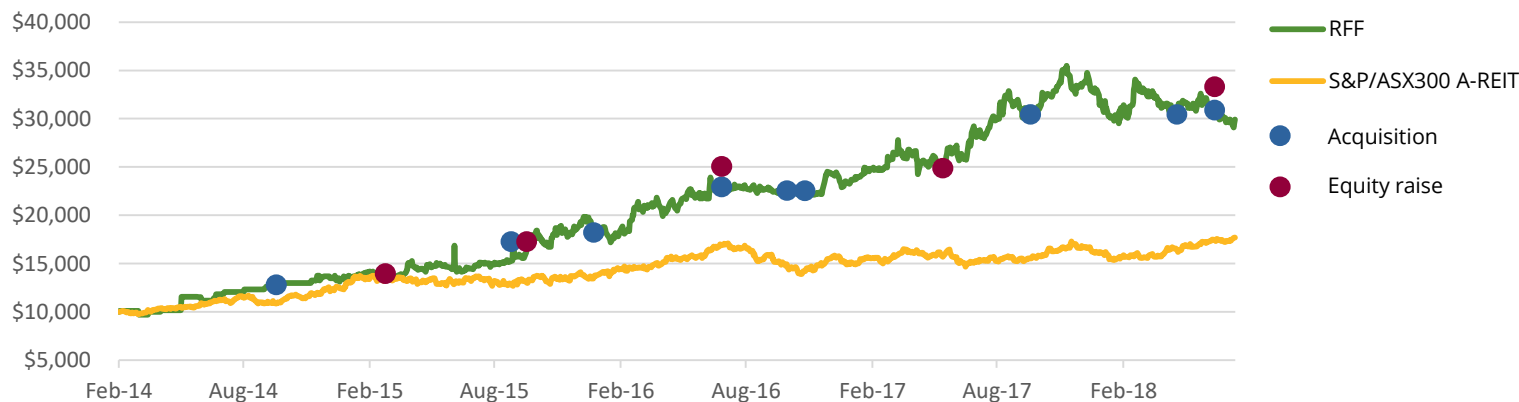
## Equity

<b>Trading price</b>	Increase of 15% for the period 30 June 2017 to 30 June 2018 (\$1.85 to \$2.12).
<b>Distribution</b>	Forecast FY19 of 10.43 cpu. An increase of 4% from FY18 and in-line with target growth.
<b>DRP</b>	Remains open with 1.5% discount. FY18 average DRP participation 11.3%.
<b>Equity raised</b>	<p>June 2017: \$78.6m at \$1.70 per unit to fund the acquisition of a cotton property (Lynora Downs), high security water entitlement and a cattle property aggregation (Natal).</p> <p>July 2018: \$149.5m at \$1.95 per unit to equity fund JBS transactions and the purchase of a cattle property (Comanche).</p>

## Debt

<b>Facility</b>	Management are in the process of extending debt maturity and assessing the merits of a bond placement. This would have the benefit of extending the maturity profile of RFF's debt longer than that usually provided through bank funding arrangements. This work is expected to be completed by December.
<b>Limit</b>	Current facility limit of \$275.0m, with a further \$50.0m approved for future acquisitions.
<b>Maturity</b>	Expiry date December 2019.
<b>Funding lines available</b>	Undrawn debt capacity of \$80.2m (pro forma) on current facility limit (see page 10).
<b>Hedging</b>	Additional interest rate hedges totalling \$30.0m (commencing Nov 2019, 10 yrs duration, 3.11% weighted fixed rate) entered into during the period (announced 21 Feb 2018).

## Total unitholder return<sup>1</sup>



Note:

1. Assumes \$10,000 invested Feb 2014 and all distributions are reinvested at the DRP price. Total return of indices as provided by S&P. Data current to 8 August 2018.

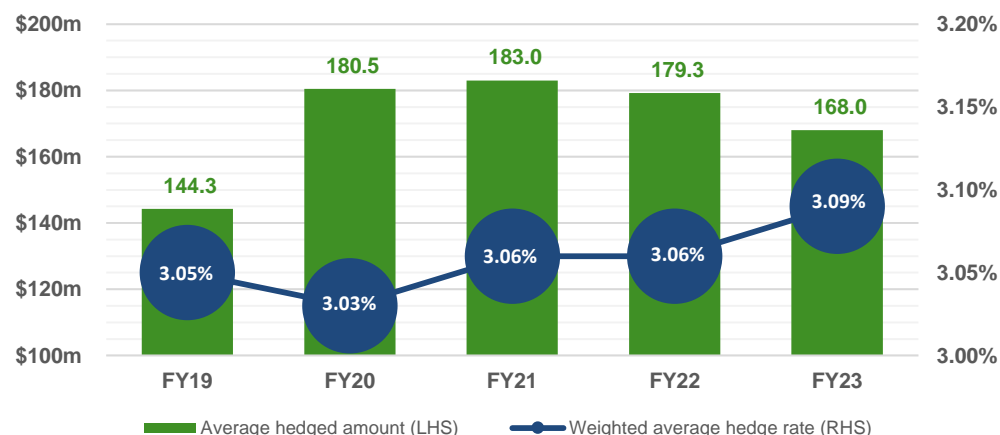
# Debt facility

## Debt metrics

		Pro forma	30-Jun-18	30-Jun-17
<b>Debt facility</b>	Term debt facility limit <sup>1,2</sup>	275.0	275.0	250.0
	Term debt drawn	194.8	269.8	164.5
	Headroom	80.2	5.2	85.5
	Effective cost of total debt	4.00%	4.00%	4.08%
<b>Covenants</b>	Loan to Value Ratio (LVR) <sup>3</sup>	37.2%	41.1%	29.0%
	Interest Cover Ratio (ICR)	4.73x	4.73x	5.29x
	Net Tangible Assets (NTA) <sup>1</sup>	572.9	428.6	311.6
<b>Hedging</b>	Total Amount Hedged <sup>4</sup>	108.0	108.0	88.0
	Proportion of debt hedged <sup>5</sup>	55.4%	40.0%	53.5%
	Weighted avg duration (yrs) <sup>6</sup>	7.3	7.3	7.6

- Debt facility remains within covenants.
- Pro forma included to present debt facility and hedging metrics inclusive of the \$149.5m Entitlement Offer and transactions announced 12 July 2018.
- LVR does not recognise capex incurred on properties until confirmed by an independent valuation. As at 30 June 2018, \$47.3m has been deployed on assets which have not been subject to independent valuation.

## 5 year hedged (fixed rate) position



### Notes:

1. Key financial covenants for FY18: LVR <50%, ICR >2.95x, with distribution permitted at >3.15x, NTA including water entitlements >\$200m, 50% hedging requirement.
2. Security: Real property mortgages, general security agreement, cross guarantees between RFF and subsidiaries.
3. LVR calculated as term debt drawn/directly secured assets based on independent valuations. Pro forma LVR calculated as term debt drawn plus contingent liabilities relating to the limited guarantee of \$75m divided by directly secured assets based on independent valuations plus the Feedlots and Comanche acquisition values.
4. Current hedges only.
5. Proportion hedged calculated as current hedges/term debt drawn, and may vary from covenant with bank consent.
6. Duration remaining as at 30 June 2018 and includes forward start hedges.



## Portfolio update

*Existing Leucaena under centre pivot irrigation, Comanche, Rockhampton, central Queensland, May 2018*

# 3



# Climatic diversification and water security<sup>1,2</sup>

Managed by:

-  Rural Funds
-  Management

A climatic diversification strategy was announced in June 2016, outlining the intention to invest in varying rainfall zones to reduce the likelihood of multiple lessees experiencing extreme conditions at the same time.

## Cattle<sup>3</sup>



Properties: 12  
 Value: \$199.3m  
 Lessees: Cattle JV, Camm, JBS, Comanche (TBC)  
 FY19 fcast rent: \$15.0m

## Vineyards

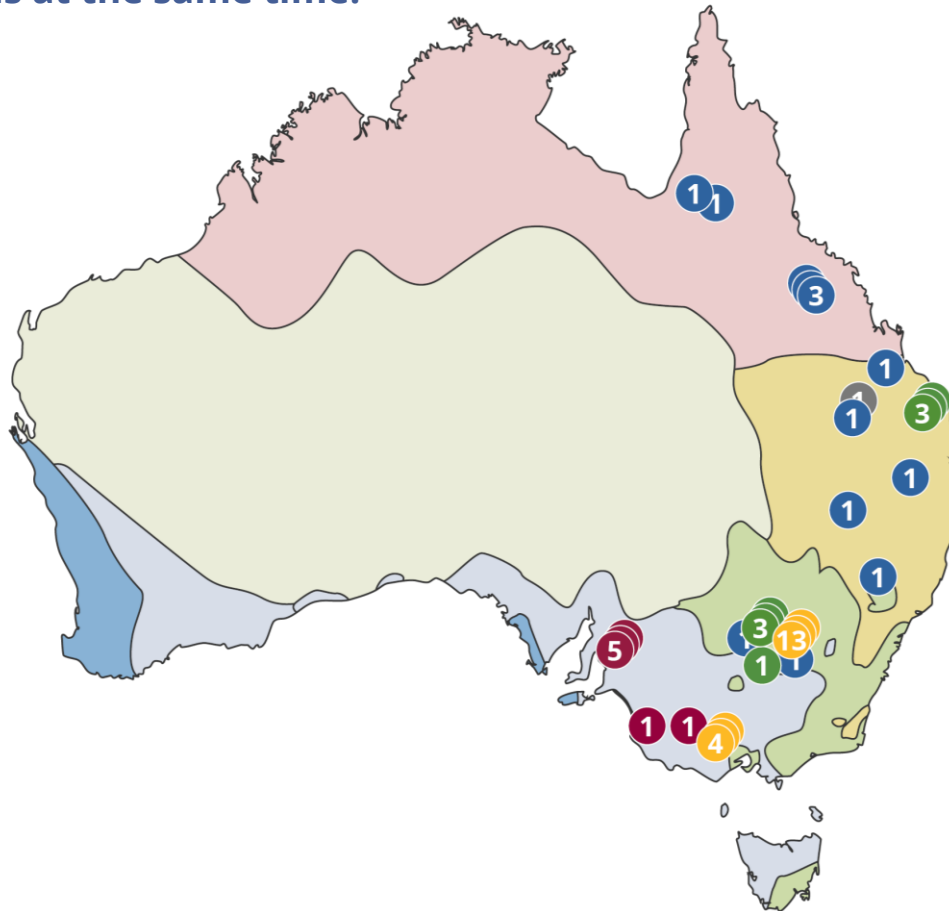


Properties: 7  
 Value: \$47.9m  
 Lessee: TWE  
 FY19 fcast rent: \$3.8m

## Poultry



Properties: 17 farms (154 sheds)  
 Value: \$80.8m  
 Lessee: RFM Poultry  
 FY19 fcast rent: \$10.7m



## Cotton



Properties: 1  
 Value: \$30.8m  
 Lessee: Cotton JV  
 FY19 fcast rent: \$2.2m

## Macadamias



Properties: 3  
 Value: \$13.6m  
 Lessee: 2007 Macgrove Project & RFM  
 FY19 fcast rent: \$1.3m

## Almonds



Properties: 4  
 Value: \$374.9m  
 Lessees: SHV, Olam, RFM Almond Schemes & RFM  
 FY19 fcast rent: \$29.8m

### Notes:

1. Shaded areas denote climatic zones differentiated by rainfall seasonality. Source: Bureau of Meteorology. Climatic diversification reduces lessee concentration in any one climatic zone and introduces new commodities and counterparts. See RFF Climatic Diversification discussion paper, 20 June 2016.
2. Murrumbidgee High Security (HS) water entitlement valued at \$35.9m not shown in above map. Of this entitlement 795ML (\$3.0m) has been applied to the Kerarbury lease. Remaining 8,754ML (\$32.8m) available to sell annual allocation. FY19 forecast revenue \$1.3m.
3. Value includes: Gulf properties, Rewan, Natal Aggregation, Comanche, feedlots, breeder herd lease, Camm loan and plant and equipment leased on cattle properties.



# Climatic diversification and water security<sup>1,2</sup>

Managed by:  

 Rural Funds  
 Management

Assets are leased with sufficient water entitlements considering factors such as sector type and the average rainfall of the assets location.

## Cattle

Properties: 12  
 Water: 3,862 ML  
 High Security Equivalent: 3,626 ML

## Vineyards

Properties: 7  
 Water: 948 ML  
 High Security Equivalent: 948 ML

## Poultry

Properties: 17  
 Water: 1,432 ML  
 High Security Equivalent: 915 ML

## Cotton

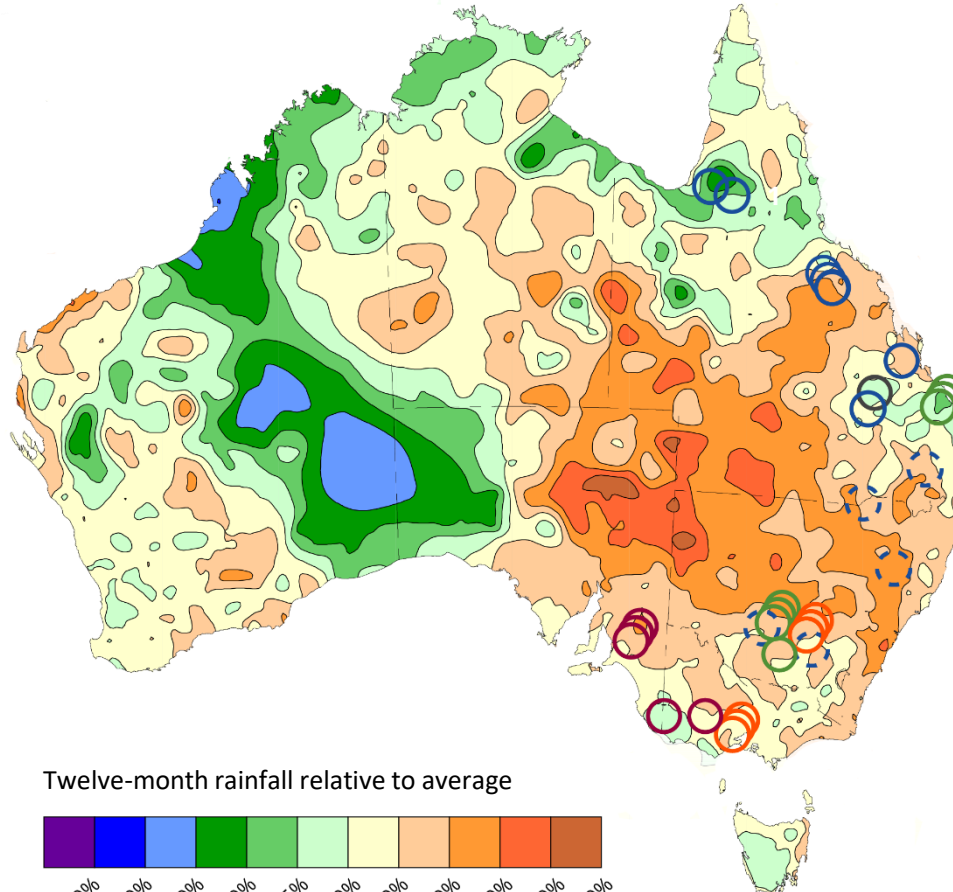
Properties: 1  
 Water: 18,185 ML  
 High Security Equivalent: 9,866 ML

## Macadamias

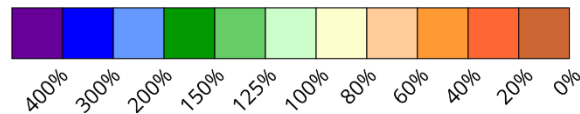
Properties: 3  
 Water: 923 ML  
 High Security Equivalent: 836 ML







## Almonds

Properties: 4  
 Water: 67,886 ML  
 High Security Equivalent: 56,362 ML



Twelve-month rainfall relative to average



-  Cattle properties
-  Tree nut orchards
-  Poultry assets
-  Cotton asset
-  Vineyards
-  Cattle feedlots

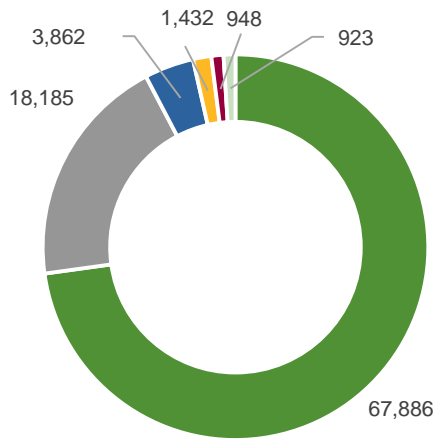
Notes:  
 1. Source: Bureau of Meteorology, twelve-monthly rainfall percentages (1 August 2017 to 31 July 2018) to mean.  
 2. High Security Equivalent is the gross water holding adjusted for average historic reliability. Therefore High Security Equivalent presents the average amount of water available each year, based on historic irrigation water availability.

# Climatic diversification and water security<sup>1</sup>

Managed by:  
■ Rural Funds  
■ Funds  
■ Management

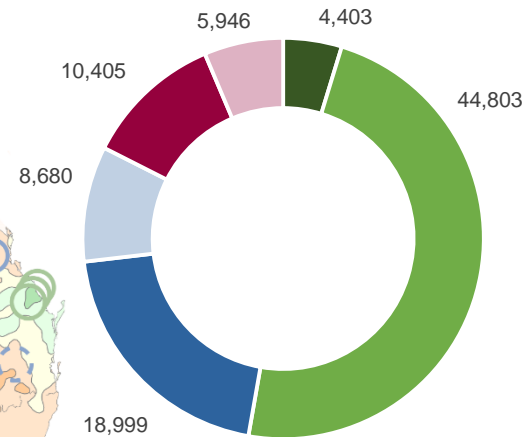
The majority of water owned by RFF is highly reliable, classified as Groundwater and High Security.

Water by sector (ML)

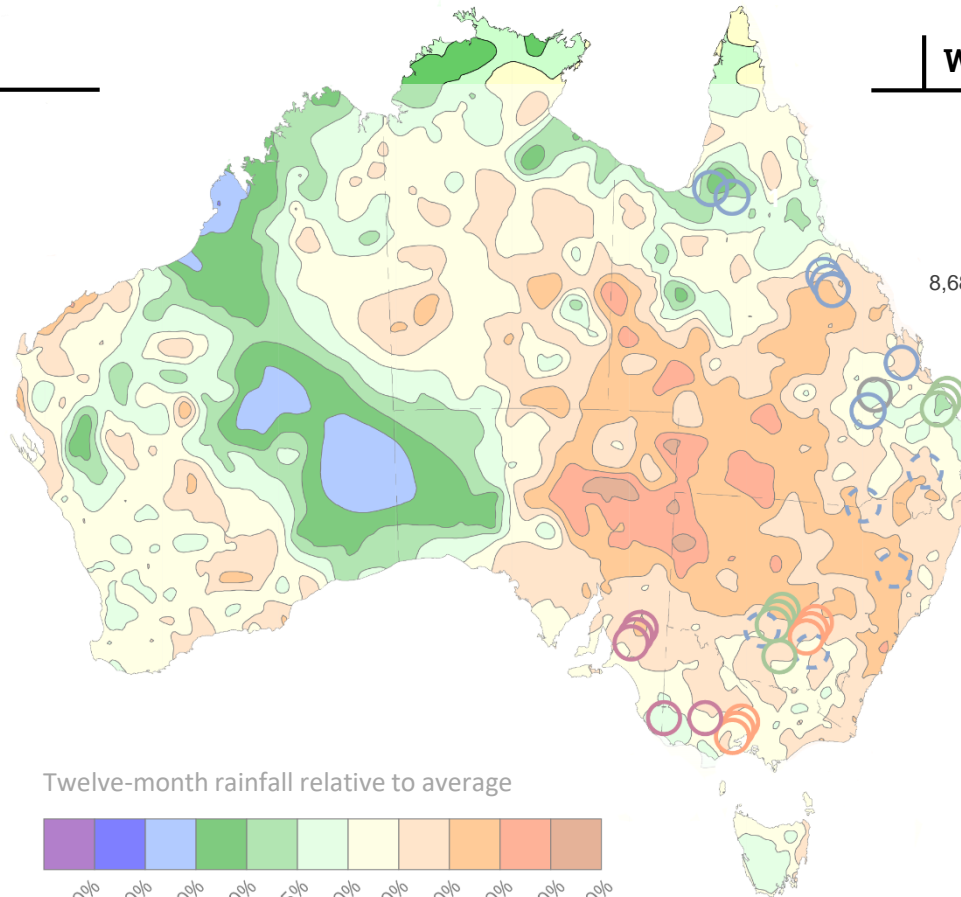


- Almonds
- Cotton
- Cattle
- Poultry
- Vineyards
- Macadamias

Water by security level (ML)



- High Security (NSW)
- Groundwater (NSW, QLD, SA)
- General Security (NSW)
- Unregulated River (QLD)
- Overland flow (QLD)
- Other



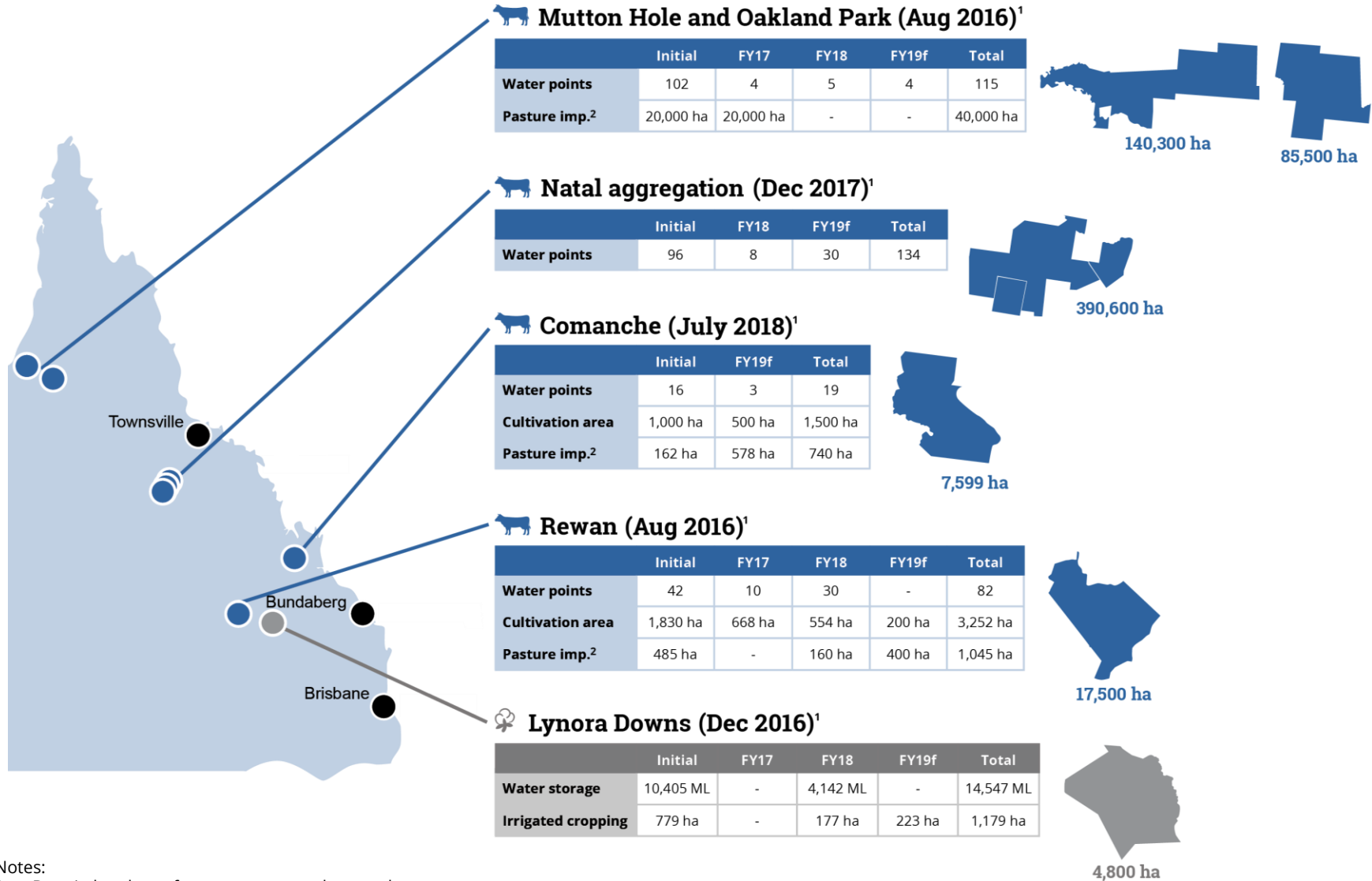
- Cattle properties
- Tree nut orchards
- Poultry assets
- Cotton asset
- Vineyards
- Cattle feedlots

Note:

1. Source: Bureau of Meteorology, twelve-monthly rainfall percentages (1 August 2017 to 31 July 2018) to mean.

# Natural resource developments

Productivity developments continue on the Qld natural resource predominant assets.



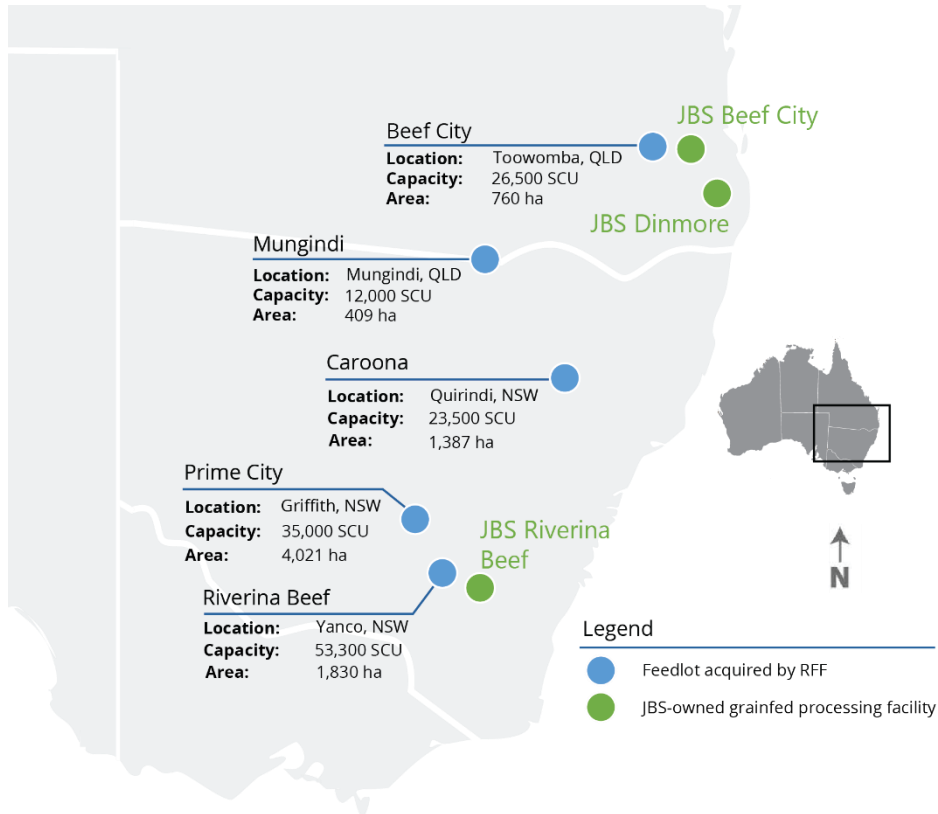
Notes:

1. Date in bracket refer to property settlement date.
2. Pasture improvement refers to planting of Stylo on Mutton Hole and Oakland Park, and Leucaena on Comanche and Rewan.

# JBS transactions

JBS is Australia's largest lot feeder and cattle processor. The feedlots are integral to the supply of cattle to JBS processing facilities.

## RFF feedlots and JBS processing facilities<sup>1</sup>



- On 12 July 2018 RFM announced a \$149.5m Entitlement Offer to fund the acquisition of five feedlots from JBS Australia and the provision of a guarantee to support the working capital requirements of the feedlots:
  - the feedlots will be acquired by RFF as FIRB and other government approvals are received and are expected to settle progressively between October and December 2018.
  - the guarantee is expected to commence August 2018.
- The benefits of the transaction include:
  - good quality assets and good counterparty;
  - Improved sector diversification; and
  - FY19 AFFO per unit accretion and creating balance sheet capacity<sup>2</sup> for additional acquisitions within RFF's gearing target of 30-35%.

### Notes:

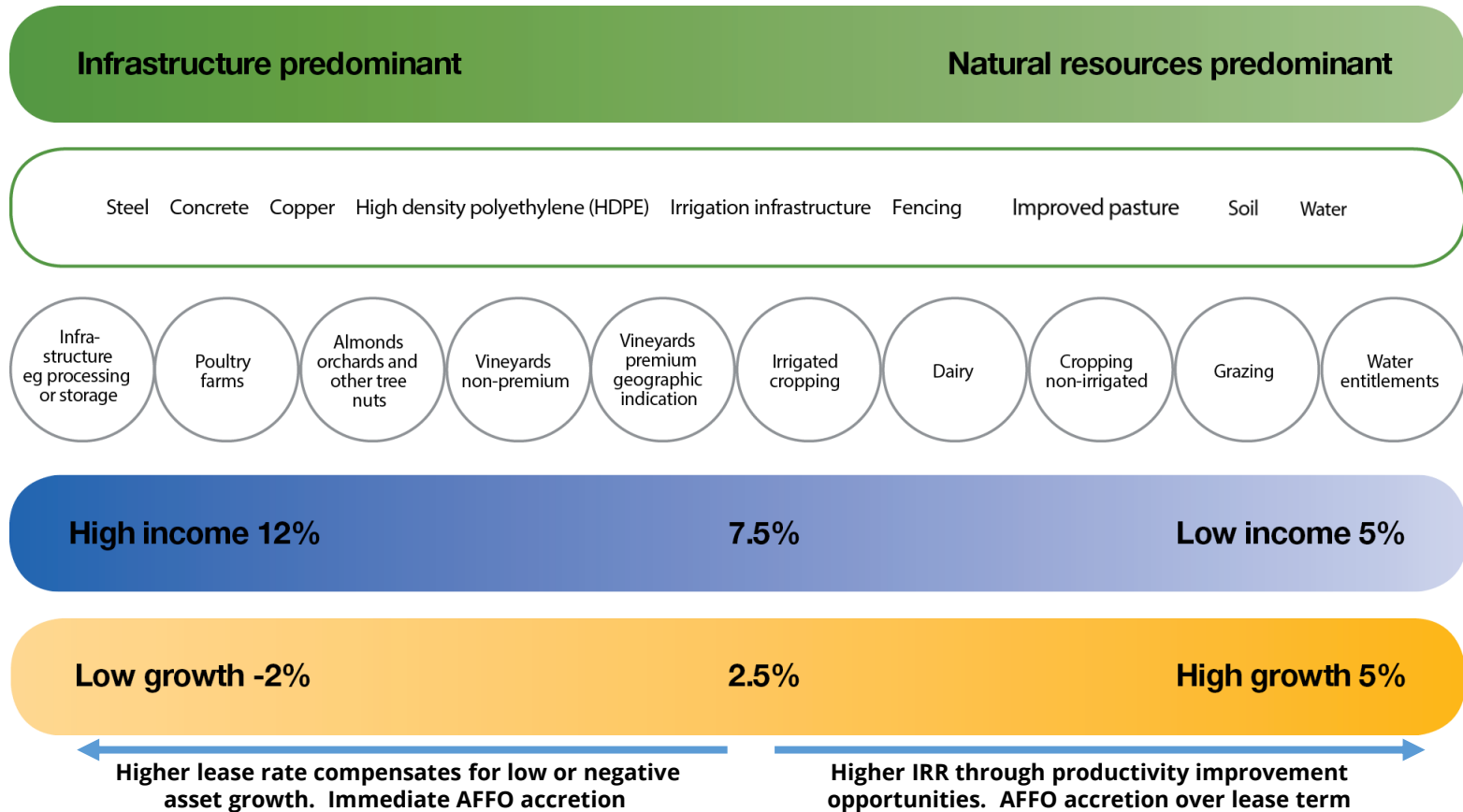
1. A Standard Cattle Unit (SCU) is defined as an animal of 600 kg liveweight, at the time of exit from the feedlot.
2. Additional balance sheet capacity created through equity funding the transactions and the \$75m guarantee not requiring a transfer of cash.



# JBS transactions

The JBS transactions are an infrastructure type investment which generates higher levels of income and provides balance sheet capacity for further investments, likely to be natural resource type.

## Spectrum of investment opportunities<sup>1</sup>



Note:  
 1. The income and growth figures presented in the figure above have been provided to differentiate the profile of income and growth that can be derived from different assets. They are based on RFM's experience and observations of agricultural lease transactions and historical rates of growth. They are neither forecasts nor projections of future returns. Past performance is not a guide to future performance. See RFM Newsletters dated April 2014 and May 2016 for further information.



# Outlook

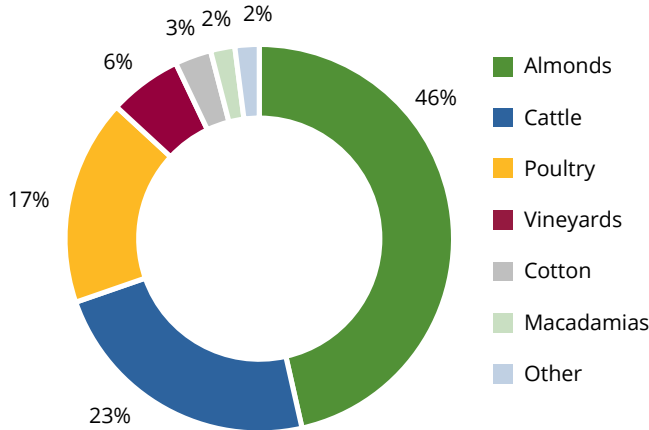
*Cattle grazing on an oats crop with Carnarvon Gorge in the background,  
Rewan, Rolleston, Queensland, August 2018*

# 4

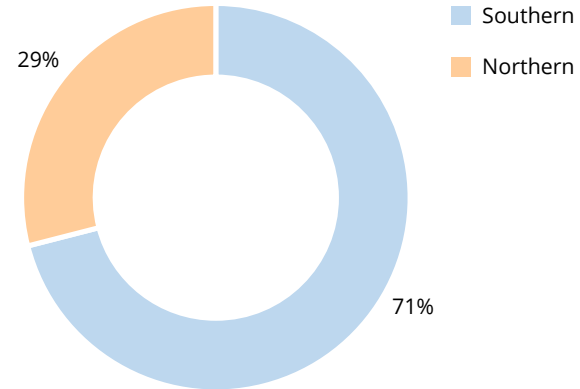
# Portfolio diversification by FY19f revenue

The JBS transactions and Comanche acquisition have improved sector diversification. RFM intends to further increase climatic and sector diversification.

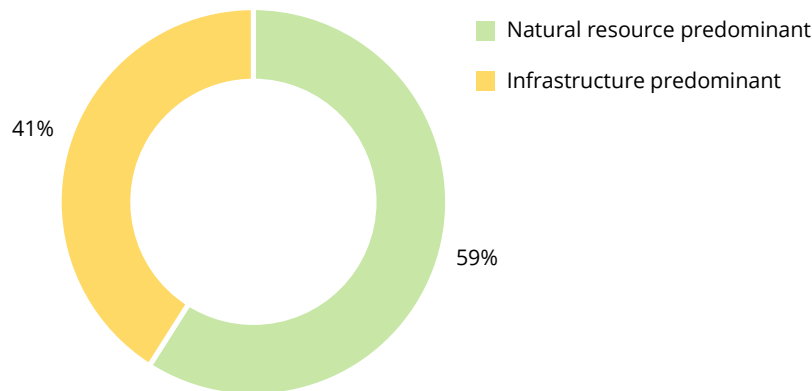
**Sector**



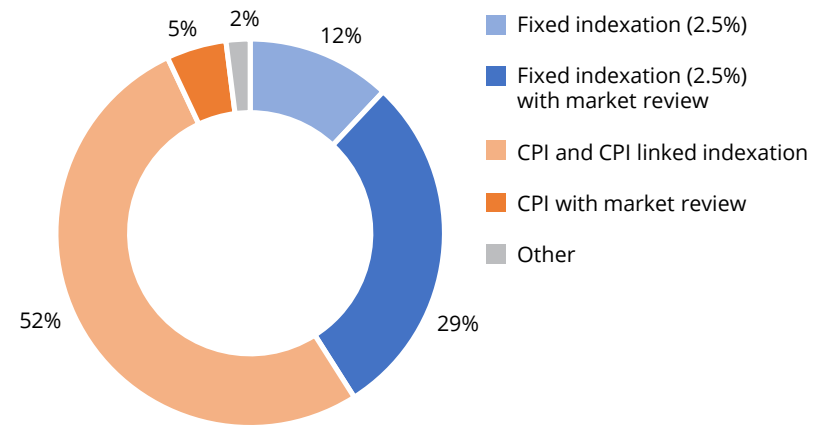
**Climatic zone**



**Sector type<sup>1</sup>**



**Lease indexation mechanisms**



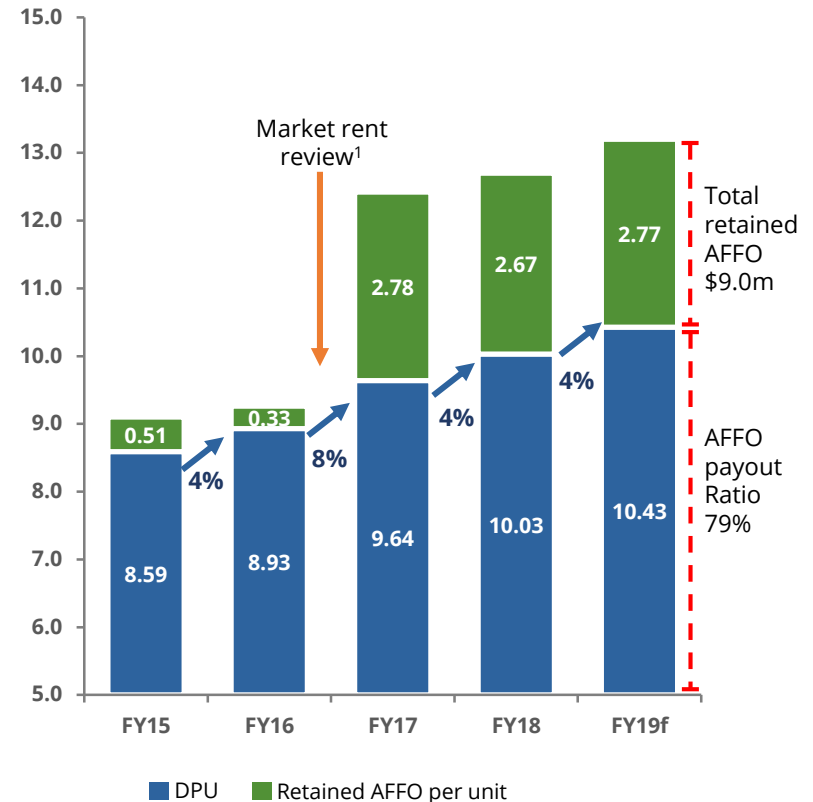
Note:  
 1. Assumes poultry is infrastructure predominant, vineyards and cattle natural resource predominant, and almond/macadamia orchards split equally.

# Strategy and objectives

RFF's strategy is to generate stable income and capital growth by owning, and where appropriate, improving the productivity of farms.

- RFM continues to oversee and manage existing assets, including capex and developments, while pursuing new investments and lessees.
- Objectives
  - Grow adjusted funds from operations (AFFO) per unit through lease indexation, reinvestment of retained AFFO and market rent review mechanisms.
  - Grow distributions consistently (target is currently 4% p.a.).
  - Target gearing of 30%-35%, which reflects the contingent liability following the JBS transactions.
  - Increase sector and climatic diversification, liquidity and scale.

**DPU, DPU growth and retained AFFO per unit**



Note:

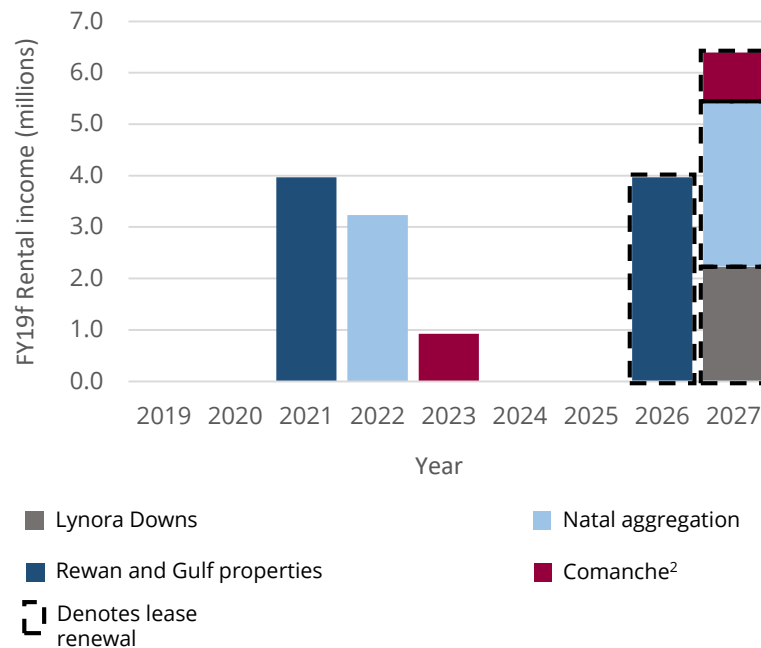
1. FY17 AFFO increased, in part, due to a Select Harvests rent review in respect to almond orchards.



# Strategy and objectives

RFM will continue to pursue additional acquisitions funded through balance sheet capacity. Acquisitions are intended to be in existing sectors, with the potential to improve both productivity and RFF's rent review profile.

## Natural resource market rent reviews<sup>1</sup>



## Factors supporting the objectives and strategy

- 1 Manager with multi-sector operational experience.
- 2 Productivity gain opportunities through farm development.
- 3 Largely privately owned sector with a growing number of operators requiring succession planning.
- 4 Lessees motivated to take assets off balance sheet, secure supply, fully utilise processing capacity and/or grow market share.
- 5 Australia has a comparative advantage in a number of agricultural sectors.

Notes:

1. FY19 revenue shown in year of rent review for natural resource predominant assets. Dashed boxes indicate when lease is to be renegotiated or re-leased at market. Lynora Downs lease has a 5 year term with a 5 year option (graph assumes take up of option).
2. Comanche lease details are yet to be finalised. Assumes 10 year lease, with 5 year rent review and lease rate consistent with cattle sector.



# Appendices

*Poultry sheds with recently installed 100 kilowatt rooftop solar panels,  
Lethbridge, Victoria, January 2018*

# 5

# FY18 results – comprehensive income

## Summarised statement of comprehensive income

	12 mths ended 30 June 2018 \$	12 mths ended 30 June 2017 \$
Property revenue	51,087,000	41,573,000
<b>Revenue</b>	<b>51,087,000</b>	<b>41,573,000</b>
Other income	1,183,000	72,000
Share of net profit – equity accounted invest's	-	1,304,000
Property expenses	(1,383,000)	(1,473,000)
Other expenses	(2,971,000)	(2,494,000)
Management fees	(6,263,000)	(4,393,000)
Finance costs	(9,053,000)	(7,891,000)
Property revaluations – Investment property	7,398,000	17,191,000
Property revaluations – Bearer plants	-	(2,498,000)
Change in fair value of derivatives	(1,956,000)	5,311,000
Depreciation and impairments	(947,000)	(1,568,000)
Gain on sale of assets	17,000	33,000
<b>Profit before tax</b>	<b>37,112,000</b>	<b>45,167,000</b>
Income tax expense	(1,080,000)	(1,841,000)
<b>Profit after tax</b>	<b>36,032,000</b>	<b>43,326,000</b>
Other comprehensive income	7,980,000	(9,088,000)
<b>Total comprehensive income</b>	<b>44,012,000</b>	<b>34,238,000</b>
Earnings per unit	17.26 cents	16.73 cents

- Property revenue has increased primarily as a result of rent on new acquisitions, rent on development capital expenditure and lease indexation.
- Other income relates to Murrumbidgee High Security water annual allocation sales.
- Property and other expenses decreased on a per unit basis.
- Investment property revaluations primarily relates to almond and cattle properties, exclusive of the increase attributable to water values, and offset by depreciation of poultry assets.
- Management fees equates to 0.97% for FY18.
- Income tax expense relates to RF Active and AWF.<sup>1</sup> RFT treated as a flow through trust for tax purposes.

Note:

1. RFM Australian Wine Fund (AWF) is a subsidiary of Rural Funds Trust (RFT) that has formed a tax consolidated group.

# FY18 results – AFFO

## Composition of AFFO (pre-tax)

	12 mths ended 30 June 2018 \$	12 mths ended 30 June 2017 \$
Property revenue	51,087,000	41,573,000
Property expenses	(1,383,000)	(1,473,000)
<b>Net property income</b>	<b>49,704,000</b>	<b>40,100,000</b>
Other income	1,183,000	72,000
Share of net profit – equity accounted investments	-	205,000
Other expenses	(2,971,000)	(2,494,000)
Management fees	(6,263,000)	(4,393,000)
<b>EBITDA</b>	<b>41,653,000</b>	<b>33,490,000</b>
Income tax payable <sup>1</sup>	(277,000)	-
Finance costs	(9,053,000)	(7,891,000)
<b>AFFO</b>	<b>32,323,000</b>	<b>25,599,000</b>
AFFO per unit <sup>2</sup>	12.7 cents	12.5 cents
DPU	10.03 cents	9.64 cents

- AFFO is pre-tax and excludes fair value adjustments, depreciation and impairment to represent RFF's property rental business.
- Property expenses relate to costs directly attributable to the properties (e.g. insurance, rates, applicable cost recovery). Other expenses relate to non-property overheads (e.g. ASX/bank/audit/registry fees, cost recovery).
- Adjustment to funds from operations (FFO) pertains to tax expense of \$1.1m largely relating to AWF (see page 25).
- Property leases are largely triple net.

### Notes:

1. Income tax payable relates to RF Active which is treated as a public trading trust for tax purposes.
2. Based on the weighted average number of units on issue during the year.



# FY18 results - reconciliation of net profit

## Reconciliation of net profit after tax to AFFO

	12 mths ended 30 June 2018 \$	12 mths ended 30 June 2017 \$
Profit after tax	36,032,000	43,326,000
Adjusted for:		
Property revaluations	(7,398,000)	(14,693,000)
Property revaluation - associate	-	(1,099,000)
Change in fair value of derivatives	1,956,000	(5,311,000)
Depreciation and impairment	947,000	1,568,000
Gain on sale of assets	(17,000)	(33,000)
Income tax payable <sup>1</sup>	(277,000)	-
<b>FFO</b>	<b>31,243,000</b>	<b>23,759,000</b>
Adjusted for income tax expense	1,080,000	1,841,000
<b>AFFO</b>	<b>32,323,000</b>	<b>25,600,000</b>
AFFO per unit <sup>2</sup>	<b>12.7 cents</b>	<b>12.5 cents</b>

- Non cash items added back to reconcile net profit after tax to AFFO.
- Major items for FY18:
  - \$7.4m property revaluations largely due to revaluation of almond orchards and cattle property.
  - \$2.0m unrealised loss on interest rate hedges.
  - \$1.0m depreciation and impairment, primarily relating to plant and equipment in RF Active.

### Notes:

1. Income tax payable relates to RF Active which is treated as a public trading trust for tax purposes.
2. Based on the weighted average number of units on issue during the year.

# FY18 results - summarised balance sheet

## Summarised balance sheet

	Pro forma <sup>1</sup>	As at 30 June 2018	As at 30 Jun 2017
	\$	\$	\$
Cash	1,210,000	1,210,000	3,838,000
Property investments	727,885,000	658,593,000	527,398,000
Plant and equipment	5,480,000	5,480,000	5,127,000
Other assets	8,525,000	8,525,000	6,640,000
<b>Total assets</b>	<b>743,100,000</b>	<b>673,808,000</b>	<b>543,003,000</b>
Interest bearing liabilities			
- Current	3,361,000	3,361,000	3,204,000
- Non-current	194,800,000	269,800,000	164,500,000
Derivative financial liabilities	5,834,000	5,834,000	3,878,000
Current tax liabilities	277,000	277,000	-
Deferred tax liabilities	1,406,000	1,406,000	603,000
Other liabilities	14,395,000	14,395,000	13,140,000
<b>Total liabilities</b>	<b>220,073,000</b>	<b>295,073,000</b>	<b>185,325,000</b>
<b>Net assets</b>	<b>523,027,000</b>	<b>378,735,000</b>	<b>357,678,000</b>
Units on issue	332,319,670	255,630,515	254,380,898
NAV per unit	1.57	1.48	1.41
Adjustment for water entitlements fair value per unit	0.15	0.20	0.17
Adjusted NAV per unit	1.72	1.68	1.58

- Accounting standards and ASIC guidance require water entitlements to be recorded as intangible assets, and held at the lower of cost or fair value. The adjustment for water entitlements shows the difference between book value and fair value (based on current independent valuations).
- Water entitlements totalling 98,667 ML and water delivery entitlements of 21,430 ML representing a fair value of \$169.5m or 25% of total adjusted assets.

Note:

- Pro forma for \$149.5m equity raising at \$1.95 per unit. Funds raised applied to acquisition of Comanche (\$16.6m), acquisition of feedlots (\$52.7m), provision of a guarantee (\$75.0m) which does not require a transfer of cash and will be initially used to reduce debt and transaction costs (\$5.2m).

# FY18 results - total assets reconciliation

## Total assets reconciliation

	Investment property	Bearer plants	Intangible assets <sup>1,3</sup>	Financial assets - property <sup>2,3</sup>	Other assets	Total	Adjustment for water entitlements at fair values <sup>1,3</sup>	Adjusted total assets
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance as at 30 June 2017</b>	<b>273,783,000</b>	<b>121,193,000</b>	<b>108,738,000</b>	<b>23,684,000</b>	<b>15,606,000</b>	<b>543,004,000</b>	<b>44,543,000</b>	<b>587,547,000</b>
Additions – Cattle	54,453,000	-	-	-	-	<b>54,453,000</b>	-	<b>54,453,000</b>
Additions – Cotton	2,440,000	-	-	-	-	<b>2,440,000</b>	-	<b>2,440,000</b>
Additions – Almond orchard (Kerarbury)	13,344,000	25,577,000	(1,852,000)	-	-	<b>37,069,000</b>	-	<b>37,069,000</b>
Additions – Almond orchard (Tocabil)	1,948,000	1,380,000	-	-	-	<b>3,328,000</b>	-	<b>3,328,000</b>
Additions net of disposals	2,286,000	1,109,000	(14,000)	-	-	<b>3,381,000</b>	(25,000)	<b>3,356,000</b>
Depreciation and impairments	-	-	54,000	-	(1,001,000)	<b>(947,000)</b>	-	<b>(947,000)</b>
Fair value adjustment <sup>4</sup>	7,398,000	7,980,000	-	-	-	<b>15,378,000</b>	5,323,000	<b>20,701,000</b>
Breeder herd lease <sup>5</sup>	-	-	-	3,226,000	-	<b>3,226,000</b>	-	<b>3,226,000</b>
Term loan – Camm	-	-	-	10,000,000	-	<b>10,000,000</b>	-	<b>10,000,000</b>
Other movements <sup>6</sup>	1,866,000	-	-	-	610,000	<b>2,476,000</b>	-	<b>2,476,000</b>
<b>Balance as at 30 June 2018</b>	<b>357,518,000</b>	<b>157,239,000</b>	<b>106,926,000</b>	<b>36,910,000</b>	<b>15,215,000</b>	<b>673,808,000</b>	<b>49,841,000</b>	<b>723,649,000</b>

### Notes:

- Accounting standards and ASIC guidance require water entitlements to be recorded as intangible assets, and held at the lower of cost or fair value. The adjustment for water entitlements shows the adjustment to the fair value of the water entitlements held.
- Relates to water entitlements held as part of the investment in Barossa Infrastructure Limited, Coleambally Irrigation Co-operative Limited, breeder herd finance lease and loan to Camm, which are accounted for as financial assets.
- Water entitlements of 98,667 ML and 21,430 ML of water delivery entitlements held by the Group representing a fair value of \$169.5m.
- Fair value adjustments as part of 30 June 2018 valuations.
- Breeder herd lease structured as a finance lease with no price risk impact on lessor associated with movements in value of the breeder herd (approx. 17,000 head).
- Investment property includes \$1.9m lease incentive relating to the Natal properties.

# Development and capex






	FY18 (\$m)	FY19f (\$m)	FY20f (\$m)	Total (\$m)	Development update	Lease term remaining & indexation
<b>Kerarbury (almonds)</b>	39.9	17.3	18.3 <sup>1</sup>	<b>75.5</b>	2,500 ha land and irrigation development complete. All trees now planted, with remaining capital expenditure for establishment costs and water.	20 yrs; CPI
<b>Tocabil (almonds)</b>	3.3	3.9	-	<b>7.2</b>	Remaining capital expenditure for infrastructure and water.	19 yrs; CPI
<b>Yilgah &amp; Moorah (almonds)</b>	2.0	2.9	-	<b>4.9</b>	Irrigation and frost fans.	8-12 yrs; fixed (2.5%) + rent review (Select Harvests Ltd lease)
<b>Gulf properties &amp; Rewan (cattle)</b>	0.9	1.0	-	<b>1.9</b>	40 water points, 1,222 ha cultivation area and 160 ha improved pasture completed on Rewan. 9 water points and 20,000 ha of improved pasture completed on Gulf properties.	8 yrs; CPI + rent review
<b>Natal aggregation (cattle)</b>	0.4	1.9	-	<b>2.3</b>	8 water points completed.	9 yrs; fixed (2.5%) + rent review
<b>Comanche (cattle)<sup>2</sup></b>	-	0.8	0.3	<b>1.1</b>	Water points, cultivation area and pasture improvement development to commence FY19.	TBA
<b>Lynora Downs (cotton)</b>	2.4	3.0	-	<b>5.5</b>	4,142 ML water storage cell and 177 ha expansion of irrigated cotton area completed.	4 yrs; CPI
<b>Kleinig, Murphy and Mundy (vineyards)</b>	1.1	0.2	-	<b>1.3</b>	Grafting and redevelopment.	8 yrs; fixed (2.5%) + rent review
<b>Moore Park, Bonmac (macadamias)</b>	0.3	0.3	-	<b>0.6</b>	Irrigation and dehusking shed.	10 yrs; CPI/fixed component + rent review (RFM lease)
<b>Total (\$m)</b>	<b>50.4</b>	<b>31.4</b>	<b>18.6</b>	<b>100.3</b>		

Notes:

- \$18.3m represents water acquisitions. This commitment may be met by utilising the Murrumbidgee HS water which is currently not leased.
- Comanche lease and capex details are yet to be finalised.



# Key assets and counterparts

	Almond orchards	Poultry farms	Vineyards	Cattle assets	Cotton assets
<b>Brief description:</b>	 1,814 ha mature almond orchards and 3,100 ha of recently developed orchards.	 154 sheds on 17 farms.	 666 ha mature vineyards on seven properties.	 Seven cattle properties, five feedlots and breeding herd.	 4,880 ha cropping property.
<b>Water:<sup>1</sup></b>	67,886 ML HSE: 56,362 ML	1,432 ML HSE: 915 ML	948 ML HSE: 948 ML	3,862 ML HSE: 3,626 ML	18,185 ML HSE: 9,866 ML
<b>Valuation<sup>2</sup>:</b>	\$374.9m	\$80.8m	\$47.9m	\$199.3m	\$30.8m
<b>FY19 forecast rent:</b>	\$29.8m	\$10.7m	\$3.8m	\$15.0m	\$2.2m
<b>Key lessees/ counterparts:</b>	<p><b>Olam Orchards Australia Pty Ltd</b> - wholly owned subsidiary of SGX-listed Olam International Ltd, A\$7.0b, 2nd largest global almond grower.</p> <p><b>Select Harvests (ASX:SHV)</b> - Australia's largest vertically integrated nut and health food company.</p> <p><b>RFM</b></p>	<p><b>RFM Poultry (NSX: RFP)</b> - RFP has grower contracts with Baiada Poultry Pty Ltd and Turi Foods.</p> <p><b>Baiada Poultry Pty Ltd</b> - One of two largest processors in Australia. Key brands: Steggles, Lilydale.</p> <p><b>Turi Foods Pty Ltd</b> - Largest processor in Victoria, third in Australia.</p>	<p><b>Treasury Wine Estates (ASX:TWE)</b> - World's largest listed pure-play wine company, A\$13.5b.</p> <p>- Key brands: Penfolds, Wolf Blass, Seppelt.</p>	<p><b>Cattle JV Pty Ltd (CJV)</b> - Wholly owned subsidiary of RFM.</p> <p><b>DA and JF Camm Pty Ltd</b> - Part of the Camm Agricultural Group (CAG) an integrated corporate cattle business operating since 1978.</p> <p><b>JBS Australia</b> - Largest domestic cattle processor and lot feeder and subsidiary of JBS S.A., the largest protein processor globally.</p>	<p><b>Cotton JV Pty Ltd</b> - 50:50 joint venture between Queensland Cotton and RFM.</p> <p>- Queensland Cotton is a wholly owned subsidiary of the Olam Group, one of the world's largest cotton companies.</p> <p>- RFM has been farming cotton for approx. 21 yrs.</p>

Notes:

- HSE = high security equivalent water entitlements, calculated by applying RFM's assessment of the average annual allocation received based on historical data. Other key water assets include an 8,754 ML Murrumbidgee high security water entitlement.
- Independent valuations were obtained at 30 June 2018 for Almond properties (excluding Kerarbury), Poultry properties and infrastructure assets and Macadamias properties. Valuations include water entitlements held at fair value. Certain poultry farms use directors valuation consistent with managements approach to depreciate assets. Macadamia's valued at \$13.6m, FY19 forecast rent \$1.3m.

# Key assets and leases further details

	Almond orchards	Poultry farms	Vineyards	Cattle assets	Cotton assets
<b>Description:</b>	<p>1,814 ha across two mature almond orchards located near Hillston, NSW. Leased to SHV (1,221 ha), RFM Almond Funds (551 ha) and RFM (42 ha).</p> <p>3,100 ha of recently developed orchards in two locations; Hillston &amp; Darlington Point, NSW. Developed and leased by Olam Orchards Australia Pty Ltd.</p>	<p>154 sheds on 17 farms consisting of 134 sheds on 13 farms in Griffith, NSW, and 20 sheds on 4 farms in Lethbridge, VIC. Aged between 9 and 33 years.</p> <p>Griffith assets located within a 8km radius of the processing facility and contribute ~50% throughput.</p> <p>RFM has managed growing operations since 2003.</p>	<p>Seven vineyards with 666 ha planted to vines leased to TWE. Principally located in the Barossa Valley (499 ha planted primarily to Shiraz) as well as Adelaide Hills, Coonawarra and Grampians.</p> <p>Vineyards have historically contributed essential quantities of Icon, A and B grade fruit for key premium labels.</p>	<p>Seven Queensland cattle properties comprising 642,000 ha.</p> <p>Five feedlots with a combined capacity of 150,00 standard cattle units.</p>	<p>4,880 ha cropping property located at the northern end of the Arcadia Valley in central Queensland, approximately 130 radial km from Olam cotton gins in Emerald and Moura.</p>
<b>Capital commitments:</b>	<p>– R&amp;M on account of lessee</p> <p>– Development and replacement capital items on account of lessor subject to additional lease income</p>	<p>– R&amp;M and ongoing capital expenditure on account of lessee</p>	<p>– R&amp;M on account of lessee</p> <p>– Development and replacement capital items on account of lessor subject to additional lease income and rent review</p>	<p>– R&amp;M on account of lessee</p> <p>– Capital expenditure on account of lessor subject to additional lease income</p>	<p>– R&amp;M on account of lessee</p> <p>– Capital expenditure on account of lessor subject to additional lease income</p>
<b>WALE<sup>1</sup>:</b>	15.8 yrs	9.3 yrs	7.9 yrs	9.0 yrs	3.8 yrs
<b>Indexation / market review:</b>	RFM & SHV: 2.5% p.a. & SHV 3 yearly market review. Olam: CPI	65% of CPI capped at 2%	2.5% p.a. and market review on 1 July 2022	CJV: CPI + EYCI based indexation, Camm: 2.5% p.a., CJV & Camm: market review at yr 5 (property), JBS: CPI	CPI
<b>Payment freq:</b>	Quarterly in advance <sup>2</sup>	Quarterly in advance	Quarterly in arrears	Quarterly in advance	Quarterly in advance
<b>Valuer:</b>	JLL CBRE Valuations (Kerarbury)	Opteon Property Group	Gaetjens Pickett Valuers	CBRE Valuations (Central Qld) Herron Todd White (Gulf)	CBRE Valuations
<b>Valuation methodology:</b>	Primary: Encumbered Secondary: DCF grower cash flows & comparative sales	Primary: Encumbered Secondary: Multiple direct farm profit & comparative sales	Primary: Encumbered Secondary: Comparative sales	Primary: Encumbered Secondary: Comparative sales	Primary: Encumbered Secondary: Comparative sales

Notes:

1. Lease expiries weighted by forecast FY19 rental income at 30 June 2018.
2. Excludes AF06 which pays annually in October.

RFM has a policy to independently value assets at least every two years.

## Asset and valuation timing

Sector	Asset	Brief description	Last independent valuation (by reporting date)
Almonds	Mooral	800 ha mature orchard, NSW	June 2018
Almonds	Yilgah	1,000 ha mature orchard, NSW	June 2018
Almonds	Tocabil	600 ha orchard, NSW	June 2018
Almonds	Kerarbury	2,500 ha orchard under development, NSW	June 2017
Cattle	Mutton Hole	140,300 ha breeding property, Qld	June 2017
Cattle	Oakland Park	85,500 ha breeding property, Qld	June 2017
Cattle	Rewan	17,500 ha backgrounding property, Qld	December 2017
Cattle	Natal Aggregation	390,600 ha breeding & backgrounding property, Qld	December 2017
Cotton	Lynora Downs	4,880 ha cropping property, Qld	December 2017
Poultry	Griffith sheds	134 sheds, NSW	June 2018
Poultry	Lethbridge sheds	20 sheds, Vic	June 2018
Macadamias	Swan Ridge, Moore Park, Bonmac	259 ha orchards, Qld	June 2018
Vineyards	Kleinig, Geier, Hahn, Adelaide Hills, Rosebank, Dohnt	666 ha vineyards, SA and Vic	June 2017
Water	Murrumbidgee High Security	9,549 ML entitlement	December 2017

# Acquisition criteria

RFM considers six principles when evaluating acquisition opportunities.

## Key principles underpinning assessment of acquisition opportunities

- |   |   |   |   |
|---|---|---|---|
| 1 | Maintain <b>agricultural REIT</b> structure                           | ✓ | Income secured by long-term leases to quality tenants without the agricultural operating risks associated with a direct investment.                       |
| 2 | Manage <b>good assets</b> with <b>good people</b>                     | ✓ | Quality assets in sectors where Australia possesses a competitive advantage, longevity and scale.   |
| 3 | Enhance <b>sector diversification</b>                                 | ✓ | RFM's strategy is to invest in multiple sectors across the spectrum of investment opportunities with the aim of increasing the DPU growth rate over time. |
| 4 | Enhance <b>climatic diversification</b>                               | ✓ | Geographic diversification and introduction of new counterparties in different climatic zones.  |
| 5 | Identify investments which may benefit from <b>productivity capex</b> | ✓ | Productivity improvements, which over time grow asset value, rental income, and improve counterparty profitability.                                       |
| 6 | Invest in sectors where RFM has <b>direct operational knowledge</b>   | ✓ | RFM is a fund and farm manager with 21 years of experience, which benefits RFF in assessing acquisitions.   |



# Rural Funds Management

**RFM is a fund and farm manager with 21 years experience in Australian agriculture and is the manager of the Rural Funds Group.**

## Key information

Established	1997
	Total \$848m
Assets under management	Rural Funds Group: \$793m RFM Poultry: \$9m Almond Funds 06-08: \$35m 2007 Macgrove Project: \$11m
Ownership	Directors & staff
Farm & operations staff	50
Funds management staff	35
RFM direct operational experience	Cotton: since 1998 Vineyards: since 2000 Poultry: since 2003 Almonds: since 2006 Macadamias: since 2006 Livestock: since 2010
RFF fee structure	1.05% p.a. adjusted total assets & cost recovery
RFF key responsibilities	<ul style="list-style-type: none"> <li>• Compliance to financial, farming and reporting requirements of leases;</li> <li>• Water asset management including obtaining approvals and engagement with government;</li> <li>• Management of infrastructure e.g. ongoing and development capital expenditure;</li> <li>• Coordination of regular independent valuations;</li> <li>• Facilitating acquisitions; and</li> <li>• Managing lessee/customer relationships.</li> </ul>

## Board and management team contacts and tenure



**Guy Paynter**  
Non-Executive Chairman  
8 yrs



**David Bryant**  
Managing Director  
21 yrs



**Michael Carroll**  
Non-Executive Director  
8 yrs



**Julian Widdup**  
Non-Executive Director  
1 yr



**Stuart Waight**  
Executive  
15 yrs



**Andrea Lemmon**  
Executive Manager, Funds Management  
21 yrs



**Daniel Yap**  
Financial Controller  
6 yrs



**Jonty Ephron**  
Chief Operating Officer  
<1 yr



**Dan Edwards**  
Business Manager Rural Funds Group  
10 yrs



**Tim Sheridan**  
Executive - Acquisitions & cattle  
10 yrs



**James Powell**  
General Manager - Investor Relations & Marketing  
10 yrs



# Rural Funds Management

Managing good assets with good people

**Rural Funds Management Ltd**

ACN 077 492 838

AFSL 226701

Canberra Office

Level 2, 2 King Street

Deakin ACT 2600

Telephone: +61 2 6203 9700

Facsimile: +61 2 6281 5077

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



**For further information:**

**David Bryant**

Managing Director

Rural Funds Management

T 02 6203 9700

E [DBryant@ruralfunds.com.au](mailto:DBryant@ruralfunds.com.au)

**For media enquiries:**

**Stuart Waight**

Executive

Rural Funds Management

T 0419 126 689

E [SWaight@ruralfunds.com.au](mailto:SWaight@ruralfunds.com.au)

**Investor relations enquiries:**

**James Powell**

General Manager - Investor

Relations & Marketing

Rural Funds Management

T 0420 279 374

E [JPowell@ruralfunds.com.au](mailto:JPowell@ruralfunds.com.au)