

Rural Funds Group (RFF)

Financial Statements

For the Half Year Ended 31 December 2018

Rural Funds Group

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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	Emma Spear Stuart Waight
Custodian	Australian Executor Trustees Limited ABN 84 007 869 794 Work Club, 201 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 2018

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 2018.

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

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

Directors

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

Guy Paynter	Non-Executive Chairman
David Bryant	Managing Director
Michael Carroll	Non-Executive Director
Julian Widdup	Non-Executive Director

Principal activities and significant changes in state of affairs

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 July 2018, the Group announced that it negotiated a transaction involving the acquisition of JBS Australia Pty Limited's (JBS) five Australian feedlots and associated cropping land for \$52.7 million including stamp duty and the provision of a \$75.0 million guarantee to J&F Australia Pty Ltd that will enable JBS to replace an existing arrangement for the supply of cattle for its grainfed business. The guarantee transaction was subject to RFF unitholder approval as J&F Australia Pty Ltd would become a subsidiary of Rural Funds Management Limited on settlement. Approval was granted at the unitholder meeting held in August 2018. During July 2018, the Group also purchased Comanche, a 7,600 hectare cattle property located in central Queensland for \$16.7 million including transaction costs.

In August 2018, the Group completed an equity raise for \$149.5 million to fund the JBS transaction, associated costs, as well as the acquisition of Comanche. The \$75.0 million limited guarantee was provided to J&F Australia as part of the JBS transaction commenced in August 2018.

In September 2018, the Group purchased Cerberus, an 8,280 hectare cattle property located in central Queensland for \$10.8 million including transaction costs. The Group also purchased Mayneland, a 2,942 hectare cotton property in central Queensland for \$17.8 million including transaction costs and plant and equipment associated with the property.

In October 2018, the Group purchased three feedlots, Prime City, Caroon and Mungindi as part of the JBS transaction for \$28.4 million including transaction costs. The two remaining feedlots, Beef City and Riverina Beef, remain subject to subdivision approvals related to the on-site processing facilities and are expected to settle during the first quarter of 2019. During the month, the Group also purchased Dyamberin, a 1,728 hectare cattle property located in the New England region of New South Wales for \$14.1 million including transaction costs.

The Group negotiated an increase to its syndicated debt facility from \$275,000,000 to \$300,000,000 in October 2018. As part of this process, the facility was split into two tranches and the term was extended. A \$200,000,000 tranche is due to expire in December 2021 and a \$100,000,000 tranche is due to expire in December 2023.

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

Rural Funds Group

Directors' Report

31 December 2018

Operating results

The consolidated net profit after income tax of the Group for the half year ended 31 December 2018 amounted to \$18,408,000 (31 December 2017: \$16,749,000). The consolidated total comprehensive income of the Group for the half year ended 31 December 2018 amounted to \$24,620,000 (31 December 2017: \$16,749,000).

The Group holds investment property, bearer plants and derivatives at fair value. After adjusting for the effects of fair value adjustments, depreciation, impairments and one-off transaction costs during the half year, the profit would have been \$20,320,000 (31 December 2017: \$15,406,000), representing adjusted funds from operations (AFFO).

Adjusted funds from operations (AFFO)

	31 December 2018 \$'000	31 December 2017 \$'000
Net profit before income tax	19,230	17,059
Change in fair value of investment property	(2,832)	(4,051)
Change in fair value of interest rate swaps	3,908	1,970
Change in fair value of financial assets/liabilities	34	-
Depreciation and impairments	486	440
Gain on sale of assets	(26)	(12)
Interest component of JBS feedlot finance lease	(93)	-
Income tax payable (RF Active)	(387)	-
AFFO	20,320	15,406
AFFO cents per unit	6.4	6.0

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

Financial position

The net assets of the consolidated Group have increased to \$532,413,000 at 31 December 2018 from \$378,735,000 at 30 June 2018. At 31 December 2018 the Group had total assets of \$802,789,000 (30 June 2018: \$673,808,000).

At 31 December 2018, the Group held total water entitlements (including investments in Barossa Infrastructure Limited (BIL) and Coleambally Irrigation Co-operative Limited (CICL)) at a book value of \$121,361,000 (30 June 2018: \$119,657,000). Directors obtain independent valuations on RFF properties ensuring that each property will have been independently valued every two years or more often where appropriate. These valuations attribute a value to the water entitlements held by the Group. Independent valuations were obtained for newly acquired properties and the Kerarbury almond orchard property for the half year ended 31 December 2018. The Directors have taken into account the most recent valuations on each property and consider that they remain a reasonable estimate. On this basis the fair value of water entitlements at 31 December 2018 was \$173,205,000 (30 June 2018: \$169,498,000). The value of water entitlements is illustrated in the table below:

Rural Funds Group

Directors' Report

31 December 2018

Financial position (continued)

	31 December 2018 \$'000	30 June 2018 \$'000
Intangible assets (water entitlements)	108,630	106,926
Investment in CICL	12,222	12,222
Investment in BIL	509	509
Total book value of water entitlements	121,361	119,657
Revaluation of intangible assets per valuation	51,844	49,841
Adjusted total water entitlements	173,205	169,498

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.

	31 December 2018 \$'000	30 June 2018 \$'000
Net assets per Consolidated Statement of Financial Position	532,413	378,735
Revaluation of intangible assets per valuation	51,844	49,841
Adjusted net assets	584,257	428,576
Adjusted NAV per unit	1.75	1.68

Property leasing

At 31 December 2018 the Group held 45 properties as follows:

- 17 poultry farms (303,216 square metres);
- 3 almond orchards (2,414 planted hectares);
- 1 almond orchard under development with plantings completed (2,500 planted hectares);
- 7 vineyards (666 planted hectares);
- 3 macadamia orchards (259 planted hectares);
- 12 cattle properties made up of 9 breeding, backgrounding and finishing properties (649,758 hectares) and 3 cattle feedlots with combined capacity of 70,500 Standard Cattle Units;
- 2 cotton properties (1,434 irrigable hectares).

During the half year ended 31 December 2018, the properties held by the Group recorded an increment in the fair value of investment properties of \$2,832,000 (31 December 2017: \$4,051,000) and an increment in bearer plants revaluation of \$6,212,000 (31 December 2017: nil).

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 2017: 2,414 hectares):

- Yilgah 1,006 planted hectares (31 December 2017: 1,006);
- Moorral 808 planted hectares (31 December 2017: 808);
- Tocabil 600 planted hectares (31 December 2017: 600).

Rural Funds Group

Directors' Report

31 December 2018

Property leasing (continued)

These properties are under lease to the following tenants:

- Select Harvests Limited (SHV) 1,221 planted hectares (31 December 2017: 1,221);
- Olam Orchards Australia Pty Limited (Olam) 600 planted hectares (31 December 2017: 600);
- RFM Almond Fund 2006 (AF06) 272 planted hectares (31 December 2017: 272);
- RFM Almond Fund 2007 (AF07) planted 73 hectares (31 December 2017: 73);
- RFM Almond Fund 2008 (AF08) 206 planted hectares (31 December 2017: 206);
- Rural Funds Management Limited (RFM) 42 planted hectares (31 December 2017: 42).

The Kerarbury property is located in Darlington Point, NSW and is leased to Olam. The full 2,500 hectares of almond orchard at Kerarbury is planted with a portion of the water delivery infrastructure to be completed.

For its almond orchards the Group owns water entitlements of 65,743ML (31 December 2017: 65,743ML) comprising groundwater, high security river water, general security river water and supplementary river water. In addition, the Group owns 21,430ML (31 December 2017: 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 2017: 1,432ML). Leases are in place with RFM Poultry, a scheme managed by RFM, for 100% (31 December 2017: 100%) of the poultry property and infrastructure, with remaining lease terms between 6 and 18 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 2017: 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.

Macadamia orchards

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

- 2007 Macgrove Project (M07) 234 hectares (31 December 2017: 234 hectares);
- Rural Funds Management Limited (RFM) 25 hectares (31 December 2017: 25 hectares).

Cattle property

Cattle properties held by the Group comprise of cattle breeding, backgrounding and finishing properties and cattle feedlots.

- Rewan located near Rolleston in central Queensland 17,479 hectares
- Mutton Hole and Oakland Park located in far north Queensland 225,800 hectares
- Natal aggregation located near Charters Towers in north Queensland 390,600 hectares
- Comanche located in central Queensland 7,600 hectares
- Cerberus located north west of Rockhampton in central Queensland 8,280 hectares
- Dyamberin located in the New England region of New South Wales 1,728 hectares
- Prime City, Mungindi and Caroonna, 3 cattle feedlots with a combined capacity of 70,500 Standard Cattle Units.

Rural Funds Group

Directors' Report

31 December 2018

Property leasing (continued)

The properties comprise a combined 651,488 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;
- DA & JF Camm Pty Limited, a member of the Camm Agricultural Group, leasing the Natal aggregation;
- Elrose Enterprises Pty Limited, leasing Comanche
- Katena Pty Limited, leasing Cerberus;
- Stone Axe Pastoral Company Pty Limited, leasing Dyamberin.
- JBS Australia Pty Limited, leasing Prime City, Mungindi and Caroon.

The lease arrangement for 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.

Cotton property

Cotton properties held by the group comprise of:

- Lynora Downs, a 4,880 hectare cotton property (1,054 irrigable hectares) 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).
- Mayneland, a 2,942 hectare cotton property (531 irrigable hectares) located 25 km north of Lynora Downs in central Queensland, is leased to RFM Farming Pty Limited (a wholly owned subsidiary of RFM) until 30 June 2019. A long-term lessee is being sought.

Other activities

Agricultural plant and equipment with a net book value of \$7,117,000 (30 June 2018: \$5,480,000) is owned by the Group and leased to AF06, AF07, AF08, M07, Cotton JV, Cattle JV and RFM Farming.

Breeder assets with a net book value of \$14,455,000 (30 June 2018: \$14,179,000) are leased to Cattle JV Pty Limited.

Banking facilities

At 31 December 2018 the core debt facility available to the Group was \$300,000,000 (30 June 2018: \$275,000,000), with a drawn balance of \$230,232,000 (30 June 2018: \$269,800,000). The facility is split into two tranches with a \$200,000,000 tranche expiring in December 2021 and a \$100,000,000 tranche expiring in December 2023. At 31 December 2018, RFF had active interest swaps totaling 62.1% (30 June 2018: 40.0%) of the drawn balance to manage interest rate risk.

Distributions

	Cents per unit	Total \$
Distribution declared 1 June 2018, paid 31 July 2018	2.5075	6,409,941
Distribution declared 3 September 2018, paid 31 October 2018	2.6075	8,675,317
Distribution declared 31 December 2018, paid 31 January 2019	2.6075	8,686,568

Earnings per unit

Net profit after income tax for the year (\$'000)	18,408
Weighted average number of units on issue during the half year	318,696,579
Basic and diluted earnings per unit (total) (cents)	5.78

Rural Funds Group

Directors' Report

31 December 2018

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 2018 is 4.02% (31 December 2017: 1.39%). The ICR for the current year has been impacted by costs associated with the rights issue completed in August 2018.

Matters subsequent to the end of the half year

In January 2019, the Group purchased Woodburn, a 1,062 hectare cattle breeding and backgrounding property located in the New England region of New South Wales for a purchase price of \$7.5 million including transaction costs. The property will be leased to Stone Axe Pastoral Company for ten years with a rent review in year five.

In February 2019, the Group announced that it has contracted to acquire Cobungra, a 6,486 hectare cattle property located in Victoria for \$35.0 million excluding transaction costs. An agreement is in place for the property to be leased to Stone Axe Pastoral Company on settlement for ten years with a rent review in year five.

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

Likely developments and expected results of operations

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

Environmental regulation

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

Units on issue

333,137,778 units in Rural Funds Trust were on issue at 31 December 2018 (31 December 2017: 254,959,086). During the half year 77,507,263 units (31 December 2017: 578,188) were issued by the Trust and nil (31 December 2017: 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.

Rural Funds Group

Directors' Report

31 December 2018

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 2018 has been received and is included on page 9 of the financial report.

The Directors' report is signed in accordance with a resolution of the Board of 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 2019



Auditor's Independence Declaration

As lead auditor for the review of Rural Funds Group for the half-year ended 31 December 2018, 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 read 'Rod Dring'.

Rod Dring
Partner
PricewaterhouseCoopers

Sydney
20 February 2019

PricewaterhouseCoopers, ABN 52 780 433 757

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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 2018

	Note	31 December 2018 \$'000	31 December 2017 \$'000
Revenue	B3	30,700	24,141
Other income		1,604	86
Management fees		(3,878)	(2,886)
Property expenses		(759)	(568)
Finance costs		(4,655)	(4,017)
Other expenses		(2,212)	(1,350)
Gain on sale of assets		26	12
Depreciation and impairments		(486)	(440)
Change in fair value of investment property	C2	2,832	4,051
Change in fair value of interest rate swaps		(3,908)	(1,970)
Change in fair value of financial assets/liabilities		(34)	-
Net profit before income tax		19,230	17,059
Income tax expense		(822)	(310)
Net profit after income tax		18,408	16,749
Other comprehensive income:			
<i>Items that will not be reclassified to profit or loss</i>			
Revaluation increment - bearer plants	C3	6,212	-
Other comprehensive income for the year, net of tax		6,212	-
Total comprehensive income attributable to unitholders		24,620	16,749
Total net profit after income tax for the year attributable to unitholders arising from:			
Rural Funds Trust		17,511	16,723
RF Active (non-controlling interest)		897	26
		18,408	16,749
Total comprehensive income for the year attributable to unitholders arising from:			
Rural Funds Trust		23,723	16,723
RF Active (non-controlling interest)		897	26
		24,620	16,749
Earnings per unit			
Basic and diluted earnings per unit from continuing operations:			
Per stapled unit (cents)		5.78	6.58
Per unit of Rural Funds Trust (cents)		5.50	6.57
Per unit of RF Active (cents)		0.28	0.01

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Financial Position

As at 31 December 2018

	Note	31 December 2018 \$'000	30 June 2018 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		11,259	1,210
Trade and other receivables		8,854	5,381
Other current assets		2,751	2,918
Total current assets		22,864	9,509
Non-current assets			
Investment property	C2	425,693	357,518
Plant and equipment - bearer plants	C3	170,291	157,239
Financial assets	C4, E2	68,194	37,136
Intangible assets	C5	108,630	106,926
Plant and equipment		7,117	5,480
Total non-current assets		779,925	664,299
Total assets		802,789	673,808
LIABILITIES			
Current liabilities			
Trade and other payables		13,144	6,128
Interest bearing liabilities	D1	3,190	3,361
Income tax payable		667	277
Distributions payable		8,950	6,633
Total current liabilities		25,951	16,399
Non-current liabilities			
Interest bearing liabilities	D1	230,232	269,800
Other non-current liabilities		2,629	1,634
Derivative financial liabilities		9,741	5,834
Deferred tax liabilities		1,823	1,406
Total non-current liabilities		244,425	278,674
Total liabilities (excluding net assets attributable to unitholders)		270,376	295,073
Net assets attributable to unitholders		532,413	378,735
Total liabilities		802,789	673,808

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Financial Position

As at 31 December 2018

	31 December 2018 \$'000	30 June 2018 \$'000
Note		
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		
Unitholders of Rural Funds Trust		
Issued units	364,641	230,574
Asset revaluation reserve	41,767	35,555
Retained earnings	119,515	108,494
Parent entity interest	525,923	374,623
Unitholders of RF Active		
Issued units	4,572	3,091
Retained earnings	1,918	1,021
Non-controlling interest	6,490	4,112
Total net assets attributable to unitholders	532,413	378,735

Water entitlements are held at cost in the Consolidated Statement of Financial Position in accordance with accounting standards. Refer to note B1 Segment information, for disclosure of the Directors' valuation of water entitlements, which are supported by independent property valuations.

Rural Funds Group

Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the half year ended 31 December 2018

31 December 2018	Note	Issued units \$'000	Accumulated profit \$'000	Asset revaluation reserve \$'000	Total \$'000	Non-controlling interest \$'000	Total \$'000
Balance at 1 July 2018		230,574	108,494	35,555	374,623	4,112	378,735
Other comprehensive income		-	-	6,212	6,212	-	6,212
Total other comprehensive income		-	-	6,212	6,212	-	6,212
Profit before income tax		-	17,947	-	17,947	1,283	19,230
Income tax expense		-	(436)	-	(436)	(386)	(822)
Total comprehensive income for the year		-	17,511	6,212	23,723	897	24,620
Issued units							
Units issued during the year	D2	149,789	-	-	149,789	1,513	151,302
Issue costs	D2	(4,849)	-	-	(4,849)	(32)	(4,881)
Total issued units		144,940	-	-	144,940	1,481	146,421
Distributions to unitholders		(10,873)	(6,490)	-	(17,363)	-	(17,363)
Balance at 31 December 2018		364,641	119,515	41,767	525,923	6,490	532,413

31 December 2017		Issued units \$'000	Accumulated profit \$'000	Asset revaluation reserve \$'000	Total \$'000	Non-controlling interest \$'000	Total \$'000
Balance at 1 July 2017		252,880	73,860	27,575	354,315	3,363	357,678
Other comprehensive income		-	-	-	-	-	-
Total other comprehensive income		-	-	-	-	-	-
Profit before income tax		-	17,018	-	17,018	41	17,059
Income tax expense		-	(295)	-	(295)	(15)	(310)
Total comprehensive income for the year		-	16,723	-	16,723	26	16,749
Issued units							
Units issued during the year	D2	1,123	-	-	1,123	11	1,134
Issue costs	D2	11	-	-	11	2	13
Total issued units		1,134	-	-	1,134	13	1,147
Distributions to unitholders		(12,106)	(674)	-	(12,780)	-	(12,780)
Balance at 31 December 2017		241,908	89,909	27,575	359,392	3,402	362,794

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Cash Flows

For the half year ended 31 December 2018

		31 December 2018 \$'000	31 December 2017 \$'000
Cash flows from operating activities			
Receipts from customers		28,735	22,727
Payments to suppliers		(1,323)	(2,134)
Interest received		51	42
Finance income		2,748	-
Finance costs		(4,655)	(4,017)
Net cash inflow from operating activities		25,556	16,618
Cash flows from investing activities			
Payments for investment property	C2	(65,444)	(65,315)
Payments for plant and equipment - bearer plants	C3	(6,840)	(16,218)
Payments for intangible assets	C5	(1,598)	(8)
Payments for financial assets		(31,077)	(13,095)
Payments for plant and equipment		(2,205)	(897)
Proceeds from sale of assets		28	9
Distributions received		31	5
Net cash outflow from investing activities		(107,105)	(95,519)
Cash flows from financing activities			
Proceeds from issue of units	D2	146,419	1,147
Proceeds from borrowings		124,784	89,056
Repayment of borrowings		(164,561)	-
Distributions paid		(15,044)	(12,587)
Net cash inflow from financing activities		91,598	77,616
Net increase/(decrease) in cash and cash equivalents held		10,049	(1,285)
Cash and cash equivalents at the beginning of the year		1,210	3,838
Cash and cash equivalents at the end of the year		11,259	2,553

Rural Funds Group

Notes to the Financial Statements

31 December 2018

A. REPORT OVERVIEW

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 incorporated and domiciled in Australia. The Directors of the Responsible Entity authorised the Financial Report for issue on 20 February 2019 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*.

Basis of preparation

The accounting policies that have been adopted in respect of the financial report are those of Rural Funds Management Limited (RFM) as Responsible Entity of the Trusts. The accounting policies adopted for the half year ended 31 December 2018 are consistent with those of the financial year ended 30 June 2018.

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 2018 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 2018 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.

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.

Rural Funds Group

Notes to the Financial Statements

31 December 2018

Significant accounting judgements, estimates and assumptions (continued)

Management has identified the valuation of property related assets as critical accounting policies for which significant judgements, estimates or assumptions are made.

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.

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.

Comparative amounts

Comparative amounts have not been restated unless otherwise noted.

Working capital

The deficiency in working capital at 31 December 2018 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. The Group has access to its bank facility with an amount of \$69.8 million unused as at 31 December 2018.

New and amended standards adopted by the group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies:

- AASB 9 *Financial Instruments*, and
- AASB 15 *Revenue from Contracts with Customers*.

The adoption AASB 9 and AASB 15 and other standards did not have any impact on the group's accounting policies and did not require retrospective adjustments.

Rural Funds Group

Notes to the Financial Statements

31 December 2018

B. RESULTS

B1 Segment information

The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Directors of the Responsible Entity. The Group currently holds property in six agricultural sectors presented in six segments (31 December 2017: one segment) each holding and leasing agricultural property and equipment. Revenue and property assets not categorised in these sectors are managed at a corporate level. Liabilities and direct or indirect expenses are not allocated to individual segments as these are reviewed by the chief operating decision maker on a consolidated basis.

Segment revenue and revaluation movements

	Almonds	Poultry	Vineyards	Macadamias	Cotton	Cattle	Unallocated	Total
31 December 2018	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total revenue	14,594	5,355	1,889	666	1,438	6,612	146	30,700
Total revaluation	13,598	(1,500)	-	-	(1,136)	(1,792)	(21)	9,149
31 December 2017								
Total revenue	12,778	5,335	1,792	591	938	2,573	134	24,141
Total revaluation	-	(1,500)	-	-	534	5,017	-	4,051

Rural Funds Group

Notes to the Financial Statements

31 December 2018

B1 Segment information (continued)

Segment assets

	Almonds	Poultry	Vineyards	Macadamias	Cotton	Cattle	Unallocated	Total
31 December 2018	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total property assets per statutory accounts	354,427	76,705	47,466	13,872	50,328	200,648	34,245	777,691
Other assets per statutory accounts	-	-	-	-	-	-	25,098	25,098
Total assets per statutory accounts	354,427	76,705	47,466	13,872	50,328	200,648	59,343	802,789
Revaluation of intangible assets per director's valuation	47,002	2,595	518	82	-	-	1,647	51,844
Adjusted total assets at director's valuation	401,429	79,300	47,984	13,954	50,328	200,648	60,990	854,633
30 June 2018								
Total property assets per statutory accounts	329,925	78,205	47,341	13,490	30,803	130,051	34,257	664,072
Other assets per statutory accounts	-	-	-	-	-	-	9,736	9,736
Total assets per statutory accounts	329,925	78,205	47,341	13,490	30,803	130,051	43,993	673,808
Revaluation of intangible assets per director's valuation	45,000	2,595	518	82	-	-	1,646	49,841
Adjusted total assets at director's valuation	374,925	80,800	47,859	13,572	30,803	130,051	45,639	723,649

Rural Funds Group

Notes to the Financial Statements

31 December 2018

B1 Segment information (continued)

Net asset value adjusted for water rights

The chief operating decision maker of RFF assesses the segments on property asset values adjusted for water rights. RFF owns permanent water rights and entitlements which are recorded at historical cost less accumulated impairment losses. Such rights have an indefinite life and are not depreciated. The carrying value is tested annually for impairment as well as for possible reversal of impairment. If events or changes in circumstances indicate impairment, or reversal of impairment, the carrying value is adjusted to take account of impairment losses.

The book value of the water rights (including investments in BIL and CICL) at 31 December 2018 is \$121,361,000 (30 June 2018: \$119,657,000).

	31 December 2018 \$'000	30 June 2018 \$'000
Intangible assets (water entitlements)	108,630	106,926
Investment in CICL	12,222	12,222
Investment in BIL	509	509
Total book value of water entitlements	121,361	119,657
Revaluation of intangible assets per valuation	51,844	49,841
Adjusted total water entitlements per management accounts	173,205	169,498

Directors obtain independent valuations on RFF properties ensuring that each property will have been independently valued every two years or more often where appropriate. These valuations attribute a value to the water entitlements held by the Group. Independent valuations were obtained for newly acquired properties and the Kerarbury almond orchard property for the half year ended 31 December 2018. The Directors have taken into account the most recent valuations on each property and consider that they remain a reasonable estimate and on this basis the fair value of water entitlements at 31 December 2018 was \$173,205,000 (30 June 2018: \$169,498,000) representing a movement in the value of the water rights of \$51,844,000 (30 June 2018: \$49,841,000) above cost.

The following is a reconciliation of the book value at 31 December 2018 to an adjusted value based on the Directors' valuation of the water rights which are assessed by the chief operating decision maker.

	Per Statutory Consolidated Statement of Financial Position \$'000	Revaluation of water entitlements per Directors' valuation \$'000	Directors' valuation (Adjusted) \$'000
Assets			
Total current assets	22,864	-	22,864
Total non-current assets	779,925	51,844	831,769
Total assets	802,789	51,844	854,633
Liabilities			
Total current liabilities	25,951	-	25,951
Total non-current liabilities	244,425	-	244,425
Total liabilities (excluding net assets attributable to unitholders)	270,376	-	270,376
Net assets attributable to unitholders	532,413	51,844	584,257
Net asset value per unit (\$)	1.60	0.15	1.75

Rural Funds Group

Notes to the Financial Statements

31 December 2018

B2 Adjusted funds from operations (AFFO)

The following presents the adjusted funds from operations (AFFO) and provides the reconciliation from AFFO to Net profit after income tax which is assessed by the chief operating decision maker.

	31 December 2018 \$'000	31 December 2017 \$'000
Revenue	30,607	24,141
Other income	1,604	86
Property Expenses	(759)	(568)
Fund Overheads	(2,212)	(1,350)
Management fees	(3,878)	(2,886)
Finance costs	(4,655)	(4,017)
Income tax payable on public trading trust (RF Active)	(387)	-
Adjusted Funds From Operations (AFFO)	20,320	15,406
Gain on sale of assets	26	12
Depreciation and impairments	(486)	(440)
Change in fair value of financial assets/liabilities	(34)	-
Change in fair value of investment property	2,832	4,051
Change in fair value of interest rate swaps	(3,908)	(1,970)
Interest component of JBS feedlot finance lease	93	-
Income tax expense (Other)	(435)	(310)
Net profit after income tax	18,408	16,749
AFFO cents per unit	6.4	6.0

B3 Revenue

	31 December 2018 \$'000	31 December 2017 \$'000
Rental income	27,900	23,435
Finance income	2,748	661
Interest received	52	44
Total	30,700	24,141

Revenue is recognised when the performance obligations are satisfied through the transfer of goods and services to a customer either at a point in time or over time. The Group's revenue is largely comprised of income under leases and finance income. All revenue is stated net of the amount of goods and services tax (GST).

Rental income arises from the leasing of property assets and operational plant and equipment and is accounted for on an accruals basis. The respective leased assets are included in the Consolidated Statement of Financial Position based on that nature.

Finance income arises from the provision of finance leases in the form of leased cattle breeders and leased cattle feedlots, provision of financial guarantees and working capital loans and recognised on an accrual basis using the effective interest rate method.

Rural Funds Group

Notes to the Financial Statements

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B4 Distributions

	Cents per unit	Total \$
Distribution declared 1 June 2018, paid 31 July 2018	2.5075	6,409,935
Distribution declared 3 September 2018, paid 31 October 2018	2.6075	8,675,317
Distribution declared 31 December 2018, paid 31 January 2019	2.6075	8,686,568

Rural Funds Group

Notes to the Financial Statements

31 December 2018

C. PROPERTY ASSETS

This section includes detailed information regarding RFF's properties, which are made up of multiple line items on the Consolidated Statement of Financial Position including Investment property, Plant and equipment, Plant and equipment – bearer plants, Intangible assets and Financial assets. These asset items generate rental and other property income.

C1 RFF property assets

		31 December 2018 \$'000	30 June 2018 \$'000
Investment property	C2	425,693	357,518
Plant and equipment - bearer plants	C3	170,291	157,239
Financial assets - property related	C4	65,960	36,910
Intangible assets	C5	108,630	106,926
Plant and equipment		7,117	5,480
Total		777,691	664,073

Rental income and fair value movements from RFF property assets

	31 December 2018 \$'000	31 December 2017 \$'000
Rental income from property assets	30,648	24,096
Change in fair value of investment property	2,832	17,191
Revaluation increment/(decrement) - bearer plants	6,212	(11,687)

Key changes to the property portfolio during the year:

- In July 2018, the Group purchased Comanche, a 7,600 hectare cattle property located in central Queensland for \$16.7 million including transaction costs.
- In October 2018, the Group purchased three feedlots, Prime City, Caroonna and Mungindi from JBS for \$28.4 million including transaction costs.
- In September 2018, the Group purchased Cerberus, a 8,280 hectare cattle property located in central Queensland for \$10.8 million including transaction costs.
- In September 2018, the Group purchased Mayneland, a 2,942 hectare cotton property in central Queensland for \$17.8 million including transaction costs and plant and equipment associated with the property.
- In October 2018, the Group purchased Dyamberin, a 1,728 hectare cattle property located in the New England region of New South Wales for \$14.1 million including transaction costs.

Valuations

Directors obtain independent valuations on RFF properties ensuring that each property will have been independently valued every two years or more often where appropriate.

Directors have considered independent valuations and market evidence where appropriate to determine the appropriate fair value to adopt. Independent property valuations were obtained for the Kerarbury property and for all properties acquired during the half year ended at 30 June 2018. The Directors have adopted all the valuations from the independent valuers.

The Directors have deemed that independent valuations were not required on the remaining properties as there has been no material change to the industry and geographical conditions of the properties in which the independent valuers previously assessed these assets. Directors' valuations have been adopted for these properties in the financial statements.

Rural Funds Group

Notes to the Financial Statements

31 December 2018

C1 RFF property assets (continued)

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

Significant accounting judgments, estimates and assumptions in relation to valuation of property assets

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.

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.

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.

C2 Investment property

31 December 2018	Almond property	Poultry property	Vineyard property	Macadamia property	Cotton property	Cattle property	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening net book amount	118,214	77,156	25,435	4,685	27,131	104,897	357,518
Acquisitions	-	-	-	-	17,836	40,118	57,954
Additions	4,236	-	114	112	1,592	1,435	7,489
Amortisation of lease incentives	-	-	-	-	-	(100)	(100)
Fair value adjustment	7,260	(1,500)	-	-	(1,136)	(1,792)	2,832
Closing net book amount	129,710	75,656	25,549	4,797	45,423	144,558	425,693
30 June 2018	Almond property	Poultry property	Vineyard property	Macadamia property	Cotton property	Cattle property	Total
Opening net book amount	95,605	83,011	25,435	2,015	24,157	43,560	273,783
Acquisitions	-	-	-	-	-	53,156	53,156
Additions	17,257	-	-	320	2,440	3,297	23,314
Amortisation of lease incentives	-	-	-	-	-	(133)	(133)
Fair value adjustment	5,352	(5,855)	-	2,350	534	5,017	7,398
Closing net book amount	118,214	77,156	25,435	4,685	27,131	104,897	357,518

Rural Funds Group

Notes to the Financial Statements

31 December 2018

C2 Investment property (continued)

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

Investment properties are held for long-term rental yields and capital growth and are not occupied by the Group. RFF measure and recognise investment property at fair value where the valuation technique is based on unobservable inputs. Changes in fair value are presented through profit or loss in the Consolidated Statement of Comprehensive Income.

Capital expenditure that enhances the future economic benefits of the assets are capitalised to investment property. Incentives provided are also capitalised to the investment property and are amortised on a straight-line basis over the term of the lease as a reduction of rental revenue.

C3 Plant and equipment – bearer plants

31 December 2018	Bearer Plants - Almonds	Bearer Plants - Macadamias	Bearer Plants - Vineyards	Total
	\$'000	\$'000	\$'000	\$'000
Opening net book amount	129,330	7,011	20,898	157,239
Additions	6,830	-	10	6,840
Fair value adjustment - other comprehensive income	6,212	-	-	6,212
Closing net book amount	142,372	7,011	20,908	170,291

30 June 2018	Bearer Plants - Almonds	Bearer Plants - Macadamias	Bearer Plants - Vineyards	Total
	\$'000	\$'000	\$'000	\$'000
Opening net book amount	95,285	6,119	19,789	121,193
Additions	26,957	-	1,109	28,066
Fair value adjustment - other comprehensive income	7,088	892	-	7,980
Closing net book amount	129,330	7,011	20,898	157,239

Bearer plants are solely used to grow produce over their productive lives and are accounted for under AASB 116 *Property, Plant and Equipment*.

The bearer plants are measured at fair value. Any change in the carrying amount above cost is recognised in asset revaluation reserve and other comprehensive income and other comprehensive income, and any decrease in the carrying amount below cost is recognised in the Consolidated Statement of Comprehensive Income.

C4 Financial assets – property related

	31 December 2018	30 June 2018
	\$'000	\$'000
Non-current		
Investment - BIL	509	509
Investment - CICL	12,222	12,222
Finance Lease - Breeders	14,455	14,179
Finance Lease - JBS Australia Pty Limited	28,774	-
Term Loan - DA & JF Camm Pty Limited	10,000	10,000
Total	65,960	36,910

Rural Funds Group

Notes to the Financial Statements

31 December 2018

C4 Financial assets – property related (continued)

Barossa Infrastructure Ltd (BIL) is an unlisted public Company supplying supplementary irrigation water for viticulture in the Barossa. The Group holds a minority interest in BIL.

Coleambally Irrigation Co-operative Limited (CICL) is one of Australia's major irrigation companies 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. The Group holds a minority interest in CICL.

Breeder finance lease is in the form of breeders which have been leased to Cattle JV Pty Limited, a subsidiary of Rural Funds Management Limited, for a term of ten years ending in 2026.

JBS finance lease is in the form of feedlots leased to JBS Australia Pty Limited (JBS) for a term of ten years ending in 2028 with a repurchase call option exercisable by JBS and a sale put option exercisable by the Group.

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.

Significant accounting judgements in the valuation of Coleambally Irrigation Co-operative and Barossa Infrastructure Limited shares

The shares in Coleambally Irrigation Co-operative Limited (CICL) and Barossa Infrastructure Limited (BIL) 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. As such, investments in BIL and CICL are treated the same as water rights, that is, recorded at historical cost less accumulated impairment losses.

Finance leases

Finance leases are measured at amortised cost. These represent leases of fixed assets or biological assets where all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are substantially transferred from the lessor.

Rural Funds Group

Notes to the Financial Statements

31 December 2018

C5 Intangible assets

Intangible assets are made up of water rights and entitlements. Refer to note B1 for Directors' valuation of water rights and entitlements.

31 December 2018	Almonds \$'000	Poultry infrastructure \$'000	Vineyards \$'000	Macadamias \$'000	Cotton \$'000	Cattle \$'001	Other \$'000	Total \$'000
Non-current								
Opening net book amount	66,633	1,049	500	815	3,672	-	34,257	106,926
Additions	-	-	-	-	-	1,598	-	1,598
Reversal of impairment	106	-	-	-	-	-	-	106
Reallocation	21	-	-	-	-	-	(21)	-
Closing net book amount	66,760	1,049	500	815	3,672	1,598	34,236	108,630
Cost	67,514	1,049	500	815	3,672	1,598	34,236	109,384
Accumulated amortisation and impairment	(754)	-	-	-	-	-	-	(754)
Net book amount	66,760	1,049	500	815	3,672	1,598	34,236	108,630
30 June 2018								
Non-current								
Opening net book amount	68,333	1,049	500	808	3,672	-	34,376	108,738
Additions	-	-	-	7	-	-	-	7
Transfers	179	-	-	-	-	-	(179)	-
Disposals	(1,879)	-	-	-	-	-	6	(1,873)
Reversal of impairment	-	-	-	-	-	-	54	54
Closing net book amount	66,633	1,049	500	815	3,672	-	34,257	106,926
Cost	67,493	1,049	500	815	3,672	-	34,257	107,786
Accumulated amortisation and impairment	(860)	-	-	-	-	-	-	(860)
Net book amount	66,633	1,049	500	815	3,672	-	34,257	106,926

Rural Funds Group

Notes to the Financial Statements

31 December 2018

C5 Intangible assets (continued)

Water rights

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

C6 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	30 June
	2018	2018
	\$'000	\$'000
Bearer plants	4,620	13,718
Investment property	10,877	15,250
Total	15,497	28,968

Other commitments

Other significant commitments contracted for but not recognised as a liability relate to:

- The provision of the \$5.0 million cattle financing facility to DA & JF Camm Pty Limited, the lessee of the Natal aggregation. The facility was not drawn during the half year ended 31 December 2018.
- The provision of a \$1.6 million cattle financing facility to Katena Pty Limited, the lessee of the Cerberus property. The facility was not drawn during the half year ended 31 December 2018.

Rural Funds Group

Notes to the Financial Statements

31 December 2018

D. CAPITAL STRUCTURE AND FINANCIAL RISK MANAGEMENT

RFM, the Responsible Entity of RFF, is responsible for managing the policies designed to optimise RFF's capital structure. This is primarily monitored through an internal gearing target ratio of less than 35% calculated as interest bearing liabilities on adjusted total assets. The optimal capital structure is reviewed periodically, although this may be impacted by market conditions which may result in an actual position which may differ from the desired position.

D1 Interest bearing liabilities

	31 December	30 June
	2018	2018
	\$'000	\$'000
Current		
Equipment loans (ANZ)	3,152	3,361
J&F Guarantee - credit loss allowance	38	-
Total	3,190	3,361
Non-current		
Borrowings (ANZ)	147,348	172,672
Borrowings (Rabobank)	82,884	97,128
Total	230,232	269,800

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

Credit loss allowance

The J&F Guarantee is a \$75.0 million limited guarantee provided to J&F Australia Pty Ltd (J&F), a wholly owned subsidiary of Rural Funds Management Limited. From the provision of this guarantee, the Group earns a guarantee fee classified as finance income as noted in B3, paid on a monthly basis.

Financial liabilities relates to the credit loss allowance taking into account the likelihood of the financial guarantee to J&F being triggered and its financial impact for the Group. The credit loss allowance is recognised at fair value through profit or loss.

As part of this transaction, the Group has contracted to purchase five feedlots from JBS Australia Pty Limited. Three of these feedlots have settled as at 31 December 2018. The feedlots are classified as a finance lease with a repurchase call option exercisable by JBS and a sale put option exercisable by the Group as noted in C4.

Borrowings

At 31 December 2018 the core debt facility available to the Group was \$300,000,000 (30 June 2018: \$275,000,000), split into two tranches, with a \$200,000,000 tranche expiring in December 2021 and a \$100,000,000 tranche expiring in December 2023. As at 31 December 2018 RFF had active interest rate swaps totaling 62.1% (30 June 2018: 40.0%) 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 updated borrowing facility, the Group was required to comply with the following financial covenants for the period ended 31 December 2018:

- maintain a maximum loan to value ratio of 50%;
- maintain net tangible assets (including water entitlements) in excess of \$400,000,000;
- a minimum hedging requirement of 40% of debt drawn under the borrowing facility; and
- an interest cover ratio for the Group not less than 3.00:1.00.

Rural Funds Group

Notes to the Financial Statements

31 December 2018

D1 Interest bearing liabilities (continued)

Loan covenants (continued)

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

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 section B1 for Directors' valuation of water rights and entitlements.

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

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

D2 Issued units

	31 December 2018		31 December 2017	
	No.	\$'000	No.	\$'000
Units on issue at the beginning of the period	255,630,515	233,666	254,380,898	255,946
Units issued during the period	77,507,263	146,421	578,188	1,147
Distributions to unitholders	-	(10,873)	-	(12,106)
Units on issue	333,137,778	369,214	254,959,086	244,987

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. Voting is determined based on the closing market value of each unit.

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

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

Rural Funds Group

Notes to the Financial Statements

31 December 2018

E. OTHER INFORMATION

E1 Financial assets - other (non-property related)

	31 December 2018 \$'000	30 June 2018 \$'000
Investment - RFM Poultry	128	124
Investment - Macadamia Processing Co	102	102
Investment - Almondco Australia Limited	2,003	-
Total	2,233	226

During the half year ended 31 December 2018, the Group acquired a 10% share in Almondco Australia Limited.

E2 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 2018 \$'000	31 December 2017 \$'000
Management fee	1,671	1,687
Asset management fee	2,229	1,199
Total management fees	3,900	2,886
Expenses reimbursed to RFM	2,030	1,376
Expenses due to Murdock Viticulture	-	947
Distribution paid/payable to RFM	846	457
Total amount paid to RFM and related entities	6,776	5,666
Rental income received from RFM Almond Fund 2006	1,058	1,026
Rental income received from RFM Almond Fund 2007	285	283
Rental income received from RFM Almond Fund 2008	806	800
Rental income received from RFM	504	254
Rental income received from RFM Farming Pty Limited	760	90
Rental income received from Cattle JV	2,100	1,704
Rental income received from Cotton JV	1,036	940
Rental income received from 2007 Macgrove Project	381	346
Rental income received from RFM Macadamias	174	160
Finance income from Cattle JV	619	635
Finance income from J&F Australia Pty Limited	1,479	-
Rental income received from RFM Poultry	5,404	5,335
Distribution received/receivable from RFM Poultry	6	5
Interest income from Cattle JV	3	-
Total amounts received from RFM and related entities	14,615	11,578

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

Rural Funds Group

Notes to the Financial Statements

31 December 2018

E2 Related party transactions (continued)

Related party transactions (continued)

Financial Guarantee

	31 December 2018 \$'000	31 December 2017 \$'000
J&F Australia Pty Ltd (see Note D1)	75,000	-
Total	75,000	-

Debtors (including finance lease receivable)

	31 December 2018 \$'000	31 December 2017 \$'000
RFM Farming Pty Limited	151	679
RFM	-	72
RFM Macadamias Pty Limited	37	32
Cattle JV Pty Limited	15,233	14,516
2007 Macgrove Project	14,463	31
Cotton JV Pty Limited	142	557
J&F Australia Pty Limited	428	-
RFM Poultry	49	-
Total	30,503	15,887

Creditors

	31 December 2018 \$'000	31 December 2017 \$'000
RFM	310	161
Total	310	161

Custodian fees

	31 December 2018 \$'000	31 December 2017 \$'000
Australian Executor Trustees Limited	114	104
Total	114	104

Entities with influence over the Group

	31 December 2018		30 June 2018	
	Units	%	Units	%
Rural Funds Management	11,843,659	3.56	9,110,507	3.56

Rural Funds Group

Notes to the Financial Statements

31 December 2018

E2 Related party transactions (continued)

Related party transactions (continued)

Interest in related parties

	31 December 2018		30 June 2018	
	Units	%	Units	%
RFM Poultry	225,529	3.28	225,529	3.28

E3 Other accounting policies

New accounting standards and interpretations

Standard Name	Effective date for the Group	Requirements	Impact
AASB 16 Leases	1-Jul-19	Introduces a single lease accounting model and requires lessees to recognise on the balance sheet an asset (right of use) and a corresponding liability (lease commitment) for leases with a term of more than 12 months.	There is no impact on reported financial position or performance expected for the Group as it is a lessor in nature.

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

E4 Events after the reporting date

In January 2019, the Group purchased Woodburn, a 1,062 hectare cattle breeding and backgrounding property located in the New England region of New South Wales for a purchase price of \$7.5 million including transaction costs. The property is leased to Stone Axe Pastoral Company for ten years with a rent review in year five.

In February 2019, the Group announced that it has contracted to acquire Cobungra, a 6,486 hectare cattle property located in Victoria for \$35.0 million excluding transaction costs. An agreement is in place for the property to be leased to Stone Axe Pastoral Company on settlement for ten years with a rent review in year five.

No matter or circumstance has arisen since the end of the period 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

Directors' Declaration

31 December 2018

In the Directors of the Responsible Entity's opinion:

- 1 The financial statements and notes of Rural Funds Group set out on pages 10 to 32 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 2018 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 A confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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



David Bryant
Director

20 February 2019



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 2018, 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 Group's financial position as at 31 December 2018 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 Group, 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

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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 Group is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2018 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 black ink that reads 'PricewaterhouseCoopers' in a cursive script.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'Rod Dring' in a cursive script.

Rod Dring
Partner

Sydney
20 February 2019

Responsible Entity

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