

Rural Funds Group (RFF)

Financial Statements

For the Half Year Ended 31 December 2015

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
Directors	Guy Paynter David Bryant Michael Carroll
Company Secretaries	Andrea Lemmon Stuart Waight
Custodian	Australian Executor Trustees Limited ABN 84 007 869 794 Level 22, 207 Kent Street SYDNEY NSW 2000
Auditors	PricewaterhouseCoopers Darling Park 201 Sussex Street SYDNEY NSW 2000
Share Registry	Boardroom Pty Limited Level 12, 225 George Street SYDNEY NSW 2000
Bankers	Australia and New Zealand Banking Group Limited (ANZ) 242 Pitt 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 2015

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 2015.

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

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

Directors

The following persons held office as Directors of the responsible entity during the half year and up to the date of this report:

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

Principal activities and significant changes in nature of activities

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

On 9 October 2015 the Group acquired the Kerarbury and Kamelda properties (collectively referred to as Kerarbury), located near Darlington Point, NSW. In September 2015 a lease for 22 years and 9 months was executed with Olam Orchards Australia Pty Limited (Olam) to develop a 1,500 hectare almond orchard on Kerarbury. To fund this development, a placement of \$12,596,000 (11.451 million fully paid stapled securities) and a non-renounceable rights issue of \$22,381,000 (2 new units for every 13 existing units) were completed in October 2015.

Operating results

The consolidated operating profit after income tax of the Group for the half year ended 31 December 2015 amounted to \$4,946,000 (31 December 2014: \$3,904,000).

The Group holds investment property, biological assets and derivatives at fair value. After adjusting for the effects of the fair value adjustments and depreciation during the year the profit before tax would have been \$6,194,000 (31 December 2014: \$4,997,000).

Rural Funds Group

Directors' Report

31 December 2015

Adjusted funds from operations (AFFO)

	31 December 2015 \$'000	31 December 2014 \$'000
Net profit before income tax	5,182	3,903
Change in fair value of investment property	1,009	1,345
Change in fair value of biological assets	(1,154)	(1,364)
Change in fair value of interest rate swaps	818	960
Depreciation and impairments	339	153
AFFO	6,194	4,997
AFFO cents per unit	4.28	4.26

Having eliminated fair value adjustments, the adjusted funds from operations (AFFO) effectively represents funds from operations from the property rental business.

Financial position

The net assets of the consolidated Group have increased from \$151,940,000 at 30 June 2015 to \$184,078,000 at 31 December 2015.

At 31 December 2015 the Group had total assets of \$302,480,000 (30 June 2015: \$252,663,000), including assets held for sale of \$1,120,000 (30 June 2015: nil).

At 31 December 2015, RFF held total water entitlements (including investments in Barossa Infrastructure Limited (BIL) and Coleambally Irrigation Co-operative Limited (CICL)) at a book value of \$57,797,000 (30 June 2015: \$29,485,000). Independent valuations as at 30 June 2015 were received on the established almond orchards and associated properties and poultry property and infrastructure that attribute a value to the water entitlements held by the Group. The Directors consider that these valuations remain reasonable estimates of the fair value at 31 December 2015 and on this basis the fair value of water rights at 31 December 2015 was \$67,372,000 (30 June 2015: \$39,060,000). The following depicts the net assets of the Group following the revaluation of intangible assets per these valuations.

Adjusted net asset value

	31 December 2015 \$'000	30 June 2015 \$'000
Net assets per Consolidated Statement of Financial Position	184,078	151,940
Revaluation of intangible assets per valuation	9,575	9,575
Adjusted net assets	193,653	161,515
Adjusted NAV per unit	1.18	1.22

Rural Funds Group

Directors' Report

31 December 2015

Property leasing

At 31 December 2015 the Group held 32 properties as follows:

- 17 poultry farms (303,216 square metres);
- 2 almond orchards (1,814 planted hectares);
- 2 almond orchards under development (2,100 planted hectares);
- 7 vineyards (666 planted hectares)
- 4 properties held for sale (710 hectares).

During the half year ended 31 December 2015, the properties held by the Group recorded a fair value of investment properties decrement of \$1,009,000 (31 December 2014: \$1,345,000), a change in fair value of biological assets increment of \$1,154,000 (31 December 2014: \$1,364,000), and an impairment of plant and equipment of \$70,000 (31 December 2014: nil).

Almond orchards

Established almond orchards and associated water licences are located near Hillston, NSW and are leased to tenants who make regular rental payments. On these properties, 2,214 hectares (31 December 2014: 1,814 hectares) are applied to almond growing: 1,006 hectares (31 December 2014: 1,006) at Yilgah, 808 hectares (31 December 2014: 808) at Moorall and 400 hectares at Tocabil (31 December 2014: nil). The full almond area is under lease to the following tenants:

- Select Harvest Limited (SHV) 1,221 hectares (31 December 2014: 1,221);
- RFM Almond Fund 2006 (AF06) 272 hectares (31 December 2014: 272);
- RFM Almond Fund 2007 (AF07) 73 hectares (31 December 2014: 73);
- RFM Almond Fund 2008 (AF08) 206 hectares (31 December 2014: 206);
- Olam Orchards Australia Pty Limited (Olam) 400 hectares (31 December 2014: nil);
- Rural Funds Management Limited (RFM) 42 hectares (31 December 2014: 42).

The Group has two almond orchards under development, both of which are under lease to Olam Orchards Australia Pty Limited (Olam). Tocabil was leased to Olam in March 2015. As stated above, 400 hectares of almond orchard is established and fully leased. A further 200 hectares continues to be developed in accordance with the lease of this property. The Kerarbury property was leased to Olam in September 2015. A 1,500 hectare almond orchard is being developed in accordance with the lease of this property.

For its almond orchards the Group owns water entitlements in various areas: 33,245ML in the Lower Lachlan, 6,575ML in the Lower Murrumbidgee and 18,389 in the Murrumbidgee. During the half year, 6,269ML of river water, 6,575ML of groundwater and 14,071ML of delivery entitlement were purchased. Deposits were paid for an additional 1,818ML of various entitlements.

Poultry property

The poultry property and infrastructure held by the Group includes 17 poultry growing farms located in Griffith, NSW and Lethbridge, VIC and 1,432ML of water entitlements (31 December 2014: 1,432ML). Leases are in place with RFM Poultry, a scheme managed by RFM, for 100% (31 December 2014: 100%) of the poultry property and infrastructure, with remaining lease terms between 8 and 20 years. The poultry growing operations are performed by RFM Poultry.

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 2014: 936ML). All vineyards produce premium quality grapes and are leased to Treasury Wine Estates Limited until June 2022.

Rural Funds Group

Directors' Report

31 December 2015

Property leasing (continued)

Other activities

The Group owns a 33.16% stake in RFM StockBank (31 December 2014: 35.07%), a scheme managed by RFM, which operates a livestock leasing business. Under the livestock leasing operation, RFM StockBank retains the ownership of the livestock and leases them to farmers in return for a placement fee which is similar to interest, and an upfront fee from the livestock agent.

Agricultural plant and equipment valued at \$3,408,000 is owned by the Group and leased to AF06, AF07 and AF08 (30 June 2015: \$3,153,000).

Banking facilities

At 31 December 2015 RFF's core debt facility was \$136,000,000 (30 June 2015: \$103,000,000), with a drawn down balance of \$103,000,000 (30 June 2015: \$89,650,000). The facility expiry is unchanged (being December 2018), and RFF has interest rate swaps totaling 65% (30 June 2015: 73%) of the facility to manage interest rate risk.

Distributions

	Cents per unit	Total \$
Distribution paid 30 July 2015	2.1475	2,837,756
Distribution paid 30 October 2015	2.2325	2,955,483
Distribution declared 1 December 2015, paid 29 January 2016	2.2325	3,670,193

Significant changes in state of affairs

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

Earnings per unit

Net profit after income tax for the half year	4,946,000
Weighted average number of units on issue during the half year	144,847,045
Basic and diluted earnings per unit (total) (cents)	3.41

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 half 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 2015 is 3.37% (31 December 2014: 2.07%). The ICR for the half year has been impacted by costs associated with the placement and rights issue completed in October 2015.

Rural Funds Group

Directors' Report

31 December 2015

Matters subsequent to the end of the half year

In January 2016 RFF invested \$5,275,000 in Perth Markets Limited (PML). In December 2015, PML was selected by the West Australian government as the preferred bidder for the Market City site located at Canning Vale, WA. PML is an industry-based consortium of wholesalers, growers, Market City tenants and state-based market operators. RFF's investment represents an interest of approximately 8.96% in PML.

RFM has negotiated an option for RFF to acquire three mature macadamia orchards. The orchards are located near Bundaberg, QLD and comprise 259 hectares of macadamias. Two of the orchards are encumbered by a tax effective managed investment scheme and the purchase of the orchards is conditional on growers in the scheme appointing RFM as responsible entity of the scheme, at a meeting to be held on 24 February 2016. The purchase of the orchards will initially be debt funded and increase RFF's assets under management by approximately \$8,600,000.

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

Likely developments and expected results of operations

The Group expects to continue to derive its core future income from the holding and leasing of investment property, biological assets 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

164,398,350 units in Rural Funds Trust were on issue at 31 December 2015 (31 December 2014: 117,458,512). During the half year 32,256,115 units were issued by the Trust (31 December 2014: 359,353) and nil (31 December 2014: nil) were redeemed.

164,398,350 units in RF Active were on issue at 31 December 2015 (31 December 2014: 117,458,512). During the half year 32,256,115 units were issued by the Trust (31 December 2014: 359,353) and nil (31 December 2014: 50,000) were redeemed.

Indemnity of Responsible Entity and Custodian

In accordance with the 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 Class Order 98/100 applies and accordingly amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars.



Auditor's Independence Declaration

As lead auditor for the review of Rural Funds Group for the half-year ended 31 December 2015, 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 that reads 'David Ronald'.

David Ronald
Partner
PricewaterhouseCoopers

Sydney
23 February 2016

Rural Funds Group

Consolidated Statement of Comprehensive Income For the half year ended 31 December 2015

	Note	31 December 2015 \$'000	31 December 2014 \$'000
Revenue	6	12,453	10,686
Other income		19	139
Management fees		(1,466)	(1,227)
Professional fees		(1,009)	(1,136)
Finance costs		(2,644)	(2,632)
Other expenses		(1,246)	(868)
Share of net profit - equity accounted investments		69	38
Gain/(loss) on sale of assets		18	(3)
Depreciation and impairments		(339)	(153)
Change in fair value of biological assets		1,154	1,364
Change in fair value of investment property		(1,009)	(1,345)
Change in fair value of interest rate swaps		(818)	(960)
Net profit before income tax		5,182	3,903
Income tax (expense)/benefit		(236)	1
Net profit after income tax		4,946	3,904
Other comprehensive income:			
Revaluation decrement		(14)	-
Income tax relating to these items		-	-
Other comprehensive income for the period, net of tax		(14)	-
Total comprehensive income attributable to unitholders		4,932	3,904
Total comprehensive income for the period attributable to unitholders arising from:			
Rural Funds Trust		4,865	3,884
RF Active (non-controlling interest)		67	20
		4,932	3,904
Earnings per unit			
Basic and diluted earnings per unit from continuing operations:			
Per stapled unit (cents)		3.41	3.33
Per unit of Rural Funds Trust (cents)		3.37	3.31
Per unit of RF Active (cents)		0.04	0.02

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Financial Position

As at 31 December 2015

		31 December	30 June
		2015	2015
	Note	\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents		2,925	712
Trade and other receivables		2,796	2,729
Assets classified as held for sale	7	1,120	-
Financial assets		109	-
Other current assets		1,037	307
Total current assets		7,987	3,748
Non-current assets			
Plant and equipment		3,408	3,153
Investment property	9	153,098	142,379
Intangible assets	8	49,559	28,965
Biological assets	9	74,249	67,581
Investment accounted for using the equity method		3,881	3,903
Financial assets		8,238	617
Deferred tax asset		2,060	2,317
Total non-current assets		294,493	248,915
Total assets		302,480	252,663
LIABILITIES			
Current liabilities			
Trade and other payables		4,793	2,038
Interest bearing liabilities	10	2,334	657
Income tax payable		-	29
Distributions payable		3,843	2,947
Total current liabilities		10,970	5,671
Non-current liabilities			
Interest bearing liabilities	10	103,000	91,451
Other non-current liabilities		1,553	1,553
Derivative financial liabilities		2,879	2,048
Total non-current liabilities		107,432	95,052
Total liabilities (excluding net assets attributable to unitholders)		118,402	100,723
Net assets attributable to unitholders		184,078	151,940
Total liabilities		302,480	252,663

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Financial Position

As at 31 December 2015

	31 December	30 June
	2015	2015
Note	\$'000	\$'000
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		
Unitholders of Rural Funds Trust		
Contributed equity	139,408	111,711
Reserves	1,392	1,406
Accumulated profit/(loss)	41,483	37,427
Parent entity interest	182,283	150,544
Unitholders of RF Active		
Contributed equity	1,668	1,323
Reserves	-	-
Accumulated profit/(loss)	127	73
Non-controlling interest	1,795	1,396
Total net assets attributable to unitholders	184,078	151,940

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

Rural Funds Group

Consolidated Statement of Changes in Net Assets Attributable to Unitholders For the half year ended 31 December 2015

31 December 2015	Issued units	Retained earnings	Asset revaluation reserve	Total
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2015	113,034	37,500	1,406	151,940
Profit before income tax	-	5,182	(14)	5,168
Income tax expense	-	(236)	-	(236)
Total comprehensive income for the period	-	4,946	(14)	4,932
Equity transactions				
Units issued during the period	35,493	-	-	35,493
Issue costs	(1,661)	-	-	(1,661)
Total equity transactions	33,832	-	-	33,832
Distributions to unitholders	(5,789)	(837)	-	(6,626)
Balance at 31 December 2015	141,077	41,609	1,392	184,078
31 December 2014	Issued units	Retained earnings	Asset revaluation reserve	Total
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2014	108,281	27,792	1,398	137,471
Profit before income tax	-	3,903	-	3,903
Income tax expense	-	1	-	1
Total comprehensive income for the period	-	3,904	-	3,904
Equity transactions				
Units issued during the period	352	-	-	352
Issue costs	-	-	-	-
Total equity transactions	352	-	-	352
Distributions to unitholders	(5,041)	-	-	(5,041)
Balance at 31 December 2014	103,592	31,696	1,398	136,686

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Cash Flows

For the half year ended 31 December 2015

	31 December 2015 \$'000	31 December 2014 \$'000
Note		
Cash flows from operating activities		
Receipts from customers	15,816	12,972
Payments to suppliers	(4,274)	(5,852)
Interest received	33	30
Finance costs	(3,567)	(2,621)
Net cash inflow from operating activities	8,008	4,529
Cash flows from investing activities		
Acquired as a result of stapling transaction	-	591
Payments for investment property	(11,727)	(5,088)
Payments for held for sale assets	(1,001)	-
Payments for plant and equipment	(708)	(169)
Payments for intangible assets	(20,594)	(2,369)
Payments for financial assets	(7,718)	-
Payments for biological assets	(5,515)	(137)
Proceeds from sale of plant and equipment	56	-
Proceeds from equity accounted investment	90	-
Distributions received	3	113
Net cash outflow from investing activities	(47,114)	(7,059)
Cash flows from financing activities		
Proceeds from issue of units	33,824	353
Proceeds from borrowings	13,981	6,397
Repayment of borrowings	(756)	-
Distributions paid	(5,730)	(6,143)
Net cash inflow from financing activities	41,319	607
Net increase/(decrease) in cash and cash equivalents held	2,213	(1,923)
Cash and cash equivalents at the beginning of the period	712	2,723
Cash and cash equivalents at the end of the period	2,925	800

The accompanying notes form part of these financial statements.

Rural Funds Group

Notes to the Financial Statements

31 December 2015

1 General information

This financial report covers the consolidated financial statements and notes of Rural Funds Trust and its Controlled Entities including RF Active (Rural Funds Group or the Group). Rural Funds Group is a for profit entity domiciled in Australia. The Directors of the Responsible Entity have authorised the Financial Report for issue on 23 February 2016 and have the power to amend and reissue the Financial Report.

Each of the entities within the Group prepare their financial statements based on the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

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

2 Summary of significant accounting policies

Basis of preparation

The accounting policies that have been adopted in respect of the financial report are those of Rural Funds Management (RFM) as responsible entity of the Trusts. The accounting policies adopted for the half year ended 31 December 2015 are consistent with those of the financial year ended 30 June 2015.

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, other authoritative pronouncements of the Australian Accounting Standards Board, the *Corporations Act 2001* and the Trust's Constitution.

The financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This general purpose financial report for the half year ended 31 December 2015 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 2015 and any public announcements made by the Group during the year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

As permitted by Class Order 05/642, 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.

As permitted by Class Order 13/1644, which amends Class Order 13/1050, this financial report presents the Consolidated Financial Statements and accompanying notes of the Rural Funds Group (being the consolidated financial statements and notes of the Group).

Rural Funds Group

Notes to the Financial Statements

31 December 2015

2 Summary of significant accounting policies (continued)

Principles of consolidation

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

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

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

Controlled entities

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

Associates

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

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

3 Significant accounting judgements, estimates and assumptions

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

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

Valuations

Independent property valuations were obtained for established almond orchards and associated properties, from independent valuer, CBRE Valuations Pty Limited in June 2015. Independent property valuations were obtained for poultry property and infrastructure from independent valuer, Opteon (Victoria) Pty Limited in June 2015. Independent property valuations were obtained for vineyard properties from independent valuer, Colliers International Consultancy and Valuation Pty Limited in June 2015.

Rural Funds Group

Notes to the Financial Statements

31 December 2015

3 Significant accounting judgements, estimates and assumptions (continued)

Valuations (continued)

Directors' valuations have been performed for the 31 December 2015 financial statements which have been based on the 30 June valuation methodology and applying Directors' assumptions. A value-in-use approach has been applied to value assets.

Almond orchards and associated properties, including those under development, poultry property and infrastructure and vineyard properties 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. Increments and decrements recognised in the accounts are based on Director's valuations. The model uses judgement by using discount rates, capitalisation rates and comparable sales in calculating the values and allocating the values over investment property and biological assets.

Recognition of deferred tax assets

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

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

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

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

4 Working capital

The deficiency in working capital at 31 December 2015 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.

Rural Funds Group

Notes to the Financial Statements

31 December 2015

5 Segment information

The Group operates in one operating segment (31 December 2014: one segment), being the holding and leasing of agricultural property and equipment.

Water right and entitlements

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

Permanent water rights and entitlements are held at historical cost less accumulated impairment losses. The book value of the water rights (including investments in BIL and CICL) at 31 December 2015 is \$57,797,000 (30 June 2015: \$29,485,000).

In June 2015 independent property valuations were performed by CBRE Valuations Pty Limited and Opteon (Victoria) Pty Limited on the almond orchard and associated properties and poultry property and infrastructure that attribute a value to the water entitlements held by the Group. The Directors consider that these valuations remain reasonable estimates of the fair value at 31 December 2015. These valuations, plus additions, value the water rights at 31 December 2015 at \$67,372,000 (30 June 2015: \$39,060,000) representing an increase in the value of the water rights of \$9,575,000 (30 June 2015: \$9,575,000).

The following is a comparison of the book value at 31 December 2015 to an adjusted value based on the Directors' valuation of the water rights.

	Per Statutory Consolidated Statement of Financial Position \$'000	Revaluation of water entitlements per Directors' valuation \$'000	Adjusted Consolidated Statement of Financial Position \$'000
Assets			
Total current assets	7,987	-	7,987
Total non-current assets	294,493	9,575	304,068
Total assets	302,480	9,575	312,055
Liabilities			
Total current liabilities	10,970	-	10,970
Total non-current liabilities	107,432	-	107,432
Total liabilities	118,402	-	118,402
Net assets	184,078	9,575	193,653
Net asset value per unit (\$)	1.12	0.06	1.18

6 Revenue

	For the half year ended 31 December 2015 \$'000	For the half year ended 31 December 2014 \$'000
Rental revenue	12,020	10,552
Reimbursement of water charges	213	28
Temporary water sales	182	57
Interest received	38	46
Other revenue	-	3
Total	12,453	10,686

Rural Funds Group

Notes to the Financial Statements

31 December 2015

7 Current assets classified as held for sale

	31 December 2015 \$'000	30 June 2015 \$'000
Investment property	1,001	-
Plant and equipment	119	-
Total	1,120	-

Four properties, totalling 710 hectares, are held for sale by the Group, along with various items of plant and equipment.

8 Intangible assets

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

31 December 2015	Water licences: Almonds \$'000	Water licences: Poultry infrastructure \$'000	Water licences: Vineyards \$'000	Total \$'000
Non-current				
Opening net book amount	27,416	1,049	500	28,965
Additions	20,594	-	-	20,594
Closing net book amount	48,010	1,049	500	49,559
Cost	48,010	1,049	500	49,559
Net book amount	48,010	1,049	500	49,559

30 June 2015	Water licences: Almonds \$'000	Water licences: Poultry infrastructure \$'000	Water licences: Vineyards \$'000	Total \$'000
Non-current				
Opening net book amount	22,041	1,049	500	23,590
Additions	2,730	-	-	2,730
Reversal of impairment	2,645	-	-	2,645
Closing net book amount	27,416	1,049	500	28,965
Cost	27,416	1,049	500	28,965
Net book amount	27,416	1,049	500	28,965

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9 Fair value measurement of assets and liabilities

Fair value hierarchy

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

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

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

a. Non-financial assets

Fair value hierarchy

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

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
At 31 December 2015				
Investment properties				
Almond orchard property	-	-	48,654	48,654
Poultry property and infrastructure	-	-	90,909	90,909
Vineyard property	-	-	13,535	13,535
Biological assets				
Almond orchard	-	-	48,829	48,829
Vines	-	-	25,420	25,420
Total non-financial assets	-	-	227,347	227,347
At 30 June 2015				
Investment properties				
Almond orchard property	-	-	36,926	36,926
Poultry property and infrastructure	-	-	91,918	91,918
Vineyard property	-	-	13,535	13,535
Biological assets				
Almond orchard	-	-	42,735	42,735
Vines	-	-	24,846	24,846
Total non-financial assets	-	-	209,960	209,960

Rural Funds Group

Notes to the Financial Statements

31 December 2015

9 Fair value measurement of assets and liabilities (continued)

a. Non-financial assets (continued)

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 half year.

Valuation techniques used to determine level 2 and level 3 fair values

The Group obtains independent valuations for its property assets at least annually, except for properties that are under development. 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 best evidence of fair value is current prices in an active market for similar properties. Where such information is not available the directors consider information from a variety of sources including:

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

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

Fair value measurements using significant unobservable inputs (level 3)

	Investment Property			Biological Assets		Total
	Almond orchard property	Poultry property and infrastructure	Vineyard property	Almond orchard	Vines	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance 1 July 2015	36,927	91,918	13,535	42,735	24,845	209,960
Additions	11,727	-	-	5,515	-	17,242
Fair value adjustment	-	(1,009)	-	579	575	145
Closing balance 31 December 2015	48,654	90,909	13,535	48,829	25,420	227,347

Rural Funds Group

Notes to the Financial Statements

31 December 2015

9 Fair value measurement of assets and liabilities (continued)

a. Non-financial assets (continued)

Valuation inputs and relationships to fair value

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

Description	Fair value at 31 December 2015	Unobservable inputs*	Range of inputs (probability - weighted average)	Relationship of unobservable inputs to fair value
	\$'000			
Almond orchard property (excluding water licences)**	97,483	Discount rate	10.50% (10.50%)	The higher the discount, the lower the fair value.
Poultry property and infrastructure (excluding water licences)**	90,909	Capitalisation rate	11.63%	The higher the capitalisation rate, the lower the fair value.
Vineyard (excluding water licences)**	38,955	Discount rate	10.0% - 10.5% (10.39%)	The higher the discount, the lower the fair value.

* There were no significant inter-relationships between unobservable inputs that materially affect fair values.

** Water licences are held at historical cost less accumulated impairment, as detailed in note 8 to the consolidated financial statements.

Valuation processes

The Group engages external, independent and qualified valuers to determine the fair value of the Group's properties. The properties were externally valued by CBRE Valuations Pty Limited, Opteon (Victoria) Pty Limited, and Colliers International Consultancy and Valuation Pty Limited at 30 June 2015. Directors' valuations have been performed on the properties at 31 December 2015.

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

Rural Funds Group

Notes to the Financial Statements

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10 Interest bearing liabilities

	31 December 2015 \$'000	30 June 2015 \$'000
Current		
Equipment loans	2,334	657
Total interest bearing liabilities - current	2,334	657
Non-current		
Borrowings (ANZ)	103,000	89,650
Equipment loans	-	1,801
Total interest bearing liabilities - non-current	103,000	91,451

The borrowings with Australian and New Zealand Banking Group (ANZ) 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 and RF Active; and,
- registered mortgages over all property owned by the Rural Funds Trust and its subsidiaries are provided by AETL as custodian for the Rural Funds Trust and its subsidiaries.

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

Borrowings

The core debt facility for the Group, due to expire in December 2018, is \$136,000,000 (30 June 2015: \$103,000,000). RFF has interest rate swaps totaling 65% of the facility (30 June 2015: 73%) to manage interest rate risk.

Loan covenants

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

- maintenance of a maximum loan to value ratio of 50%;
- maintenance of net tangible assets in excess of \$100,000,000; and,
- an interest cover ratio for the Group not less than 2.25:1.00.

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

11 Capital commitments

Significant capital expenditure relating to the Tocabil and Kerarbury developments, contracted for at 31 December 2015 but not recognised as liabilities is as follows:

	31 December 2015 \$'000	30 June 2015 \$'000
Plant and equipment	70	-
Investment property	41,217	5,817
Intangible assets	9,097	4,149
Biological assets	51,292	14,833
Total	101,676	24,799

Rural Funds Group

Notes to the Financial Statements

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12 Issued capital

	31 December 2015 No.	30 June 2015 No.
Units on issue at the beginning of the reporting period	132,142,235	117,099,159
Units issued during the half year	32,256,115	15,043,076
Units on issue at the end of the half year	164,398,350	132,142,235

13 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 2015 \$'000	31 December 2014 \$'000
Management fee	838	713
Asset management fee	628	514
Total management fees	1,466	1,227
Expenses reimbursed to RFM	996	1,105
Expenses reimbursed to RFM Poultry	-	135
Expenses reimbursed to Murdock Viticulture	199	348
Distribution paid/payable to RFM	146	93
Total amount paid to RFM and related entities	2,807	2,908
Rental income received from RFM Almond Fund 2006	972	800
Rental income received from RFM Almond Fund 2007	288	224
Rental income received from RFM Almond Fund 2008	733	599
Rental income received from RFM	175	126
Rental income received from RFM Farming Pty Limited	137	115
Rental income received from RFM Poultry	5,225	5,184
Expenses charged to RFM Poultry	21	297
Distribution received/receivable from RFM Poultry	5	9
Distribution received/receivable from RFM StockBank	127	166
Interest income from Murdock Viticulture	-	19
Interest income from RF Active (pre-stapling)	-	17
Water sale proceeds from RFM Almond Fund 2006	-	30
Water sale proceeds from RFM Farming Pty Limited	100	14
Total amounts received from RFM and related entities	7,783	7,600

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

Rural Funds Group

Notes to the Financial Statements

31 December 2015

13 Related party transactions (continued)

Debtors and loans

	31 December 2015 \$'000	31 December 2014 \$'000
RFM Poultry	3	210
RFM Farming Pty Limited	564	194
RFM StockBank	45	-
Total	612	404

Creditors and loans

	31 December 2015 \$'000	31 December 2014 \$'000
RFM Poultry	-	95
RFM Farming Pty Limited	-	7
RFM	260	211
Total	260	313

Entities with influence over the Group

	31 December 2015		31 December 2014	
	Units	%	Units	%
Rural Funds Management	4,994,872	3.04	1,450,465	1.24

Interest in related parties

	31 December 2015		31 December 2014	
	Units	%	Units	%
RFM StockBank	3,897,259	33.16	3,897,259	35.07
RFM Poultry	108,695	1.58	108,695	1.59

14 Distributions

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

	Cents per unit	Total \$
Distribution paid 30 July 2015	2.1475	2,837,756
Distribution paid 30 October 2015	2.2325	2,955,483
Distribution declared 1 December 2015, paid 29 January 2016	2.2325	3,670,193



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:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

David Ronald

David Ronald
Partner

Sydney
23 February 2016

Responsible Entity

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