

Rural Funds Group (RFF)

Financial Statements

For the Half Year Ended 31 December 2016

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 Julian Widdup
Company Secretaries	Andrea Lemmon Stuart Waight
Custodian	Australian Executor Trustees Limited ABN 84 007 869 794 Level 22, 207 Kent Street SYDNEY NSW 2000
Auditors	PricewaterhouseCoopers Darling Park Tower 2 201 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 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 2016

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 2016.

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 whole of the half year and up to the date of this report:

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

Julian Widdup was appointed as a Non-Executive Director on 15 February 2017 and continues in office at the date of this report.

Principal activities and significant changes in nature of activities

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

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

- The Group purchased three cattle properties: Rewan in Central Queensland and Mutton Hole and Oakland Park in Far North Queensland. The three properties comprise a combined 243,279 hectares and are leased for ten years to Cattle JV Pty Limited, a wholly owned subsidiary of RFM;
- The Group purchased Lynora Downs, a 4,880 hectare cotton property located in Central Queensland. Cotton JV Pty Limited, a joint venture between RFM and Queensland Cotton Corporation Pty Limited (a subsidiary of Olam International Limited), will lease and operate Lynora Downs for a period of five years, with an option to extend for a further five years; and,
- The Group acquired a 9,549 megalitre (ML) high security Murrumbidgee River water entitlement which will generate revenue through the sale of annual water allocations until it is required for future horticultural developments.

Operating results

Net profit after tax for the Group for the half year ended 31 December 2016 amounted to \$17,159,000 (31 December 2015 restated: \$3,496,000).

The Group holds investment property, bearer plants and derivatives at fair value. After adjusting for the effects of the fair value adjustments and depreciation during the half year the profit before tax would have been \$12,634,000 (31 December 2015: \$6,176,000).

Rural Funds Group

Directors' Report

31 December 2016

Adjusted funds from operations (AFFO)

	31 December 2016 \$'000	Restated 31 December 2015 \$'000
Net profit before income tax	17,533	3,732
Change in fair value of investment property	2,194	1,009
Change in fair value of plant and equipment - bearer plants	(527)	296
Change in fair value of interest rate swaps	(5,622)	818
Share of net profit of associate attributable to change in fair value of investment property	(1,542)	-
Depreciation and impairments	620	339
Gain on sale of assets	(22)	(18)
AFFO	12,634	6,176
AFFO cents per unit	6.29	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 \$207,864,000 at 30 June 2016 to \$277,279,000 at 31 December 2016.

At 31 December 2016 the Group had total assets of \$518,445,000 (30 June 2016: \$379,039,000).

At 31 December 2016, 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 \$118,757,000 (30 June 2016: \$69,534,000). Under Australian accounting standards, water entitlements are accounted for at the lower of cost and fair value. The fair value of water rights at 31 December 2016 was \$152,678,000 (30 June 2016: \$97,949,000) representing a value of water rights above cost of \$33,921,000 (30 June 2016: \$28,415,000). The following depicts the net assets of the Group following the revaluation of intangible assets per these valuations.

	31 December 2016 \$'000	30 June 2016 \$'000
Intangible assets (water entitlements)	106,131	59,691
Investment in BIL	509	509
Investment in CICL	12,117	9,334
Total book value of water entitlements	118,757	69,534
Revaluation of intangible assets per valuation	33,921	28,415
Adjusted total water entitlements	152,678	97,949

Rural Funds Group

Directors' Report

31 December 2016

Adjusted net asset value

	31 December	30 June
	2016	2016
	\$'000	\$'000
Net assets per Consolidated Statement of Financial Position	277,279	207,864
Revaluation of intangible assets per valuation	33,921	28,415
Adjusted net assets	311,200	236,279
Adjusted NAV per unit	1.50	1.43

Significant changes in state of affairs

The Group expanded its agricultural property portfolio into a new sector and climatic zone with the acquisition of three cattle properties and breeding herd in Queensland. The properties and breeding herd, will be leased for ten years to Cattle JV Pty Limited, a wholly owned subsidiary of RFM, to form an efficient, integrated cattle operation, with two breeding properties near Normanton in Northern Queensland and a finishing property situated in Central Queensland.

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

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

In December 2016, the Group acquired Lynora Downs, a 4,880 hectare cotton property located in Central Queensland. The property is situated near Rewan, a cattle finishing property acquired by the Group earlier in the year. RFM and Queensland Cotton Corporation Pty Limited, a subsidiary of Olam International Limited, have established a joint venture, Cotton JV Pty Limited, which will lease and operate Lynora Downs for a period of five years, with an option to extend for a further five years.

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

Property leasing

At 31 December 2016 the Group held 35 properties as follows:

- 17 poultry farms (303,216 square metres);
- 2 almond orchards (1,814 planted hectares);
- 2 almond orchards under development (3,100 planted hectares upon completion);
- 7 vineyards (666 planted hectares);
- 3 macadamia orchards (259 planted hectares);
- 3 cattle properties (243,279 hectares);
- 1 cotton property (4,880 hectares).

During the half year ended 31 December 2016, the properties held by the Group recorded a net increase in fair value of \$1,003,000 (31 December 2015 restated: \$145,000) through the Consolidated Statement of Comprehensive Income.

Rural Funds Group

Directors' Report

31 December 2016

Property leasing (continued)

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, 2,414 hectares (31 December 2015: 2,214 hectares) are applied to almond growing: 1,006 hectares (31 December 2015: 1,006) at Yilgah, 808 hectares (31 December 2015: 808) at Moorah and 600 hectares at Tocabil (31 December 2015: 400). The full almond area is under lease to the following tenants:

- Select Harvest Limited (SHV) 1,221 hectares (31 December 2015: 1,221);
- RFM Almond Fund 2006 (AF06) 272 hectares (31 December 2015: 272);
- RFM Almond Fund 2007 (AF07) 73 hectares (31 December 2015: 73);
- RFM Almond Fund 2008 (AF08) 206 hectares (31 December 2015: 206);
- Olam Orchards Australia Pty Limited (Olam) 600 hectares (31 December 2015: 400);
- Rural Funds Management Limited (RFM) 42 hectares (31 December 2015: 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, 600 hectares of almond orchard is established and fully leased. The Kerarbury property was leased to Olam in September 2015. A 2,500 hectare almond orchard is being developed in accordance with the lease of this property.

For its almond orchards the Group owns water entitlements of 69,091ML (30 June 2016: 59,985ML). During the half year a total of 9,106ML of water entitlements were purchased.

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 2015: 1,432ML). Leases are in place with RFM Poultry, a scheme managed by RFM, for 100% (31 December 2015: 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 2015: 936ML). All vineyards produce premium quality grapes and are leased to Treasury Wine Estates Limited until June 2026, with the exception of one vineyard which is leased until June 2022.

Macadamia orchards

Established macadamia orchards and associated water licences were acquired in March 2016 and are located near Bundaberg, QLD. Orchards are leased to tenants who make regular rental payments. On these properties, 259 hectares are applied to macadamia growing: 130 hectares at Swan Ridge, 104 hectares at Moore Park and 25 hectares at Bonmac. The full planted area is under lease to the following tenants:

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

Cattle property

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

Rural Funds Group

Directors' Report

31 December 2016

Property leasing (continued)

Cotton property

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

Other activities

The Group owns a 33.50% stake in RFM StockBank (30 June 2016: 33.16%), 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. RFM, as Responsible Entity for RFM StockBank, has commenced the process of returning capital to investors and winding up the business.

Agricultural plant and equipment valued at \$5,259,000 is owned by the Group and leased to AF06, AF07, AF08, M07 and Cattle JV Pty Limited (30 June 2016: \$4,178,000).

Breeder herd valued at \$9,735,000 was acquired by the Group during the half year and is leased to Cattle JV Pty Limited.

The Group owns an 8.96% interest in Perth Markets Limited (30 June 2016: 8.96%), a stapled entity which owns the Market City site in Canning Vale, WA.

The Group acquired 9,549ML of Murrumbidgee River water entitlements during the half year which have not yet been attributed to an operating activity and are being held for future developments.

Banking facilities

At 31 December 2016 the Group's core debt facility was \$250,000,000 (30 June 2016: \$147,500,000), with a drawn down balance of \$218,500,000 (30 June 2016: \$146,500,000). The facility expires in December 2019, and at 31 December 2016 the Group had interest rate swaps with a total face value of \$88,000,000 which is forecast to increase to a total face value of \$108,000,000 in July 2017.

Distributions

	Cents per unit	Total \$
Distribution paid 29 July 2016	2.2325	3,691,602
Distribution paid 28 October 2016	2.4100	4,986,940
Distribution declared 1 December 2016, paid 31 January 2017	2.4100	4,996,810

Earnings per unit

Net profit after income tax for the half year	17,159,000
Weighted average number of units on issue during the half year	200,737,898
Basic and diluted earnings per unit (total) (cents)	8.55

Rural Funds Group

Directors' Report

31 December 2016

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 2016 is 3.11% (31 December 2015: 3.19%). The ICR for the half year has been impacted by costs associated with the rights issue completed in July 2016.

Matters subsequent to the end of the half year

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

207,336,535 units in Rural Funds Trust were on issue at 31 December 2016 (31 December 2015: 164,398,350). During the half year 41,979,245 units were issued by the Trust (31 December 2015: 32,256,115) and nil (31 December 2015: nil) were redeemed.

207,336,535 units in RF Active were on issue at 31 December 2016 (31 December 2015: 164,398,350). During the half year 41,979,245 units were issued by the Trust (31 December 2015: 32,256,115) and nil (31 December 2015: nil) 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 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 2016

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 2016 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 centered on the page. The signature is written in a cursive style with a large initial 'D' and 'B'.

David Bryant

Director

21 February 2017



Auditor's Independence Declaration

As lead auditor for the review of Rural Funds Group for the half-year ended 31 December 2016, 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.



CMC Heraghty
Partner
PricewaterhouseCoopers

Sydney
21 February 2017

Rural Funds Group

Consolidated Statement of Comprehensive Income For the half year ended 31 December 2016

		31 December 2016 \$'000	Restated* 31 December 2015 \$'000
	Note		
Revenue	6	19,642	12,453
Other income		120	19
Management fees		(2,091)	(1,466)
Professional fees		(1,019)	(1,009)
Finance costs		(3,503)	(2,644)
Other expenses		(680)	(1,246)
Share of net profit - equity accounted investments		1,707	69
Gain on sale of assets		22	18
Depreciation and impairments		(620)	(339)
Change in fair value of plant and equipment - bearer plants		527	(296)
Change in fair value of investment property		(2,194)	(1,009)
Change in fair value of interest rate swaps		5,622	(818)
Net profit before income tax		17,533	3,732
Income tax expense		(374)	(236)
Net profit after income tax		17,159	3,496
Other comprehensive income:			
Revaluation increment - plant and equipment - bearer plants		2,670	1,450
Revaluation increment - other		-	(14)
Income tax relating to these items		(15)	-
Other comprehensive income for the period, net of tax		2,655	1,436
Total comprehensive income attributable to unitholders		19,814	4,932
Total comprehensive income for the period attributable to unitholders arising from:			
Rural Funds Trust		19,612	4,865
RF Active (non-controlling interest)		202	67
		19,814	4,932
Earnings per unit			
Basic and diluted earnings per unit from continuing operations:			
Per stapled unit (cents)		8.55	3.41
Per unit of Rural Funds Trust (cents)		8.45	3.37
Per unit of RF Active (cents)		0.10	0.04

* Refer to Note 2 for further information regarding the restatement.

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Financial Position

As at 31 December 2016

		31 December	Restated*
		2016	30 June
	Note	\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents		4,731	3,034
Trade and other receivables		6,647	7,239
Financial assets		880	-
Other current assets		369	2,501
Total current assets		12,627	12,774
Non-current assets			
Investment accounted for using the equity method		7,463	9,041
Financial assets		21,717	10,078
Plant and equipment		5,259	4,178
Plant and equipment - bearer plants	8	123,639	113,206
Investment property	8	240,858	168,951
Intangible assets	7	106,131	59,691
Deferred tax asset		751	1,120
Total non-current assets		505,818	366,265
Total assets		518,445	379,039
LIABILITIES			
Current liabilities			
Trade and other payables		9,103	6,920
Interest bearing liabilities	9	3,049	3,030
Derivative financial liabilities		195	-
Income tax payable		20	-
Distributions payable		5,291	3,901
Total current liabilities		17,658	13,851
Non-current liabilities			
Interest bearing liabilities	9	218,500	146,500
Other non-current liabilities		1,634	1,634
Derivative financial liabilities		3,374	9,190
Total non-current liabilities		223,508	157,324
Total liabilities (excluding net assets attributable to unitholders)		241,166	171,175
Net assets attributable to unitholders		277,279	207,864
Total liabilities		518,445	379,039

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Financial Position

As at 31 December 2016

	31 December	Restated*
	2016	30 June
Note	\$'000	\$'000
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		
Unitholders of Rural Funds Trust		
Contributed equity	185,612	134,110
Reserves	38,179	36,916
Accumulated profit	50,804	34,952
Parent entity interest	274,595	205,978
Unitholders of RF Active		
Issued units	2,279	1,683
Accumulated profit	405	203
Non-controlling interest	2,684	1,886
Total net assets attributable to unitholders	277,279	207,864

* Refer to Note 2 for further information regarding the restatement.

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 2016

31 December 2016	Issued units	Retained earnings	Asset revaluation reserve	Total	Non-controlling interest	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2016 Restated*	134,110	34,952	36,916	205,978	1,886	207,864
Derecognise reserves to retained earnings	-	1,392	(1,392)	-	-	-
Other comprehensive income	-	-	2,670	2,670	-	2,670
Income tax expense	-	-	(15)	(15)	-	-
Total other comprehensive income	-	1,392	1,263	2,655	-	2,655
Profit before income tax	-	17,257	-	-	276	17,533
Income tax expense	-	(301)	-	-	(73)	(374)
Total comprehensive income for the period	-	18,348	1,263	19,611	203	19,814
Equity transactions						
Units issued during the period	61,392	-	-	61,392	619	62,011
Issue costs	(2,402)	-	-	(2,402)	(24)	(2,426)
Total equity transactions	58,990	-	-	58,990	595	59,585
Distributions to unitholders	(7,488)	(2,496)	-	(9,984)	-	(9,984)
Balance at 31 December 2016	185,612	50,804	38,179	274,595	2,684	277,279

31 December 2015 Restated	Issued units	Retained earnings	Asset revaluation reserve	Total	Non-controlling interest	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2015	111,711	37,427	1,406	150,544	1,396	151,940
Other comprehensive income	-	-	1,436	1,436	-	1,436
Total other comprehensive income	-	-	1,436	1,436	-	1,436
Profit before income tax	-	3,725	-	3,725	7	3,732
Income tax expense	-	(296)	-	(296)	60	(236)
Total comprehensive income for the period	-	3,429	1,436	4,865	67	4,932
Equity transactions						
Units issued during the period	35,138	-	-	35,138	355	35,493
Issue costs	(1,652)	-	-	(1,652)	(9)	(1,661)
Total equity transactions	33,486	-	-	33,486	346	33,832
Distributions to unitholders	(5,789)	(837)	-	(6,626)	-	(6,626)
Balance at 31 December 2015	139,408	40,019	2,842	182,269	1,809	184,078

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Cash Flows

For the half year ended 31 December 2016

	31 December 2016 \$'000	31 December 2015 \$'000
Note		
Cash flows from operating activities		
Receipts from customers	22,191	15,816
Payments to suppliers	(4,166)	(4,274)
Interest received	60	33
Finance costs	(3,324)	(3,567)
Net cash inflow from operating activities	14,761	8,008
Cash flows from investing activities		
Payments for investment property	(74,101)	(11,727)
Payments for plant and equipment - bearer plants	(7,236)	(5,515)
Payments for intangible assets	(44,420)	(20,594)
Payments for financial assets	(12,519)	(7,718)
Payments for plant and equipment	(1,081)	(708)
Payments for held for sale assets	-	(1,001)
Proceeds from sale of plant and equipment	-	56
Distributions from equity accounted investment	3,248	90
Distributions received	120	3
Net cash outflow from investing activities	(135,989)	(47,114)
Cash flows from financing activities		
Proceeds from issue of units	59,585	33,824
Proceeds from borrowings	72,019	13,981
Repayment of borrowings	-	(756)
Distributions paid	(8,679)	(5,730)
Net cash inflow from financing activities	122,925	41,319
Net increase/(decrease) in cash and cash equivalents held	1,697	2,213
Cash and cash equivalents at the beginning of the period	3,034	712
Cash and cash equivalents at the end of the period	4,731	2,925

The accompanying notes form part of these financial statements.

Rural Funds Group

Notes to the Financial Statements

31 December 2016

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 21 February 2017 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 2016 are consistent with those of the financial year ended 30 June 2016.

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 2016 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 2016 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 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 2016

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 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.

Bearer plants restatement

As a result of changes to the Group's accounting policies relating to the adoption of amendments made to Accounting Standards AASB 116 *Property, Plant and Equipment* and AASB 141 *Agriculture*, the prior year financial statements have been restated. The Group's bearer plants include almond trees, macadamia trees and wine grape vines. The Group's bearer plants were reclassified from biological assets to plant and equipment effective 1 July 2015 with the fair value at 1 July 2015 adopted as the cost base of the asset. The bearer plants continue to be measured at fair value, any increase in the carrying amount above cost is recognised in asset revaluation reserve, and any decrease in the carrying amount below cost is recognised in profit and loss. The financial effect of this change is shown in the tables below.

	For the half year ended 31 December 2015 \$'000	Increase/ (Decrease) \$'000	Restated For the half year ended 31 December 2015 \$'000
Change in fair value of biological assets	1,154	(1,450)	(296)
Net profit before income tax	5,182	(1,450)	3,732
Income tax (expense)/benefit	(236)	-	(236)
Net profit after income tax	4,946	(1,450)	3,496
Other comprehensive income	(14)	1,450	1,436
Total comprehensive income	4,932	-	4,932
Earnings per unit (cents)	3.41	-	3.41

Rural Funds Group

Notes to the Financial Statements

31 December 2016

2 Summary of significant accounting policies (continued)

Bearer plants (continued)

	30 June 2016 \$'000	Increase/ (Decrease) \$'000	Restated 30 June 2016 \$'000	1 July 2015 \$'000	Increase/ (Decrease) \$'000	Restated 1 July 2015 \$'000
Biological assets	113,206	(113,206)	-	67,581	(67,581)	-
Plant and equipment - bearer plants	-	113,206	113,206	-	67,581	67,581
Total assets	379,039	-	379,039	252,663	-	252,663
Total liabilities	171,175	-	171,175	100,723	-	100,723
Net assets	207,864	-	207,864	151,940	-	151,940
Retained earnings	70,476	(35,524)	34,952	37,427	-	37,427
Asset revaluation reserve	1,392	35,524	36,916	1,406	-	1,406
Total equity	207,864	-	207,864	151,940	-	151,940

Rural Funds Group

Notes to the Financial Statements

31 December 2016

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 an almond orchard under development and newly acquired properties, from independent valuer, CBRE Valuations Pty Limited in December 2016. An independent property valuation was obtained for an almond orchard under development from independent valuer, Colliers International Consultancy and Valuation Pty Limited in December 2016.

Directors' valuations have been performed on the established almond orchards and associated properties, poultry property and infrastructure and vineyard properties for the 31 December 2016 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 and Coleambally Irrigation Co-operative Limited shares

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

Rural Funds Group

Notes to the Financial Statements

31 December 2016

4 Working capital

The deficiency in working capital at 31 December 2016 is due to the timing of distributions. Based on the forecast cash flows, the Group believes it can pay all of its debts as and when they fall due.

5 Segment information

The Group operates in one operating segment (31 December 2015: 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 2016 was \$118,757,000 (30 June 2016: \$69,534,000).

The fair value of water entitlements, including additions, at 31 December 2016 was \$152,678,000 (30 June 2016: \$97,949,000) representing an increase in the value of the water rights of \$33,921,000 (30 June 2016: \$28,415,000).

The fair value of water entitlements on the almond orchards under development, cotton and cattle properties was determined by independent property valuations from CBRE Valuations Pty Limited and Colliers International Consultancy & Valuation Pty Limited. For the water entitlements that were externally valued at June 2016, the Directors consider that the 30 June 2016 valuations are reasonable estimates of the fair value at 31 December 2016.

The following is a comparison of the book value at 31 December 2016 to an adjusted value based on the Directors' valuation of the water rights.

	Per Statutory Consolidated Statement of Financial Position	Revaluation of water entitlements per Directors' valuation	Adjusted Consolidated Statement of Financial Position
	\$'000	\$'000	\$'000
Assets			
Total current assets	12,627	-	12,627
Total non-current assets	505,818	33,921	539,739
Total assets	518,445	33,921	552,366
Liabilities			
Total current liabilities	17,658	-	17,658
Total non-current liabilities	223,508	-	223,508
Total liabilities	241,166	-	241,166
Net assets	277,279	33,921	311,200
Net asset value per unit (\$)	1.34	0.16	1.50

Rural Funds Group

Notes to the Financial Statements

31 December 2016

6 Revenue

	For the half year ended 31 December 2016 \$'000	For the half year ended 31 December 2015 \$'000
Rental revenue	19,582	12,020
Reimbursement of water charges	-	213
Temporary water sales	-	182
Interest received	60	38
Total	19,642	12,453

Rural Funds Group

Notes to the Financial Statements

31 December 2016

7 Intangible assets

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

31 December 2016	Water licences: Almonds	Water licences: Poultry infrastructure	Water licences: Vineyards	Water licences: Macadamias	Water licences: Cotton	Water licences: Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening net book amount	57,540	1,049	500	602	-	-	59,691
Additions	8,450	-	-	-	3,672	34,430	46,552
Impairment	(58)	-	-	-	-	(54)	(112)
Closing net book amount	65,932	1,049	500	602	3,672	34,376	106,131
Cost	66,193	1,049	500	602	3,672	34,430	106,446
Accumulated impairment	(261)	-	-	-	-	(54)	(315)
Net book amount	65,932	1,049	500	602	3,672	34,376	106,131

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

Rural Funds Group

Notes to the Financial Statements

31 December 2016

8 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.

Rural Funds Group

Notes to the Financial Statements

31 December 2016

8 Fair value measurement of assets and liabilities (continued)

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.

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.

	Level 3 \$'000	Total \$'000
At 31 December 2016		
Investment properties		
Almond orchard property	67,039	67,039
Poultry property and infrastructure	84,511	84,511
Vineyard property	23,156	23,156
Macadamia orchard property	1,691	1,691
Cattle property and infrastructure	42,383	42,383
Cotton property and infrastructure	22,078	22,078
Plant and equipment - bearer plants		
Almond orchard	99,321	99,321
Vines	18,199	18,199
Macadamia orchard	6,119	6,119
Total non-financial assets	364,497	364,497
At 30 June 2016		
Investment properties		
Almond orchard property	58,329	58,329
Poultry property and infrastructure	86,011	86,011
Vineyard property	23,156	23,156
Macadamia orchard property	1,455	1,455
Plant and equipment - bearer plants		
Almond orchard	89,614	89,614
Vines	17,449	17,449
Macadamia orchard	6,143	6,143
Total non-financial assets	282,157	282,157

Rural Funds Group

Notes to the Financial Statements

31 December 2016

8 Fair value measurement of assets and liabilities (continued)

a. Non-financial assets (continued)

Valuation techniques used to determine 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, considering the most recent independent valuations. The Directors determine a property's value within a range of reasonable fair value estimates. 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)

	Almond orchard property	Poultry property and infra- structure	Investment property		Cattle property and infra- structure	Cotton property and infra- structure	Plant and equipment - bearer plants			Total
			Vineyard property	Macadamia orchard property			Almond orchard	Vines	Macadamia orchard	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance 1 July 2016	58,329	86,011	23,156	1,455	-	-	89,614	17,449	6,143	282,157
Additions	8,710	-	-	236	42,220	22,935	7,087	149	-	81,337
Fair value adjustment	-	(1,500)	-	-	163	(857)	2,620	601	(24)	1,003
Closing balance 31 December 2016	67,039	84,511	23,156	1,691	42,383	22,078	99,321	18,199	6,119	364,497

Rural Funds Group

Notes to the Financial Statements

31 December 2016

8 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 2016 \$'000	Unobservable inputs*	Range of inputs (probability - weighted average)	Relationship of unobservable inputs to fair value
Almond orchard property (excluding water licences)**	166,360	Discount rate	8.75% - 9.00% (8.90%)	The higher the discount, the lower the fair value.
Poultry property and infrastructure (excluding water licences)**	84,511	Capitalisation rate	10.75% - 14.00% (12.45%)	The higher the capitalisation rate, the lower the fair value.
Vineyard (excluding water licences)**	41,355	Discount rate	9.75% (9.75%)	The higher the discount, the lower the fair value.
Macadamia orchard property (excluding water licences)**	7,810	Capitalisation rate	9.00% (9.00%)	The higher the capitalisation rate, the lower the fair value.
Cattle property and infrastructure (excluding water licences)**	42,383	Adult equivalent (AE) rate	\$604/AE - \$4,250/AE (\$3,319/AE)	The higher the AE rate the higher the fair value.
Cotton property and infrastructure (excluding water licences)**	22,078	Hectare (Ha) rate	\$4,620/Ha	The higher the hectare rate the higher 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 7 to the consolidated financial statements.

Rural Funds Group

Notes to the Financial Statements

31 December 2016

8 Fair value measurement of assets and liabilities (continued)

a. Non-financial assets (continued)

Valuation processes

The Group engages external, independent and qualified valuers to determine the fair value of the Group's properties. Independent property valuations were obtained for an almond orchard under development and newly acquired properties, from independent valuer, CBRE Valuations Pty Limited in December 2016. An independent property valuation was obtained for an almond orchard under development from independent valuer, Colliers International Consultancy and Valuation Pty Limited in December 2016.

Directors' valuations have been performed on the established almond orchards and associated properties, poultry property and infrastructure and vineyard properties as at 31 December 2016.

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.

9 Interest bearing liabilities

	31 December 2016 \$'000	30 June 2016 \$'000
Current		
Equipment loans (ANZ)	3,049	3,030
Total	3,049	3,030
Non-current		
Borrowings (ANZ)	139,840	146,500
Borrowings (Rabobank)	78,660	-
Total	218,500	146,500

The borrowings with Australian and New Zealand Banking Group (ANZ) and Rabobank are secured by:

- a fixed and floating charge over the assets held by Australian Executor Trustees Limited (AETL) as custodian for Rural Funds Trust, RFM Chicken Income Fund (a 100% owned subsidiary of Rural Funds Trust), RFM Australian Wine Fund (a 100% owned subsidiary of Rural Funds Trust) 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 Bankers 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 total core debt facility for the Group, due to expire in December 2019, is \$250,000,000 (30 June 2016: \$147,500,000). The Group has interest rate swaps with a total face value of \$88,000,000 which is forecast to increase to a total face value of \$108,000,000 in July 2017.

Rural Funds Group

Notes to the Financial Statements

31 December 2016

9 Interest bearing liabilities (continued)

Loan covenants

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

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

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

10 Capital commitments

Significant capital expenditure largely relating to the Tocabil, Kerarbury and Lynora Downs developments, contracted for at 31 December 2016 but not recognised as liabilities is as follows:

	31 December	Restated
	2016	30 June
	\$'000	\$'000
Plant and equipment	-	440
Investment property	35,001	39,655
Intangible assets	24,079	33,039
Plant and equipment - bearer plants	53,609	67,515
Total	112,689	140,649

11 Issued capital

		31 December		31 December
	No.	2016	No.	2015
		\$'000		\$'000
Units on issue at the beginning of the reporting period	165,357,290	135,793	132,142,235	113,034
Units issued during the half year	41,979,245	59,585	32,256,115	33,832
Distributions to unitholders	-	(7,488)	-	(5,789)
Units on issue	207,336,535	187,890	164,398,350	141,077

Rural Funds Group

Notes to the Financial Statements

31 December 2016

12 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 2016 \$'000	31 December 2015 \$'000
Management fee	1,171	838
Asset management fee	920	628
Total management fees	2,091	1,466
Expenses reimbursed to RFM	1,091	996
Expenses reimbursed to Murdock Viticulture	254	199
Distribution paid/payable to RFM	455	146
Total amount paid to RFM and related entities	3,891	2,807
Rental income received from RFM Almond Fund 2006	1,019	972
Rental income received from RFM Almond Fund 2007	304	288
Rental income received from RFM Almond Fund 2008	779	733
Rental income received from RFM	168	175
Rental income received from RFM Farming Pty Limited	75	137
Rental income received from RFM Poultry	5,260	5,225
Rental income received from RFM Macadamias Pty Limited	492	-
Rental income received from Cattle JV Pty Limited	1,148	-
Rental income received from Cotton JV Pty Limited	118	-
Finance lease income received from Cattle JV Pty Limited	329	-
Expenses charged to RFM Poultry	-	21
Distribution received/receivable from RFM Poultry	8	5
Distribution received/receivable from RFM StockBank	3,188	127
Water sale proceeds from RFM Farming Pty Limited	-	100
Total amounts received from RFM and related entities	12,888	7,783

Murdock Viticulture is a vineyard manager 28% (30 June 2016: 28%) owned by RFM.

Debtors and loans

	31 December 2016 \$'000	31 December 2015 \$'000
RFM Farming Pty Limited	686	564
RFM Macadamias Pty Limited	29	-
2007 Macgrove Project	313	-
Cattle JV Pty Limited	1,008	-
Cotton JV Pty Limited	473	-
RFM Poultry	-	3
RFM StockBank	-	45
Total	2,509	612

Rural Funds Group

Notes to the Financial Statements

31 December 2016

12 Related party transactions (continued)

Creditors

	31 December 2016 \$'000	31 December 2015 \$'000
RFM	143	260
Total	143	260

Entities with influence over the Group

	31 December 2016		31 December 2015	
	Units	%	Units	%
Rural Funds Management	7,062,888	3.41	4,994,872	3.04

Interest in related parties

	31 December 2016		31 December 2015	
	Units	%	Units	%
RFM StockBank	3,897,259	33.50	3,897,259	33.16
RFM Poultry	108,615	1.58	108,615	1.58

13 Distributions

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

	Cents per unit	Total \$
Distribution paid 29 July 2016	2.2325	3,691,602
Distribution paid 28 October 2016	2.4100	4,986,940
Distribution declared 1 December 2016, paid 31 January 2017	2.4100	4,996,810

14 Events after the reporting period

No 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.

Rural Funds Group

Directors' Declaration

31 December 2016

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 29 are in accordance with the *Corporations Act 2001*, including:
 - a. comply with Accounting Standards, as stated in accounting policy Note 2 to the financial statements, and the *Corporations Regulations 2001*; and
 - b. give a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the half year ended on that date; and
- 2 there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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

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



David Bryant

Director

21 February 2017



Independent auditor's review report to the unitholders of Rural Funds Group

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Rural Funds Group (the registered scheme), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in net assets attributable to unitholders and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Rural Funds Group (the consolidated entity). 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 (the responsible entity) 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 determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 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*.

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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 consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

PricewaterhouseCoopers

A large, stylized handwritten signature in black ink, appearing to be 'CME Heraghty'.

CME Heraghty
Partner

Sydney
21 February 2017

Responsible Entity

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