

# Rural Funds Group (RFF)

## Financial Statements

For the Year Ended 30 June 2018

# Rural Funds Group

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# Rural Funds Group

## Corporate Directory

Registered Office	Level 2, 2 King Street DEAKIN ACT 2600
Responsible Entity	Rural Funds Management Limited ABN 65 077 492 838 AFSL 226701 Level 2, 2 King Street DEAKIN ACT 2600 Ph: 1800 026 665
Directors	Guy Paynter David Bryant Michael Carroll Julian Widdup
Company Secretaries	Andrea Lemmon Stuart Waight
Custodian	Australian Executor Trustees Limited ABN 84 007 869 794 Level 22, 207 Kent Street SYDNEY NSW 2000
Auditors	PricewaterhouseCoopers One International Towers Sydney Watermans Quay BARANGAROO NSW 2000
Share Registry	Boardroom Pty Limited Level 12, 225 George Street SYDNEY NSW 2000 Ph: 1300 737 760
Bankers	Australia and New Zealand Banking Group Limited (ANZ) 242 Pitt Street SYDNEY NSW 2000  Rabobank Australia Group Darling Park Tower 3 201 Sussex Street SYDNEY NSW 2000
Stock Exchange Listing	Rural Funds Group units (Rural Funds Trust and RF Active form a stapled investment vehicle) are listed on the Australian Securities Exchange (ASX)
ASX Code	RFF

# Rural Funds Group

## Directors' Report

30 June 2018

Rural Funds Group (RFF or the Group) comprises the stapled units in two Trusts, Rural Funds Trust (RFT) (ARSN 112 951 578) and RF Active (RFA) (ARSN 168 740 805) (collectively, the Trusts). The Directors of Rural Funds Management Limited (RFM) (ACN 077 492 838, AFSL 226701), the Responsible Entity of Rural Funds Group present their report on the Group for the year ended 30 June 2018.

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

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

### Directors

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

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

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

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

The following activities of the Group changed during the year:

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

### Operating results

The consolidated net profit after income tax of the Group for the year ended 30 June 2018 amounted to \$36,032,000 (2017: \$43,326,000). The consolidated total comprehensive income of the Group for the year ended 30 June 2018 amounted to \$44,012,000 (2017: \$34,238,000).

The Group holds investment property, bearer plants and derivatives at fair value. After adjusting for the effects of fair value adjustments, depreciation, impairments and one-off transaction costs during the year the profit before tax would have been \$32,323,000 (2017: \$25,599,000), representing adjusted funds from operations (AFFO).

# Rural Funds Group

## Directors' Report

30 June 2018

### Adjusted funds from operations (AFFO)

	2018	2017
	\$'000	\$'000
<b>Net profit before income tax</b>	<b>37,112</b>	45,167
Change in fair value of investment property	(7,398)	(17,191)
Change in fair value of plant and equipment - bearer plants	-	2,498
Change in fair value of interest rate swaps	1,956	(5,311)
Depreciation and impairments	947	1,568
Gain on sale of assets	(17)	(33)
Income tax payable (RF Active)	(277)	-
Share of net profit of associate attributable to change in fair value of investment property	-	(1,099)
<b>AFFO</b>	<b>32,323</b>	25,599
<b>AFFO cents per unit</b>	<b>12.7</b>	12.5

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

### Financial position

The net assets of the consolidated Group have increased to \$378,735,000 at 30 June 2018 from \$357,678,000 at 30 June 2017. At 30 June 2018 the Group had total assets of \$673,808,000 (2017: \$543,003,000).

At 30 June 2018, the Group held total water entitlements (including investments in Barossa Infrastructure Limited (BIL) and Coleambally Irrigation Co-operative Limited (CICL)) at a book value of \$119,657,000 (2017: \$121,469,000). Independent valuations as at 30 June 2018 were received on the established almond orchard properties, the Tocabil almond orchard property, macadamia orchard 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 and on this basis the fair value of water entitlements at 30 June 2018 was \$169,498,000 (2017: \$166,012,000). The value of water entitlements is illustrated in the table below:

	2018	2017
	\$'000	\$'000
Intangible assets (water entitlements)	106,926	108,738
Investment in CICL	12,222	12,222
Investment in BIL	509	509
<b>Total book value of water entitlements</b>	<b>119,657</b>	121,469
Revaluation of intangible assets per valuation	49,841	44,543
<b>Adjusted total water entitlements</b>	<b>169,498</b>	166,012

### Adjusted net asset value

The following depicts the net assets of the Group following the revaluation of water entitlements comprising intangible assets and investments in BIL and CICL per these valuations.

	2018	2017
	\$'000	\$'000
Net assets per Consolidated Statement of Financial Position	378,735	357,678
Revaluation of intangible assets per valuation	49,841	44,543
<b>Adjusted net assets</b>	<b>428,576</b>	402,221
<b>Adjusted NAV per unit</b>	<b>1.68</b>	1.58

# Rural Funds Group

## Directors' Report

30 June 2018

### Significant changes in state of affairs

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

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

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

### Property leasing

At 30 June 2018 the Group held 38 properties as follows:

- 17 poultry farms (303,216 square metres);
- 3 almond orchards (2,414 planted hectares);
- 1 almond orchard under development (2,500 planted hectares at completion);
- 7 vineyards (666 planted hectares);
- 3 macadamia orchards (259 planted hectares);
- 6 cattle properties (633,900 hectares);
- 1 cotton property (1,272 irrigable hectares).

During the year ended 30 June 2018, the properties held by the Group recorded a fair value of investment properties increment of \$7,398,000 (2017: \$17,191,000) and of bearer plants revaluation increment of \$7,980,000 (2017: \$11,687,000 decrement).

#### *Almond orchards*

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

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

These properties are under lease to the following tenants:

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

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

For its almond orchards the Group owns water entitlements of 65,743ML (2017: 66,448ML) comprising groundwater, high security river water, general security river water and supplementary river water. In addition, the Group owns 21,430ML (2017: 21,430ML) of water delivery entitlements that provide access to water delivery through CICL, with a low annual allocation expected to be provided.

# Rural Funds Group

## Directors' Report

30 June 2018

### Property leasing (continued)

#### *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 (2017: 1,432ML). Leases are in place with RFM Poultry, a scheme managed by RFM, for 100% (2017: 100%) of the poultry property and infrastructure, with remaining lease terms between 6 and 18 years. The poultry growing operations are performed by RFM Poultry which is contracted with Baiada Poultry Pty Limited and Turi Foods Pty Limited.

#### *Vineyards*

The vineyard properties held by the Group include seven vineyards, with six located in South Australia, in the Barossa Valley, Adelaide Hills and Coonawarra regions, and one located in the Grampians in Victoria. For its vineyards, the Group owns 936ML of water entitlements (2017: 936ML). All vineyards are leased to Treasury Wine Estates and produce premium quality grapes. Six of the vineyards are leased until June 2026 and one is leased until June 2022.

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

#### *Macadamia orchards*

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

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

#### *Cattle property*

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

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

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

#### *Cotton property*

A 4,880 hectare cotton property (1,272 irrigable hectares) located near Emerald, QLD is leased to Cotton JV Pty Limited, a joint venture between RFM and Queensland Cotton Corporation Pty Limited (a subsidiary of Olam International Limited), until April 2022.

### Other activities

Agricultural plant and equipment with a net book value of \$5,480,000 (2017: \$5,127,000) is owned by the Group and leased to AF06, AF07, AF08, M07, Cotton JV and Cattle JV.

Breeder assets with a net book value of \$14,179,000 (2017: \$10,953,000) are leased to Cattle JV Pty Limited.

# Rural Funds Group

## Directors' Report

30 June 2018

### Banking facilities

At 30 June 2018 the core debt facility available to the Group was \$275,000,000 (2017: \$250,000,000), with a drawn balance of \$269,800,000 (2017: \$164,500,000). The facility expires in December 2019. At 30 June 2018, RFF had active interest swaps totaling 40.0% (2017: 53.5%) of the drawn balance to manage interest rate risk.

### Distributions

	Cents per unit	Total \$
Distribution paid 31 July 2017	2.4100	6,130,580
Distribution paid 31 October 2017	2.5075	6,386,447
Distribution paid 31 January 2018	2.5075	6,393,099
Distribution paid 30 April 2018	2.5075	6,400,611
Distribution declared 29 June 2018, paid 31 July 2018	2.5075	6,409,935

### Earnings per unit

Net profit after income tax for the year (\$'000)	36,032
Weighted average number of units on issue during the year	255,028,372
Basic and diluted earnings per unit (total) (cents)	14.13

### Indirect cost ratio

The indirect cost ratio (ICR) is the ratio of the Group's management costs over the Group's average net assets for the year, expressed as a percentage.

Management costs include management fees and reimbursement of other expenses in relation to the Group, but do not include transactional and operational costs such as brokerage. Management costs are not paid directly by the unitholders of the Group.

The ICR for the Group for the year ended 30 June 2018 is 1.72% (2017: 3.29%). The ICR for the prior year has been impacted by costs associated with rights issues completed in July 2016 and June 2017.

### Matters subsequent to the end of the year

On 12 July 2018, the Group announced that it has negotiated a transaction involving the acquisition of JBS Australia Pty Limited's (JBS) five Australian feedlots and associated cropping land for \$52.7 million including stamp duty and the provision of a \$75.0 million limited guarantee to J&F Australia Pty Ltd that will enable JBS to replace an existing arrangement for the supply of cattle for its grainfed business. The guarantee transaction was subject to RFF unitholder approval as J&F Australia Pty Ltd would become a subsidiary of Rural Funds Management Limited on settlement. Approval was granted at the unitholder meeting held on 10 August 2018.

On 12 July 2018, the Group announced that it was undertaking a fully underwritten equity raise for \$149.5 million to fund the JBS transaction, associated costs, as well as the acquisition a cattle property, Comanche. The equity raise was completed for the full amount on 3 August 2018.

On 16 July 2018, the Group purchased Comanche, a 7,600 hectare cattle property located in central Queensland for \$15.7 million.

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



# Rural Funds Group

## Directors' Report

30 June 2018

### 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

255,630,515 units in Rural Funds Trust were on issue at 30 June 2018 (2017: 254,380,898). During the year 1,249,617 units (2017: 89,023,608) were issued by the Trust and nil (2017: nil) were redeemed.

### Indemnity of Responsible Entity and Custodian

In accordance with its constitution, Rural Funds Group indemnifies the Directors, Company Secretaries and all other officers of the Responsible Entity and Custodian when acting in those capacities, against costs and expenses incurred in defending certain proceedings.

### Rounding of amounts

The Group is an entity to which ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 applies and accordingly amounts in the consolidated financial statements and Directors' report have been rounded to the nearest thousand dollars.

### Information on Directors of the Responsible Entity

<b>Guy Paynter</b>	Non-Executive Chairman
Qualifications	Bachelor of Laws from The University of Melbourne
Experience	Guy Paynter is a former director of broking firm JB Were and brings to RFM more than 30 years of experience in corporate finance. Guy is a former member of the Australian Securities Exchange (ASX) and a former associate of the Securities Institute of Australia (now known as the Financial Services Institute of Australasia). Guy is also Chairman of Bill Peach Group Limited (previously known as Aircruising Australia Limited). Guy's agricultural interests include cattle breeding in the Upper Hunter region in New South Wales.
Special responsibilities	Member of Audit Committee and Remuneration Committee
Directorships currently held in other listed entities and during the three years prior to the current year	RFM Poultry

# Rural Funds Group

## Directors' Report

30 June 2018

### Information on Directors of the Responsible Entity (continued)

<b>David Bryant</b>	Managing Director
Qualifications	Diploma of Financial Planning from the Royal Melbourne Institute of Technology and a Masters of Agribusiness from The University of Melbourne.
Experience	David Bryant established RFM in February 1997 and since that time has led the team that is responsible for the acquisition of large scale agricultural property assets and associated water entitlements. As at 30 June 2018, RFM manages over \$740 million of agricultural assets. On a day-to-day level, David is responsible for leading the RFM Executive team, maintaining key commercial relationships and sourcing new business opportunities.
Special responsibilities	Managing Director
Directorships currently held in other listed entities and during the three years prior to the current year	RFM Poultry
<b>Michael Carroll</b>	Non-Executive Director
Qualifications	Bachelor of Agricultural Science from La Trobe University and a Masters of Business Administration from The University of Melbourne's Melbourne Business School. Michael has completed the Advanced Management Program at Harvard Business School, Boston, and is a Fellow of the Australian Institute of Company Directors.
Experience	Michael Carroll serves a range of food and agricultural businesses in a board and advisory capacity. Michael is on the boards of Tassal Group Limited, Select Harvests Limited, Paraway Pastoral Company and Sunny Queen Pty Limited. Michael has senior executive experience in a range of companies, including establishing and leading the National Australia Bank (NAB) Agribusiness division.
Special responsibilities	Chairman of Audit Committee and Remuneration Committee
Directorships currently held in other listed entities and during the three years prior to the current year	Michael is on the Board of Tassal Group Limited, RFM Poultry, and Select Harvests Limited.
<b>Julian Widdup</b>	Non-Executive Director
Qualifications	Bachelor of Economics from the Australian National University. Julian is a Fellow of the Institute of Actuaries of Australia and a Fellow of the Australian Institute of Company Directors.
Experience	Julian brings extensive experience to the RFM board having previously served as a director of Palisade Investment Partners, Darwin International Airport, Alice Springs Airport, NZ timberland company Taumata Plantations Limited, Regional Livestock Exchange Investment Company, Merredin Energy power generation company, Victorian AgriBioscience Research Facility, Casey Hospital in Melbourne and Mater Hospital in Newcastle.
Special responsibilities	Member of Audit Committee and Remuneration Committee
Directorships currently held in other listed entities and during the three years prior to the current year	RFM Poultry

# Rural Funds Group

## Directors' Report

30 June 2018

### Interests of Directors of the Responsible Entity

	Guy Paynter Units	David Bryant* Units	Michael Carroll Units	Julian Widdup Units
Balance at 30 June 2016	533,256	7,643,343	-	-
Additions	281,440	4,034,839	19,389	-
<b>Balance at 30 June 2017</b>	<b>814,696</b>	<b>11,678,182</b>	<b>19,389</b>	-
Additions	-	-	933	-
<b>Balance at 30 June 2018</b>	<b>814,696</b>	<b>11,678,182</b>	<b>20,322</b>	-

\*Includes interests held by Rural Funds Management Limited as the Responsible Entity.

### Company Secretaries of the Responsible Entity

Stuart Waight and Andrea Lemmon are RFM's joint company secretaries. Stuart joined RFM in 2003, is a Chartered Accountant and is an Executive of RFM. Andrea has been with RFM since 1997 and is RFM's Executive Manager Funds Management.

### Meetings of Directors of the Responsible Entity

During the financial year 15 meetings of Directors (including committees of Directors) were held. Attendances by each Director during the year were as follows:

	Directors meetings		Audit Committee meetings		Remuneration Committee meetings	
	No. eligible to attend	No. attended	No. eligible to attend	No. attended	No. eligible to attend	No. attended
Guy Paynter	15	15	2	2	1	1
David Bryant	15	14	-	-	-	-
Michael Carroll	15	15	2	2	1	1
Julian Widdup	15	15	2	2	1	1

### Non-audit services

Fees of \$9,425 (2017: \$6,370) were paid or payable to PricewaterhouseCoopers for compliance audit services provided for the year ended 30 June 2018.

### Auditor's independence declaration

The auditor's independence declaration in accordance with section 307C of the *Corporations Act* 2001 for the year ended 30 June 2018 has been received and is included on page 10 of the financial report.

The Directors' report is signed in accordance with a resolution of the Board of Directors of Rural Funds Management Limited.



David Bryant  
Director

15 August 2018



## Auditor's Independence Declaration

As lead auditor for the audit of Rural Funds Group for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink, appearing to be 'CMC Heraghty', with a long horizontal line extending to the right.

CMC Heraghty  
Partner  
PricewaterhouseCoopers

Sydney  
15 August 2018

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**PricewaterhouseCoopers, ABN 52 780 433 757**

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Liability limited by a scheme approved under Professional Standards Legislation.

# Rural Funds Group

## Consolidated Statement of Comprehensive Income

For the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Revenue	B	51,087	41,573
Other income	B	1,183	72
Management fees		(6,263)	(4,393)
Property expenses		(1,383)	(1,473)
Finance costs		(9,053)	(7,891)
Other expenses		(2,971)	(2,494)
Share of net profit - equity accounted investments		-	1,304
Gain on sale of assets		17	33
Depreciation and impairments		(947)	(1,568)
Change in fair value of plant and equipment - bearer plants	C3	-	(2,498)
Change in fair value of investment property	C2	7,398	17,191
Change in fair value of interest rate swaps		(1,956)	5,311
<b>Net profit before income tax</b>		<b>37,112</b>	<b>45,167</b>
Income tax expense	D1	(1,080)	(1,841)
<b>Net profit after income tax</b>		<b>36,032</b>	<b>43,326</b>
<b>Other comprehensive income:</b>			
<i>Items that will not be reclassified to profit or loss</i>			
Revaluation increment/(decrement) - bearer plants	C3	7,980	(9,189)
Income tax relating to these items	D1	-	101
<b>Other comprehensive income/(loss) for the year, net of tax</b>		<b>7,980</b>	<b>(9,088)</b>
<b>Total comprehensive income attributable to unitholders</b>		<b>44,012</b>	<b>34,238</b>
<b>Total net profit after income tax for the year attributable to unitholders arising from:</b>			
Rural Funds Trust		35,309	43,219
RF Active (non-controlling interest)		723	107
		<b>36,032</b>	<b>43,326</b>
<b>Total comprehensive income for the year attributable to unitholders arising from:</b>			
Rural Funds Trust		43,289	34,131
RF Active (non-controlling interest)		723	107
		<b>44,012</b>	<b>34,238</b>
<b>Earnings per unit</b>			
Basic and diluted earnings per unit from continuing operations:			
Per stapled unit (cents)	B3	14.13	21.17
Per unit of Rural Funds Trust (cents)	B3	13.85	21.12
Per unit of RF Active (cents)	B3	0.28	0.05

The accompanying notes form part of these financial statements.

# Rural Funds Group

## Consolidated Statement of Financial Position

As at 30 June 2018

	Note	2018 \$'000	2017 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		1,210	3,838
Trade and other receivables	F1	5,381	4,608
Other current assets	F2	2,918	1,800
<b>Total current assets</b>		<b>9,509</b>	10,246
<b>Non-current assets</b>			
Financial assets	C4, E2	37,136	23,916
Plant and equipment	C7	5,480	5,127
Plant and equipment - bearer plants	C3	157,239	121,193
Investment property	C2	357,518	273,783
Intangible assets	C6	106,926	108,738
<b>Total non-current assets</b>		<b>664,299</b>	532,757
<b>Total assets</b>		<b>673,808</b>	543,003
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	F3	6,128	5,138
Interest bearing liabilities	E1	3,361	3,204
Income tax payable	D1	277	-
Distributions payable		6,633	6,368
<b>Total current liabilities</b>		<b>16,399</b>	14,710
<b>Non-current liabilities</b>			
Interest bearing liabilities	E1	269,800	164,500
Other non-current liabilities	F4	1,634	1,634
Derivative financial liabilities	E3	5,834	3,878
Deferred tax liabilities	D2	1,406	603
<b>Total non-current liabilities</b>		<b>278,674</b>	170,615
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<b>295,073</b>	185,325
Net assets attributable to unitholders		378,735	357,678
<b>Total liabilities</b>		<b>673,808</b>	543,003

The accompanying notes form part of these financial statements.

# Rural Funds Group

## Consolidated Statement of Financial Position

As at 30 June 2018

	Note	2018 \$'000	2017 \$'000
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>			
<b>Unitholders of Rural Funds Trust</b>			
Issued units		230,574	252,880
Asset revaluation reserve	F5	35,555	27,575
Retained earnings		108,494	73,860
<b>Parent entity interest</b>		<b>374,623</b>	<b>354,315</b>
<b>Unitholders of RF Active</b>			
Issued units		3,091	3,066
Retained earnings		1,021	297
<b>Non-controlling interest</b>		<b>4,112</b>	<b>3,363</b>
<b>Total net assets attributable to unitholders</b>		<b>378,735</b>	<b>357,678</b>

Water entitlements are held at cost in the Consolidated Statement of Financial Position in accordance with accounting standards. Refer to note B2 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 year ended 30 June 2018

2018	Note	Issued units	Accumulated profit	Asset revaluation reserve	Total	Non-controlling interest	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 July 2017</b>		252,880	73,860	27,575	354,315	3,363	357,678
Other comprehensive income		-	-	7,980	7,980	-	7,980
<b>Total other comprehensive income</b>		-	-	7,980	7,980	-	7,980
Profit before income tax		-	36,095	-	36,095	1,017	37,112
Income tax expense	D1	-	(786)	-	(786)	(294)	(1,080)
<b>Total comprehensive income for the year</b>		-	35,309	7,980	43,289	723	44,012
<b>Issued units</b>							
Units issued during the year	E7	2,610	-	-	2,610	26	2,636
Issue costs	E7	(3)	-	-	(3)	-	(3)
<b>Total issued units</b>		2,607	-	-	2,607	26	2,633
Distributions to unitholders	B4	(24,913)	(675)	-	(25,588)	-	(25,588)
<b>Balance at 30 June 2018</b>		230,574	108,494	35,555	374,623	4,112	378,735
<b>2017</b>							
		Issued units	Accumulated profit	Asset revaluation reserve	Total	Non-controlling interest	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 July 2016</b>		134,110	35,218	36,663	205,991	1,873	207,864
Other comprehensive income		-	-	(9,088)	(9,088)	-	(9,088)
<b>Total other comprehensive income</b>		-	-	(9,088)	(9,088)	-	(9,088)
Profit before income tax		-	45,050	-	45,050	117	45,167
Income tax expense	D1	-	(1,831)	-	(1,831)	(10)	(1,841)
<b>Total comprehensive income for the year</b>		-	43,219	(9,088)	34,131	107	34,238
<b>Issued units</b>							
Units issued during the year	E7	140,577	-	-	140,577	1,420	141,997
Issue costs	E7	(5,264)	-	-	(5,264)	(37)	(5,301)
<b>Total issued units</b>		135,313	-	-	135,313	1,383	136,696
Distributions to unitholders	B4	(16,543)	(4,577)	-	(21,120)	-	(21,120)
<b>Balance at 30 June 2017</b>		252,880	73,860	27,575	354,315	3,363	357,678

The accompanying notes form part of these financial statements.



# Rural Funds Group

## Consolidated Statement of Cash Flows

For the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		55,006	47,810
Payments to suppliers		(16,606)	(13,672)
Interest received		71	95
Finance income		1,554	790
Finance costs		(9,053)	(8,109)
Net cash inflow from operating activities	G4	30,972	26,914
<b>Cash flows from investing activities</b>			
Payments for investment property		(74,470)	(87,641)
Payments for plant and equipment - bearer plants		(28,066)	(19,673)
Payments for intangible assets		1,893	(49,758)
Payments for financial assets		(13,275)	(13,882)
Payments for plant and equipment		(1,324)	(1,788)
Proceeds from sale of assets		9	60
Deposits paid		(1,167)	-
Proceeds from sale of/Distributions from equity accounted investments		-	10,345
Distributions received		30	11
Net cash outflow from investing activities		(116,370)	(162,326)
<b>Cash flows from financing activities</b>			
Proceeds from issue of units		2,636	136,696
Proceeds from borrowings		105,457	18,174
Distributions paid		(25,323)	(18,654)
Net cash inflow from financing activities		82,770	136,216
Net (decrease)/increase in cash and cash equivalents held		(2,628)	804
Cash and cash equivalents at the beginning of the year		3,838	3,034
<b>Cash and cash equivalents at the end of the year</b>		<b>1,210</b>	<b>3,838</b>

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### **A. REPORT OVERVIEW**

#### **General information**

This financial report covers the consolidated financial statements and notes of Rural Funds Trust and its Controlled Entities including RF Active (Rural Funds Group, the Group or collectively the Trusts). Rural Funds Group is a for profit entity incorporated and domiciled in Australia. The Directors of the Responsible Entity authorised the Financial Report for issue on 15 August 2018 and have the power to amend and reissue the Financial Report.

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

The separate financial statements and notes of the parent entity, Rural Funds Trust, have not been presented within this financial report as permitted by amendments made to the *Corporations Act 2001*. Parent entity information is included in section G3.

#### **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 Trusts have common business objectives and operate as an economic entity collectively known as Rural Funds Group.

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, and other authoritative pronouncements of the Australian Accounting Standards Board, the *Corporations Act 2001* and the Trusts' Constitution. The report has been prepared on a going concern basis.

The financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board. The significant accounting policies used in the preparation and presentation of these financial statements are provided below and are consistent with prior reporting periods unless otherwise stated. The financial statements are based on historical cost, except for the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

As permitted by ASIC Corporations (Stapled Group Reports) Instrument 2015/838, issued by the Australian Securities and Investments Commission, these financial statements are consolidated financial statements and accompanying notes of both Rural Funds Trust and RF Active.

#### **Significant accounting judgements, estimates and assumptions**

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

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

#### **Rounding of amounts**

The Group is an entity to which ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 applies and accordingly amounts in the consolidated financial statements and Directors' report have been rounded to the nearest thousand dollars.

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### Principles of consolidation

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

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

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

### *Controlled entities*

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

### Comparative amounts

Comparative amounts have not been restated unless otherwise noted.

### Working capital

The deficiency in working capital at 30 June 2018 is due to the timing of distributions. Based on the forecast cash flows, the Group believes it can pay all of its debts as and when they fall due.

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### B. RESULTS

The Group operates in one operating segment (2017: one segment), being the holding and leasing of agricultural property and equipment.

#### Revenue

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Rental income	<b>49,462</b>	40,689
Finance income	<b>1,554</b>	790
Interest received	<b>71</b>	94
<b>Total</b>	<b>51,087</b>	41,573

Revenue is recognised when the amount of the revenue can be measured reliably, it is probable that economic benefits associated with the transaction will flow to the entity and specific criteria relating to the type of revenue as noted below, have been satisfied. All revenue is stated net of the amount of goods and services tax (GST).

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

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

#### Other Income

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Temporary water sales	<b>1,093</b>	-
Other income	<b>90</b>	72
<b>Total</b>	<b>1,183</b>	72

#### Expenses

Expenses such as Responsible Entity fees, property expenses and overheads are recognised on an accruals basis. Interest expenses are recognised on an accrual basis using the effective interest method.

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### B1 Adjusted funds from operations (AFFO)

The following presents the adjusted funds from operations (AFFO) for the single operating segment of RFF and provides the reconciliation of the result from RFF's operating segment to AFFO as well as a reconciliation from AFFO to Net profit after income tax.

	2018	2017
	\$'000	\$'000
Revenue	51,087	41,573
Other income	1,183	72
Share of net profit of associate	-	205
Property Expenses	(1,383)	(1,473)
Fund Overheads	(2,971)	(2,494)
Fund & asset management fees	(6,263)	(4,393)
Finance costs	(9,053)	(7,891)
Income tax payable on public trading trust (RF Active)	(277)	-
<b>Adjusted Funds From Operations (AFFO)</b>	<b>32,323</b>	<b>25,599</b>
Share of net profit of associate - change in fair value of investment property	-	1,099
Gain on sale of assets	17	33
Depreciation and impairments	(947)	(1,568)
Change in fair value of plant and equipment - bearer plants	-	(2,498)
Change in fair value of investment property	7,398	17,191
Change in fair value of interest rate swaps	(1,956)	5,311
Income tax expense	(803)	(1,841)
<b>Net profit after income tax</b>	<b>36,032</b>	<b>43,326</b>
<b>AFFO cents per unit</b>	<b>12.7</b>	<b>12.5</b>

### B2 Net asset value adjusted for water rights

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

The book value of the water rights (including investments in BIL and CICL) at 30 June 2018 is \$119,657,000 (2017: \$121,469,000).

Independent valuations as at 30 June 2018 were received on the established almond orchard properties, the Tocabil almond orchard property, macadamia orchard properties and poultry property and infrastructure that attribute a value to the water entitlements held by the Group. The Directors consider that these valuations are reasonable estimates of the fair value. These valuations value the water rights at 30 June 2018 \$169,498,000 (2017: \$166,012,000) representing a movement in the value of the water rights of \$49,841,000 (2017: \$44,543,000) above cost.

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### B2 Net asset value adjusted for water rights (continued)

The following is a comparison of the book value at 30 June 2018 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
<b>Assets</b>			
Total current assets	9,509	-	9,509
Total non-current assets	664,299	49,841	714,140
<b>Total assets</b>	<b>673,808</b>	<b>49,841</b>	<b>723,649</b>
<b>Liabilities</b>			
Total current liabilities	16,398	-	16,398
Total non-current liabilities	278,675	-	278,675
<b>Total liabilities (excluding net assets attributable to unitholders)</b>	<b>295,073</b>	<b>-</b>	<b>295,073</b>
<b>Net assets attributable to unitholders</b>	<b>378,735</b>	<b>49,841</b>	<b>428,576</b>
Net asset value per unit (\$)	1.48	0.20	1.68

### B3 Earnings per unit

Basic earnings per unit are calculated on net profit attributable to unitholders of the Group divided by the weighted average number of issued units.

	2018	2017
<b>Per stapled unit</b>		
Net profit after income tax for the year (\$'000)	36,032	43,326
Weighted average number of units on issue during the year (thousands)	255,028	204,617
Basic and diluted earnings per unit (total) (cents)	14.13	21.17
<b>Per unit of Rural Funds Trust</b>		
Net profit after income tax for the year (\$'000)	35,308	43,219
Weighted average number of units on issue during the year (thousands)	255,028	204,617
Basic and diluted earnings per unit (total) (cents)	13.85	21.12
<b>Per unit of RF Active</b>		
Net profit after income tax for the year (\$'000)	724	107
Weighted average number of units on issue during the year (thousands)	255,028	204,617
Basic and diluted earnings per unit (total) (cents)	0.28	0.05

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### B4 Distributions

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

	<b>Cents per unit</b>	<b>Total \$</b>
Distribution paid 31 July 2017	2.4100	6,130,580
Distribution paid 31 October 2017	2.5075	6,386,447
Distribution paid 31 January 2018	2.5075	6,393,099
Distribution paid 30 April 2018	2.5075	6,400,611
Distribution declared 29 June 2018, paid 31 July 2018	2.5075	6,409,935

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### C. PROPERTY ASSETS

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

#### C1 RFF property assets

		<b>2018</b>	<b>2017</b>
		<b>\$'000</b>	<b>\$'000</b>
Investment property	C2	<b>357,518</b>	273,783
Plant and equipment - bearer plants	C3	<b>157,239</b>	121,193
Financial assets - property related	C4	<b>36,910</b>	23,684
Intangible assets	C6	<b>106,926</b>	108,738
Plant and equipment	C7	<b>5,480</b>	5,127
<b>Total</b>		<b>664,073</b>	532,525
Adjustment to record water at fair value	B2	<b>49,841</b>	44,543
<b>Adjusted total value of RFF property assets</b>		<b>713,914</b>	577,068

#### *Rental income and fair value movements from RFF property assets*

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Rental income from property assets	<b>51,016</b>	41,479
Change in fair value of investment property	<b>7,398</b>	17,191
Revaluation increment/(decrement) - bearer plants	<b>7,980</b>	(11,687)

Direct operating expenses incurred during the year that did not generate rental income amounted to \$163,000 (2017: \$97,000).

#### *Leasing arrangements*

Minimum lease payments receivable under non-cancellable operating leases of investment properties, bearer plants, plant and equipment and water rights not recognised in the financial statements, are receivable as follows:

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Within one year	<b>51,858</b>	44,683
Later than one year, but not later than five years	<b>243,679</b>	204,238
Later than five years	<b>509,219</b>	547,107
<b>Total</b>	<b>804,756</b>	796,028

#### **Key changes to the property portfolio during the year:**

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



# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### C1 RFF property assets (continued)

#### Valuations

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

Directors have considered independent valuations and market evidence where appropriate to determine the appropriate fair value to adopt. Independent property valuations were obtained for poultry property and infrastructure, macadamia orchard properties, the developed almond orchard properties and the Tocabil almond orchard property as at 30 June 2018. The Directors have adopted all of the valuations from the independent valuers with the exception of certain poultry assets, where the Directors determined a more conservative view was appropriate in line with assumptions applied with those assets.

Independent property valuations were also obtained for unallocated water entitlements, including the high security Murrumbidgee River water entitlements, the cotton property, and the cattle properties located near Rolleston in central Queensland and Charters Towers in north Queensland for the half year ended 31 December 2017.

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

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

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

At the end of each reporting period, the Directors update their assessment of fair value of each property, taking into account the most recent independent valuations. The Directors determine a property's value within a range of reasonable fair value estimates.

The main level 3 inputs used by the Group include discount rates and capitalisation rates estimated in the respective valuations based on comparable transactions and industry data. Changes in level 3 fair values are analysed at each reporting date during the valuation discussion between management and external valuers. As part of this discussion management presents updated model inputs and explains the reason for any fair value movements. Further details are found in section C5.

The Group's policy is to recognise transfers in to and transfers out of fair value hierarchy levels as at the end of the reporting period. There were no transfers between levels for recurring fair value measurements during the year.

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### C2 Investment property

2018	Almond property	Poultry property	Vineyard property	Macadamia property	Cotton property	Cattle property	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Opening net book amount</b>	<b>95,605</b>	<b>83,011</b>	<b>25,435</b>	<b>2,015</b>	<b>24,157</b>	<b>43,560</b>	<b>273,783</b>
Acquisitions	-	-	-	-	-	53,156	53,156
Additions	17,257	-	-	320	2,440	3,297	23,314
Amortisation of lease incentives	-	-	-	-	-	(133)	(133)
Fair value adjustment	5,352	(5,855)	-	2,350	534	5,017	7,398
<b>Closing net book amount</b>	<b>118,214</b>	<b>77,156</b>	<b>25,435</b>	<b>4,685</b>	<b>27,131</b>	<b>104,897</b>	<b>357,518</b>
<b>2017</b>	<b>Almond property</b>	<b>Poultry property</b>	<b>Vineyard property</b>	<b>Macadamia property</b>	<b>Cotton property</b>	<b>Cattle property</b>	<b>Total</b>
<b>Opening net book amount</b>	58,329	86,011	23,156	1,455	-	-	168,951
Additions	19,292	-	-	560	2,079	1,258	23,189
Acquisitions	-	-	-	-	22,935	41,517	64,452
Fair value adjustment	17,984	(3,000)	2,279	-	(857)	785	17,191
<b>Closing net book amount</b>	<b>95,605</b>	<b>83,011</b>	<b>25,435</b>	<b>2,015</b>	<b>24,157</b>	<b>43,560</b>	<b>273,783</b>

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

Investment properties are held for long-term rental yields and are not occupied by the Group. RFF measure and recognise investment property at fair value where the valuation technique is based on unobservable inputs (level 3 – see section C5). Changes in fair value are presented through profit or loss in the Consolidated Statement of Comprehensive Income.

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

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### C3 Plant and equipment – bearer plants

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

  

2017	Bearer Plants - Almonds \$'000	Bearer Plants - Macadamias \$'000	Bearer Plants - Vineyards \$'000	Total \$'000
Opening net book amount	89,614	6,143	17,449	113,206
Additions	19,250	-	424	19,674
Fair value adjustment - other comprehensive income	(8,850)	-	(339)	(9,189)
Fair value adjustment - profit and loss	(4,729)	(24)	2,255	(2,498)
<b>Closing net book amount</b>	<b>95,285</b>	<b>6,119</b>	<b>19,789</b>	<b>121,193</b>

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

The bearer plants are measured at fair value (level 3 – see section C5). Any change in the carrying amount above cost is recognised in asset revaluation reserve, and any decrease in the carrying amount below cost is recognised in the Consolidated Statement of Comprehensive Income.

### C4 Financial assets – property related

	2018 \$'000	2017 \$'000
Investment - BIL	509	509
Investment - CICL	12,222	12,222
Finance Lease - Breeders	14,179	10,953
Term Loan - DA & JF Camm Pty Limited	10,000	-
<b>Total</b>	<b>36,910</b>	<b>23,684</b>

Coleambally Irrigation Co-operative Limited (CICL) is one of Australia's major irrigation companies and is wholly owned by its farmer members. CICL's irrigation delivery system delivers water to 400,000 hectares of area across the Coleambally Irrigation District, in the Riverina, near Griffith, NSW.

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

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

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### C4 Financial assets – property related (continued)

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

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

#### Finance leases

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

## Rural Funds Group

### Notes to the Financial Statements

30 June 2018

#### C5 Fair value measurement of Investment property, Bearer plants and Financial assets – property related

##### *Investment property and Bearer Plants*

The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 (section E4) fair value measurements.

Description	Fair value at		Unobservable inputs*	Range of inputs		Relationship of unobservable inputs to fair value
	2018 \$'000	2017 \$'000		2018	2017	
Almond orchard property	247,544	190,890	Discount rate (%)	8.00 - 9.00	8.75	The higher the discount and capitalisation rate, the lower the fair value.
			Capitalisation rate (%)	8.61 - 14.24	8.50	
Poultry property and infrastructure	77,156	83,011	Capitalisation rate (%)	11.00 - 15.50	10.75 - 14.20	The higher the capitalisation rate, the lower the fair value.
Vineyard	46,333	45,224	Discount rate (%)	9.50	9.55	The higher the discount rate, the lower the fair value.
Cotton property and infrastructure	27,131	24,157	Discount rate (%)	8.50	9.00	The higher the discount rate, the lower the fair value.
Cattle property and infrastructure	104,897	43,560	Discount rate (%)	9.00	9.00	The higher the discount rate, the lower the fair value.
			\$ per adult equivalent carrying capacity	\$650 - \$4,550	\$650 - \$4250	The higher the value per each adult equivalent carrying capacity, the higher the value.
Macadamia orchard property	11,696	8,134	Discount rate (%)	7.00	9.00	The higher the capitalisation rate, the lower the fair value.
<b>Total</b>	<b>514,757</b>	<b>394,976</b>				

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

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### C6 Intangible assets

Intangible assets are made up of water rights and entitlements. Refer to note B2 for Directors' valuation of water rights and entitlements.

2018	Almonds \$'000	Poultry infrastructure \$'000	Vineyards \$'000	Macadamias \$'000	Cotton \$'000	Other \$'000	Total \$'000
<b>Non-current</b>							
<b>Opening net book amount</b>	<b>68,333</b>	<b>1,049</b>	<b>500</b>	<b>808</b>	<b>3,672</b>	<b>34,376</b>	<b>108,738</b>
Additions	-	-	-	7	-	-	7
Transfers	179	-	-	-	-	(179)	-
Disposals	(1,879)	-	-	-	-	6	(1,873)
Reversal of impairment	-	-	-	-	-	54	54
<b>Closing net book amount</b>	<b>66,633</b>	<b>1,049</b>	<b>500</b>	<b>815</b>	<b>3,672</b>	<b>34,257</b>	<b>106,926</b>
Cost	67,493	1,049	500	815	3,672	34,257	107,786
Accumulated amortisation and impairment	(860)	-	-	-	-	-	(860)
<b>Net book amount</b>	<b>66,633</b>	<b>1,049</b>	<b>500</b>	<b>815</b>	<b>3,672</b>	<b>34,257</b>	<b>106,926</b>
<b>2017</b>							
	<b>Almonds \$'000</b>	<b>Poultry infrastructure \$'000</b>	<b>Vineyards \$'000</b>	<b>Macadamias \$'000</b>	<b>Cotton \$'000</b>	<b>Other \$'000</b>	<b>Total \$'000</b>
<b>Non-current</b>							
<b>Opening net book amount</b>	57,540	1,049	500	602	-	-	59,691
Additions	11,450	-	-	206	3,672	34,430	49,758
Impairment	(657)	-	-	-	-	(54)	(711)
<b>Closing net book amount</b>	<b>68,333</b>	<b>1,049</b>	<b>500</b>	<b>808</b>	<b>3,672</b>	<b>34,376</b>	<b>108,738</b>
Cost	69,193	1,049	500	808	3,672	34,430	109,652
Accumulated amortisation and impairment	(860)	-	-	-	-	(54)	(914)
<b>Net book amount</b>	<b>68,333</b>	<b>1,049</b>	<b>500</b>	<b>808</b>	<b>3,672</b>	<b>34,376</b>	<b>108,738</b>

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### C6 Intangible assets (continued)

#### Water rights

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

### C7 Plant and equipment

2018	Capital works in progress	Plant and equipment	Total
	\$'000	\$'000	\$'000
<b>Opening net book amount</b>	-	5,127	5,127
Additions	-	1,324	1,324
Disposals	-	(19)	(19)
Depreciation and impairment	-	(952)	(952)
<b>Closing net book amount</b>	-	5,480	5,480
<b>Cost</b>	-	8,258	8,258
<b>Accumulated depreciation and amortisation</b>	-	(2,778)	(2,778)
<b>Net book amount</b>		5,480	5,480
<hr/>			
2017	Capital works in progress	Plant and equipment	Total
	\$'000	\$'000	\$'000
<b>Opening net book amount</b>	379	3,799	4,178
Additions	-	1,788	1,788
Disposals	-	(27)	(27)
Depreciation and impairment	-	(812)	(812)
Transfers	(379)	379	-
<b>Closing net book amount</b>	-	5,127	5,127
<b>Cost</b>		6,971	6,971
<b>Accumulated depreciation and amortisation</b>		(1,844)	(1,844)
<b>Net book amount</b>		5,127	5,127

Classes of plant and equipment other than bearer plants are measured using the cost model as specified below. The asset is carried at its cost less any accumulated depreciation and any impairment losses. Costs include purchase price, other directly attributable costs and the initial estimate of the costs of dismantling and removing the asset, where applicable.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

The depreciation rates used for each class of depreciable asset are shown below:

Fixed asset class:	Depreciation rate:
Capital works in progress	Nil
Plant and equipment	3-16 years
Motor vehicles	6-16 years

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### C7 Plant and equipment (continued)

At the end of each annual reporting period, the depreciation method, useful life and residual value of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

### C8 Capital commitments

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

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Bearer plants	<b>13,718</b>	26,265
Investment property	<b>15,250</b>	42,024
Intangible assets	-	16,032
<b>Total</b>	<b>28,968</b>	84,321

### Other commitments

Other significant commitments contracted for but not recognised as a liability relate to the provision of the \$5 million cattle financing facility to DA & JF Camm Pty Limited. The facility was not drawn during the year ended 30 June 2018.



# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### D. TAX

Since 1 July 2014 both Rural Funds Trust and RFM Chicken Income Fund (a subsidiary of Rural Funds Trust) became flow through trusts for tax purposes. As a result, it is no longer probable that a tax liability will be incurred in these entities in relation to future sale of assets for a gain or through trading. Australian Wine Fund (a subsidiary of Rural Funds Trust) is a separate tax consolidated group taxed in its own right. RF Active (a subsidiary of Rural Funds Trust) is a public trading trust and is taxed as a company.

#### D1 Income Tax expense

The charge for current income tax expense is based on the profit adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding in a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is charged/credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on management's judgement, the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

*The major components of income tax expense comprise:*

	2018	2017
	\$'000	\$'000
Current tax	277	-
Deferred tax	780	2,021
Adjustments in respect of deferred income tax of previous years	23	(180)
<b>Income tax expense reported in the Statement of Comprehensive Income</b>	<b>1,080</b>	<b>1,841</b>

Income tax expense is attributable to:

Profit from continuing operations	1,080	1,841
<b>Total</b>	<b>1,080</b>	<b>1,841</b>

Deferred income tax expense included in income tax expense comprises:

Decrease in deferred tax assets	-	1,120
Increase in deferred tax liabilities	803	721
<b>Total</b>	<b>803</b>	<b>1,841</b>

**Amounts charged or credited directly to equity**

	2018	2017
	\$'000	\$'000
Capitalised issue costs	-	(16)
Change in fair value taken through asset revaluation reserve	-	(101)
<b>Total</b>	<b>-</b>	<b>(117)</b>

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### D1 Income Tax expense (continued)

*Numerical reconciliation of income tax expense to prima facie tax payable*

	2018	2017
	\$'000	\$'000
Net profit before income tax	37,112	45,167
At the statutory income tax rate of 30% (2017: 30%)	11,134	13,550
Derecognition of tax losses that are no longer available for utilisation	(17)	-
Tax effect of amounts that are not taxable in determining taxable income	(10,042)	(11,504)
Adjustments in respect of tax of previous years	23	(180)
Imputation credits received	(18)	(25)
<b>Total</b>	<b>1,080</b>	<b>1,841</b>

*Franking credits*

At 30 June 2018 there are \$183,000 of franking credits available to apply to future income distributions (2017: \$156,000).

### D2 Deferred tax

	2018	2017
	\$'000	\$'000
<b>Deferred tax liabilities</b>		
Bearer plants	4,127	4,103
Plant & equipment	1,960	1,936
Fair value investment property	1,519	1,519
<b>Gross deferred tax liabilities</b>	<b>7,606</b>	<b>7,558</b>
Set off of deferred tax assets	(6,200)	(6,955)
<b>Net deferred tax liabilities</b>	<b>1,406</b>	<b>603</b>
<b>Deferred tax assets</b>		
Investments	227	227
Legal costs	-	36
Other	34	53
Unused income tax losses	5,940	6,639
<b>Gross deferred tax assets</b>	<b>6,200</b>	<b>6,955</b>
Set off of deferred tax liabilities	(6,200)	(6,955)
<b>Net deferred tax assets</b>	<b>-</b>	<b>-</b>

### Recognised tax assets and liabilities

	Current income tax		Deferred income tax	
	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000
Opening balance	-	-	(603)	1,120
Charged to income	(277)	-	(803)	(1,841)
Credited to equity	-	-	-	118
<b>Closing balance</b>	<b>(277)</b>	<b>-</b>	<b>(1,406)</b>	<b>(603)</b>
Tax expense in the Consolidated Statement of Comprehensive Income			1,080	1,841
Amounts recognised in the Consolidated Statement of Financial Position:				
Deferred tax liability			(1,406)	(603)

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### **E. Capital structure and Financial risk management**

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

#### **E1 Interest bearing liabilities**

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>		
Equipment loans (ANZ)	<b>3,361</b>	3,204
<b>Total</b>	<b>3,361</b>	3,204
<b>Non-current</b>		
Borrowings (ANZ)	<b>172,672</b>	105,280
Borrowings (Rabobank)	<b>97,128</b>	59,220
<b>Total</b>	<b>269,800</b>	164,500

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

#### *Borrowings*

At 30 June 2018 the core debt facility available to the Group, and due to expire in December 2019, was \$275,000,000 (2017: \$250,000,000). As at 30 June 2018 RFF had active interest rate swaps totaling 40.0% (2017: 53.5%) of the drawn down balance to manage interest rate risk. Hedging requirements under the terms of the borrowing facility may vary with bank consent.

#### *Loan covenants*

Under the terms of the borrowing facility, the Group is required to comply with the following financial covenants for the period ending 30 June 2018:

- maintain of a maximum loan to value ratio of 50%;
- maintain of net tangible assets (including water entitlements) in excess of \$200,000,000;
- a hedging requirement of 50% of debt drawn under the borrowing facility; and
- an interest cover ratio for the Group not less than 2.95:1.00 (2017: 2.75:1.00) with distributions permitted if the interest cover ratio is not less than 3.15:1.00 (2017: 2.95:1.00).

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

Loan amounts are provided at the Bankers' floating rate, plus a margin. For bank reporting purposes, these assets are valued at market value. Refer to section B2 for Directors' valuation of water rights and entitlements.

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

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

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### E1 Interest bearing liabilities (continued)

*Loan covenants (continued)*

The following assets are pledged as security over the loans:

2018	Investment property	Water licences	Plant and equipment - Bearer Plants	Financial assets	Plant and equipment	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Mortgage: Leased Properties	355,652	72,669	157,239	12,833	-	598,393
Other assets	1,866	34,257	-	24,303	-	60,426
Equipment loans	-	-	-	-	5,480	5,480
<b>Total</b>	<b>357,518</b>	<b>106,926</b>	<b>157,239</b>	<b>37,136</b>	<b>5,480</b>	<b>664,299</b>

  

2017	Investment property	Water licences	Plant and equipment - Bearer Plants	Financial assets	Plant and equipment	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Mortgage: Leased Properties	273,783	74,362	121,193	12,833	-	482,171
Other assets	-	34,376	-	11,083	-	45,459
Equipment loans	-	-	-	-	5,127	5,127
<b>Total</b>	<b>273,783</b>	<b>108,738</b>	<b>121,193</b>	<b>23,916</b>	<b>5,127</b>	<b>532,757</b>

### E2 Financial assets – other (non-property related)

	2018 \$'000	2017 \$'000
Investment - RFM Poultry	124	130
Investment - Macadamia Processing Co (MPC)	102	102
<b>Total</b>	<b>226</b>	<b>232</b>

The Group's investment in RFM Poultry is held at fair value (level 1 - see section E4).

The Group's investment in Macadamia Processing Co. Limited is held at cost.

### E3 Derivative financial instruments measured at fair value

	2018 \$'000	2017 \$'000
<b>Non-current</b>		
Interest rate swaps	5,834	3,878
<b>Total other liabilities</b>	<b>5,834</b>	<b>3,878</b>

The Group's derivative financial instruments are held at fair value (level 2 - see section E4).

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### E4 Fair value measurement of assets and liabilities

This note explains the judgements and estimates made in determining fair values of Investment property, Plant and equipment – bearer plants and financial assets and liabilities 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 each item into the three levels prescribed under Australian Accounting Standards as mentioned above.

- 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.

RFF's listed equity investments are level 1.

RFF's financial liabilities, being interest rate swap derivatives are level 2.

At 30 June 2018 all non-financial assets are level 3.

RFF's unlisted equity investments, BIL and CICL are level 3.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels at the end of the reporting period. There were no transfers in the current year (2017: nil).

#### *Valuation techniques used to determine fair values*

Specific valuation techniques used to value financial instruments via level 1 and level 2 inputs include:

- the use of quoted market prices or dealer quotes for similar instruments;
- the fair value of interest rate swaps is calculated as the present value of estimated future cash flows based on observable yield curves

Specific valuation techniques used to value financial assets, investment property and bearer plants via level 3 are discussed in section C5.

Description	Fair value	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
	\$'000			
Investment in Macadamia Processing Co	102	Price of macadamias	+/- 10%	+/- \$10,000
Closing balance	102			

### E5 Financial instruments

Financial instruments are recognised initially using trade date accounting, i.e. on the date that the Group becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

#### *a. Financial assets*

Financial assets are divided into the following categories which are described in detail below:

- loans and receivables;
- financial assets at amortised cost; and
- financial assets at fair value through profit or loss.

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### E5 Financial instruments (continued)

#### *a. Financial assets (continued)*

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant to the way it is measured and whether any resulting income and expenses are recognised in profit or loss or in other comprehensive income.

#### *b. Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers but also incorporate other types of contractual monetary assets.

After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss.

Discounting is omitted where the effect of discounting is considered immaterial.

Significant receivables are considered for impairment on an individual asset basis when they are past due at the reporting date and when objective evidence is received that a specific counterparty will default.

The amount of the impairment is the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

For trade receivables, impairment provisions are recorded in a separate allowance account with the loss being recognised in profit or loss. When confirmation has been received that the amount is not collectable, the gross carrying value of the asset is written off against the associated impairment provision.

Subsequent recoveries of amounts previously written off are credited against other income in profit or loss.

#### *c. Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets:

- acquired principally for the purpose of selling in the near future;
- designated by the entity to be carried at fair value through profit or loss upon initial recognition; or,
- which are derivatives not qualifying for hedge accounting.

The Group has some derivatives which are designated as financial assets at fair value through profit or loss.

Assets included within this category are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in profit or loss.

Any gain or loss arising from derivative financial instruments is based on changes in fair value, which is determined by direct reference to active market transactions or using a valuation technique where no active market exists.

#### *d. Financial assets at amortised cost*

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of the estimated future cash flows discounted at the financial assets original effective interest rate.

Impairment on loans and receivables is reduced through the use of an allowance account, all other impairment losses on financial assets at amortised cost are taken directly to the asset.

#### *e. Impairment of financial assets*

At the end of the reporting period the Group assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired.

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### E5 Financial instruments (continued)

#### *f. Financial liabilities*

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges are reported in profit or loss are included in the income statement line item titled "finance costs".

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities depending on the purpose for which the liability was acquired. Although the Group uses derivative financial instruments in economic hedges of interest rate risk, it does not hedge account for these transactions.

All of the Group's derivative financial instruments that are not designated as hedging instruments in accordance with the strict conditions explained in AASB 139 *Financial Instruments: Recognition and Measurement* are accounted for at fair value through profit or loss.

### E6 Financial risk management

The Group is exposed to a variety of financial risks through its use of financial instruments. The Group's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets. The Group does not speculate in financial assets.

The most significant financial risks which the Group is exposed to are described below:

- Market risk - interest rate risk and price risk
- Credit risk
- Liquidity risk

The principal categories of financial instrument used by the Group are:

- Trade receivables
- Cash at bank
- Bank overdraft
- Trade and other payables
- Floating rate bank loans
- Interest rate swaps

#### *a. Financial risk management policies*

Risks arising from holding financial instruments are inherent in the Group's activities and are managed through a process of ongoing identification, measurement and monitoring. The Responsible Entity is responsible for identifying and controlling risks that arise from these financial instruments.

The risks are measured using a method that reflects the expected impact on the results and net assets attributable to unitholders of the Group from changes in the relevant risk variables. Information about these risk exposures at the reporting date, measured on this basis, is disclosed below.

Concentrations of risk arise where a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

#### *b. Interest rate risk and swaps held for hedging*

Interest rate risk is managed by using a floating rate debt and through the use of interest rate swap contracts. The Group does not speculate in the trading of derivative instruments.

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### E6 Financial risk management (continued)

#### b. Interest rate risk and swaps held for hedging (continued)

Interest rate swap transactions are entered into by the Trust to exchange variable and fixed interest payment obligations to protect long-term borrowings from the risk of increasing interest rates. The economic entity has variable interest rate debt and enters into swap contracts to receive interest at variable rates and pay interest at fixed rates.

The notional principal amounts of the swap contracts approximate 40.0% (2017: 53.5%) of the Group's drawn down debt at 30 June 2018.

At balance date, the details of the interest rate swap contracts are:

	Effective average interest rate payable		Balance	
	2018 %	2017 %	2018 \$'000	2017 \$'000
<b>Maturity of notional amounts</b>				
Settlement - between 0 to 3 years	3.40	3.40	35,000	35,000
Settlement - 3 to 5 years	2.70	2.70	15,000	15,000
Settlement - greater than 5 years	3.05	3.19	58,000	38,000
			<b>108,000</b>	88,000

The following interest rate swap contracts have been entered into at 30 June 2018 and have forward start dates.

	Effective average interest rate payable		Balance	
	2018 %	2017 %	2018 \$'000	2017 \$'000
<b>Maturity of notional amounts</b>				
Settlement - greater than 5 years	3.11	3.04	110,000	100,000
<b>Total</b>			<b>110,000</b>	100,000

The net loss recognised on the swap derivative instruments for the year ended 30 June 2018 was \$1,956,000 (2017: \$5,311,000 gain).

At 30 June 2018 the Group had the following mix of financial assets and liabilities exposed to variable interest rates:

	2018 \$'000	2017 \$'000
Cash	1,210	3,838
Interest bearing liabilities	(269,800)	(164,500)
<b>Total</b>	<b>(268,590)</b>	<b>(160,662)</b>

At 30 June 2018, 1.23% (2017: 1.91%) of the Group's debt is fixed, excluding the impact of interest rate swap contracts.



# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### E6 Financial risk management (continued)

#### c. Interest rate risk (sensitivity analysis)

At 30 June 2018, the effect on profit before tax and equity as a result of changes in the interest rate, net of the effect of interest rate swaps, with all other variables remaining constant, would be as follows:

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Change in profit before income tax:		
Increase in interest rate by 1%	<b>11,327</b>	10,395
Decrease in interest rate by 1%	<b>(12,585)</b>	(11,525)
Change in equity:		
Increase in interest rate by 1%	<b>11,327</b>	10,395
Decrease in interest rate by 1%	<b>(12,585)</b>	(11,525)

#### d. Credit risk

The maximum exposure to credit risk (excluding the value of any collateral or other security) at balance date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets. This has been disclosed in the Consolidated Statement of Financial Position and notes to the financial statements.

Credit risk for derivative financial instruments arises from the potential failure by counterparties to the contract to meet their obligations.

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### E6 Financial risk management (continued)

#### e. Liquidity risk and capital management

The Responsible Entity of the Group defines capital as net assets attributable to unitholders. The Group's objectives when managing capital are to safeguard the going concern of the Group and to maintain an optimal capital structure.

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate headroom on borrowing facilities are maintained.

The Group is able to maintain or adjust its capital by divesting assets to reduce debt or adjusting the amount of distributions paid to unitholders.

The table below reflects all contractually fixed repayments and interest resulting from recognised financial assets and liabilities as at 30 June 2018. The amounts disclosed in the table are the contractual undiscounted cash flows, except for interest rate swaps and bills of exchange where the cash flows have been estimated using interest rates applicable at the reporting date.

	Less than 6 months		6 months to 1 year		1 to 3 years		3 to 5 years		Over 5 years		Total	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<b>Financial assets</b>												
Cash and cash equivalents	1,210	3,838	-	-	-	-	-	-	-	-	1,210	3,838
Trade and other receivables	5,381	4,609	-	-	-	-	-	-	-	-	5,381	4,609
Finance Lease - Breeders	613	601	613	601	2,452	2,413	2,452	2,413	17,470	15,344	23,600	21,372
Term Loan - DA & JF Camm Pty Ltd	221	-	221	-	1,323	-	1,323	-	11,066	-	14,154	-
Investment - BIL	-	-	-	-	-	-	-	-	509	509	509	509
Investment - CICL	-	-	-	-	-	-	-	-	12,222	12,222	12,222	12,222
Investment - MPC	-	-	-	-	-	-	-	-	102	102	102	102
Investment - RFP	-	-	-	-	-	-	-	-	124	130	124	130
<b>Total</b>	<b>7,425</b>	<b>9,048</b>	<b>834</b>	<b>601</b>	<b>3,775</b>	<b>2,413</b>	<b>3,775</b>	<b>2,413</b>	<b>41,493</b>	<b>28,307</b>	<b>57,302</b>	<b>42,782</b>
<b>Financial liabilities</b>												
Interest bearing liabilities	4,117	2,201	4,117	2,201	286,267	173,306	-	-	-	-	294,500	177,708
Trade and other payables	6,127	5,138	-	-	-	-	-	-	-	-	6,127	5,138
Equipment loans	621	531	627	494	1,676	1,566	874	874	271	154	4,069	3,619
Interest rate swaps	-	-	-	-	322	877	290	294	5,221	2,707	5,834	3,878
<b>Total</b>	<b>10,865</b>	<b>7,870</b>	<b>4,744</b>	<b>2,695</b>	<b>288,265</b>	<b>175,749</b>	<b>1,164</b>	<b>1,168</b>	<b>5,492</b>	<b>2,861</b>	<b>310,530</b>	<b>190,343</b>

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### E7 Issued units

	2018		2017	
	No.	\$'000	No.	\$'000
Units on issue at the beginning of the period	254,381	255,946	165,357	135,793
Units issued during the year	1,250	2,633	89,024	136,696
Distributions to unitholders	-	(24,913)	-	(16,543)
Units on issue	255,631	233,666	254,381	255,946

The holders of ordinary units are entitled to participate in distributions and the proceeds on winding up of the Group. On a show of hands at meetings of the Group, each holder of ordinary units has one vote in person or by proxy, and upon a poll each unit is entitled to one vote. Voting is determined based on the closing market value of each unit.

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

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

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### F. OTHER ASSETS AND LIABILITIES

#### F1 Trade and other receivables

	2018	2017
	\$'000	\$'000
<b>Current</b>		
Trade receivables	2,964	1,756
Sundry receivables	1,030	1,175
Receivables from related parties	1,387	1,677
<b>Total</b>	<b>5,381</b>	<b>4,608</b>

Trade receivables are non-interest bearing and are generally on 30 day terms.

Where the debt is in relation to amounts due on almond groves and the impact of non-payment would result in the cancellation of the almond grove rights, which would revert to the Group, then the impairment provision is measured against the value of the rights that would be obtained by the Group.

#### F2 Other current assets

	2018	2017
	\$'000	\$'000
Prepayments	352	401
Deposits	2,566	1,399
<b>Total</b>	<b>2,918</b>	<b>1,800</b>

#### F3 Trade and other payables

	2018	2017
	\$'000	\$'000
Trade payables	598	1,087
Accruals	780	1,375
Sundry creditors	4,750	2,676
<b>Total</b>	<b>6,128</b>	<b>5,138</b>

#### F4 Other non-current liabilities

	2018	2017
	\$'000	\$'000
Lessee deposits	1,634	1,634
<b>Total</b>	<b>1,634</b>	<b>1,634</b>

#### F5 Asset revaluation reserve

	2018	2017
	\$'000	\$'000
Opening balance	27,575	36,663
Bearer plants revaluation	7,980	(9,189)
<b>Total comprehensive income</b>	<b>7,980</b>	<b>(9,189)</b>
Income tax applicable	-	101
<b>Closing balance</b>	<b>35,555</b>	<b>27,575</b>

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### G. OTHER INFORMATION

#### G1 Key management personnel

Related parties are persons or entities that are related to the Group as defined by AASB 124 *Related party disclosures*. These include directors and other key management personnel and their close family members and any entities they control as well as subsidiaries and associates of the Group. The following provides information about transactions with related parties during the year as well as balances owed to or from related parties as at 30 June 2018.

##### *Directors*

The Directors of RFM are considered to be key management personnel of the Group. The Directors of the Responsible Entity in office during the year and up to the date of this report are:

Guy Paynter  
David Bryant  
Michael Carroll  
Julian Widdup

##### *Interests of Directors of the Responsible Entity*

Units in the Group held by Directors of RFM or related entities controlled by Directors of RFM as at 30 June 2018 are:

	<b>Guy Paynter Units</b>	<b>David Bryant* Units</b>	<b>Michael Carroll Units</b>	<b>Julian Widdup Units</b>
Balance at 30 June 2016	533,256	7,643,343	-	-
Additions	281,440	4,034,839	19,389	-
<b>Balance at 30 June 2017</b>	<b>814,696</b>	<b>11,678,182</b>	<b>19,389</b>	<b>-</b>
Additions	-	-	933	-
<b>Balance at 30 June 2018</b>	<b>814,696</b>	<b>11,678,182</b>	<b>20,322</b>	<b>-</b>

\*Includes interests held by Rural Funds Management Limited as the Responsible Entity.

##### *Other key management personnel*

In addition to the Directors noted above, RFM, as Responsible Entity of the Group is considered to be key management personnel with the authority for the strategic direction and management of the Group.

The constitutions of Rural Funds Trust and RF Active (the stapled entities forming the Group) are legally binding documents between the unitholders of the Group and RFM as Responsible Entity. Under the constitutions, RFM is entitled to the following remuneration:

- Management fee: 0.6% per annum (2017: 0.6%) of adjusted total assets; and,
- Asset management fee: 0.45% per annum (2017: 0.45%) of adjusted total assets.

##### *Compensation of key management personnel*

No amount is paid by the Group directly to the Directors of the Responsible Entity. Consequently, no compensation as defined in AASB 124 *Related Party Disclosures* is paid by the Group to the Directors as key management personnel. Fees paid and payable to RFM as Responsible Entity are disclosed in note G2.

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### G2 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:

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Management fee	2,664	1,883
Asset management fee	3,599	2,510
<b>Total management fees</b>	<b>6,263</b>	4,393
Expenses reimbursed to RFM	3,056	2,491
Expenses due to Murdock Viticulture	114	229
Distribution paid/payable to RFM	1,122	834
<b>Total amount paid to RFM and related entities</b>	<b>10,555</b>	7,947
Rental income received from RFM Almond Fund 2006	2,048	2,029
Rental income received from RFM Almond Fund 2007	565	606
Rental income received from RFM Almond Fund 2008	1,599	1,549
Rental income received from RFM	992	336
Rental income received from RFM Farming Pty Limited	288	148
Rental income received from Cattle JV	3,448	2,694
Rental income received from Cotton JV	1,969	991
Rental income received from RFM Poultry	10,670	10,520
Rental income received from 2007 Macgrove Project	757	744
Rental income received from RMA Macadamias	326	290
Finance income from Cattle JV	1,321	790
Expenses charged to RFM Poultry	-	1
Distribution received/receivable from RFM Poultry	14	14
Distribution received/receivable from RFM StockBank	-	4,018
Water sale proceeds from RFM Almond Fund 2006	26	44
Water sale proceeds from RFM Almond Fund 2007	7	12
Water sale proceeds from RFM Almond Fund 2008	20	34
Water sale proceeds from RFM	4	7
Water sale proceeds from RFM Farming Pty Limited	51	30
Interest income from Cattle JV	1	9
<b>Total amounts received from RFM and related entities</b>	<b>24,106</b>	24,866

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

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### G2 Related party transactions (continued)

#### Related party transactions (continued)

*Debtors (including finance lease receivable)*

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
RFM Farming Pty Limited	656	27
RFM	10	3
RFM Macadamias Pty Limited	30	-
2007 Macgrove Project	70	345
Cattle JV Pty Limited	14,236	11,770
Cotton JV Pty Limited	564	485
<b>Total</b>	<b>15,566</b>	<b>12,630</b>

*Creditors*

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
RFM	150	472
<b>Total</b>	<b>150</b>	<b>472</b>

*Custodian fees*

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Australian Executor Trustees Limited	215	104
<b>Total</b>	<b>215</b>	<b>104</b>

*Entities with influence over the Group*

	<b>2018</b>		<b>2017</b>	
	<b>Units</b>	<b>%</b>	<b>Units</b>	<b>%</b>
Rural Funds Management	9,110,507	3.56	8,632,418	3.39

*Interest in related parties*

	<b>2018</b>		<b>2017</b>	
	<b>Units</b>	<b>%</b>	<b>Units</b>	<b>%</b>
RFM StockBank	-	-	3,897,259	33.50
RFM Poultry	225,529	3.28	108,615	1.58

### G3 Parent entity information

RFF was formed by the stapling of the units in two trusts, RFT and RFA. In accordance with Accounting Standard AASB 3 Business Combinations, the stapling arrangement referred to above is regarded as a business combination and the RFT has been identified as the parent for preparing Consolidated Financial Reports. The financial information of the parent entity, Rural Funds has been prepared on the same basis as the consolidated financial statements, except as set out below.

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### G3 Parent entity information (continued)

#### *Investments in subsidiaries and associates*

Investments in subsidiaries and associates are accounted for at historical cost less any accumulated impairment. Distributions received from equity investments are recognised in the parent entity's profit or loss when its right to receive the distribution is established.

The individual financial statements of the parent entity, Rural Funds Trust, show the following aggregate amounts:

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Statement of Financial Position</b>		
<b>ASSETS</b>		
Current assets	10,413	9,976
Non-current assets	628,856	499,645
<b>Total assets</b>	<b>639,269</b>	<b>509,621</b>
<b>LIABILITIES</b>		
Current liabilities	12,583	11,126
Non-current liabilities	277,267	170,013
<b>Total liabilities (excluding net assets attributable to unitholders)</b>	<b>289,850</b>	<b>181,139</b>
Net assets attributable to unitholders	349,419	328,482
<b>Total liabilities</b>	<b>639,269</b>	<b>509,621</b>
<b>Statement of Comprehensive Income</b>		
Net profit after income tax	35,938	37,386
Other comprehensive income for the period, net of tax	7,980	(8,850)
<b>Total comprehensive income attributable to unitholders</b>	<b>43,918</b>	<b>28,536</b>

### G4 Reconciliation of profit to operating cashflow

Reconciliation of net profit after income tax to cash flow from operating activities:

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Net profit after income tax</b>	<b>36,032</b>	<b>43,326</b>
<b>Adjustments for:</b>		
Share of net profit - equity accounted investments	-	(1,304)
Amortisation of lease incentives	133	-
Change in fair value of plant and equipment - bearer plants	-	2,498
Change in fair value of investment property	(7,398)	(17,191)
Change in fair value of interest rate swaps	1,956	(5,311)
Depreciation and impairments	947	1,568
Gain on sale of assets	(17)	(33)
Other non-cash items	(2,000)	-
<b>Changes in operating assets and liabilities</b>		
(Increase)/decrease in trade and other receivables	(800)	2,618
Decrease in other assets	49	701
Increase/(decrease) in trade and other payables	990	(1,782)
Decrease in deferred tax assets (net)	1,080	1,824
<b>Net cash inflow from operating activities</b>	<b>30,972</b>	<b>26,914</b>



# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### G5 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Group:

	2018	2017
	\$	\$
PricewaterhouseCoopers Australia:		
Audit and review of financial statements	223,422	250,637
Compliance audit	9,425	6,370
<b>Total</b>	<b>232,847</b>	<b>257,007</b>

### G6 Other accounting policies

#### Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term investments with less than 3 months of original maturity which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Bank overdrafts also form part of cash equivalents for the purpose of the consolidated statement of cash flows and are presented within current liabilities on the consolidated statement of financial position.

#### Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less an allowance for doubtful debts.

Collectability of trade receivables is reviewed on an ongoing basis. Individual impairment is identified at a counterparty specific level following objective evidence that a financial asset is impaired. This may be after an interest or principal payment is missed or when information comes to hand that would indicate an inability to meet repayments. An allowance for doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the originally assessed effective interest rate and taking into account the amount of security held. The amount of the allowance is recognised in the income statement.

Debts which are known to be uncollectible are written off when identified. Write-offs are charged against accounts previously established for impairment allowance or directly to the income statement.

Where the debt is in relation to amounts due on almond groves and the impact of non-payment would result in the cancellation of the almond grove rights, which would revert to the Group, then the impairment provision is measured against the value of the rights that would be obtained by the Group.

#### Goods and services tax (GST)

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as part of trade and other receivables or payables in the consolidated statement of financial position.

Cash flows in the consolidated statement of cash flows are included on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### G6 Other accounting policies (continued)

#### Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they are incurred.

#### Leases

Leases of fixed assets or biological assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred from the lessor, are classified as finance leases.

Lease payments for operating leases, where substantially all of the risks and benefits have not been transferred from the lessor, are charged as expenses on a straight-line basis over the life of the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

#### New accounting standards and interpretations

Standard Name	Effective date for the Group	Requirements	Impact
AASB 9 Financial Instruments	1-Jan-18	Changes to the measurement of different classes of financial assets	The Group does not hold financial instruments for trading and it is not expected that this standard will have a material impact on the Group.
AASB 15 Revenue from contracts with customers	1-Jan-18	Recognise contracted revenue when control of a good or service transfers to a customer. The notion of control replaces the existing notion of risks and rewards.	Revenue for the Group can be broken down into Leasing, Finance Income, Interest and Water Sales. Water sales are sold via contract with where revenue is recognised when transfer is completed. It is not expected that this standard will have a material impact on the Group.
AASB 16 Leases	1-Jan-19	Introduces a single lease accounting model and requires lessees to recognise on the balance sheet an asset (right of use) and a corresponding liability (lease commitment) for leases with a term of more than 12 months.	There is no impact on reported financial position or performance expected for the Group as it is a lessor in nature.

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

#### Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured at the present value of management's best estimate of the outflow required to settle the obligation at the end of the reporting period. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the unwinding of the discount is taken to finance costs in the income statement.

#### *Provisions for distributions*

Provision is made for the amount of any distribution declared, being appropriately authorised and no longer at the discretion of the Group, on or before the end of the reporting period but not distributed at the end of the reporting period.

# Rural Funds Group

## Notes to the Financial Statements

30 June 2018

### G7 Events after the reporting date

On 12 July 2018, the Group announced that it has negotiated a transaction involving the acquisition of JBS Australia Pty Limited's (JBS) five Australian feedlots and associated cropping land for \$52.7 million including stamp duty and the provision of a \$75.0 million limited guarantee to J&F Australia Pty Ltd that will enable JBS to replace an existing arrangement for the supply of cattle for its grainfed business. The guarantee transaction was subject to RFF unitholder approval as J&F Australia Pty Ltd would become a subsidiary of Rural Funds Management Limited on settlement. Approval was granted at the unitholder meeting held on 10 August 2018.

On 12 July 2018, the Group announced that it was undertaking a fully underwritten equity raise for \$149.5 million to fund the JBS transaction, associated costs, as well as the acquisition a cattle property, Comanche. The equity raise was successfully completed for the full amount on 3 August 2018.

On 16 July 2018, the Group purchased Comanche, a 7,600 hectare cattle property located in central Queensland for \$15.7 million.

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

# Rural Funds Group

## Directors' Declaration

30 June 2018

In the Directors of the Responsible Entity's opinion:

- 1 The financial statements and notes of Rural Funds Group set out on pages 11 to 49 are in accordance with the *Corporations Act 2001*, including:
  - a. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - b. giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
- 2 There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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

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

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



David Bryant

Director

15 August 2018



## *Independent auditor's report*

To the stapled security holders of Rural Funds Group

### *Report on the audit of the financial report*

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#### *Our opinion*

In our opinion:

The accompanying financial report of Rural Funds Trust (the Registered Scheme) and its controlled entities (including RF Active) (together Rural Funds Group, or the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### **What we have audited**

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2018
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in net assets attributable to unitholders for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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#### *Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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## *Our audit approach*

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

The structure of Rural Funds Group is commonly referred to as a “stapled group”. In a stapled group the securities of two or more entities are 'stapled' together and cannot be traded separately. In the case of the Group, the units in Rural Funds Trust have been stapled to the units in RF Active. For the purposes of consolidation accounting, Rural Funds Trust is 'deemed' the parent and the consolidated report reflects the consolidation of Rural Funds Trust and its controlled entities, including RF Active.



### ***Materiality***

- For the purpose of our audit we used overall Group materiality of \$3.8 million, which represents approximately 1% of the Group's net assets.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group net assets because, in our view, it is the benchmark against which the financial position of the Group is most reliably measured.
- We used a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

### ***Audit scope***

Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.

The audit of the group was performed by a team primarily in Sydney which included individuals with industry expertise and valuation experts.

### *Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit Committee.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><b><i>Valuation of investment properties</i></b> <i>(Refer to note C1, C2) \$357.5m</i></p> <p>Investment properties are carried at fair value.</p> <p>All agricultural assets, which comprise investment properties, bearer plants, and water entitlements, have been externally valued in the last two years in accordance with the Group's valuation policy. For those agricultural assets which have not been externally valued within the financial year, the directors monitor and update the key inputs of the valuation model and consider whether any significant market indicators suggest that the valuation has changed and as such an updated external valuation is needed.</p> <p>Key variables in the valuation model included discount rates, capitalisation rates, passing rents and comparable sales. Factors such as prevailing market conditions, and the individual nature, condition, location and the expected future income of these properties impacted these variables.</p> <p>This was a key audit matter because of the:</p> <ul style="list-style-type: none"> <li>• size of the investment property balance in the consolidated statement of financial position</li> <li>• quantum of revaluation gains that could directly impact the consolidated statement of comprehensive income through the net fair value gain/loss of investment properties</li> <li>• inherently subjective nature of investment property valuations due to the use of assumptions and estimates in the valuation model</li> <li>• sensitivity of valuations to key inputs/assumptions in the model such as the discount rate and capitalisation rates.</li> </ul>	<p>We compared a sample of inputs used in the valuation model, such as rental income and lease terms, to the relevant tenancy schedules and lease agreements.</p> <p>We compared the market rents, discount rates and capitalisation rates used in the valuation models for a sample of investment properties to an acceptable range which we determined based on benchmark market data. Where the rates used fell outside of our anticipated range, we discussed the rationale supporting the rates applied in the valuation with management and obtained supporting documents for the rationale provided.</p> <p>Where an external valuation of investment properties was obtained:</p> <ul style="list-style-type: none"> <li>• We assessed the competency, qualifications, experience and objectivity of any external valuers used by the Group.</li> <li>• We read the valuers' terms of engagement - we did not identify any terms that might affect their objectivity or impose limitations on their work relevant to the valuation.</li> <li>• We inspected the final valuation reports and agreed the fair value as per the valuation to the value recorded in the Group's accounting records.</li> </ul>

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p><b>Valuation of bearer plants</b> (Refer to note C3) \$157.2m</p> <p>The Group's bearer plants include almond trees, macadamia trees and wine grape vines, which are classified as <i>Plant and equipment</i> and carried at fair value.</p> <p>The valuations described in the <i>Valuation of investment properties</i> key audit matter above are determined for the agricultural assets as a whole. The valuers also determine the value of the investment property and water entitlements in isolation. As a result, the directors determine the fair value of bearer plants as the residual value after deducting the fair value of land and water entitlements from the value of the agricultural assets. The fair value of water entitlements are determined based on the volume of water and the market rates for water. For reference, water entitlements are carried at historic cost and assessed for impairment annually.</p> <p>This was a key audit matter because of the:</p> <ul style="list-style-type: none"> <li>• size of the bearer plants on the consolidated statement of financial position</li> <li>• quantum of revaluation gains that could directly impact the consolidated statement of comprehensive income through the net fair value gain/loss of bearer plants</li> <li>• inherently subjective nature and sensitivity of the valuations due to the use of assumptions and estimates as described in the <i>Valuation of investment properties</i> key audit matter.</li> </ul>	<p>In addition to the audit procedures described in the <i>Valuation of investment properties</i> key audit matter, we performed the below procedures, amongst others, with respect to the value of bearer plants.</p> <p>We reperformed the calculation of the fair value of bearer plants, by deducting the fair value of land and infrastructure and water entitlements from the fair value of the agricultural asset.</p> <p>In respect of the fair value of water entitlements, we</p> <ul style="list-style-type: none"> <li>• agreed the volume of water to water entitlements certificates</li> <li>• agreed the water rate to market rates as quoted by the external valuers engaged to value the agricultural assets.</li> </ul> <p>We evaluated the directors' estimation of the fair value of land and infrastructure by, for example, considering comparable sales transactions.</p> <p>We considered whether the methodology used to determine the value of bearer plants was in line with the requirements of Australian Accounting Standards.</p>
<p><b>Related party transactions</b> (Refer to note G2)</p> <p>The Group's Responsible Entity, along with other funds for which it is the Responsible Entity, are considered related parties of the Group. Key transactions with these parties include:</p> <ul style="list-style-type: none"> <li>• Lease of investment properties, land, building and plant and equipment</li> <li>• Lease of bearer plants</li> <li>• Lease of cattle for breeding</li> <li>• Lease of water entitlements.</li> <li>• Management fees</li> <li>• Asset management fees</li> </ul>	<ul style="list-style-type: none"> <li>• We obtained an understanding of the Group's processes for identifying related parties and related party transactions, through discussions with management.</li> <li>• For significant contracts entered into during the year, we verified that the transactions were approved in accordance with internal procedures including involvement of key personnel at the appropriate level by inspecting relevant supporting documents.</li> </ul>





<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<ul style="list-style-type: none"> <li>• Distributions from investments</li> <li>• Recharge of operating expenses</li> </ul> <p>We considered the related party transactions to be a key audit matter due to the influence of related parties on the Group, as well as the potential impact of these transactions on the results of the Group. Additionally, because of their nature, they are pervasive and material to the presentation of and disclosures within the financial report.</p>	<ul style="list-style-type: none"> <li>• For a sample of lease income received during the year, we agreed the lease income to the relevant supporting documents including the lease agreements and evaluated the directors' assertion that the transactions were at arm's length by comparing the transactions to the market data which was used by the external valuers in their valuation of the related investment property.</li> <li>• For management and asset management fees, we compared the rates used to determine fees to the rates disclosed in the prospectus documents for the related funds.</li> <li>• We discussed the related party transactions with management to obtain an understanding of the business rationale for the transactions.</li> <li>• For a sample of related party agreements, we assessed the rights and obligations of the parties as per the terms and conditions of the agreements and, taking these into account, whether the transactions were recorded appropriately by the Group.</li> <li>• We assessed the adequacy of the disclosures in Note G2, of related party relationships and transactions in light of the requirements of Australian Accounting Standards.</li> </ul>

### *Other information*

The directors of Rural Funds Management Limited (the Responsible Entity of the Group) (the directors) are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the *Directors' Report*, and *ASX additional information*. We expect the remaining other information to be made available to us after the date of this auditor's report, including *Letter from the Managing Director* and *Corporate governance statement*.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received as identified above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

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### *Responsibilities of the directors for the financial report*

The directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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### *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

[http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.

PricewaterhouseCoopers

CMC Heraghty  
Partner

Sydney  
15 August 2018

# Rural Funds Group

## Additional Information for Listed Public Entities

30 June 2018

### Unitholder information

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below. This information is effective as at 30 June 2018.

### Distribution of equity securities

Analysis of number of unitholders by size of holding:

	<b>Unitholders</b>
	<b>2018</b>
1 - 1,000	2,038
1,001 - 5,000	3,966
5,001 - 10,000	2,013
10,001 - 100,000	3,257
100,001 and over	182

RFM considers that there are 150 holders of a less than marketable parcel of units at 30 June 2018.

### Substantial unitholders

The number of substantial unitholders and their associates are set out below:

	<b>Units held</b>	<b>%</b>
J P Morgan Nominees Australia Limited	34,411,909	13.46
HSBC Custody Nominees (Australia) Limited	30,167,665	11.80
Netwealth Investments Limited (Wrap services)	14,006,505	5.48

### Voting rights

#### *Ordinary units*

All ordinary units carry one vote per unit without restriction.

# Rural Funds Group

## Additional Information for Listed Public Entities

30 June 2018

### Twenty largest unitholders at 30 June 2018

	<b>Units held</b>	<b>%</b>
J P Morgan Nominees Australia Limited	34,411,909	13.46
HSBC Custody Nominees (Australia) Limited	30,167,665	11.80
Netwealth Investments Limited (Wrap services)	14,006,505	5.48
Rural Funds Management Limited	9,110,507	3.56
Citicorp Nominees Pty Ltd	6,776,576	2.65
Argo Investments Limited	5,407,750	2.12
Netwealth Investments Limited (Super services)	3,631,363	1.42
Bryant Family Services Pty Ltd	2,555,941	1.00
Ecapital Nominees Pty Limited	1,395,003	0.55
One Managed Investment Funds Limited	1,310,887	0.51
SCCASP Holdings Pty Ltd	1,279,287	0.50
National Nominees Limited	1,248,947	0.49
Morgan Stanley Australia Securities Pty Ltd	966,866	0.38
BNP Paribas Nominees Pty Ltd (Agency Lending)	881,665	0.34
Boskenna Pty Ltd	814,696	0.32
RBM Nominees Pty Ltd	640,604	0.25
BNP Paribas Nominees Pty Ltd Hub 24 Custodial Serv Limited	620,279	0.24
BNP Paribas Nominees Pty Ltd (IB AU Noms Retail Client)	614,253	0.24
Bond Street Custodians Limited	601,049	0.24
WF Super Pty Ltd	592,566	0.23
<b>Total</b>	<b>117,034,318</b>	<b>45.78</b>

### Securities exchange

The Group is listed on the Australian Securities Exchange (ASX).

### Responsible Entity

Rural Funds Management Limited  
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