

RURAL FUNDS GROUP ANNUAL REPORT

for the year ended 30 June 2018

Rural Funds Group (ASX: RFF) stapled group comprising:
Rural Funds Trust ARSN 112 951 578 and
RF Active ARSN 168 740 805
Responsible Entity: Rural Funds Management Limited
ACN 077 492 838 AFSL 226701

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LETTER FROM THE MANAGING DIRECTOR

Dear Unitholder,

We are pleased to present to you the Rural Funds Group (ASX:RFF, the Fund) Annual Report for the year ended 30 June 2018 (FY18).

RFF at 30 June 2018

RFF ended the year in a strong financial position. Funds from operations increased to 12.7 cents per unit(cpu), and the 4% per annum distribution growth target was maintained with 10.03 cpu paid to investors. This distribution growth target was supported by RFF's conservative payout ratio of 79% and a weighted average lease expiry of 12.4 years. The adjusted Net Asset Value (NAV) of the Fund increased to \$723.6 million(m), or \$1.68 on a per unit basis, representing a 6.3% per unit increase, when compared to the previous corresponding period.

Review of financial year 2018

FY18 activities focused on supporting RFF's investment objective of generating a stable income stream through the leasing of properties, and capital growth through appreciation in the value of those properties. The assets acquired during the year, and the ongoing development programs undertaken, strengthened portfolio diversification in terms of sector, geographic and climatic measures.

In October 2017, RFF contracted to acquire the Natal aggregation in northern Queensland, comprising three adjoining cattle properties and totaling 390,600 hectares(ha) as part of a \$72.5m transaction. The properties were purchased from members of the Camm Agricultural Group (CAG), a large family business operating for more than 20 years, and leased to DA & JF Camm Pty Limited, also a member of CAG. When announcing the purchase, RFM outlined a development program focusing on increasing water and fencing infrastructure. The aim of the program is to increase the carrying capacity of the properties, and ultimately have this increase reflected in a valuation uplift for the benefit of RFF unitholders.

As part of the 2018 half year accounts presentation in February, Rural Funds Management Limited (RFM) provided the results of independent valuations undertaken on two central Queensland properties: the cattle property Rewan, and the cotton property Lynora Downs. Rewan was valued 17% higher than the combination of acquisition price and deployed capital expenditure. The valuation uplift was driven by an increase in the property's carrying capacity, which has been the focus of RFM's cattle development program. In the case of Lynora Downs, a modest valuation increase was received. Development at Lynora Downs is ongoing, particularly the expansion of the irrigated cropping area, a key valuation measure for cotton properties. RFM expects future valuations will recognise the increased cropping area of this property once the development is completed.

In May 2018, RFF contracted to acquire Comanche, a 7,600 ha cattle property located in central Queensland, for \$16.6m. The property is suited to both breeding and backgrounding cattle and, importantly, offers productivity development opportunities almost identical to those proven on Rewan.

In addition to the acquisitions that occurred in FY18, RFM managed the deployment of \$50.4m of capital expenditure across the RFF portfolio. The largest development by value is the Kerarbury almond orchard in the NSW Riverina. I'm pleased to report that all 2,500 ha of almond trees are now planted, a significant achievement on the part of the lessee, Olam Orchards Australia, and the RFM team.

Other components of RFF's annual capital expenditure program included the development of additional irrigated cotton area on Lynora Downs (mentioned earlier), and the lower cost but equally important development activities such as watering points and pasture improvements which are designed to increase carrying capacity across RFF's seven cattle properties.

The full year results presented in August included a number of property valuation uplifts. A 37% uplift was recorded for the three Queensland macadamia properties – Swan Ridge, Moore Park and Bonmac. Whilst this uplift is modest in the context of the wider portfolio, the increase on a stand-alone basis is pleasing. An 8% uplift was received for the Moorah, Yilgah and Tocabil almond properties. These valuations are reflective of strong demand for almond orchards in optimal growing regions, such as the NSW Riverina.

In addition to increasing the NAV of the Fund over time, RFM seeks to monetise valuation uplifts by structuring leases with periodic rental reviews. RFM's aim is to grow the proportion of leases within the portfolio that contain rental reviews, so that increases in property values, particularly through capital developments, can be monetised for the benefit of RFF investors.

During July 2018, RFF completed a \$149.5m equity raising with proceeds used to fund the Comanche acquisition as well as a transaction with JBS Australia Pty Limited (JBS), the country's largest lot feeder and meat processor. The JBS transaction includes the purchase from JBS of five feedlots for \$52.7m and the provision of a \$75.0m limited guarantee that will enable JBS to replace an existing arrangement for the supply of cattle for its grainfed business. The feedlots represent the largest feedlot capacity in Australia, and RFF is pleased to welcome JBS as a lessee within the RFF portfolio. The equity raising has created balance sheet capacity to support acquisitions, and details will be provided to investors as acquisitions occur.

Looking ahead to FY19

The weather outlook for the current year is a continuation of the very dry conditions that many parts of regional Australia are currently experiencing. While dry conditions in Australian agriculture are certainly not a new phenomenon, it is sensible to consider the impact of these conditions in relation to the RFF portfolio.

First and foremost, as an agricultural Real Estate Investment Trust, RFF is not directly exposed to the fluctuations of the agricultural operating environment. These risks are borne by our lessees. Despite this, RFM has implemented a number of strategies aimed at managing climatic and seasonal variability.

The core tool to manage climatic variability was articulated in RFM's Climate Diversification paper released in June 2016. This paper outlines the need to invest in assets located in varying rainfall zones across Australia, reducing the likelihood of multiple leases experiencing extreme conditions simultaneously. In line with this strategy, RFF has acquired 13 properties outside of the southern climatic zone since listing in 2014. Investors may be aware that all of RFF's properties were located within the southern climatic zone at the time of listing.

In addition to the climatic diversification strategy, RFF owns a large portfolio of 103,900ML of water entitlements. An important component of RFF's water entitlements is 49,206ML of groundwater and high security entitlements, which are characterised as having a very high level of reliability. The varying types of water entitlements held within the portfolio mean that RFF's tenants are able to economically access a combination of water entitlements that provide sufficient reliability to meet their individual irrigation requirements, whilst reducing their reliance on the temporary spot market. This is particularly the case for lessees of assets with permanently planted crops, such as almonds and grapevines.

Finally, RFF aims to lease its assets to quality lessees with the financial capability to operate through seasonal and commodity cycles. Many of RFF's lessees are domestic and internationally listed entities, their subsidiaries, or are large private operators.

RFM's objective for RFF remains unchanged; investing in assets, and where possible developing those assets, with the aim of achieving consistent distribution and capital growth over time. To this end, RFM will continue to undertake due diligence on properties, particularly in the cattle and cotton sectors, where there are acquisition and development opportunities that can grow the Fund's scale and distributions into the future.

We look forward to bringing you updates as the year progresses, and as always please don't hesitate to contact the RFM team should you have any questions about your investment.

Yours faithfully,



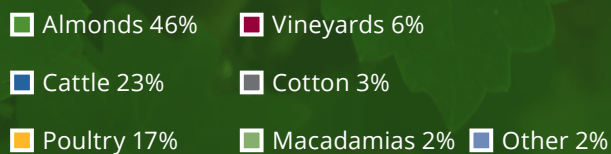
David Bryant
Managing Director
Rural Funds Management Limited



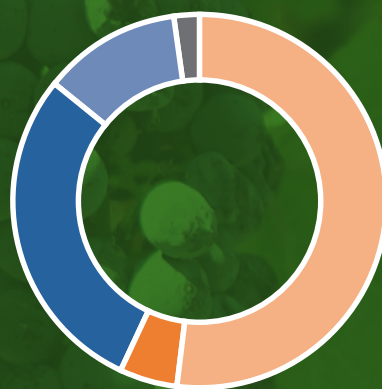
Investment strategy

RFM's investment strategy for RFF focuses on the management of the existing portfolio and expansion through acquisitions. This strategy has the aim of increasing; earnings and distribution growth, sector and climatic diversification, liquidity and scale.

Agricultural sector¹



Lease indexation mechanisms¹



Climatic zone¹



Sector characteristics¹



¹ Pro forma for July 2018 \$149.5m equity raising at \$1.95 per unit. Figures based on FY19 forecast revenue.

FY18 results highlights¹



Key financial metrics

Adjusted funds from operations (AFFO) growth of 26% primarily a result of additional lease income, development capital expenditure and indexation.

EPU² driven by AFFO growth and revaluations of properties.

EPU 17.3 cents

AFFO 12.7 CPU²

10.03¢
DPU²

79%
AFFO PAYOUT
RATIO



Balance sheet metrics

Adjusted total assets increased primarily due to cattle sector acquisitions, almond orchard capital expenditure and valuation uplifts.

Gearing reduction provides balance sheet capacity to pursue future acquisitions.

Adj. total assets \$792.9m³

Debt
\$198.2m

\$1.72
ADJ. NAV
PER UNIT

25.0%
GEARING



FY19 forecasts

DPU in line with annual growth target of 4%.

Payout ratio of 79% providing funding for capital expenditure, which attracts additional lease income.

AFFO 13.2 CPU

DPU 10.43 cents

4.0%
FY19 DPU
GROWTH

4.9%
FORECAST YIELD⁴



Capital management

Syndicated debt facility with \$80.2m headroom.

Term debt facility \$275.0m

Term debt drawn
\$194.8m

55.4%
DEBT
HEDGED

4.0%
EFFECTIVE COST
OF TOTAL DEBT

¹ All figures pro forma for July 2018 \$149.5m equity raising at \$1.95 per unit.

² Earnings per unit (EPU), distributions per unit (DPU) and cents per unit (CPU). EPU calculated as Total Comprehensive Income / weighted average units.

³ Net asset value (NAV) incorporates most recent independent property valuations, inclusive of water entitlements, and is adjusted for the independent valuation of water entitlements which are recognised at the lower of cost or fair value on the balance sheet.

⁴ FY19 forecast DPU of 10.43 cents divided by 30 June 2018 closing price of \$2.12.

Rural Funds Group (RFF) is an agricultural real estate investment trust which owns a diversified portfolio of quality Australian agricultural assets across six sectors. Assets have long-term leases with experienced agricultural operators.



Number of properties:	44
Adjusted total assets:³	\$792.9m
Sectors:	6
Weighted average lease expiry:⁴	12.3 yrs

Climatic zones²

- Summer dominant
- Summer
- Uniform
- Winter
- Winter dominant
- Arid

1 Pro forma for July 2018 \$149.5m equity raising at \$1.95 per unit.

2 Shaded areas in map denote different climatic zones. Source: Bureau of Meteorology.

3 Assets adjusted for the independent valuation of water entitlements which are recognised at a lower of cost or fair value on the balance sheet.

4 Lease expiries weighted by forecast FY19 rental income, expressed in years from 30 June 2018.

Cattle



Properties:	12
Value:	\$199.3m
Lessee:	Cattle JV, Camm & JBS
FY19 f'cast rent:	\$15.0m

Poultry



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

Vineyards



Properties:	7
Value:	\$47.9m
Lessee:	TWE
FY19 f'cast rent:	\$3.8m

Cotton



Properties:	1
Value:	\$30.8m
Lessee:	Cotton JV
FY19 f'cast rent:	\$2.2m

Almonds



Properties:	4
Value:	\$374.9m
Lessee:	SHV, Olam, RFM Almond Schemes & RFM
FY19 f'cast rent:	\$29.8m

Macadamias



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



A green combine harvester is shown in the lower-left portion of the image, harvesting a field of golden-brown crops. The background features a line of trees and a clear blue sky. A dark green rectangular overlay is positioned in the lower-right, containing the title text in white.

CORPORATE GOVERNANCE STATEMENT

Definitions

ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange Limited or ASX Limited
Corporations Act	<i>Corporations Act 2001</i> (Cth)

Rural Funds Group (the Fund) is listed on the ASX and comprises Rural Funds Trust and RF Active, both registered managed investment schemes under the Corporations Act. Units in Rural Funds Trust are stapled to units in RF Active. Rural Funds Management Limited (the Responsible Entity) is the Responsible Entity for the Fund and has established and oversees the corporate governance of the Fund. The Responsible Entity holds an Australian Financial Services Licence (AFSL) authorising it to operate the Fund. It has a duty to act in the best interest of unitholders of the Fund. The Fund's compliance plan has been lodged with ASIC and can be obtained from ASIC or by contacting the Responsible Entity. The Responsible Entity publishes a number of its corporate governance related policies on its website at:

<http://ruralfunds.com.au/rural-funds-group/about/corporate-governance/>

The Board takes its corporate governance responsibilities seriously. The Board is comprised of four directors and has a mix of experience and skills necessary to oversee the corporate governance requirements of the Responsible Entity. This ensures the Responsible Entity operates with integrity, is accountable and acts in a professional and ethical manner. The Board works together and its collective ability facilitates effective decision making to lead a viable, profitable and efficient business.

To the extent that they are applicable and appropriate for the Fund, the Responsible Entity has adopted and complies with the *ASX Corporate Governance Council's Corporate Governance Principles and Recommendations 3rd Edition*. In accordance with ASX Listing Rule 4.10.3, set out in this section are the ASX Corporate Governance Council's eight principles of good corporate governance, and the extent to which there is compliance with the recommendations for each principle. The statement has been approved by the Board of the Responsible Entity and applies to the period 1 July 2017 to 30 June 2018 (Statement Period).

At the time of printing this statement, there have been no material changes to the corporate governance policies and practices since 30 June 2018.

PRINCIPLE 1

Lay solid foundations for management and oversight

A listed entity should establish and disclose the respective roles and responsibilities of its board and management and how their performance is monitored and evaluated.

ASX RECOMMENDATION	FUND'S RESPONSE
1.1	The business of the Fund is managed under the direction of the Board of the Responsible Entity comprising: > Chair: Guy Paynter (independent non-executive director) > Managing Director: David Bryant > Non-Executive Director: Michael Carroll (independent non-executive director) > Non-Executive Director: Julian Widdup (independent non-executive director) The conduct of the Board is governed by the Constitution of the Fund and the Corporations Act. The broad functions and responsibilities of the Board are set out in sections 2.3 and 2.4 of the Corporate Governance Charter. The specific responsibilities are set out in section 2.5. The Board has delegated responsibility for the day-to-day management of the Fund to the Managing Director of the Responsible Entity. The delegations are outlined in the Corporate Governance Charter. The Managing Director, David Bryant, is responsible for financial, continuous disclosure and compliance oversight, media and analyst briefings and responses to member questions, and ensuring the Board is provided with information to make fully informed decisions. The Constitution of the Fund is available by contacting the Responsible Entity. The Corporate Governance Charter is available on the Responsible Entity's website.
1.2	As an externally managed scheme, recommendation 1.2 does not apply to the Fund.
1.3	All directors of the Responsible Entity receive letters of appointment setting out the key terms and conditions of their appointment. All executives of the Responsible Entity enter into an employment agreement setting out the key terms and conditions of their employment including a position description, duties, rights, responsibilities, remuneration and entitlements on termination.
1.4	The Company Secretary of the Responsible Entity is accountable to the Board, through the Chair, on all matters to do with the proper functioning of the Board. As stated in the Corporate Governance Charter, the Company Secretary reports directly to the Managing Director.

ASX RECOMMENDATION	FUND'S RESPONSE
1.5	As an externally managed scheme, recommendation 1.5 does not apply to the Fund. The Responsible Entity has a diversity policy, which is reviewed annually with any changes approved by the Board. The policy provides the framework by which the Responsible Entity actively manages and encourages diversity and inclusion. It recognises that its employees are one of its greatest assets and it has a range of employees with skills and capabilities that ensure the ongoing strength, continuity and stability of the Responsible Entity. The policy addresses issues of diversity in developing selection criteria, skills mix and process when recommending candidates for appointment to the Board. Additionally, the Responsible Entity seeks to attract a diverse pool of suitably skilled candidates for available positions within the organisation. Due to the size of the Responsible Entity's Board and its senior management team, and the limited turnover of personnel at this level, it does not set quantitative gender diversity objectives. The Responsible Entity will endeavour to maintain, or improve, its current level of gender diversity as senior management vacancies arise. A copy of the policy is available on the Responsible Entity's website. The Responsible Entity's senior executive team includes one female executive (out of a total of six executives). Of the 93 staff, 33% are female.
1.6	The performance of the Board, its committees and individual directors is outlined in the Corporate Governance Charter. The performance of individual Board members is reviewed annually in accordance with the timelines outlined in the Responsible Entity's Performance Management Policy.
1.7	The performance of senior executives is formally reviewed annually, in accordance with the timelines outlined in the Responsible Entity's Performance Management Policy. The annual process reviews each individual's past performance, their achievement of key performance indicators over the previous 12 months, sets key performance indicators for the coming 12 months, and identifies training and development opportunities. The formal process provides an opportunity for the senior executive and the Managing Director to focus solely on performance and development. Informal reviews providing feedback about key projects are conducted on an ongoing basis.



PRINCIPLE 2

Structure the board to add value

A listed entity should have a board of an appropriate size, composition, skills and commitment to enable it to discharge its duties effectively.

ASX RECOMMENDATION	FUND'S RESPONSE															
2.1	As an externally managed scheme, recommendation 2.1 does not apply to the Fund. Additionally, due to the small size of the Responsible Entity's Board, it is usual that all of the Board members are involved in the full spectrum of discussion and decisions on matters. As a result, they bring the full complement of skills and experience available to address matters as they arise. If, and when gaps are identified, external advice is sought from senior consultants such as specialist tax, legal or business advisers to address any skills gaps.															
2.2	As an externally managed scheme, recommendation 2.2 does not apply to the Fund.															
2.3	The Responsible Entity Board comprises four members, three of whom are independent non-executive directors. <table><tr><th>DIRECTOR</th><th>COMMENCEMENT</th><th>INDEPENDENT</th></tr><tr><td>David Bryant</td><td>17 February 1997</td><td>No</td></tr><tr><td>Guy Paynter</td><td>15 April 2010</td><td>Yes</td></tr><tr><td>Michael Carroll</td><td>15 April 2010</td><td>Yes</td></tr><tr><td>Julian Widdup</td><td>17 February 2017</td><td>Yes</td></tr></table>  Guy Paynter is an Independent Non-Executive Director, holds the role of Chair of the Board and is a member of the Audit Committee and Remuneration Committee. Guy Paynter is a former director of broking firm JB Were and brings to the Responsible Entity more than 30 years' experience in corporate finance. Guy is a former member of the ASX and a former associate of the Securities Institute of Australia (now known as the Financial Services Institute of Australasia). Today, Guy is Chair 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. Guy holds a Bachelor of Laws from the University of Melbourne.	DIRECTOR	COMMENCEMENT	INDEPENDENT	David Bryant	17 February 1997	No	Guy Paynter	15 April 2010	Yes	Michael Carroll	15 April 2010	Yes	Julian Widdup	17 February 2017	Yes
DIRECTOR	COMMENCEMENT	INDEPENDENT														
David Bryant	17 February 1997	No														
Guy Paynter	15 April 2010	Yes														
Michael Carroll	15 April 2010	Yes														
Julian Widdup	17 February 2017	Yes														

ASX RECOMMENDATION	FUND'S RESPONSE
2.3 continued	 David Bryant is the Managing Director. David Bryant holds 78.20% of shares on issue in the Responsible Entity. 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. David holds a Diploma of Financial Planning from the Royal Melbourne Institute of Technology (RMIT) University and a Master of Agribusiness from The University of Melbourne.
	 Michael Carroll is an Independent Non-Executive Director and is the Chair of the Audit Committee and the Remuneration Committee. Michael Carroll serves in a board and advisory capacity for a range of agribusiness entities. Michael is a Director of Elders Limited, Select Harvests Limited, Paraway Pastoral Company, Viridis Ag Pty Limited and Sunny Queen Limited. Former board positions include Tassal Group Limited, the Australian Farm Institute, Warrnambool Cheese & Butter Factory Company Holdings Limited, Meat & Livestock Australia, Queensland Sugar Limited, the Geoffrey Gardiner Dairy Foundation and Rural Finance Corporation of Victoria. Michael has senior executive experience in a range of companies, including establishing and leading the National Australia Bank Agribusiness division. Michael holds a Bachelor of Agricultural Science from La Trobe University and a Master of Business Administration (MBA) 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.

ASX RECOMMENDATION	FUND'S RESPONSE
2.3 continued	 Julian Widdup is an Independent Non-Executive Director and is a member of the Audit Committee and Remuneration Committee. Julian Widdup is a former executive of infrastructure investment management companies, Palisade Investment Partners and Access Capital Advisers (now Whitehelm Capital). He was responsible for the acquisition and asset management of major infrastructure assets, risk management, portfolio construction, institutional client management and overseeing all aspects of investment operations. Previously Julian had worked with Towers Perrin (now Willis Towers Watson) as an asset consultant, the Australian Bureau of Statistics and the Insurance and Superannuation Commission (now APRA). 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. Julian holds a Bachelor of Economics from the Australian National University, is a Fellow of the Institute of Actuaries of Australia and a Fellow of the Australian Institute of Company Directors. Further information on the composition of the Responsible Entity's Board, executive management and asset and business management profiles, and the skills, knowledge and experience of the individual members can be found on the Responsible Entity's website. The independence of the Non-Executive Directors has been ascertained in compliance with the Corporations Act and the ASX Listing Rules, and there are no other factors which might reasonably be seen as undermining their independence. All directors must declare actual or potential conflicts of interest and excuse themselves from discussions on issues where an actual or potential conflict of interest arises. The directors' interests and any subsequent changes have been disclosed to the ASX. The Responsible Entity directors are subject to director rotation consistent with the Responsible Entity's constitution.

ASX RECOMMENDATION	FUND'S RESPONSE
2.4	As an externally managed scheme, recommendation 2.4 does not apply to the Fund; however, as outlined in 2.3, the Responsible Entity's Board is comprised of a majority of independent directors.
2.5	As an externally managed scheme, recommendation 2.5 does not apply to the Fund; however, independent Non-Executive Director, Guy Paynter, holds the role of Chair of the Responsible Entity.
2.6	As an externally managed scheme, recommendation 2.6 does not apply to the Fund; however, any new directors are provided with an induction relevant to the Responsible Entity and the Fund. Directors are also provided with opportunities to develop and maintain their skills and knowledge, through both formal and informal training and networking opportunities.



PRINCIPLE 3

Act ethically and responsibly

A listed entity should act ethically and responsibly.

ASX RECOMMENDATION	FUND'S RESPONSE
3.1	The Responsible Entity has adopted a Directors' Code of Conduct (the Code) that sets out the minimum acceptable standards of behaviour. The Code seeks to give directors guidance on how best to perform their duties, meet their obligations and understand the company's corporate governance practices. The Code focuses on directors' obligations to comply with codes and law, their general duties, their application of business judgement, the application of independent and sound decision making, confidentiality, improper use of information, cooperation, personal interests and conflicts, conduct and complaints. In addition to the Directors' Code of Conduct, the Responsible Entity has a general Code of Conduct that is applicable to directors and all staff including senior executives. The Corporate Governance Charter which includes the Directors' Code of Conduct is available on the Responsible Entity's website. Both codes are reviewed annually to ensure that they remain current and relevant.



PRINCIPLE 4

Safeguard integrity in corporate reporting

A listed entity should have formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting.

ASX RECOMMENDATION	FUND'S RESPONSE
4.1	The Board of Directors of the Responsible Entity has established an audit committee. The purpose of the Audit Committee is to assist the Board in overseeing the integrity of financial reporting, financial controls and procedures in respect of the Fund as well as the independence of the Fund's external auditors. The Audit Committee is comprised of three members, all of whom are non-executive independent directors. An independent director, who is not the Chair of the Board of the Responsible Entity, is Chair of the Committee. The relevant qualifications and experience of the members is available on the Responsible Entity's website. The Audit Committee will routinely invite other individuals to attend meetings, including executive management and management members of the Responsible Entity and the Auditor of the Fund. The Audit Committee and invitees will review the financial reports and provide commentary to the Board as required. Two meetings of the Audit Committee were held in relation to the accounts during the Statement Period. The Audit Committee ordinarily holds two meetings per year, or more if required. The Audit Committee has a formal charter that details the roles and responsibilities of the Audit Committee and its obligations to report to the Board. The charter sets out the powers of the Audit Committee, the meeting procedure framework, the process for selection of external auditors and audit planning. The Audit Committee charter can be found in Schedule 1 of the Corporate Governance Charter on the Responsible Entity's website.
4.2	The Board of the Responsible Entity have been given the declarations by the persons performing the chief executive officer and chief financial officer functions. It is in their opinion that: > the financial records of the Fund have been properly maintained in accordance with section 286 of the <i>Corporations Act 2001</i> (Cth) > the financial statements and notes referred to in paragraph 295(3)(b) of the <i>Corporations Act 2001</i> (Cth) for the financial year comply with the accounting standards > the financial statements and notes give a true and fair view of the financial position and performance of the entity > the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.
4.3	As an externally managed scheme, recommendation 4.3 does not apply to the Fund. The Fund has not held an Annual General Meeting during the Statement Period.

PRINCIPLE 5

Make timely and balanced disclosure

A listed entity should make timely and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its securities.

ASX RECOMMENDATION	FUND'S RESPONSE
5.1	The Responsible Entity has adopted a Continuous Disclosure Policy (the policy) that applies to all directors and employees of the Responsible Entity. The policy is available on the Responsible Entity's website. The policy reflects the desire to promote a fair market in the Fund's units, honest management and timely, full and fair disclosure. It complies with the disclosure requirements of the ASX and explains the Fund's disclosure obligations, the types of information that need to be disclosed, identifies who is responsible for disclosure, and explains how employees of the Responsible Entity can contribute. The policy underlines the Board's commitment to ensuring that unitholders are provided with accurate and timely information about the Fund's activities.



PRINCIPLE 6

Respect the rights of security holders

A listed entity should respect the rights of its security holders by providing them with appropriate information and facilities to allow them to exercise those rights effectively.

ASX RECOMMENDATION	FUND'S RESPONSE
6.1	The Responsible Entity is a boutique fund and asset manager specialising in the rural property sector. The Responsible Entity was established in 1997 to provide retail investors with an opportunity to invest in Australian rural assets. The management team includes specialist fund managers, finance professionals, horticulturists, agricultural managers and livestock managers. This team provides the Responsible Entity with the specialised skills and experience required to manage the agricultural assets. The Responsible Entity also utilises the best available consultants and supporting resources to achieve desired outcomes and has a substantial network available to ensure that, where appropriate, tasks can be outsourced. The Responsible Entity has the primary responsibility for managing the Fund on behalf of unitholders. Information about the Responsible Entity and the Fund is available on the Responsible Entity's website. Information about the corporate governance practices and policies of the Responsible Entity is available on the Responsible Entity's website.
6.2	The Responsible Entity's website has information available to unitholders to facilitate two-way communication. The investment products tab on the website provides a link to the Fund's website which provides a Fund overview; sector, asset and lease information; strategy and investment processes; financial information, key documents, news and announcements and details about how to contact the Responsible Entity and the Share Registry. In addition, unitholders are encouraged to contact the Responsible Entity using any of the following methods: Email: investorservices@ruralfunds.com.au Website: https://ruralfunds.com.au/contact-us/ Phone: 1800 026 665 Fax: 1800 625 518 By visiting the Responsible Entity's office: Level 2, 2 King St, Deakin ACT 2600 From time to time, the Responsible Entity arranges tours of the assets of the Fund. Unitholders are invited to attend these tours. Additionally, unitholders are welcome to make their own arrangements to visit the assets by contacting Investor Services by any of the methods mentioned above.

ASX RECOMMENDATION	FUND'S RESPONSE
6.3	As an externally managed scheme that does not hold periodic meetings, recommendation 6.3 does not apply to the Fund. However, if the Responsible Entity was required to hold a unitholder meeting, it could use a web-conferencing and/or a teleconferencing facility for remote unitholders along with an online polling system provided by the Registry, enabling unitholders to vote online at any meeting.
6.4	The Responsible Entity encourages all investors to communicate with it and with the Fund's registry (Boardroom Pty Limited) electronically; however, the Responsible Entity continues to communicate with investors via traditional methods (mail and phone) when appropriate.



PRINCIPLE 7

Recognise and manage risk

A listed entity should establish a sound risk management framework and periodically review the effectiveness of that framework.

ASX RECOMMENDATION	FUND'S RESPONSE
7.1	The Responsible Entity has not established a Risk Committee. Due to the size of the Board and the nature of the business, the Board has determined that risk oversight should be managed by the full Board. The Board has ultimate responsibility for overseeing the risk management framework and for approving and monitoring compliance with the framework. The Board receives monthly reports on all material business risks in relation to the Fund, including a report on all risks rated extreme or high. The ongoing management of identified risks is undertaken by the relevant executive and/or asset managers of each business area, who report to the Board on the effectiveness of control measures. The Responsible Entity has established a risk management policy that documents the Responsible Entity's policy for the oversight and management of material business risks. It ensures that risks are identified and assessed, and that measures to monitor and manage each of the material risks are implemented. The Risk Management Policy is based on standards set out in the International Standards ISO 31000:2018. The Risk Management Policy is available on the Responsible Entity's website.
7.2	The Responsible Entity's risk management framework is reviewed annually, or more often if there has been a change in the relevant legislation or in business requirements. An annual risk review was performed during the Statement Period. The annual risk review requires each risk owner to review each risk and assess whether the existing risk rating is appropriate. This results in all risks being re-evaluated. In some cases, the risks may be re-rated and the residual risk amended depending on changes in the likelihood of the risk occurring, the consequence if the risk did occur, and the effectiveness of control measures in place.

ASX RECOMMENDATION	FUND'S RESPONSE
7.3	The Responsible Entity has an internal compliance committee that provides assistance to the Board in evaluating the risk management framework and material business risks on an ongoing basis. Whilst not an internal audit committee, the Internal Compliance Committee reports to the Board quarterly and may make recommendations to the Board for changes to processes and systems to ensure compliance with legal and regulatory requirements. The Internal Compliance Committee was comprised of: > Executive Manager – Funds Management > Assistant Company Secretary & Compliance Manager (from 26 October 2017) > Financial Controller > National Manager – Human Resources > Senior Fund Administrator > Compliance Officer > Executive – Cattle & Acquisitions (invitee) > Business Managers (invitees) > National Manager – Cotton (invitee). This broad representation of roles on the Internal Compliance Committee ensures it is fully informed of matters, and there is sufficient skills and experience among its members to make decisions as necessary.
7.4	The Responsible Entity is committed to undertaking the Fund's business activities in a responsible and ethical manner and ensuring that it remains sustainable. Environmental, social and governance (ESG) issues are embedded in many of its policies and procedures and are considered when making investment decisions. RFF's core activity is the leasing of agricultural land, water and infrastructure, and thus the Fund is largely passive in nature. Lessees are required to adopt practices that retain or improve the integrity of the Fund's assets. In response to disclosing ESG matters for the Responsible Entity with the greatest materiality to the Fund and its investors, please refer to the <i>Environmental, Social and Governance Responsibilities</i> section starting at page 26.

PRINCIPLE 8

Remunerate fairly and responsibly

An externally managed listed entity should clearly disclose the terms governing the remuneration of the Responsible Entity.

ASX RECOMMENDATION	FUND'S RESPONSE
8.1	The Responsible Entity has adopted the ASX's alternative recommendations for externally managed entities and provides the following details governing the remuneration to the Responsible Manager: > Fund Management Fee – up to 1.0% p.a. of the gross asset value of the Fund > Asset Management Fee – up to 1.0% p.a. of the gross asset value of the Fund > Termination Fee – 1.5% of the gross asset value of the Fund. The fees listed above represent the maximum allowed under the Fund's Constitution. At present, the Responsible Entity charges total fees (fund management and asset management fees) of 1.05% of the gross asset value of the Fund. The purpose of the Remuneration Committee is to advise on remuneration and issues relevant to the remuneration policies and practices for senior executives and non-executive directors. The Remuneration Committee is comprised of three members, all of whom are non-executive independent directors. An independent director, who is not the Chair of the Board of the Responsible Entity, is Chair of the Committee. Information on the relevant qualifications and experience of the members is available on the Responsible Entity's website. The Remuneration Committee will routinely invite other individuals to attend meetings, including executive management and management members of the Responsible Entity. The Remuneration Committee and invitees will review the remuneration and diversity report and provide commentary to the Board as required. One meeting of the Remuneration Committee was held in relation to remuneration during the Statement Period. The Remuneration Committee has a formal charter that details the responsibilities of the Remuneration Committee and its obligations to report to the Board. The charter sets out the powers of the Remuneration Committee and the meeting procedure framework. The Remuneration Committee charter can be found in Schedule 2 of the Corporate Governance Charter on the Responsible Entity's website.
8.2	As an externally managed scheme, refer to recommendation 8.1.
8.3	As an externally managed scheme, refer to recommendation 8.1.



An aerial photograph of a large industrial or agricultural facility. The facility consists of several long, white, rectangular buildings with corrugated metal roofs. One of the buildings on the left has a section of its roof covered with solar panels. The buildings are situated in a flat, open area with some green grass and patches of bare earth. In the background, there are several small, irregularly shaped ponds or water bodies, and a dirt road or path runs alongside the buildings. The overall scene suggests a remote or rural location, possibly a water treatment plant or a large-scale agricultural processing facility.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE RESPONSIBILITIES

ASX Recommendation 7.4

Commitment and responsibility for implementation

As Responsible Entity (RE) for the Rural Funds Group (RFF), Rural Funds Management (RFM) takes the environmental, social and governance (ESG) responsibilities of the Fund seriously. The statements outlined in this section have been endorsed by the RFM Board of Directors, with RFM senior management responsible for their implementation and monitoring.

Some areas within this section relate more directly to RFM than RFF. For instance, RFF does not directly employ staff, so the human capital management section is in reference to staff employed by RFM which manages the Fund's assets.

7.4 Environment

Management of natural resources, including water resources

RFF owns a portfolio of Australian agricultural assets and the stewardship of these assets is of critical importance to the performance and growth of RFF. RFF's leases require operators to use appropriate agricultural production methods.

Wherever practical, the Fund will:

- > monitor industry developments and adopt farm management practices that incorporate the latest research findings and technologies to minimise environmental impact, protect biodiversity and better use the natural resources
- > maximise water-use efficiency through the use of modern, well managed irrigation systems
- > ensure water management practices consider and manage water quality and minimise run-off
- > use communication technologies to access water-use data remotely, assisting with optimal water use
- > adopt nutrient management practices that improve long term soil health, and ensure that pest and weed management requiring the use of chemicals occurs in a safe and environmentally responsible manner
- > ensure that lessees and personnel understand and are focused on sustainable farming principles and adhere to environmental legislation and regulations.

Climate change

RFM monitors the impact of climate change on RFF's portfolio of assets and has implemented a climatic diversification strategy. The strategy promotes the acquisition of assets across different growing regions and asset classes. A Climate Diversification discussion paper was released to the ASX on 20 June 2016.

Energy use

RFM regularly reviews assets and infrastructure to identify more efficient technologies to reduce RFF's energy consumption and carbon footprint. RFF's assets in the cattle and poultry sectors have achieved savings from solar technologies. RFM Poultry, the lessee of the Fund's poultry assets, recently installed 100 kilowatt solar systems on each of RFF's four Victorian poultry farms. The energy produced is used to support chicken growing activities, with excess energy fed back into the grid. RFM is undertaking assessment of further solar energy options across the portfolio. Other examples of energy savings are the RFF almond and macadamia assets, which benefit from technology that measures tree sap flow ensuring the delivery of exact water requirements.

7.4 Social

Community engagement

Community engagement is an integral part of RFM's corporate culture and is key to maintaining the support of the communities where RFF owns assets. RFM's first preference when employing staff is to seek potential personnel with suitable skills and expertise from local communities for both employment and contracting opportunities in the areas where it operates.

In addition to being an employer in various areas of rural and regional Australia, RFM regularly provides support via donations, labour and other means to local community organisations. Organisations that RFM supported during the year include:

- > the McGrath Foundation, which helps to place breast care nurses into regional areas, including those where RFF has assets
- > the Rolleston State School and the Bundaberg Science and Engineering Challenge, a two day event attended by over 700 school students

- > ArtSound “Senior Memories”, a not-for-profit digital audio service tailored specifically to the needs and interests of seniors living in aged care facilities and retirement villages
- > Meg’s Children, a children’s home and community outreach program in outer Kathmandu, Nepal.

RFM believes it is important to engage the communities in the areas where the Fund’s assets are located, as many of its developments are significant in size and scale. In May 2018, RFM and lessee Olam Orchards Australia hosted a community tour of its Kerarbury almond orchard in the NSW Riverina. The tour provided local organisations, business groups and landholders an insight into the progress and future plans of the substantial development. RFM also provides horticultural traineeships for local high school students, providing them with on-the-job training and potential ongoing employment opportunities with RFM.

Human capital

As RFF does not directly employ staff, RFM is responsible for human capital management associated with the management and operation of the Fund. RFM has implemented a range of human capital related policies, including: Code of Conduct, Environmental, Health, Safety and Environment (HSE), Incident Management, Diversity and Equal Employment Opportunity. The aim of these policies is to create a safe, diverse and equitable work place.

The RE takes it’s obligations relating to Workplace Health and Safety seriously and has implemented an extensive HSE management system to educate personnel and protect them from harm. The RFM Board receives a monthly workplace health and safety report identifying any issues and incidents. RFM periodically reviews arrangements with independent contractors to determine their practices and standards meet legislative requirements and contractual obligations. RFM is committed to providing employees with ongoing opportunities for HSE training and development.



Animal welfare

RFF owns properties that are leased to chicken and cattle producers, including those involved in intensive production. RFM has policies and procedures with respect to animal treatment and welfare. The following information is provided about the cattle and chicken growing sectors.

Poultry: The birds produced at RFF's poultry sheds are accredited under the RSPCA's Approved Farming Scheme Standards – Meat Chickens. Ongoing compliance with the Standards is monitored through RSPCA audits, with each farm being audited twice each year, in addition to random audits. Chickens are raised in accordance with RSPCA standards for prescribed stocking densities and with the freedom to express normal behaviours.

Cattle: The lessees of RFF's cattle properties are required to adopt best practice husbandry techniques including "low stress" stock handling methods which assists to maintain animal wellbeing. Fattened animals are generally sold domestically, to either a processor or feedlot. A small proportion of the cattle may not be suited to being finished and therefore may be sold to the live export market.

7.4 Governance

Corporate governance

RFM as RE is responsible for the management of RFF on behalf of its unitholders. The Board takes its corporate governance responsibilities seriously. The Board, which has a majority of independent directors, including an independent Chairman, is comprised of four directors with the experience and skills necessary to oversee the corporate governance requirements of the RE. The Board works together, and its collective ability facilitates effective decision making to lead a viable, profitable and efficient business. Board member performance is reviewed annually. RFM provides Directors with the opportunity for ongoing training as required to enable them to effectively meet their responsibilities.

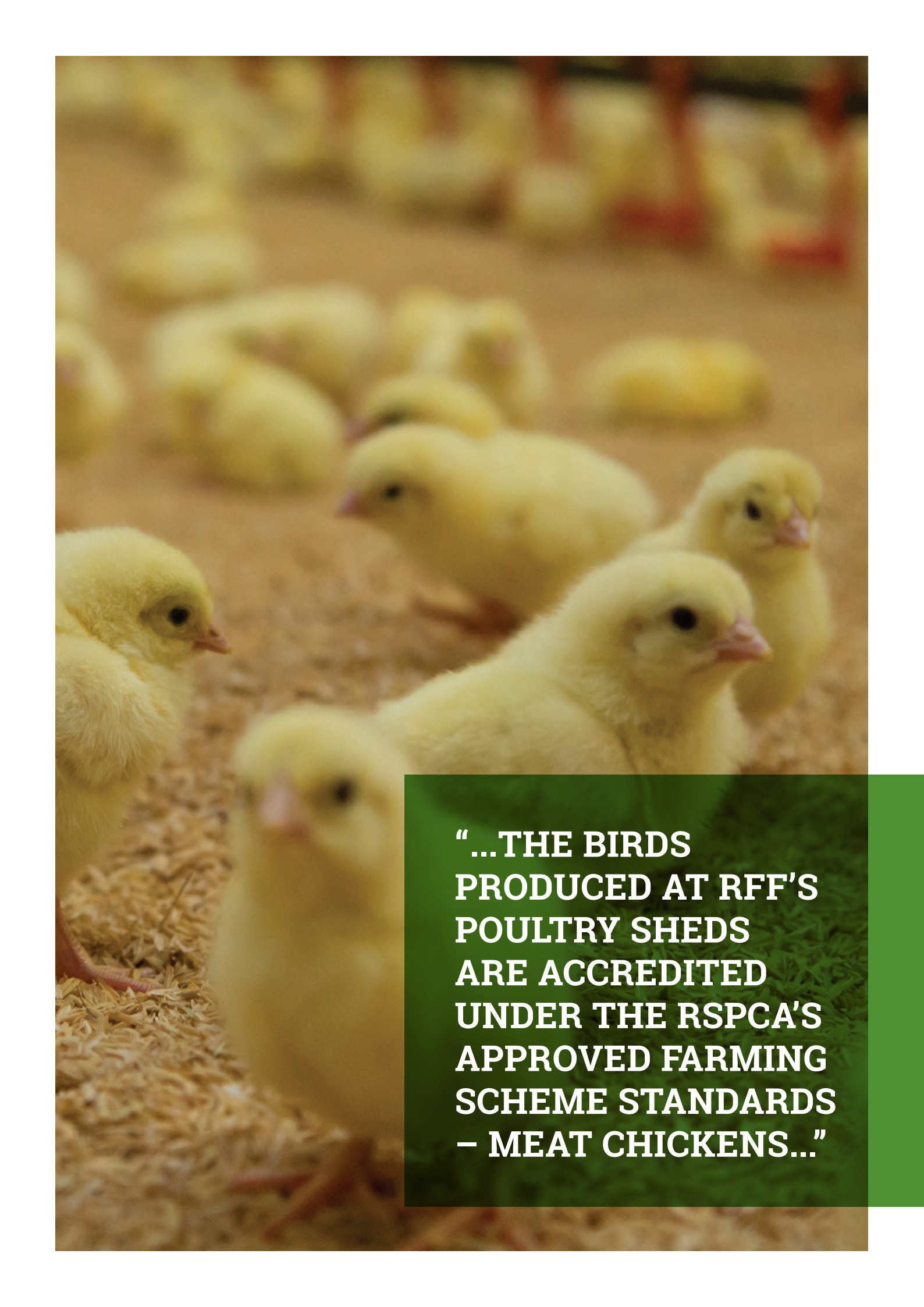
In addition, RFM has established an internal compliance committee (ICC) that reports to the Board monthly. The ICC monitors and reports on compliance with RFM's AFSL and compliance program to ensure that it is effective in meeting RFM's compliance requirements. The ICC also provides a supporting role to the Compliance Officer. The ICC is structured to include representatives from different business units to ensure compliance monitoring and review are well embedded across RFM.

Conflicts of interest and related party transactions

RFM manages a number of entities, including in its role as RE for six funds. Where related party transactions occur between RFF and another RFM managed entity, they are subject to the RFM Conflict of Interest Management Policy. RFM's responsibilities and contractual obligations are set out in the Fund's Constitution, the Corporations Act, the ASX Listing Rules and in the RE's AFSL. As RE, RFM must always act in the best interests of the unitholders, and if there is a conflict between the unitholders' interests and its own interests, it must give priority to the unitholders' interests. RFM has also established protocols, including appointing separate personnel to act for each entity with separate external advisers. To monitor compliance with these obligations, the RFM Board receives a monthly report from the RFM Compliance Officer, who reports on RE compliance, conflicts of interests and related party transactions.

Ethical conduct

RFM seeks to act ethically while doing business and this underpins its approach with all transactions. RFM employees are obligated to conduct themselves in accordance with the standards set out in the RFM Code of Conduct, the Corporate Governance Charter and other related policy documents. Our employees conduct themselves with integrity, in compliance with legislative requirements and with internal policies and procedures. Employee performance is monitored by management through a combination of ongoing informal reviews and formal annual reviews. RFM's recruitment process includes reference checking of all potential employees, as well as national police checks and bankruptcy checks for sensitive roles. RFM's anti-money laundering and counter-terrorism financing program policy aims to identify, mitigate and manage the risk that the Company or its Officers may unwittingly facilitate money laundering or financing of terrorism. The RE manages the above risks in accordance with its Risk Management Policy available on the RE's website.

A photograph of a large group of young yellow chicks in a farm setting. The chicks are on a floor of straw or wood shavings. Some chicks are in sharp focus in the foreground, while others are blurred in the background. A green rectangular overlay is positioned in the bottom right corner, containing white text.

**“...THE BIRDS
PRODUCED AT RFF’S
POULTRY SHEDS
ARE ACCREDITED
UNDER THE RSPCA’S
APPROVED FARMING
SCHEME STANDARDS
– MEAT CHICKENS...”**

ASX ADDITIONAL INFORMATION

Additional information required by the ASX Listing Rules and not disclosed elsewhere in this report is set out below. This information is effective as at 14 September 2018.

(a) Distribution of Equity Securities

HOLDING SIZE	UNITHOLDERS	CLASS
1 – 1,000	2,192	Ordinary fully stapled securities
1,001 – 5,000	4,245	Ordinary fully stapled securities
5,001 – 10,000	2,129	Ordinary fully stapled securities
10,001 – 100,000	3,428	Ordinary fully stapled securities
100,001 and over	205	Ordinary fully stapled securities

(b) Substantial unitholders

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

UNITHOLDER	NUMBER OF UNITS	%
The Vanguard Group, Inc ¹	22,238,563	8.699

(c) Holders of less than marketable parcels

The number of holders of less than marketable parcels, being \$500 based on the ASX unit closing price of \$2.19 as at 14 September 2018, is set out below:

NUMBER OF UNITHOLDERS	NUMBER OF UNITS
262	12,169

(d) Voting rights

The voting rights attaching to the ordinary units, set out in Section 253C of the Corporations Act 2001, are:

- i. on a show of hands, each member of a registered scheme has 1 vote; and
- ii. on a poll, each member of the scheme has 1 vote for each dollar of the value of the total interests they have in the scheme.

1. 'Notice of change of interests of substantial holder' disclosed to the ASX 19 July 2018.

(e) Twenty largest unitholders at 14 September 2018

UNITHOLDER	NUMBER OF UNITS	%
J P Morgan Nominees Australia Limited	53,739,205	16.152
HSBC Custody Nominees (Australia) Limited	44,577,570	13.398
Netwealth Investments Limited <Wrap Services A/C>	14,542,743	4.371
Argo Investments Limited	12,494,364	3.755
Rural Funds Management Limited	11,843,659	3.560
Citicorp Nominees Pty Limited	11,807,171	3.549
National Nominees Limited	8,543,325	2.568
Netwealth Investments Limited <Super Services A/C>	3,661,911	1.101
Bryant Family Services Pty Limited <BFS Super Fund A/C>	2,555,941	0.768
One Managed Investment Funds Limited <Folkestone Maxim A-Reit Securities A/C>	2,000,000	0.601
Neweconomy Com Au Nominees Pty Limited <900 Account>	19,481,285	0.596
SCCASP Holdings Pty Ltd <H & R Super Fund A/C>	1,663,073	0.500
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	1,229,092	0.369
Boskenna Pty Limited	1,059,104	0.318
Bond Street Custodians Limited <Shawk1 – V04785 A/C>	781,363	0.235
WF Super Pty Limited <Wilson Family S/F A/C>	770,335	0.232
Noeljen Pty Limited <N & J Peters Family A/C>	711,902	0.214
BNP Paribas Nominees Pty Limited	684,427	0.206
BNP Paribas Nominees Pty Limited <LB AU Noms Retailclient DRP>	629,614	0.189
Bond Street Custodians Limited <Shawk1 – V04790 A/C>	625,454	0.188

(f) On-market buy-back

As at 14 September 2018, RFF confirms there is no on-market buy-back facility in operation.

(g) Material lease details subsequent to listing rule 10.1 waiver

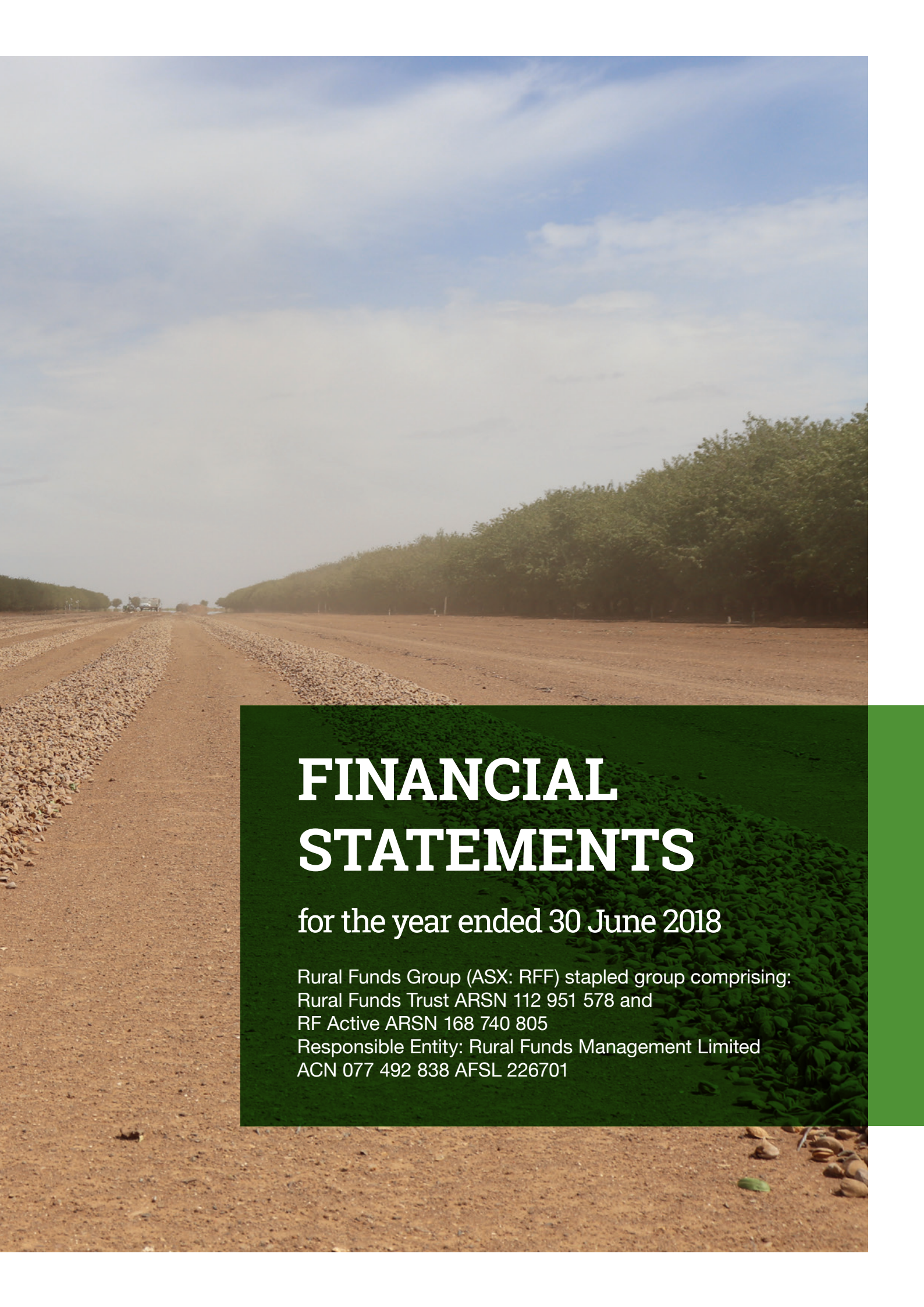
LESSEES:	AETL AS CUSTODIAN AND RFM AS RESPONSIBLE ENTITY RFM ALMOND FUND 2006	AETL AS CUSTODIAN AND RFM AS RESPONSIBLE ENTITY FOR RFM ALMOND FUNDS 2007 & 2008	AETL AS CUSTODIAN AND RFM AS RESPONSIBLE ENTITY FOR RFM POULTRY
Area:	272 hectares of almond orchards	279 hectares of almond orchards	303,216 sq metres of poultry sheds
Property and location:	Mooral, Hillston NSW	Mooral, Hillston, NSW	13 farms (134 sheds) Griffith, NSW, and 4 farms (20 sheds) Lethbridge, VIC.
Expiry:	30-Jun-26	2-Jul-28	Weighted average lease expiry 15-Jan-23
Capital commitments:	Capex required to meet orchard development requirements and replacement capital items on account of lessor, both subject to additional rental.	Capex required to meet orchard development requirements and replacement capital items on account of lessor, both subject to additional rental.	R&M and ongoing capital expenditure on account of lessee.
Indexation:	2.5% per annum	2.5% per annum	65% of CPI capped at 2%
Payment frequency:	Annually in October	Quarterly in advance	Quarterly in advance

Securities exchange

The Trust is listed on the Australian Securities Exchange. The ASX reserves the right (but without limiting its absolute discretion) to remove Rural Funds Trust (RFT), or RF Active (RFA) from the official list if any of their securities cease to be “stapled” together, or any securities are issued by RFA which are not stapled to equivalent securities in RFT, or any securities are issued by RFT which are not stapled to equivalent securities in RFA.







FINANCIAL STATEMENTS

for the year ended 30 June 2018

Rural Funds Group (ASX: RFF) stapled group comprising:
Rural Funds Trust ARSN 112 951 578 and
RF Active ARSN 168 740 805
Responsible Entity: Rural Funds Management Limited
ACN 077 492 838 AFSL 226701

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 (RFG 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
Net profit before income tax	37,112	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)
AFFO	32,323	25,599
AFFO cents per unit	12.7	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
Total book value of water entitlements	119,657	121,469
Revaluation of intangible assets per valuation	49,841	44,543
Adjusted total water entitlements	169,498	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
Adjusted net assets	428,576	402,221
Adjusted NAV per unit	1.68	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

Guy Paynter

Qualifications

Experience

Special responsibilities

Directorships currently held in other listed entities and during the three years prior to the current year

Non-Executive Chairman

Bachelor of Laws from The University of Melbourne

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.

Member of Audit Committee and Remuneration Committee

RFM Poultry

Rural Funds Group

Directors' Report

30 June 2018

Information on Directors of the Responsible Entity (continued)

David Bryant	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
Michael Carroll	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.
Julian Widdup	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	-
Balance at 30 June 2017	814,696	11,678,182	19,389	-
Additions	-	-	933	-
Balance at 30 June 2018	814,696	11,678,182	20,322	-

*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', written over a light grey grid background.

CMC Heraghty
Partner
PricewaterhouseCoopers

Sydney
15 August 2018

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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
Net profit before income tax		37,112	45,167
Income tax expense	D1	(1,080)	(1,841)
Net profit after income tax		36,032	43,326
Other comprehensive income:			
<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
Other comprehensive income/(loss) for the year, net of tax		7,980	(9,088)
Total comprehensive income attributable to unitholders		44,012	34,238
Total net profit after income tax for the year attributable to unitholders arising from:			
Rural Funds Trust		35,309	43,219
RF Active (non-controlling interest)		723	107
		36,032	43,326
Total comprehensive income for the year attributable to unitholders arising from:			
Rural Funds Trust		43,289	34,131
RF Active (non-controlling interest)		723	107
		44,012	34,238
Earnings per unit			
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
ASSETS			
Current assets			
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
Total current assets		9,509	10,246
Non-current assets			
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
Total non-current assets		664,299	532,757
Total assets		673,808	543,003
LIABILITIES			
Current liabilities			
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
Total current liabilities		16,399	14,710
Non-current liabilities			
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
Total non-current liabilities		278,674	170,615
Total liabilities (excluding net assets attributable to unitholders)		295,073	185,325
Net assets attributable to unitholders		378,735	357,678
Total liabilities		673,808	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
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS			
Unitholders of Rural Funds Trust			
Issued units		230,574	252,880
Asset revaluation reserve	F5	35,555	27,575
Retained earnings		108,494	73,860
Parent entity interest		374,623	354,315
Unitholders of RF Active			
Issued units		3,091	3,066
Retained earnings		1,021	297
Non-controlling interest		4,112	3,363
Total net assets attributable to unitholders		378,735	357,678

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.

The accompanying notes form part of these financial statements.

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
Balance at 1 July 2017		252,880	73,860	27,575	354,315	3,363	357,678
Other comprehensive income		-	-	7,980	7,980	-	7,980
Total other comprehensive income		-	-	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)
Total comprehensive income for the year		-	35,309	7,980	43,289	723	44,012
Issued units							
Units issued during the year	E7	2,610	-	-	2,610	26	2,636
Issue costs	E7	(3)	-	-	(3)	-	(3)
Total issued units		2,607	-	-	2,607	26	2,633
Distributions to unitholders	B4	(24,913)	(675)	-	(25,588)	-	(25,588)
Balance at 30 June 2018		230,574	108,494	35,555	374,623	4,112	378,735
2017							
		Issued units	Accumulated profit	Asset revaluation reserve	Total	Non- controlling interest	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2016		134,110	35,218	36,663	205,991	1,873	207,864
Other comprehensive income		-	-	(9,088)	(9,088)	-	(9,088)
Total other comprehensive income		-	-	(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)
Total comprehensive income for the year		-	43,219	(9,088)	34,131	107	34,238
Issued units							
Units issued during the year	E7	140,577	-	-	140,577	1,420	141,997
Issue costs	E7	(5,264)	-	-	(5,264)	(37)	(5,301)
Total issued units		135,313	-	-	135,313	1,383	136,696
Distributions to unitholders	B4	(16,543)	(4,577)	-	(21,120)	-	(21,120)
Balance at 30 June 2017		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
Cash flows from operating activities			
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
Cash flows from investing activities			
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)
Cash flows from financing activities			
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
Cash and cash equivalents at the end of the year		1,210	3,838

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

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

	2018	2017
	\$'000	\$'000
Temporary water sales	1,093	-
Other income	90	72
Total	1,183	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 \$'000	2017 \$'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)	-
Adjusted Funds From Operations (AFFO)	32,323	25,599
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)
Net profit after income tax	36,032	43,326
AFFO cents per unit	12.7	12.5

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
Assets			
Total current assets	9,509	-	9,509
Total non-current assets	664,299	49,841	714,140
Total assets	673,808	49,841	723,649
Liabilities			
Total current liabilities	16,398	-	16,398
Total non-current liabilities	278,675	-	278,675
Total liabilities (excluding net assets attributable to unitholders)	295,073	-	295,073
Net assets attributable to unitholders	378,735	49,841	428,576
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
Per stapled unit		
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
Per unit of Rural Funds Trust		
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
Per unit of RF Active		
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

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B4 Distributions

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

	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

Rural Funds Group

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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

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

Rental income and fair value movements from RFF property assets

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

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

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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

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C2 Investment property

2018	Almond property	Poultry property	Vineyard property	Macadamia property	Cotton property	Cattle property	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening net book amount	95,605	83,011	25,435	2,015	24,157	43,560	273,783
Acquisitions	-	-	-	-	-	53,156	53,156
Additions	17,257	-	-	320	2,440	3,297	23,314
Amortisation of lease incentives	-	-	-	-	-	(133)	(133)
Fair value adjustment	5,352	(5,855)	-	2,350	534	5,017	7,398
Closing net book amount	118,214	77,156	25,435	4,685	27,131	104,897	357,518

2017	Almond property	Poultry property	Vineyard property	Macadamia property	Cotton property	Cattle property	Total
Opening net book amount	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
Closing net book amount	95,605	83,011	25,435	2,015	24,157	43,560	273,783

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.

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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
Closing net book amount	129,330	7,011	20,898	157,239

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)
Closing net book amount	95,285	6,119	19,789	121,193

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	-
Total	36,910	23,684

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.

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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.

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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 (%) Capitalisation rate (%)	8.00 - 9.00 8.61 - 14.24	8.75 8.50	The higher the discount and capitalisation rate, the lower the fair value.
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 (%) \$ per adult equivalent carrying capacity	9.00 \$650 - \$4,550	9.00 \$650 - \$4250	The higher the discount rate, the lower the fair value. 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.
Total	514,757	394,976				

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

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

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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
Opening net book amount	-	5,127	5,127
Additions	-	1,324	1,324
Disposals	-	(19)	(19)
Depreciation and impairment	-	(952)	(952)
Closing net book amount	-	5,480	5,480
Cost	-	8,258	8,258
Accumulated depreciation and amortisation	-	(2,778)	(2,778)
Net book amount		5,480	5,480

2017	Capital works in progress	Plant and equipment	Total
	\$'000	\$'000	\$'000
Opening net book amount	379	3,799	4,178
Additions	-	1,788	1,788
Disposals	-	(27)	(27)
Depreciation and impairment	-	(812)	(812)
Transfers	(379)	379	-
Closing net book amount	-	5,127	5,127
Cost		6,971	6,971
Accumulated depreciation and amortisation		(1,844)	(1,844)
Net book amount		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

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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:

	2018	2017
	\$'000	\$'000
Bearer plants	13,718	26,265
Investment property	15,250	42,024
Intangible assets	-	16,032
Total	28,968	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.

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

Income tax expense is attributable to:		
Profit from continuing operations	1,080	1,841
Total	1,080	1,841

Deferred income tax expense included in income tax expense comprises:		
Decrease in deferred tax assets	-	1,120
Increase in deferred tax liabilities	803	721
Total	803	1,841

Amounts charged or credited directly to equity		
	2018 \$'000	2017 \$'000
Capitalised issue costs	-	(16)
Change in fair value taken through asset revaluation reserve	-	(101)
Total	-	(117)

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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)
Total	1,080	1,841

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
Deferred tax liabilities		
Bearer plants	4,127	4,103
Plant & equipment	1,960	1,936
Fair value investment property	1,519	1,519
Gross deferred tax liabilities	7,606	7,558
Set off of deferred tax assets	(6,200)	(6,955)
Net deferred tax liabilities	1,406	603

Deferred tax assets		
Investments	227	227
Legal costs	-	36
Other	34	53
Unused income tax losses	5,940	6,639
Gross deferred tax assets	6,200	6,955
Set off of deferred tax liabilities	(6,200)	(6,955)
Net deferred tax assets	-	-

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
Closing balance	(277)	-	(1,406)	(603)
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)

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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

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

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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
Total	357,518	106,926	157,239	37,136	5,480	664,299

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
Total	273,783	108,738	121,193	23,916	5,127	532,757

E2 Financial assets – other (non-property related)

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

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	2017
	\$'000	\$'000
Non-current		
Interest rate swaps	5,834	3,878
Total other liabilities	5,834	3,878

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

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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
Maturity of notional amounts				
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
			108,000	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
Maturity of notional amounts				
Settlement - greater than 5 years	3.11	3.04	110,000	100,000
Total			110,000	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)
Total	(268,590)	(160,662)

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:

	2018	2017
	\$'000	\$'000
Change in profit before income tax:		
Increase in interest rate by 1%	11,327	10,395
Decrease in interest rate by 1%	(12,585)	(11,525)
Change in equity:		
Increase in interest rate by 1%	11,327	10,395
Decrease in interest rate by 1%	(12,585)	(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
Financial assets												
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
Total	7,425	9,048	834	601	3,775	2,413	3,775	2,413	41,493	28,307	57,302	42,782
Financial liabilities												
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
Total	10,865	7,870	4,744	2,695	288,265	175,749	1,164	1,168	5,492	2,861	310,530	190,343

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

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 \$'000	2017 \$'000
Prepayments	352	401
Deposits	2,566	1,399
Total	2,918	1,800

F3 Trade and other payables

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

F4 Other non-current liabilities

	2018 \$'000	2017 \$'000
Lessee deposits	1,634	1,634
Total	1,634	1,634

F5 Asset revaluation reserve

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

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:

	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	-
Balance at 30 June 2017	814,696	11,678,182	19,389	-
Additions	-	-	933	-
Balance at 30 June 2018	814,696	11,678,182	20,322	-

*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:

	2018	2017
	\$'000	\$'000
Management fee	2,664	1,883
Asset management fee	3,599	2,510
Total management fees	6,263	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
Total amount paid to RFM and related entities	10,555	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
Total amounts received from RFM and related entities	24,106	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)

	2018 \$'000	2017 \$'000
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
Total	15,566	12,630

Creditors

	2018 \$'000	2017 \$'000
RFM	150	472
Total	150	472

Custodian fees

	2018 \$'000	2017 \$'000
Australian Executor Trustees Limited	215	104
Total	215	104

Entities with influence over the Group

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

Interest in related parties

	2018 Units	%	2017 Units	%
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:

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

G4 Reconciliation of profit to operating cashflow

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

	2018 \$'000	2017 \$'000
Net profit after income tax	36,032	43,326
Adjustments for:		
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)	-
Changes in operating assets and liabilities		
(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
Net cash inflow from operating activities	30,972	26,914

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
Total	232,847	257,007

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

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.

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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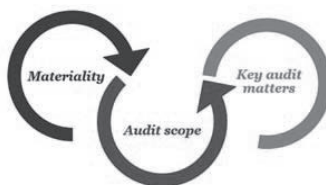
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Our audit approach

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.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties (Refer to note C1, C2) \$357.5m Investment properties are carried at fair value. 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. 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. This was a key audit matter because of the: • size of the investment property balance in the consolidated statement of financial position • quantum of revaluation gains that could directly impact the consolidated statement of comprehensive income through the net fair value gain/loss of investment properties • inherently subjective nature of investment property valuations due to the use of assumptions and estimates in the valuation model • sensitivity of valuations to key inputs/assumptions in the model such as the discount rate and capitalisation rates.	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. 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. Where an external valuation of investment properties was obtained: • We assessed the competency, qualifications, experience and objectivity of any external valuers used by the Group. • 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. • 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.

Key audit matter	How our audit addressed the key audit matter
Valuation of bearer plants (Refer to note C3) \$157.2m 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. 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. This was a key audit matter because of the: • size of the bearer plants on the consolidated statement of financial position • quantum of revaluation gains that could directly impact the consolidated statement of comprehensive income through the net fair value gain/loss of bearer plants • 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.	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. 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. In respect of the fair value of water entitlements, we • agreed the volume of water to water entitlements certificates • agreed the water rate to market rates as quoted by the external valuers engaged to value the agricultural assets. We evaluated the directors' estimation of the fair value of land and infrastructure by, for example, considering comparable sales transactions. We considered whether the methodology used to determine the value of bearer plants was in line with the requirements of Australian Accounting Standards.
Related party transactions (Refer to note G2) 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: • Lease of investment properties, land, building and plant and equipment • Lease of bearer plants • Lease of cattle for breeding • Lease of water entitlements. • Management fees • Asset management fees	• We obtained an understanding of the Group's processes for identifying related parties and related party transactions, through discussions with management. • 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.

Key audit matter	How our audit addressed the key audit matter
- Distributions from investments - Recharge of operating expenses 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 transaction 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.	- 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. - 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. - We discussed the related party transactions with management to obtain an understanding of the business rationale for the transactions. - 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. - 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.

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.

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.

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. This description forms part of our auditor's report.

PricewaterhouseCoopers

CMC Heraghty
Partner

Sydney
15 August 2018





ruralfunds.com.au

