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Rural Funds Group (RFF)

Financial Statements

For the Half Year Ended 31 December 2014

Rural Funds Group

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For the Half Year Ended 31 December 2014

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Rural Funds Group

Corporate Directory

Registered Office

Level 2, 2 King Street
DEAKIN ACT 2600

Responsible Entity

Rural Funds Management Limited
ABN 65 077 492 838
Level 2, 2 King Street
DEAKIN ACT 2600
Telephone: 02 6203 9700
Fax: 02 6281 5077

Directors

Guy Paynter
David Bryant
Michael Carroll

Company Secretaries

Andrea Lemmon
Stuart Waight

Custodian

Australian Executor Trustees Limited
ABN 84 007 869 794
Level 22
207 Kent Street
SYDNEY NSW 2000

Auditors

PricewaterhouseCoopers
Darling Park
201 Sussex Street
SYDNEY NSW 2000

Share Registry

Boardroom Pty Limited
Level 7
207 Kent Street
SYDNEY NSW 2000

Bankers

Australia and New Zealand Banking Group Limited (ANZ)
242 Pitt Street
SYDNEY NSW 2000

Stock Exchange Listing

Rural Funds Group (Rural Funds Trust and RF Active form a stapled investment vehicle) listed on the Australian Securities Exchange (ASX)

ASX Code

RFF

Rural Funds Group

Directors of the Responsible Entity's Report

31 December 2014

Rural Funds Group (the "Group" or "RFF") comprises the stapled units in two Trusts, Rural Funds Trust (formerly Rural Funds Group) (ARSN 112 951 578) and RF Active (ARSN 168 740 805) (collectively the "Trusts"). The Responsible Entity for the Trusts is Rural Funds Management Limited (ACN 077 492 838, AFSL 226701) ("RFM"), which present the Group's Consolidated Interim Financial Report for the half year ended 31 December 2014.

In accordance with Accounting Standard 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 of the Responsible Entity's 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 names of the Directors in office at any time during, or since the end of the half year are:

Name	Position
Guy Paynter	Non-executive Chairman
David Bryant	Managing Director
Michael Carroll	Non-executive Director

Directors have been in office since the start of the half year to the date of this report unless otherwise stated.

Review and results of operations

Principal activities and significant changes in nature of activities

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

On 16 October 2014 a distribution of 1 cent per unit was made to Unitholders of Rural Funds Group. The funds were compulsorily applied to subscribe for units in RF Active on the basis of one unit in RF Active for each unit held in Rural Funds Group. Each unit in Rural Funds Group was stapled to a unit in RF Active and Rural Funds Group was renamed Rural Funds Trust and the stapled entity named Rural Funds Group.

On 31 October 2014 the Group acquired Tocabil Station near Hillston in central NSW. The Tocabil property, which includes land and water rights was leased to RFM Farming Pty Limited (a subsidiary of RFM) that operates the land as a cropping farm. The land is also ideally suited to developing an almond orchard.

Operating results

The consolidated profit before income tax of the Group for the half year ended 31 December 2014 amounted to \$3,903,000 (31 December 2013: loss of \$2,474,000).

Rural Funds Group

Directors of the Responsible Entity's Report 31 December 2014

Review and results of operations (continued)

Operating results (continued)

The Group holds investment property, biological assets and derivatives at fair value. After adjusting for the effects of the fair value adjustments and depreciation during the half year (and the merger transaction for the half year ended 31 December 2013), the profit before tax would have been \$4,997,000 (31 December 2013: \$1,499,000).

The results of the Group for the prior period included 6 months of Rural Funds Trust results and 13 days of results of RFM Chicken Income Fund and RFM Australian Wine Fund (subsidiaries of Rural Funds Trust).

Adjusted funds from operations (AFFO):

	31 December 2014 000's \$	31 December 2013 000's \$
Profit/(Loss) before income tax	3,903	(2,474)
Adjusted for merger transaction:		
Impairment of goodwill	-	2,800
Consolidated merger related costs	-	2,286
Discount on acquisition	-	(1,231)
Profit before income tax adjusted for merger transactions	3,903	1,381
Change in fair value of investment property	1,345	209
Change in fair value of biological assets	(1,364)	230
Change in fair value of derivatives	960	(410)
Depreciation (and impairments)	153	89
AFFO	4,997	1,499

The AFFO having eliminated fair value adjustments (and the merger transaction for the half year ended 31 December 2013), effectively represents funds from operations from the property rental business.

At 31 December 2014, the Group had total assets of \$247,432,000 (30 June 2014: \$241,233,000). the Group's investment properties were fully leased at 31 December 2014.

Property leasing

At 31 December 2014, the Group held 27 properties as follows:

- 17 poultry farms (303,216 square metres);
- 2 almond orchards (1,814 planted hectares);
- 7 vineyards (666 planted hectares);
- Tocabil Station (6,900 hectares).

During the half year ended 31 December 2014, the properties held by the Group recorded a fair value of investment properties decrement of \$1,345,000 (31 December 2013: \$209,000 decrement), and a change in fair value of biological assets increment of \$1,364,000 (31 December 2013: \$230,000 decrement).

Rural Funds Group

Directors of the Responsible Entity's Report

31 December 2014

Review and results of operations (continued)

Operating results (continued)

Almond orchards

Almond orchards and water licences held by the Group are leased to tenants who make regular rental payments. The assets are located near Hillston in NSW and include 1,814 hectares (31 December 2013: 1,814) of developed almond orchards and associated water rights on two properties, Moorral and Yilgah, this is unchanged from the previous half year. The full almond area is under lease to the following tenants: Select Harvests Limited (SHV) 1,221 hectares (31 December 2013: 1,221); RFM Almond Fund 2006 (AF06) 272 hectares (31 December 2013: 272); RFM Almond Fund 2007 (AF07) 73 hectares (31 December 2013: 73); RFM Almond Fund 2008 (AF08) 206 hectares (31 December 2013: 206) and RFM 42 hectares (31 December 2013: 42).

The Group owns 30,338ML of permanent ground water licence entitlements (31 December 2013: 27,551ML). Of this, 12,120ML is leased with Moorral, 15,090ML with Yilgah, and 3,128ML currently unleased. In addition, a total of 6,181ML of supplementary ground water licence entitlements is owned by the Group. A deposit for a further 300ML of permanent ground water licence was paid during the half year.

Poultry property

The poultry property and infrastructure held by the Group includes 17 poultry growing farms located in Griffith, New South Wales and Lethbridge, Victoria. These farms were operated as full poultry growing businesses until 19 December 2013. On this date the poultry growing operations were transferred to RFM Poultry, a scheme managed by RFM, who took leases over the poultry property and infrastructure of between 10 and 22 years. As a result, 100% of the poultry infrastructure has been leased since 19 December 2013.

Vineyards

The vineyard properties held by the Group include 7 vineyards with 6 located in South Australia in the Barossa Valley, Adelaide Hills and Coonawarra and one located in the Grampians in Victoria. All vineyards produce premium quality grapes and are leased to Treasury Wine Estates Limited until June 2022.

Other activities

The Group owns a 35.07% stake in RFM StockBank (30 June 2014: 38.80%), a scheme managed by RFM, which operates a livestock leasing business. Under the livestock leasing operation, RFM StockBank retains the ownership of the livestock and leases them to property owners in return for a placement fee which is similar to interest, and an upfront fee from the livestock agent.

\$3,229,000 of agricultural plant and equipment is owned by RF Active and leased to RFM Almond Fund 2006, RFM Almond Fund 2007 and RFM Almond Fund 2008.

The Group owns four properties at Hillston, NSW comprising Yilgah (6,400 hectares), Tocabil (6,900 hectares), Moorral (3,841 hectares) and Collaroy (1,998 hectares). As described above, 1,814 hectares (31 December 2013: 1,814) are applied to almond growing, 1,006 hectares (31 December 2013: 1,006) at Yilgah and 808 hectares (31 December 2013: 808) at Moorral. These properties also include grazing and cropping land and 320 hectares of olive orchard. Grazing and cropping areas on Yilgah, Collaroy and Tocabil that are not used for almonds were licensed to RFM Farming Pty Limited (a subsidiary of RFM) for the half year ended 31 December 2014. Water derived from water licences not leased is typically sold on a temporary basis.

Rural Funds Group

Directors of the Responsible Entity's Report 31 December 2014

Review and results of operations (continued)

Banking facilities

RFF's core debt facility was increased from \$97,500,000 to \$103,000,000 in order to facilitate the acquisition of the Tocabil property. The facility expiry is unchanged (being December 2018), and RFF has hedged 73% of the facility to manage interest rate risk (30 June 2014: 77%).

Distributions

Distributions paid or declared for payment are as follows:

Distribution of 2.1296 cents per unit paid on 16 July 2014	\$2,493,744
Distribution of 2.1475 cents per unit paid on 13 October 2014	\$2,518,731
Distribution of 1.000 cents per unit paid on 15 October 2014 to subscribe for units in RF Active	\$1,174,585
Distribution of 2.1475 cents per unit declared on 1 December 2014 paid on 15 January 2015	\$2,522,422

Financial position

The net assets of the consolidated group at 31 December 2014 are \$136,686,000 (30 June 2014: \$137,471,000).

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 operational costs such as brokerage. Management costs are not paid directly by the unitholders of the Trust.

The ICR for the Group for the half year ended 31 December 2014 is 2.07% (31 December 2013: 3.41%). The ICR in the half year ended 31 December 2013 was impacted by costs related to the merger.

Rural Funds Group

Directors of the Responsible Entity's Report 31 December 2014

Review and results of operations (continued)

Units on issue

117,458,512 units in Rural Funds Trust were on issue at 31 December 2014 (31 December 2013: 116,901,822). During the half year 359,353 (31 December 2013: 84,168,701) units were issued by the Trust and nil (31 December 2013: nil) were redeemed.

117,458,512 units in RF Active were on issue at 31 December 2014.

Regulatory compliance

RFM holds an Australian Financial Services Licence and is required to meet financial requirements as determined by ASIC. During the half year, RFM complied with the obligations relevant to its status as a Responsible Entity.

Events after reporting date

No other matters or circumstances have arisen since the end of the financial period which 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.

Environmental regulation and performance

The operations of the Group are subject to significant environmental regulation under the laws of the Commonwealth and states 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.

Indemnification of Responsible Entity and Custodian

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

The Trusts have not otherwise, during or since the half year, indemnified or agreed to indemnify an officer of RFF or of any related body corporate against a liability incurred as such by an officer.

Rounding of amounts

The Group is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars.

Rural Funds Group

Directors of the Responsible Entity's Report 31 December 2014

Auditor's Independence Declaration

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001* for the half year ended 31 December 2014 has been received and can be found on page 8 of the financial report.

The Directors of the Responsible Entity's Report is signed in accordance with a resolution of the Board of Directors of the Responsible Entity.



David Bryant

Director

23 February 2015

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Auditor's Independence Declaration

As lead auditor for the review of Rural Funds Group for the half-year ended 31 December 2014, I declare that to the best of my knowledge and belief, there have been:

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

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

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

CMC Heraghty
Partner
PricewaterhouseCoopers

Sydney
23 February 2015

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Rural Funds Group

Consolidated Statement of Comprehensive Income For the Half Year Ended 31 December 2014

		31 December 2014	(Revised) 31 December 2013
		000's	000's
	Note	\$	\$
Revenue	5	10,686	5,467
Other income		139	98
Cost of goods sold		-	(606)
Management fees		(1,227)	(677)
Professional fees		(1,136)	(561)
Repairs and maintenance		(258)	(80)
Finance costs		(2,632)	(1,788)
Other expenses		(610)	(1,155)
Depreciation and impairments		(153)	(89)
Share of net profit - equity accounted investments		38	-
Profit/(loss) on sale of assets		(3)	70
Change in fair value of biological assets		1,364	(230)
Change in fair value of investment property		(1,345)	(209)
Change in fair value of interest rate swaps		(960)	410
Stamp duty and listing costs		-	(1,555)
Impairment of goodwill		-	(2,800)
Discount on acquisition		-	1,231
Profit/(loss) before income tax		3,903	(2,474)
Income tax benefit/(expense)		1	(1,506)
Net profit/(loss) after income tax		3,904	(3,980)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Revaluation decrement		-	(35)
Income tax relating to these items		-	5
Other comprehensive income/(loss) for the period, net of tax		-	(30)
Total comprehensive income/(loss) attributable to unitholders		3,904	(4,010)
Total comprehensive income/(loss) for the half year attributable to unitholders arising from:			
Rural Funds Trust		3,884	(4,010)
RF Active (non controlling interest)		20	-
		3,904	(4,010)

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Comprehensive Income For the Half Year Ended 31 December 2014

	31 December 2014 \$	(Revised) 31 December 2013 \$
Earnings per unit		
Basic and diluted earnings per unit from continuing operations:		
Per stapled unit (cents per unit)	3.33	(10.41)
Per unit of Rural Funds Trust (cents per unit)	3.31	(10.41)
Per unit of RF Active (cents per unit)	0.02	-

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Financial Position

As at 31 December 2014

	31 December 2014	30 June 2014
	000's \$	000's \$
Note		
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	800	2,723
Trade and other receivables	2,254	3,347
Financial assets	-	676
Current tax receivable	106	126
Prepayments	127	-
Current assets classified as held for sale	-	3,952
Other current assets	-	109
TOTAL CURRENT ASSETS	3,287	10,933
NON-CURRENT ASSETS		
Plant and equipment	3,229	-
Investment property	7 141,851	138,108
Intangible assets	25,959	23,590
Biological assets	7 67,006	65,506
Investments accounted for using the equity method	3,894	-
Financial assets	610	1,520
Deferred tax assets	1,596	1,576
TOTAL NON-CURRENT ASSETS	244,145	230,300
TOTAL ASSETS	247,432	241,233
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	2,550	4,062
Interest bearing liabilities	751	-
Distributions payable	2,606	2,533
TOTAL CURRENT LIABILITIES	5,907	6,595
NON-CURRENT LIABILITIES		
Interest bearing liabilities	101,012	94,300
Other non-current liabilities	1,553	1,553
Derivative financial liabilities	2,274	1,314
TOTAL NON-CURRENT LIABILITIES	104,839	97,167
TOTAL LIABILITIES (excluding net assets attributable to unitholders)	110,746	103,762
Net assets attributable to unitholders	136,686	137,471
TOTAL LIABILITIES	247,432	241,233

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Financial Position As at 31 December 2014

	31 December 2014 000's \$	30 June 2014 000's \$
Note		
Net assets attributable to unitholders		
Unitholders of Rural Funds Trust		
Contributed equity	102,417	108,281
Reserves	1,398	1,398
Accumulated profit/(loss)	31,676	27,792
Parent entity interest	135,491	137,471
Unitholders of RF Active		
Contributed equity	1,175	-
Reserves	-	-
Accumulated profit/(loss)	20	-
Non-controlling interest	1,195	-
Unitholders of Rural Funds Trust	135,491	137,471
Unitholders of RF Active	1,195	-
Total net assets attributable to unitholders	136,686	137,471

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Changes in Net Assets Attributable to Unitholders As at 31 December 2014

31 December 2014

	Issued Units 000's \$	Asset Revaluation Reserve 000's \$	Retained Earnings / (Accumulated Losses) 000's \$	Total 000's \$
Balance at 1 July 2014	108,281	1,398	27,792	137,471
Other comprehensive income	-	-	-	-
Income tax relating to other comprehensive income	-	-	-	-
Total income and expense for the period recognised directly in equity	-	-	-	-
Profit/(loss) before income tax	-	-	3,903	3,903
Income tax applicable	-	-	1	1
Total income and expense for the period	-	-	3,904	3,904
Equity transactions				
Units issued during the period	352	-	-	352
Total equity transactions	352	-	3,904	4,256
Distribution to unitholders	(6,216)	-	-	(6,216)
Compulsory subscription of units	1,175	-	-	1,175
Balance at 31 December 2014	103,592	1,398	31,696	136,686

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Changes in Net Assets Attributable to Unitholders As at 31 December 2014

31 December 2013

	Issued Units 000's \$	Asset Revaluation Reserve 000's \$	Retained Earnings / (Accumulated Losses) 000's \$	Total 000's \$
Balance at 1 July 2013	37,715	1,205	8,644	47,564
Other comprehensive income	-	(35)	-	(35)
Income tax relating to other comprehensive income	-	5	-	5
Total income and expense for the period recognised directly in equity	-	(30)	-	(30)
Profit/(loss) before income tax	-	-	(2,474)	(2,474)
Income tax applicable	-	-	(1,506)	(1,506)
Total income and expense for the period	-	-	(3,980)	(3,980)
Equity transactions				
Units issued during the period	77,825	-	-	77,825
Total equity transactions	77,825	(30)	(3,980)	73,815
Distribution to unitholders	(3,413)	-	-	(3,413)
Balance at 31 December 2013	112,127	1,175	4,664	117,966

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Cash Flows For the Half Year Ended 31 December 2014

	31 December 2014 000's \$	31 December 2013 000's \$
CASH FROM OPERATING ACTIVITIES:		
Receipts from customers	12,972	8,591
Payments to suppliers	(5,852)	(4,669)
Interest received	30	30
Finance costs	(2,621)	(1,624)
Income tax paid	-	(5)
Net cash provided by/(used in) operating activities	4,529	2,323
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash acquired as a result of the Stapling transaction	591	-
Cash acquired from acquisition of subsidiaries	-	5,130
Payments for acquisition of investment property	(5,088)	(1,666)
Payments for acquisition of plant and equipment	(169)	(250)
Payments for acquisition of intangible assets	(2,369)	2,266
Payments for biological assets	(137)	-
Distributions received	113	-
Proceeds from sale of plant and equipment	-	111
Net cash provided by/(used in) investing activities	(7,059)	5,591
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issue of units	353	21
Proceeds from borrowings	4,810	95,570
Proceeds from borrowings - related parties	1,587	-
Repayment of borrowings	-	(91,996)
Loans from related parties	-	476
Distributions paid	(6,143)	(922)
Repayment of derivatives	-	(4,627)
Net cash provided by/(used in) financing activities	607	(1,478)
Net increase/(decrease) in cash and cash equivalents held	(1,923)	6,436
Cash and cash equivalents at beginning of period	2,723	182
Cash and cash equivalents at end of period	800	6,618

The accompanying notes form part of these financial statements.

Rural Funds Group

Notes to the Financial Statements For the Half Year Ended 31 December 2014

1 Summary of Significant Accounting Policies

(a) The Group

The Rural Funds Group (the "Group") was formed on 16 October 2014 by the stapling of the units in two Australian registered schemes, Rural Funds Trust (the "Parent") and RF Active (collectively defined as the "Trusts").

The accounting policies that have been adopted in respect of the Financial Report are those of Rural Funds Management Limited ("RFM") as Responsible Entity for the Trusts.

The Trusts have common business objectives and operate as an economic entity collectively known as Rural Funds Group. The accounting policies included in this note apply to the Group as well as the Trusts, unless otherwise noted.

The Directors of the Responsible Entity have authorised the Financial Report for issue on 23 February 2015 and have the power to amend and reissue the Financial Report.

(b) Basis of preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

This general purpose consolidated financial report for the half year ended 31 December 2014 has been prepared in accordance with AASB 134: Interim Financial Reporting and the *Corporations Act 2001*.

The half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the full financial report.

It is recommended that the half yearly financial report be read in conjunction with the annual financial report for the year ended 30 June 2014 and any public announcements made by the Group during the half year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

Rural Funds Group

Notes to the Financial Statements For the Half Year Ended 31 December 2014

1 Summary of Significant Accounting Policies (continued)

(b) Basis of preparation (continued)

As permitted by Class Order 05/642, issued by the Australian Securities and Investments Commission, these Financial Statements are consolidated financial statements and accompanying notes of both Rural Funds Trust and RF Active.

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

The accounting policies adopted are consistent with those of Rural Funds Group for the previous financial year and corresponding interim reporting period unless otherwise stated. A revision has been made to the prior period results from an update to the discount on acquisition recorded as part of the merger transaction recorded in the period ended 31 December 2013. This has been made due to a provisional amount being used in the 31 December 2013 reporting period which has since been updated in line with AASB 3: Business Combinations.

(c) Principles of consolidation

(i) *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.

(ii) *Associates*

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

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

Rural Funds Group

Notes to the Financial Statements

For the Half Year Ended 31 December 2014

2 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 and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates 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.

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

Valuations

Independent property valuations were obtained for almond orchard and associated properties, and poultry property and infrastructure from independent valuer, CBRE Valuations Pty Limited in June 2014. Independent property valuations were obtained for vineyard properties from independent valuer, Colliers International Consultancy and Valuation Pty Limited in June 2014.

Directors' valuations have been performed for the 31 December 2014 financial statements which have been based off the 30 June 2014 valuations methodology and applying Directors' assumptions. A value-in-use approach has been applied to value assets.

Almond orchard and associated properties, poultry property and infrastructure, cotton property and vineyard properties are valued at fair value. Increments and decrements recognised in the accounts are based on the valuation. The model uses judgement in calculating the values and allocating the values over investment property, biological assets and water rights.

Recognition of deferred tax assets

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

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

Valuation of Barossa Infrastructure Limited (BIL) shares

The shares in BIL have been valued using the number of megalitres of water that the Group is entitled to under the BIL scheme as supported by an external valuation on an 'in use' basis. This basis has been used due to a lack of evidence of trading in BIL shares.

Rural Funds Group

Notes to the Financial Statements For the Half Year Ended 31 December 2014

3 Working capital

The deficiency in working capital at 31 December 2014 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.

4 Operating segment information

Management has determined the operating segments based on reports reviewed by the Board to review and make decisions on the business. During the half year the Board considered the business in its entirety being an entity that holds and leases investment property and agricultural equipment operating as one reportable segment.

5 Revenue

	Six months ended 31 December 2014 000's \$	Six months ended 31 December 2013 000's \$
Rental revenue	10,552	4,195
Reimbursement of water charges	28	434
Temporary water sales	57	103
Interest received	46	35
Other revenue	3	95
Sales - Almonds	-	605
Total revenue	10,686	5,467

6 Income tax

On 30 June 2014 Rural Funds Trust sold its almond farming plant and equipment to RF Active and ceased all active trading activities. From 1 July 2014 Rural Funds Trust is treated as a flow through trust for tax purposes. Similarly, RFM Chicken Income Fund (a subsidiary of Rural Funds Trust) disposed of all active trading assets during the year ended 30 June 2014 and is treated as a flow through entity for tax purposes from 1 July 2014. Income tax is only recognised in relation to RFM Australian Wine Fund (a subsidiary of Rural Funds Trust) and RF Active.

Rural Funds Group

Notes to the Financial Statements For the Half Year Ended 31 December 2014

7 Fair value measurement of non-financial assets

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

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

Level 1 Fair value based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date (such as publicly traded equities).

Level 2 Fair value based on inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.

Level 3 One or more significant inputs to the determination of fair value is based on unobservable inputs for the asset or liability.

(i) Fair value hierarchy

	Level 1 000's \$	Level 2 000's \$	Level 3 000's \$	Total 000's \$
At 31 December 2014				
Investment properties				
Almond orchard property	-	-	30,475	30,475
Poultry property and infrastructure	-	-	94,951	94,951
Vineyard property	-	-	12,900	12,900
Other property	-	-	3,525	3,525
Biological assets				
Almond orchard	-	-	42,426	42,426
Vines	-	-	24,580	24,580
Total non-financial assets	-	-	208,857	208,857

The Group's policy is to recognise transfers into 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 period.

The Tocabil property acquired during the period is held at cost of \$3,525,000 which is deemed to be fair value.

Rural Funds Group

Notes to the Financial Statements For the Half Year Ended 31 December 2014

7 Fair value measurement of non-financial assets (continued)

(ii) Valuation techniques used to determine level 2 and level 3 fair values

The Group obtains independent valuations for its non-financial assets held at fair value at least annually.

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

The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available the Directors consider information from a variety of sources including:

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

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

(iii) Fair value measurements using significant unobservable inputs (level 3).

	Investment property				Biological assets		Total 000's
	Almond orchard property 000's \$	Poultry property and infrastructure 000's \$	Vineyard property 000's \$	Other property 000's \$	Almond orchard 000's \$	Vines 000's \$	
Opening balance 1 July 2014	29,226	95,982	12,900	-	41,426	24,080	203,614
Additions	1,249	314	-	3,525	-	136	5,224
Fair value adjustment	-	(1,345)	-	-	1,000	364	19
Closing balance 31 December 2014	30,475	94,951	12,900	3,525	42,426	24,580	208,857

Rural Funds Group

Notes to the Financial Statements

For the Half Year Ended 31 December 2014

7 Fair value measurement of non-financial assets (continued)

(iv) Valuation inputs and relationships to fair value

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

Description	Fair value at 31 December 2014 \$000	Unobservable inputs *	Range of inputs (probability - weighted average)	Relationship of unobservable inputs to fair value
Almond orchard property (excluding water licences) **	72,901	Discount rate	9.5% - 11.0% 10.72%	The higher the discount rate and the lower the fair value
Poultry property and infrastructure (excluding water licences) **	94,951	Capitalisation rate	10.90%	The higher the capitalisation rate, the lower the fair value
Vineyards (excluding water licences) **	37,480	Discount rate	9.5% - 10% 9.77%	The higher the discount rate, the lower the fair value
		Capitalisation rate	8.75% - 9.5% 8.95%	The higher the capitalisation rate, the lower the fair value

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

** Water licences are held at historical cost less accumulated impairment.

(v) Valuation processes

The Group engages external, independent and qualified valuers to determine the fair value of the Group's properties. The properties were externally valued by CBRE Valuations Pty Limited and Colliers International Consultancy and Valuation Pty Limited at 30 June 2014. Directors' valuations have been performed on the properties at 31 December 2014.

The main level 3 inputs used by the Group include discount rates, and capitalisation rates estimated in the respective valuations based on comparable transactions and industry data.

Changes in level 3 fair values are analysed at each reporting date during the valuation discussion between management and external valuers. As part of this discussion management presents updated model inputs and explains the reason for any fair value movements.

Rural Funds Group

Notes to the Financial Statements

For the Half Year Ended 31 December 2014

8 Interest bearing liabilities

On 24 December 2013, RFF, CIF and AWF settled all finance facilities and derivative instruments with National Australia Bank (NAB) and entered into new facilities with Australia and New Zealand Banking Group Limited (ANZ). The ANZ facilities are expected to provide lower finance costs and increased flexibility to the Group.

Following the listing of RFF on the ASX, the facility agreement was amended to merge the facilities into one umbrella facility with a limit of \$97,500,000 and extend the term of the facility to 5 years. The limit has been increased to \$103,000,000 during the half year.

As at 31 December 2014, interest rate swaps (floating to fixed) with a face value of \$75,000,000 (30 June 2014: \$75,000,000) were held by the Group to manage interest rate risk from the loans.

The loans are at a floating rate, Australian dollar denominated and carried at amortised cost. The amounts disclosed in the table are the contractual undiscounted cash flows, except for interest rate swaps where the cash flows have been estimated using interest rates applicable at the reporting date. At 31 December 2014 the contractual maturity of the Group's financial liabilities were as follows:

	Less than 6 months		6 months to 1 year		1 to 3 Years		3- 5 Years		Total	
	31 December 2014 000's \$	30 June 2014 000's \$								
Contractual maturities of financial liabilities										
Loan - ANZ	2,418	2,312	2,418	2,311	9,929	9,248	103,629	101,156	118,394	115,027
Trade and sundry payables	2,550	4,062	-	-	-	-	-	-	2,550	4,062
Equipment loans	436	-	532	-	1,043	-	1,003	-	3,014	-
Interest rate swaps	-	-	-	-	992	592	1,282	722	2,274	1,314
Total financial liabilities	5,404	6,374	2,950	2,311	11,964	9,840	105,914	101,878	126,232	120,403

Rural Funds Group

Notes to the Financial Statements For the Half Year Ended 31 December 2014

9 Distributions

(a) Distributions provided for during the half year

	31 December 2014 000's \$	31 December 2013 000's \$
Distributions for the half year ended 31 December 2014 - 4.2950 cents per unit (2013: 4.9495 cents per unit)	5,041	3,413
Total distributions provided for	5,041	3,413

Distribution on 15 October 2014 to subscribe for units in RF Active - 1.0000 cents	1,175	-
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(b) Distributions payable

CURRENT		
Distributions unrepresented	83	2
Distributions provided for	2,522	2,490
Distributions payable	2,605	2,492

10 Earnings per unit

(a) Per stapled unit

	Rural Funds Group	
	31 December 2014	31 December 2013
Weighted average number of units outstanding	117,344,146	38,321,024
Profit/(loss) from continuing operations attributable to unitholders (\$000's)	3,904	3,980
Basic and diluted earnings per unit from continuing operations (cents)	3.33	(10.41)

(b) Per unit of each Trust

	Rural Funds Trust		RF Active	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Weighted average number of units outstanding (\$000's)	117,344,146	38,231,024	117,458,512	-
Profit/(loss) from continuing operations attributable to unitholders (\$000's)	3,884	3,980	20	-
Basic and diluted earnings per unit from continuing operations (cents)	3.31	(10.41)	0.02	-

Rural Funds Group

Notes to the Financial Statements For the Half Year Ended 31 December 2014

11 Business combinations

A distribution was made to the Unitholders of Rural Funds Trust (formerly Rural Funds Group) which was compulsorily used to subscribe for units in RF Active.

Units in RF Active were then stapled to units in RFF. RF Active was created to separate the active and passive assets within the Rural Funds Group. RF Active invests in agricultural operating assets including the ownership and leasing of almond farm plant and equipment. The key benefit of the Stapling was to quarantine the operational assets to a single trust that is separate from the passive income producing assets of RFF.

From 16 October 2014 RF Active is consolidated into RFF. Therefore, the consolidated results for RFF for the half year includes 2 months and 16 days of results from RF Active.

	31 December 2014
	RF Active
	000's
	\$
The assets and liabilities recognised as a result of the acquisition are as follows:	
Cash and cash equivalents	591
Plant and equipment	3,175
Receivables	90
Payables	(25)
Borrowings	(2,654)
Net provision for tax	(1)
Non-controlling interest	(1,176)
Net assets acquired	-

Rural Funds Group

Notes to the Financial Statements For the Half Year Ended 31 December 2014

11 Business combinations (continued)

On 16 December 2013 the unitholders of the RFM Chicken Income Fund (CIF) and the RFM Australian Wine Fund (AWF) agreed to merge with Rural Funds Trust (formerly RFM RiverBank). The merger was completed on 19 December 2013.

The merger of the funds was considered the best solution for meeting the needs of unitholders by providing liquidity, cost savings, diversification, improved access to capital and opportunity for future growth.

From 19 December 2013 CIF and AWF are wholly owned by Rural Funds Trust and their results are consolidated into the Group.

The following table shows the assets acquired, liabilities assumed and the purchase consideration at the acquisition date.

	31 December 2013		
	CIF 000's \$	AWF 000's \$	Total 000's \$
Purchase consideration			
Cash	-	-	-
Value of units issued as consideration	44,900	32,904	77,804
Total purchase consideration	44,900	32,904	77,804
The fair value of identifiable assets and liabilities recognised as a result of the acquisition are as follows:			
Cash and cash equivalents	733	4,397	5,130
Property, plant and equipment	104	-	104
Investment property	98,195	18,540	116,735
Biological assets	-	15,854	15,854
Derivatives	(2,166)	(279)	(2,445)
Intangible assets	1,049	500	1,549
Financial assets	4,947	2,481	7,428
Receivables	855	849	1,704
Other assets	338	78	416
Payables	(3,867)	(387)	(4,254)
Borrowings	(41,034)	(14,000)	(55,034)
Net deferred tax liabilities	(13,023)	2,071	(10,952)
Fair value of net identifiable assets acquired	46,131	30,104	76,235
Add: Goodwill	-	2,800	2,800
Less: Discount on acquisition	(1,231)	-	(1,231)
Net assets acquired	44,900	32,904	77,804

The goodwill was attributable to the premium paid for the vineyard leasing business in order to achieve appropriate values attributable to the merging assets. This amount was fully impaired by the Group in recording assets at fair value at 31 December 2013. The discount on acquiring CIF arose due to certain costs of concluding the merger transaction being proportionately spread across the entities. None of the goodwill is expected to be deductible for tax purposes.

Rural Funds Group

Notes to the Financial Statements For the Half Year Ended 31 December 2014

11 Business combinations (continued)

A revision has been made to the prior period results from an update to CIF's investment property (decrease of \$128,000), other assets (increase of \$156,000), and deferred tax liability (decrease of \$416,000). This has been made due to provisional amounts being used in the 31 December 2013 reporting period which have since been updated in line with AASB 3: Business Combinations. The net result is a decrease to the discount on acquisition from \$1,619,000 to \$1,231,000.

12 Related party transactions

Transactions between related parties are on commercial terms and conditions.

(a) Responsible Entity (Rural Funds Management Limited) and related entities

Transactions between the Group and the Responsible Entity and any associates of the Responsible Entity:

	31 December 2014 000's \$	31 December 2013 000's \$
Management fees	713	510
Asset management fees	514	167
Total management fees	1,227	677
Expenses reimbursed to RFM	1,105	1,178
Expenses reimbursed to RFM Poultry	135	-
Interest on Loan - RFM	-	82
Distributions to RFM	93	42
Total amounts paid to the Responsible Entity and related entities	2,560	1,979
Rental income - RFM Almond Fund 2006	800	850
Rental income - RFM Almond Fund 2007	224	227
Rental income - RFM Almond Fund 2008	599	642
Rental income - RFM	126	129
Rental income - RFM Farming Pty Limited	115	38
Rental income - RFM Poultry	5,184	362
Expenses reimbursed from RFM Poultry	297	-
Distributions received/receivable from RFM Poultry	9	-
Distributions received/receivable from RFM StockBank	166	125
Payment for grant of almond grove licences - RFM	-	100
Interest on land rental - RFM Almond Fund 2006	-	10
Interest income - Murdock Viticulture	19	4
Interest income - RF Active (pre Stapling)	17	-
Harvest proceeds - RFM Almond Fund 2007	-	291
Harvest proceeds - RFM Almond Fund 2008	-	315
Water sale - RFM Almond Fund 2006	30	-
Water sale - RFM Farming Pty Limited	14	71
Total amounts received from RFM and related entities	7,600	3,164

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

Rural Funds Group

Notes to the Financial Statements For the Half Year Ended 31 December 2014

12 Related party transactions (continued)

(b) Debtors and loans

	31 December 2014 000's \$	30 June 2014 000's \$
RFM Poultry	210	72
RFM Farming Pty Limited	194	-
RFM Almond Fund 2006	-	32
RFM Almond Fund 2007	-	111
RFM Almond Fund 2008	-	315
Murdock Viticulture	-	642
RF Active	-	946
Total	404	2,118

(c) Creditors and loans

RFM Poultry	95	172
RFM Farming Pty Limited	7	-
RFM	211	225
Total	313	397

(d) Entities with influence over the Group

	31 December 2014		31 December 2013	
	% held	Units held	% held	Units held
RFM	1.24	1,450,465	1.24	1,450,465

(e) Interest in related parties

	% held	Units held	% held	Units held
RFM StockBank	35.07	3,897,259	43.85	4,897,259
RFM Poultry	1.59	108,695	-	-

Rural Funds Group

Notes to the Financial Statements For the Half Year Ended 31 December 2014

13 Other matters

RFF owns a 320 hectare olive orchard located near Hillston NSW. The value of this orchard represents less than 0.5% of RFF's net assets. RFF had leased this orchard until December 2013 when RFF served a notice of termination on the lessee for serious breaches of the lease. The lessee subsequently disputed the termination, and in February 2014 RFF commenced proceedings in the NSW Civil and Administrative Tribunal to regain possession of the property. The lessee has also commenced action in the New South Wales Supreme Court. These proceedings are continuing. RFF considers claims by the lessee to be without merit and is vigorously defending the actions.

14 Events after reporting date

No other matters or circumstances have arisen since the end of the financial period which 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.

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Rural Funds Group

Directors of the Responsible Entity's Declaration

In the Directors of the Responsible Entity's opinion:

1. The consolidated financial statements and notes set out on pages 9 to 29 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 consolidated financial position as at 31 December 2014 and of its performance for the half-year ended on that date.

2. There are reasonable grounds to believe that Rural Funds Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors of Rural Funds Management Limited as the Responsible Entity of Rural Funds Trust and RF Active.



David Bryant

Director

23 February 2015

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Rural Funds Group (the Group), which comprises the consolidated statement of financial position as at 31 December 2014, the consolidated statement of comprehensive income, consolidated statement of changes in net assets attributable to unitholders and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Rural Funds Group (the consolidated entity). The consolidated entity comprises the registered scheme and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of Rural Funds Management (the responsible entity) are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Rural Funds Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Rural Funds Group is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date;

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b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

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

CMC Heraghty
Partner

Sydney
23 February 2015

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Responsible Entity

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