

APPENDIX 4E

PRELIMINARY FINAL REPORT IN ACCORDANCE WITH LISTING RULE 4.3A

Full year ended 30 September 2017
Previous corresponding period – Full year ended 30 September 2016

Results for announcement to the market

| | | | | \$'000 |
|---|----|------|----|-----------|
| Revenue from ordinary activities | Up | 2% | to | 1,826,800 |
| Profit from ordinary activities after tax attributable to members | Up | 422% | to | 22,420 |
| Net profit for the period attributable to members | Up | 422% | to | 22,420 |

| | Amount per security | Franked amount per security |
|--|---------------------|-----------------------------|
| Final dividend | 6 cents | 6 cents |
| Interim dividend | 9 cents | 9 cents |
| Previous corresponding period - Final dividend | 2 cents | 2 cents |
| - Interim dividend | 8 cents | 8 cents |
| Record date for determining entitlements to the dividend | | 27 November 2017 |
| Date final dividend is payable | | 18 December 2017 |

| Net Tangible Assets | 2017 | 2016 |
|--|--------|--------|
| Net tangible asset backing per ordinary security | \$0.72 | \$0.81 |

Details of entities over which control has been gained or lost during the period

During the period the reporting entity gained control of or established the following entities and operations:

| Entity | Date | Percentage acquired |
|--|------------------|---------------------|
| Great Northern Rural Services (Parkquest Pty Ltd) | 3 October 2016 | 60% |
| Riverland Irrigation Services Pty Ltd | 1 November 2016 | 100% |
| Hunter Irrigation (Tritab Pty Ltd) | 1 November 2016 | 100% |
| Water Trading Australia Pty Ltd | 1 December 2016 | 100% |
| Newham Rural Supplies Pty Ltd | 1 February 2017 | 51% |
| Mildura Irrigation Centre Pty Ltd | 1 February 2017 | 100% |
| W. John Pearson & Co Pty Ltd | 1 February 2017 | 100% |
| TP Jones Pty Ltd | 1 March 2017 | 100% |
| Irrigation Tasmania Pty Ltd | 1 March 2017 | 100% |
| Fluid Technologies Pty Ltd | 1 March 2017 | 100% |
| River Rain (Agriexchange Pty Ltd) | 1 March 2017 | 100% |
| The Professionals Guyra (Waters & Atkin Rural Pty Ltd) | 1 March 2017 | 100% |
| Roberts Irrigation Pty Ltd | 1 July 2017 | 100% |
| Primaries Esperance Pty Ltd | 4 July 2017 | 60% |
| QFH Multiparts Pty Ltd | 1 September 2017 | 70% |
| Mallala (Chamston Pty Ltd) | 1 September 2017 | 100% |

Details of the contribution of such entities to the profit from ordinary activities during the year are included in the accompanying financial report.

Details of transactions impacting entities in which control has not been lost during the period

During the period the reporting entity entered into the following transactions without losing control:

| Entity | Date | Percentage acquired / (divested) |
|---|-------------------|----------------------------------|
| Territory Rural Pty Ltd | 18 November 2016 | 22.9% |
| Roberts Hawkins Pty Ltd | 18 November 2016 | 15.0% |
| Saffin Kerr Bowen Pty Ltd | 12 December 2016 | 37.0% |
| Saffin Kerr Bowen Wilson Pty Ltd | 12 December 2016 | 37.0% |
| Platinum Operations Pty Ltd | 22 December 2016 | (2.6%) |
| CIAA Pty Ltd | 22 December 2016 | (1.9%) |
| Frontier International Agri Pty Ltd | 5 January 2017 | 5.0% |
| Frontier International Northern Pty Ltd | 5 January 2017 | 5.0% |
| Southern Australian Livestock Pty Ltd | 1 February 2017 | 0.9% |
| Southern Australian Livestock Pty Ltd | 10 July 2017 | 4.9% |
| Queensland Rural Pty Ltd | 1 August 2017 | 2.0% |
| Southern Australian Livestock Pty Ltd | 15 August 2017 | 9.5% |
| Southern Australian Livestock Pty Ltd | 18 September 2017 | 2.9% |

Details of associates and joint venture entities

At the end of the period the reporting entity had interests in the following associates and joint venture entities:

| Associates (including equity accounted joint ventures) | Percentage held by the group |
|---|-------------------------------------|
| Agfarm Unit Trust | 50% |
| Ausure Ruralco Pty Ltd (formerly Ausure Consolidated Brokers Pty Ltd) | 50% |
| Western Riverina Fertilisers Pty Ltd | 50% |

*50% interest in Ausure Ruralco Pty Ltd (formerly Ausure Consolidated Brokers Pty Ltd) was acquired on 1 December 2016.

The contribution of such entities to the Company's profit from ordinary activities is not material to an understanding of the report.

Dividend Reinvestment Plan

The Dividend Reinvestment Plan will apply to this dividend.

Audit

This report is based on accounts which are in the process of being audited.

Commentary on results for the year

Commentary on the results for the year is contained in the press release dated 13 November 2017 accompanying this statement.

Tim Rowe
Acting Company Secretary
13 November 2017

Ruralco Holdings Limited and Controlled Entities
ABN 40 009 660 879
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the Year Ended 30 September 2017

| | Notes | 2017 \$'000 | 2016 \$'000 |
|---|-------|----------------|----------------|
| Revenue | 3 | 1,826,800 | 1,790,140 |
| Cost of goods sold | | (1,492,463) | (1,495,958) |
| Personnel expenses | 18(a) | (194,801) | (183,050) |
| Property and equipment expenses | | (30,189) | (31,556) |
| Motor vehicle expenses | | (20,596) | (18,709) |
| Administrative expenses | | (13,568) | (12,950) |
| Marketing and advertising expenses | | (6,937) | (7,577) |
| Depreciation expense | 9 | (5,889) | (5,338) |
| Amortisation expense | 10 | (4,601) | (4,067) |
| Data and telephony expenses | | (3,995) | (4,264) |
| Bad debt expense | 6 | (165) | (2,977) |
| Net (loss)/gain on disposal of assets | | (1,118) | 273 |
| Other expenses | | (3,658) | (5,871) |
| Results from operating activities | | 48,820 | 18,096 |
| Share of net profit / (loss) of equity accounted investees | 19(d) | 913 | (10) |
| Bank charges | | (919) | (1,416) |
| Interest expense | | (4,667) | (4,024) |
| Total finance costs | | (5,586) | (5,440) |
| Profit before income tax | | 44,147 | 12,646 |
| Income tax expense | 4(a) | (13,321) | (3,776) |
| Profit for the period | | 30,826 | 8,870 |
| Total profit attributable to: | | | |
| Equity holders of the company | | 22,420 | 4,296 |
| Non-controlling interests | | 8,406 | 4,574 |
| Total profit for the period | | 30,826 | 8,870 |
| Other comprehensive income | | | |
| <i>Items that will not be reclassified to profit or loss:</i> | | | |
| Early adoption of AASB 9 <i>Financial instruments</i> | | - | (3,420) |
| Revaluation of property, plant and equipment, net of tax | | (81) | (155) |
| Total items that will not be reclassified to profit and loss | | (81) | (3,575) |
| <i>Items that may be reclassified to profit or loss:</i> | | | |
| Changes in the fair value of cash flow hedges, net of tax | | (229) | 1,209 |
| Foreign currency translation differences | | 1 | (6) |
| Total items that may be reclassified to profit or loss | | (228) | 1,203 |
| Total comprehensive income for the period | | 30,517 | 6,498 |
| Total comprehensive income attributable to: | | | |
| Equity holders of the company | | 22,111 | 1,497 |
| Non-controlling interests | | 8,406 | 5,001 |
| Total comprehensive income for the period | | 30,517 | 6,498 |
| Earnings per share (cents per share) | | | |
| - Basic | 5 | 23.51 | 5.44 |
| - Diluted | 5 | 23.51 | 5.44 |

The accompanying notes form part of these financial statements.

Ruralco Holdings Limited and Controlled Entities
ABN 40 009 660 879
Consolidated Statement of Financial Position
As at 30 September 2017

| | Notes | 2017 \$'000 | 2016 \$'000 |
|---|-------|----------------|----------------|
| Current assets | | | |
| Cash and cash equivalents | 17 | 22,789 | 5,417 |
| Trade and other receivables | 6 | 393,609 | 357,797 |
| Inventories | 7 | 141,870 | 114,000 |
| Biological assets | 8 | 18,325 | 15,666 |
| Prepayments | | 9,937 | 6,898 |
| Derivative financial assets | | 175 | 283 |
| Assets held for sale | | - | 1,350 |
| Total current assets | | 586,705 | 501,411 |
| Non-current assets | | | |
| Intangible assets | 10 | 214,690 | 147,305 |
| Property, plant and equipment | 9 | 43,966 | 40,875 |
| Deferred tax assets | 4(b) | 19,930 | 20,000 |
| Investments in equity accounted investees | 19(d) | 18,504 | 8,806 |
| Trade and other receivables | 6 | 857 | 1,646 |
| Other financial assets | | 155 | 229 |
| Total non-current assets | | 298,102 | 218,861 |
| Total assets | | 884,807 | 720,272 |
| Current liabilities | | | |
| Trade and other payables | 11 | 429,707 | 401,320 |
| Loans and borrowings | 11 | 18,323 | 4,300 |
| Employee benefits | 18(a) | 21,584 | 18,629 |
| Contingent consideration | | 2,646 | - |
| Deferred consideration | | 322 | 325 |
| Restructuring and onerous contract provisions | | 2,655 | 5,733 |
| Current tax liabilities | | 1,696 | 457 |
| Derivative financial instruments | 11 | 389 | 168 |
| Make good provision | | 48 | 273 |
| Total current liabilities | | 477,370 | 431,205 |
| Non-current liabilities | | | |
| Loans and borrowings | 11 | 95,645 | 65,633 |
| Contingent consideration | | 8,642 | - |
| Deferred consideration | | 736 | 827 |
| Deferred tax liabilities | 4(b) | 8,085 | 7,703 |
| Employee benefits | 18(a) | 3,167 | 3,112 |
| Make good provision | | 522 | 671 |
| Total non-current liabilities | | 116,797 | 77,946 |
| Total liabilities | | 594,167 | 509,151 |
| Net assets | | 290,640 | 211,121 |
| Equity | | | |
| Share capital | 12(a) | 238,795 | 173,248 |
| Retained earnings | | 34,617 | 23,878 |
| Reserves | 12(b) | 5,389 | 5,259 |
| Total equity attributable to equity holders of the Company | | 278,801 | 202,385 |
| Non-controlling interests | | 11,839 | 8,736 |
| Total equity | | 290,640 | 211,121 |

The accompanying notes form part of these financial statements.

Ruralco Holdings Limited and Controlled Entities
ABN 40 009 660 879
Consolidated Statement of Changes in Equity
For the Year Ended 30 September 2017

| Note | Attributable to equity holders of the Company | | | | | | | | | | Non-controlling interests \$'000 | Total equity \$'000 |
|--|---|-----------------------------|-----------------------------------|-------------------------------------|-----------------------------------|---------------------------|--|---------------------------------------|----------------------------------|-----------------|-------------------------------------|------------------------|
| | Issued capital \$'000 | Retained earnings \$'000 | Capital profits reserve \$'000 | Asset revaluation reserve \$'000 | Cash flow hedge reserve \$'000 | General reserve \$'000 | Foreign currency translation reserve \$'000 | Share based payment reserve \$'000 | Reserve for own shares \$'000 | Total \$'000 | | |
| 1 October 2015 | 170,731 | 30,935 | 2,179 | 4,383 | (905) | 2,800 | 75 | 3,993 | (2,067) | 212,124 | 10,349 | 222,473 |
| Total comprehensive income for the period | | | | | | | | | | | | |
| Early adoption of AASB 9 Financial instruments | - | (3,420) | - | - | - | - | - | - | - | (3,420) | - | (3,420) |
| Profit for the period | - | 4,296 | - | - | - | - | - | - | - | 4,296 | 4,574 | 8,870 |
| Other comprehensive income | - | - | - | (155) | 782 | - | (6) | - | - | 621 | 427 | 1,048 |
| Total comprehensive income for the period | - | 876 | - | (155) | 782 | - | (6) | - | - | 1,497 | 5,001 | 6,498 |
| Transactions with owners of the Company recorded directly in equity | | | | | | | | | | | | |
| - Dividends to owners of the Company | - | (11,779) | - | - | - | - | - | - | - | (11,779) | (5,909) | (17,688) |
| - Issue of ordinary shares | 2,517 | - | - | - | - | - | - | - | - | 2,517 | - | 2,517 |
| - Performance rights | - | - | - | - | - | - | - | 1,573 | - | 1,573 | - | 1,573 |
| - Shares purchased and held in trust | - | - | - | - | - | - | - | - | (2,146) | (2,146) | - | (2,146) |
| - Own shares held in trust allocated | - | - | - | - | - | - | - | - | (198) | (198) | - | (198) |
| - Transfer to / from | - | 5,049 | (2,179) | - | - | (2,800) | (70) | - | - | - | - | - |
| - Change in non-controlling interest | - | (1,203) | - | - | - | - | - | - | - | (1,203) | (705) | (1,908) |
| Total transactions with owners of the Company | 2,517 | (7,933) | (2,179) | - | - | (2,800) | (70) | 1,573 | (2,344) | (11,236) | (6,614) | (17,850) |
| 30 September 2016 | 173,248 | 23,878 | - | 4,228 | (123) | - | (1) | 5,566 | (4,411) | 202,385 | 8,736 | 211,121 |
| Total comprehensive income for the period | | | | | | | | | | | | |
| Profit for the period | - | 22,420 | - | - | - | - | - | - | - | 22,420 | 8,406 | 30,826 |
| Other comprehensive income | - | - | - | (81) | (229) | - | 1 | - | - | (309) | - | (309) |
| Total comprehensive income for the period | - | 22,420 | - | (81) | (229) | - | 1 | - | - | 22,111 | 8,406 | 30,517 |
| Transactions with owners of the Company recorded directly in equity | | | | | | | | | | | | |
| - Dividends to owners of the Company | - | (10,921) | - | - | - | - | - | - | - | (10,921) | (5,647) | (16,568) |
| - Issue of ordinary shares | 65,547 | - | - | - | - | - | - | - | - | 65,547 | - | 65,547 |
| - Performance rights | - | - | - | - | - | - | - | 1,867 | - | 1,867 | - | 1,867 |
| - Shares purchased and held in trust | - | - | - | - | - | - | - | - | (741) | (741) | - | (741) |
| - Transfer to / from | - | - | - | - | - | - | - | (1,016) | 1,016 | - | - | - |
| - Change in non-controlling interest | - | (1,447) | - | - | - | - | - | - | - | (1,447) | 344 | (1,103) |
| - Transfer of revaluation to retained earnings on disposal | - | 687 | - | (687) | - | - | - | - | - | - | - | - |
| Total transactions with owners of the Company | 65,547 | (11,681) | - | (687) | - | - | - | 851 | 275 | 54,305 | (5,303) | 49,002 |
| 30 September 2017 | 238,795 | 34,617 | - | 3,460 | (352) | - | - | 6,417 | (4,136) | 278,801 | 11,839 | 290,640 |

The accompanying notes form part of these financial statements.

Ruralco Holdings Limited and Controlled Entities
ABN 40 009 660 879
Consolidated Statement of Cash Flows
For the Year Ended 30 September 2017

| | Notes | 2017 \$'000 | 2016 \$'000 |
|---|-------|----------------------|---------------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 1,991,337 | 1,940,547 |
| Payments to suppliers and employees | | (1,966,249) | (1,888,542) |
| Interest received | | 5,477 | 5,861 |
| Bank charges | | (918) | (1,416) |
| Interest paid | | (4,699) | (4,029) |
| Income taxes paid | | (10,795) | (14,332) |
| Net cash flows from operating activities | 17 | <u>14,153</u> | <u>38,089</u> |
| Cash flows from investing activities | | | |
| Proceeds from sale of property, plant and equipment | | 2,253 | 2,180 |
| Proceeds from sale of interest in existing subsidiaries | | 860 | 526 |
| Proceeds from sale of shares in subsidiary | | 2,072 | 219 |
| Proceeds from sale of intangible assets | | 50 | - |
| Dividends received | | 151 | 211 |
| Payment for property, plant and equipment | | (5,608) | (5,189) |
| Payment for intangible assets | | (19,266) | (7,892) |
| Purchase of equity accounted for investees | | (7,835) | - |
| Purchase of shares in existing subsidiaries | | (1,836) | (1,262) |
| Acquisition of subsidiaries, net of cash acquired | | (60,095) | (12,549) |
| Net cash flows used in investing activities | | <u>(89,254)</u> | <u>(23,756)</u> |
| Cash flows from financing activities | | | |
| Loans from / (advanced to) related entities | | 417 | (2,377) |
| Repayment of finance lease liabilities | | (661) | (966) |
| Proceeds from borrowings | | 873,521 | 693,936 |
| Repayment of borrowings | | (829,044) | (681,000) |
| Proceeds from issue of share capital | | 65,000 | - |
| Payment of share issue costs | | (1,680) | - |
| Payment for treasury shares | | (741) | (2,146) |
| Dividends paid to ordinary shareholders in the company | | (8,706) | (9,262) |
| Dividends paid to non-controlling interests | | (5,633) | (5,909) |
| Net cash flows used in financing activities | | <u>92,473</u> | <u>(7,724)</u> |
| Net increase in cash and cash equivalents | | <u>17,372</u> | <u>6,609</u> |
| Cash and cash equivalents at beginning of year | | 5,417 | (1,192) |
| Cash and cash equivalents at end of year | 17 | <u><u>22,789</u></u> | <u><u>5,417</u></u> |

The accompanying notes form part of these financial statements.

Ruralco Holdings Limited and Controlled Entities
ABN 40 009 660 879
Notes to the Consolidated Financial Statements
For the Year Ended 30 September 2017

Note 1: Reporting entity

Ruralco Holdings Limited (the "Company") is a company limited by shares, incorporated and domiciled in Australia. The registered office of the Company is Level 5, Building A, 26 Talavera Road, Macquarie Park, NSW 2113, Australia.

The consolidated financial statements of the Company for the year ended 30 September 2017 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

The Group is a for-profit entity and operates in the agribusiness sector. Its principal activities were the sale and marketing of rural merchandise, fertiliser, water products and financial services products, the provision of agency services in relation to the sale of livestock, wool and real estate to rural and related customers, the provision of water related services including the design, construction, installation and maintenance of irrigation infrastructure and the live export of cattle.

Note 2: Basis of accounting

(a) Basis of preparation

The consolidated financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements of the Group comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on 13 November 2017.

(i) Historical cost convention

These consolidated financial statements have been prepared on an accruals basis under the historical cost convention. Where other bases are applied these are identified in the relevant accounting policy.

(ii) Rounding

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to "rounding off" of amounts in the financial statements. Amounts in these consolidated financial statements have been rounded off in accordance with the Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar unless otherwise stated.

Ruralco Holdings Limited and Controlled Entities
ABN 40 009 660 879
Notes to the Consolidated Financial Statements
For the Year Ended 30 September 2017

Note 2: Basis of accounting (continued)

(a) Basis of preparation (continued)

(iii) Critical accounting estimates and judgements

The preparation of consolidated financial statements requires management to exercise judgement in applying the Group's accounting policies. It also required the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis with revisions recognised in the period in which the estimate is revised and in any future periods affected.

The areas involving a higher degree of judgement or complexity are set out below and in more detail in the related notes:

- Revenue recognition (note 3)
- Classification of financial instruments (note 2(b)(iii))
- Business combinations and allocation of goodwill (note 20 and 10 respectively)

The areas involving the most sensitive estimates and assumptions that are significant to the financial statements are set out below and in more detail in the related notes:

- Business combinations – fair value measured on a provisional basis including contingent consideration (note 20 and 11)
- Impairment of assets – key assumptions underlying recoverable amounts (note 10)
- Recoverability of trade receivables (note 6)
- Biological assets – fair value of livestock (note 8)
- Derivative financial instruments – fair value of forward foreign exchange contracts (note 11)
- Inventory – provision for slow and obsolete stock (note 7)

(iv) Fair value

A number of the Group's accounting policies and disclosures require the measure of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Fair value methods are categorised into different levels in a fair value hierarchy based on the inputs used as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 – inputs for the asset or liability that are not based on observable market data.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Property, plant and equipment (note 9)
- Livestock - biological assets (note 8)
- Business combinations (note 20)
- Financial instruments (note 11)
- Contingent consideration (note 20)

(b) Accounting policies

The principal accounting policies adopted in the preparation of the financial statements that relate to the financial statements as a whole are set out below. Those policies specific to one note are described in the note to which it relates. The accounting policies have been consistently applied, unless otherwise stated, to all periods presented and by all Group entities.

Ruralco Holdings Limited and Controlled Entities
ABN 40 009 660 879
Notes to the Consolidated Financial Statements
For the Year Ended 30 September 2017

Note 2: Basis of accounting (continued)

(b) Accounting policies (continued)

(i) Changes in accounting policy

The accounting policies applied by the Group in these consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 30 September 2016.

(ii) Foreign currencies

The primary economic environment in which the Group operates is Australia and therefore the consolidated financial statements are presented in Australian dollars.

Where Group companies based in Australia transact in foreign currencies, these transactions are translated into Australian dollars at the exchange rate on the transaction date. Foreign currency monetary assets and liabilities are translated into Australian dollars at the year-end exchange rate.

Where there is a movement in the exchange rate between the date of the transaction and the year end, a foreign exchange gain or loss is recognised in profit or loss. Non-monetary assets and liabilities measured at historical cost are translated into Australian dollars at the exchange rate on the date of the transaction.

(iii) Classification of financial instruments

The financial assets and liabilities of the Group are classified into the following financial statement captions in the statement of financial position in accordance with AASB 9 Financial Instruments:

- 'Loans and receivables' – separately disclosed as cash and cash equivalents and trade and other receivables;
- 'Financial assets/liabilities at fair value through profit or loss' – separately disclosed as derivative financial instruments in assets/liabilities; and
- 'Financial liabilities measured at amortised cost' – separately disclosed as loans and borrowings and trade and other payables.

Judgement is required when determining the appropriate classification of the Group's financial instruments. Details on the accounting policies for measurement of the above instruments are set out in the relevant note.

(iv) Recognition and derecognition of financial assets and liabilities

The Group recognises a financial asset or liability when it becomes a party to the contract. Financial instruments are no longer recognised in the statement of financial position when the contractual cash flows expire or when the Group no longer retains control of substantially all the risks and rewards under the instrument.

(v) Changes in comparative period balances

Management have restated revenue by \$33,764,000 (from \$1,756,376,000 to \$1,790,140,000) and cost of goods sold by \$50,885,000 (from \$1,445,073,000 to \$1,495,958,000). This is to align the comparative period with the current period presentation for items including merchant fees, commissions expense for agency related activities, freight and cartage expenses previously classified within finance costs, personnel and other expenses or netted off directly in revenue.

The reclassification of merchant fees from finance costs to cost of goods sold has resulted in a decrease in results from operating activities by \$804,000 (from \$18,901,000 to \$18,097,000).

These amendments have no material impact on the consolidated financial statements.

Ruralco Holdings Limited and Controlled Entities
ABN 40 009 660 879
Notes to the Consolidated Financial Statements
For the Year Ended 30 September 2017

Note 2: Basis of accounting (continued)

(b) Accounting policies (continued)

(vi) Standards and interpretations not yet adopted

A number of new standards and interpretations are effective and early adoption is permitted, however, the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

| New standards or interpretations | Effective date | Standard reference | Note |
|---|-----------------------|---------------------------|-------------------|
| Revenue from Contracts with Customers | 1 October 2018 | AASB 15 | 2b (vi) Part (I) |
| Leases | 1 October 2019 | AASB 16 | 2b (vi) Part (II) |

(I) AASB 15 Revenue from Contracts with Customers

AASB 15 Revenue from Contracts with Customers and the related subsequent amendments replaces all existing revenue standards (AASB 111 Construction Contracts, AASB 118 Revenue and related Interpretations) and applies to all revenue from contracts with customers.

The new standard establishes a principle-based approach for goods, services and construction contracts that requires identification of discrete performance obligations within a transaction and an associated transaction price allocation to these obligations. Revenue is recognised only when the performance obligation is satisfied and the control of goods or services is transferred, typically at the point of sale.

AASB 15 is effective for annual reporting periods commencing on or after 1 January 2018, which means it will be effective for the Group's 30 September 2019 financial statements.

The standard permits two methods of adoption:

- full retrospective – by retrospectively adjusting each prior reporting period presented and recognising the cumulative effect of initially applying the new requirements at the start of the earliest period presented, which would be 1 October 2018 for the Group; or
- modified retrospective – by recognising the cumulative effect of initially applying the new requirements at the date of initial application, which would be 1 October 2018 for the Group.

Management have established a project team comprising appropriate revenue subject matter specialists working within individual business units. Work to date has focused on segregating the Group's revenue streams by type to further understand the nature of the contractual arrangements with each of these customer groups.

Ruralco Holdings Limited and Controlled Entities
ABN 40 009 660 879
Notes to the Consolidated Financial Statements
For the Year Ended 30 September 2017

Note 2: Basis of accounting (continued)

(b) Accounting policies (continued)

(vi) Standards and interpretations not yet adopted (continued)

The project team has initially focused on the larger revenue streams and has undertaken a range of activities to identify those streams that have the highest potential risk of impact and/or will require a greater level of work effort to assess and/or quantify the financial impact of AASB 15. Subsequent to this, further activities have been undertaken, including a review of a sample of contracts, to gain a more detailed understanding of the contractual arrangements with customers.

The team is now analysing the impact of the new standard by assessing these contracts in light of the requirements of AASB 15, comparing to the Group's current accounting policies and practices, and identifying potential differences. Further contract reviews, as required, will be completed throughout FY18. This will be followed by consideration of broader business impacts.

Potential impact on the Group's financial report

To date, some of the key issues for consideration that have been identified include:

- Water Services projects with various distinct and separable performance obligations; impact of contract modifications on Water services projects;
- CRT wholesale principal v agency sale arrangements; and
- specific quantitative and qualitative disclosures that may be required under AASB 15.

While a considerable portion of FY17 has been spent progressing the Group's assessment of the potential impact of AASB 15, at this stage management cannot reasonably estimate and quantify the potential impact.

Application date and transition approach

The Group plans to adopt the new standard on the required effective date. The Group is still in the process of assessing which transition method it will adopt. This decision will depend in part upon the completion of, and impact arising from, the evaluation of our revenue arrangements.

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Note 2: Basis of accounting (continued)

(b) Accounting policies (continued)

(vi) Standards and interpretations not yet adopted (continued)

(II) AASB 16 Leases

AASB 16 Leases replaces all existing leases requirements (AASB 117 Leases, Interpretation 4 Determining whether an Arrangement contains a Lease and related Interpretations).

For lessees, the distinction between operating and finance leases will no longer exist. Instead, AASB 16 will require lessees to account for practically all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117.

At the commencement date of the lease, a lessee will recognise a liability representing its obligation to make future lease payments (i.e. the lease liability) and an asset representing its right to use the underlying asset for the lease term (i.e. the right-of-use ("ROU") asset). Lessees will be required to separately recognise interest expense on the lease liability and depreciation expense on the ROU asset rather than operating lease expense.

Key balance sheet metrics such as gearing (as the lease liability is classified in net debt) and finance ratios, debt covenants and income statement metrics, such as EBITDA (earnings before interest, taxes, depreciation and amortisation), will be impacted. Also, statement of cash flows for lessees will be affected as payments for the principal portion of the lease liability will be presented within financing activities instead of operating activities.

Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.

The Group has concluded that it intends to apply the grandfathering provision under AASB 16 at the date of initial application. This therefore means the focus of management has been, and will continue to be, on analysing the current operating lease contracts that will be impacted by AASB 16 and identifying and assessing the key terms which will impact the calculation of the lease-related balances.

While a considerable portion of FY17 has been spent progressing the Group's assessment of the potential impact of AASB 16, at this stage, management cannot reasonably estimate and quantify the impact at this stage of its impacts assessment.

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Note 3: Revenue

Accounting policy

Revenue is measured at the amount received or receivable from the customer, net of GST, returns, rebates, allowances, duties and taxes paid.

The material revenue streams and the recognition principles applied by the Group are as follows:

(i) Sale of goods and biological assets

Revenue from the sale of merchandise (including water retail products), fertiliser and livestock (via the Group's live export business) is recognised when there has been a transfer of significant risks and rewards of ownership to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. This is generally upon the delivery of goods to customers and for shipped livestock this is generally on receipt of the bill of lading.

(ii) Service and commission revenue

Service and commission revenue is charged on a range of business services including livestock and wool marketing services, insurance, real estate marketing services and financial products. Revenue from the rendering of a service is recognised as the service is provided.

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group. Commission related revenue is recognised as the sales occur or unconditional contracts are signed.

(iii) Water Services business

Water Services business activities include design, installation and construction activities. Contracts with customers can be on a time and materials basis or fixed price contracts.

Revenue from time and materials contracts is recognised at the contractual hourly rates as labour hours are delivered and the direct materials expenses are incurred.

For fixed price contracts, revenue is recognised with reference to the stage of completion of those services. This is measured by reference to costs incurred to date as a percentage of estimated total costs for each contract. Where the outcome of a contract cannot be reliably estimated, contract costs are recognised as an expense as incurred, and where it is probable that the costs will be recovered, revenue is recognised to the extent of costs incurred.

(iv) Interest and sundry revenue

Interest revenue is recognised as it accrues. Sundry revenue primarily includes operating lease and sub lease rental income, which are recognised on a straight line basis over the term of the lease.

Revenue is comprised of the following:

| | 2017 | 2016 |
|---------------------------|------------------|------------------|
| | \$'000 | \$'000 |
| Sale of goods | 1,483,849 | 1,429,218 |
| Sale of biological assets | 172,442 | 199,151 |
| Agency commission revenue | 153,932 | 142,668 |
| Other commission revenue | 8,900 | 10,996 |
| Interest revenue | 5,477 | 5,861 |
| Sundry revenue | 2,200 | 2,246 |
| | <u>1,826,800</u> | <u>1,790,140</u> |

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Note 4: Income tax

Accounting policy

(i) Income tax expense

Tax expense comprises current and deferred tax and is recognised in profit or loss or equity according to the accounting treatment of the related transaction.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year and any adjustment in respect of previous years. Deferred tax expense represents the tax expense in respect of the future tax consequences of recovering or settling the carrying amount of an asset or liability. Both are calculated using tax rates for each jurisdiction, enacted or substantially enacted at the reporting date, and for deferred tax those that are expected to apply when the asset is realised or the liability is settled.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and those for taxation purposes. Deferred tax is not recognised for the initial recognition of goodwill or of assets or liabilities that affect neither accounting or taxable profit, other than in a business combination; and investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

(ii) Tax consolidated group

Ruralco Holdings Limited and its wholly owned Australian resident subsidiaries are part of a tax consolidated group and are therefore taxed as a single entity. Under the terms of this agreement, the wholly owned subsidiaries reimburse Ruralco Holdings Limited, as the head entity of the tax consolidated group, for any current income tax payable arising in respect of their activities.

Critical accounting estimates and judgements

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Assumptions about the generation of future taxable profits depends on the Group's estimates of future cash flows, which in turn depend on estimates of future sales volumes, operational costs, capital expenditure, dividends and other capital management transactions.

The Group recognises liabilities for anticipated tax issues based on estimates of the additional taxes that are likely to become due, which requires judgement. Amounts are accrued based on management's interpretation of specific tax law and the likelihood of settlement. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax balances in the period in which such determination is made, resulting in an adjustment to prior years.

(a) Income tax expense

The total taxation charge in the statement of profit or loss and comprehensive income is analysed as follows:

| | 2017 | 2016 |
|---|----------------------|---------------------|
| | \$'000 | \$'000 |
| Current tax expense | | |
| Current period | 12,562 | 7,678 |
| Adjustments for prior years | (604) | (242) |
| | <u>11,958</u> | <u>7,436</u> |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | 1,363 | (3,660) |
| | <u>1,363</u> | <u>(3,660)</u> |
| Income tax expense | <u><u>13,321</u></u> | <u><u>3,776</u></u> |

The income tax expense calculated for the Group does not include income tax expense on the profit before tax of unit trusts controlled by the Company to the extent non-controlling interests are beneficially entitled to that profit.

Reconciliation of income tax expense to prima facie tax payable

| | | |
|--|----------------------|---------------------|
| Profit for the period before tax | 44,147 | 12,646 |
| Prima facie tax at 30% (2016: 30%) | 13,244 | 3,794 |
| Adjusted for: | | |
| Non-controlling interest share of trust profit | (187) | (101) |
| Other | 264 | 83 |
| | <u><u>13,321</u></u> | <u><u>3,776</u></u> |

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Note 4: Income tax (continued)

(b) Movements in deferred tax balances

The nature and movements in deferred tax assets and liabilities during the year were as follows:

| | At 1 October \$'000 | Recognised in profit or loss \$'000 | Recognised in other comprehensive income \$'000 | Recognised directly in equity \$'000 | At 30 September \$'000 |
|---------------------------------|------------------------|---|--|--|------------------------------|
| 2017 | | | | | |
| Deferred tax assets | | | | | |
| Provisions | 10,337 | (278) | - | - | 10,059 |
| Accruals | 961 | 1,097 | - | - | 2,058 |
| Property, plant and equipment | 472 | 102 | - | - | 574 |
| Performance rights | 1,365 | 498 | - | - | 1,863 |
| Tax losses carried forward | 3,290 | (732) | - | - | 2,558 |
| Other | 3,575 | (1,668) | 215 | 696 | 2,818 |
| | <u>20,000</u> | <u>(981)</u> | <u>215</u> | <u>696</u> | <u>19,930</u> |
| Deferred tax liabilities | | | | | |
| Property, plant and equipment | (1,868) | (17) | - | - | (1,885) |
| Equity accounted investments | (1,376) | (210) | - | - | (1,586) |
| Intangibles | (3,797) | 349 | - | - | (3,448) |
| Other | (662) | (504) | - | - | (1,166) |
| | <u>(7,703)</u> | <u>(382)</u> | <u>-</u> | <u>-</u> | <u>(8,085)</u> |
| Total | 12,297 | (1,363) | 215 | 696 | 11,845 |
| 2016 | | | | | |
| Deferred tax assets | | | | | |
| Provisions | 8,935 | 1,402 | - | - | 10,337 |
| Accruals | 1,610 | (649) | - | - | 961 |
| Property, plant and equipment | 441 | 31 | - | - | 472 |
| Inventory | 519 | (519) | - | - | - |
| Performance rights | 953 | 412 | - | - | 1,365 |
| Tax losses carried forward | 657 | 2,633 | - | - | 3,290 |
| Other | 2,353 | 1,165 | 57 | - | 3,575 |
| | <u>15,468</u> | <u>4,475</u> | <u>57</u> | <u>-</u> | <u>20,000</u> |
| Deferred tax liabilities | | | | | |
| Property, plant and equipment | (1,442) | (426) | - | - | (1,868) |
| Equity accounted investments | (1,516) | 140 | - | - | (1,376) |
| Intangibles | (4,058) | 261 | - | - | (3,797) |
| Other | (1,502) | 840 | - | - | (662) |
| | <u>(8,518)</u> | <u>815</u> | <u>-</u> | <u>-</u> | <u>(7,703)</u> |
| Total | 6,950 | 5,290 | 57 | - | 12,297 |

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Note 5: Earnings per share

Accounting policy

Earnings per share ("EPS") is the amount of post-tax profit attributable to each share.

Basic earnings per share is calculated by dividing the net profit or loss attributable to shareholders of Ruralco Holdings Limited by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share reflects any commitments the Group has to issue shares in the future such as the impact of share options or restricted shares.

| | 2017 | 2016 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Reconciliation of earnings to profit and loss | | |
| Profit for the year | 30,826 | 8,870 |
| Less profit attributable to non-controlling interests | (8,406) | (4,574) |
| Earnings used to calculate basic and diluted EPS | <u>22,420</u> | <u>4,296</u> |

| | No. | No. |
|--|-------------------|-------------------|
| Weighted average number of shares used as a denominator | | |
| Weighted average number of ordinary shares in issue | <u>95,375,875</u> | <u>79,041,780</u> |

Diluted earnings per share

The calculation of diluted earnings per share at 30 September 2017 did not include any further adjustment for the effect of potential dilutive ordinary shares.

Earnings per share (cents per share)

| | | |
|-----------|-------|------|
| - Basic | 23.51 | 5.44 |
| - Diluted | 23.51 | 5.44 |

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Note 6: Trade and other receivables

Accounting policy

Trade receivables are recognised initially at the value of the invoice sent to the customer and subsequently at the amount considered recoverable (amortised cost). The carrying value of trade and other receivables is considered to approximate fair value.

Critical accounting estimates and judgements

Estimates are used in determining the level of receivables that will not be collected. These estimates include such factors as historical experience, the current state of the Australian and overseas economies, the financial situation of specific customers and industry specific factors. A provision for impairment of trade receivables is established when there is sufficient evidence that the Group will not be able to collect all amounts due.

Other receivables include accrued rebates. Rebates are accounted for as a reduction of the prices of the suppliers, products and reduce the cost of products as inventory is sold. Rebates are accrued for when probable and when they can be reasonably estimated. Due to the complexity and diversity of individual vendor agreements, we analyse and review historical trends to apply rates negotiated with vendors to estimated and actual purchase volumes to determine accruals. These accruals could be impacted if actual purchase volumes differ from projected volumes.

(a) Balance at year end

Trade and other receivables can be analysed as follows:

| | 2017 | 2016 |
|---|----------------|----------------|
| | \$'000 | \$'000 |
| Current | | |
| Trade receivables | 368,955 | 339,535 |
| Amounts receivable from related parties | 668 | 487 |
| Other receivables | 23,986 | 17,775 |
| | <u>393,609</u> | <u>357,797</u> |
| Non-current | | |
| Amounts receivable from related parties | <u>857</u> | <u>1,646</u> |

(b) Trade receivables ageing

| | Gross | Impairment* | Gross | Impairment* |
|------------------------------|----------------|--------------------|----------------|--------------------|
| | 2017 | 2017 | 2016 | 2016 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Not past due | 322,119 | (2,596) | 297,774 | (746) |
| Past due 0-30 days | 38,803 | (539) | 29,506 | (159) |
| Past due 31 - 90 days | 6,119 | (294) | 5,727 | (252) |
| Past due 90 days to one year | 6,564 | (1,547) | 7,810 | (728) |
| More than one year | 2,733 | (2,407) | 7,744 | (7,141) |
| | <u>376,338</u> | <u>(7,383)</u> | <u>348,561</u> | <u>(9,026)</u> |

* In accordance with AASB 9, an impairment loss provision is included to impair debtors that may become doubtful in future periods.

The movement in the allowance for impairment of trade receivables during the year was as follows:

| | 2017 | 2016 |
|--------------------------------------|----------------|----------------|
| | \$'000 | \$'000 |
| Balance at the beginning of the year | (9,026) | (6,861) |
| Movement from adoption of AASB 9 | - | (4,885) |
| Increase to provision | (165) | (3,002) |
| Amount charged against provision | 1,808 | 5,722 |
| Balance at the end of the year | <u>(7,383)</u> | <u>(9,026)</u> |

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Note 7: Inventories

Accounting policy

Inventories are recognised initially at cost and subsequently at the lower of cost and the estimated selling price less cost to sell (net realisable value). Costs comprise purchase cost on a weighted average basis after deducting any settlement discount and including logistics expenses incurred in bringing inventories to their present location.

Volume-related supplier rebates, and supplier promotional rebates, where they exceed spend on promotional activities, are recognised as a reduction in the cost of inventory.

Work in progress represents the value of unbilled labour and materials in the Water Services business, less provisions for amounts considered non-recoverable.

Critical accounting estimates and judgements

Estimates are used in determining the level of stock that is slow moving or obsolete. These estimates include such factors as stock turnover and current sales pricing. A provision for stock obsolescence of inventory is established when there is sufficient evidence that the Group will not be able to sell stock held on hand.

The timing of revenue recognition in relation to Water Services contracts is subject to judgement. Management ensures that the timing of revenue recognition in relation to these contracts is appropriate through regular re-assessments of the percentage completion and the costs to complete the projects and this is managed through the work in progress account.

| | 2017 | 2016 |
|------------------|----------------|----------------|
| | \$'000 | \$'000 |
| Finished goods | 139,628 | 112,624 |
| Work in progress | 2,242 | 1,376 |
| | <u>141,870</u> | <u>114,000</u> |

The balance of finished goods above is net of a provision for slow moving and obsolete stock of \$3,299,648 (2016: \$2,755,347).

Inventory write downs

| | | |
|--|------------|--------------|
| Inventory write downs included in cost of goods sold | <u>855</u> | <u>3,353</u> |
|--|------------|--------------|

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Note 8: Biological assets

Accounting policy

The Group holds biological assets in the form of livestock, primarily cattle, for the purposes of servicing livestock export contracts. The Group holds dairy and beef breeder cattle (Holstein, Jersey and Angus) and northern Brahman feeder and slaughter cattle. These livestock are initially recognised at cost and subsequently measured at fair value less costs to sell. Costs to sell include all costs that would be necessary to sell the livestock, including freight, agistment and animal health costs.

Critical accounting estimates and judgements

Cattle fair value is based on the market price of livestock of a similar age, weight, breed and genetic make-up and is determined by reference to Meat & Livestock Australia (MLA) market prices. As these prices are observable, they are deemed Level 2 inputs.

The Group recognises the net increments or decrements in the market value of livestock as either other income or expense in profit or loss, determined as:

- the difference between the total net market value of livestock recognised at the beginning of the financial year and the total net market value of livestock recognised at the reporting date; less
- costs expected to be incurred in realising the market value (including freight and selling costs).

The fair value of livestock recognised at year end is as follows:

| | 2017 | 2016 |
|-----------|---------------|---------------|
| | \$'000 | \$'000 |
| Livestock | 18,325 | 15,666 |

At 30 September 2017 the Group held 19,381 head of cattle (2016: 17,876).

Reconciliation of carrying amount

| | | |
|--|---------------|---------------|
| Balance at the beginning of the year | 15,666 | 8,863 |
| Increase due to purchases | 134,397 | 145,916 |
| Gain arising from the changes in fair value less costs to sell | - | 1,730 |
| Decrease attributable to sales | (131,738) | (140,843) |
| | <u>18,325</u> | <u>15,666</u> |

Asset deterioration or loss risk

The Group's livestock asset is exposed to the risk of potential asset deterioration (impacting its value) and asset loss. The risk revolves around damage or loss caused by animal disease or other natural forces. The Group manages this risk through a number of operating and structure related practices including risk mitigating animal husbandry management practices, risk mitigating animal holding structures and regular animal inspections and monitoring.

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Note 9: Property, plant and equipment

Accounting policy

Freehold land and buildings are measured at fair value based on periodic, but at least triennial, valuations by external independent valuers. Movements in the carrying amounts arising on revaluation of land and buildings are recognised (net of tax) primarily in the revaluation reserve in equity or alternatively in profit or loss if a decrease in fair value is an indication of impairment.

Plant and equipment and leasehold improvements are recognised at the cost originally paid less depreciation and any impairment losses.

Capital work in progress are transferred to asset categories and depreciated from when they are available for use in the manner intended by management.

Land and capital works in progress are not depreciated. Depreciation of buildings, leasehold improvements and plant and equipment is calculated using the straight-line method over their estimated useful lives, as follows:

Freehold buildings: 25 to 50 years

Leasehold improvements: the lease term ranging from 1 to 10 years

Plant and equipment: 3 to 20 years

Critical accounting estimates and judgements

The annual depreciation charge is sensitive to the estimated useful life of each asset and the expected residual value at the end of its life. Property, plant and equipment that is subject to depreciation is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Indicators of impairment may include changes in technology and business performance.

The calculation of fair value of freehold land and buildings involves the use of estimates. Land has been classified as non-specialised assets and accordingly valued on the basis of market value with reference to observable prices in an active market, using traditional valuation methods including sales comparison (Level 2 price inputs).

Buildings are valued on the capitalisation basis where the current market net income is capitalised (multiplied) in perpetuity to arrive at the market value of the property. Some building assets are specialised, but most are considered non-specialised but with few sales of properties to reliably assess market values. The specialised assets have been valued on a depreciated replacement cost basis. These valuations assume adequate service potential and profitability and a continuation of the need for the asset. Regard has been given to market prices for construction costs, the likely economic life of the buildings, the condition at the date of inspection and design aspects.

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Note 9: Property, plant and equipment (continued)

Movements in carrying amounts

Movements in the carrying amounts for each class of property, plant and equipment during the current and prior year are as follows:

| | Land | Buildings | Leasehold improvements | Plant and equipment | Capital work in progress | Total |
|--|--------------|---------------|------------------------|---------------------|--------------------------|-----------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Cost or Fair value | | | | | | |
| 1 October 2015 | 6,201 | 14,124 | 7,047 | 38,078 | 64 | 65,514 |
| Additions | - | 63 | 636 | 4,489 | 618 | 5,806 |
| Assets acquired in business combinations | - | - | 194 | 2,238 | - | 2,432 |
| Disposals | (170) | - | (543) | (5,292) | (34) | (6,039) |
| Revaluation of assets | - | - | - | (44) | - | (44) |
| Transfers (to)/from CWIP | - | 192 | - | 198 | (390) | - |
| 30 September 2016 | 6,031 | 14,379 | 7,334 | 39,667 | 258 | 67,669 |
| Additions | - | - | 1,091 | 2,875 | 2,104 | 6,070 |
| Assets acquired in business combinations | - | 4 | 406 | 3,505 | - | 3,915 |
| Disposals | (76) | - | (540) | (5,011) | - | (5,627) |
| Revaluation of assets | - | - | (80) | - | - | (80) |
| Transfers (to)/from CWIP | - | 151 | 841 | 885 | (1,877) | - |
| 30 September 2017 | 5,955 | 14,534 | 9,052 | 41,921 | 485 | 71,947 |
| Depreciation | | | | | | |
| 1 October 2015 | - | (120) | (4,073) | (21,457) | - | (25,650) |
| Disposals | - | - | 424 | 3,770 | - | 4,194 |
| Depreciation expense | - | (216) | (699) | (4,423) | - | (5,338) |
| 30 September 2016 | - | (336) | (4,348) | (22,110) | - | (26,794) |
| Disposals | - | - | 406 | 4,296 | - | 4,702 |
| Depreciation expense | - | (220) | (694) | (4,975) | - | (5,889) |
| 30 September 2017 | - | (556) | (4,636) | (22,789) | - | (27,981) |
| Net book value | | | | | | |
| 30 September 2016 | 6,031 | 14,043 | 2,986 | 17,557 | 258 | 40,875 |
| 30 September 2017 | 5,955 | 13,978 | 4,416 | 19,132 | 485 | 43,966 |

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Note 10: Intangible assets

Accounting policy

(i) Goodwill

Goodwill represents the future economic benefits that arise from assets that are not capable of being individually identified and separately recognised when the Group acquires a business. Goodwill is calculated as the excess of the amount paid over the fair value of the Group's share of the individual assets and liabilities acquired.

Goodwill is initially measured at cost and subsequently at its recoverable amount, being cost less accumulated impairment losses. Goodwill is not amortised but tested annually for impairment and when circumstances indicate that the carrying value may be impaired. Goodwill is allocated to cash generating units ("CGUs"), which represent the smallest group of assets that independently generate cash flows and are based on the level at which goodwill is monitored internally by management.

Acquisitions of non-controlling interests are accounted for as transactions with equity holders and therefore no goodwill is recognised as a result of such transactions. In respect of the Group's investment in associates and joint ventures, the carrying amount of goodwill is included in the carrying amount of the investment.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Negative goodwill arising on an acquisition is recognised directly in profit or loss.

(ii) Other intangible assets

Other intangible assets are those that are identifiable and can be sold separately or arise from legal rights. These can be acquired or internally generated. Each material class of intangible's valuation method on initial recognition, amortisation method and estimated useful life is set out below:

| Class of intangible asset | Valuation method | Amortisation method | Estimated useful life |
|--------------------------------------|--|--------------------------------|-----------------------|
| Brand names | Applying a royalty rate to the expected future revenues over the life of the brand. | Tested annually for impairment | Indefinite life |
| Customer contracts and relationships | Expected future cash flows from those relationships existing at the date of acquisition are estimated. These cash flows are then discounted back to present value. | Straight line | 3 to 15 years |
| Rent rolls | Expected future cash flows from those rental agreements existing at the date of acquisition are estimated. These cash flows are then discounted back to present value. | Straight line | 10 years |
| Insurance books | Expected future cash flows from those insurance agreements existing at the date of acquisition are estimated. These cash flows are then discounted back to present value. | Straight line | 5 years |
| IT development and software | Initially at cost and subsequently at cost less amortisation. Costs include external direct costs of materials and services, and direct payroll and payroll related costs of employees' time spent on the project. | Straight line | 3 to 10 years* |

*: Majority of such assets are amortised between 3 to 5 years but for example, capitalised costs related to the implementation of SAP ERP systems are considered to have a longer useful life given the expected pattern of use.

Critical accounting estimates and judgements

For internal IT projects to develop products or systems, judgement is involved in determining which costs relate to research phase and which relate to the development phase of the project. This is because research costs are expensed to the profit or loss as incurred. IT development costs are capitalised to intangible assets where the Group has an intention and ability to use the related asset.

Those intangibles considered to have indefinite lives, such as goodwill and brand names, are tested annually for impairment or more frequently if indicators of impairment are identified. The allocation of goodwill and brand names and the determination of the existence of indicators of impairment requires judgement. The performance of impairment testing involves making an estimate of the recoverable amount of CGUs to which the goodwill and brand names have been allocated. Further details of the methods used and key assumptions made are detailed below in this note.

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Note 10: Intangible assets (continued)

Accounting policy (continued)

Those intangibles considered to have indefinite lives, such as goodwill and brand names, are tested annually for impairment or more frequently if indicators of impairment are identified. The allocation of goodwill and brand names and the determination of the existence of indicators of impairment requires judgement. The performance of impairment testing involves making an estimate of the recoverable amount of CGUs to which the goodwill and brand names have been allocated. Further details of the methods used and key assumptions made are

Set out below is the movement in the cost, accumulated amortisation and impairment of the Group's intangible assets:

| | Goodwill | Brand names | Customer contracts & relationships | IT development & software | Other* | Capital work in progress | Total |
|--|-----------------|--------------------|---|--------------------------------------|---------------|---------------------------------|-----------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Cost | | | | | | | |
| 1 October 2015 | 106,790 | 15,298 | 5,793 | 19,303 | 1,412 | 2,816 | 151,412 |
| Additions | - | - | - | 3,500 | 694 | 4,733 | 8,927 |
| Transfers from CWIP | - | - | - | 3,199 | - | (3,199) | - |
| Assets acquired in business combinations | 7,900 | 314 | - | - | 500 | - | 8,714 |
| Disposals | (333) | - | - | (156) | (4) | - | (493) |
| 30 September 2016 | 114,357 | 15,612 | 5,793 | 25,846 | 2,602 | 4,350 | 168,560 |
| Additions | - | - | - | 4,140 | 182 | 16,494 | 20,816 |
| Transfers from CWIP | - | - | - | 2,841 | - | (2,841) | - |
| Assets acquired in business combinations | 49,838 | 1,352 | 1,462 | 41 | 30 | - | 52,723 |
| Disposals | - | - | - | (1,081) | (472) | - | (1,553) |
| 30 September 2017 | 164,195 | 16,964 | 7,255 | 31,787 | 2,342 | 18,003 | 240,546 |
| Amortisation | | | | | | | |
| 1 October 2015 | (1,255) | - | (3,046) | (12,868) | (19) | - | (17,188) |
| Amortisation charge | - | - | (884) | (3,069) | (114) | - | (4,067) |
| 30 September 2016 | (1,255) | - | (3,930) | (15,937) | (133) | - | (21,255) |
| Amortisation charge | - | - | (1,207) | (3,113) | (281) | - | (4,601) |
| 30 September 2017 | (1,255) | - | (5,137) | (19,050) | (414) | - | (25,856) |
| Net book value | | | | | | | |
| 30 September 2016 | 113,102 | 15,612 | 1,863 | 9,909 | 2,469 | 4,350 | 147,305 |
| 30 September 2017 | 162,940 | 16,964 | 2,118 | 12,737 | 1,928 | 18,003 | 214,690 |

* Other includes patents and licences, rent rolls and insurance books. These intangibles are not individually material, and are disclosed in aggregate.

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Note 10: Intangible assets (continued)

Impairment testing

An impairment test is performed by assessing the recoverable amount of each asset, or for goodwill and brand names, the related cash generating unit (or group of cash-generating units (CGU's)) and comparing this with its carrying value. The recoverable amount is the higher of an asset's fair value less costs to sell and 'value in use'. The value in use is based on the present value of the future cash flows expected to arise from the asset.

Estimates are used in deriving these cash flows and the discount rate. Such estimates reflect current market assessments of the risks specific to the asset and the time value of money. The estimation process is complex due to the inherent risks and uncertainties. If different estimates of the projected future cash flows or a different selection of an appropriate discount rate or long-term growth rate were made, these changes could materially alter the projected value of the cash flows of the asset, and as a consequence materially different amounts would be reported in the financial statements. An impairment loss in respect of goodwill is not reversed.

The aggregate carrying amounts of goodwill and brand names allocated to each group of CGUs are as follows:

| | 2016 \$'000 | 2017 Acquisitions allocation | 2017 \$'000 |
|------------------------------|----------------|------------------------------------|----------------|
| Goodwill | | | |
| Combined Rural Traders (CRT) | 12,051 | - | 12,051 |
| Mainland Operations | 50,504 | 5,186 | 55,690 |
| Tasmanian Operations | 4,450 | 11,818 | 16,268 |
| Financial Services | 301 | - | 301 |
| Water Services | 45,796 | 32,834 | 78,630 |
| | <u>113,102</u> | <u>49,838</u> | <u>162,940</u> |
| Brand names | | | |
| Combined Rural Traders (CRT) | 14,400 | - | 14,400 |
| Mainland Operations | 314 | 231 | 545 |
| Tasmanian Operations | - | 214 | 214 |
| Water Services | 898 | 907 | 1,805 |
| | <u>15,612</u> | <u>1,352</u> | <u>16,964</u> |

\$51,190,000 of goodwill and brand names arising from the multiple acquisitions that occurred in 2017 have been provisionally allocated to groups of CGU's. The result was the allocation of \$5,417,000 to the Mainland Operations group of CGU's, \$12,032,000 to the Tasmanian Operations CGU and \$33,741,000 to the Water group of CGU's. The amounts allocated will be finalised when provisional fair value accounting is complete.

The assessment of the recoverable amounts of goodwill is based on value-in-use calculations undertaken at the CGU or group of CGU's level. The carrying amounts of goodwill in these CGU's were fully supported as at the reporting date. The following describes the key assumptions supporting the cash flow projections:

| Key assumption | Description |
|---------------------|---|
| Cash flow forecasts | Cash flow projections for a 5 year period used based on Board approved budget for FY18 and calculated forecasts for FY19 to FY22 by using FY18 as a base and then adopting growth rates set out below. |
| Growth rates | Growth rates used in the financial projections are based on the Group's expectations for future performance and do not normally exceed the long-term growth rate for the business in which each CGU operates. Average annual growth rates range between 3% and 10% per annum (2016: 3% and 25% per annum) with the latter end of the range reflecting a change in the expectations for the Financial Services operations. |
| Terminal values | Terminal values calculated after year 5 have been determined using the Gordon Growth model having regard to the weighted average cost of capital (WACC) below and a terminal growth rate of 2.5% (2016: 2.5%). |
| Discount rates | Post tax WACC of 9.1% to 11.2% (2016: 8.9% to 12.9%), reflecting the risk estimates from a market perspective for the various CGUs. |

The value-in-use calculations are sensitive to changes in the key assumptions used in the impairment testing. As such, a sensitivity analysis was undertaken to examine the effect of changes in key assumptions that would cause the carrying amount to exceed the recoverable amount for each CGU. Management believes that post tax WACC would need to change by 0.9% for the estimated recoverable amount to be equal to the carrying value in the Water Services group of CGU's.

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Note 11: Financial instruments

Accounting policy

(i) Trade and other payables

Trade payables are recognised at the value of the invoice received from a supplier and are non-interest bearing. The carrying value of trade and other payables is considered to approximate fair value.

(ii) Loans and borrowings

Borrowings are recognised initially at fair value of the funds received less directly attributable transaction costs, with subsequent measurement at amortised cost using the effective interest rate method. Under the effective interest method the difference between the amount initially recognised and the redemption value is recorded in profit or loss over the period of the borrowing on an effective interest basis.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(iii) Derivative financial instruments

The Group enters into derivative financial instruments (primarily forward foreign exchange contracts) from time to time to hedge its foreign currency risk exposures. Such instruments are used to hedge transaction risk so they enable the sale or purchase of foreign currency at a known fixed rate on an agreed future date. Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value with the movement recorded in profit or loss within net financing costs, except where derivatives qualify for cash flow hedge accounting. In this case, the effective portion of a cash flow hedge is recognised in other comprehensive income and presented in the cash flow hedge reserve within equity. The cumulative gain or loss is later reclassified to profit or loss in the same period as the relevant hedged transaction is realised. Derivatives with positive fair values are recorded as assets and negative fair values as liabilities.

The accounting policies and disclosures with respect to finance leases are included in note 14.

Critical accounting estimates and judgements

The fair value of forward foreign exchange contracts is determined by using the difference between the contract exchange rate and the quoted forward exchange rate at the reporting date (Level 2 inputs).

(a) Balance at year end

The carrying amount of financial liabilities, which represent the maximum liquidity risk exposure are as follows:

| | | 2017 | 2016 |
|--------------------------------------|-------------|----------------|----------------|
| | Note | \$'000 | \$'000 |
| Current | | | |
| Trade and other payables: | | | |
| Trade payables | | 304,379 | 294,179 |
| Sundry payables and accrued expenses | | 125,328 | 107,141 |
| | | <u>429,707</u> | <u>401,320</u> |
| Derivative financial liabilities | | 389 | 168 |
| Loans and borrowings: | | | |
| Bank loans | | 14,590 | 21 |
| Other loans | | 2,370 | 2,156 |
| Loans from related parties | | 630 | 1,002 |
| Finance lease liabilities | 14(b) | 733 | 1,121 |
| | | <u>18,323</u> | <u>4,300</u> |
| | | <u>448,419</u> | <u>405,788</u> |
| Non-current | | | |
| Loans and borrowings: | | | |
| Bank loans | | 95,000 | 65,091 |
| Finance lease liabilities | 14(b) | 645 | 542 |
| | | <u>95,645</u> | <u>65,633</u> |

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Note 11: Financial instruments (continued)

(b) Bank facilities

The following tables provide details of the components of the bank facilities available to the Group:

2017

| Facility (\$000) | Maturity | Facility limit | Utilised |
|--------------------------------|----------|----------------|----------|
| Bank overdraft | Oct-18 | 10,000 | - |
| Multi option facility | Oct-18 | 40,000 | - |
| Debtor securitisation facility | Oct-18 | 180,000 | 95,000 |
| Seasonal cattle facility | Dec-17 | 20,000 | 14,590 |

During the full year end 30 September 2017 the following changes occurred with respect to the Group's bank facilities:

- The multi option facility maturity has been extended to 13 months from balance date and the facility amended to include a \$40million uncommitted facility and a \$10million overdraft facility;
- The debtor securitisation facility maturity has been extended to 13 months from balance date and the limit was increased to \$180million from \$150million; and
- Seasonal Cattle Facility opened on 27 December 2016 for use by the Live Export business with a limit of \$20million.

The Group's financing facilities contains undertakings including an obligation to comply at all times with certain financial covenants that require the Group to operate within certain financial ratio threshold levels as well as ensuring subsidiaries contribute minimum threshold amounts of the Group's Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) and Group's Total Assets.

The main financial covenants that the Group is subject to under these facilities at each balance sheet reporting date are a deminimus total shareholder equity threshold, interest cover ratio and proforma leverage ratio (adjusted to annualise the expected earnings for acquisitions) maximum that is different at March and September reflecting the differing working capital (and therefore debt) positions of the Group at these two points in time. Financial covenants testing is undertaken and reported to the Board on a monthly basis. The Group has complied with all financial obligations under these facilities throughout the period.

2016

| Facility (\$000) | Maturity | Facility limit | Utilised |
|--------------------------------|----------|----------------|----------|
| Multi option facility | Sep-17 | 60,000 | - |
| Debtor securitisation facility | Oct-17 | 150,000 | 65,000 |

The maturity dates of the Group's revolving \$150 million Debtor Securitisation Facility was extended to 13 months and the \$60 million Multi Option Facility was extended to 18 months prior to 30 September 2016.

The Group's financing facilities contain undertakings including an obligation to comply at all times with certain financial covenants that require the Group to operate within certain financial ratio threshold levels as well as ensuring subsidiaries contribute minimum threshold amounts of the Group's Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) and the Group's Total Assets.

The main financial covenants that the Group is subject to under these facilities at the balance sheet date are an Interest Cover Ratio and Tangible Net Worth hurdle amount. Financial covenants testing is undertaken and reported to the Board on a monthly basis. The Group complied with all financial obligations under these facilities throughout the year. To better support the Group's strategic priorities, Management and the Group's financiers agreed to amend the Group's financial covenants to allow for greater flexibility in funding acquisitions and to better reflect the Group's seasonal working capital cycle. This was reflected in increased thresholds for permitted acquisitions and updated reportable covenants that include a deminimus total shareholder equity threshold, interest cover ratio and leverage ratio maximum that is different at March and September reflecting the differing working capital (and therefore debt) positions of the Group at these two points in time.

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Note 11: Financial instruments (continued)

(c) Carrying value vs fair value

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for debt on similar terms, taking into account credit risk and remaining maturities. The carrying amount of trade and other payables, other loans and loans from related parties approximate fair value due to their short term nature.

| | Level 1 Fair value \$'000 | Level 2 Fair value \$'000 | Level 3 Fair value \$'000 | Total \$'000 |
|---|---------------------------------|---------------------------------|---------------------------------|-----------------|
| 30 September 2017 | | | | |
| <i>Assets</i> | | | | |
| Derivative financial assets used for hedging | 104 | - | - | 104 |
| Biological assets | - | 18,325 | - | 18,325 |
| Land & buildings | - | 19,933 | - | 19,933 |
| | <u>104</u> | <u>38,258</u> | <u>-</u> | <u>38,362</u> |
| <i>Liabilities</i> | | | | |
| Derivative financial liabilities used for hedging | (389) | - | - | (389) |
| Contingent consideration | - | - | 11,288 | 11,288 |
| | <u>(389)</u> | <u>-</u> | <u>11,288</u> | <u>10,899</u> |
| 30 September 2016 | | | | |
| <i>Assets</i> | | | | |
| Derivative financial assets used for hedging | 283 | - | - | 283 |
| Biological assets | - | 15,666 | - | 15,666 |
| Assets held for sale | - | 1,350 | - | 1,350 |
| Land & buildings | - | 20,074 | - | 20,074 |
| | <u>283</u> | <u>37,090</u> | <u>-</u> | <u>37,373</u> |
| <i>Liabilities</i> | | | | |
| Derivative financial liabilities used for hedging | (168) | - | - | (168) |
| | <u>(168)</u> | <u>-</u> | <u>-</u> | <u>(168)</u> |

The following table shows the valuation techniques used in measuring Level 3 fair values for financial instruments measured at fair value in the statement of financial position, as well as the significant unobservable input used.

| Type | Valuation Technique | Significant unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurement |
|--------------------------|--|--|---|
| Contingent consideration | Discounted cash flows: The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate. The expected payment is determined by considering the possible scenarios of forecast revenue and EBITDA, the amount to be paid under each scenario and the probability of each scenario. | - Forecast annual revenue growth rate of acquired entities (7-8%) - Forecast EBITDA margin (13-14%) | The estimated fair value would increase if (decrease) if: - the annual revenue growth rate were higher / (lower); and / or - the EBITDA margin were higher / (lower). |

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Note 12: Issued capital and reserves

Accounting policy

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds of issue. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person, or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(ii) Treasury shares

The Group controls an employee share plan trust that holds shares of the parent company for the purposes of allocating shares to eligible employees.

When share capital recognised as equity is repurchased by the employee share plan trust, the amount of the consideration paid is recognised as a deduction from equity on consolidation. Repurchased shares are classified as a separate component of equity in reserve for own shares. When treasury shares are issued to eligible employees, the cost of the shares allocated is recognised as an increase in equity and an expense in profit or loss.

(a) Issued capital

Movement in number of issued shares:

| | As at 30-Sep-17 \$'000 | As at 30-Sep-16 \$'000 |
|---|------------------------------|------------------------------|
| 104,464,002 (September 2016: 79,259,913) ordinary shares fully paid | 238,795 | 173,248 |
| | Number of shares | Issue Price |
| Opening balance at 1 October 2015 | 78,531,866 | 170,731 |
| Dividend reinvestment plan issue of new shares - December 2015 | 534,464 | \$3.45 |
| Dividend reinvestment plan issue of new shares - June 2016 | 193,583 | \$3.51 |
| Closing balance at 30 September 2016 | 79,259,913 | 173,248 |
| Dividend reinvestment plan issue of new shares - December 2017 | 37,906 | \$2.56 |
| Issue of new shares under the Institutional Entitlement Offer and Placement | 19,721,696 | \$2.66 |
| Issue of new shares under the Retail Offer | 4,716,573 | \$2.66 |
| Transaction costs arising from issue of shares (net of tax) | - | (1,668) |
| Dividend reinvestment plan issue of new shares - June 2017 | 727,914 | \$2.91 |
| Closing balance at 30 September 2017 | 104,464,002 | 238,795 |

(b) Nature and purpose of reserves

Total equity of the Group includes the following reserves:

| | 2017 \$'000 | 2016 \$'000 |
|--------------------------------------|----------------|----------------|
| Asset revaluation reserve | 3,460 | 4,228 |
| Cash flow hedge reserve | (352) | (123) |
| Foreign currency translation reserve | - | (1) |
| Share based payments reserve | 6,417 | 5,566 |
| Reserve for own shares | (4,136) | (4,411) |
| | 5,389 | 5,259 |

Nature and purpose of reserves:

- (i) Asset revaluation reserve
The asset revaluation reserve is used to recognise the changes to fair values of each property carried at fair value.
- (ii) Cash flow hedge reserve
Gains and losses on hedging instruments that are designated as hedging instruments for hedges of forward foreign exchange contracts are captured in the cash flow hedge reserve.
- (iii) Foreign currency translation reserve
Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Australian dollars) are recognised directly in other comprehensive income and
- (iv) Share based payments reserve
The share based payments reserve is used to recognise the fair values of performance rights granted to the Managing Director, Executives and senior management but not vested and exercised yet.
- (v) Reserve for own shares
Treasury shares are the Company's own shares, which are held in trust for employees in a special purpose entity. At 30 September 2017, the Group held 256,272 (2016: 568,100) of the Company's shares.

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Note 13: Managing capital

(a) Capital risk management

The Board's objectives when managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. There was no change in the Group's approach to capital management during the year.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital risk through a range of metrics including the gearing ratio. This ratio is calculated as net debt divided by total equity plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents. Total equity is as shown in the statement of financial position (including non-controlling interest).

The Group's dividend policy seeks to balance the needs of shareholders and the business with dividends declared reflective of the Group's current and projected cash position, profit generation and available franking credits.

In setting the Group's policies, the Board recognises the following demands on the Group's cash flows:

- * To provide an adequate return to the shareholders of Ruralco (being a diversified agribusiness);
- * To fund the Group's working capital and maintenance capex requirements;
- * To fund the Group's growth acquisitions in line with stated strategic objectives; and
- * To maintain an optimal capital structure and repay debt as required to meet applicable banking covenants.

In acknowledging these competing demands, the Board has established the following guiding principles:

- * gearing to remain within 25-45% on a normalised business cycle basis; and
- * maintain a dividend payout ratio of between 40% and 60% of underlying earnings per share.

| | Note | 2017 \$'000 | 2016 \$'000 |
|--|-------------|------------------------|------------------------|
| Total borrowings | 11 | 109,590 | 65,112 |
| Debt like items included within other balance sheet categories | | 2,853 | 2,801 |
| Less: cash and cash equivalents | 17 | (22,789) | (5,417) |
| Net debt | | 89,654 | 62,496 |
| Total equity | | 290,640 | 211,121 |
| Total debt and equity | | 380,294 | 273,617 |
| Gearing ratio | | 23.6% | 22.8% |
| Underlying EPS | | 27.41 | 16.96 |
| Full year dividend (cents) | | 15.00 | 10.00 |
| Dividend payout ratio | | 55.0% | 59.0% |

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Note 13: Managing capital (continued)

(b) Dividends

Accounting policy

Dividends are provided for when appropriately authorised and no longer at the discretion of the Group.

| | 2017 | 2016 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| Dividends paid during the year to owners of the Company | | |
| Final franked dividend for the year ended 30 September 2016 of 2 cents per fully paid share paid on 19 December 2016* (2016: 7 cents in respect of the year ended 30 September 2015) | 1,585 | 5,477 |
| Interim franked dividend for the year ended 30 September 2017 of 9 cents per fully paid share paid on 20 June 2017* (2016: 8 cents in respect of the year ended 30 September 2016) | 9,336 | 6,302 |
| | <u>10,921</u> | <u>11,779</u> |

* Dividends paid has been adjusted for amount paid to Ruralco employee share plan.

Franked dividends declared or paid during the year were franked at the tax rate of 30% (2016: 30%).

| | | |
|--|--------------|--------------|
| Dividends not recognised at year end | <u>6,268</u> | <u>1,585</u> |
| Since the year end, the directors recommended the payment of a final franked dividend to Ruralco Holdings Limited shareholders of 6 cents per fully paid ordinary share (2016: 2 cents). The aggregate amount of the proposed dividend, expected to be paid on 18 December 2017 out of 2017 profits, but not recognised as a liability at year end is \$6,267,840. | | |

Dividend franking account balance

The amounts of franking credits calculated at 30% (2016: 30%) available for subsequent financial years are:

| | 2017 | 2016 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Franking account balance at the end of the financial year | <u>36,280</u> | <u>29,220</u> |

The above available amounts are based on the balance of the dividend franking account at year end adjusted for:

- (a) franking credits that will arise from the payment of the current tax liabilities;
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the year end;
- (c) franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at year end; and
- (d) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon the Group's ability to declare dividends. The impact on the dividend franking account of dividends proposed after the balance date but not recognised as a liability is to reduce it by \$2,686,217 (2016: \$679,371).

Dividend reinvestment plan

The Company has established a dividend reinvestment plan, which operates at the discretion of the Board. This plan operated for the dividends paid during this financial year.

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Note 14: Capital and leasing commitments

Accounting policy

Leases of property, plant and equipment where the Group as lessee has substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition at the commencement of the lease, the leased asset is recognised within property, plant and equipment and is measured at an amount equal to the lower of its fair value and the present value of the future minimum lease payments. Subsequent to initial recognition the asset is accounted for in accordance with the accounting policy applicable to the asset set out in note 9. The corresponding rental obligations, net of finance charges, are included in current and non current loans and borrowings in note 11. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to achieve a constant rate of interest on the remaining balance of the liability for each period.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight line basis over the period of the lease.

(a) Operating lease commitments

Leases as lessee

The Group leases a number of office, warehouse and saleyard facilities under operating leases. The leases vary considerably in lease terms, with the majority for a period of 3 to 5 years, with options to renew the leases for a further 3 to 5 years. Lease payments are increased according to the various lease agreements, usually in line with the local consumer price index.

| | 2017 | 2016 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| Future minimum payments under non-cancellable operating leases are as follows: | | |
| Less than one year | 23,666 | 14,584 |
| Between one and five years | 40,176 | 23,345 |
| More than five years | 6,380 | 2,186 |
| | <u>70,222</u> | <u>40,115</u> |

The expense recognised in the statement of profit or loss and comprehensive income in "property and equipment expenses" during the year in respect of operating leases is \$28,684,257 (2016: \$29,899,323).

Leases as lessor

The Group leases space in 8 of its warehouses and 5 office spaces for periods up to 5 years.

Future minimum receipts under non-cancellable operating leases are as follows:

| | | |
|----------------------------|--------------|--------------|
| Less than one year | 2,149 | 1,948 |
| Between one and five years | 3,888 | 3,478 |
| | <u>6,037</u> | <u>5,426</u> |

The lease income recognised in the statement of profit or loss and comprehensive income in "sundry revenue" during the year in respect of operating leases is \$2,002,673 (2016: \$2,142,542).

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Note 14: Capital and leasing commitments (continued)

(b) Finance lease commitments

| | | 2017 \$'000 | 2016 \$'000 |
|--|-------------|------------------------------|------------------------------|
| The Group has finance lease commitments for motor vehicles payable as follows: | | | |
| | Note | | |
| Less than one year | | 768 | 1,156 |
| Between one and five years | | 670 | 560 |
| | | <u>1,438</u> | <u>1,716</u> |
| Future finance charges | | (60) | (52) |
| Total lease liabilities | | <u>1,378</u> | <u>1,664</u> |
| Representing lease liabilities: | | | |
| Current | 11 | 733 | 1,121 |
| Non-current | 11 | 645 | 543 |
| | | <u>1,378</u> | <u>1,664</u> |

(c) Capital and other commitments

The Group discloses capital and other commitments comprising contracted capital expenditure that will result in cash outflows in future years, but are not recognised as a liability at reporting date.

The Group has no capital expenditure commitments contracted as at the reporting date not recognised as liabilities payable, however discloses the following other commitments for freight and forward bought cattle to supply identified sale contracts related to the livestock export business:

| | | |
|-------------------------------|--------------|---------------|
| Livestock related commitments | 5,571 | 18,528 |
| Freight related commitments | 1,151 | 1,331 |
| | <u>6,722</u> | <u>19,859</u> |

Note 15: Contingent liabilities

The Group has guarantees issued in respect of contract performance in the normal course of business for controlled entities.

| | 2017 \$'000 | 2016 \$'000 |
|------------|------------------------------|------------------------------|
| Guarantees | <u>25,416</u> | <u>26,111</u> |

In the ordinary course of business the Group is called upon to give guarantees and indemnities to counterparties, relating to the performance of contractual and financial obligations (including for controlled entities and related parties). Other than as noted above, these guarantees and indemnities are indeterminable in amount.

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Note 16: Segment reporting

Accounting policy

The Group determines and presents operating segments based on the information that is internally provided to the Managing Director, who is the Group's chief operating decision maker.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. Segment revenue, gross profit and EBITDA is net of revenues and expenses that relate to transactions with any of the Group's other segments. The financial results of each operating segment are regularly reviewed by the Group's Managing Director in order to make decisions about resources to be allocated to the segment and to assess its performance.

Segment results that are reported to the Managing Director include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Group's headquarters and related intangible assets, related party loans and prepayments), head office expenses, income taxes and deferred tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most of these assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and borrowings.

The Group comprises the following reportable segments:

- Rural Services: offers livestock agency, wool broking, real estate services and sells rural supplies,
- Water Services: supplies and installs water related products, provides irrigation and planning services,
- Live Export: supplies feeder and slaughter cattle from Australia to International markets, primarily in South East Asia,
- Financial Services: comprises finance broking and agricultural advisory services. During the current year, the investment in Ausure Ruralco and Agfarm Unit Trust have been moved to be reported under this segment, and
- Corporate & Other: comprises the Group's back office Corporate, Supply Chain and Procurement cost centres.

| | Rural Services | | Water Services | | Live Export | | Financial Services | | Corporate & Other | | Total | |
|---|----------------|-----------|----------------|---------|-------------|---------|--------------------|---------|-------------------|----------|-----------|-----------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Results | | | | | | | | | | | | |
| Segment revenues | 1,427,375 | 1,397,064 | 223,133 | 188,273 | 172,442 | 199,151 | 3,469 | 5,066 | 362 | 577 | 1,826,781 | 1,790,131 |
| Segment gross profit | 267,397 | 243,708 | 58,915 | 50,313 | 5,527 | 3,002 | 3,001 | 3,580 | (227) | 170 | 334,613 | 300,773 |
| Share of net profit of equity accounted investees | 123 | 17 | - | - | - | - | 1,018 | (27) | - | - | 1,141 | (10) |
| Underlying Segment EBITDA | 87,892 | 70,981 | 13,135 | 11,806 | 2,151 | (3,803) | (448) | (2,242) | (37,297) | (35,235) | 65,433 | 41,507 |
| Depreciation & Amortisation | (4,230) | (3,630) | (2,886) | (2,339) | (28) | (152) | (92) | (78) | (3,254) | (3,206) | (10,490) | (9,405) |
| Underlying Segment EBIT | 83,662 | 67,351 | 10,249 | 9,467 | 2,123 | (3,955) | (540) | (2,320) | (40,550) | (38,441) | 54,942 | 32,102 |
| Finance costs | | | | | | | | | | | (5,586) | (5,440) |
| Non-recurring items | | | | | | | | | | | (5,209) | (14,016) |
| Income tax expense | | | | | | | | | | | (13,321) | (3,776) |
| Profit for the period | | | | | | | | | | | 30,826 | 8,870 |
| Assets | | | | | | | | | | | | |
| Segment assets | 530,965 | 425,979 | 106,571 | 76,415 | 31,866 | 24,588 | 910 | 1,605 | 195,991 | 182,880 | 866,303 | 711,467 |
| Investment in associates & joint ventures | 458 | 334 | - | - | - | - | 18,046 | 8,471 | - | - | 18,504 | 8,805 |
| Total Assets | | | | | | | | | | | 884,807 | 720,272 |
| Liabilities | | | | | | | | | | | | |
| Segment liabilities | 388,984 | 372,810 | 46,343 | 22,203 | 37,445 | 30,269 | 3,990 | 3,064 | 117,674 | 80,805 | 594,436 | 509,151 |
| Total Liabilities | | | | | | | | | | | 594,436 | 509,151 |
| Other segment information | | | | | | | | | | | | |
| Acquisitions of non-current segment assets | 19,126 | 12,549 | 38,952 | - | - | - | - | - | - | - | 58,078 | 12,549 |

Management have restated prior year comparatives to align with current year presentation as outlined in Note 2.

Segment profit / loss excludes the impact of non-recurring significant items. The current year total non-recurring significant items of \$5.2 million relates primarily to costs arising from restructuring cost out initiatives, acquisitions and portfolio management activities.

It is noted the current period share of net profit of equity accounted investee is the underlying amount before the non-recurring items relating to a prior period adjustment in Agfarm's results.

Costs of \$14.0 million in 2016 related primarily to costs arising from portfolio management activities undertaken including the restructure of the Water and Live Export business and the wider Group cost review, which included the closure of underperforming branches and the decision to exit from non-core operations.

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Note 17: Cash flow information

Total cash and cash equivalents is broken down as follows:

| | Note | 2017 \$'000 | 2016 \$'000 |
|-----------------------------------|-------------|------------------------------|------------------------------|
| Cash on hand | | 115 | 117 |
| Cash at bank | | 22,674 | 5,300 |
| Total cash at the end of the year | | <u>22,789</u> | <u>5,417</u> |

Reconciliation of cash flow from operations with net profit:

| | | |
|----------------------|---------------|--------------|
| Net profit after tax | <u>30,826</u> | <u>8,870</u> |
|----------------------|---------------|--------------|

Non-cash and non-operating items in profit from ordinary activities

| | | |
|--|---------|-------|
| Depreciation and amortisation | 10,490 | 9,405 |
| Provision for impairment of receivables | (1,643) | 3,002 |
| Provision for make good | 373 | (152) |
| Interest charges | (31) | (4) |
| Share based payment expense | 1,849 | 1,573 |
| Revaluation of property plant and equipment (through profit or loss) | - | 44 |
| Loss / (profit) on disposal of assets | 1,945 | (112) |
| Share of associated entities (profit) / loss not received as distributions | (913) | 10 |
| Dividend income reclassified as investment income | (152) | (111) |

Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries

| | | |
|--|----------------------|----------------------|
| (Increase) / decrease in trade and other receivables | (14,890) | 10,238 |
| Increase in inventories and biological assets | (16,890) | (4,131) |
| Increase in trade and other payables | 1,554 | 16,174 |
| Increase / (decrease) in current and deferred taxes | 2,526 | (10,559) |
| Increase in employee benefits provision | 900 | 4,087 |
| Decrease in provisions and other liabilities | (1,791) | (245) |
| Net cash flows from operating activities | <u>14,153</u> | <u>38,089</u> |

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Note 18: Employee benefits

Accounting policy

(i) Short-term benefits

Wages and salaries, annual leave and sick leave

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are due within 12 months of the reporting date represent present obligations resulting from employees' services provided at the reporting date.

These balances are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at the reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits (such as parking and mobile telephone expenses) are expensed based on the net marginal cost to the Group as the benefits are taken by the employees.

(ii) Long-term benefits

Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date, including appropriate on-costs.

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows. Long service leave is classified as current where the leave has vested, or will vest within the next 12 months, in accordance with the relevant state legislation under which the employee operates.

(iii) Retirement benefits obligations

All employees of the Group are entitled to benefits from the Group's superannuation plan on retirement, disability or death. The Group has a defined contribution section within its plan. The Group's contributions are based on a percentage of salary, which are statutory fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions. Contributions to the defined contribution fund are recognised as an expense as they become payable.

(iv) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance date are discounted to present value.

(v) Share-based payments

For each of the Group's share-based compensation schemes, the fair value of the equity instrument granted is measured at the grant date and spread over the vesting period via a charge to profit or loss and a corresponding increase in equity. The amount recognised as an expense is adjusted to reflect the actual number of performance rights for which the related service and non-market vesting conditions are met.

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Note 18: Employee benefits (continued)

(a) Expense and amounts outstanding for payment at year end

Total personnel expenses for the year can be broken down as follows:

| | 2017 | 2016 |
|---|----------------|----------------|
| | \$'000 | \$'000 |
| Personnel expenses | | |
| Salaries and wages | 156,490 | 144,019 |
| Contributions to defined contribution plans | 14,635 | 14,119 |
| Share based payments (equity settled) | 1,867 | 1,573 |
| Termination benefits | 553 | 2,599 |
| Payroll tax | 9,993 | 9,512 |
| Other personnel expenses | 11,263 | 11,228 |
| Total personnel expenses | <u>194,801</u> | <u>183,050</u> |

Employee benefit provisions recognised at balance date are as follows:

Current - employee benefits

| | | |
|--------------------|---------------|---------------|
| Annual leave | 11,337 | 9,672 |
| Long service leave | 10,247 | 8,957 |
| | <u>21,584</u> | <u>18,629</u> |

Non-current - employee benefits

| | | |
|--------------------|--------------|--------------|
| Long service leave | <u>3,167</u> | <u>3,112</u> |
|--------------------|--------------|--------------|

(b) Key management personnel disclosures

Details on the remuneration paid to the Non-Executive Directors and those other executives who at any point during the financial year had authority and responsibility for planning, directing and controlling the activities of the Group are also provided in the Directors' report.

Key management personnel compensation comprised the following:

| | 2017 | 2016 |
|------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Short term employee benefits | 4,843 | 4,211 |
| Post employment benefits | 215 | 279 |
| Termination benefits | - | 763 |
| Share-based payments | 1,251 | 987 |
| | <u>6,309</u> | <u>6,240</u> |

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Note 18: Employee benefits (continued)

(c) Share based payment arrangements

Accounting policy

The Ruralco Holdings Limited Executive Incentive Plan and Senior Management Plan grants executives and senior management shares in the Company. The fair value of these performance rights granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value of performance rights are measured at grant date and spread over the period which the employee become unconditionally entitled to the rights. The amount recognised as an expense is adjusted to reflect the actual number of rights that vest. The fair of the rights granted is measured using a Black-Scholes simulation methodology, taking into account the terms and conditions upon which the rights were granted. Measurement inputs include the share price on the measurement date, expected share price volatility, expected dividend yield, and the risk-free interest rate. Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Description of share based payment arrangements

The Ruralco Holdings Limited Long-term Incentive Plan

This incentive plan was established to provide Long Term Incentives (LTIs) for executives. Under the incentive plan, participants are granted rights that only vest if certain time and performance based vesting conditions are met. Participation in the incentive plan is at the Board's discretion.

The number of rights granted to executives are based on their target LTI. The target LTI is determined based upon the executive's level of seniority and ability to impact the performance of the Group.

Senior management plan

Under the Senior Management Share Plan, shares to the value of \$25,000 will be provided to selected senior managers over 3 years as a non-performance related retention strategy, with 20% of the total amount allocated at the end of each of the first 2 years and the remaining 60% at the end of the third year. The senior manager must remain employed on the relevant vesting date in order to receive the shares.

Measurement of fair values

Fair value is calculated using a Black-Scholes simulation. Details of the measurement inputs used in the fair value calculation of performance rights granted are set out below.

| Grant date | Vesting date | Share price at grant date | Discount rate | Expected dividend yield | Expected price volatility | S&P/ASX Small | Correlation to Total Return Index | Fair value |
|------------|--------------|---------------------------|---------------|-------------------------|---------------------------|--|-----------------------------------|------------|
| | | | | | | Ordinaries Total Return Index volatility | | |
| | | \$ | % | % | % | % | | \$ |
| 1-Oct-14 | 1-Oct-17 | 3.51 | 2.2 | 5.0 | 30 | 15 | 0.06 | 1.97 |
| 6-Jul-15 | 30-Sep-18 | 3.69 | 1.9 | 5.0 | 30 | 15 | 0.06 | 1.80 |
| 1-Oct-15* | 1-Oct-18 | 3.54 | 2.7 | 5.0 | 30 | n/a | n/a | 3.17 |
| 1-Oct-16* | 1-Oct-19 | 3.08 | 1.7 | 5.5 | 30 | n/a | n/a | 2.63 |

The expected volatility of the Company's Return On Equity (ROE) is based on the historic volatility (based on the remaining life of the performance rights), adjusted for the expected changes to future volatility due to publicly available information.

* This performance right has non-market based vesting conditions. As such this will be reassessed annually.

Reconciliation of outstanding performance rights

A reconciliation of the number of outstanding performance rights under the Group's incentive plans are set out below.

| Grant date | Vesting date | Fair value at grant | Opening balance | Granted | Vested | Forfeited | Closing balance |
|-------------|--------------|---------------------|-----------------|---------|----------|-----------|-----------------|
| 2017 | | | | | | | |
| 1-Oct-13 | 1-Oct-16 | 2.42 | 37,481 | - | - | (37,481) | - |
| 1-Oct-14 | 1-Oct-17 | 1.97 | 235,519 | - | - | (235,519) | - |
| 6-Jul-15 | 30-Sep-18 | 1.80 | 50,000 | - | - | - | 50,000 |
| 1-Oct-15 | 30-Sep-18 | 3.17 | 490,948 | - | - | - | 490,948 |
| 1-Oct-16 | 1-Oct-19 | 2.63 | - | 705,744 | - | - | 705,744 |
| | | | 813,948 | 705,744 | - | (273,000) | 1,246,692 |
| 2016 | | | | | | | |
| 1-Oct-13 | 1-Oct-16 | 2.42 | 226,541 | - | (27,192) | (161,868) | 37,481 |
| 1-Oct-14 | 1-Oct-17 | 1.97 | 360,557 | - | - | (125,038) | 235,519 |
| 6-Jul-15 | 30-Sep-18 | 1.80 | 50,000 | - | - | - | 50,000 |
| 1-Oct-15 | 30-Sep-18 | 3.17 | - | 540,583 | - | (49,635) | 490,948 |
| | | | 637,098 | 540,583 | (27,192) | (336,541) | 813,948 |

Performance rights are granted for nil cost and their exercise price is nil.

Expense recognised in profit or loss

As set out in Note 18(a), the total share based payment expense recognised in profit or loss was \$1.9 million (2016: \$1.6 million).

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Note 19: Group composition

Accounting policy

(i) Subsidiaries

Subsidiaries are those entities over which the Group has the power, directly or indirectly, to govern the financial and operating policies generally accompanied by an equity holding of more than half the voting rights. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control of the subsidiary commences until the date that control ceases. Inter-entity transactions, balances and unrealised gains on transactions between Group entities are eliminated.

(ii) Non-controlling interests

Non-controlling interests are interests in partly owned subsidiaries, which are not held either directly or indirectly by Ruralco Holdings Limited.

(iii) Changes in the Group's ownership interests

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

(iv) Equity accounted for investees

An associate is an entity over which the Group has significant influence (i.e. power to participate in the investee's financial and operating decisions). A joint venture is an investment where the Group has joint control, with one or more third parties.

For joint ventures and associates, the Group applies equity accounting. Under this method, it recognises the investment initially at cost and subsequently adjusts this for its share of profits or losses, which are recognised in the statement of profit or loss and comprehensive income. Any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment.

When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that investee, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Critical accounting estimates and judgements

Assessing whether the Group has the power to direct the relevant activities of the investee requires the use of judgement and involves consideration of the rights it holds including the right to appoint or remove key management and the decision-making rights that impact the Group's exposure to variable returns.

When indicators of impairment exist, such as underperformance to budget, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

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Note 19: Group composition (continued)

(a) Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following entities. The proportion of ownership interest is equal to the proportion of voting power held.

| | | Percentage Owned (%) | |
|---|---|---------------------------------|-------------|
| | | 2017 | 2016 |
| Ruralco Holdings Limited – Company | * | | |
| A company incorporated in Australia | | | |
| Subsidiaries | | | |
| Ag Concepts Advisory Pty Ltd | * | 100.0 | 100.0 |
| Ag Concepts Unlimited Pty Ltd | * | 100.0 | 100.0 |
| AgriTech Rural Pty Ltd | | 65.9 | 65.9 |
| AgriTech Unit Trust | | 65.9 | 65.9 |
| Agriwest Rural Pty Ltd | | 51.0 | 51.0 |
| Archards Irrigation Pty Ltd | * | 100.0 | 100.0 |
| B J Underwood Pty Ltd | * | 100.0 | 100.0 |
| BGA AgriServices Pty Ltd | * | 100.0 | 100.0 |
| BR&C Agents Pty Ltd | | 58.0 | 58.0 |
| CIAA Pty Ltd | | 45.0 | 46.9 |
| Combined Rural Traders Pty Ltd | * | 100.0 | 100.0 |
| CQ Ag Services Pty Ltd | | 57.5 | 57.5 |
| Dairy Livestock Services Pty Ltd | | 51.0 | 51.0 |
| Davidson Cameron & Co Dubbo Pty Ltd | * | 100.0 | 100.0 |
| Davidson Cameron & Co. Narrabri Pty Ltd | * | 100.0 | 100.0 |
| DCC Clydsdale Taylor Pty Ltd | | 67.0 | 67.0 |
| Davidson Cameron McCulloch Pty Ltd | * | 100.0 | 100.0 |
| Davidson Cameron Pty Ltd | * | 100.0 | 100.0 |
| Farmworks Rural Pty Ltd | * | 100.0 | 100.0 |
| Fluid Technologies (NSW) Pty Ltd | * | 100.0 | - |
| Frontier International Agri Pty Ltd | | 75.0 | 70.0 |
| Frontier International Northern Pty Ltd | | 75.0 | 70.0 |
| GDL Real Estate Pty Ltd | | 64.7 | 64.7 |
| Grant Daniel Long Pty Ltd | | 64.7 | 64.7 |
| Great Northern Rural Services Unit Trust | | 60.0 | - |
| Ingham Farm Centre Pty Ltd | * | 100.0 | 100.0 |
| Irrigation Tasmania Pty Ltd | * | 100.0 | - |
| Kimberley Rural Pty Ltd | | 100.0 | 100.0 |
| Merredin Rural Supplies Pty Limited | * | 100.0 | 100.0 |
| Moora Rural Supplies Pty Ltd | | 100.0 | 100.0 |
| National Waterexchange Pty Ltd (formerly CRT Real Estate Pty Ltd) | * | 100.0 | 100.0 |
| North West Farm Equipment Company Pty Ltd | * | 100.0 | 100.0 |
| Northern Livestock & Property Pty Ltd | | 55.0 | 55.0 |
| Northern Rural Group Pty Ltd | | 60.0 | 60.0 |
| NT Rural Pty Ltd | * | 100.0 | 100.0 |
| Platinum Operations Pty Ltd | | 60.0 | 62.6 |
| Primaries Esperance Pty Ltd | | 60.0 | - |
| Primaries of WA Pty Ltd | * | 100.0 | 100.0 |
| Primaries Property Pty Ltd | * | 100.0 | 100.0 |
| QFH Multiparts Pty Ltd | | 70.0 | - |
| QNT Agencies Pty Ltd (formerly BGA Agriservices North Queensland Pty Ltd) | | 55.0 | 55.0 |
| Queensland Rural Pty Ltd (formerly FNQG8 Pty Ltd) | | 57.0 | 55.0 |
| Rahoom Pty Ltd | | 100.0 | 100.0 |
| Rawlinson & Brown Pty Ltd | * | 100.0 | 100.0 |

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Note 19: Group composition (continued)

| (a) Subsidiaries (continued) | | Percentage Owned | |
|---|----|-------------------------|-------------|
| | | (%) | |
| | | 2017 | 2016 |
| Relyon (Australia) Pty Ltd | * | 100.0 | 100.0 |
| Roberts Hawkins Pty Ltd | | 100.0 | 85.0 |
| Roberts Huon Valley Pty Ltd | | 50.0 | 50.0 |
| Roberts Irrigation Pty Ltd | | 100.0 | - |
| Roberts Limited | * | 100.0 | 100.0 |
| Roberts Orford Triabunna Pty Ltd | | 50.0 | 50.0 |
| Roberts Regional North Pty Ltd | | 50.0 | 50.0 |
| Roberts Shearwater Pty Ltd | | 50.0 | 50.0 |
| Rodwells & Co Pty Ltd | * | 100.0 | 100.0 |
| Ruralco Employee Share Plan Pty Ltd | * | 100.0 | 100.0 |
| Ruralco Employee Share Plan Trust | | 100.0 | 100.0 |
| Ruralco Finance Pty Ltd | * | 100.0 | 100.0 |
| Ruralco Insurance Pty Ltd | * | 100.0 | 100.0 |
| Ruralco Water Brokers Pty Ltd | | 70.0 | 70.0 |
| Ruralco Wool Pty Ltd | * | 100.0 | 100.0 |
| RuralSmart Pty Ltd | | 51.0 | 51.0 |
| Saffin Kerr Bowen Pty Ltd | | 100.0 | 63.0 |
| Saffin Kerr Bowen Wilson Pty Ltd | | 100.0 | 63.0 |
| Savage Barker & Backhouse Pty Ltd (formerly Queensland Rural Pty Ltd) | * | 100.0 | 100.0 |
| Southern Australian Livestock Pty Ltd | | 100.0 | 81.7 |
| Stevens Egan Johnston Pty Ltd | | 71.0 | 71.0 |
| ACN 009 591 271 Pty Ltd (formerly Tasmania Farm Equipment Pty Ltd) | *^ | 100.0 | 100.0 |
| Tasmanian Grain Elevators Pty Ltd | * | 100.0 | 100.0 |
| Terra Firma Fertilisers Pty Limited | * | 100.0 | 100.0 |
| Territory Rural McPherson Pty Ltd | | 51.0 | 51.0 |
| Territory Rural Pty Ltd | | 100.0 | 77.0 |
| The Farm Shop (WA) 1999 Pty Ltd | * | 100.0 | 100.0 |
| Total Eden Holdings Pty Ltd | * | 100.0 | 100.0 |
| Total Eden McCrackens Group Pty Ltd | * | 100.0 | 100.0 |
| Total Eden Pty Ltd | * | 100.0 | 100.0 |
| Total Eden NZ Limited | | 100.0 | 100.0 |
| TP Jones & Co Pty Ltd (formerly ACN 103 517 522 Pty Ltd) | * | 100.0 | 100.0 |
| Wex Water Pty Ltd | | 70.0 | 70.0 |
| WMG Agriservices Pty Ltd (formerly Macintyre Rural Pty Ltd) | | 53.5 | 53.5 |

* denotes that the entities are party to the Deed of Cross Guarantee.

^ denotes companies that have sold 100% of its business assets during the financial year.

Controlled entities are all incorporated in Australia with the exception of Total Eden NZ Limited, which is dormant.

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Note 19: Group composition (continued)

(b) Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 dated 13 August 1998 (as amended by individual ASIC Order 08/0062 issued to the Parent on 31 January 2008), the wholly owned subsidiaries of the Parent are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports and directors' reports.

It is a condition of the class order and individual ASIC Order 07/0813 issued to the Parent on 12 October 2007 that the Parent and each of the wholly owned subsidiaries enter into a deed of cross guarantee. The effect of the deed is that the Parent guarantees to each creditor payment in full of any debt in the event of the winding up of any of the wholly owned subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Parent will only be liable in the event that after six months any creditor has not been paid in full. The wholly owned subsidiaries have also given similar guarantees in the event that the Parent is wound up.

A deed of cross-guarantee between Ruralco Holdings Limited and its wholly owned subsidiaries was enacted on 29 September 2006. During the year there were no amendments other than adding or removing entities to reflect acquisition and disposal activity.

Set out below is a summary of the consolidated statement of profit or loss and comprehensive income, and movement in consolidated retained earnings, for the year ended 30 September 2017 and the consolidated statement of financial position as at 30 September 2017 of the Closed Group after eliminating all transactions between members.

| | 2017 | 2016 |
|---|---------------|----------------|
| | \$'000 | \$'000 |
| Statement of Profit or Loss and Other Comprehensive Income | | |
| Revenue | 1,287,746 | 1,322,716 |
| Cost of goods sold | (1,044,190) | (1,092,979) |
| Depreciation expense | (4,585) | (4,150) |
| Amortisation expense | (4,397) | (3,823) |
| Personnel expenses | (151,966) | (149,451) |
| Administrative expenses | (9,403) | (12,114) |
| Property and equipment expenses | (24,301) | (25,992) |
| Motor vehicle expenses | (14,909) | (13,546) |
| Marketing and advertising expense | (5,306) | (6,068) |
| Data and telephony expenses | (3,062) | (3,131) |
| Bad debts expense | (160) | (1,424) |
| Other expenses | (3,881) | (3,728) |
| Finance costs | (5,302) | (7,810) |
| Net (loss)/gain on disposal of assets | (1,705) | 631 |
| Share of profit / (loss) of equity accounted for investees | 913 | (10) |
| Profit / (loss) before income tax | 15,492 | (879) |
| Income tax expense | (3,713) | (335) |
| Profit / (loss) after tax | 11,779 | (1,214) |
| Other comprehensive income after tax | - | - |
| Total comprehensive income for the year, net of tax | 11,779 | (1,214) |

Ruralco Holdings Limited and Controlled Entities
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Note 19: Group composition (continued)
(b) Deed of cross guarantee (continued)

| | 2017 | 2016 |
|--|----------------|----------------|
| | \$'000 | \$'000 |
| Statement of Financial Position | | |
| Current assets | | |
| Cash and cash equivalents | 19,038 | (458) |
| Trade and other receivables | 333,926 | 341,018 |
| Inventories | 92,825 | 78,096 |
| Assets classified as held for sale | - | 1,350 |
| Other current assets | 104 | - |
| Total current assets | 445,893 | 420,006 |
| Non-current assets | | |
| Trade and other receivables | 840 | 1,629 |
| Investments and other financial assets | 44,342 | 32,302 |
| Property, plant and equipment | 38,884 | 36,439 |
| Deferred tax assets | 14,304 | 14,421 |
| Intangible assets | 187,186 | 123,023 |
| Total non-current assets | 285,556 | 207,814 |
| Total assets | 731,449 | 627,820 |
| Current liabilities | | |
| Trade and other payables | 315,189 | 327,880 |
| Loans and borrowings | 3,425 | 3,703 |
| Current tax liabilities | (638) | (1,861) |
| Employee benefits | 17,072 | 14,532 |
| Derivative financial instruments | 34 | 168 |
| Make good provision | 48 | 173 |
| Restructuring and onerous provisions | 1,452 | 3,284 |
| Deferred consideration | 3,043 | 220 |
| Total current liabilities | 339,625 | 348,099 |
| Non-current liabilities | | |
| Loans and borrowings | 95,185 | 65,404 |
| Deferred tax liability | 7,985 | 7,671 |
| Employee benefits | 2,131 | 2,177 |
| Make good provision | 522 | 671 |
| Deferred consideration | 9,378 | 827 |
| Total non-current liabilities | 115,201 | 76,750 |
| Total liabilities | 454,826 | 424,849 |
| Net assets | 276,623 | 202,971 |
| Equity | | |
| Share capital | 238,795 | 173,248 |
| Reserves | 9,658 | 8,662 |
| Retained profits | 28,170 | 21,061 |
| Total equity | 276,623 | 202,971 |
| Retained profits at the beginning of the financial year | 21,061 | 24,120 |
| Profit after tax | 11,779 | (1,214) |
| Dividends provided for or paid | (2,394) | (3,217) |
| Transfers (to) / from reserves | (644) | 4,979 |
| Impact from (entrance) / exit from closed group | (1,632) | (3,607) |
| Retained profits at the end of the financial year | 28,170 | 21,061 |

Ruralco Holdings Limited and Controlled Entities
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Note 19: Group composition (continued)

(c) Parent company

As at, and throughout the financial year ended 30 September 2017 the parent company of the Group was Ruralco Holdings Limited. The results, financial position and specific commitment and contingent liability disclosure is included below.

| | Company | |
|--|-----------------|-----------------|
| | 2017 | 2016 |
| | \$'000 | \$'000 |
| Result of the parent entity | | |
| Loss for the period after tax | (26,022) | (22,047) |
| Other comprehensive income / (cost) | - | (3,420) |
| Total comprehensive cost for the period | <u>(26,022)</u> | <u>(25,467)</u> |
| Financial position of the parent entity at year end | | |
| Current assets | 56,912 | 14,469 |
| Total assets | 242,205 | 177,860 |
| Current liabilities | 111,647 | 75,469 |
| Total liabilities | 114,521 | 78,143 |
| Total equity of the parent entity comprising of: | | |
| Share capital | 217,595 | 152,049 |
| Retained earnings | (94,974) | (56,293) |
| Share based payments reserve | 5,063 | 3,961 |
| Total equity | <u>127,684</u> | <u>99,717</u> |

Parent entity contingencies

The directors are of the opinion that provisions are not required in respect of the Company's performance guarantees disclosed in note 15.

Contingent liabilities not considered remote

The directors are of the opinion that there are no contingent liabilities not considered remote in respect to the Company.

Parent entity guarantees in respect of debts of its subsidiaries

As noted in section (b), Ruralco Holdings Limited has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of its subsidiaries.

Ruralco Holdings Limited and Controlled Entities
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Note 19: Group composition (continued)

(d) Equity accounted investments

Interests are held in the following associates and joint ventures:

| Name | Principal activities | Ownership interest | | Carrying amount of investment using the equity method | |
|--------------------------------------|----------------------|--------------------|-----------|---|----------------|
| | | 2017 % | 2016 % | 2017 \$'000 | 2016 \$'000 |
| Joint Ventures | | | | | |
| Agfarm Unit Trust | Grain marketing | 50 | 50 | 8,714 | 8,472 |
| Ausure Ruralco Pty Ltd | Insurance broking | 50 | - | 9,332 | - |
| Western Riverina Fertilisers Pty Ltd | Rural merchandising | 50 | 50 | 458 | 334 |
| | | | | 18,504 | 8,806 |

Movements during the year in the carrying value of equity accounted investments are as follows:

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Balance at beginning of the financial year | 8,806 | 8,916 |
| Acquired during the year | 8,785 | - |
| Share of associated company's net profit / (loss) after tax | 913 | (10) |
| Dividends received | - | (100) |
| Balance at end of the financial year | <u>18,504</u> | <u>8,806</u> |

Summary financial information for equity accounted investees is as follows:

| | Ownership interest % | Assets \$'000 | Liabilities \$'000 | Revenue \$'000 | Profit after tax \$'000 |
|--------------------------------------|-------------------------|------------------|-----------------------|-------------------|----------------------------|
| 2017 | | | | | |
| Agfarm Unit Trust | 50 | 156,399 | 154,315 | 8,331 | 486 |
| Ausure Ruralco Pty Ltd* | 50 | 10,304 | 2,423 | 7,324 | 1,093 |
| Western Riverina Fertilisers Pty Ltd | 50 | 1,371 | 415 | 3,494 | 247 |
| | | <u>168,074</u> | <u>157,153</u> | <u>19,149</u> | <u>1,826</u> |
| 2016 | | | | | |
| Agfarm Unit Trust | 50 | 29,809 | 28,429 | 4,781 | (55) |
| Western Riverina Fertilisers Pty Ltd | 50 | 869 | 220 | 2,653 | 35 |
| | | <u>30,678</u> | <u>28,649</u> | <u>7,434</u> | <u>(20)</u> |

*Interest in Ausure Ruralco Pty Ltd (formerly Ausure Consolidated Brokers Pty Ltd) was acquired on 1 December 2016. Refer note 20 for further details.

All of the associates and joint ventures listed above are incorporated in Australia.

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Note 19: Group composition (continued)

(e) Non controlling interests (NCI)

Details of each of the Group's subsidiaries that has material non-controlling interests are set out below:

| | Frontier International Agri Pty Ltd | | BR&C Agents Pty Limited | | Platinum Operations Pty Limited | |
|--|--|----------------|--|---------------|--|---------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| NCI percentage | 25% | 30% | 42% | 42% | 40.0% | 37.4% |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Current assets | 11,750 | 21,194 | 21,062 | 11,257 | 36,376 | 24,797 |
| Non current assets | 2,541 | 3,395 | 1,660 | 1,839 | 2,948 | 2,846 |
| Current liabilities | (20,071) | (30,237) | (18,058) | (9,772) | (34,593) | (24,409) |
| Non current liabilities | 200 | (32) | (86) | (95) | (408) | (387) |
| Net assets | (5,580) | (5,680) | 4,578 | 3,229 | 4,323 | 2,847 |
| Carrying amount of NCI | (1,395) | (1,704) | 1,923 | 1,356 | 1,729 | 1,065 |
| | | | | | | |
| Revenue | 176,791 | 203,808 | 36,234 | 30,891 | 149,759 | 131,293 |
| Net profit after tax | 623 | (5,522) | 2,961 | 1,781 | 3,529 | 2,100 |
| Other comprehensive income (OCI) | (132) | 456 | - | - | - | - |
| Total comprehensive income | 491 | (5,066) | 2,961 | 1,781 | 3,529 | 2,100 |
| Profit allocated to NCI | 156 | (1,657) | 1,244 | 848 | 1,412 | 786 |
| OCI allocated to NCI | (33) | 137 | - | - | - | - |
| | | | | | | |
| Cash flows from operating activities | (6,661) | 7,780 | 519 | 3,600 | 3,265 | 2,607 |
| Cash flows from investing activities | (43) | (18) | (1,401) | (24) | (2,848) | (1,393) |
| Cash flows from financing activities | 21,683 | 4,733 | 2,261 | (955) | 11,741 | (2,023) |
| Net increase/(decrease) in cash | 14,979 | 12,495 | 1,379 | 2,621 | 12,158 | (809) |

Ruralco Holdings Limited and Controlled Entities
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Note 20: Business combinations

Accounting policy

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Acquisition costs are expensed as incurred.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance either in profit or loss or as a charge to other comprehensive income.

Critical accounting estimates and judgements

The purchase price allocation process involves uncertainty as assumptions are made to identify tangible and intangible assets acquired, liabilities assumed, and their fair values. Quoted market prices or widely accepted valuation techniques are used to determine fair values. These include discounted cash flow analyses and market multiple analyses, based on assumptions about economic conditions, interest rates, industry economic factors, business strategies, and risks specific to the acquired asset or liability.

(a) Acquisitions

(i) Acquisitions for the full year ended 30 September 2017

The Group obtained control of the following entities and businesses during the current year by acquiring shares or 100% of the business assets:

| Acquisition of businesses on the following dates: | Percentage acquired | Type | Date acquired |
|---|---------------------|-------------------|------------------|
| Great Northern Rural Services (Parkquest Pty Ltd) | 60% | Share | 3 October 2016 |
| Riverland Irrigation Services Pty Ltd | 100% | Asset | 1 November 2016 |
| Hunter Irrigation (Tritab Pty Ltd) | 100% | Asset | 1 November 2016 |
| Ausure Ruralco Pty Ltd (formerly Ausure Consolidated Brokers Pty Ltd) | 50% | Equity Investment | 1 December 2016 |
| Water Trading Australia Pty Ltd | 100% | Asset | 1 December 2016 |
| Newham Rural Supplies Pty Ltd | 51% | Asset | 1 February 2017 |
| Mildura Irrigation Centre Pty Ltd | 100% | Asset | 1 February 2017 |
| W. John Pearson & Co Pty Ltd | 100% | Asset | 1 February 2017 |
| TP Jones Pty Ltd | 100% | Asset | 1 March 2017 |
| Irrigation Tasmania Pty Ltd | 100% | Share | 1 March 2017 |
| River Rain (Agriexchange Pty Ltd) | 100% | Asset | 1 March 2017 |
| The Professionals (Waters & Atkin Rural Pty Ltd) | 100% | Asset | 1 March 2017 |
| QFH Multiparts Pty Ltd | 100% | Share | 1 September 2017 |
| Mallala (Chamston Pty Ltd) | 100% | Asset | 1 September 2017 |

The acquisition of the above-mentioned entities and businesses is consistent with the Group's strategy of broadening its geographic footprint in key markets, undertaking a step change in the Group's Financial Services business and building on the Group's market leading position in water.

Acquisition accounting for all business combinations carried out during the current year have been determined provisionally to allow the Group sufficient time to form a view as to the value of any separately identifiable net assets acquired.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

| | Great Northern Rural | Riverland Irrigation | Newham Rural Supplies | Mildura Irrigation | River Rain | TP Jones | Irrigation Tasmania | QFH Multiparts | Other* | Total |
|---|----------------------|----------------------|-----------------------|--------------------|--------------|---------------|---------------------|----------------|--------------|---------------|
| Consideration transferred | | | | | | | | | | |
| Cash | 1,993 | 2,131 | 1,857 | 5,760 | 3,572 | 16,000 | 20,793 | 1,860 | 1,487 | 55,453 |
| Deferred consideration | - | - | - | 2,673 | - | - | 3,511 | - | 92 | 6,276 |
| Contingent consideration | - | - | - | 2,475 | - | - | 8,471 | - | 342 | 11,288 |
| | <u>1,993</u> | <u>2,131</u> | <u>1,857</u> | <u>10,908</u> | <u>3,572</u> | <u>16,000</u> | <u>32,775</u> | <u>1,860</u> | <u>1,921</u> | <u>73,017</u> |
| Identifiable assets acquired and liabilities assumed | | | | | | | | | | |
| Cash balance acquired | - | - | - | - | - | (2) | 1,321 | 63 | - | 1,382 |
| Receivables | 3,163 | - | 337 | 2,343 | 2,246 | 6,841 | 5,795 | 1,442 | - | 22,167 |
| Inventories | 2,375 | 630 | 684 | 499 | 449 | 3,577 | 4,897 | 2,907 | 365 | 16,383 |
| Property, plant and equipment | 142 | 390 | 149 | 118 | 58 | 783 | 1,510 | 360 | 405 | 3,915 |
| Other assets | - | - | - | - | 20 | 28 | 224 | 194 | - | 466 |
| Other intangibles | 166 | 147 | 65 | 655 | 43 | 214 | 1,237 | - | 317 | 2,844 |
| WIP | - | 93 | - | - | - | - | 2,234 | - | 29 | 2,356 |
| Payables | (4,507) | - | - | (808) | - | (7,025) | (3,482) | (5,797) | - | (21,619) |
| Provisions | (235) | (181) | (119) | (211) | (333) | (234) | (822) | (93) | (172) | (2,400) |
| Other payables | (145) | - | - | - | (40) | - | (1,462) | (27) | (2) | (1,676) |
| Deferred revenue | - | (410) | (146) | - | - | - | (63) | - | - | (619) |
| | <u>959</u> | <u>669</u> | <u>970</u> | <u>2,596</u> | <u>2,443</u> | <u>4,182</u> | <u>11,389</u> | <u>(951)</u> | <u>942</u> | <u>23,199</u> |
| Goodwill on acquisition | <u>1,034</u> | <u>1,462</u> | <u>887</u> | <u>8,312</u> | <u>1,129</u> | <u>11,818</u> | <u>21,386</u> | <u>2,811</u> | <u>979</u> | <u>49,818</u> |

* All other acquisitions include Hunter Irrigation, Water Trading Australia, John Pearson, The Professionals and Mallala. These acquisitions are not individually material, and are disclosed in aggregate.

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Note 20: Business combinations (continued)

(a) Acquisitions (continued)

(i) Acquisitions for the full year ended 30 September 2017

Great Northern Rural Services

The goodwill is attributable to the knowledge and expertise of the workforce to service a major agriculture market and provide a retail footprint in the Geraldton region of Western Australia. The goodwill has been allocated to the Mainland Operations group of CGU's.

The results during the post-acquisition period to 30 September 2017 was a contribution of \$18.2 million to revenue and to profit after tax of \$0.2 million.

Riverland Irrigation

The goodwill is attributable to the knowledge and expertise of the workforce to service the citrus, almond and wine grape markets and the location of the business acquired in the Riverland region of South Australia. The goodwill has been allocated to the Water group of CGU's.

The results during the post-acquisition period to 30 September 2017 was a contribution of \$8.3 million to revenue and to profit after tax of \$0.9 million.

Had the results of this business been included from the beginning of the financial year, a further \$0.8 million in revenue and \$0.1 million of the profit after tax would have been recognised as part of the Group's results.

Newham Rural Supplies

The goodwill is attributable to the knowledge and expertise of the workforce to service the livestock and horticulture markets and the location of the business acquired in the Bathurst region of New South Wales. The goodwill has been allocated to the Mainland Operations group of CGU's.

The results during the post-acquisition period to 30 September 2017 was a contribution of \$3.9 million to revenue and to profit after tax of \$0.3 million.

Had the results of this business been included from the beginning of the financial year, a further \$2.0 million in revenue and \$0.1 million of the profit after tax would have been recognised as part of the Group's results.

Mildura Irrigation Centre

The goodwill is attributable to the knowledge and expertise of the workforce to service the horticulture market and the location of the business acquired in the Sunraysia district around the borders of New South Wales, South Australia and Victoria. The goodwill has been allocated to the Water group of CGU's.

The results during the post-acquisition period to 30 September 2017 was a contribution of \$6.2 million to revenue and to profit after tax of \$0.4 million.

Had the results of this business been included from the beginning of the financial year, a further \$4.4 million in revenue and \$0.3 million of the profit after tax would have been recognised as part of the Group's results.

River Rain

The goodwill is attributable to the knowledge and expertise of the workforce to service the citrus, almond and wine grape markets and the location of the business acquired in the Riverland region of South Australia. The goodwill has been allocated to the Water group of CGU's.

The results during the post-acquisition period to 30 September 2017 was a contribution of \$5.0 million to revenue and to profit after tax of \$0.4 million.

Had the results of this business been included from the beginning of the financial year, a further \$3.6 million in revenue and \$0.3 million of the profit after tax would have been recognised as part of the Group's results.

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Note 20: Business combinations (continued)

(a) Acquisitions (continued)

TP Jones

The goodwill is attributable to the knowledge and expertise of the workforce to service the horticulture, broadacre and viticulture markets and the location of the business acquired in Tasmania. The goodwill has been allocated to the Tasmanian Operations CGU.

The results during the post-acquisition period to 30 September 2017 was a contribution of \$15.6 million to revenue and to profit after tax of \$0.2 million.

Had the results of this business been included from the beginning of the financial year, a further \$11.1 million in revenue and \$0.1 million of the profit after tax would have been recognised as part of the Group's results.

Irrigation Tasmania

The goodwill is attributable to the knowledge and expertise of the workforce to service the cropping and livestock production markets and the location of the business acquired primarily across the Tasmania region. The goodwill has been allocated to the Water group of CGU's.

The results during the post-acquisition period to 30 September 2017 was a contribution of \$23.6 million to revenue and to profit after tax of \$1.0 million.

Had the results of this business been included from the beginning of the financial year, a further \$16.9 million in revenue and \$0.7 million of the profit after tax would have been recognised as part of the Group's results.

QFH Multiparts

The goodwill is attributable to the knowledge and expertise of the workforce to service a region hub in an important agriculture market and provide a retail footprint in the Katanning region of Western Australia. The goodwill has been allocated to the Mainland Operations group of CGU's.

QFH Multiparts was acquired 1 September 2017. As such the post-acquisition results are not considered material to the Group and not reflective of the full year results had the business been included from the beginning of the financial year.

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Note 20: Business combinations (continued)

(a) Acquisitions (continued)

(ii) Acquisitions for the full year ended 30 September 2016

The Group obtained control of the following entities and businesses during the prior year:

| Acquisition of businesses on the following dates: | Date acquired |
|--|----------------------|
| Mackay Rural Supplies Pty Ltd | 1 October 2015 |
| A&B Rural Supplies Pty Ltd | 1 October 2015 |
| DDG Rural Pty Ltd | 1 October 2015 |
| Herbert Valley Rural Pty Ltd | 1 October 2015 |
| Statewide Irrigation & Rural Supplies Pty Ltd | 1 February 2016 |
| KNM General Pty Ltd | 15 April 2016 |
| Complete Ag & Seed Supplies | 1 May 2016 |
| B & K Walker Pty Ltd | 1 July 2016 |
| GA & FJ Fox Pty Ltd | 1 August 2016 |

The acquisition of the above-mentioned entities and businesses is consistent with the Group's strategy of broadening its geographic footprint by Rural Services acquiring quality agribusinesses and people.

(b) New business established:

2017

| Business name | Date established |
|-----------------------------|-------------------------|
| Roberts Irrigation Pty Ltd | 1 July 2017 |
| Primaries Esperance Pty Ltd | 4 July 2017 |

2016

| Business name | Date established |
|------------------------------|-------------------------|
| CIAA Pty Ltd | 23 March 2016 |
| Wex Water Pty Ltd | 13 September 2016 |
| Moora Rural Supplies Pty Ltd | 13 September 2016 |

(c) Disposal of operations

2017

(i) Disposal of Tasmania Farm Equipment Pty Ltd

On 28 February 2017, the Group disposed of its 100% interest in Tasmania Farm Equipment Pty Ltd. \$2,072,186 of proceeds were received for the interest in the business resulting in a \$1,794,000 loss impact on disposal.

2016

(i) Disposal of Roberts Don Mac Pty Ltd

On 1 December 2015, the Group disposed of its 50% interest in Roberts Don Mac Pty Ltd. \$526,159 of proceeds were received for the interest in the business resulting in a \$392,995 profit impact on disposal.

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Note 21: Related party transactions

Accounting policy

All undertakings with related parties are on an arm's length basis and recognised in line with accounting standards.

The related parties identified by the Directors include joint ventures, associated undertakings, director related entities and minority shareholders.

(a) Transactions with related parties

| | 2017 | 2016 |
|---|-------------|-------------|
| | \$ | \$ |
| The following transactions occurred with related parties in the year: | | |
| Purchase of goods from subsidiaries by associates | 268,198 | 392,889 |
| Purchase of goods from subsidiaries by directors and their related entities | - | 6,447 |
| Interest paid by subsidiaries to their related entities | 55,550 | 58,893 |
| Interest paid to subsidiaries by their related entities | 37,656 | 42,471 |

(b) Outstanding balances at reporting date

The amounts owed by and to these related parties at the year end were:

| | | |
|---|---------|-----------|
| Current receivables | | |
| - Other related parties | 668,015 | 486,670 |
| Non-current receivables | | |
| - Other related parties | 3,549 | 3,549 |
| Loans and borrowings | | |
| - Other payable to related parties | 629,918 | 1,002,030 |
| Receivable from joint ventures and associates | 85,618 | 93,343 |

Amounts repaid to related parties in relation to related party loans was \$444,987 (2016: \$999,831).

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect to bad or doubtful debts due from related parties.

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Note 22: Financial risk management

The Group has exposure to financial risks relating to its use of financial instruments and working capital. Risk management is carried out by a central finance (Group Finance) and credit risk department (National Credit) under policies approved by the Board of Directors. The Board has established the Audit, Risk and Corporate Governance Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board on its activities and oversees how the Group monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Committee is assisted in its oversight role by internal audit. Internal audit undertakes reviews of risk management controls and procedures, the results of which are reported to the Committee.

The financial risks managed by the Group are as follows:

| Risk | Exposure arising from | Management | Balances exposed |
|----------------------|--|---|--|
| Credit risk | The risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to trade receivables, seasonal finance and meat processor customers, including outstanding receivables and committed transactions. | Credit approval and monitoring practices; counterparty credit policies and limits; provision of security; trade indemnity insurance for certain debtors. | Cash and cash equivalents (Note 17) Trade and other receivables (Note 6) |
| Liquidity risk | The risk that the Group will not be able to meet its financial obligations as they fall due. | Preparing and monitoring detailed forecasts of cash flows; cash management policies including centralisation of surplus cash balances; maintenance of at call access to funds in the form of cash balances or committed, available revolving credit facilities; regular review of the adequacy of banking arrangements. | Financial liabilities (Note 11) Cash and cash equivalents (Note 17) |
| Currency risk | Transaction risk, that is the risk that currency fluctuations will have a negative effect on the value of the Group's trading cash flows in various currencies, primarily the US Dollar and Euro. | Use of derivative instruments (such as forward foreign exchange contracts) to hedge exposure in accordance with the policy approved by the Board. | Derivative financial instruments (Note 11) |
| Interest risk | Risk arising from significant changes in market interest rates from the Group advancing seasonal finance loans to customers, holding cash at bank and borrowings to finance activities. | Preparing and monitoring interest rate analyses of interest sensitive assets and liabilities; review of rates charged by borrowers. The Group does not hedge its interest rate position. | Trade and other receivables (Note 6) Cash and cash equivalents (Note 17) Financial liabilities (Note 11) |
| Commodity price risk | Buy/sell price risk from physical transactions of livestock for periods up to 12 months. | Physical forward positions with livestock. | Biological assets (Note 8) |

Further disclosures required by the accounting standards relating to the various financial risks are detailed below or in the respective notes.

(a) Credit risk

The Group's maximum exposure to credit risk is represented by the carrying amounts of trade receivables (Note 6) and cash and cash equivalents (Note 17).

The Group provides goods and services to substantially all its customers on credit terms. Credit sales are on 7 to 30 day terms except where supplier agreements provide for extended terms or seasonal facilities are approved, which extend from 32 to 365 days. Interest is charged on overdue accounts, seasonal facilities and client advances at rates determined by the Group from time to time.

National Credit assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal ratings in accordance with limits set by the Board. If the limit required is greater than that delegated, the limit is referred to the Board for approval. Compliance with credit limits is regularly monitored by management. Customers requiring seasonal finance are usually required to provide security for the debt, while livestock customers have credit limits approved by the insurer.

Security is taken over livestock, wool and plant and equipment or a charge over the proceeds of cropping or dairy activities.

Trade indemnity insurance is arranged over select customers and meat processors. The insurance amounts are those that are considered prudent for the level of activities and the exposure to individual debts. Excluding wholly owned subsidiaries and joint venture party receivables, 31.6% (2016: 33.0%) of the total exposure to trade receivables is insured.

The Group is also exposed to credit risk through its seasonal finance facility arrangements with an external financier. This seasonal finance facility contains a put option that allows the external financier to legally transfer debts meeting certain criteria. The put option is in place for those loans of an amount equal to or greater than the expected defaults of these loans and accordingly, the Group retains substantially all the risks and rewards of ownership of the seasonal finance debtors funded by the external financier and therefore recognises the seasonal finance debtors as a receivable with an equal amount payable to the external financier. Included in trade receivables past due 90 days is \$4,218,825 (2016: \$7,453,226) classified as seasonal finance.

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Note 22: Financial risk management (continued)

(b) Liquidity risk

The Group's maximum exposure to liquidity risk is represented by the carrying amounts of financial liabilities (Note 11).

Maturities of financial liabilities

The Group is required to disclose the expected timings of cash outflows for each of its financial liabilities. The amounts disclosed in the table below are the contractual undiscounted cash flows (including interest), so will not always reconcile with the amount disclosed in the statement of financial position and Note 11.

2017

| | Contracted cash flows | | | | | | | | |
|---|-----------------------|----------------|------------|----------------|-------------------|-------------------|-------------------|--------------|--------------|
| | Carrying amount | Total amount | At call | 1 year or less | Over 1 to 2 years | Over 2 to 3 years | Over 3 to 4 years | Over 4 years | Over 5 years |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Derivative financial liabilities | | | | | | | | | |
| Derivative financial instruments | 389 | 389 | - | 389 | - | - | - | - | - |
| Non-derivative financial liabilities | | | | | | | | | |
| Bank loans | 109,590 | 115,392 | - | 14,998 | 100,394 | - | - | - | - |
| Other loans | 2,370 | 2,392 | - | 2,392 | - | - | - | - | - |
| Trade and other payables | 304,379 | 304,379 | - | 304,379 | - | - | - | - | - |
| Contingent consideration | 11,288 | 11,288 | - | 2,646 | 8,642 | - | - | - | - |
| Loans from related parties | 630 | 630 | 630 | - | - | - | - | - | - |
| Finance lease liabilities | 1,378 | 1,536 | - | 599 | 350 | 175 | 132 | 48 | 232 |
| Total financial liabilities | 430,024 | 436,006 | 630 | 325,403 | 109,386 | 175 | 132 | 48 | 232 |

2016

| | | | | | | | | | |
|---|----------------|----------------|--------------|----------------|---------------|------------|-----------|-----------|----------|
| Derivative financial liabilities | | | | | | | | | |
| Derivative financial instruments | 168 | 168 | - | 168 | - | - | - | - | - |
| Non-derivative financial liabilities | | | | | | | | | |
| Bank loans | 65,112 | 68,972 | - | 23 | 68,851 | 98 | - | - | - |
| Other loans | 2,156 | 2,175 | - | 2,175 | - | - | - | - | - |
| Trade and other payables | 294,179 | 294,179 | - | 294,179 | - | - | - | - | - |
| Loans from related parties | 1,002 | 1,002 | 1,002 | - | - | - | - | - | - |
| Finance lease liabilities | 1,663 | 1,887 | - | 1,288 | 291 | 172 | 97 | 39 | - |
| Total financial liabilities | 364,280 | 368,383 | 1,002 | 297,833 | 69,142 | 270 | 97 | 39 | - |

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Note 22: Financial risk management (continued)

(c) Currency risk

The Group has a direct exposure to foreign exchange risk through its forward foreign exchange contracts used to hedge foreign currency denominated sales and purchases.

Sensitivity analysis - Foreign exchange rate exposures

The following sensitivity analysis is based on the foreign exchange rate risk exposures in existence at the balance sheet date. At 30 September 2017, if foreign exchange rates had moved as illustrated in the table below, with all other variables held constant, the impact on the financial statements would be as follows:

| | 2017 | | 2016 | |
|--------------|---------------------------|------------------|---------------------------|------------------|
| | Post tax profit \$'000 | Equity \$'000 | Post tax profit \$'000 | Equity \$'000 |
| AUD/USD +10% | - | 599 | - | 1,002 |
| AUD/USD -10% | - | (599) | - | (819) |

(d) Interest rate risk

The following table sets out the Group's exposure to interest rate risk, including the contractual repricing dates and the effective weighted average interest rate as at the reporting date by class of financial asset or liability.

| Interest rate repricing | | | | | | | | | |
|--------------------------------------|---------------|----------------------------------|--------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|------------------------|-----------------|
| 2017 | Interest rate | Floating interest rate \$'000 | 1 year or less \$'000 | Over 1 to 2 years \$'000 | Over 2 to 3 years \$'000 | Over 3 to 4 years \$'000 | Over 4 to 5 years \$'000 | Over 5 years \$'000 | Total \$'000 |
| Financial assets | | | | | | | | | |
| Cash | 1.45% | 22,789 | - | - | - | - | - | - | 22,789 |
| Trade receivables (interest bearing) | 17.25% | - | 10,475 | 2,823 | - | - | - | - | 13,298 |
| Loans to related parties | 5.10% | 2 | 352 | - | - | - | - | 1,312 | 1,666 |
| Total financial assets | | 22,791 | 10,827 | 2,823 | - | - | - | 1,312 | 37,753 |
| Financial liabilities | | | | | | | | | |
| Bank loans | 2.80% | - | 14,590 | 95,000 | - | - | - | - | 109,590 |
| Other loans | 9.00% | - | 2,370 | - | - | - | - | - | 2,370 |
| Loans from related parties | 3.55% | 630 | - | - | - | - | - | - | 630 |
| Finance lease liability | 4.39% | - | 574 | 321 | 154 | 111 | 39 | 179 | 1,378 |
| Total financial liabilities | | 630 | 17,534 | 95,321 | 154 | 111 | 39 | 179 | 113,968 |
| Net exposure to interest rate risk | | 22,161 | (6,707) | (92,498) | (154) | (111) | (39) | 1,133 | (76,215) |

| Interest rate repricing | | | | | | | | | |
|--------------------------------------|---------------|----------------------------------|--------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|------------------------|-----------------|
| 2016 | Interest rate | Floating interest rate \$'000 | 1 year or less \$'000 | Over 1 to 2 years \$'000 | Over 2 to 3 years \$'000 | Over 3 to 4 years \$'000 | Over 4 to 5 years \$'000 | Over 5 years \$'000 | Total \$'000 |
| Financial assets | | | | | | | | | |
| Cash | 1.45% | 5,417 | - | - | - | - | - | - | 5,417 |
| Trade receivables (interest bearing) | 6.87% | 6,460 | 52,784 | - | - | - | - | - | 59,244 |
| Loans to related parties | 3.73% | 30 | 2,539 | - | - | - | - | - | 2,569 |
| Total financial assets | | 11,907 | 55,323 | - | - | - | - | - | 67,230 |
| Financial liabilities | | | | | | | | | |
| Bank loans | 2.92% | - | 22 | 65,000 | 90 | - | - | - | 65,112 |
| Other loans | 0.90% | - | 2,156 | - | - | - | - | - | 2,156 |
| Loans from related parties | 3.92% | 1,002 | - | - | - | - | - | - | 1,002 |
| Finance lease liability | 5.67% | - | 1,121 | 275 | 154 | 82 | 31 | - | 1,663 |
| Total financial liabilities | | 1,002 | 3,299 | 65,275 | 244 | 82 | 31 | - | 69,933 |
| Net exposure to interest rate risk | | 10,905 | 52,024 | (65,275) | (244) | (82) | (31) | - | (2,703) |

Sensitivity analysis - Interest rate exposures

The following sensitivity analysis is based on the net interest rate risk exposures in existence at the balance sheet date. At 30 September 2016, if interest rates had moved as illustrated in the table below, with all other variables held constant, profit after income tax and equity would have been affected as follows:

| | 2017 | | 2016 | |
|--------------------|---------------------------|------------------|---------------------------|------------------|
| | Post tax profit \$'000 | Equity \$'000 | Post tax profit \$'000 | Equity \$'000 |
| + 100 basis points | (2,161) | - | (836) | - |
| - 100 basis points | 2,161 | - | 836 | - |

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Note 23: Events after the balance sheet date

(a) Business combinations

The Group has agreed to acquire 100% of the business assets of Southern Agricultural Solutions Pty Ltd, a four branch rural services business located in the southern highlands and capital regions of NSW, for consideration of \$3.2million. The acquisition is due to complete on 1 December 2017 and will form part of the Rural Services segment.

Excluding the transaction noted above, there are no matters or circumstances that have arisen since 30 September 2017 which are not otherwise dealt with in this report or in the consolidated financial statements, that have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in the subsequent financial periods.

Note 24: Auditors' remuneration

| | 2017 | 2016 |
|---|----------------|----------------|
| | \$ | \$ |
| Audit services | | |
| Audit and review of financial statements - KPMG | 520,750 | 483,800 |
| Other regulatory audit services - KPMG | 34,500 | 33,200 |
| | <u>555,250</u> | <u>517,000</u> |
| Other services | | |
| Tax compliance services - KPMG | 136,527 | 133,890 |
| Other non-assurance services - KPMG | 125,000 | 196,100 |
| | <u>261,527</u> | <u>329,990</u> |