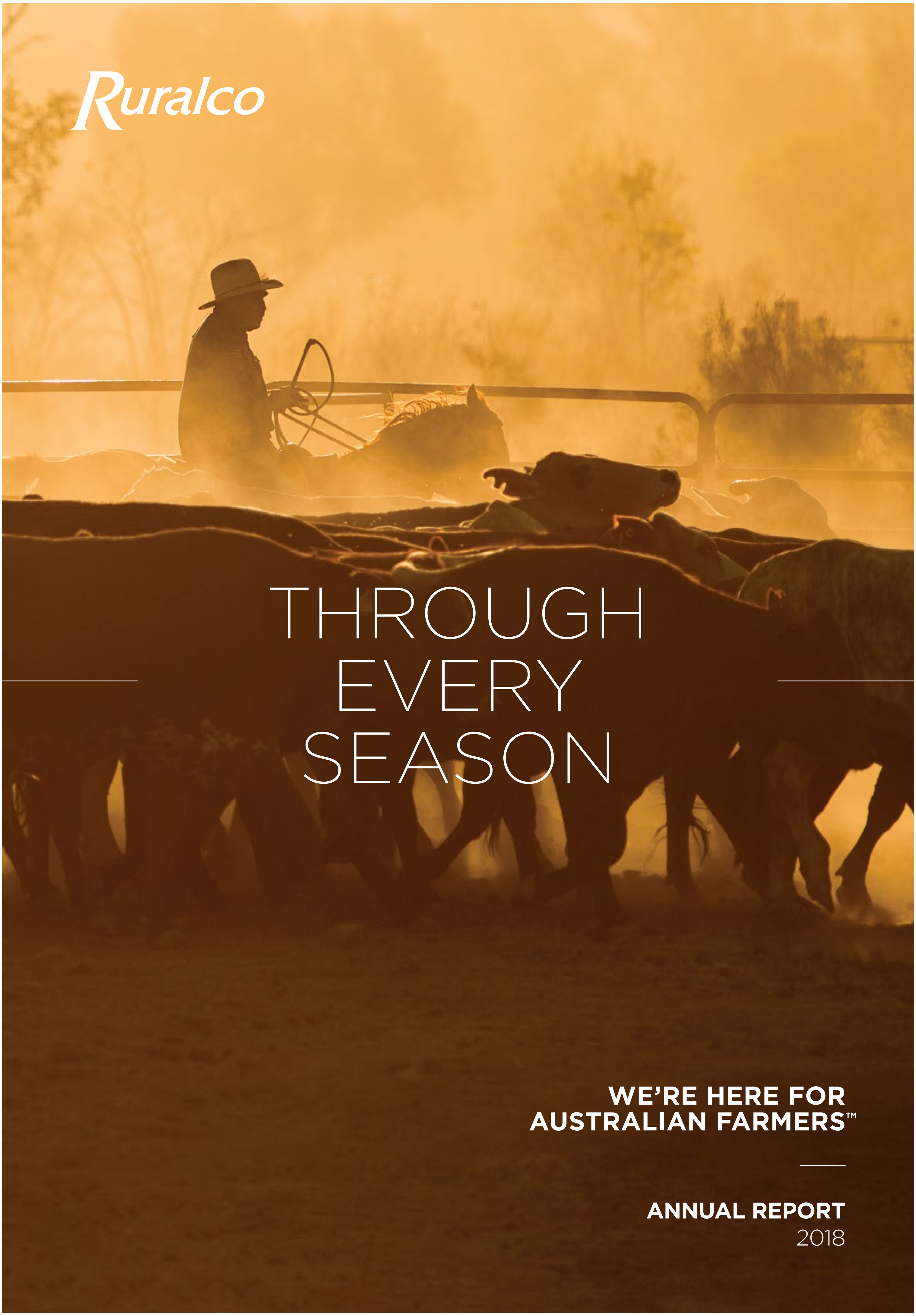

Ruralco

THROUGH EVERY SEASON

WE'RE HERE FOR AUSTRALIAN FARMERS™

ANNUAL REPORT
2018

OUR PURPOSE
We're here for Australian farmers

OUR VISION
Delivering the future of agriculture

OUR VALUES
How we do things at Ruralco

COMMON SENSE
We use good judgement

INTEGRITY
We do the right thing

ACCOUNTABILITY
We own our actions

LEADERSHIP
We lead by example

AIM HIGH
We exceed expectations

LOYALTY
We support our people, customers and communities

IN THIS REPORT

To succeed in any agricultural business in Australia, one needs to be resilient and agile enough to navigate the seasons – the good and the bad. At Ruralco our strategy to diversify across both business and geography has put us in a strong position, and ensures that we will continue to drive success for our customers, shareholders and employees *through every season.*

TRAVIS DILLON
MANAGING DIRECTOR & CEO

HIGHLIGHTS

Strong progress has been made on delivering our strategic priorities with 10 new locations, both acquired and greenfield, nearly $2.7 million invested in innovative AgTech start-ups and significant growth in our finance products, which are tailored to suit the needs of our customers.

+10
NEW LOCATIONS

$344.1M
GROSS PROFIT

OPERATING IN NEARLY
500
AGRICULTURAL COMMUNITIES

$2.7M
INVESTMENTS MADE IN AGTECH START-UPS

$34.6M
OPERATING CASH INFLOW UP 144%

2,200
STAFF WITH +7% IMPROVEMENT IN EMPLOYEE ENGAGEMENT AND ALIGNMENT

ACHIEVEMENTS

$13.5 MILLION TARGET ANNUALISED ACQUISITION EARNINGS ACHIEVED

45% GROWTH IN SEASONAL FINANCE LOAN BOOK

9 X PROGRAM ELEVATE PROJECTS COMPLETED

FULLY PAID TOTAL DIVIDEND OF 15c PER SHARE

$1.9B ↑ 5%

REVENUE

$70.1M ↑ 7%

UNDERLYING EBITDA

$28.8M ↑ 10%

UNDERLYING NPAT

27.5c ↑ 0.3%

UNDERLYING EPS

2019 FOCUS

WE CONTINUE TO TARGET OPPORTUNITIES TO INVEST, INNOVATE AND INTEGRATE TO CREATE LONG-TERM VALUE FOR OUR SHAREHOLDERS AND REALISE THE BENEFITS OF DIVERSIFICATION.

CHAIR'S REPORT

During 2018 I have seen the business strengthen in the face of challenges, act to support farming communities and further develop its governance, including its role in social and environmental issues.

RICHARD (RICK) LEE AM
CHAIR
RURALCO HOLDINGS LIMITED

2018 has been a difficult year for the agriculture industry, with dry conditions testing the resilience of many agribusinesses. I am proud of Ruralco's achievements this year in the face of drought across much of Australia. This year, we have continued our commitment to our strategy and our focus on sustainable growth through every season.

Ensuring that Ruralco's strategy delivers from a diverse earning base and creates sustainable value for shareholders is particularly important in a year marked by drought.

In 2018, Ruralco committed to outlining an approach to sustainability, a process that confirmed which financial, social and environmental considerations should be embedded in our corporate strategy. Four material issues were identified which form the framework for our sustainability priorities. The Company is focused on being here 'through every season', and further detail on our sustainability priorities can be found on page 28 of this Annual Report.

The Board believes that the development of a strategy to address sustainability is a natural progression for Ruralco's business model. Ruralco has always been on a sustainability journey, though it has not always acknowledged and reported on the work it has undertaken. The Lifeline partnership founded three years ago was a pivotal step for the Company in formalising its commitment to the communities in which it operates. This partnership has been embraced by the Ruralco workforce, which understands that sustainable rural communities underpin Ruralco's success.

The Water Services division of Ruralco has grown this year, contributing 22% of the gross profit of the business. As an agribusiness, Ruralco is unique in its pursuit to consolidate its position in the water retail, projects and broking sector for the benefit of its customers. To grow agricultural production value to the forecast $100 billion farmgate target by 2030, Australia must treat water as a finite resource. The right water infrastructure to reduce, recycle and reuse water will ensure sustainable growth for the industry.

I am pleased to report that although it has been a challenging year, the full year result was at the top end of the guidance provided to the market. Year-on-year reported net profit after tax was up 12% supported by strong earnings growth in Water Services and a buoyant sheep and wool market. The geographic diversity of our business activities and footprint softened the earnings impact of dry conditions on Rural Supplies sales and Livestock Agency. Operational expenditure as a percentage of gross profit continued to reduce, down 0.8 ppts to 79.6%.

The solid results delivered this year reflect our strategy to spread the earnings base across geographies and complementary activities, through targeted investments to expand the Ruralco footprint, integration of revenue streams and innovation of services.

DIVIDENDS AND CAPITAL MANAGEMENT

The Board announced a final fully franked dividend of 6 cents per share, bringing the dividend for the full year to 15 cents per share. This represents a 55% underlying dividend pay-out ratio in line with the Board's capital management policy of maintaining a dividend pay-out ratio of between 40-60% underlying earnings per share.

Delivering long-term sustainable shareholder returns is the primary focus of the Board and management. The dividend paid this year acknowledges the achievements of the Company by rewarding shareholders and balances the ongoing need for capital to support growth opportunities. In a year of challenging seasonal conditions, it is prudent to reflect on what is required to provide a return now as well as sustainable returns into the future.

PEOPLE

People are the foundation of Ruralco and their safety is of paramount importance. It goes without saying that our achievements cannot come at a cost to our employees' health and wellbeing. It is with disappointment that I report an increase in our LTIFR from 2.6 to 4.8 this year. Safety is an attitude, and in the wake of these incidents we have redoubled efforts to protect the health and safety of everyone who works at Ruralco.

REWARDS

Executives are charged with the responsibility of delivering the Ruralco strategy, and their remuneration, which supports performance, must be aligned to business and shareholder interests. This year the Board has proposed changes to the performance metrics of the Executive team, streamlining future measures to better capture their individual roles and responsibilities. We also propose modifying the process for delivering rewards to Executives to ensure alignment with shareholders and to increase their 'skin in the game'. The Board is confident this enhanced Executive engagement will complement existing talent retention strategies.

CONCLUSION

I am always amazed at the deep memory of seasonal ups and downs that Australia's farmers have. It is clear to me that when your livelihood and your life are on the land, there is nothing more important than a secure future. Ruralco is focused on creating long-term shareholder value and returns and that goes hand in hand with a sustainable future for our customers.

During 2018 I have seen the business strengthen in the face of challenges, act to support farming communities and further develop its governance, including its role in social and environmental issues. The Board is pleased with the efforts of all of our people and thanks them for their commitment to the Company.

I also personally express my sincere appreciation to my colleagues on the Board for their commitment and support, particularly Michael Millner who has served as a Ruralco Director for 14 years and will be stepping down at the upcoming AGM.

MANAGING DIRECTOR & CEO'S REPORT

The drought in many parts of the country this year has tested our strategy and reinforced the importance of building a diversified earnings base across our activities and geographies.

TRAVIS DILLON
MANAGING DIRECTOR & CEO
RURALCO HOLDINGS LIMITED

This past season has again proved the resilience of Ruralco's strategy. Across the geographies in which Ruralco's businesses operate, throughout its diverse range of activities and in the innovation it is delivering to customers, Ruralco has succeeded in continuously improving the efficiency of its operations and financial returns. I am pleased to report that Ruralco has delivered a full year underlying net profit after tax (NPAT) of $28.8 million. Ultimately, our three strategic priorities of Investment, Integration and Innovation deliver diversification in Ruralco's earnings and provide a platform for growth. The drought this year has tested and reinforced this strategy.

Strong progress has been made on delivering our strategic priorities with 10 new locations, both acquired and greenfield, nearly $2.7 million invested in innovative AgTech start-ups and strong growth in our finance products, which are tailored to suit the needs of our customers.

DROUGHT

2018 will be remembered for drought and the overwhelming public discussion on how best to support farmers. I cannot remember a time when the plight of our primary producers so captured the imagination of every generation. Children at schools donned a 'Flannie for a Farmer' to raise money, while 'Buy a Bale' became part of the cultural lexicon, as footage of the stock feed shortage was shared across social media. With the nation's attention fixed on the uncertain future facing farmers, the federal government declared a welcome $5 billion drought fund for farmers. This fund provides a strategic $100 million annually for direct aid and community group support in drought-affected regions.

The grip of drought on our eastern States as well as prevailing dry conditions across the country have placed an enduring challenge on the entire sector to find ways to help farmers improve production efficiency and yields under these tough conditions.

Ruralco has a pivotal role in advocacy, education and support for agricultural communities. Our customers need support and assistance to prepare for drought, to respond to changing conditions; and when facing extreme conditions, they need help to recover. Economic, social and environmental concerns all need to be addressed to strengthen the resilience of our farmers and ensure that they do not lose hope.

INNOVATION

An innovative approach is needed to change the cycle of boom and bust for primary producers. This is a top priority for Ruralco; its customer-centric approach is helping to drive new thinking in the way it delivers its products and services.

Simplified access to the right financial products, including insurance, have a role in helping our customers navigate climate events. On-farm investment into new technologies for water efficiency and conservation is becoming accepted as a business as usual requirement. Ruralco's Water Services division has demonstrated growth through this approach, growing underlying EBITDA 63% this year.

I am proud to announce Ruralco's investment in two promising AgTech start-ups that offer the opportunity to capitalise on innovation in satellite imagery collection. The first, DataFarming, is an open platform for farmers, agronomists and anyone interested to increase their understanding about changes in soil moisture and plant growth, in order to make more informed cropping decisions. In 2019 Ruralco agronomists will offer services using DataFarming to provide actionable insights and recommendations to customers.

The second investment is a partnership in the CSIRO supported Digital Agriculture Services (DAS), a rural intelligence platform. DAS will create digitised valuations, automated risk assessments, insights and productivity trends for rural land. This intelligence can be used by land owners, commodity handlers, governments, banks and agribusiness to identify opportunities and manage risks across any agricultural region and will be used initially by our network of real estate agents.

DIGITAL TRANSFORMATION

The two-year Program Elevate is wrapping up with all projects within its scope now completed. With the foundation in place, Ruralco's vision for digital transformation can begin. The financial benefits from this program are already beginning to be realised through our reduced cost to serve.

PEOPLE

Ruralco strives to be the best Australian agribusiness and uses feedback from its nation-wide workforce to improve attraction, retention and employee development initiatives. It is by seeking feedback and listening to employees that Ruralco will rise to the challenge of being the best employer in the industry. In 2018 an independent business-wide Employee Opinion Survey was undertaken to understand how engaged and aligned our employees are in driving the success of Ruralco.

Pleasingly, 74% of employees participated with engagement and alignment improving 7% in both areas when compared to the 2016 survey. Ruralco has moved into the top 25% of companies surveyed, which is a strong indication of a high performance culture.

OUTLOOK

We remain cautious about short-term seasonal conditions but recent spring rainfall, the continued buoyancy in the sheep and wool markets and the fact that cattle prices remain stable support a positive outlook for the business.

We expect to grow earnings in 2019 through controlling what we can control. For us that means maintaining disciplined cost control and an OPEX/GP% below 80%, realising the benefits from Program Elevate. We also continue to target accretive acquisition opportunities to create long-term value for our shareholders and realise the benefits from diversification.

Despite the intense public interest in the drought, there is plenty to celebrate in agriculture. It is a resilient, diverse and innovative industry and the future looks extremely bright for the sector. I am proud of the results this year, the dedication of the Executive team and management, and of course the Ruralco employees who share the vision of the Company.

Thank you to the people who are Ruralco, who are here for Australian farmers through every season; and to our shareholders for their ongoing support.

STRATEGY

DELIVERING THE **FUTURE** OF AGRICULTURE

INVESTMENT

Targeted geographic presence in all our chosen activities

INNOVATION

Be a leader in the future of farming

INTEGRATION

Provide end to end solutions for our customers

PEOPLE & CULTURE

SCALEABLE BACK OFFICE

WE'RE HERE FOR AUSTRALIAN FARMERS™

OUR STRATEGY GUIDES OUR SPECIFIC GOALS FOR EACH DIVISION




RURAL SERVICES

Grow through acquisition, greenfield sites, talent recruitment and CRT members to fill remaining gaps in the Rural Supplies network and grow the high yielding Agency business

Commercialise the next wave of AgTech

Continue to focus on portfolio management and an efficient cost to serve to drive organic growth

WATER SERVICES

Build on market leading position in Water, the most fundamental farming input, and fill remaining gaps in the Water Services network

Leverage capability to upskill and cross-sell products and services into legacy water retail locations

Develop Ruralco as the training ground for the irrigation industry of the future

LIVE EXPORT

Pioneer industry best practice and continuously improve compliance and associated support resources

Improve market diversification in Asia to complement Indonesia and Vietnam

Develop customer partnership structure to support market diversification

FINANCIAL SERVICES

Build scale in our financial services offerings to customers to assist them in managing risks and financing their growth

Develop unique products for customers that complement and support Ruralco's offer through our network of businesses across Australia

GROUP WIDE

Keep our people safe and invest in a high performance culture

Inspire our people to live the Ruralco values

Deliver digital transformation based on a reliable back office foundation

Embed an innovation mindset into our business culture

REVIEW OF OPERATIONS **RURAL SERVICES**

Our Rural Services division is made up of more than 40 businesses located around the country providing customers with agronomic advice, selling supplies such as fertiliser, crop-protection products and general farm merchandise and providing agency services that help maximise the returns of production.

The division employs approximately 1,200 highly committed, knowledgeable and well connected experts in fields across agronomy, livestock agency, wool brokerage and real estate.

Our CRT wholesale business comprises more than 270 members including nearly 190 independent members providing a channel to market from which Ruralco earns a wholesale margin. The CRT wholesale business provides members with combined buying power and access to national accounts and consolidated marketing, networking and business development events.

PERFORMANCE IN THE YEAR

Despite mixed seasonal conditions across the year and an average 14% drop in domestic cattle prices, the Rural Services division delivered a good result in 2018. This is attributed to the benefits derived from the strategic focus on diversification and from cost base efficiency measures taken in the current and prior years.

2018 HIGHLIGHTS

$88M
uEBITDA
(FLAT ON THE PCP)

$146.5M
RURAL SUPPLIES GROSS PROFIT UP 2% ON THE PCP

67%
OPEX TO GP%

+4 LOCATIONS
ACQUISITION OF SOUTHERN AGRICULTURAL SOLUTIONS

1% ↑
REAL ESTATE GROSS PROFIT GROWTH

6% ↑
INCREASE IN TOTAL VOLUME OF CATTLE SOLD

14% ↑
GROWTH IN ANIMAL HEALTH AND ANIMAL NUTRITION SALES

+1 LOCATION
ACQUISITION OF LEADING RURAL PROPERTY AGENCY IN TASMANIA

Livestock producers faced a range of pressures during 2018. The dry conditions and significantly increased cost of feed subdued restocker demand for cattle and led to higher than expected cattle slaughter rates. The Eastern Young Cattle Indicator (EYCI) declined, dropping below 500c/kg from April. These trends highlighted the importance of the sale yard network, particularly in the north, to help customers move cattle in difficult conditions. A buoyant sheep and wool market however helped to hold the overall decline in Agency gross profit to only 2% (to $108.6 million).

Real estate gross profit growth was subdued this year. With nearly 75% of property sales across the network coming from residential sales, a tightening of listings in the Tasmanian market and lower sales activity in the drought-stricken regions of New South Wales and Queensland have contributed to an 8% decline in properties sold. Despite these trends, our Victorian real estate business had a strong year with 6% growth in rural property sales which has driven a 19% increase in the average price of properties sold for the year. The acquisition of Tasmanian Rural Property at the end of the year provides further depth to the rural property sales capability in the network, and will be a key area of growth for the coming year.

A 7% improvement in the division's 2018 Employee Opinion Survey results reflected efforts made to attract and retain high performing, passionate employees and improve alignment of individual business strategies with Ruralco's strategy. This year saw a 4% increase in the division's LTIFR to 2.4 and while this is significantly below industry averages, it demonstrates the need to remain vigilant in workplace safety.

OUTLOOK

We remain cautious of short-term seasonal conditions, with the finish to the winter crop and the extent of summer planting being heavily dependent on continuing levels of spring rainfall, which can influence Rural Supplies sales mix and volume in the first half of 2019.

Increased offtake and slaughter rates at the end of this year may impact livestock volumes available for sale, particularly in early 2019; but buoyancy in sheep and wool commodities generally and stable cattle prices are anticipated to support Agency results.

2019 FOCUS

- Ongoing disciplined execution of acquisitions and greenfields to fill remaining gaps in the network
- Optimisation of the existing business and its cost base, and realising the benefits from Program Elevate
- Commercialisation of the recent investments in AgTech through the network

DESPITE MIXED SEASONAL CONDITIONS ACROSS THE YEAR AND AN AVERAGE 14% DROP IN DOMESTIC CATTLE PRICES, THE RURAL SERVICES DIVISION DELIVERED A GOOD RESULT IN 2018.

KEY RISKS

Key risks include shifting seasonality, weather conditions and natural events such as drought, flood and fire. These factors can reduce the purchasing confidence of customers and production prospects, which affects our revenue. This risk also has an upside as certain conditions increase demand for our products and services.

Changing industry dynamics, significant commodity price shifts (such as in livestock prices) and climate change events (including extreme weather and changing growing regions and crop yields) may all have a longer-term impact on our earnings.

RISKS		MITIGATION
Seasonality and climate change $	↑ 1 2 3 4 5	• Geographically diverse network of branches • Monitoring of weather and climate trends, using internal and external data to inform strategy • A comprehensive insurance program
Livestock prices $	↑ 1 2 3 4 5	• Invest in innovation and disruptive activities to diversify revenue streams • Use the Live Export division to provide an alternate revenue pipeline for domestic cattle • Market analysis to monitor current and historic trends
Increased competition and disruption $	←→ 1 2 3 4 5	• Strategic focus on innovation to disrupt existing business models and identify investment opportunities in the rural supplies and protein supply chains • Investment in business intelligence software tools • Attraction and retention strategies to ensure high performance workforce
Safety	↑ 1 2 3 4 5	• Dedicated work health and safety team that provides regular advice, training and audits • Agsafe accreditation and training programs in place in high risk areas, including livestock, chemicals and manual handling

$ Economic sustainability, which is the ability to operate at a particular level of economic production over the long term

Environmental sustainability, which is the ability to operate in a manner that does not harm the ecosystems in which Ruralco operates over the long term

Social sustainability, which is the ability to operate in a manner that meets accepted social norms and needs over the long term

↑↓ Risk movement

Strategic priorities:

1. Investment
2. Innovation
3. Integration
4. Scaleable back office
5. People and culture

REVIEW OF OPERATIONS **WATER SERVICES**

Ruralco's Water Services division is the leading distributor of water products, provider of water infrastructure services, and broker of water entitlements to the Australian agricultural sector.

Our Water Services division has a presence in almost 60 locations across Australia, employing over 400 people. It comprises:

- **Water retail**: sale of domestic, civil, industrial and agricultural irrigation products and parts
- **Water projects**: design, construction, installation and maintenance of on-farm water infrastructure solutions
- **Water broking**: brokering the buying and selling of temporary and permanent water entitlements

Ruralco will continue to focus on investing in water businesses that operate in regions with significant upcoming or prolonged investment in water infrastructure. This includes the Murray Darling Basin and key catchment and agricultural centres around the country.

PERFORMANCE IN THE YEAR

The Water Services division delivered significant earnings growth in 2018, with gross profit accounting for 22% of Ruralco's total gross profit, taking an important step forward in reaching the longer-term target of 25%. This delivers on the strategic aim to diversify complementary activities in order to mitigate the seasonal volatility in the earnings profile of the Rural Services businesses.

The strategic focus in the current and prior year has been to increase the geographical diversification of the Water Services business, which has historically been weighted towards Western Australia, a key market for the Total Eden business acquired by Ruralco in 2014. The weighting of gross profit to Western Australia has decreased by 9 ppts to 28% with growth in water retail and projects activity in Victoria and Tasmania.

2018 HIGHLIGHTS

80%↑

GROWTH IN WATER BROKING GROSS PROFIT TO $4 MILLION

71%↓

COST BASE EFFICIENCY MEASURES CONTRIBUTED TO A DECREASE IN OPEX TO GP% BY 7% ON THE PCP TO 71%

$21.4M↑

uEBITDA INCREASED BY 63%

Funds from the equity raised in the prior year were used to acquire five businesses, providing the business with 14 new points of presence across the Hunter region in New South Wales, the Murray Darling Basin and Tasmania. In the current year, two leading water businesses were acquired – Team Irrigation in Dubbo, New South Wales and Hall Irrigation in Lameroo, South Australia – expanding our water footprint in these key agricultural centres. The business also established two new greenfield operations in the second half of the year in the East Gippsland region of Victoria and the Barossa Valley in South Australia to better service customers in these markets and especially corporate clients in the Barossa Valley viticulture market.

Although dry conditions can be a lead indicator for increased investment in on-farm water infrastructure by customers seeking to improve water access and efficiency, severe drought conditions can negatively impact farmer confidence in investing in this area and this has played out in the curtailed growth in both retail and projects activity in Queensland and New South Wales this year. Conversely, the dry conditions in the second half have driven increased demand for temporary water entitlements over the Murray Darling basin with the water broking business seeing over 40% growth in volumes traded by its brokers, and temporary water prices nearly doubling on 2017 levels. Together these have contributed to nearly 80% growth in water broking gross profit to $4 million.

The focus during the year has also been on integrating the acquired businesses into the wider Water Services network both from a systems perspective but also operationally to realise the financial and non-financial benefits of the acquisitions. Leveraging the IP from the quality water businesses that are being integrated into our network, and investing in the capability of water staff, are important strategic focus areas. This has involved investment in systems, training and our people to attract and retain quality talent.

The Water Services division saw an increase in employee alignment and engagement of 6% and 5% respectively in this year's Employee Opinion Survey, with engagement in the top quartile of companies surveyed. Further aligning all Ruralco's water business interests under one clear vision will be a focus for management in the coming year.

Given the nature of water projects work, safety remains a key risk and the division saw a disappointing increase in LTIFR from 2.8 to 7.9 for the year driven mainly by two major injuries in the water projects side of the business. Although still below the construction industry average of 9.7, the increase in the number of incidents and the increased size of and scale of the water operations heightens the need for a continued focus on safety training and the importance of ensuring that an appropriate attitude to safe working practices is embedded in all levels of the business.

THE WATER SERVICES DIVISION DELIVERED SIGNIFICANT EARNINGS GROWTH IN 2018, WITH GROSS PROFIT ACCOUNTING FOR 22% OF RURALCO'S TOTAL GROSS PROFIT, TAKING AN IMPORTANT STEP FORWARD IN REACHING THE LONGER-TERM TARGET OF 25%.

OUTLOOK

A strong start is expected. Continuing dry conditions into summer will limit water allocations in the Basin, which should sustain temporary water prices into the first half.

Competitive pressure is increasing in water projects as competition enters growing markets. However, the division remains focused on improving cost to serve, with management targeting OPEX/GP% below 70%.

KEY RISKS

Key risks relate to integrating newly acquired businesses, attracting and retaining our people and our ability to execute successful water projects (including meeting safety and environmental standards).

Longer-term sustainability risks that could affect earnings include seasonality, climate change impacts (which could have upside or downside risks) and government water policy.

2019 FOCUS

- Review of procurement to align and partner with our supplier base to realise benefits from our scale and ensure we have access to the best in water technology and R&D opportunities
- Embed water strategic plan down to branch level to ensure shared ownership and alignment
- Continued focus on retention and engagement of staff through investment in staff capability

RISKS		MITIGATION
Key management personnel and succession planning	←→ ① ② ③ ④ ❺	• Dedicated learning and development resource that supports the needs of the water business • Water Services leadership team established to oversee the water portfolio of businesses • Staff development and succession planning in place
Business processes, due diligence and new business integration	↑ ❶ ❷ ❸ ④ ⑤	• Clear mergers and acquisitions process in place, including formal business cases, and a focus on culture and engagement as part of due diligence and integration activities • Post-acquisition reviews conducted to capture lessons from more recent acquisitions
Safety	↑ ① ② ③ ④ ❺	• Accreditation maintained with regular business and construction site external audits • Health, safety and environmental risks identified during project planning, and managed for the life of projects • Dedicated Work Health and Safety team that provides regular advice, training and audits
Water projects management	↑ ① ② ③ ❹ ❺	• Best practice process established to manage end-to-end project execution and investment in skilled project management capabilities
Seasonality and climate change	↑ ❶ ❷ ❸ ④ ⑤	• Strategic focus on bringing technology to customers, focusing on better management of water resources • Geographically diverse network of branches • Closely monitor and align activities and investment in areas where governments invest in water infrastructure

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↑↓ Risk movement

Strategic priorities:

❶ Investment

❷ Innovation

❸ Integration

❹ Scaleable back office

❺ People and culture

REVIEW OF OPERATIONS FINANCIAL SERVICES

Ruralco's Financial Services offering incorporates insurance broking, finance broking, and commodity advice and analysis via the Mecardo market analysis website.

Our ultimate objective is to help our agribusiness customers manage their risks, invest in their operations and navigate the seasons with greater confidence. We act as a broker of term financing and a marketer of working capital finance products in partnership with our financiers.

Our insurance partnership with Ausure, part of the Steadfast Group, helps our customers manage the risks associated with their operations; while Agfarm, our 50% joint venture, provides customers with input financing solutions (such as Agfarm Accelerate) tailored to grain growers, buyers and commodity management and marketing services.

PERFORMANCE IN THE YEAR

The Financial Services division delivered its first full year profit in 2018. The Flexi Finance livestock and irrigation financing product was launched at the beginning of the year, achieving the division's strategic focus on increasing the scale of products available to customers. The Mecardo business continues to expand its customer base.

Progress has been made in growing the size of the division's lending facilities. Drought conditions had a negative impact on farmer confidence in drawing down on their loans this year. The undrawn portion of these facilities represents further potential commission income for the division once conditions improve.

During the year Ruralco converted its shareholding in Ausure Consolidated Brokers into a 25% interest in joint venture partner Ausure Pty Ltd, alongside Steadfast and Ausure management. This increased investment position provides direct access to 97 independent broker representatives located across 47 locations that complement the Ruralco footprint and will help drive the development of unique farming insurance products.

The expertise, systems and scale gained through the Ausure joint venture have turned our small insurance operation into a profitable earnings stream for the division, contributing $0.9 million to uEBITDA, with 2% growth in the insurance GWP (gross written product) managed under the joint venture.

Ruralco's investment in Agfarm has contributed $0.3 million of uEBITDA for the year, down 33% on the pcp. The grain industry, which Agfarm services, has been impacted by the dry conditions this year. It has also faced industry-wide changes in recent times with grain export deregulation, increased competition from electronic platforms and the rise of grain growers and buyers increasingly trading direct. In response, Agfarm has broadened its portfolio of financing products to provide finance against grain for both growers and buyers that service the entire grain cycle, from pre-harvest to post-harvest, which provides a strong base for growth.

Results of the Employee Opinion Survey for the division showed a 17% increase in alignment and 10% increase in engagement, with engagement in the top decile of companies surveyed. These survey results reflect the work done over the past two years to re-establish financial services within Ruralco.

OUTLOOK

In 2019, we expect the growth momentum to continue in this division. Management's focus is to continue to expand the Seasonal Finance and Flexi Finance products, and build engagement between our network and Ausure insurance brokers.

The ongoing dry conditions may continue to depress funding demand; however, we are building availability of capital to support our customers to grow as soon as conditions permit.

2018 HIGHLIGHTS

$36M

FLEXI FINANCE LOANS WRITTEN BY YEAR END

$1.5M ↑

FIRST FULL YEAR PROFIT DELIVERED WITH uEBITDA OF $1.5 MILLION

45% ↑

GROWTH IN THE SEASONAL FINANCE BOOK TO $112 MILLION

2019 FOCUS

- Integrate the suite of financing and insurance products into Rural Services network to drive growth in finance and insurance income
- Further product development to fill gaps in our capacity to support our customers in livestock restocking as soon as conditions allow
- Investment in capability in finance broking team
- Focus on automation and digitisation to improve loan and credit risk management and to improve the customer experience

KEY RISKS

Key risks relate to not being able to grow our Financial Services business in line with our strategy, and not meeting financial services regulatory obligations.

RISKS	Risk movement	Strategic priorities	MITIGATION
Inability to build scale in Financial Services ($)	←→	1 2 **3** 4 5	• Form high-quality insurance and financial products partnerships to offer a broad product range • Ensure strong brand recognition • Form a client-focused broker network
Compliance with financial services regulatory obligations and changes ($)	←→	1 2 3 **4** **5**	• Education of brokers and undertake training in compliance and continuous improvement processes • Completed internal self-assessment on Royal Commission findings
Exposure to counterparty debt with the on-balance sheet financing (social, $)	←→	1 2 3 **4** 5	• Conduct individual counterparty risk assessments • Maintain credit policies and procedures • Monitor and report on debtors • Introduce trade credit insurance for large debtor processors • Have key management and/or Board members review significant credit issues • Introduce more off-balance sheet financing products

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↑↓ Risk movement

Strategic priorities:

1 Investment
2 Innovation
3 Integration
4 Scaleable back office
5 People and culture

REVIEW OF OPERATIONS
LIVE EXPORT

Frontier International (Frontier) is a Ruralco partnership established in 2013 to focus on the short-haul live export of feeder and slaughter cattle from northern Australia to Asia, primarily Indonesia and Vietnam.

Frontier creates a demand channel for Ruralco livestock agents and customers through an integrated supply chain. It has extensive expertise in the live export supply chain, from production, sourcing, handling, logistics and animal welfare, to value-adding and final disaggregation.

Frontier is committed to best-practice animal welfare management at every point in the live export supply chain.

PERFORMANCE IN THE YEAR

The Live Export division delivered a disappointing earnings loss for the year due to an industry-wide shift away from Indonesia to Vietnam in terms of export volumes, and severe competitor pressure on price for volume sales into the South East Asian market. Drought conditions also constrained availability of suitable, export-ready cattle and drove up feed costs. However, this year Frontier was able to broaden its base to three markets. The business also successfully completed three consignments to the developing Chinese slaughter cattle market.

For the first time in Frontier's five years of operation, Vietnam replaced Indonesia as the largest volume export market. This was achieved as a result of Frontier's quality customer relationships and broad procurement network supported by the Ruralco network of livestock agents.

Our employees have worked tirelessly to deliver on strategy and this is reflected in the results of the Employee Opinion Survey which showed a 14% increase in alignment and 18% increase in engagement. From a safety perspective it has also been a strong year with no lost time injuries.

The operational focus of Frontier has remained on continuous improvement in compliance and animal welfare. Across all the consignments in the year, 99.9% of those cattle loaded in Australia were discharged in-market. This is consistent with previous years and is better than the industry average.

2018 HIGHLIGHTS

40%↑
MARKET SHARE IN VIETNAM UP 12 PPTS TO 40%

$3.1M↓
EBITDA LOSS

+130,000↑
ANIMALS EXPORTED, UP 38% ON THE PRIOR YEAR

In 2018, Frontier brought together a group of four live export operators to voluntarily adopt a new operating model for the live export of cattle to Vietnam called *Collective Standards for Animal Welfare* (*CSAW*).

Ruralco strongly believes that Australia's live cattle export industry is an economically and structurally important industry. It contributes over $1.0 billion dollars to Australia's economy with the vast majority of this benefiting northern Australian cattle producers and service industries of regional Australia.

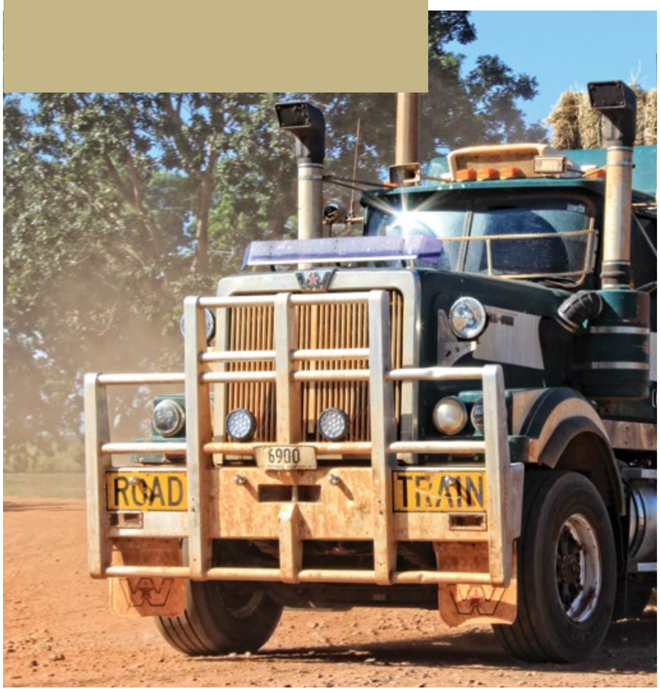
It also provides a genuine alternative sales channel for Australian cattle producers. The industry's constant presence in the market acts as a price support mechanism, providing competition and associated price tension across the cattle industry that benefits farmgate prices.

OUTLOOK

Despite a financially poor 2018, Frontier is relatively well positioned for 2019 reflecting its quality customer base, broad procurement network, investment in animal welfare and compliance, and access to high quality logistic infrastructure.

2019 FOCUS

Generate earnings from strong customer base, broad supply network, leading animal welfare and compliance infrastructure



KEY RISKS

Key risks facing this sector include failing to manage the dynamic and varied issues linked to live animal export, ensuring compliance with industry regulatory obligations (particularly those relating to animal welfare), and sovereign and political risk. The cattle backgrounding program poses risks related to the performance of cattle and disease prevention.

RISKS	MITIGATION
Supply chain processes and animal welfare $ ◌ ←→ 1 2 3 4 5	• Dedicated Compliance Committee and Compliance Manager for the Live Export business • Regular in-market audits and reviews conducted • Customer and market due diligence processes are in place • Pioneered the CSAW animal welfare initiative
Political and sovereign risk, both domestic and international $ ←→ 1 2 3 4 5	• Strategic focus on diversification of destination markets • Political changes closely monitored and regular engagement of industry stakeholders • Active participation in industry bodies and initiatives
Backgrounding program execution $ ←→ 1 2 3 4 5	• Backgrounding programs managed by experienced industry experts
Safety ↓ 1 2 3 4 5	• Dedicated Work Health and Safety team, that provides regular advice, training and audits

$ Economic sustainability, which is the ability to operate at a particular level of economic production over the long term

Environmental sustainability, which is the ability to operate in a manner that does not harm the ecosystems in which Ruralco operates over the long term

Social sustainability, which is the ability to operate in a manner that meets accepted social norms and needs over the long term

↑↓ Risk movement

Strategic priorities:

1 Investment
2 Innovation
3 Integration
4 Scaleable back office
5 People and culture

REVIEW OF FINANCIAL PERFORMANCE

PERFORMANCE AND FOCUS AREAS

In order to grow earnings per share and total shareholder returns, we seek to complement our strategy with financial discipline, strong portfolio management, balance sheet strength and cash flow generation.

The diagram below sets out a description of these areas and the financial tools we use to measure success.

The Company's performance in these areas during the period is set out on the following pages.

GENERATING LONG-TERM SHAREHOLDER RETURNS

The Company seeks to optimise shareholder returns through earnings per share (EPS) and dividend growth. Its dividend policy aims to maintain a dividend payout ratio of between 40% and 60% of underlying EPS. This dividend policy seeks to balance the needs of shareholders and the business with dividends declared reflecting Ruralco's current and projected cash position, profit generation and available franking credits.

The Board declared a fully franked final dividend of 6 cents per share for 2018, taking the full year ordinary dividend to 15 cents per share, which is a dividend pay-out ratio of 55% of underlying EPS. The final dividend is payable on 17 December 2018 to shareholders who were on the Company's register as at 26 November 2018, the record date for the final dividend. The Dividend Reinvestment Plan continues to operate in respect of the final dividend at nil discount.

FINANCIAL DISCIPLINE

Ruralco delivered double digit growth in underlying and reported earnings for the full year. Returns to shareholders also rose, with a 2% increase in reported EPS to 24.0 cents per share.

In driving cost base efficiency and in the execution of our strategy, certain one-off costs are incurred to achieve long-term aims. For this reason, the results are presented on an underlying and reported basis. Underlying measures of profitability provide more useful information on Ruralco's sustainable earnings base.

GROWTH IN uNPAT AND EPS

FINANCIAL DISCIPLINE

Relentless focus on cost control and efficiency to drive positive operating leverage

—

uOPEX/GP% <80% THROUGH THE CYCLE

POSITIVE OPERATING LEVERAGE

CORPORATE COST TO SERVE <10%

CASH FLOW GENERATION

Pursue working capital efficiency and realisation of profits into cash to reinvest in the business

—

DECREASING AVERAGE WORKING CAPITAL % OF SALES

OPERATING CASH INFLOW FOR THE YEAR

INCREASING CASH REALISATION %

PORTFOLIO MANAGEMENT

Acting decisively on the allocation of capital and managing returns from investments

—

INCREASING uROCE%

DOUBLE DIGIT uROE%

OF PORTFOLIO MANAGEMENT TRANSACTIONS

BALANCE SHEET STRENGTH

Maintain funding flexibility and disciplined capital management to support growth aspirations

—

LEVERAGE RATIO

GEARING 25-45% THROUGH THE CYCLE

INCREASE TOTAL SHAREHOLDERS' FUNDS

The following table sets out a reconciliation of underlying to reported earnings for the year.

YEAR ENDED 30 SEPTEMBER	UNDERLYING	OTHER ADJs[1]	SIGNIFICANT ITEMS	REPORTED	REPORTED		
	2018	2018	2018	2018	2017	Change	Change
	$'000	$'000	$'000	$'000	$'000	$'000	%
Revenue	**1,912,834**	663	–	**1,913,497**	**1,826,800**	86,697	5%
Gross profit	**344,089**	663	(1,620)	**343,132**	**334,337**	8,795	3%
EBITDA[2]	**70,095**	–	(5,173)	**64,922**	**60,223**	4,699	8%
Depreciation and amortisation	(12,726)	–	–	(12,726)	(10,490)	(2,236)	21%
Net finance costs	(5,839)	–	–	(5,839)	(5,586)	(253)	5%
Profit before tax	**51,530**	–	(5,173)	**46,357**	**44,147**	2,210	5%
Tax	(16,233)	–	1,552	(14,681)	(13,321)	(1,360)	10%
Non-controlling interest	(6,497)	–	–	(6,497)	(8,406)	1,909	(23%)
NPAT attributable to shareholders	**28,800**	–	(3,621)	**25,179**	**22,420**	2,759	12%
OPEX to Gross Profit %	**79.6%**			**81.4%**	**82.3%**		
Operating leverage	**1.5x**			**1.6x**	**58x**		
Corporate cost to serve %	**10.9%**			**10.9%**	**11.2%**		
ROE %	**10%**			**9%**	**9%**		
EPS (cents per share)	**27.5**			**24.0**	**23.5**		

1 Underlying gross profit measured by management includes share of profits from equity accounted investees and excludes sub-lease income (presented as an offset to OPEX). No net impact on EBITDA from this presentation adjustment.
2 EBITDA means reported earnings before interest, tax, depreciation and amortisation plus share of profits from equity accounted investees.

Growth in Water Services, a buoyant sheep and wool market and stronger seasonal conditions in Western Australia and Tasmania, particularly over the winter cropping period, helped to subdue the impact of tough market conditions in Live Export and the impact of an average 14% decline in cattle prices on Agency gross profit.

The benefit of Ruralco's earnings diversification, both in terms of geography and activity, the continued focus by management on cost base efficiency and the delivery of the $13.5 million of targeted earnings from the 2017 portfolio of acquisitions, all contributed to a 7% increase in underlying EBITDA to $70.1 million in what has been a challenging year from a seasonal and commodities perspective.

Ruralco's underlying NPAT of $28.8 million represented a 10% increase on the previous period and excludes $5.2 million ($3.6 million net of tax) of costs arising from restructuring and cost-out initiatives, activities relating to acquisitions (both executed and unsuccessful) and other portfolio management activities.

Underlying OPEX as a percentage of gross profit decreased 0.8 percentage points to 79.6%, leading to positive operating leverage of 1.5 times. Management believes the continued focus on cost base efficiency will provide a strong platform for future earnings growth with a Ruralco target of less than 80% through the cycle.

Ruralco's corporate cost to serve includes the centralised costs of procurement and distribution warehouses as well as shared service corporate support functions. The corporate cost to serve increased 1% to $37.7 million this year, primarily reflecting increased IT related software licence and hosting costs held centrally, following system investments in the current and prior year but decreased as a % of gross profit to 10.9%, moving closer to the target of less than 10% through the cycle.

PORTFOLIO MANAGEMENT

Decisive action to restructure or divest non-core operations while fulfilling the Company's investment and integration strategic priorities is vital to managing Ruralco's portfolio of operations.

Further steps have been taken during the year to deliver on the investment and integration strategies with a number of acquisitions of complementary businesses across the Rural Services and Water Services divisions and a change in investment in the Ausure insurance joint venture, impacting Financial Services.

BALANCE SHEET STRENGTH

Ruralco continues to maintain a strong balance sheet with a disciplined focus on working capital management. The Company's capital employed is comprised of the following:

TOTAL CAPITAL EMPLOYED[1] AS AT 30 SEPTEMBER	2018 $'000	2017 $'000	Change $'000	Change %
Trade and other receivables (incl. prepayments)[2]	410,589	402,877	7,712	2%
Inventories (incl. biological assets)	184,351	160,195	24,156	15%
Trade and other payables (incl. derivative financial instruments)	(455,959)	(429,921)	(26,038)	6%
Net working capital	**138,981**	**133,151**	**5,830**	**4%**
Property, plant and equipment	42,687	43,966	(1,279)	(3%)
Intangibles	244,633	214,691	29,942	14%
Investments in equity accounted investees	23,873	18,504	5,369	29%
Net tax items	8,056	10,149	(2,093)	(21%)
Other items	(40,156)	(40,167)	11	0%
Total capital employed	**418,074**	**380,294**	**37,780**	**10%**
Average working capital as a percentage of sales (%)[3]	**8.6**	**8.3**		
Underlying ROCE (%)[4]	**16.4**	**17.3**		

1 Presentation reflects the management balance sheet, which is based on different classifications and groupings to those of the financial statements.
2 Excludes related party and shareholder loans classified within net debt.
3 Average working capital % of sales means the average working capital for the reporting period divided by revenue for the same period.
4 Underlying ROCE means the underlying EBITDA divided by average total capital employed for reporting period.

Total capital employed at the end of the period increased 10% to $418 million. This reflects the $30 million impact on goodwill and other intangibles of the five acquisitions undertaken during year and continued levels of investment capex in the Company's IT infrastructure ($10.9 million of which is from Program Elevate with the last of the nine projects under this program now complete).

Despite delivery of target acquisition earnings, subdued organic growth in earnings due to mixed seasonal conditions resulted in EBITDA growth of 7% being unable to mitigate the full year impact of acquisitions on average capital employed. This has led to the 0.9 ppt decline in underlying ROCE to 16.4%.

Despite the impact of acquisitions undertaken this year and slower rural supplies sales in some markets, Ruralco ended the year with only 4% increase in net working capital. This is attributed to the ongoing focus on working capital management during the year including increased debtors' collections, improved creditor days and increased focus on matching of inventory purchases with appropriate supplier payment terms. Ruralco's working capital efficiency measure, average working capital as a percentage of sales, increased slightly to 8.6% reflecting those elevated inventory levels over the winter cropping period.

Average working capital increased 9% on the prior year to $165 million reflecting the impact of acquisitions but even on an underlying business basis, elevated levels of inventory held has led to a 2% increase in average working capital. This combined with the fact that $23 million of acquisitions and investments undertaken this year were debt funded, has driven a 14% increase in average net debt and consequently Ruralco has ended the year with small increases to gearing and leverage metrics, although these remain within target ranges.

NET DEBT AS AT 30 SEPTEMBER	2018 $'000	2017 $'000	Change $'000	Change %
Cash and cash equivalents	18,151	22,789	(4,638)	(20%)
Overdraft	(3,151)	–	(3,151)	(100%)
Gross drawn debt	(130,000)	(109,590)	(20,410)	19%
Other loans	(626)	(1,475)	849	(58%)
Finance lease liabilities	(1,718)	(1,377)	(341)	25%
Net debt	**(117,344)**	**(89,653)**	**(27,691)**	**31%**
Total shareholders' equity	**(300,731)**	**(290,640)**	**(10,091)**	**3%**
Gearing ratio (spot) (%)[1]	**28.1**	**23.6**		
Leverage ratio (spot) (%)[2]	**1.8x**	**1.5x**		

1 Gearing ratio means the net debt as a percentage of net debt plus shareholders' equity.
2 Leverage ratio means the net debt divided by reported EBITDA (i.e. including the impact of significant items).

At 30 September 2018, the Company had drawn down $120 million of its Debtor Securitisation Facility, $10 million of the seasonal cattle facility and $3.2 million of its overdraft facility. Ruralco has complied with all financial obligations under these facilities throughout the period. In September 2018, Ruralco renewed its debt facilities and has agreed the following amendments to its funding arrangements:

- The debtor securitisation facility maturity has been extended to October 2019 and seasonal limits have been introduced with a $150 million limit from July to December increasing to $210 million from January to June. These limits better reflect the different working capital funding requirements of the business over the different seasons across the year; and
- The $10 million Seasonal Cattle Facility used by the Live Export business to fund the purchase of cattle for its backgrounding program has been extended to May 2019.

Ruralco has sufficient funds available to pursue acquisitions that align with its stated strategic priorities and also maintains a $40 million uncommitted facility with its financiers that was undrawn at 30 September 2018.

$165M ↑

AVERAGE WORKING CAPITAL INCREASED 9% ON THE PRIOR YEAR

$418M

TOTAL CAPITAL EMPLOYED AT THE END OF THE PERIOD

CASH FLOW GENERATION

Ruralco aims to minimise cash on hand while using cash generated from operations to pay down borrowings, fund capital expenditure and bolt-on acquisitions, and ultimately return dividends to shareholders.

ABRIDGED CASH FLOW FOR THE YEAR ENDED 30 SEPTEMBER	2018 $'000	2017 $'000	Change $'000	Change %
Reported EBITDA	64,922	60,223	4,699	8%
Net change in working capital	(16,033)	(35,136)	19,103	(54%)
Net finance costs	(1,568)	(140)	(1,428)	1020%
Tax paid	(12,684)	(10,795)	(1,889)	17%
Operating cash flows	**34,637**	**14,152**	**20,485**	**145%**
Acquisitions and subsidiary investments	(22,014)	(67,930)	45,916	(68%)
Change in non-controlling interests	(1,449)	(1,836)	387	(21%)
Divestments	598	2,932	(2,334)	(80%)
Capital expenditure	(23,926)	(24,874)	948	(4%)
Sale of assets and other	6,810	2,454	4,356	178%
Investing cash flows	**(39,981)**	**(89,254)**	**49,273**	**(55%)**
Dividends paid	(21,523)	(14,339)	(7,184)	50%
Equity raise (net of issue costs)	–	63,320	(63,200)	(100%)
Treasury share purchases	(1,124)	(741)	(383)	52%
Net draw down/(repayment) of borrowings	20,204	44,233	(24,029)	(54%)
Financing cash flows	**(2,445)**	**92,473**	**(94,918)**	**(103%**
Change in cash held	**(7,789)**	**17,372**		
Cash realisation ratio %	**72%**	**31%**		

The Group ended the period with cash on hand of $18.2 million and a bank overdraft of $3.2 million primarily reflecting the timing of cash receipts and disbursements at the end of September.

The $20.4 million improvement in net operating cash inflows reflects significantly improved cash realisation, up 41 ppts to 72% with strong operating results and cash released from ongoing working capital management.

Ruralco retains strong disciplines around investment capital expenditure. Potential acquisitions must align with strategy, be earnings accretive, allow the business to maintain acceptable gearing and leverage metrics and exceed appropriate return on invested capital (ROIC) thresholds.

The current period investing cash outflow of $39.9 million includes $16.6 million for the purchase of businesses to fill gaps in the Rural Services and Water Services footprints and $1.5 million to increase shareholdings in certain subsidiaries as part of our ongoing portfolio management activities.

Capital expenditure of $23.9 million in the period included $12.7 million of IT-related investment capex (including Program Elevate projects). The remainder primarily related to the costs of migrating acquired businesses onto Ruralco's SAP system and improvements to HR performance management systems. Maintenance capex spend approximated average depreciation and amortisation expense.

Net financing cash outflows of $2.4 million for the period include the drawdown of the debtors' securitisation facility to fund working capital requirements. Net financing cash inflows in the prior period included the impact of the $65 million of funds received via an equity raise that were used to fund the purchase of a portfolio of acquisitions.

RURALCO DELIVERED DOUBLE-DIGIT GROWTH IN UNDERLYING AND REPORTED EARNINGS FOR THE FULL YEAR. RETURNS TO SHAREHOLDERS ALSO ROSE, WITH A 2% INCREASE IN REPORTED EPS TO 24.0 CENTS PER SHARE.

SUSTAINABILITY

Ruralco is strongly committed to responsible business practices which deliver value to all our stakeholders.

Effective management of material sustainability risks can deliver value to our 70,000 customers who depend on the most efficient use of resources to navigate harsh and unpredictable conditions, not only on the land but also in global markets; to the 500 agricultural communities we operate in, which need to be resilient, have their issues heard and understood, and their value to the Australian economy recognised; to our 2,200 employees whose skills we rely on and whose safety is in our hands; and to our shareholders who expect the highest standards of governance.

In 2018 Ruralco examined its approach to managing and reporting on sustainability risks that may impact on its ability to provide value.

The review took into account changing priorities in the agricultural industry and the views of a wide range of internal and external stakeholders. The result is a vision for an embedded approach to sustainability across our business, and a new framework for more robust goals and targets.

Our review has been conducted using the Global Reporting Initiative (GRI) G4 Sustainability Reporting guidelines and the ASX Corporate Governance Principles and Recommendations. The GRI G4 reporting framework considers material issues in the context of their impact within and outside the business and the ability of an organisation to directly or indirectly affect the material issue identified.

DELIVERING THE FUTURE OF AGRICULTURE

Ruralco has identified 12 material sustainability issues that are the focus of the business. This took into account the degree of Ruralco's influence on the outcomes, the level of risk to the business and the relative impact on reputation and success. The 12 issues are built around four key categories.

The quality of our management and governance of these risks and opportunities is key to creating long-term value. It impacts our ability to attract talent, maintain customer loyalty, build resilient supply chains and establish strong relationships with a range of stakeholders to retain a sustainable competitive advantage.

Responsibility for setting and reviewing Ruralco's strategy rests with its Board of Directors. The Board will be updated on Ruralco's progress against our sustainability plan twice a year and engaged as required for any matters which may arise.

2018 SUSTAINABILITY HIGHLIGHTS

- Ruralco's material sustainability issues identified and prioritised
- E-learning and digital training tools developed and launched
- CSAW operating model voluntarily adopted for live export of cattle to Vietnam
- First investments into innovative start-ups
- Parental leave policy expanded
- Inaugural Supplier Sustainability Survey conducted
- Carbon footprint baseline established to drive improvements
- 'Coping with life's difficulties' mental health survey conducted in partnership with Lifeline

SUSTAINABILITY
A SAFE, INCLUSIVE AND HIGH PERFORMANCE WORKPLACE

When our customers need efficiency gains or water infrastructure to address conditions like the drought they faced this year, our employees must be ready and able to provide solutions.

Every member of our workforce plays an essential role in providing solutions to whatever challenges the season may bring. Our employees need to be widely knowledgeable in their field, hold strong industry connections, understand rural challenges and be skilled problem solvers.

This requires that Ruralco attract and retain high calibre people, keep them safe at all times, fully engage their skills and passions, and ensure they are aligned to the Ruralco strategy. Without this dedicated engagement, we would not achieve the results we do for agricultural communities, the Company and our shareholders.

A strong focus on safety, inclusivity and a high performance workplace culture is an essential requirement if Ruralco is to position as an employer of choice, in an industry where key talent is hard to find and highly sought after.

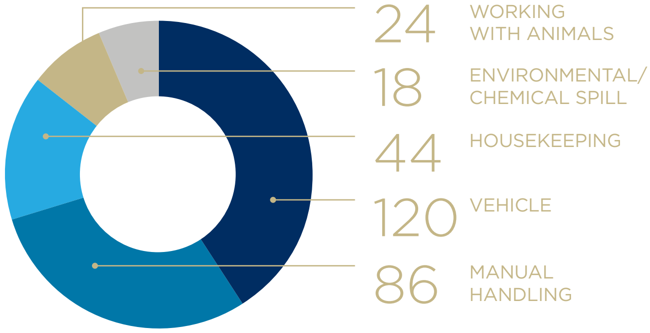
HEALTH AND SAFETY

Safety is of utmost importance at Ruralco and we are committed to a Zero Harm culture for all employees, contractors and visitors. Our proven track record in continual improvement has placed us as industry leaders and earned us the trust of our employees and the wider community.

Ruralco has a rigorous approach to reporting and risk management, which ensures hazards and incidents can be quickly identified and addressed. Incident data is reported internally to the Executive and the Board every month. Overall health and safety performance is overseen by the audit committee.

Our people work in retail stores, offices, sale yards, distribution centres and out on customer properties. We systematically conduct health and safety reviews to identify and assess potential risks at all these sites. Our audit plan is developed using a risk-based approach, taking into consideration locations with high-risk activities such as livestock handling, the number of employees, and previous audit performance. More than 210 reviews were carried out nationally in 2018.

The top five hazards across the business are monitored monthly, with policies and training programs engaged to help reduce the frequency and severity of these incidents.



The focus on these top safety risks has already had an impact across the business with incidents resulting from livestock handling reducing from the number one hazard in 2016 to number four in 2018.

Performance indicators

Ruralco monitors safety performance using Lost Time Injury Frequency Rate (LTIFR) and Medically Treated Injury Frequency Rate (MTIFR). These measures show injuries per million hours worked by employees.

This year our LTIFR increased to 4.6 compared to 2.8 in the same period last year. This is a disappointing result and while the increase is primarily attributed to a higher number of minor incidents recorded, safety is an attitude; and in the wake of these incidents we have redoubled efforts to protect the health and safety of everyone who works at Ruralco.

LTIFR	**4.6**
MTIFR	**9.5**

Information regarding safety incidents is reported to the Board monthly and in the monthly Safety Bulletin sent to all employees.

2018 HEALTH AND SAFETY INITIATIVES

REFRESHED SAFETY MANAGEMENT SYSTEM

- A suite of e-learning programs developed for safe work with livestock, manual handling, real estate, driver safety and chemical management
- 3,415 online safety training courses completed during the year
- Safety training now included within the Frontline Leadership Program
- An average of 900 users accessing our online safety portal each month
- An app is being developed to complete safety bulletin checklists online and access the online incident reporting process

SAFETY WORKING GROUPS ESTABLISHED

- A Livestock Handling Safety Working Group established to review and improve internal safety systems
- Work with Agsafe to expand focus to include safety risks such as livestock handling, agricultural transportation and agricultural construction
- Participation on an industry working group with other industry leaders and safety professionals to drive industry safety training
- Pilot training program at Ruralco's distribution centre in Queensland, facilitated by Agsafe

DRIVER SAFETY

- Additional Driver Safety training and launch of six diver safety videos to educate employees on topics such as 'country road driving', 'driver fatigue' and 'the risks of animal collisions'
- Personal Locator Beacons rolled out for all new Company vehicles to ensure we can monitor the safety of our employees wherever they are

DIVERSITY AND EQUAL OPPORTUNITY

Ruralco believes that companies with a diverse mix of employees and directors generate superior economic returns for shareholders. Diversity at all levels is valued and actively encouraged. Given the recruitment challenges in this sector, we must ensure we represent an attractive value proposition to the best candidates from all backgrounds.

Diversity Action Plan

Our Diversity Action Plan, supported at the most senior levels of management and by the Board, aims to demonstrate our commitment to diversity principles throughout the business. The plan covers six strategic areas.

- LEADERSHIP
- ATTRACT, DEVELOP AND RETAIN A DIVERSE WORKFORCE
- WORKPLACE FREE FROM DISCRIMINATION AND HARASSMENT
- IMPROVE REPORTING
- CREATING A FLEXIBLE WORKPLACE
- STAFF DEVELOPMENT

Gender diversity

The initial focus of this action plan is on the gender and age diversification of our workforce. We know that to sustain an inclusive work environment, gender diversity must be reflected from the boardroom down. The Ruralco Board always views diversity in its broadest sense when considering new appointments, while ensuring that they are made based on merit and experience.

Ruralco is a proud sponsor of Australian Women in Agriculture – Australia's peak organisation for women across all areas of agriculture. Women make up approximately half of the agricultural workforce but occupy just 14% of leadership positions within the sector. While we are proud of the female representation on the Ruralco Board, more needs to be done to ensure women are fully participating at senior leadership levels.

Age diversity

The average age of people who work in agriculture exceeds that of the broader national workforce. Retaining the depth of knowledge and experience in our sector, while attracting and developing the next generation of Ruralco employees, is vital to our sustained success. A range of entry and development programs will help position Ruralco as an employer of choice for all-aged candidates.

Diversity statistics

- 32% of our workforce are women
- 50% of our workforce are aged between 30-50
- 32% of our workforce are over 50
- 19% of our workforce are younger than 30

2018 DIVERSITY AND EQUALITY INITIATIVES

EXPANSION OF PARENTAL LEAVE POLICY

- Expansion of Ruralco's maternity leave scheme to incorporate carer and paternity leave
- Greater flexibility on how leave is paid
- 33 employees accessed some form of parental leave, up from 17 in 2017

EMPOWERING OUR WOMEN

- Empowering Our Women program launched to mentor and train women into Ruralco leadership roles and foster career development
- 50 candidates were taken through the program
- Partnership with Women and Leadership Australia provides four study Scholarships (in conjunction with Monash University)

TARGETING YOUNG TALENT

- Ruralco's Graduate Program achieves a 100% success rate in retaining graduates within the business
- 150 applications for the 2018 Program; more than double for the 2019 intake, with nearly 70% female participation
- New livestock trainee scheme launched with 15 trainee livestock agents engaged across the country
- 44% of employees under 30 are female, reflecting the success of diversity in young talent initiatives

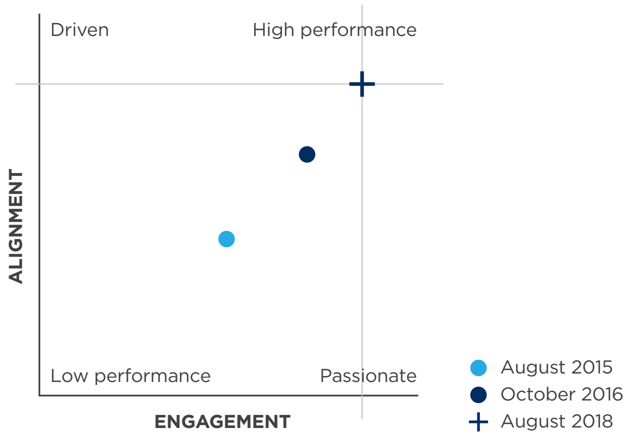
LAUNCH OF INDIGENOUS LIVESTOCK TRAINEESHIP

- Ruralco Indigenous Traineeships Program launched, providing a two-year Livestock Traineeship Program for young Indigenous people as a pathway into livestock sales roles within Ruralco, and a Certificate level vocational qualification

HIGH PERFORMANCE CULTURE

Employee engagement

Following the change in senior leadership, in August 2015 we conducted our first Employee Opinion Survey. This was repeated in September 2016 and identified a 6% improvement in engagement and a 4% increase in alignment. A new survey was conducted in August this year which saw a further 7% increase in both engagement and alignment, bringing Ruralco into the top 25% of companies conducting a survey.



This is important feedback. Our employees are central to us being able to deliver our customers the highest levels of service and advice. A high engagement score is a sign that we provide rewarding careers to our people and is a positive lead indicator of their retention, passion and willingness to innovate. Having an aligned workforce is vital to our ability to deliver our strategy. Our strong alignment result indicates our 2,200 employees are collectively focused on realising our vision.

The survey also allows our employees to provide input into how we can improve across the business, and to better understand our strengths. This employee input contributes valuable insights and supports an engaged, high performance work culture.

Learning and development strategy

The capabilities of our workforce are vital to ensuring we effectively service and support our customers. We encourage excellence and continuous improvement by providing a wide range of learning and development opportunities that align with our strategy and organisational requirements.

It is recognised that employees need both technical competencies and behavioural capabilities to meet performance expectations, and also that learning and development is a shared responsibility between Ruralco, line managers and each employee.

The areas of focus for our learning and development strategy are as follows:

We continue to expand our training framework particularly around the development of the next generation of employees. With the average tenure of employees at Ruralco of 6.8 years it is important that we focus our attention on ensuring all areas of the business have appropriate succession planning in place.

2018 HIGH PERFORMANCE CULTURE INITIATIVES

EMPLOYEE OPINION SURVEY

- 74% participation rate, raising $7,480 for Lifeline
- 7% improvement in both engagement and alignment scores, bringing Ruralco into the top 25% of companies surveyed

TRAINING CALENDAR

- 12 courses in the fields of safety, customer service, management, sales, innovation and leadership with more than 310 participants
- 1,500 employers participated in four courses related to cyber security and business risk

LAUNCH OF ELMO

- E-learning platform launched with initial courses on Privacy Awareness, Discrimination and EEO
- Access to training expanded to all employees, wherever they are located
- Online training completions monitored

SUSTAINABILITY **RESPONSIBLE BUSINESS PRACTICES**

Large businesses like Ruralco are increasingly expected to play an active role in raising the bar along their supply chains.

This means that we must actively engage with our suppliers and customers about how they manage their operations. We must also ensure that our governance structures operate to the ethical standards our shareholders demand. If we fail to meet the expectations of our regulators and communities it can impact the business both financially and reputationally. Ruralco values its 'social licence to operate' and takes its business responsibilities seriously.

ETHICAL SUPPLY CHAIN

Ruralco recognises that it has a responsibility to understand the risks associated with the suppliers and locations it sources its products from. If one of Ruralco's suppliers was involved in an incident of environmental destruction, breach of fair labour practices or governance dispute, there would be potential for reputational damage to Ruralco as well as the potential for disruption to our supply chain.

2018 RESPONSIBLE BUSINESS INITIATIVES

SUPPLIER SUSTAINABILITY SURVEY

- Supplier Sustainability Survey launched to assess positions of key suppliers on governance, modern slavery, labour relations, environmental management and compliance
- Supplier participation demonstrated universally strong engagement both in the survey and on the topic of sustainability, with a high level of rigour throughout their organisations and a clear focus on sustainability

GOOD GOVERNANCE

A consistently high standard of governance is fundamental to meeting shareholder expectations and maintaining the trust of employees and customers. The Ruralco Board is charged with ultimate responsibility for governance; however management has worked hard to ensure a strong governance culture.

The Executive team have accountability for risks relevant to their respective areas of responsibility, which are included in their annual performance objectives.

Ruralco's material risks are aligned to its vision and strategic priorities. If these risks are managed effectively the likelihood of success is improved. Ruralco has a formal risk management process to support the identification and effective management of risks. It is regularly reviewed and adapted as the business, industry and macro-environment evolves.

The material business risks faced by Ruralco, how these risks interact with the Ruralco's key strategic priorities, the movement in the level of risk in the year, and a selection of mitigation activities in place or underway to manage the risks within the desired risk appetite, are explained in more detail in the divisional Review of Operations on pages 10 to 21 of this Annual Report.

In addition to these specific risks, there are those that are inherent to any business such as Ruralco and those that are managed at a corporate level. The policies and governance over risk management are contained in the Corporate Governance Statement available on Ruralco's website at www.ruralco.com/investors/corporate-governance.

ANIMAL WELFARE

Ruralco is committed to animal welfare. As a business, we interact with livestock in our Agency and Live Export operations. A failure to adequately protect the welfare of livestock in our supply chain would result in significant reputational damage as well as penalties (both financial and operational from the potential loss of operating licences).

All employees who come into contact with livestock are trained in safe and responsible handling. We adhere to Meat & Livestock Australia's (MLA's) '*Australian Animal Welfare Standards for the Land Transport of Livestock*' and its '*Fit to Load*' provisions. Our Live Export business, Frontier, leads the industry on live export animal welfare matters. Frontier's own policies exceed the Australian Standard for the Export of Livestock (ASEL) and are reviewed for continuous improvement throughout the year.

STANDARD	ASEL Requirement	Frontier Policy
Pre-Export Quarantine timeframe	24 hours	>3 Days (Short haul) >5 Days (Long haul) >7 Days (Buffalo)
# Stockmen on voyages	1	2
# Veterinarians on voyage	Nil	1 on Buffalo voyage
New vessel due diligence requirement	Nil	All vessels subject to due diligence
Photographic surveillance of vessels	Nil	Daily onboard photographs of livestock conditions

2018 ANIMAL WELFARE INITIATIVES

CSAW

- Four live export operators brought together by Frontier to voluntarily adopt a new operating model for the live export of cattle to Vietnam called *Collective Standards for Animal Welfare* (*CSAW*)
- CSAW members required to share information regarding customers and their operating practices and compliance
- Corrective actions required in Vietnam identified by members and all continuous improvement recommendations adopted
- An 'on the ground' mechanism promoted to bring cultural change to the Vietnamese red meat industry and demonstrates industry collectively raising the bar

ANIMAL WELFARE TAG TRIAL

- Frontier is trialling animal welfare smart sensors on board its charters as part of its commitment to lead the industry on animal welfare and compliance initiatives
- Trial will determine feasibility of utilising animal monitoring technology to provide constant information on the condition of on-board animals

SUSTAINABILITY ACTING RESPONSIBLY TOWARDS THE ENVIRONMENT

The success of our customers is largely dependent on environmental factors outside their control, especially water scarcity and seasonal variability. Navigating these factors in a responsible manner has become a significant challenge for agricultural communities and industries alike. In addition, minimising the impact industries have on the environment is today a fundamental responsibility, and one which is shaping agricultural priorities. Responsible farming practices and innovative environmental management are central to delivering the future of agriculture.

WATER SCARCITY

Water is the fundamental 'must have' agricultural input. But Australian farmers contend with variable rainfall and compete with other industries and stakeholders for access to sufficient water for essential irrigation. As the cost of water increases, certain crops decline in economic viability. In addition, the long-term outlook for water availability is uncertain. Australia is already an arid environment and the future of water availability and its cost is unclear. Access to affordable water for irrigation drives demand for cropping inputs and the ability to generate farm output. These factors make the supply and demand of water intimately linked to Ruralco revenues and the macro themes of water present significant opportunities for Ruralco in the long term.

Water market evolution

In the past decade, water entitlement values in the southern Murray-Darling Basin have grown by over 20%. This reflects a number of factors including:

- **Supply constraints** – Federal government buy-backs of entitlements on issue in the Murray-Darling Basin
- **Increased access to trade** – establishment of online trading platforms such as Ruralco's waterexchange.com.au enables water to move to a 'higher and better use'
- **Water usage efficiency improvements**

Improvements in water efficiency

- The rate of improvement in efficient use of water in Australian agriculture in recent years has been driven by a combination of operational change and capital investment
- Continuous improvement in on-farm solutions, from infrastructure and hardware to software (automation, monitoring) and diagnostics (e.g. tree health and soil moisture content)
- For producers, the investment in on-farm water efficiency enables productivity gains and is a driver of the economic sustainability of farming operations

Ruralco has established a market-leading water business which is the only national water business with a focus on agriculture. Our strategy is to grow the water business contribution to 25% of Ruralco's Gross Profit (through the cycle) and ensure our representation in key Australian irrigation markets.

Water is at the centre of everything Ruralco does and this manifests itself in three key ways – as the leading distributor of water products; broker of water entitlement trades to the Australian agricultural sector; and the design, installation and maintenance of on-farm water infrastructure.

A series of acquisitions has enabled Ruralco to strengthen its footprint in the water market. This has developed from a legacy base of small-scale Water Project businesses in Roberts in Tasmania, Archards Irrigation in northern Victoria and a water broking business, Ruralco Water Brokers (formerly WaterNet). The acquisition of Total Eden in 2014 provided scale to Ruralco's water business, a position that was consolidated with the portfolio of Water Projects businesses acquired in 2017 in key irrigation centres in Tasmania and the Murray Darling Basin.

2018 WATER SCARCITY INITIATIVES

FURTHER EXPANSION OF WATER FOOTPRINT

- Acquisitions of leading water management services in key irrigation markets – Hall Irrigation and Team Irrigation and two new greenfield operations

INVESTMENT IN WATEREXCHANGE.COM.AU TRADING PLATFORM

- Water trading platform received upgrades and was expanded to include more river catchments in northern New South Wales and Queensland
- Single portal allows customers to view up-to-date registered entitlement trades listed on all state government registers, entitlement parcels with associated volume and prices that are under contract, and the most recent government registered trade values

A FOCUS ON WATER INNOVATION

- New technologies brought to market to help customers manage water more efficiently
- Water branches transformed into Sigfox IOT sites, enabling customers to access low power wide area network to deploy smart devices on farms
- The latest moisture meter technology brought from Israel to help farmers know when they should stop irrigating to avoid wastage
- Tevatronic and CropX branded sensors now deployed across the network
- Ruralco is a leading supplier of SupPlant autonomous irrigation system which monitors individual plant water needs and adjusts irrigation accordingly – achieving higher yields with 30% less water
- Partnership established with Australian AgTech start-up FarmBot to install real time water level monitoring sensors across remote rural properties

PRE 2013

ACQUISITIONS
LEGACY WATER BUSINESSES IN ROBERTS IRRIGATION, ARCHARDS IRRIGATION AND RURALCO WATER BROKERS

TOTAL LOCATIONS (CUMULATIVE) 9

GP$ $8.2M

% OF GP 4%

2014

ACQUISITIONS
TOTAL EDEN

TOTAL LOCATIONS (CUMULATIVE) 46

GP$ $33.9M

% OF GP 13%

2015

TOTAL LOCATIONS (CUMULATIVE) 46

GP$ $56.1M

% OF GP 19%

2016

ACQUISITIONS
RIVERLAND IRRIGATION AND RIVER RAIN

TOTAL LOCATIONS (CUMULATIVE) 49

GP$ $51.6M

% OF GP 17%

2017

ACQUISITIONS
IRRIGATION TASMANIA, PIVOT IRRIGATION AND PUMPING, MILDURA IRRIGATION CENTRE

TOTAL LOCATIONS (CUMULATIVE) 57

GP$ $59.9M

% OF GP 18%

2018

ACQUISITIONS
HALL IRRIGATION, TEAM IRRIGATION, GREENFIELD SITES IN MAFFRA AND THE BAROSSA VALLEY

TOTAL LOCATIONS (CUMULATIVE) 61

GP$ $74.2M

% OF GP 22%

SEASONAL VARIABILITY

Australia's climate is highly variable, with lower average rainfall and higher rainfall variability than most other agricultural markets in the world. As a result, Australian agriculture is subject to more revenue volatility than almost any other country in the world.

Climate models predict large changes in future rainfall. Over the last 20 years, observed changes in the Australian climate include general increases in temperature, more severe droughts and floods, and reductions in the average winter rainfall in southern Australia. Ruralco's strategy is to deliberately diversify the business to ensure earnings are sourced from a range of geographies and complementary activities. Through diversification we can reduce the volatility in revenues that arises from climate variability.

CO_2 EMISSIONS (TONNES)	
Air travel	2,514
Electricity consumption	2,827
Motor	9,303

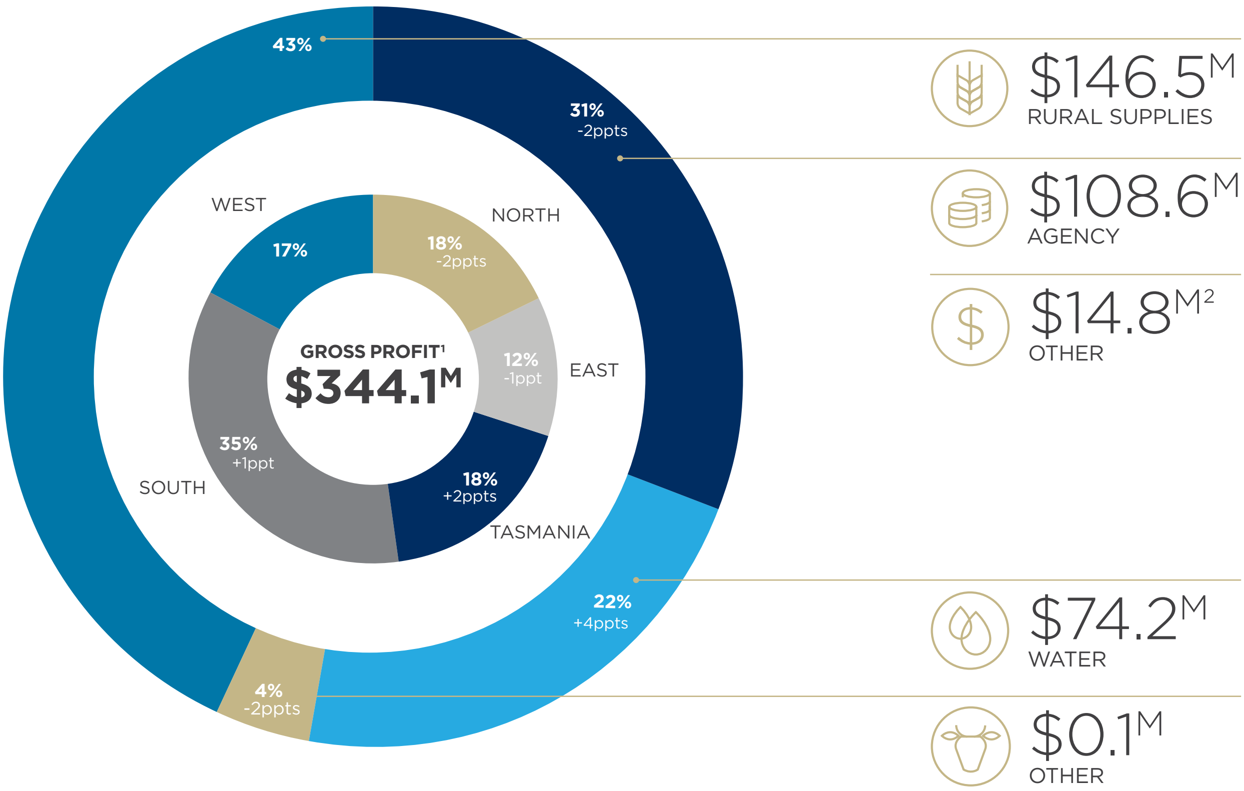
2018 SEASONAL VARIABILITY INITIATIVES

DESIRED PORTFOLIO WEIGHTING

- Investment strategy targets mix of earnings by activity, with 25% of gross profit derived from each primary activity

DISCOVERING OUR CARBON FOOTPRINT

- Baseline established and emissions monitored to inform targeting of reduction opportunities
- CO_2 monitoring introduced for fleet, store footprint and air travel



1 See page 23 for definition of underlying gross profit.
2 Finance and insurance activity gross profit Includes the gross profit from the Financial Services segment (including share of profits from equity investments in Agfarm and Ausure) as well as finance commission income and interest on debtors from Live Export and Rural Services divisions.

SUSTAINABLE FARMING PRACTICES

Community and regulatory expectations on agricultural practices continue to increase. If these expectations are not adequately addressed, the industry's 'social licence to operate' in certain geographies and the acceptability of certain commodities will be drawn into doubt. This is particularly so with respect to Australia's 'clean/green' agricultural product reputation. This represents a significant risk to revenue, reputation and environmental accountability.

Ruralco's strategy has a focus on innovation. This focus ensures we remain at the forefront of new technologies that change the way farming practices are performed and typically increase farming efficiency. In addition, our network of over 200 agronomists assists our customers to adopt leading farming practices and select the optimum level of inputs.

Working with chemicals

Ruralco works closely with Agsafe. Every two years Agsafe assesses the sites where we store, handle and sell chemicals. Our Group-wide approach to safely handling chemicals and containers demonstrates our approach to our wider environmental responsibilities. We are developing knowledge throughout our business, increasing focus and environmental awareness and improving reporting through our Environmental Management System. Ruralco supports the Agsafe '*DrumMUSTER*' program, which recycles chemical drums, '*ChemClear*' for the collection of unwanted agricultural chemicals and the '*Farm Waste Recovery*' program for fertiliser packaging.

2018 SUSTAINABLE FARMING PRACTICE INITIATIVES

SPROUTX

- Sponsorship of second cohort of AgTech start-ups via leading AgTech accelerator SproutX
- Access to emergent technology and modern 'best practice' solutions fast tracked for Australian farmers to improve efficiency and reduce environmental impact of farming

FERTILISERS

- Ruralco works with manufacturer to incorporate Entec® technology into Grow Force fertiliser to protect against nitrogen loss and improve crop uptake
- Ruralco's Grow Force brand holds more than 60% of fertiliser market in North Queensland
- Retailers, CRT members and agronomists working under the Ruralco banner consult with farmers on optimal application

SUSTAINABILITY **ROBUST RURAL COMMUNITIES**

Most of Ruralco's customers live and work in rural and remote settings, where they face a myriad of challenges often unique to agricultural life. To thrive, and indeed survive, they need to be resourceful, resilient and well supported. Ruralco is committed to supporting these communities which are the lifeblood of our success.

PHYSICAL AND MENTAL HEALTH

Mental illness and suicide rates in rural Australia are more than double those in capital cities. Ongoing droughts and times of crisis within agricultural sectors often place individuals and their communities under extreme stress.

Ruralco acknowledges that in many agricultural communities there is a lack of adequate support services for those experiencing tough times and that this can impact not only the mental health of a community but also its financial stability.

In late 2015, Ruralco and Lifeline Australia established a corporate partnership to develop and fund initiatives that build awareness and skills around mental health and suicide in agricultural communities across Australia. To date Ruralco has contributed more than $1 million towards Lifeline, via a range of sponsorship and fundraising activities. We have also provided expertise and insights into program development, based on our extensive work in agricultural communities.

2018 PHYSICAL AND MENTAL HEALTH INITIATIVES

A PROUD PARTNERSHIP WITH LIFELINE

- Ruralco employees, suppliers and customers raise more than $0.1 million for Lifeline through Sydney and Perth City to Surf, charity auctions, morning teas and barbeques
- Ruralco Managing Director & CEO Travis Dillon serves as a Director of Lifeline

MEN'S HEALTH WEBINAR

- Men's Mental Health webinar conducted for employees and customers in collaboration with AccessEAP, nationally recognised provider of employee assistance programs
- Training covers stress awareness, mental health and men, the 'Macho' factor, signs and symptoms and tips for looking after yourself

FARMERS AND RURAL COMMUNITY SURVEY: 'COPING WITH LIFE'S DIFFICULTIES'

- Inaugural nationwide survey 'Coping with Life's Difficulties' launched in collaboration with Lifeline
- Survey explores life events and circumstances that Australian farmers, their families and farming communities find difficult, their coping strategies and help they need
- Promotion of the survey reaches extensive audience via online, social media, print and distribution via a range of rural organisations, events and media channels
- Survey results to be independently analysed and used to inform future partnership activities, provide benchmark for monitoring mental health of agricultural communities and assess impact of Ruralco and Lifeline partnership

LOCAL COMMUNITY IMPACT

Thriving local communities are a key focus of our business. With a strong culture of lending a hand to those in need, Ruralco provides practical and financial assistance at the local level to a wide range of groups and organisations.

Throughout our network, we sponsor sporting clubs and events, support agricultural shows and fundraise for hospitals, medical facilities, schools and charities. We also provide scholarships, donate food, participate in local and industry associations, engage in community service, help move stock and rebuild fences in the wake of fires or floods, and advise on agronomy issues. We encourage our businesses and our CRT members to be supportive and responsible in all the communities in which they work.

Our branches and employees are part of the fabric of small towns across regional Australia. They are the ones who determine how Ruralco can best contribute to the ongoing health and growth of their local towns. In 2018, we provided more than $0.9 million for local community events.

2018 LOCAL COMMUNITY IMPACT INITIATIVES

CYBERBULLYING IN SOUTH BURNETT, QUEENSLAND

- 1,600 school children attended event organised and sponsored by Ruralco subsidiary Northern Agriservices to learn about the impact of cyberbullying

SURVIVING THE DROUGHT IN SOUTH-WEST NEW SOUTH WALES

- Drought nutrition seminars conducted by Ruralco subsidiary BR&C Agents to ensure customers in the region have the best information to ride out the drought and keep their best breeding stock and young lambs alive
- Seminar also provided opportunity for locals to share expertise and experiences

COMMUNITY SERVICE LEAVE

- Community service paid leave program introduced, entitling all Ruralco employees to one paid leave day a year to volunteer with a local community cause they are passionate about

ADVOCACY FOR AUSTRALIAN FARMERS

When we say that 'We're here for Australian Farmers', that means that we help however we can to alleviate their stresses and support their growth. While there are more than 100,000 farmers in Australia, it is often difficult for their needs to be heard over the throng of other issues that garner national attention from our politicians and regulators. Using our position as a large agricultural business with a national platform, we advocate on behalf of our customers to draw attention to the very important contribution they make to our communities and the Australian economy, and champion their unique needs.

The advocacy role Ruralco plays helps to strengthen our relationships in agricultural communities and ensures we understand the issues and priorities of these important stakeholders.

Ruralco is working to ensure its many direct and indirect stakeholders better understand key issues facing the agricultural industry through advocacy campaigns that impact:

- Government and regulators
- Shareholders
- Customers and suppliers
- Environmentalists
- Philanthropists
- The media and commentators
- The wider community

Our Corporate Affairs team is responsible for developing and sustaining relationships with key government and industry body representatives to ensure that we have a voice in policy discussions, our Company and customers are well positioned and represented, and our work is accurately conveyed in legislative deliberations. It is essential that we are involved in policy decisions that have a direct impact on our business operations and ability to deliver value to agricultural communities. In all our engagements with government, we act in accordance with State and local laws and regulations and are guided by our corporate values and Code of Conduct.

In addition to regular interaction with key Federal and State politicians, government departments and regulators, Ruralco is active across traditional and social media, and regular community events, to ensure that all stakeholders become more aware of the important role of farming and the increasingly significant role Ruralco and its subsidiaries play.

2018 ADVOCACY INITIATIVES

FUTURE FOOD SYSTEMS CO-OPERATIVE RESEARCH CENTRE (CRC)

- Ruralco signed on to be a foundation member of the Future Food Systems CRC in partnership with research, regulatory and commercial bodies
- If approved by the Commonwealth, the CRC will facilitate economic development for the rapid export of high value perishable goods from Australia

BOARD OF DIRECTORS

RICHARD (RICK) LEE AM
Independent Non-Executive Chair

BEng (Chemical) (Hons), MA(Econ) (Oxon), FAICD

Rick brings a wealth of experience to his position as Chair of the Board. He has served on a range of boards since 2001, when he retired as Chief Executive Officer of NM Rothschild Australia Group after nine years in the role. His previous senior Executive roles also include 16 years with CSR Limited. Rick has broad exposure to agribusiness both personally and through his board experience as Director and Deputy Chairman of stock feed business Ridley Corporation Limited, Director of CSR Limited and board positions at GrainCorp and Wesfarmers General Insurance.

Rick is the current Chairman of Oil Search Limited (since May 2012). He retired as a Non-Executive Director of Newcrest Mining Limited in November 2018 having served on that Board since August 2007.

ELIZABETH JOHNSTONE
Independent Non-Executive Director

LLB, MA(Hons), BA(Hons), FAICD

Elizabeth has extensive experience in company law and corporate governance. Elizabeth was previously a corporate partner and practice head for company law and governance at Blake Dawson (now Ashurst), and a member of the American Bar Association's International Developments in Corporate Governance Committee. Elizabeth served for many years as a member of the Auditing and Assurance Standards Board until 2012 and as a member of the Australian Press Council. She is a former Business and Professional Women's Association/ QANTAS Business Woman of the Year.

Elizabeth is a Fellow of the Australian Institute of Company Directors (AICD), the current Chair of the ASX Corporate Governance Council (since October 2017), Non-Executive Director and Chair of the Audit & Risk Management Committee of the Royal Flying Doctor Service (South East Section) (since 2010), and Non-Executive Director of KinCare Community Services Limited and related companies (since September 2012). She retired as Chair of KinCare Community Services Limited in September 2018 and as Non-Executive Director and member of the Audit & Risk Committee of Macquarie University Hospital Operations Ltd in March 2017.

TRUDY VONHOFF
Independent Non-Executive Director

MBA, BBus (Hons), SF Fin, GAICD

Trudy has over 30 years experience leading businesses in the financial services industry and brings strong strategy, financial, commercial and risk management skills to the Group. Trudy previously held senior Executive positions with Westpac and AMP, including leading Westpac's Commercial Banking and Agribusiness unit, which further developed her strong interest in and understanding of agribusinesses. She also has extensive corporate governance and people and culture experience through her Non-Executive roles with AMP Bank Limited and Cabcharge Australia Limited.

Trudy is a Non-Executive Director and Chair of the Risk Committee of AMP Bank Limited (since June 2012) and Non-Executive Director and Chair of the Audit and Risk Committee for Tennis NSW Limited (since December 2012). She resigned as Non-Executive Director and Chair of the Remuneration & Nominations Committee of Cabcharge Australia Limited in November 2018 having served on that Board since August 2015.

ANDREW MACPHERSON
Independent Non-Executive Director

MAICD, B.Ind Eng. (Hons UNSW)

Andrew has close to 30 years experience in financial and management consulting and served as Regional Managing Director for global consulting firm Accenture until he retired in 2005. His areas of specialisation are technology strategy and the implementation of technology to transform business operations. Since retiring from Accenture he has been involved with several early stage technology businesses in the areas of biometrics, online retail and customer loyalty. The son of a wool grower, he grew up in the New England district of New South Wales and has maintained his agricultural interests with a cattle breeding property in the Hunter Valley.

Andrew is a Non-Executive Director Melbourne IT Group (since July 2017), Chairman of WorkVentures (not-for-profit IT social enterprise) (since April 2017), Non-Executive Director of the OneVue Group (since October 2016) and Chairman of Sirca Limited (since July 2016).

MICHAEL MILLNER
Independent Non-Executive Director

MAICD

Michael has extensive experience in the investment industry and has broad exposure to agribusiness both personally and through his appointment to the Board of the Royal Agricultural Society of New South Wales, a not-for-profit organisation that encourages the sustainable development of Australia's agriculture. He has a deep understanding of the Group and the agriculture industry, having served on the Board since 2003.

Michael is a Non-Executive Director and Deputy Chairman of Brickworks Limited (since 1998), Councillor and Board member of the Royal Agricultural Society of New South Wales and Chairman of the Royal Agricultural Society of New South Wales (RAS) Foundation (since December 2011). Michael was appointed Chair of the Royal Agricultural Society of New South Wales in July 2018.

TRAVIS DILLON
Managing Director & CEO

MBA, Adv Dip RBM, MAICD

Travis has more than 25 years experience in the agribusiness industry. Having joined Ruralco in 2007, Travis has extensive operational knowledge across all of the Group's activities including rural supplies, livestock agency, live export, financial services and wool and real estate agency activities. Prior to his appointment as Managing Director & CEO in November 2015, Travis led the Rural Services division.

Travis is also a Director of several of the Group's entities as well as AuctionsPlus Pty Ltd, market leader in online transactions of livestock services. He has been a Director on the Board of Lifeline Australia since November 2017.

EXECUTIVE MANAGEMENT TEAM

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1 TRAVIS DILLON
Managing Director & CEO

MBA, Adv Dip RBM, MAICD
Appointed: November 2015

Travis has more than 25 years experience in the agribusiness industry. Having joined Ruralco in 2007, Travis has extensive operational knowledge across all of the Group's activities including rural supplies, livestock agency, live export, financial services and wool and real estate agency activities. Prior to his appointment as Managing Director & CEO in November 2015, Travis led the Rural Services division.

2 ADRIAN GRATWICKE
Chief Financial Officer

CA, Exec MBA, BA (Hons), GAICD
Appointed: July 2015

Adrian brings 30 years experience in finance and accountancy, spanning professional advisory and assurance with Price Waterhouse in London through to a number of Top 100 ASX Listed organisations within the resources and FMCG retail/wholesale sectors. He was previously Chief Financial Officer at Metcash Limited for five years, after holding several senior roles within the company. His experience within the resources sector included senior positions at RGC Limited (now Iluka Limited) and Ampolex, the oil explorer and producer acquired by Mobil. As Chief Financial Officer of Ruralco, Adrian is responsible for finance and reporting, IT, transactional finance (AP, AR and treasury), property, insurance, business development, risk and internal audit.

3 TIMOTHY ROWE
Group General Counsel & Company Secretary

BA (Hons), LLB, FGIA
Appointed: May 2018

Tim has more than 18 years legal experience with leading national law firms Minter Ellison and Mills Oakley, and in-house. During his time in private practice, Tim advised domestic and offshore clients on corporate matters including mergers and acquisitions, capital management transactions, commercial agreements and corporate governance. Tim joined the Group in June 2017. Agribusiness has been a long-term area of interest and focus and he has worked on numerous corporate and commercial transactions in the sector. Prior to joining Ruralco, Tim also helped to establish, and was then the General Counsel of, a boutique investment manager. Tim is responsible for managing the legal and company secretarial functions of the Group.

4 PETER WEAVER
Executive General Manager – Water

Adv Dip Man, Adv Dip FSM, GAICD
Appointed: February 2016

Peter has a deep understanding of commodity trading, procurement, sales, finance, multiple site operations, supply chain logistics and talent management. He joined Ruralco in 2012 as General Manager of Rodwells, one of Victoria's largest rural services businesses. His significant experience within agribusiness extends across several industries and senior management positions, including as CEO of Ridley AgriProducts, General Manager Operations of Cheetham Salt and Operations Manager for ABB Grain. As Executive General Manager – Water he is responsible for managing Ruralco's nationwide Water business encompassing water broking, retailing and on-farm water infrastructure projects teams.

5 MATTHEW PEDERSEN
Executive General Manager Rural Services – Southern

GAICD
Appointed: October 2015

Matt has more than 27 years experience in the Australian agriculture industry with a career extending across sales, marketing, management experience in wool, exporting, livestock, real estate, merchandise, finance, insurance, grain trading and water. He has held various senior positions within the Ruralco Group including Managing Director of Primaries of WA. Matt was President of the National Council of Wool Selling Brokers Association and its representative on the Australian Chinese industry working group. As Executive General Manager Rural Services – Southern, he is responsible for managing the Rural Services businesses in Western Australia, South Australia, Victoria and southern New South Wales.

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6 JOHN TUSKIN
Executive General Manager Rural Services – Tasmania

GAICD
Appointed: October 2017

John has over 30 years experience in Australian agriculture having begun his career with TP Jones & Co, a Tasmanian based rural supplies business and CRT member, in 1986, becoming Managing Director of that business in 2008. Throughout his career in Agriculture, John has sat on various industry committees including Agsafe, the Tasmanian Rural Industry Training Board and has previously served as Chair of the CRT National Council and as a Non-Executive Director on the Ruralco Board from October 2013 to November 2016. In October 2017, John was appointed as Executive General Manager leading the Rural Services Tasmanian operations.

7 ANDREW SLATTER
Executive General Manager Rural Services – Northern

Dip FM, MAPF, MAgrEc
Appointed: January 2018

Andrew has over 25 years experience in Australian and international agribusiness, with extensive expertise in global commodity supply chains, finance and funds management. Working with Elders early in his career, he moved to ANZ Banking Group Limited where he held a number of senior roles over 12 years including Head of Agribusiness – Asia. From 2015 to 2017 Andrew was Chief Financial Officer for Australian Agricultural Company Limited, gaining invaluable experience in the potential for growth and development in northern Australian agriculture. Andrew joined Ruralco in January 2018 as Executive General Manager Rural Services – Northern, and is responsible for managing the Rural Services businesses in northern New South Wales, Queensland, Northern Territory and the Kimberly region of Western Australia.

8 GREG O'NEIL
Executive General Manager – CRT & Procurement

MAICD
Appointed: March 2016

Greg comes from a family farming background and has more than 30 years experience with CRT. Starting in customer service, he has held various senior positions in procurement, sales and marketing and product management. He was State Manager for Western Australia and New South Wales before moving into a general management role for CRT in 1996. Greg has a sound knowledge of the key drivers of the business and a good understanding of the market having worked in New South Wales, Queensland and Western Australia. In his role as Executive General Manager of CRT & Procurement, Greg is responsible for Ruralco's CRT wholesale rural supplies business and managing the procurement and supply chain functions of the Group.

9 IAN PERRY
Executive General Manager – Financial Services

Grad Dip FSM, MAICD
Appointed: October 2015

Ian joined Ruralco after a 35-year career with ANZ Banking Group Limited, during which time he was the Group's banker for eight years. He has experience across all levels of banking and finance, with a specialisation in Corporate and Institutional Agribusiness, including pre-farmgate, large-scale farming enterprise and global agricultural commodity trading. Prior to his current appointment, he consulted in areas of Agribusiness Finance and Insurance, specialising in cotton and protein.
As Executive General Manager Financial Services he is responsible for managing Ruralco's financial services offerings including insurance and grain marketing and financing in partnership with Ausure and Agfarm.

10 ELIZABETH HARDAKER
Executive General Manager – People & Culture

Adv Dip Man, Dip HR, MAHRI, MAICD
Appointed: May 2015

Elizabeth is a commercially focused human resources professional with particular expertise in organisational development and capability, business restructuring, business acquisition and integration, learning and development, and workplace health and safety.
Her more than 15 years' experience was gained in various industries including FMCG, Steel, Retail, Distribution, Services and Medical Devices. She was previously HR Director, Global Innovation and Operations for ResMed. Prior to this, her roles included Divisional HR Manager and Group ER Manager for RCR Infrastructure and a National HR Management position with OneSteel. Elizabeth is also Non-Executive Director of the Australian Institute of Management Business School. As Executive General Manager of People & Culture she is responsible for managing the HR, payroll and Workplace Health and Safety teams.

DIRECTORS' REPORT

The Directors present their report together with the Remuneration Report and the audited financial statements of the consolidated entity, consisting of Ruralco Holdings Limited (the Company) and the entities it controlled (the Group), for the year ended 30 September 2018. The comparatives presented are for the year ended 30 September 2017.

DIRECTORS AND COMPANY OFFICERS

Details of the qualifications, experience and responsibilities of the Directors who served during the year and as at the date of this Annual Report can be found on pages 42 and 43.

All Directors served on the Board and Committees for the period from 1 October 2017 to 30 September 2018, except for Mr Andrew Macpherson, who was appointed to the Board on 6 December 2017. Mr Macpherson will replace Mr Michael Millner as a member of the Audit, Risk & Corporate Governance Committee, Nomination & Remuneration Committee and Investment Committee and will replace Mr Millner as Chair of the Investment Committee upon Mr Millner's resignation.

Details of the Executive Management Team, which includes the CEO and the Company Secretary, can be found on pages 44 and 45.

PRINCIPAL ACTIVITIES

The Group's 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.

During the year, the Group acquired a number of businesses with complementary activities, particularly in the Water Services division. These acquisitions continue to develop the regional and operational diversity of the network.

Further details of the Group's operations can be found in the Review of Operations on page 10 to 21.

DIVIDENDS

Dividends paid to shareholders during the year were as follows:[1]

	$'000
Final dividend for the year ended 30 September 2018: 6 cents per share	6,268
Interim dividend for the year ended 30 September 2018: 9 cents per share	9,430
TOTAL	**15,698**

Subsequent to year end, the Board declared a final franked dividend of 6 cents per share, taking the total dividend for the year to 15 cents per share. The final dividend will be paid on 17 December 2018 to shareholders on the Company's register on 26 November 2018, the record date for the final dividend. The Dividend Reinvestment Plan continues to operate in respect of the final dividend.

REVIEW OF OPERATIONS

The Group reported a profit for the year after tax of $25.2 million (2017: $22.4 million). Information on the operations and financials of the Group and its business strategies and prospects is set out on pages 10 to 27 of this Annual Report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no events after the end of 2018 that may significantly affect the Group's operations in future years, the results of those operations or the Group's state of affairs in future years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Information on the development of the Group is included in the CEO & Managing Director's Report and the Review of Operations sections of this Annual Report.

1 For full details see Note 14(b) to the Financial Statements.

EVENTS SUBSEQUENT TO YEAR END

On 1 November 2018, the Group acquired 100% of the business assets of iWater Pty Ltd, a water services business located in Dalby, Queensland. The acquisition complements the Group's current presence in Queensland and provides operational scale and project capability to the region.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During the year the Company paid a premium to insure current and former Directors, Secretaries and Executive Officers of the Company, its controlled entities and related bodies corporate. The contract of insurance prohibits disclosure of the nature of the liability insured against and the amount of the premium paid.

The Company indemnifies Directors and Secretaries (and may indemnify Executive Officers) against any liability incurred in that capacity in defending any proceedings, whether civil or criminal, in which judgement is given in their favour or where they are acquitted, or in connection with any relief granted for proceedings under the *Corporations Act 2001*.

The Company has not entered into any agreement to indemnify its auditor or paid any insurance premiums in respect of its auditor.

PROCEEDINGS ON BEHALF OF THE COMPANY

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

DIRECTORS' INTERESTS AND SHARE OPTIONS

Details of the shares held by Directors, including the Managing Director, are set out in the Remuneration Report that forms part of this Directors' Report.

No options or rights have been granted to the Directors, including the Managing Director, during the year.

MEETINGS OF DIRECTORS

The number of meetings of the Board and Committees held during the year, each Director's eligibility to attend and their attendance at meetings, is set out below:

	Board		Audit, Risk & Corporate Governance Committee		Nomination & Remuneration Committee		Investment Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
Richard Lee	18[C]	18	6	5	5	5	5	5
Elizabeth Johnstone	18	17	6[C]	6	5	4	5	4
Trudy Vonhoff	18	18	6	6	5[C]	5	5	4
Michael Millner	18	17	6	4	5	4	5[C]	5
Andrew Macpherson[2]	13	13	–	3	–	2	–	4
Travis Dillon[3]	18	18	–	6	–	5	–	5

C Chair of the Board/Committee

2 Mr Macpherson was appointed to the Board on 6 December 2017. He will be formally appointed as a Member of each of the Committees on the resignation of Mr Millner at the upcoming AGM, prior to which he has attended as an invited guest.

3 Mr Dillon attended each of the Committees as an invited guest.

NON-AUDIT SERVICES

The Group may engage the external auditor, KPMG, on assignments or projects in addition to its statutory audit duties where its expertise and experience with the Group are of benefit. Information on the amounts paid to the auditor for such services during the year are set out in Note 24 to the Financial Statements.

The Board, in accordance with recommendations from the Audit, Risk & Corporate Governance Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence imposed by the *Corporations Act 2001*. The Directors are satisfied that the services did not compromise the independence of the auditor as all non-audit services have been reviewed by the Audit, Risk & Corporate Governance Committee to ensure they do not impact the impartiality and objectivity of the auditor and none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants.*

ROUNDING OF AMOUNTS

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the 'rounding off' of amounts in the financial statements and this Annual Report. Amounts in the financial statements and this Annual Report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

ENVIRONMENTAL REGULATION

The Group's operations are subject to a range of Australian, State and Territory environmental legislation and regulation, which cover matters including:

- Storage, handling and transportation of dangerous goods such as agricultural and veterinary chemicals and fertilisers
- Effluent management, dust and noise management at sale yards
- Sourcing, preparation, management and transportation of livestock through the supply chain to the point of slaughter in the destination country for livestock export

The Directors are not aware of any material breaches of applicable environmental regulations during the year and to the date of this Annual Report. Further information on the Group's approach to its environmental responsibilities is included in the Sustainability section on pages 28 to 41 of this Annual Report.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is included on page 67.

This Directors' Report, including the Remuneration Report on the following pages, is made in accordance with a resolution of the Board.

Richard Lee

RICHARD (RICK) LEE AM
CHAIR
RURALCO HOLDINGS LIMITED

Sydney, 14 December 2018

REMUNERATION REPORT

LETTER FROM THE CHAIR OF THE NOMINATION & REMUNERATION COMMITTEE

Dear Shareholders,

On behalf of the Board, I am pleased to present the Company's Remuneration Report for the financial year ended 30 September 2018.

It has been a challenging year for much of the Australian agricultural community, with drought and dry conditions across the country. While the diversity of the Group's activities and geography has buffered the Company's results, Executive remuneration outcomes for 2018 reflect the difficult conditions across the market.

In 2018 Executives received fixed remuneration increases in aggregate of 4.7% over the year. Executive STI payments are below target (between 28% and 42% of maximum potential), and the 2015 Long-Term Incentive grant vested at 30% of maximum, reflecting achievement of the threshold performance hurdle. Despite mixed seasonal conditions, the Executive team have maintained their focus and energy in executing the Company's strategy and driving efficiency.

In 2018, in line with the Board's commitment last year and as part of the continuous improvement of remuneration frameworks, the Company engaged EY to undertake a review of remuneration structures.

As a result of the review, the Company will combine the existing STI and LTI arrangements into a single, strategically-aligned Executive Performance Plan (EPP) that will:

- Better align remuneration outcomes with the achievement of the Company's strategy
- Increase Executive and Shareholder alignment with two-thirds of all incentives being provided in deferred equity
- Increase Executive engagement with annual targets, which are more relevant to the agriculture industry than the existing three-year LTI targets
- Increase Executive accountability through a greater weighting on divisional and individual metrics

The Board is confident that the EPP will ensure high-level Executive engagement through every season and will complement existing talent and retention strategies.

Further details of the EPP are set out in Section 2 of this Remuneration Report.

The EPP became operational from 1 October 2018, replacing the STI and LTI that applied in this reporting year 2018 (and which are detailed in this Remuneration Report). Reporting under the EPP will commence in 2019.

The Board is pleased to report the success of the Executive Share Matching Plan which was introduced as an interim measure to increase Executive share ownership ahead of the introduction of the EPP. During the year, all eligible Executives purchased shares, and received matched shares under the Plan (see Section 4.2.5 for details). This will be offered again in respect of STI payments for the 2018 year.

The Committee also undertook the following important projects during the year:

- Introduced a Non-Executive Director Minimum Shareholding Policy and, to further enhance alignment, approved an Executive Minimum Shareholding Guideline that will operate from 1 October 2018
- Completed the biennial review of Non-Executive Directors' fees against the external market. The review resulted in an increase from $8,000 to $10,000 for participation in committees from 1 July 2018. There was no change to base fees, fees paid for chairing a committee, or to the maximum fee pool. Full details are included in Section 4.1

The Board is committed to ensuring remuneration frameworks and practices reflect Group performance and retains discretion over remuneration to ensure outcomes are aligned. The introduction of the EPP will continue this commitment and strengthen the link to those activities for which the Executives are directly accountable and responsible.

Ruralco thanks you for your ongoing support and, as always, we welcome any questions or feedback on our remuneration practices.

TRUDY VONHOFF
CHAIR
NOMINATION & REMUNERATION COMMITTEE

14 December 2018

1. SNAPSHOT OF 2018

The table below contains a summary of changes to remuneration structures and high-level remuneration outcomes for Key Management Personnel (KMP) for 2018.

EXECUTIVE MANAGEMENT TEAM

ITEM	STRUCTURAL CHANGES	OUTCOME	EXPLANATION
FIXED REMUNERATION 4.2.1	No changes to fixed remuneration structure.	Aggregate increase in fixed remuneration of 4.7%.	One Executive received a 12% increase associated with a role change, and other Executives received increases of between 2% and 6% to align their fixed remuneration to market median.
SHORT-TERM INCENTIVE 4.2.3	The STI and LTI for 2018 both followed the same structure as 2017. The separate STI and LTI arrangements will cease from 2019 and be replaced by the Ruralco Executive Performance Plan.[4]	KMP awarded STI between 28% and 42% of maximum opportunity.	Based on financial and individual performance against KPIs set at the commencement of the financial year.
LONG-TERM INCENTIVE 4.2.4		The 2015 LTI Grant vested at 30% of maximum. Executives were granted LTI performance rights on 1 October 2017, during the financial year.	The 2015 LTI grant, which was tested on 30 September 2018, was measured on three-year cumulative underlying EPS performance adjusted for the impact of the 2017 capital raising. The closing market price of the underlying instruments on 9 November 2018, the date on which the vesting was approved by the Board, was $2.85. This adjustment was previously defined by the Remuneration Committee as a pre-agreed scenario in which Board discretion may be exercised in determining whether the awards would vest on 30 September 2018. Taking into account this adjustment, actual performance was at the threshold level of achievement, resulting in vesting of 30% of LTI performance rights. There were no changes to the terms of the original 2015 LTI grant and there has been no change to the value of these awards to the Executives as a result of the Board adjusting for the impact of 2017 capital raising.
EXECUTIVE SHARE MATCHING PLAN 4.2.5	This plan was introduced during 2018 in respect of 2017 STIs. It allows Executives to receive Matched Shares for shares purchased from after-tax proceeds of STI payments, up to $20,000 p.a.	All eligible Executives participated in the plan in respect of 2017 STI payments and received Matched Shares which will vest based on continued service.	The Board introduced the Executive Share Matching Plan to encourage Executives to begin to build meaningful shareholdings. It is an interim measure to cover the transition from the current STI and LTI structure to the new EPP.

NON-EXECUTIVE DIRECTORS

ITEM	STRUCTURAL CHANGES	OUTCOME	EXPLANATION
FEES 4.1	No changes to NED remuneration structure.	Increase to committee member fees from 1 July 2018. No change to base fees, chair fees or maximum fee pool.	The fees of NEDs are reviewed every two years and compared to independent external data. Based on this review, committee member fees were increased from $8,000 to $10,000 p.a.

4 Details on the EPP are included at Section 2.

2. EXECUTIVE REMUNERATION CHANGES FOR 2019

The Executive Performance Plan (EPP) replaces the existing STI and LTI framework and will apply to all Executive KMP from 1 October 2018. The EPP aims to create sustainable shareholder value by reinforcing our strategy through:

BETTER ALIGNMENT OF PERFORMANCE MEASURES

Tactical metrics may be re-aligned annually to key strategic objectives at corporate and divisional levels

—

Earnings and ROCE metrics reward disciplined financial and balance sheet management

—

Metrics are tailored to reflect responsibilities and focus of each Executive

GREATER PROPORTION OF INCENTIVES IN EQUITY

Variable remuneration opportunity is split into:

1/3 upfront cash
2/3 deferred equity

—

Greater Executive and Shareholder alignment through increased shareholdings

—

Staggered, two tranche vesting period ensures short, medium and long-term engagement

REWARDING RESPONSIBLE AND SUSTAINABLE BUSINESS PRACTICES

The Board retains discretion to re-assess an award after the performance period

—

A governance modifier ensures rewards are provided for sustainable and appropriate performance

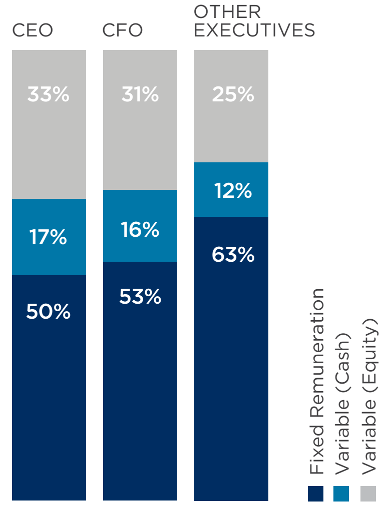
—

Factors including earnings sustainability, financial misstatement and misconduct considered in adjusting an award

The EPP combines the existing STI and LTI opportunities into a combined incentive that includes short-term (cash) with medium and long-term (share rights) opportunities. The EPP uses ‘threshold’, ‘target’ and ‘maximum’ performance hurdles, with the value of the incentive at each hurdle being a percentage of fixed remuneration. For example, if the CEO meets the target performance hurdles, this will result in a maximum incentive opportunity of 100% of fixed remuneration. The values associated with each performance hurdle are set out in the table below, along with an example of the mix of remuneration should an Executive achieve ‘target’ performance.

ROLE	THRESHOLD	TARGET	MAXIMUM
	% of Fixed Remuneration		
CEO	50%	100%	150%
CFO	45%	87.5%	130%
Other Executives	30%	60%	90%

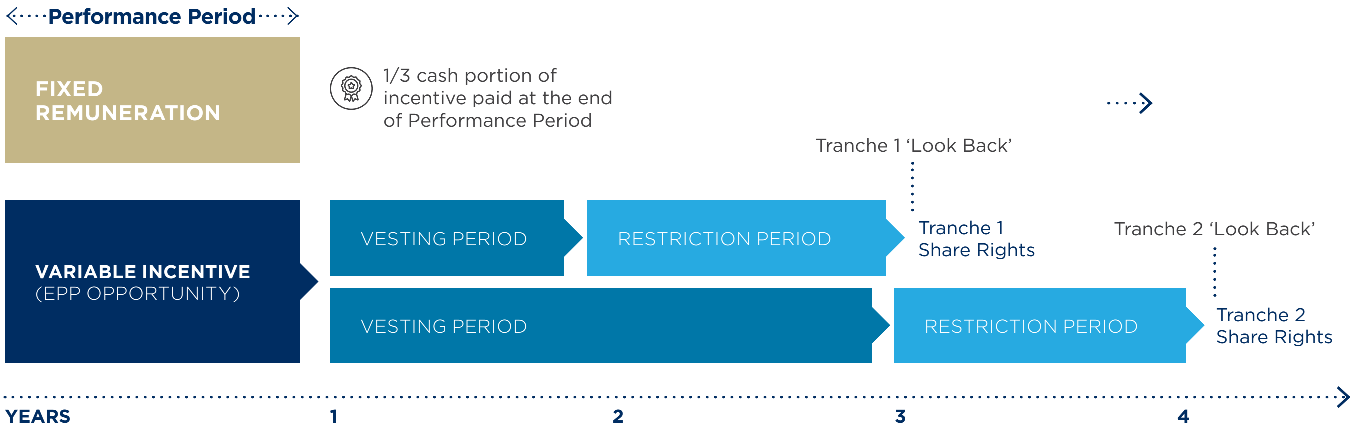
Remuneration Mix



The key differences between the current variable remuneration framework and the EPP are set out in the table below:

FEATURE	CURRENT PLAN	EPP (COMMENCING 2019)
Remuneration components	• STI paid upfront in cash[5] • LTI granted as performance rights to acquire shares	Incentives under the EPP provide an increased proportion of equity, with incentives paid as: • 1/3 upfront cash • 2/3 deferred equity
Performance period	• The STI is assessed over a single financial year • The LTI is assessed over a fixed three-year period	Incentives relate to a single performance period of one year with 'look back' discretion retained by the Board to adjust outcomes at the end of the restriction periods (see diagram below).
Vesting and restriction periods	• LTI vests after three-year performance period. Sale or transfer of vested shares requires Board approval	The equity portion of the EPP will vest in two tranches over a staggered time period (as illustrated in the diagram below). After vesting, equity remains restricted from sale for an additional year.
Performance metrics	The STI is based on the following criteria: • Underlying EBITDA • Underlying ROCE • Safety metrics • Individual metrics aligned with strategy The LTI is based on cumulative EPS	The EPP introduces more targeted and role-specific performance metrics, incorporating individual KPIs and: **Corporate** • Underlying NPAT • Underlying ROCE • Tactical metrics **Divisional** • Underlying EBITDA • Tactical metrics
Governance modifier	None	The Board retains discretion to modify incentives from 0 to 100% after considering factors including performance against Risk Management and Compliance expectations.
Look back	CEO only	The EPP introduces a 'look back' assessment for all Executives prior to share rights being exercisable.

The diagram below sets out the staggered, two-tranche vesting of the equity portion of the EPP. This approach ensures alignment of Executive remuneration with Group outcomes over the short, medium and long term:



5 CEO STI has a deferred component, see Section 4.2.3.

3. OVERVIEW – KMP AND REALISED REMUNERATION (UNAUDITED)

KMP are persons having authority and responsibility for planning, directing and controlling activities of the Group, whether directly or indirectly. The Group defines these personnel as the Board of Directors and the members of the Executive Management Team (referred to throughout as Executives, including the CEO and CFO).

Full details of the remuneration of Executives, prepared in accordance with statutory obligations and accounting standards, are set out in Section 6.1 of this Remuneration Report. However, the table below provides shareholders with a snapshot of Executive remuneration. The primary difference between this table and the statutory remuneration reported in Section 6.1 is that the potential value of unvested, equity-based incentives is excluded from the table below. This table only captures remuneration which was actually received by the relevant Executive in 2018, or in the case of Fixed Remuneration, the actual Fixed Remuneration rate as at 30 September 2018.

Name	Position	Fixed remuneration[6] as at 30 September 2018	STI awarded for 2018 performance	Matched Shares ($) awarded in 2018	LTI vested during 2018[7]	Total
Travis Dillon[8]	Managing Director & Chief Executive Officer	810,000	182,250	19,885	66,514	1,078,649
Adrian Gratwicke[9]	Chief Financial Officer	648,900	149,653	19,929	113,321	931,803
Elizabeth Hardaker	Executive General Manager – People & Culture	365,621	44,971	11,600	38,735	460,927
Gregory O'Neil	Executive General Manager – CRT & Procurement	409,159	41,306	19,788	41,869	512,122
Matthew Pedersen	Executive General Manager – Southern	416,100	43,691	19,788	42,017	521,596
Ian Perry	Executive General Manager – Financial Services	342,483	36,860	10,185	39,489	429,017
Timothy Rowe[10]	Group General Counsel & Company Secretary	328,500	27,612	–	–	356,112
Andrew Slatter[11]	Executive General Manager – Northern	383,350	32,585	–	–	415,935
John Tuskin	Executive General Manager – Tasmania	306,600	32,998	–	–	339,598
Peter Weaver	Executive General Manager – Water	398,580	36,769	20,000	45,958	501,307

6 Fixed remuneration is base salary plus superannuation plus any allowances as at 30 September 2018.
7 LTI value shown is equal to the number of performance rights which vested multiplied by the closing share price at the end of the financial year.
8 In addition, Travis Dillon was awarded $278,475 cash from deferred STI attributable to 2017, payable in December 2018.
9 50,000 share rights vested to Adrian Gratwicke on 30 September 2018. These were a one-off contractual entitlement as part of his employment with Ruralco.
10 Timothy Rowe became a KMP when he was appointed acting Group General Counsel & Company Secretary on 3 November 2017.
11 Andrew Slatter commenced employment as a KMP on 15 January 2018.

4. REMUNERATION GOVERNANCE AND FRAMEWORK

The Nomination & Remuneration Committee is responsible for reviewing and assessing remuneration practices and structures for the Group and makes recommendations to the Board to ensure continued alignment between the Group's remuneration framework, strategic objectives and the sustainable growth of shareholder value over the short, medium and long term. The Committee is chaired by an independent Non-Executive Director and is comprised of a majority of independent Non-Executive Directors. For further information see the 2018 Corporate Governance Statement available at https://www.ruralco.com.au/investors/corporate-governance/.

4.1. Remuneration framework – Non-Executive Directors

Non-Executive Directors receive fees (which include superannuation contributions) to recognise their contribution to the work of the Board and associated committees. Fees are calculated as a base fee plus additional fees for participation in a committee, either as Chair or Member. Directors are also entitled to be reimbursed for reasonable expenses incurred.

Non-Executive Directors are not entitled to performance-based remuneration or to participate in share-based incentive schemes. The Chair of the Board does not receive additional committee fees.

Fees are paid from a maximum fee pool that is approved by shareholders. The current pool value of $850,000 (including superannuation) was approved by shareholders in 2016.

The Committee reviews Non-Executive Director fees against companies of similar complexity and size every two years and recommends any necessary changes to the Board. As a result of the Committee's review in 2018, the committee membership fees for each of the three committees was increased from $8,000 to $10,000 per annum, effective 1 July 2018. Non-Executive Director fees are summarised in the table below.

Fee type	1 July 2016 to 30 June 2018	From 1 July 2018
Chair – Base fee	**225,000**	**225,000**
Member – Base fee	**90,000**	**90,000**
Chair – Audit, Risk & Corporate Governance Committee	25,000	25,000
Member – Audit, Risk & Corporate Governance Committee	8,000	10,000
Chair – Nomination & Remuneration Committee	25,000	25,000
Member – Nomination & Remuneration Committee	8,000	10,000
Chair – Investment Committee	20,000	20,000
Member – Investment Committee	8,000	10,000

From time to time the Committee may recommend to the Board that extraordinary fees be paid to Non-Executive Directors as remuneration for performing additional duties above and beyond committee membership. Approval of such fees is made within the maximum fee pool noted above. No extraordinary fees were paid in 2018.

Under the Non-Executive Director Minimum Shareholding Policy, Non-Executive Directors are expected to acquire shares to the value of 100% of their annual base fees within three years of joining the Board (or, for those Non-Executive Directors already on the Board, three years from the date the Policy was approved). KMP shareholdings are detailed in Section 7.1.

4.2. Remuneration framework – Executive Management Team

In reviewing and assessing remuneration practices and structures for the Executive, the Committee looks to ensure:

- Remuneration is aligned to the Group's strategic objectives, purpose, values and risk appetite
- Remuneration outcomes are consistent with Shareholder value
- Targets incentivise and reward exemplary performance
- There is an appropriate mix of fixed and variable remuneration
- Remuneration remains competitive across the markets in which the Group operates

The Committee assesses Executive performance against financial and non-financial performance measures to determine the variable remuneration awarded to the Executive each financial year. Executive remuneration includes fixed and variable amounts, summarised in the chart below and detailed over the following pages of this Remuneration Report. The details set out in this section refer to the existing Executive Management Team remuneration structure. Details on how this will change in 2019 are set out in Section 2 of this Remuneration Report.

FIXED REMUNERATION

BASE SALARY + SUPERANNUATION + ALLOWANCES + ANY SALARY SACRIFICED ITEMS

+

VARIABLE REMUNERATION

SHORT-TERM INCENTIVE	**LONG-TERM INCENTIVE**
60% FINANCIAL	PERFORMANCE RIGHTS
10% SAFETY	THREE-YEAR PERFORMANCE PERIOD
30% INDIVIDUAL	CUMULATIVE UNDERLYING EPS

4.2.1. Fixed remuneration

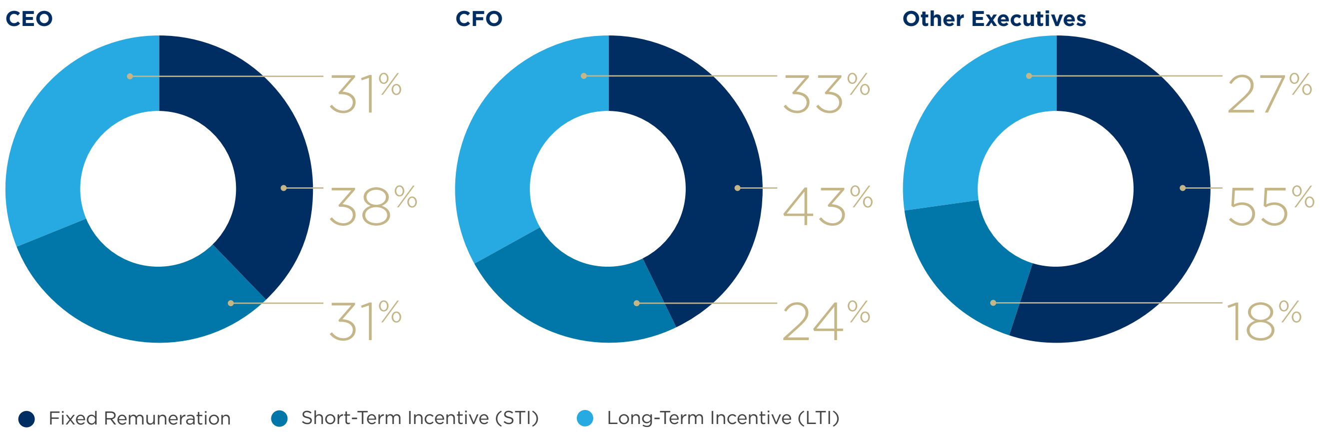
Fixed remuneration includes base salary, superannuation contributions, and any allowances or benefits. All Executive salaries are benchmarked annually against a sample of comparative companies, selected on the basis of industry, complexity and appropriate financial metrics. Levels of fixed remuneration are set by the Board with reference to several factors including:

- The individual's skills, experience and performance
- Median market levels relative to the sample of comparative companies

The Board reviewed fixed remuneration of Executives in 2018, with the Executive Management Team (including the CEO) receiving an aggregate salary increase of 4.7% over the year. This includes an adjustment of 12% for Mr Matthew Pedersen due to a change in role and increases of between 2% and 6% for other Executives to align to our external benchmark. Our target fixed remuneration positioning is the median of our comparator group of companies, and the Board are confident that Executives are positioned appropriately relative to this target.

4.2.2. Remuneration mix – balancing short and long-term performance

The relative mix of fixed and variable remuneration is set by the Board to drive sustainable growth and returns to shareholders over the short, medium and long term. The 2018 remuneration mix was:[12]



For all Executives, the proportion of total remuneration at risk (i.e. variable incentive, subject to performance) is significant. In line with normal market practice, the most senior Executives (CEO and CFO) are weighted more heavily towards variable remuneration.

12 STI is calculated as maximum STI opportunity, and LTI is based on face value of LTI grants.

4.2.3. Variable remuneration – Short-Term Incentive (STI)

The STI encourages achievement of short-term financial and individual objectives measured over the financial year. The structure of the STI for Executives during 2018 was as follows:

	Description
Maximum opportunity	CEO: 80% of fixed remuneration for stretch performance (target = 50% of fixed remuneration for target performance) CFO: 55% of fixed remuneration for stretch performance (target = 50% of fixed remuneration for target performance) Other Executives: 33% of fixed remuneration for stretch performance (target = 30% of fixed remuneration for target performance)
Gateway	The STI plan has a gateway linked to underlying EBITDA (uEBITDA) performance. If uEBITDA doesn't meet this gateway level, STIs across the Group will be reduced by 50%.
Performance metrics	The STI metrics measure the financial success in the immediate term of strategic achievements. Focused strategy execution, cost control and balance sheet management are critical to ensuring growth in earnings and total shareholder returns. The safety of our people, the foundation of our business, continues to be a priority.

Metric	Target(s)	Target Weighting	Reason for selection
Safety	Achievement of Safety KPIs and Long-Term Injury Frequency Rate less than pre-set threshold	10%	Goal of zero harm across the Group
Underlying EBITDA[13]	Achieve or exceed the Group's budget uEBITDA	30%[14]	Support the business to achieve Group budgeted financials and drive growth in EPS
Underlying ROCE[15]	Achieve or exceed the Group's budget for ROCE	30%[14]	Measures efficiency of capital usage of the Group and/or division
Individual performance metrics	Specific to individuals but include business unit financials, employee performance management, staff engagement and strategy execution	30%	Targeted metrics critical to individual roles and aligned to strategy

Delivery of STI	CEO: 50% of any STI award will be paid in cash by 31 December following the end of the performance period, and the remaining 50% will be deferred for 12 months from the date of the initial payment, and then paid in cash. If the CEO leaves the employment of Ruralco before payment of a deferred portion of the STI, the unpaid amount will lapse, subject to Board discretion. Other Executives: Award will be paid in cash by 31 December following the end of the performance period.
Board discretion	The Board has discretion to adjust remuneration outcomes to prevent inappropriate reward, including reducing to zero if appropriate. Payment to the CEO is subject to claw back where the Board becomes aware of a material financial misstatement or dishonest or fraudulent conduct by the CEO that would have impacted the Board's determination of the STI award.

13 Underlying EBITDA means reported earnings before interest, tax, depreciation and amortisation including share of profits from equity accounted investees, adjusted to remove the impact of significant items (pre-tax). More information can be found in Section 5.1 and also in the Review of Financial Performance on pages 22 to 27.

14 For the Financial metrics used in the STI Plan (underlying EBITDA and underlying ROCE), participants can earn up to 35% on each metric if 'stretch' performance is achieved (enabling a maximum outcome of 110% of target).

15 Return on capital employed (ROCE) (underlying) means underlying EBITDA divided by average 12-month total capital employed.

4.2.4. Variable remuneration – Long-Term Incentive (LTI)

The Group's equity-based LTI aligns Executive remuneration with the achievement of the Group's strategy and the long-term growth of Shareholder value. Under the LTI, Executives are granted Performance Rights to acquire shares in the Company which will vest after the Performance Period if the performance criteria are met.

A summary of the features of the 1 October 2015, 1 October 2016 and 1 October 2017 grants is set out below:

Feature	Description
Performance Criteria	The Performance Criteria is cumulative underlying EPS over the performance period, calculated as underlying NPAT[16]/weighted average number of shares in the period.
Link to strategy	Underlying EPS is an appropriate performance measure to align the interests of Executives and shareholders. As underlying EPS excludes costs associated with completing acquisitions or restructuring operations for cost efficiencies, the criteria encourages Executives to pursue activities that support the Group's investment, integration and innovation strategies while measuring the contribution to sustainable underlying growth in value.
Performance Period	The LTI performance period for each grant is three years. The vesting dates for the grants are: **Grant Date** – **Vesting Date** 1 October 2015 – 30 September 2018 1 October 2016 – 30 September 2019 1 October 2017 – 30 September 2020
Maximum opportunity	CEO: 80% of fixed remuneration (50% of fixed remuneration for the 1 October 2015 grant) CFO: 75% of fixed remuneration Other Executives: 50% of fixed remuneration
Number of Performance Rights	The number of Performance Rights granted is calculated as the opportunity for the individual divided by the market value of each Ruralco share (calculated as the average price of Ruralco shares on the ASX over the five trading days immediately prior to the date of grant).
Performance hurdle	Vesting of the Performance Rights will occur as follows: **Cumulative underlying EPS** – **Vesting %** At consensus – 30% Between consensus and stretch – Straight line between 30% and 100% Stretch or above – 100% The threshold for vesting is based on expected cumulative underlying EPS calculated with reference to various analysts' forecasts for the Performance Period. No LTI will vest if cumulative underlying EPS is below consensus expectations. For full vesting of the LTI, cumulative underlying EPS must be at a level equivalent to the Group achieving a stretch target of strong organic growth plus targeted strategic acquisitions. While this figure is not disclosed due to commercial considerations, the Board is satisfied that stretch LTI vesting will only arise if exceptional EPS growth is achieved.
Forfeiture and termination	Performance Rights will lapse if the Performance Criteria are not met. Any Performance Rights not vested before the Executive leaves the employment of the Company will automatically be forfeited. In the event an employee is deemed a 'good leaver' and has served at least 12 months of the LTI Performance Period, then the Board has discretion to allow rights to be tested according to EPS performance at the most recently passed financial year end and vest on a pro-rata basis according to the portion of the LTI Performance Period served.
Restrictions	Disposal of vested shares is subject to Board approval and the Company's Securities Trading Policy.
Discretion	The Board retains the discretion to adjust the LTI targets or vesting outcomes in the event of significant corporate events including, for example, capital raisings, divestments or rights issues. To maintain the integrity of the LTI framework, the Board has developed principles and pre-agreed scenarios in which discretion may be exercised. If discretion is exercised, it will be clearly disclosed and explained in the relevant remuneration report.

16 Underlying NPAT means reported net profit after tax attributable to equity holders of the Company adjusted to remove the impact of significant items (post-tax and related non-controlling interests).

4.2.5. Executive Share Matching Plan

The Board introduced the Executive Share Matching Plan in relation to 2017 STI payments as a transitional measure to encourage Executive share ownership prior to the introduction of the EPP in 2019 (as explained in Section 2 of this Remuneration Report). The plan will also operate in respect of 2018 STI payments.

Under the plan, Executives who elect to purchase shares with the after-tax proceeds of their STI payment will receive a grant of Matched Shares to a maximum value of $20,000. Matched Shares will vest to the Executive three years after the end of the financial year in which the relevant STI was earned. Vesting is subject to forfeiture conditions.

Details of the Executive Share Matching Plan in respect of the 2018 STI (paid in 2019) are below:

Feature	Description
Quantum of Matching Shares	Value of shares equal to the value of shares the Executive elected to purchase with the after-tax proceeds of their 2018 STI, up to a maximum of $20,000.
Value of Matching Shares	The number of matching shares is calculated as determined by dividing the value of the grant by the average closing price over the five days up to and including 30 September 2018.
Vesting date	30 September 2021
Treatment of dividends on Matched Shares	While the Matched Shares are held on trust until the vesting date, an amount equal to the value of dividends will be distributed to the Executive at, or soon after, the dividend payment date.
Forfeiture conditions	The Matched Shares will be forfeited if: • The Executive leaves their employment with the Company before the Vesting Date • The Executive sells any of the shares purchased which qualified them to receive the Matched Shares, prior to the Vesting Date • The Executive is no longer a member of the Company's KMP (subject to the Board's discretion) • The Board determines that the Executive has acted fraudulently or dishonestly or is in breach of their duty to the Company

5. GROUP FINANCIAL PERFORMANCE AND REMUNERATION OUTCOMES

5.1. Performance indicators

The table below shows measures of the Group's financial performance and Shareholder value over the last five financial years:

Year ended 30 September	2018	2017	2016	2015	2014
Profit for the year attributable to shareholders of Ruralco Holdings Limited ($'000)	25,179	22,420	4,296	14,057	10,565
Basic earnings per share (cents)	24.03	23.51	5.44	18.03	15.27
Dividends paid ($'000)	15,698	10,921	11,779	13,192	11,654
Closing share price ($)	2.91	2.74	3.17	3.60	3.41

Ruralco's STI and LTI use underlying financial measures to assess the Group's performance for the purpose of rewarding Executives. Underlying measures of profitability provide useful information on the Group's sustainable earnings base and do not discourage Executives from pursuing activities that support the strategy, e.g. costs associated with executing acquisitions (such as professional fees and due diligence costs), material impairments, gains/losses on disposal of operations and costs associated with restructuring of operations as part of portfolio management activities. These types of costs are excluded from underlying earnings as they are necessary to achieve strategic aims or cost efficiencies in the longer term.

The table below shows underlying measures used in determining the variable amounts of remuneration to be awarded to the Executives over the last five financial years:

Year ended 30 September	2018	2017	2016	2015	2014
Underlying EBITDA ($'000)	70,095	65,433	41,507	51,166	43,469
Underlying return on capital employed (ROCE) (%)	16.4	17.3	13.3	17.0	15.2
Underlying EPS (cents)	27.49	27.41	16.96	23.90	22.40

A reconciliation of reported to underlying earnings for the current and prior year is shown below:

	Underlying	Other adjs[17]	Significant items	Reported	Underlying	Other adjs	Significant items	Reported
	2018 $'000	$'000	$'000	2018 $'000	2017 $'000	$'000	$'000	2017 $'000
Revenue	**1,912,834**	663	**–**	**1,913,497**	**1,826,048**	**733**	**19**	**1,826,800**
Gross profit	**344,089**	663	**(1,620)**	**343,132**	**333,880**	**733**	**(276)**	**334,337**
EBITDA	**70,095**	**–**	**(5,173)**	**64,922**	**65,433**	**–**	**(5,209)**	**60,224**
Depreciation and amortisation	(12,726)	–	–	(12,726)	(10,490)	–	–	(10,490)
Net finance costs	(5,839)	–	–	(5,839)	(5,587)	–	–	(5,587)
Profit before tax	**51,530**	**–**	**(5,173)**	**46,357**	**49,356**	**–**	**(5,209)**	**44,147**
Tax	(16,233)	–	1,552	(14,681)	(14,639)	–	1,318	(13,321)
Non-controlling interest	(6,497)	–	–	(6,497)	(8,572)	–	166	(8,406)
NPAT attributable to shareholders	**28,800**	**–**	**(3,621)**	**25,179**	**26,145**	**–**	**(3,725)**	**22,420**
EPS (cents per share)	**27.49**	**–**	**(3.46)**	**24.03**	**27.41**	**–**	**(3.90)**	**23.51**

The $5.2 million of significant items excluded from underlying earnings in 2018 is made up of the following:

Type	$'000	Commentary
Restructuring and cost out initiatives	2,445	Redundancy and other costs from Rural Services and Water Services related cost out initiatives.
Acquisitions and portfolio management activities	2,728	Acquisition related costs, exit costs associated with portfolio management and divestment activities.
Total significant items (pre-tax)	**5,173**	

17 Underlying gross profit excludes sub-lease income (presented as an offset to OPEX) and includes the share of profit from equity accounted for investees as earnings from Finance and Insurance activity. No impact on uEBITDA from these presentation adjustments.

5.2. 2018 Performance and impact on variable remuneration

The Company's positive financial performance (as described in detail earlier in this Annual Report) is attributed not only to the execution of our strategy, but also to the efforts of the Executive Management Team and wider management in improving the cost base efficiency over the past two years, which continues to deliver positive operating leverage.

Despite 7% growth in uEBITDA, the total achieved for the year was below budget and also impacted uROCE, which declined on the prior year. On the basis of this performance, the 2018 STI outcomes for these two measures for the Executive have been diluted by 50%.

In addition, Ruralco achieved a disappointing increase in LTIFR in the year to 4.6, up from its record low of 2.77 in 2017. While the majority of the injuries contributing to this result were minor, 2019 will see an even greater focus on ensuring the safety of our employees. Given the increase in LTIFR, this component of the 2018 STI outcomes was not met.

The 1 October 2015 LTI grant was tested for vesting on 30 September 2018 and vested at 30% of maximum value, reflecting threshold achievement against performance criteria.

Performance against key measures and the impact on variable remuneration for Executives is set out below:

STI	SAFETY	**TARGET NOT MET**	TARGET PARTIALLY MET	TARGET MET	TARGET EXCEEDED
STI	UNDERLYING EBITDA	TARGET NOT MET	**TARGET PARTIALLY MET**	TARGET MET	TARGET EXCEEDED
STI	UNDERLYING ROCE	TARGET NOT MET	**TARGET PARTIALLY MET**	TARGET MET	TARGET EXCEEDED
STI	INDIVIDUAL PERFORMANCE METRICS	TARGETS NOT MET	**TARGETS PARTIALLY MET**	**TARGETS MET**	TARGETS EXCEEDED
LTI	EPS PERFORMANCE for 2015 grant tested on 30 September	TARGET NOT MET	**TARGET PARTIALLY MET**	TARGET MET	TARGET EXCEEDED

5.3. Executive STI and LTI outcomes

The following table provides the 2018 STI and LTI outcomes for Executives:

	Total STI			LTI Performance Rights[18]		
Name	Total opportunity[19] $	Awarded %	Forfeited %	Value granted in year $	Value vested in year $	Value lapsed in year $
Travis Dillon	648,000	28%	72%	627,163	72,460	169,072
Adrian Gratwicke[20]	356,895	42%	58%	468,884	123,446	288,042
Elizabeth Hardaker	120,655	37%	63%	171,143	42,197	98,459
Gregory O'Neil	126,442	33%	67%	180,942	45,610	106,423
Matthew Pedersen	137,313	32%	68%	206,458	45,773	106,803
Ian Perry	113,019	33%	67%	163,395	43,018	100,374
Timothy Rowe[21]	70,488	39%	61%	–	–	–
Andrew Slatter	89,608	36%	64%	–	–	–
John Tuskin	101,178	33%	67%	135,827	–	–
Peter Weaver	131,531	28%	72%	190,158	50,064	116,817
Ilona Alsters	10,430	–	100%	–	–	147,747

18 The fair value of Performance Rights granted/vested/lapsed is calculated in accordance with AASB 2 *Share-based payments* at date of grant, see Section 7.3.

19 Total STI opportunity is calculated using base salary plus superannuation (excluding any allowances), and reflects period of year Executive served as a KMP.

20 50,000 share rights vested to Adrian Gratwicke on 30 September 2018. These were a one-off contractual entitlement as part of his employment with Ruralco.

21 The STI opportunity for Timothy Rowe reflects the period before he was permanently appointed to the Executive Team on 3 June 2018 (STI maximum is 22% of Fixed Remuneration as at 3 June 2018) and the period after (STI opportunity is 33% of Fixed Remuneration as at 30 September 2018).

6. REMUNERATION EXPENSE FOR KEY MANAGEMENT PERSONNEL

6.1. Remuneration expense for Key Management Personnel

The following table details the remuneration expense recognised in profit or loss for the Group's Non-Executive Directors and Executives for 2018 and 2017. Amounts disclosed are measured in accordance with the requirements of accounting standards and disclosed in accordance with the requirements of section 300A of the *Corporations Act 2001* and Corporations Regulation 2M.3.03.

		Short-term				Post employment benefits	Other long-term benefits	Share-based payments		
Name	Year	Base salary/ fees	Annual leave[22]	STI cash bonus	Non-monetary benefits	Superannuation benefits	Long service leave[22]	Performance rights[23]	Shares granted[24]	Total
Non-Executive Directors										
Richard Lee (Chair)	**2018**	**209,233**	**–**	**–**	**–**	**19,792**	**–**	**–**	**–**	**229,025**
	2017	206,398	–	–	–	19,520	–	–	–	225,918
Elizabeth Johnstone	**2018**	**129,901**	**–**	**–**	**–**	**12,321**	**–**	**–**	**–**	**142,222**
	2017	112,326	–	–	–	10,674	–	–	–	123,000
Andrew Macpherson[25]	**2018**	**72,881**	**–**	**–**	**–**	**6,924**	**–**	**–**	**–**	**79,805**
	2017	–	–	–	–	–	–	–	–	–
Michael Millner	**2018**	**116,104**	**–**	**–**	**–**	**11,020**	**–**	**–**	**–**	**127,124**
	2017	114,171	–	–	–	10,847	–	–	–	125,018
Trudy Vonhoff	**2018**	**120,755**	**–**	**–**	**–**	**11,452**	**–**	**–**	**–**	**132,207**
	2017	118,721	–	–	–	11,280	–	–	–	130,001
John Tuskin[26]	**2018**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2017	12,100	–	–	–	1,150	–	–	–	13,250
TOTAL NEDs	**2018**	**648,874**	**–**	**–**	**–**	**61,509**	**–**	**–**	**–**	**710,383**
	2017	563,716	–	–	–	53,471	–	–	–	617,187

22 Annual leave and long service leave amounts represent the net movement in Executive leave balances year on year. Leave balances are calculated in accordance with AASB 119 – *Employee benefits.*

23 Amount disclosed for performance rights is the current year expense recognised in profit or loss for Performance Rights granted in the current and prior years that have not yet vested. This also includes adjustments for those that have been forfeited during the year (i.e. on resignation) and changes in estimates of rights that are likely to vest in the future.

24 Represents the Executive Share Matching Plan. Refer to Section 4.2.5 for further details.

25 Andrew Macpherson joined the Board and commenced as a KMP on 6 December 2017.

26 John Tuskin resigned from the Board on 15 November 2016. Following the acquisition of TP Jones & Co in March 2017, John took up a senior management position leading the Group's Tasmanian operations and from 1 October 2017 he joined the Executive Management Team.

		Short-term				Post employment benefit	Other long-term benefits	Share-based payments		
Name	Year	Base salary/ fees	Annual leave[27]	STI cash bonus	Non-monetary benefits[28]	Superannuation benefits	LSL expense[27]	Performance rights[29]	Shares granted[30]	Total
Executive Management Team										
Travis Dillon[31]	**2018**	**780,000**	**16,427**	**369,600**	**–**	**25,000**	**15,275**	**9,861**	**19,885**	**1,236,048**
	2017	761,346	47,142	388,475	–	28,654	18,502	304,447	–	1,548,566
Adrian Gratwicke	**2018**	**619,175**	**35,389**	**149,653**	**–**	**25,000**	**4,055**	**(49,604)**	**19,929**	**803,597**
	2017	604,406	(26,080)	333,900	–	23,883	3,104	299,364	–	1,238,577
Elizabeth Hardaker	**2018**	**339,755**	**21,121**	**44,971**	**–**	**20,692**	**2,243**	**(24,717)**	**11,600**	**415,665**
	2017	320,421	17,638	109,686	–	19,029	1,630	95,981	–	564,385
Gregory O'Neil	**2018**	**353,288**	**(406)**	**41,306**	**–**	**25,000**	**3,760**	**(27,377)**	**19,788**	**415,359**
	2017	342,029	12,524	123,917	–	32,981	5,036	135,206	–	651,693
Matthew Pedersen	**2018**	**396,050**	**10,335**	**43,691**	**20,286**	**20,050**	**7,705**	**(24,717)**	**19,788**	**493,188**
	2017	338,263	5,172	111,427	21,468	28,562	6,719	108,850	–	620,461
Ian Perry	**2018**	**310,620**	**(1,059)**	**36,860**	**–**	**28,570**	**1,620**	**(26,936)**	**10,185**	**359,860**
	2017	300,740	5,702	97,311	–	28,570	1,895	94,670	–	528,888
Timothy Rowe[32]	**2018**	**249,720**	**9,311**	**27,612**	**–**	**26,799**	**1,291**	**–**	**–**	**314,733**
	2017	–	–	–	–	–	–	–	–	–
Andrew Slatter[33]	**2018**	**243,654**	**10,005**	**32,585**	**–**	**25,851**	**799**	**–**	**–**	**312,894**
	2017	–	–	–	–	–	–	–	–	–
John Tuskin[26]	**2018**	**272,500**	**9,816**	**32,998**	**23,712**	**25,888**	**5,449**	**13,990**	**–**	**384,353**
	2017	–	–	–	–	–	4,226	–	–	4,226
Peter Weaver	**2018**	**360,500**	**(1,793)**	**36,769**	**16,350**	**34,248**	**4,061**	**(31,348)**	**20,000**	**438,787**
	2017	350,000	(11,294)	110,146	16,681	33,250	3,507	115,178	–	617,468
Ilona Alsters[34]	**2018**	**24,592**	**(6,063)**	**–**	**–**	**3,018**	**–**	**–**	**–**	**21,547**
	2017	320,924	6,063	71,255	–	19,616	1,333	97,546	–	516,737
TOTAL EXECUTIVES	**2018**	**3,949,854**	**103,083**	**816,045**	**60,348**	**260,116**	**46,258**	**(160,848)**	**121,175**	**5,196,031**
	2017	3,338,129	56,867	1,346,117	38,149	214,545	45,952	1,251,242	–	6,291,001
TOTAL KMP REMUNERATION	**2018**	**4,598,728**	**103,083**	**816,045**	**60,348**	**321,625**	**46,258**	**(160,848)**	**121,175**	**5,906,414**
	2017	3,901,845	56,867	1,346,117	38,149	268,016	45,952	1,251,242	–	6,908,188

26 John Tuskin resigned from the Board on 15 November 2016. Following the acquisition of TP Jones & Co in March 2017, John took up a senior management position leading the Group's Tasmanian operations and from 1 October 2017 he joined the Executive Management Team.

27 Annual leave and long service leave amounts represents the net movement in Executive leave balances year on year. Leave balances are calculated in accordance with AASB 119 – *Employee benefits*.

28 Represents motor vehicle related benefits.

29 Amount disclosed for LTI is the share-based payment expense in the current year expense recognised in profit or loss for Performance Rights granted in the current and prior years that have not yet vested. This also includes adjustments for those that have forfeited during the year (i.e. on resignation) and changes in estimates of rights that are likely to vest in the future.

30 Represents the Executive Share Matching Plan. Refer to Section 4.2.5 for further details. Ruralco purchased shares on behalf of Gregory O'Neil ($19,896) and Elizabeth Hardaker ($10,000) on 24 November 2017 as part of this plan. Both Executives repaid the amounts in full, without interest, on 6 December 2017.

31 Travis Dillon STI amount includes deferred amount of $278,475 from 2017 and amount of $91,125 for 2018. The remainder of the 2018 amount ($91,125) will be paid in December 2019 subject to continued employment with Ruralco.

32 Timothy Rowe commenced as a KMP from 3 November 2017 when he was appointed General Counsel & Company Secretary in an acting role.

33 Andrew Slatter commenced employment as a KMP on 15 January 2018.

34 Ilona Alsters ceased to be a KMP on 3 November 2017, and ceased employment with the Group on 15 December 2017. This resulted in a lapse in share-based payments to the cumulative value of $118,106.

6.2. Relative proportions of fixed versus variable remuneration

The following table shows the relative proportions of statutory variable remuneration and fixed remuneration over 2018 and 2017, based on the amounts disclosed in Section 6.1.

	Fixed remuneration		STI		LTI	
Name	2018 %	2017 %	2018 %	2017 %	2018 %	2017 %
Travis Dillon	68%	55%	30%	25%	2%	20%
Adrian Gratwicke	85%	49%	19%	27%	(4%)	24%
Elizabeth Hardaker	92%	64%	11%	19%	(3%)	17%
Gregory O'Neil	92%	60%	10%	19%	(2%)	21%
Matthew Pedersen	92%	64%	9%	18%	(1%)	18%
Ian Perry	94%	64%	10%	18%	(5%)	18%
Timothy Rowe	91%	–	9%	–	–	–
Andrew Slatter	90%	–	10%	–	–	–
John Tuskin	88%	–	9%	–	4%	–
Peter Weaver	94%	64%	8%	18%	(3%)	19%
Ilona Alsters	100%	67%	–	14%	–	19%

7. DISCLOSURES RELATED TO KEY MANAGEMENT PERSONNEL EQUITY INTERESTS

7.1. Key Management Personnel Shareholdings

Set out below are the details of the number of Ruralco shares held directly, indirectly or beneficially by KMP during the year and the movements in shareholdings:

Name	1 October 2017	Received on vesting of LTI	Shares purchased under Executive Share Matching Plan[35]	Matching Shares Granted[36]	Other changes	30 September 2018
Non-Executive Directors						
Richard Lee	58,334	–	–	–	25,000	83,334
Elizabeth Johnstone	32,692	–	–	–	12,175	44,867
Andrew Macpherson	–	–	–	–	34,000	34,000
Michael Millner	31,475	–	–	–	20,000	51,475
Trudy Vonhoff	41,607	–	–	–	5,000	46,607
Executives						
Travis Dillon	75,000	22,857	6,750	7,247	–	111,854
Adrian Gratwicke	–	38,942	6,872	7,263	50,214[37]	103,291
Elizabeth Hardaker	–	13,311	4,000	4,227	241	21,779
Gregory O'Neil	31,519	14,388	6,800	7,211	–	59,918
Matthew Pedersen	13,267	14,439	6,800	7,211	6,979	48,696
Ian Perry	–	13,570	3,500	3,712	–	20,782
Timothy Rowe	–		–	–	–	
Andrew Slatter	–		–	–	–	
John Tuskin	11,097		–	–	9	11,106
Peter Weaver	20,965	15,793	20,000	7,289	8,045	72,092
Ilona Alsters	–	–	–	–	–	–

35 Shares purchased by the Executive under the Executive Share Matching Plan described at Section 4.2.5 of this Remuneration Report.

36 Shares granted to match those purchased by the Executive in accordance with the Executive Share Matching Plan described at Section 4.2.5 of this Remuneration Report.

37 50,000 share rights vested to Adrian Gratwicke on 30 September 2018. These were a one-off contractual entitlement as part of his employment with Ruralco.

7.2. Reconciliation of Performance Rights held by Key Management Personnel

The table below shows KMP Performance Rights that were granted, vested and lapsed in 2018:

	Balance at start of year	Granted	Vested		Lapsed		Balance at end of year
Name and Grant Date	No.	No.	No.	%	No.	%	No.
Travis Dillon							
1-Oct-15	76,193	–	(22,858)	30%	(53,335)	70%	–
1-Oct-16	205,462	–	–	–	–	–	205,462
1-Oct-17	–	230,321	–	–	–	–	230,321
	281,655	**230,321**	**(22,858)**	**–**	**(53,335)**	**–**	**435,782**
Adrian Gratwicke							
6-Jul-15	50,000	–	(50,000)	100%	–	–	–
1-Oct-15	129,807	–	(38,942)	30%	(90,865)	70%	–
1-Oct-16	153,609	–	–	–	–	–	153,609
1-Oct-17	–	172,194	–	–	–	–	172,194
	333,416	**172,194**	**(88,942)**	**–**	**(90,865)**	**–**	**325,802**
Elizabeth Hardaker							
1-Oct-15	44,371	–	(13,311)	30%	(31,060)	70%	–
1-Oct-16	56,067	–	–	–	–	–	56,067
1-Oct-17	–	62,851	–	–	–	–	62,851
	100,438	**62,851**	**(13,311)**	**–**	**(31,060)**	**–**	**118,918**
Gregory O'Neil							
1-Oct-15	47,960	–	(14,388)	30%	(33,572)	70%	–
1-Oct-16	59,115	–	–	–	–	–	59,115
1-Oct-17	–	66,450	–	–	–	–	66,450
	107,075	**66,450**	**(14,388)**	**–**	**(33,572)**	**–**	**125,564**
Matthew Pedersen							
1-Oct-15	48,131	–	(14,439)	30%	(33,692)	70%	–
1-Oct-16	60,517	–	–	–	–	–	60,517
1-Oct-17	–	75,820	–	–	–	–	75,820
	108,648	**75,820**	**(14,439)**	**–**	**(33,692)**	**–**	**136,337**
Ian Perry							
1-Oct-15	45,234	–	(13,570)	30%	(31,664)	70%	–
1-Oct-16	53,529	–	–	–	–	–	53,529
1-Oct-17	–	60,005	–	–	–	–	60,005
	98,763	**60,005**	**(13,570)**	**–**	**(31,664)**	**–**	**113,534**
John Tuskin							
1-Oct-17	–	49,882	–	–	–	–	49,882
Peter Weaver							
1-Oct-15	52,644	–	(15,793)	30%	(36,851)	70%	–
1-Oct-16	62,297	–	–	–	–	–	62,297
1-Oct-17	–	69,834	–	–	–	–	69,834
	114,941	**69,834**	**(15,793)**	**–**	**(36,851)**	**–**	**132,131**
Ilona Alsters							
1-Oct-15	46,608	–	–	–	(46,608)	100%	–
1-Oct-16	55,154	–	–	–	(55,154)	100%	–
1-Oct-17	–	–	–	–	–	–	–
	101,762	**–**	**–**	**–**	**(101,762)**	**–**	**–**

7.3. Executive Equity plan interests granted in 2018 and prior years

Set out below are the terms of the Performance Rights granted in 2018 that will affect remuneration in this or future reporting periods:

Grant date	Vesting period	Vesting date	Expiry date	Vesting conditions	Fair value per share at grant date[38] ($)
1 Oct 17	3 years	1 October 2020	30 September 2022	See Section 4.2.4 of this Remuneration Report	2.72

The terms of grants made in prior years are as follows:

Grant date	Vesting period	Vesting date	Expiry date	Vesting conditions	Fair value per share at grant date[39] ($)
1 Oct 15	3 years	1 October 2018	30 September 2020	See Section 4.2.4 of this Remuneration Report	3.17
1 Oct 16	3 years	1 October 2019	30 September 2021		2.63

Set out below are the terms of the Executive Matched Shares granted in the year that will affect remuneration in this or future reporting periods:

Grant date	Vesting period	Vesting date	Expiry date	Vesting conditions	Fair value per share at grant date[40] ($)
1 Oct 17	3 years	30 September 2020	30 September 2022	See Section 4.2.4 of this Remuneration Report	2.74

38 Inputs into fair value calculation of rights granted set out in Note 22(c) of the Financial Statements.
39 Inputs into fair value calculation of rights granted set out in Note 22(c) of the Financial Statements.
40 Closing price of shares on 29 September 2017, the day prior to the grant date.

8. KEY MANAGEMENT PERSONNEL CONTRACTUAL ARRANGEMENTS

Non-Executive Directors

Non-Executive Directors enter into a service contract with the Company in the form of a letter of appointment. The letter summarises the Board's policies and terms, including remuneration, relevant to the office of Director.

Executives

In accordance with Board policy, the service contracts for the Executive Management Team have no fixed term. The contracts outline the remuneration to be paid at the commencement of the contract and how remuneration levels are to be reviewed from year to year. Terms are reviewed periodically and revised if required.

Details of the service contracts are set out in the table below:

Component		CEO	Other Executives
Contract duration		Ongoing	
Notice initiated by the individual/ Company		6 months/12 months	3 months/6 months
Termination of employment (without cause)	STI	Entitlement to pro-rata STI for the year.	
	LTI	The Board has the discretion to allow the vesting of LTI Performance Rights upon ceasing employment.	
Termination of employment (with cause) or by the individual	STI	STI is not awarded.	
	LTI	No LTI Performance Rights will vest where the Executive ceases employment due to termination by the Company for breach, misconduct/neglect or a criminal offence, does not satisfy the performance hurdles, or has acted fraudulently or dishonestly or has brought the Company into disrepute. In the event an employee is deemed a 'good leaver' and has served at least 12 months of the LTI Performance Period, then the Board has discretion to allow rights to be tested according to EPS performance at the most recently passed financial year end and vest on a pro-rata basis according to the portion of the LTI Performance Period served.	
Change of control	STI	Pro-rata portion of STI for the relevant performance period (calculated as number of days between start of performance period and capital event divided by number of days in performance period) at the discretion of the Board.	
	LTI	Any LTI Performance Rights in respect of the period, which had been granted but not yet vested, will all vest (subject to the relevant Performance Criteria).	Any LTI Performance Rights in respect of the period, which had been granted but not yet vested, will vest on a pro-rata basis subject to Board discretion.

9. ADDITIONAL INFORMATION

9.1. Voting of shareholders at the 2017 Annual General Meeting

The Company received a 'yes' vote of more than 90% of votes cast on its Remuneration Report for 2017.

9.2. Use of external remuneration consultants

The Committee engaged EY to consult on changes to Executive remuneration and the structure of the EPP. However, no remuneration consultants were engaged to provide remuneration recommendations as defined by section 9B of the *Corporations Act 2001*.

9.3. Other transactions with KMP

There were no loans to KMP outstanding in the current year.

Sales and purchases occurred during 2018 between subsidiaries of the Group and entities that certain Directors of Ruralco have direct or indirect control over. These transactions were conducted under normal customer or supplier relationships, on an arm's length basis. On this basis details regarding these transactions are not included in this Remuneration Report but are instead disclosed in Note 21 of the Financial Statements.

AUDITOR'S INDEPENDENCE DECLARATION

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Ruralco Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Ruralco Holdings Limited for the financial year ended 30 September 2018 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Anthony Travers

Partner

Sydney

14 December 2018

FINANCIAL REPORT

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2018

	Notes	2018 $'000	2017 $'000
Revenue	3	1,913,497	1,826,800
Cost of sales		(1,570,365)	(1,492,463)
Personnel expenses	22(a)	(193,776)	(195,526)
Property and equipment expenses		(30,429)	(29,511)
Motor vehicle expenses		(21,910)	(20,596)
Administrative expenses		(11,445)	(9,915)
Data and telephony expenses		(10,904)	(8,548)
Marketing and advertising expenses		(6,721)	(6,937)
Depreciation expense	9	(6,910)	(5,889)
Amortisation expense	10	(5,816)	(4,601)
Bad debt expense	6	(406)	(165)
Net gain/(loss) on disposal of assets		5	(1,118)
Other expenses		(3,768)	(2,711)
Results from operating activities		**51,052**	**48,820**
Share of net profit of equity accounted investees	19(d)	1,144	913
Bank charges		(855)	(919)
Interest expense		(4,984)	(4,667)
Total finance costs		**(5,839)**	**(5,586)**
Profit before income tax		**46,357**	**44,147**
Income tax expense	4(a)	(14,681)	(13,321)
Profit for the period		**31,676**	**30,826**
Total profit attributable to:			
Equity holders of the Company		25,179	22,420
Non-controlling interests		6,497	8,406
Total profit for the period		**31,676**	**30,826**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Revaluation of property, plant and equipment, net of tax		2,447	(81)
Total items that will not be reclassified to profit and loss		**2,447**	**(81)**
Items that may be reclassified to profit or loss:			
Changes in the fair value of cash flow hedges, net of tax		(160)	(229)
Foreign currency translation differences		1	1
Total items that may be reclassified to profit or loss		**(159)**	**(228)**
Total comprehensive income for the period		**33,964**	**30,517**
Total comprehensive income attributable to:			
Equity holders of the Company		27,467	22,111
Non-controlling interests		6,497	8,406
Total comprehensive income for the period		**33,964**	**30,517**
Earnings per share (cents per share)			
– Basic	12	24.03	23.51
– Diluted	12	24.03	23.51

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2018

	Notes	2018 $'000	2017 $'000
Current assets			
Cash and cash equivalents	17	18,151	22,789
Trade and other receivables	6	400,689	393,609
Inventories	7	170,329	141,870
Biological assets	8	14,022	18,325
Prepayments		10,951	9,937
Derivative financial assets	11	447	175
Total current assets		**614,589**	**586,705**
Non-current assets			
Intangible assets	10	244,633	214,690
Property, plant and equipment	9	42,687	43,966
Deferred tax assets	4(b)	19,960	19,930
Investments in equity accounted investees	19(d)	23,873	18,504
Other financial assets		2,455	155
Trade and other receivables	6	1,463	857
Total non-current assets		**335,071**	**298,102**
Total assets		**949,660**	**884,807**
Current liabilities			
Trade and other payables	11	455,031	429,707
Loans and borrowings	11	17,646	18,323
Employee benefits	22(a)	22,416	21,584
Contingent consideration		10,438	2,646
Deferred consideration		150	322
Restructuring and onerous contract provisions		1,544	2,655
Current tax liabilities		3,311	1,696
Derivative financial instruments	11	1,374	389
Make good provision		1,185	48
Total current liabilities		**513,095**	**477,370**
Non-current liabilities			
Loans and borrowings	11	120,365	95,645
Contingent consideration		2,815	8,642
Deferred consideration		–	736
Deferred tax liabilities	4(b)	8,593	8,085
Employee benefits	22(a)	3,607	3,167
Make good provision		454	522
Total non-current liabilities		**135,834**	**116,797**
Total liabilities		**648,929**	**594,167**
Net assets		**300,731**	**290,640**
Equity			
Share capital	13(a)	240,220	238,795
Retained earnings		41,327	34,617
Reserves	13(b)	6,346	5,389
Total equity attributable to equity holders of the Company		**287,893**	**278,801**
Non-controlling interests		12,838	11,839
Total equity		**300,731**	**290,640**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2018

		Attributable to equity holders of the Company									
	Note	Issued capital $'000	Retained earnings $'000	Asset revaluation reserve $'000	Cash flow hedge reserve $'000	Foreign currency translation reserve $'000	Share-based payment reserve $'000	Reserve for own shares $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
1 October 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	14(b)	–	(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**
Total comprehensive income for the period											
Profit for the period		–	25,179	–	–	–	–	–	25,179	6,497	31,676
Other comprehensive income		–	–	2,447	(160)	1	–	–	2,288	–	2,288
Total comprehensive income for the period		**–**	**25,179**	**2,447**	**(160)**	**1**	**–**	**–**	**27,467**	**6,497**	**33,964**
Transactions with owners of the Company recorded directly in equity											
– Dividends to owners of the Company	14(b)	–	(15,698)	–	–	–	–	–	(15,698)	(8,992)	(24,690)
– Issue of ordinary shares		1,425	–	–	–	–	–	–	1,425	–	1,425
– Performance rights		–	–	–	–	–	172	–	172	–	172
– Shares purchased and held in trust		–	–	–	–	–	–	(1,126)	(1,126)	–	(1,126)
– Change in non-controlling interest		–	(3,148)	–	–	–	–	–	(3,148)	3,494	346
– Transfer of revaluation to retained earnings on disposal		–	377	(377)	–	–	–	–	–	–	–
Total transactions with owners of the Company		**1,425**	**(18,469)**	**(377)**	**–**	**–**	**172**	**(1,126)**	**(18,375)**	**(5,498)**	**(23,873)**
30 September 2018		**240,220**	**41,327**	**5,530**	**(512)**	**1**	**6,589**	**(5,262)**	**287,893**	**12,838**	**300,731**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 SEPTEMBER 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Receipts from customers		2,092,134	1,991,337
Payments to suppliers and employees		(2,043,245)	(1,966,249)
Interest received		4,312	5,477
Bank charges		(855)	(918)
Interest paid		(5,025)	(4,699)
Income taxes paid		(12,684)	(10,795)
Net cash flows from operating activities	**17**	**34,637**	**14,153**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		5,658	2,253
Proceeds from sale of interests in existing subsidiaries		103	860
Proceeds from sale of shares in subsidiary		495	2,072
Proceeds from sale of intangible assets		–	50
Dividends received		1,152	151
Payment for property, plant and equipment		(4,210)	(5,608)
Payment for intangible assets		(19,716)	(19,266)
Purchase of equity accounted for investees		(5,050)	(7,835)
Purchase of investments		(2,300)	–
Purchase of shares in existing subsidiaries		(1,449)	(1,836)
Acquisition of subsidiaries, net of cash acquired		(14,664)	(60,095)
Net cash flows used in investing activities		**(39,981)**	**(89,254)**
Cash flows from financing activities			
Loans repayments from related entities		141	417
Repayment of finance lease liabilities		(347)	(661)
Proceeds from borrowings		907,000	873,521
Repayment of borrowings		(886,590)	(829,044)
Proceeds from issue of share capital		–	65,000
Payment of share issue costs		–	(1,680)
Payment for treasury shares		(1,126)	(741)
Dividends paid to ordinary shareholders in the Company		(14,271)	(8,706)
Dividends paid to non-controlling interests		(7,252)	(5,633)
Net cash flows used (in)/from financing activities		**(2,445)**	**92,473**
Net (decrease)/increase in cash and cash equivalents		**(7,789)**	**17,372**
Cash and cash equivalents at beginning of year		22,789	5,417
Cash and cash equivalents at end of year	**17**	**15,000**	**22,789**

The accompanying notes form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2018

SECTION 1: BASIS OF PREPARATION

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 2018 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 (IFRS) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on 14 December 2018.

(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, to the nearest dollar unless otherwise stated.

(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 requires 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 (Notes 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 (Notes 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)
- Tax – deferred tax assets (Note 4)
- Plant and equipment – fair value of land and buildings (Note 9)
- Group composition – power to direct the relevant activities of the investee (Note 19)

NOTE 2: BASIS OF ACCOUNTING CONTINUED

(a) Basis of preparation continued

(iv) Fair value

A number of the Group's accounting policies and disclosures require the measurement 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 11)

(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 they relate. The accounting policies have been consistently applied, unless otherwise stated, to all periods presented and by all Group entities.

(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 2017.

(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*:

- 'Receivables' – separately disclosed trade and other receivables
- 'Financial assets/liabilities at fair value through profit or loss' – separately disclosed as derivative financial instruments in assets/liabilities
- '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) 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(v) Part (I)
Leases	1 October 2019	AASB 16	2b(v) 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 which 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 2017 for the Group; or
- Cumulative effect – 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.

The Group will adopt the cumulative effect approach.

Management established a project team at the beginning of the year. The team comprised appropriate revenue subject matter specialists to work with individual business units. Initial procedures focused on segregating the Group's revenue streams into major components to further understand the nature of the contractual arrangements within each of these customer groups.

The project team focused on the material revenue streams and undertook 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. This included a review of contracts across the various revenue streams, to gain a more detailed understanding of the contractual arrangements with customers.

The team has analysed 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.

Impact on the Group's financial report

Area	Description of change
Principal v agency sale arrangements	AASB 15 recognises revenue on the basis of a control model, with revenue recognised at the point at which control passes to the customer. The current CRT trading model satisfies the majority of the indicators of an agency-based model as per AASB 15. As such, the Group will implement this approach to its revenue recognition when AASB 15 comes into effect, i.e. from 1 October 2018. The conversion to an agency-based revenue recognition model will result in the recognition of only the commission (i.e. agency fee) on non-warehouse sales, rather than on a gross basis as under the current principal-based method. Had an agency-based arrangement been applied from 1 October 2017, it would have resulted in an approximately $402 million reduction in 2018 revenue with no impact on gross profit. The gross profit margin as a percentage of revenue will improve.
Revenue recognition – Water contracts	AASB 15 outlines revenue requirements and has implications on the timing of revenue recognition, the quantum of revenue that can be recorded; and significantly increases disclosure requirements in the financial statements. The project team has performed a contract review with the finding that not all water project related activities require a change in revenue accounting methodology. Where work is being performed to enhance a customer's asset, revenue should continue to be recognised on a percentage of completion basis. As such the revenue recognition for the majority of water activities will remain unchanged.

AASB 15 is expected to have an immaterial impact on all other revenue streams within the Group.

NOTE 2: BASIS OF ACCOUNTING CONTINUED

(b) Accounting policies continued

(v) 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 and finance ratios, debt covenants and income statement of profit or loss metrics, such as earnings before interest, taxes, depreciation and amortisation (EBITDA), 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.

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.

Management has made progress in finalising a 2018 impact assessment, costing of transition and ongoing compliance, identifying data and system requirements, and finalising the implementation plan. The project includes members from finance, procurement and property functions with oversight from the Chief Financial Officer.

The Group will initially apply AASB 16 on 1 October 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 October 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under AASB 117, the Group can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group's assessment of the potential impact of using these practical expedients is ongoing.

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 contract that will be impacted by AASB 16 and identifying and assessing the key terms which will impact the calculation of the lease-related balances.

Estimated Impact on the Group's financial report

The actual impact of applying AASB 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 October 2019, the composition of the Group's lease portfolio, the extent to which the Group chooses to use practical expedients and recognition exemptions, and the new accounting policies, which are subject to change until the Group presents its first financial statements that include the date of initial application.

The Group's transition project is well advanced and the Group will be in a position to quantify the impact once the discount rate at 1 October 2019 is determined. The expected quantitative impact of adoption of AASB 16 will be disclosed in the Group's financial statements for the year ending 30 September 2019.

SECTION 2: GROUP PERFORMANCE

NOTE 3: REVENUE

Accounting policy

Revenue is measured as 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:

	2018 $'000	2017 $'000
Sale of goods and services	1,524,273	1,483,849
Sale of biological assets	213,273	172,442
Agency commission revenue	157,622	153,932
Other commission revenue	9,198	8,900
Interest revenue	4,312	5,477
Sundry revenue	4,819	2,200
	1,913,497	**1,826,800**

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 laws 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:

	2018 $'000	2017 $'000
Current tax expense		
Current period	14,140	12,562
Adjustments for prior years	(498)	(604)
	13,642	11,958
Deferred tax expense		
Origination and reversal of temporary differences	1,039	1,363
	1,039	1,363
Income tax expense	**14,681**	**13,321**
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	46,357	44,147
Prima facie tax at 30% (2017: 30%)	13,907	13,244
Adjusted for:		
Non-controlling interest share of trust profit	(310)	(187)
Other	1,084	264
	14,681	**13,321**

(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 compre-hensive income $'000	Recognised directly in equity $'000	At 30 September $'000
2018					
Deferred tax assets					
Provisions	10,059	(170)	–	–	9,889
Accruals	2,058	(411)	–	–	1,647
Property, plant and equipment	574	(5)	–	–	569
Performance rights	1,863	(259)	–	–	1,604
Tax losses carried forward	2,558	1,887	–	–	4,445
Other	2,818	(1,573)	412	149	1,806
	19,930	**(531)**	**412**	**149**	**19,960**
Deferred tax liabilities					
Property, plant and equipment	(1,885)	371	–	–	(1,514)
Equity accounted investments	(1,586)	(106)	–	–	(1,692)
Intangibles	(3,448)	(206)	–	–	(3,654)
Other	(1,166)	(567)	–	–	(1,733)
	(8,085)	(508)	–	–	(8,593)
Total	**11,845**	**(1,039)**	**412**	**149**	**11,367**
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
	20,000	**(981)**	**215**	**696**	**19,930**
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)
	(7,703)	(382)	–	–	(8,085)
Total	**12,297**	**(1,363)**	**215**	**696**	**11,845**

NOTE 5: 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 are 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 revenues and expenses are those directly attributable to the segments and include any jointly earned revenue and expenses incurred 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
- Corporate and Other: comprises the Group's back office Corporate, Supply Chain and Procurement cost centres

	Rural Services		Water Services		Live Export		Financial Services		Corporate and Other		Total	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Results												
Segment revenues	1,432,455	1,434,587	261,416	213,958	213,273	172,442	4,094	2,471	343	449	1,911,581	1,824,907
Segment gross profit	**264,609**	**265,168**	**74,228**	**58,850**	**148**	**5,533**	**3,896**	**3,177**	**(46)**	**11**	**342,835**	**332,739**
Share of net profit of equity accounted investees	18	123	–	–	–	–	1,235	1,018	–	–	1,253	1,141
Underlying Segment EBITDA	**88,035**	**87,968**	**21,370**	**13,135**	**(3,114)**	**2,150**	**1,482**	**(447)**	**(37,678)**	**(37,374)**	**70,095**	**65,433**
Depreciation and amortisation	(4,418)	(4,230)	(3,836)	(2,886)	(14)	(28)	(32)	(92)	(4,426)	(3,254)	(12,726)	(10,490)
Underlying Segment EBIT	83,617	83,738	17,534	10,249	(3,128)	2,122	1,450	(539)	(42,104)	(40,628)	57,369	54,942
Finance costs											(5,839)	(5,586)
Significant items											(5,173)	(5,209)
Income tax expense											(14,681)	(13,321)
Profit for the period											**31,676**	**30,826**
Assets												
Segment assets	562,867	541,204	124,473	99,090	39,908	29,511	464	259	198,075	196,238	925,787	866,302
Investment in associates and joint ventures	425	458	–	–	–	–	23,448	18,047	–	–	23,873	18,505
Total Assets											**949,660**	**884,807**
Liabilities												
Segment liabilities	421,646	408,889	60,890	46,972	18,297	20,321	1,027	602	147,069	117,383	648,929	594,167
Total Liabilities											**648,929**	**594,167**
Other segment information												
Acquisitions of non-current segment assets	5,565	19,126	9,076	38,952	–	–	–	–	–	–	14,641	58,078

Underlying Segment EBIT excludes the impact of significant items. The current year total significant items of $5.2 million relates primarily to costs arising from restructuring cost out initiatives, acquisitions and portfolio management activities.

Costs of $5.2 million in 2017 related primarily to costs arising from restructuring cost out iniatives, acquisitions and portfolio management activities.

SECTION 3: ASSETS AND LIABILITIES

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 such as weather conditions and commodity prices. 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 broken down as follows:

	2018 $'000	2017 $'000
Current		
Trade receivables	369,676	368,955
Amounts receivable from related parties	508	668
Other receivables	30,505	23,986
	400,689	**393,609**
Non-current		
Amounts receivable from related parties	1,463	857

(b) Trade receivables ageing

	Gross 2018 $'000	Impairment* 2018 $'000	Gross 2017 $'000	Impairment* 2017 $'000
Not past due	301,482	(1,870)	322,119	(2,596)
Past due 0 – 30 days	55,114	(537)	38,803	(539)
Past due 31 – 90 days	8,272	(799)	6,119	(294)
Past due 90 days to one year	8,673	(952)	6,564	(1,547)
More than one year	2,473	(2,180)	2,733	(2,407)
	376,014	**(6,338)**	**376,338**	**(7,383)**

* 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:

	2018 $'000	2017 $'000
Balance at the beginning of the year	(7,383)	(9,026)
Increase to provision	(406)	(165)
Amount charged against provision	1,451	1,808
Balance at the end of the year	**(6,338)**	**(7,383)**

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.

	2018 $'000	2017 $'000
Finished goods	167,168	139,628
Work in progress	3,161	2,242
	170,329	**141,870**

The balance of finished goods above is net of a provision for slow-moving and obsolete stock of $970,280 (2017: $3,299,648).

Inventory write downs

Inventory write downs included in cost of goods sold	**809**	**855**

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 cattle (Holstein 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:

	2018 $'000	2017 $'000
Livestock	14,022	18,325

At 30 September 2018 the Group held 15,603 head of cattle (2017: 19,381).

NOTE 8: BIOLOGICAL ASSETS CONTINUED

Reconciliation of carrying amount

	2018 $'000	2017 $'000
Balance at the beginning of the year	18,325	15,666
Increase due to purchases	154,901	134,397
Decrease attributable to sales	(159,204)	(131,738)
	14,022	**18,325**

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.

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 works 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 the 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.

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 $'000	Buildings $'000	Leasehold improve-ments $'000	Plant and equipment $'000	Capital work in progress $'000	Total $'000
Cost or Fair value						
1 October 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 from CWIP	–	151	841	885	(1,877)	–
30 September 2017	**5,955**	**14,534**	**9,052**	**41,921**	**485**	**71,947**
Additions	–	185	2,023	5,779	471	8,458
Assets acquired in business combinations	–	–	192	1,530	–	1,722
Disposals	(1,970)	(2,520)	(292)	(4,167)	(43)	(8,992)
Revaluation of assets	1,520	927	–	–	–	2,447
Transfers from CWIP	–	–	36	590	(626)	–
30 September 2018	**5,505**	**13,126**	**11,011**	**45,653**	**287**	**75,582**
Depreciation						
1 October 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)**
Disposals	–	103	129	1,764	–	1,996
Depreciation expense	–	(236)	(1,197)	(5,477)	–	(6,910)
30 September 2018	**–**	**(689)**	**(5,704)**	**(26,502)**	**–**	**(32,895)**
Net book value						
30 September 2017	**5,955**	**13,978**	**4,416**	**19,132**	**485**	**43,966**
30 September 2018	**5,505**	**12,437**	**5,307**	**19,151**	**287**	**42,687**

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 identified 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. Brand names are assessed as having an indefinite useful life on the basis of brand strength, ongoing expected profitability and continuing support. 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 three to five 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 the 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.

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

	Goodwill $'000	Brand names $'000	Customer contracts and relationships $'000	IT development and software $'000	Other* $'000	Capital work in progress $'000	Total $'000
Cost							
1 October 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**
Additions	2,538	139	28	1,488	277	20,059	24,529
Transfers from CWIP	–	–	–	18,334	–	(18,334)	–
Assets acquired in business combinations	11,186	463	248	–	197	–	12,094
Disposals	(783)	–	–	(81)	–	–	(864)
30 September 2018	**177,136**	**17,566**	**7,531**	**51,528**	**2,816**	**19,728**	**276,305**
Amortisation							
1 October 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)**
Amortisation charge	–	–	(996)	(4,632)	(188)	–	(5,816)
30 September 2018	**(1,255)**	**–**	**(6,133)**	**(23,682)**	**(602)**	**–**	**(31,672)**
Net book value							
30 September 2017	**162,940**	**16,964**	**2,118**	**12,737**	**1,928**	**18,003**	**214,690**
30 September 2018	**175,881**	**17,566**	**1,398**	**27,846**	**2,214**	**19,728**	**244,633**

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

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 (CGUs)) and comparing this with its carrying value. The recoverable amount is the higher of an asset or CGU'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 or CGU 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 or CGUs, and as a consequence materially different amounts would be reported in the financial statements. An impairment loss in respect of goodwill is not reversed.

NOTE 10: INTANGIBLE ASSETS CONTINUED

Impairment testing continued

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

	2017 $'000	2018 $'000 Acquisition allocation adjustments*	2018 $'000
Goodwill			
Combined Rural Traders (CRT)	12,051	–	12,051
Mainland Operations	55,690	851	56,541
Tasmanian Operations	16,268	2,348	18,616
Financial Services	301	–	301
Water Services	78,630	9,742	88,372
	162,940	**12,941**	**175,881**
Brand names			
Combined Rural Traders (CRT)	14,400	–	14,400
Mainland Operations	545	228	773
Tasmanian Operations	214	–	214
Water Services	1,805	374	2,179
	16,964	**602**	**17,566**

* Includes changes to the provisional amounts recognised for 2017 acquisitions.

$11,648,000 of goodwill and brand names arising from the multiple acquisitions that occurred in 2018 has been provisionally allocated to groups of CGUs. The result was the allocation of $1,566,000 to the Mainland Operations group of CGUs, $2,276,000 to the Tasmanian Operations CGU and $7,806,000 to the Water group of CGUs. The amounts allocated will be finalised when provisional fair value accounting is complete.

The assessment of the recoverable amounts of goodwill and brand names is based on value-in-use calculations undertaken at the CGU or group of CGUs level. The carrying amounts of goodwill and brand names in these CGUs 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 five-year period used based on a Board approved budget for 2019 and calculated forecasts for 2020 to 2023 by using 2019 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 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 (2017: 3% and 10% per annum).
Terminal values	Terminal values calculated after year five 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% (2017: 2.5%).
Discount rates	Post tax WACC of 9.1% to 11.2% (2017: 9.1% to 11.2%), 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 1.7% or the growth rate per annum applied to years one to five of the cash flow forecasts would need to decrease by 3.5% for the estimated recoverable amount to be equal to the carrying value in the Water Services group of CGUs.

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 15.

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:

	Note	2018 $'000	2017 $'000
Current			
Trade and other payables:			
Trade payables		319,130	304,379
Sundry payables and accrued expenses		135,901	125,328
		455,031	**429,707**
Derivative financial liabilities		1,374	389
Loans and borrowings:			
Bank overdraft	17	3,151	–
Bank loans		10,000	14,590
Other loans		2,629	2,370
Loans from related parties		512	630
Finance lease liabilities	15(b)	1,354	733
		17,646	**18,323**
		474,051	**448,419**
Non-current			
Loans and borrowings:			
Bank loans		120,000	95,000
Finance lease liabilities	15(b)	365	645
		120,365	**95,645**

NOTE 11: FINANCIAL INSTRUMENTS CONTINUED

(b) Bank facilities

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

2018

Facility ($'000)	Maturity	Facility limit	Utilised
Bank overdraft	Apr-19	10,000	3,151
Uncommitted facility	n/a	40,000	–
Debtor securitisation facility	Oct-19	150,000	120,000
Seasonal cattle facility	May-19	10,000	10,000

During the year ended 30 September 2018 the following changes occurred with respect to the Group's bank facilities:

- The bank overdraft matures in April 2019
- The debtor securitisation facility matures in October 2019 and the limit has been amended to $150 million from July to December and $210 million from January to June
- Seasonal Cattle Facility matures in May 2019

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 each balance sheet reporting date are a deminimus total shareholder equity threshold, interest cover ratio and pro forma 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.

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

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

(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 amounts 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 2018				
Assets				
Derivative financial assets used for hedging	447	–	–	447
Biological assets	–	14,022	–	14,022
Land and buildings	–	17,942	–	17,942
	447	**31,964**	**–**	**32,411**
Liabilities				
Derivative financial liabilities used for hedging	(1,374)	–	–	(1,374)
Contingent consideration	–	–	(13,253)	(13,253)
	(1,374)	**–**	**(13,253)**	**(14,627)**
30 September 2017				
Assets				
Derivative financial assets used for hedging	175	–	–	175
Biological assets	–	18,325	–	18,325
Land and buildings	–	19,933	–	19,933
	175	**38,258**	**–**	**38,433**
Liabilities				
Derivative financial liabilities used for hedging	(389)	–	–	(389)
Contingent consideration	–	–	(11,288)	(11,288)
	(389)	**–**	**(11,288)**	**(11,677)**

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/(decrease) if: • The annual revenue growth rate were higher/(lower); and/or • The EBITDA margin were higher/(lower)

SECTION 4: CAPITAL STRUCTURE, FINANCING AND RISK MANAGEMENT

NOTE 12: 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.

	2018 $'000	2017 $'000
Reconciliation of earnings to profit and loss		
Profit for the year	31,676	30,826
Less profit attributable to non-controlling interests	(6,497)	(8,406)
Earnings used to calculate basic and diluted EPS	25,179	22,420

	No.	No.
Weighted average number of shares used as a denominator		
Weighted average number of ordinary shares on issue	104,783,470	95,375,875
Diluted earnings per share		
The calculation of diluted earnings per share at 30 September 2018 and 2017 did not include any further adjustment for the effect of potential dilutive ordinary shares.		
Earnings per share (cents per share)		
– Basic	24.03	23.51
– Diluted	24.03	23.51

NOTE 13: 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 a decrease in the reserve for own shares and offset in share-based payments reserve.

(a) Issued capital

Movement in number of issued shares:

	As at 30-Sep-18 $'000	As at 30-Sep-17 $'000
104,948,987 (September 2017: 104,464,002) ordinary shares fully paid	240,220	238,795

	Number of shares	Issue Price	Total $'000
Opening balance at 1 October 2016	**79,259,913**		**173,248**
Dividend reinvestment plan issue of new shares – December 2016	37,906	$2.56	97
Issue of new shares under the Institutional Entitlement Offer and Placement	19,721,696	$2.66	52,457
Issue of new shares under the Retail Offer	4,716,573	$2.66	12,543
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	2,118
Closing balance at 30 September 2017	**104,464,002**		**238,795**
Dividend reinvestment plan issue of new shares – December 2017	315,591	$2.88	908
Dividend reinvestment plan issue of new shares – June 2018	169,394	$3.05	517
Closing balance at 30 September 2018	**104,948,987**		**240,220**

(b) Nature and purpose of reserves

Total equity of the Group includes the following reserves:

	2018 $'000	2017 $'000
Asset revaluation reserve	5,530	3,460
Cash flow hedge reserve	(512)	(352)
Foreign currency translation reserve	1	–
Share-based payments reserve	6,587	6,417
Reserve for own shares	(5,260)	(4,136)
	6,346	5,389

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 accumulated in the foreign currency translation reserve.

(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 2018, the Group held 233,419 (2017: 256,272) of the Company's shares.

NOTE 14: MANAGING CAPITAL

(a) Capital risk management

The Board's objectives when managing capital are 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
- 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% to 45% on a normalised business cycle basis
- Maintain a dividend payout ratio of between 40% and 60% of underlying earnings per share

	Note	2018 $'000	2017 $'000
Total borrowings	11	133,151	109,590
Debt like items included within other balance sheet categories		5,496	2,853
Less: cash and cash equivalents	17	(18,151)	(22,789)
Net debt		120,496	89,654
Total equity		300,731	290,640
Total debt and equity		**421,227**	**380,294**
Gearing ratio		**28.6%**	**23.6%**
Underlying EPS		27.49	27.41
Full year dividend (cents)		15.00	15.00
Dividend payout ratio		**55.0%**	**55.0%**

(b) Dividends

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

	2018 $'000	2017 $'000
Dividends paid during the year to owners of the Company		
Final franked dividend for the year ended 30 September 2017 of 6 cents per fully paid share paid on 19 December 2017* (2017: 2 cents in respect of the year ended 30 September 2016)	6,268	1,585
Interim franked dividend for the year ended 30 September 2018 of 9 cents per fully paid share paid on 19 June 2018* (2017: 9 cents in respect of the year ended 30 September 2017)	9,430	9,336
	15,698	**10,921**

* Dividends paid has been adjusted for amounts paid into the Ruralco employee share plan.

Franked dividends declared or paid during the year were franked at the tax rate of 30% (2017: 30%).

	2018 $'000	2017 $'000
Dividends not recognised at year end	6,297	6,268

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 (2017: 6 cents). The aggregate amount of the proposed dividend, expected to be paid on 17 December 2018 out of 2018 profits, but not recognised as a liability at year end is $6,296,939.

Dividend franking account balance

The amounts of franking credits calculated at 30% (2017: 30%) available for subsequent financial years are:

	2018 $'000	2017 $'000
Franking account balance at the end of the financial year	39,926	36,280

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 the 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 $2,698,688 (2017: $2,686,217).

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.

NOTE 15: 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.

NOTE 15: CAPITAL AND LEASING COMMITMENTS CONTINUED

(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 contracted for a period of three to five years, with options to renew the leases for a further three to five years. Lease payments are increased according to the various lease agreements, usually in line with the local consumer price index.

	2018 $'000	2017 $'000
Future minimum payments under non-cancellable operating leases are as follows:		
Less than one year	26,763	23,666
Between one and five years	43,037	40,176
More than five years	5,125	6,380
	74,925	**70,222**

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 $27,673,722 (2017: $28,684,257).

Leases as lessor

The Group leases space in eight of its warehouses and four office spaces for periods up to five years.

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

	2018 $'000	2017 $'000
Less than one year	1,593	2,149
Between one and five years	401	3,888
	1,994	**6,037**

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 $2,155,998 (2017: $2,002,673).

(b) Finance lease commitments

The Group has finance lease commitments for motor vehicles payable as follows:

	Note	2018 $'000	2017 $'000
Less than one year		1,414	768
Between one and five years		381	670
		1,795	1,438
Future finance charges		(76)	(60)
Total lease liabilities		**1,719**	**1,378**
Representing lease liabilities:			
Current	11	1,354	733
Non-current	11	365	645
		1,719	**1,378**

(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:

	2018 $'000	2017 $'000
Livestock related commitments	9,457	5,571
Freight related commitments	7,075	1,151
	16,532	**6,722**

NOTE 16: CONTINGENT LIABILITIES

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

	2018 $'000	2017 $'000
Guarantees	**7,391**	**25,416**

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.

NOTE 17: CASH FLOW INFORMATION

Total cash and cash equivalents is broken down as follows:

	Note	2018 $'000	2017 $'000
Cash on hand		91	115
Cash at bank		18,060	22,674
Total cash at the end of the year		**18,151**	**22,789**
Bank overdraft	11	(3,151)	–
Total cash and cash equivalents at the end of the year		15,000	22,789
Reconciliation of cash flow from operations with net profit:			
Net profit after tax		**31,676**	**30,826**
Non-cash and non-operating items in profit from ordinary activities			
Depreciation and amortisation		12,726	10,490
Provision for impairment of receivables		(1,027)	(1,643)
Provision for make good		156	373
Share-based payment expense		172	1,849
Loss on disposal of assets		67	1,945
Share of associated entities' profit not received as distributions		(1,144)	(913)
Dividend income reclassified as investment income		(218)	(152)
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries			
Increase in trade and other receivables		(6,964)	(14,890)
Increase in inventories and biological assets		(24,459)	(16,890)
Increase in trade and other payables		16,445	1,523
Increase in current and deferred taxes		1,997	2,526
Increase in employee benefits provision		677	900
Increase/(decrease) in provisions and other liabilities		4,533	(1,791)
Net cash flows from operating activities		**34,637**	**14,153**

NOTE 18: 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, 32.9% (2017: 31.6%) of the total exposure to trade receivables is insured.

The Group is also exposed to credit risk through its seasonal finance facility arrangement 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 $1,819,622 (2017: $4,218,825) classified as seasonal finance.

NOTE 18: 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 financial instruments (Note 11).

			Contracted cash flows						
	Carrying amount $'000	Total amount $'000	At call $'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
2018									
Derivative financial liabilities									
Derivative financial instruments	1,374	1,374	–	1,374	–	–	–	–	–
Non-derivative financial liabilities									
Bank overdraft	3,151	3,254	–	3,254	–	–	–	–	–
Bank loans	130,000	137,659	–	10,302	127,357	–	–	–	–
Other loans	2,629	2,652	–	2,652	–	–	–	–	–
Trade payables	319,130	319,130	–	319,130	–	–	–	–	–
Contingent consideration	13,253	13,253	–	10,438	2,815	–	–	–	–
Loans from related parties	512	512	512	–	–	–	–	–	–
Finance lease liabilities	1,719	1,959	–	512	427	253	193	144	430
Total financial liabilities	**471,768**	**479,793**	**512**	**347,662**	**130,599**	**253**	**193**	**144**	**430**
2017									
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 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**

(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 2018, 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:

	2018		2017	
	Post tax profit $'000	Equity $'000	Post tax profit $'000	Equity $'000
AUD/USD +10%	–	4,214	–	599
AUD/USD -10%	–	(4,214)	–	(599)

(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							
	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
2018									
Financial assets									
Cash	1.45%	18,151	–	–	–	–	–	–	18,151
Trade receivables (interest bearing)	17.25%	–	11,991	1,961	–	–	–	–	13,952
Loans to related parties	7.54%	–	508	–	–	–	–	1,463	1,971
Total financial assets		**18,151**	**12,499**	**1,961**	**–**	**–**	**–**	**1,463**	**34,074**
Financial liabilities									
Bank overdraft	3.27%	–	3,151	–	–	–	–	–	3,151
Bank loans	3.02%	–	10,000	120,000	–	–	–	–	130,000
Other loans	1.05%	–	2,629	–	–	–	–	–	2,629
Loans from related parties	3.55%	–	512	–	–	–	–	–	512
Finance lease liability	4.40%	–	491	394	223	162	116	333	1,719
Total financial liabilities		**–**	**16,783**	**120,394**	**223**	**162**	**116**	**333**	**138,011**
Net exposure to interest rate risk		**18,151**	**(4,284)**	**(118,433)**	**(223)**	**(162)**	**(116)**	**1,130**	**(103,937)**

NOTE 18: FINANCIAL RISK MANAGEMENT CONTINUED

(d) Interest rate risk continued

				Interest rate repricing					
	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
2017									
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	0.90%	–	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)**

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 2018, 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:

	2018		2017	
	Post tax profit $'000	Equity $'000	Post tax profit $'000	Equity $'000
+100 basis points	(2,703)	–	(2,161)	–
-100 basis points	2,703	–	2,161	–

SECTION 5: GROUP STRUCTURE

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 other 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.

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 (%)	
		2018	2017
Ruralco Holdings Limited – Company	*		
A company incorporated in Australia			
Subsidiaries			
ACN 627 934 169 Pty Ltd		80.0	–
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
BR&C Agents Pty Ltd		58.0	58.0
CIAA Pty Ltd		45.0	45.0
Combined Rural Traders Pty Ltd	*	100.0	100.0
CQ Ag Services Pty Ltd		65.0	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		50.4	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	100.0
Frontier International Agri Pty Ltd		75.0	75.0
Frontier International Northern Pty Ltd		75.0	75.0
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	60.0
Ingham Farm Centre Pty Ltd	*	100.0	100.0
Irrigation Tasmania Pty Ltd	*	100.0	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
Northern AgriServices 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
Northern Livestock & Property Pty Ltd		78.6	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	60.0
Platinum Livestock & Real Estate Pty Ltd		60.0	–
Primaries Esperance Pty Ltd		60.0	60.0

		Percentage Owned (%)	
		2018	2017
Primaries of WA Pty Ltd	*	100.0	100.0
Primaries Property Pty Ltd	*	100.0	100.0
QFH Multiparts Pty Ltd		67.5	70.0
QNT Agencies Pty Ltd (formerly BGA Agriservices North Queensland Pty Ltd)		55.0	55.0
QNT Rural Pty Ltd		68.0	–
QNT Rural Emerald Pty Ltd		61.0	–
Queensland Rural Pty Ltd (formerly FNQG8 Pty Ltd)		57.0	57.0
Rahoom Pty Ltd		100.0	100.0
Rawlinson & Brown Pty Ltd	*	100.0	100.0
Relyon (Australia) Pty Ltd	*	100.0	100.0
Roberts Hawkins Pty Ltd		100.0	100.0
Roberts Huon Valley Pty Ltd		50.0	50.0
Roberts Irrigation Pty Ltd		100.0	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
S&D Hall Pty Ltd		100.0	–
Saffin Kerr Bowen Pty Ltd		100.0	100.0
Saffin Kerr Bowen Wilson Pty Ltd		100.0	100.0
Savage Barker & Backhouse Pty Ltd (formerly Queensland Rural Pty Ltd)	*	100.0	100.0
Southern Australian Livestock Pty Ltd		60.0	100.0
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 Rural Property Pty Ltd		80.0	–
Tasmanian Grain Elevators Pty Ltd	*	–	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	100.0
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

* Denotes that the entities are party to the Deed of Cross Guarantee.
^ Denotes companies where the Group has sold its share holdings during the year.

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

NOTE 19: GROUP COMPOSITION CONTINUED

(b) Deed of cross guarantee

Pursuant to *ASIC Corporations (Wholly owned Companies) Instrument 2016/785* the wholly owned subsidiaries listed below 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 Instrument 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 other comprehensive income, and movement in consolidated retained earnings, for the year ended 30 September 2018 and the consolidated statement of financial position as at 30 September 2018 of the Closed Group after eliminating all transactions between members.

Statement of Profit or Loss and Other Comprehensive Income	2018 $'000	2017 $'000
Revenue	1,354,379	1,287,746
Cost of goods sold	(1,099,797)	(1,044,190)
Depreciation expense	(5,496)	(4,585)
Amortisation expense	(5,482)	(4,397)
Personnel expenses	(146,348)	(151,966)
Administrative expenses	(9,661)	(6,325)
Property and equipment expenses	(23,614)	(24,301)
Motor vehicle expenses	(15,857)	(14,909)
Marketing and advertising expenses	(5,159)	(5,306)
Data and telephony expenses	(9,053)	(7,399)
Bad debts expense	455	(160)
Other expenses	(3,080)	(2,622)
Finance costs	(8,342)	(5,302)
Net gain/(loss) on disposal of assets	414	(1,705)
Share of profit/(loss) of equity accounted for investees	1,144	913
Profit/(loss) before income tax	**24,503**	**15,492**
Income tax expense	(8,533)	(3,713)
Profit/(loss) after tax	**15,970**	**11,779**
Other comprehensive income after tax	–	–
Total comprehensive income for the year, net of tax	**15,970**	**11,779**

Statement of Financial Position	2018 $'000	2017 $'000
Current assets		
Cash and cash equivalents	1,325	19,038
Trade and other receivables	370,256	333,926
Inventories	103,993	92,825
Assets classified as held for sale	–	–
Other current assets	439	104
Total current assets	**476,013**	**445,893**
Non-current assets		
Trade and other receivables	1,464	840
Investments and other financial assets	56,975	44,342
Property, plant and equipment	36,969	38,884
Deferred tax assets	13,964	14,304
Intangible assets	221,183	187,186
Total non-current assets	**330,555**	**285,556**
Total assets	**806,568**	**731,449**
Current liabilities		
Trade and other payables	340,848	315,189
Loans and borrowings	7,314	3,425
Current tax liabilities	3,452	(638)
Employee benefits	17,033	17,072
Derivative financial instruments	24	34
Make good provision	1,155	48
Restructuring and onerous provisions	1,373	1,452
Contingent consideration	10,588	3,043
Total current liabilities	**381,787**	**339,625**
Non-current liabilities		
Loans and borrowings	120,060	95,185
Deferred tax liability	8,124	7,985
Employee benefits	2,439	2,131
Make good provision	454	522
Contingent consideration	2,665	9,378
Total non-current liabilities	**133,742**	**115,201**
Total liabilities	**515,529**	**454,826**
Net assets	**291,039**	**276,623**
Equity		
Share capital	240,220	238,795
Reserves	6,923	9,658
Retained profits	43,896	28,170
Total equity	**291,039**	**276,623**
Retained profits at the beginning of the financial year	28,170	21,061
Profit after tax	15,970	11,779
Dividends provided for or paid	(2,300)	(2,394)
Transfers (to)/from reserves	1,797	(644)
Impact from (entrance)/exit from closed group	259	(1,632)
Retained profits at the end of the financial year	**43,896**	**28,170**

NOTE 19: GROUP COMPOSITION CONTINUED

(c) Parent company

As at, and throughout, the financial year ended 30 September 2018 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	
	2018 $'000	2017 $'000
Result of the parent entity		
Loss for the period after tax	(17,160)	(26,022)
Total comprehensive loss for the period	**(17,160)**	**(26,022)**
Financial position of the parent entity at year end		
Current assets	36,429	56,912
Total assets	238,084	242,205
Current liabilities	141,897	111,647
Total liabilities	144,203	114,521
Total equity of the parent entity comprising of:		
Share capital	219,021	217,595
Retained earnings	(130,022)	(94,974)
Share-based payments reserve	4,882	5,063
Total equity	**93,881**	**127,684**

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 16.

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.

(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	
		2018 %	2017 %	2018 $'000	2017 $'000
Joint Ventures					
Agfarm Unit Trust	Grain marketing	50	50	8,683	8,714
Ausure Ruralco Pty Ltd	Insurance broking	–	50	–	9,332
Ausure Group Pty Ltd	Insurance broking	25	–	14,765	–
Western Riverina Fertilisers Pty Ltd	Rural merchandising	50	50	425	458
				23,873	**18,504**

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

	2018 $'000	2017 $'000
Balance at beginning of the financial year	18,504	8,806
Acquired during the year	5,050	8,785
Share of associated company's net profit after tax	1,144	913
Dividends received	(825)	–
Balance at end of the financial year	**23,873**	**18,504**

Summary financial information for equity accounted investees is as follows:

	Ownership interest %	Assets $'000	Liabilities $'000	Revenue $'000	Profit after tax $'000
2018					
Agfarm Unit Trust	50	94,488	92,288	7,337	415
Ausure Ruralco Pty Ltd*	–	–	–	–	295
Ausure Group Pty Ltd*	25	2,292	37,580	15,838	3,086
Western Riverina Fertilisers Pty Ltd	50	1,085	181	2,179	35
		97,865	**130,049**	**25,354**	**3,831**
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
		168,074	**157,153**	**19,149**	**1,826**

* Interest in Ausure Group Pty Ltd was acquired on 1 April 2018. Refer to Note 20 for further details. As part of the transaction RHL contributed its 50% share in Ausure Ruralco Pty Ltd.

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

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	
	2018	2017	2018	2017	2018	2017
NCI percentage	25%	25%	42%	42%	40%	40%
	$'000	$'000	$'000	$'000	$'000	$'000
Current assets	6,051	11,750	16,611	21,062	32,423	36,376
Non-current assets	4,374	2,768	1,460	1,660	2,612	2,948
Current liabilities	(19,704)	(20,071)	(13,124)	(18,058)	(31,915)	(34,593)
Non-current liabilities	(45)	(27)	(148)	(86)	(553)	(408)
Net assets	**(9,325)**	**(5,580)**	**4,799**	**4,578**	**2,567**	**4,323**
Carrying amount of NCI	(2,331)	(1,395)	2,016	1,923	1,027	1,729
Revenue	217,222	176,791	34,565	36,234	139,381	149,759
Net profit/(loss) after tax	(3,205)	623	3,161	2,961	4,741	3,529
Other comprehensive income/(loss) (OCI)	139	(132)	–	–	–	–
Total comprehensive income/(loss)	**(3,066)**	**491**	**3,161**	**2,961**	**4,741**	**3,529**
Profit allocated to NCI	(801)	156	1,328	1,244	1,897	1,412
OCI/(loss) allocated to NCI	35	(33)	–	–	–	–
Cash flows from operating activities	9,443	(6,661)	844	519	6,159	3,265
Cash flows from investing activities	(47)	(43)	(979)	(1,401)	(2,434)	(2,848)
Cash flows from financing activities	32,665	21,683	4,335	2,261	13,681	11,741
Net increase in cash	**42,061**	**14,979**	**4,200**	**1,379**	**17,406**	**12,158**

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 2018

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
Schulz Fertiliser (GJ Schulz Pty Ltd)	60%	Asset	1 October 2017
Southern Agricultural Solutions Pty Ltd	51%	Asset	4 December 2017
Team Irrigation Pty Ltd	100%	Asset	1 March 2018
S&D Hall Pty Ltd	100%	Share	1 May 2018
Tasmanian Rural Property Pty Ltd	80%	Share	11 September 2018

The Group acquired a 25% interest in Ausure Group Pty Ltd on 1 April 2018. This is treated as an equity accounted investment.

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 has 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:

Consideration transferred	Southern Agricultural Solutions $'000	S&D Hall $'000	Other* $'000	Total $'000
Cash	3,049	5,704	5,888	14,641
Deferred consideration	–	–	150	150
Contingent consideration	–	2,665	–	2,665
	3,049	**8,369**	**6,038**	**17,456**
Identifiable assets acquired and liabilities assumed				
Cash balance acquired	3	–	–	3
Receivables	869	1,271	–	2,140
Inventories	1,553	1,485	719	3,757
Property, plant and equipment	558	620	544	1,722
Other assets	12	12	24	48
Other intangibles	89	523	296	908
WIP	–	(19)	2	(17)
Payables	(735)	(139)	(2)	(876)
Provisions	(293)	(327)	(204)	(824)
Other payables	(184)	(191)	(207)	(582)
Deferred revenue	–	–	(9)	(9)
	1,872	**3,235**	**1,163**	**6,270**
Goodwill on acquisition	**1,177**	**5,134**	**4,875**	**11,186**

* All other acquisitions include Schulz Fertiliser, Team Irrigation and Tasmanian Rural Property. These acquisitions are not individually material, and are disclosed in aggregate.

NOTE 20: BUSINESS COMBINATIONS CONTINUED

(a) Acquisitions continued

(i) Acquisitions for the full year ended 30 September 2018 continued

Southern Agricultural Solutions

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 South Eastern New South Wales. The goodwill has been allocated to the Mainland Operations group of CGUs.

The results during the post-acquisition period to 30 September 2018 were contributions of $9.2 million to revenue and $0.2 million to profit after tax. Had the results of this business been included from the beginning of the financial year, a further $1.8 million in revenue and $0.1 million to profit after tax would have been recognised as part of the Group's results.

S&D Hall Irrigation

The goodwill is attributable to the knowledge and expertise of the workforce to service the irrigation region in South Eastern South Australia. The goodwill has been allocated to the Water group of CGUs.

The results during the post-acquisition period to 30 September 2018 were contributions of $4.7 million to revenue and $0.1 million to profit after tax. Had the results of this business been included from the beginning of the financial year, a further $6.6 million in revenue and $0.1 million to profit after tax would have been recognised as part of the Group's results.

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

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

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

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 businesses established:

2018

Business name	Date established
Platinum Livestock & Real Estate Pty Ltd	21 November 2017
QNT Rural Pty Ltd	18 January 2018
QNT Rural Emerald Pty Ltd	18 January 2018
ACN 627 934 169 Pty Ltd (Tasmanian Rural Property Holdings)	10 September 2018

2017

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

(c) Disposal of operations

2018

(i) Disposal of WMG

On 6 October 2017, the Group disposed of its 53.5% interest in WMG Agriservices Pty Ltd. $356,614 of proceeds were received for the interest in the business resulting in a $383,558 loss impact on disposal.

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.

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

	2018 $	2017 $
The following transactions occurred with related parties in the year:		
Purchase of goods from subsidiaries by associates	290,244	268,198
Interest paid by subsidiaries to their related entitles	51,472	55,550
Interest paid to subsidiaries by their related entities	19,674	37,656

(b) Outstanding balances at reporting date

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

	2018 $	2017 $
Current receivables		
– Other related parties	1,051,470	668,015
Non-current receivables		
– Other related parties	3,549	3,549
Loans and borrowings		
– Other payable to related parties	512,257	629,918
Receivable from joint ventures and associates	164,981	85,618

Amount repaid to related parties in relation to related party loans was $147,536 (2017: $444,987).

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

SECTION 6: OTHER

NOTE 22: 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 only has a defined contribution plan on offer to employees. 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.

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

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

	2018 $'000	2017 $'000
Personnel expenses		
Salaries and wages	155,307	156,490
Contributions to defined contribution plans	15,359	14,635
Share-based payments (equity settled)	172	1,867
Termination benefits	493	553
Payroll tax	10,084	9,993
Other personnel expenses	12,361	11,988
Total personnel expenses	**193,776**	**195,526**
Employee benefit provisions recognised at balance date are as follows:		
Current – employee benefits		
Annual leave	12,052	11,337
Long service leave	10,364	10,247
	22,416	**21,584**
Non-current – employee benefits		
Long service leave	3,607	3,167

(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:

	2018 $'000	2017 $'000
Short-term employee benefits	4,687	4,891
Post-employment benefits	260	215
Share-based payments	535	1,251
	5,482	**6,357**

NOTE 22: 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 is 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 value 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.

Measurement of fair value

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 %	Fair value $
1-Oct-15*	1-Oct-18	3.54	2.7	5.0	30	3.17
1-Oct-16*	1-Oct-19	3.08	1.7	5.5	30	2.63
1-Oct-17*	1-Oct-20	3.10	2.1	4.8	30	2.72

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 is set out below.

Grant date	Vesting date	Fair value at grant	Opening balance	Granted	Vested	Forfeited	Closing balance
2018							
6-Jul-15	30-Sep-18	1.8	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
1-Oct-17	1-Oct-20	2.72	–	787,357	–	–	787,357
			1,246,692	**787,357**	**(50,000)**	**(490,948)**	**1,493,101**
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	1.8	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**

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

Expense recognised in profit or loss

As set out in Note 22(a), the total share-based payment expense recognised in profit or loss was $0.2 million (2017: $1.9 million).

NOTE 23: EVENTS AFTER THE BALANCE SHEET DATE

On 1 November, the Group acquired 100% of the business assets of iWater Pty Ltd, a water services business located in Dalby, Queensland. The acquisition complements the Group's current presence in Queensland and provides operational scale and project capability to the region.

Excluding the transaction noted above, there are no matters or circumstances that have arisen since 30 September 2018 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: AUDITOR'S REMUNERATION

	2018 $	2017 $
Audit services		
Audit and review of financial statements – KPMG	503,300	520,750
Other regulatory audit services – KPMG	35,250	34,500
	538,550	**555,250**
Other services		
Tax compliance services – KPMG	147,645	136,527
Other non-assurance services – KPMG	–	125,000
	147,645	**261,527**

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Ruralco Holdings Limited (the Company):

   (a) The consolidated financial statements and notes that are contained in pages 68 to 117 and the Remuneration Report in the Directors' Report, set out on pages 49 to 66 are in accordance with the *Corporations Act 2001*, including:

      (i) Giving a true and fair view of the Group's financial position as at 30 September 2018 and of its performance for the financial year ended on that date; and

      (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

   (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. There are reasonable grounds to believe that the Company and the Group entities identified in Note 19 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those Group entities.

3. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 September 2018.

4. The Directors draw readers' attention to Note 2(a) of the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Board:

RICHARD (RICK) LEE AM
CHAIR
RURALCO HOLDINGS LIMITED

Sydney, 14 December 2018

TRAVIS DILLON
MANAGING DIRECTOR & CEO
RURALCO HOLDINGS LIMITED

KPMG

Independent Auditor's Report

To the shareholders of Ruralco Holdings Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Ruralco Holdings Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 September 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 September 2018;
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

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

KPMG

Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Valuation of Goodwill
- Valuation of Biological Assets
- Valuation of Trade Receivables

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Goodwill ($175,881,000)

Refer to Note 10 of the financial statements

The key audit matter	How the matter was addressed in our audit
A key audit matter was the annual testing of goodwill for impairment, given the size of the balance (being 18% of total assets). As the Group has executed its acquisition strategy, large balances of goodwill have resulted. We focused on the significant forward-looking assumptions the Group applied in the value in use models, including: • forecast cash flows, growth rates and terminal growth rates – the seasonal nature of the Agribusiness industry leads to the risk of inaccurate assumptions, particularly in relation to climate and commodity pricing fluctuations, for us to consider; • forecast growth rates and terminal growth rates – in addition to the uncertainties described above, the models are highly sensitive to small changes in these assumptions, which may reduce the recoverable amount of the Cash Generating Units (CGUs) being assessed. This drives additional audit effort specific to the feasibility of achieving forecast results; and • discount rate – these are complicated in nature and vary according to the conditions and environment the CGUs are subject to. We involved a valuation specialist to supplement the efforts of our senior audit team members in assessing this key audit matter.	Working with our valuation specialist, our procedures included: • Considering the appropriateness of the value in use method adopted to test goodwill annually for impairment against the requirements of the accounting standards; • Comparing the forecast cash flows contained in the value in use models to Board approved forecasts; • Assessing the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the models; • Considering the sensitivity of the models by varying key assumptions, such as forecast growth rates, terminal growth rates and discount rates, within reasonably possible ranges, to identify those CGUs at higher risk of impairment and to focus our procedures; • Challenging the critical input to the forecast cash flows, being the earnings assumptions (year 1-5 growth rates and terminal value growth rates). We did this by assessing these growth rates against publicly available industry studies and views on future trends noting, in particular, impacts for forecast climate patterns and commodity prices; • Checking the consistency of growth rates to the Group's stated plans and strategy, past performance, and our experience regarding the feasibility of these in the industries in which the CGUs operate;

KPMG

	• Independently developing a discount rate range considered comparable using publicly available market data for comparable entities adjusted by risk factors specific to the Group and the industry it operates in; • Assessing the disclosures in the financial report using the information gathered from the procedures noted above and against the requirements of the accounting standards.

Valuation of Biological Assets ($14,022,000)	
Refer to Note 8 of the financial statements	
The key audit matter	**How the matter was addressed in our audit**
The Group's policy is to record biological assets (cattle for future export) at fair value less costs to sell as required by the relevant accounting standard. This is a key audit matter due to the significant judgement involved in us assessing: • market price per kilogram (given the lack of depth in the live export cattle market); • kilogram weight gain per day (as actual weight can only be precisely measured on purchase and sale which may not coincide with year end date); and • estimated number of head of cattle (given the variability of mortality rates). These key assumptions in the fair value model are used to estimate the fair value of biological assets at 30 September 2018 (being 1% of total assets). We focused on assessing these key assumptions against current market trends and historical results. We involved senior team members and a valuation specialist.	Working with our valuation specialist, our procedures included: • Testing the key control of management's review and approval of the reconciliation of the records of number of cattle and weight purchased and number of cattle sold against the amount recorded in the general ledger; • Assessing the methodology used to estimate the fair value of biological assets against the requirements of the accounting standards; • Assessing the accuracy of previous assumptions, including mortality rate and weight gain per day, to inform our evaluation of assumptions incorporated in the current year fair value model; • Challenging the market price per kilogram assumption against recent trading history and publicly available industry research including that published by Meat and Livestock Australia; • Challenging the weight gain per day and mortality rates against the Group's previously observed rates. In addition, we have overlayed our knowledge of current climate conditions relative to those of the prior periods to assess the assumptions used in the current year; • Considering the sensitivity of the fair value model by varying key assumptions, including: weight gain per day, market price per kilogram and mortality rate, within a reasonably possible range;

	• Assessing the disclosures in the financial report using the information gathered from the procedures noted above and against the requirements of the accounting standards.

Valuation of Trade Receivables ($369,676,000)	
Refer to Note 6 of the financial statements	
The key audit matter	**How the matter was addressed in our audit**
We focused our audit effort on the valuation of trade receivables as a key audit matter due to: • The quantum of trade receivables outstanding at 30 September 2018 (being 39% of total assets); and • Unfavourable changes in regional climate patterns may lead to recoverability issues of customers located within similar regions due to poor trading results. The allowance for impairment of trade receivables is determined by the Group's expected credit loss model. This model multiplies the amount of trade receivables held in each ageing category by a corresponding default rate. We involved senior team members to analyse the expected credit loss model against credit terms and historical trade receivable recoverability.	Our procedures included: • Testing the control for the Group's review and approval of the expected credit loss model; • Assessing the appropriateness of the expected credit loss model applied by the Group against the requirements of the accounting standards; • Assessing the completeness and accuracy of reports used by the Group to monitor and determine trade receivable recoverability. This includes checking a sample of customers' details, including credit terms and ageing category to underlying invoices; • Assessing the assumptions applied in the model used to estimate the expected credit loss. This included: o a retrospective assessment of historical write-offs in previous years, to inform our evaluation of the forecast default rate for each ageing category; o using our knowledge and understanding of the business, its industry, and the current state of the Australian and overseas economies; and o checking the financial situation of specific customers to correspondence with the Group. • Challenging the Group's assumptions of recoverability, including default rate, for certain regional customers expected to be affected by unfavourable weather conditions by considering current and forecast climate patterns provided by independent industry research. In doing so, we used our knowledge and understanding of the business and how previous weather patterns have impacted

	trading results and trade receivable recoverability; • Assessing the disclosures in the financial report using the information gathered from the procedures noted above and against the requirements of the accounting standards.

Other Information

Other Information is financial and non-financial information in Ruralco Holdings Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error;
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

KPMG

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Ruralco Holdings Limited for the year ended 30 September 2018, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 49 to 66 of the Directors' Report for the year ended 30 September 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Anthony Travers

Partner

Sydney

14 December 2018

FIVE YEAR REVIEW

	2018 $'000	2017 $'000	2016 $'000	2015 $'000	2014 $'000
Financial Position					
Total assets	949,660	884,807	720,272	698,126	656,990
Total liabilities	648,929	594,167	509,151	475,653	435,022
Total equity	300,731	290,640	211,121	222,473	221,968
Results					
Total revenue	1,913,497	1,826,800	1,756,376	1,599,862	1,355,887
Operating profit before interest, depreciation, amortisation and income tax	64,067	59,304	25,291	40,943	33,869
Interest on borrowings	4,984	4,667	3,240	4,664	5,153
Depreciation and amortisation	12,726	10,490	9,405	8,297	7,445
Operating profit before income tax	46,357	44,147	12,646	27,982	21,271
Operating profit attributable to members of Ruralco Holdings Limited	25,179	22,420	4,296	14,057	10,565
Dividends					
Total dividends paid and declared	15,698	10,935	11,779	13,120	11,654
Dividends per ordinary share	15.0 cents	15.0 cents	10.0 cents	16.0 cents	16.0 cents
Statistics					
Issued ordinary fully paid shares	104,948,987	104,464,002	79,259,913	78,531,866	77,291,069
Share price at 30 September	$2.91	$2.74	$3.17	$3.60	$3.41
Market capitalisation ($'000)	305,402	286,231	251,254	282,715	263,563
Net tangible assets per share	$0.53	$0.72	$0.81	$1.12	$1.29
Basic earnings (cents per share)	24.03	23.51	5.44	18.03	15.27
Number of permanent employees	1,955	1,983	1,960	1,976	1,871

SHAREHOLDER INFORMATION

AS AT 30 NOVEMBER 2018

SUBSTANTIAL SHAREHOLDERS

Holders of relevant interest	Numbers of shares held	% of shares
Neale Edwards	22,513,643	21.45%
Perpetual Investments Ltd	12,875,257	12.27%
Investors Mutual Limited	7,080,000	6.75%
Regal Funds Management Pty Ltd	6,164,905	5.87%

DISTRIBUTION OF SHAREHOLDERS

Range of investors	Number of holders	Ordinary shares held
1–500	2,777	737,871
501–1,000	916	677,082
1,001–5,000	1,736	4,376,283
5,001–10,000	608	4,616,903
10,001–100,000	690	16,793,788
100,001 and over	49	77,747,060

20 LARGEST HOLDERS OF ORDINARY SHARES

Name		Number of shares	% of issued capital
1	Neale Edwards Pty Ltd	19,229,721	18.32
2	HSBC Custody Nominees (Australia) Limited	17,376,933	16.56
3	J P Morgan Nominees Australia Limited	6,268,593	5.97
4	UBS Nominees Pty Ltd	4,088,015	3.90
5	UBS Nominees Pty Ltd	3,570,098	3.40
6	Bona Vista Estate Pty Ltd	3,283,922	3.13
7	National Nominees Limited	3,266,100	3.11
8	HSBC Custody Nominees (Australia) Limited – A/C 2	3,027,770	2.88
9	Brispot Nominees Pty Ltd <House Head Nominee A/C>	2,347,562	2.24
10	Merrill Lynch (Australia) Nominees Pty Limited	2,338,485	2.23
11	Citicorp Nominees Pty Limited	1,308,009	1.25
12	HSBC Custody Nominees (Australia) Limited-GSI EDA	1,067,432	1.02
13	Warbont Nominees Pty Ltd <Unpaid Entrepot A/C>	991,008	0.94
14	CS Fourth Nominees Pty Limited <HSBC Cust Nom AU Ltd 11 A/C>	859,304	0.82
15	CS Third Nominees Pty Limited <HSBC Cust Nom AU Ltd 13 A/C>	822,566	0.78
16	Sheedy Super Pty Ltd <Sheedy Super A/C>	767,534	0.73
17	BNP Paribas Noms (NZ) Ltd <DRP>	531,623	0.51
18	Next Step Consultancy (Australasia) Pty Ltd <The Next Step A/C>	514,958	0.49
19	Dean Whitestone Pty Ltd	500,000	0.48
20	Mr Douglas Fenton-Lee + Mrs Carol Adele Fenton-Lee <Super Fund A/C>	496,326	0.47
	Total Top 20 holders	**72,655,959**	**69.23**
	Total remaining holders balance	**32,293,028**	**30.77**

CORPORATE DIRECTORY

Registered Office
Level 5, Building A, 26 Talavera Road
Macquarie Park NSW 2113
Telephone: (02) 9952 6555
Website: www.ruralco.com.au
Email: companysecretary@ruralco.com.au

Managing Director
Travis Dillon

Non-Executive Directors
Richard (Rick) Lee
Elizabeth Johnstone
Trudy Vonhoff
Michael Millner
Andrew Macpherson

Company Secretary
Timothy Rowe

Share Registry
Computershare Investor Services Pty Ltd
GPO Box 7045, Sydney, NSW 2001
Yarra Falls, 452 Johnston Street
Abbotsford VIC 3067
Toll Free: 1300 950 505
International: +61 3 9415 4000
Fax: +61 3 9473 2500
Email: web.queries@computershare.com.au
Website: www.computershare.com

Auditor
KPMG
Tower Three, International Towers,
300 Barangaroo Avenue Sydney NSW 2000

Bankers
Australia and New Zealand Banking Group Limited (ANZ)
Co-operative Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank)

FINANCIAL CALENDAR

2018	
Annual General Meeting for 2018 Financial Year	1 February 2019
2019 half year end	31 March 2019
Announcement of Results for half year ending 31 March 2019	14 May 2019
2019 financial year end	30 September 2019
Announcement of Results for financial year ending 30 September 2019	12 November 2019

Note: These dates may be subject to change.

Ruralco

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