



Rural Funds Group Annual Report

for the year ended 30 June 2016

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

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Letter from the Managing Director

Dear Unitholder

We are pleased to present the financial accounts for the Rural Funds Group (ASX: RFF) for the financial year 2015-2016 (FY16).

RFF at 30 June 2016

You are part of a group of around 4,000 investors that at the end of the financial year owned assets worth \$407m which includes over 65,000 megalitres of water entitlements. Your fund's agricultural property assets are diversified across almond orchards, poultry farms, vineyards, macadamia orchards, and associated water entitlements. These assets are leased to experienced tenants operating the properties on long lease terms. The portfolio had a weighted average lease expiry of 13.8 years at 30 June 2016.

RFF provided total returns of 54% over the financial year, the highest return of any ASX-listed Real Estate Investment Trust (REIT). A number of factors have contributed to this result, including higher awareness of the fund, inclusion in the S&P ASX300 Index, earnings accretive acquisitions and significant increases in the market value of our assets. While we do not expect such outperformance every year, the returns received by unitholders in FY16 are nonetheless very pleasing.

Review of financial year 2016

Consumer demand has maintained almond processors' desire to secure further supply through new almond plantings. RFF raised \$35m of equity in October 2015 to fund the purchase of the Kerarbury property near Darlington Point, New South Wales. Olam Orchards Australia have leased Kerarbury until 2038 and are developing a 1,500 ha almond orchard on the property.

RFM released a climate discussion paper in June 2016 designed to articulate the benefits of diversifying RFF's agricultural property portfolio into geographically dispersed climatic regions. This is available on the RFM website under 'key documents' and I urge you to read it as it relates to the strategy behind the acquisitions outlined below.

In February 2016, RFF made its first acquisition in Western Australia (WA), with a \$5m investment for a 9% stake in Perth Markets Limited, which is expected to be earnings accretive and provides an introduction to the WA agricultural sector.

The fund took an initial step into the macadamia industry in March 2016 with the \$9m acquisition of three orchards outside Bundaberg, Queensland. This provides exposure to a new commodity and a new climatic zone at a more northern latitude than RFF's existing assets.

A rental increase for an almond orchard tenant following a scheduled rent review in May 2016 led to the announcement of a forecast FY17 distribution increase of 8%. Beyond this one-off increase, the distribution growth rate is expected to return to the previous forecast of 4%. This demonstrates how indexation and rent review mechanisms underpin growth in distributions to RFF unitholders.

Although the transaction occurred outside of the FY16 period, it is worth mentioning that in July 2016, RFF completed a \$61.0m equity raising to fund acquisitions in three sectors. Funds are being deployed to purchase three cattle properties in northern and central Queensland, fund an additional 1,000 ha of almond orchard development on Kerarbury and fund the three Queensland macadamia orchards, which were initially debt funded.

The cattle sector in particular provides a positive outlook with growing export market demand for Australian beef and potential for capital growth as cattle property prices are yet to reflect the record high beef prices experienced in the last 18 months. The Kerarbury almond investment significantly grows the RFF development pipeline.

Looking ahead to FY17

The RFF payout ratio is measured as distributions per unit (DPU) divided by adjusted funds from operations per unit (AFFO). Since listing in 2014, RFF has maintained a payout ratio around 95%. In FY17 we are forecasting DPU of 9.64 cents funded from AFFO of 12.42 cents, which represents a lowering of the payout ratio to 78%.

Using retained earnings to fund investment provides the advantage of lower transaction costs, allowing the fund to continue making investments with flexibility and efficiency. This lower payout ratio creates more retained earnings which are a key part of the funding of the ongoing Kerarbury almond orchard development, as well as providing scope to pursue new investments. However, RFM continues to investigate opportunities that may be funded by an expansion of the fund's equity base.

It is expected that RFF will invest a further \$51m on its almond orchards in FY17. Of this amount, \$13m relates to the purchase of water entitlements, with the balance being infrastructure and development costs. The following table has been included to highlight the substantial near-term growth in RFF almond assets. It shows the forecast capital expenditure through to completion for each of the orchards under development. At completion, RFF will own a total of 4,900 hectares of almond orchards, which, based on valuations of around \$80,000 per hectare would have a market value of approximately \$390m.

RFF almond development pipeline FY17-FY20

ALMOND DEVELOPMENTS	FY17	FY18	FY19	FY20	TOTAL
Kerarbury	\$43.9m	\$37.3m	\$18.3m	\$9.4m	\$108.9m
Tocabil, Yilgah & Moorai	\$6.7m	\$5.5m	\$4.5m	\$0.3m	\$17.1m
TOTAL DEVELOPMENT	\$50.6m	\$42.8m	\$22.8m	\$9.7m	\$126m

The table shows that the RFF has a \$126m development pipeline without the need to raise further equity, while maintaining a desired gearing target of 35%, plus or minus five percentage points.

Should the opportunities arise, RFM will continue to pursue new investments that will benefit RFF. Further expansion in the Queensland cattle sector is possible dependent on securing suitable counterparts, while expansion in the macadamia sector will be investigated. Activities in these sectors are in line with the strategy of climatic diversification.

Looking beyond the assets of RFF into the wider world, it is worth observing that RFF, like all REITs, is benefiting from the present unprecedented low interest environment in a number of ways. Low interest rates have reduced the cost of RFF's debt and made the distributions paid to unitholders more attractive. The latter observation has probably increased the market price of RFF units, causing the yield compression that is common across all assets globally.

Economists and central bankers around the world are stating that economic growth, inflation and interest rates are likely to remain low for a long time. If this is correct, there will be profound consequences for investors – such as the owners of RFF – just as there will be consequences for RFF.

In theory we should see farm values rise as investors and farmers acquire them on lower projected rates of return, and we should see lease rental rates reduce as lessees demand lower rents. While these movements have already been observed in the residential and commercial property sectors, this has not been our observation in the agricultural sector.

Farm values rose rapidly in the previous decade, driven by an increase in bank lending into the sector. Following the Global Financial Crisis (GFC), farm values declined marginally as a consequence of the collapse and therefore withdrawal of the companies that operated Managed Investment Schemes and as banks reduced the loan to value ratios at which they would lend to farmers. Since then farm values have recovered and in most sectors, values would now exceed those prior to the GFC.

During this period, agricultural commodity values and farm productivity (mainly crop yields) have also increased. As a consequence, the operating return that can be achieved by farmers, including RFF's lessees, has either remained constant or actually increased marginally. For this reason, we do not believe that there has been a general compression in farm operating returns as a consequence of the prevailing or prospective low interest rate environment.

These observations of the current favourable economic environment for farm ownership present both opportunity and cause for caution. It is still possible to acquire farms and lease them at satisfactory rates of return because the returns being achieved from farming operations are supportive. However, it is possible that over time farm values, particularly for the larger farms sought by institutional investors, will increase as continued low interest rates fuel more debt or more foreign investment. For this reason, we must continue to seek assets with attractive lease rentals supported by the productivity of their farming operations and the ability of both your manager and RFF's lessees, to increase productivity through capital improvements and good management.

Yours faithfully



David Bryant
Managing Director
Rural Funds Management Limited

Corporate governance statement

Definitions

ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange or ASX Limited
Corporations Act	Corporations Act 2001

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

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

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

To the extent that they are applicable and appropriate for the Fund, the Responsible Entity has adopted and complies with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations 3rd Edition. In accordance with the ASX Listing Rule 4.10.3, set out below are the ASX Corporate Governance Council's eight principles of good corporate governance, and the extent to which there is compliance with the recommendations for each. The statement has been approved by the Board of the Responsible Entity and applies to the period 1 July 2015 to 30 June 2016 ("Statement Period").

There have been no material changes to the corporate governance policies and practices between 30 June 2016 and the time of printing this statement.

PRINCIPLE 1:

Lay solid foundations for management and oversight

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

ASX RECOMMENDATION	FUND'S RESPONSE
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| 1.1 | <p>The business of the Fund is managed under the direction of the Board of the Responsible Entity comprising:</p> <ul style="list-style-type: none">• Chair: Guy Paynter (independent non-executive director)• Managing Director: David Bryant• Non-Executive Director: Michael Carroll (independent non-executive director) |
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The conduct of the Board is governed by the Constitution of the Fund and the Corporations Act. The broad functions and responsibilities of the Board are set out in sections 3.3 – 3.4 of the Corporate Governance Charter. The specific responsibilities are set out in section 3.5.

The Board has delegated responsibility for the day-to-day management of the Fund to the Managing Director of the Responsible Entity. The delegations are outlined in the Corporate Governance Charter. The Managing Director, David Bryant, is responsible for financial; continuous disclosure and compliance oversight; media and analyst briefings and responses to member questions; and ensuring the Board is provided with information to make fully informed decisions.

The constitution of the Fund is available by contacting the Responsible Entity. The Corporate Governance Charter is available on the Responsible Entity's website.

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| 1.2 | As an externally managed scheme, recommendation 1.2 does not apply to the Fund. |
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| 1.3 | All directors of the Responsible Entity receive letters of appointment setting out the key terms and conditions of their appointment. |
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All executives of the Responsible Entity enter into an employment agreement setting out the key terms and conditions of their employment including a position description, duties, rights, responsibilities, remuneration and entitlements on termination.

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| 1.4 | <p>The Company Secretary of the Responsible Entity is accountable to the Board, through the Chair, on all matters to do with the proper functioning of the Board. As stated in the Corporate Governance Charter, the Company Secretary reports directly to the Managing Director.</p> |
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- 1.5** The Responsible Entity has a diversity policy. The policy provides the framework by which the Responsible Entity actively manages and encourages diversity and inclusion. It recognises that its employees are one of its greatest assets and it has a range of employees with skills and capabilities that ensure the ongoing strength, continuity and stability of the Responsible Entity. Due to the size of the Responsible Entity's Board and its senior management team, combined with the limited turnover of personnel at this level, it does not set quantitative gender diversity objectives. The Responsible Entity will endeavour to maintain, or improve its current level of gender diversity as senior management vacancies arise. A copy of the policy is available on the Responsible Entity's website.

The Responsible Entity's senior executive team includes one female executive (out of a total of three executives). Of the 70 staff, 23 or 33% are female.

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- 1.6** The performance of the Board, its committees and individual directors is outlined in the Corporate Governance Charter.

The performance of individual Board members is reviewed annually in accordance with the timelines outlined in the Responsible Entity's Performance Management Policy.

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- 1.7** The performance of senior executives is reviewed annually in accordance with the timelines outlined in the Responsible Entity's Performance Management Policy. The annual process reviews each individual's past performance, their achievement of key performance indicators over the previous 12 months, sets key performance indicators for the coming 12 months, and identifies training and development opportunities. The formal process provides an opportunity for the senior executive and the Managing Director to focus solely on performance and development.
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PRINCIPLE 2:

Structure the board to add value

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

ASX RECOMMENDATION FUND'S RESPONSE

2.1 As an externally managed scheme, recommendation 2.1 does not apply to the Fund. Additionally, due to the small size of the Responsible Entity's Board, it is usual that all of the Board members are involved in the full spectrum of discussion and decisions on matters. As a result, they bring the full complement of skills and experience available to address matters. If and when gaps are identified, external advice is sought from senior consultants such as specialist tax, legal or business advisers to address any skills gaps.

2.2 As an externally managed scheme, recommendation 2.2 does not apply to the Fund.

2.3 The Responsible Entity Board comprises three members, two of whom are independent non-executive directors.

Director	Commencement	Independent
David Bryant	17 February 1997	No
Guy Paynter	15 April 2010	Yes
Michael Carroll	15 April 2010	Yes



Independent director, Guy Paynter, holds the role of Chair of the Board.

Guy Paynter is a former director of broking firm JB Were and brings to the Responsible Entity more than 30 years of experience in corporate finance. Guy is a former member of the ASX and a former associate of the Securities Institute of Australia (now known as the Financial Services Institute of Australasia). Today, Guy is Chair of Bill Peach Group Limited (previously known as Aircruising Australia Limited).

Guy's agricultural interests include cattle breeding in the Upper Hunter region in New South Wales.

Guy holds a Bachelor of Laws from the University of Melbourne.



David Bryant holds the role of Managing Director.

David Bryant holds 79.68% of shares on issue in the Responsible Entity. David established the Responsible Entity in February 1997. Since then, David has led the organisation with a team that has acquired over \$460 million in agricultural assets across eight Australian agricultural regions. This has included negotiating the acquisition of more than 35 properties and over 79,000 megalitres of water entitlements.

On a day-to-day level, David is responsible for leading the executive team, maintaining key commercial relationships and sourcing new business opportunities. David holds a Diploma of Financial Planning from the Royal Melbourne Institute of Technology University and a Master of Agribusiness from the University of Melbourne.



Michael Carroll is a non-executive director and is the Chair of the Audit Committee.

Michael Carroll serves a range of food and agricultural businesses in a Board and advisory capacity. Michael is on the Boards of Tassal Group Ltd, Select Harvests Limited, Paraway Pastoral Company, Sunny Queen Ltd and the Gardiner Dairy Foundation. Former Board positions include the Australian Farm Institute, Warrnambool Cheese & Butter Factory Company Holdings Limited, Meat & Livestock Australia, Queensland Sugar Limited and Rural Finance Corporation of Victoria.

Michael has senior executive experience in a range of companies, including establishing and leading the National Australia Bank Agribusiness division.

Michael holds a Bachelor of Agricultural Science from La Trobe University and a Master of Business Administration from the University of Melbourne's Melbourne Business School. Michael has completed the Advanced Management Program at Harvard Business School, Boston, and is a Fellow of the Australian Institute of Company Directors.

Further information on the composition of the Responsible Entity's Board, executive management and asset and business management profiles, and the skills, knowledge and experience of the individual members can be found on the Responsible Entity's website.

The independence of the non-executive directors has been ascertained in compliance with the Corporations Act and the ASX Listing Rules and there are no other factors which might reasonably be seen as undermining their independence. All directors must declare actual or potential conflicts of interest and excuse themselves from discussions on issues where an actual or potential conflict of interest arises. The directors' interests and any subsequent changes have been disclosed to the ASX. The Responsible Entity directors are subject to director rotation consistent with the Responsible Entity's constitution.

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- 2.4** As an externally managed scheme, recommendation 2.4 does not apply to the Fund; however, as outlined in 2.3, the Responsible Entity's Board is comprised of a majority of independent directors.
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- 2.5** As an externally managed scheme, recommendation 2.5 does not apply to the Fund; however, independent non-executive director, Guy Paynter, holds the role of Chair of the Responsible Entity.
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- 2.6** As an externally managed scheme, recommendation 2.6 does not apply to the Fund; however, any new directors would be provided with an induction relevant to the Responsible Entity and the Fund. Additionally, directors are provided with opportunities to develop and maintain their skills and knowledge through both formal and informal training and networking opportunities.
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PRINCIPLE 3:

Act ethically and responsibly

A listed entity should act ethically and responsibly.

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

Both codes are reviewed annually to ensure that they remain current and relevant.

PRINCIPLE 4:

Safeguard integrity in corporate reporting

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

ASX RECOMMENDATION	FUND'S RESPONSE
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4.1	<p>The Board of Directors of the Responsible Entity has established an audit committee. The purpose of the Audit Committee is to assist the Board in overseeing the integrity of financial reporting, financial controls and procedures in respect of the Fund as well as the independence of the Fund's external auditors.</p>
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The Audit Committee is comprised of two members, both of whom are non-executive independent directors. An independent director, who is not the Chair of the Board of the Responsible Entity, is Chair of the Committee. The relevant qualifications and experience of the members is available on the Responsible Entity's website.

The Audit Committee will routinely invite other individuals to attend meetings, including executive management and management members of the Responsible Entity and the Auditor of the Fund. The Audit Committee and invitees will review the financial reports and provide commentary to the Board as required.

Two meetings of the Audit Committee were held in relation to the accounts during the Statement Period. The Audit Committee ordinarily holds two meetings per year, or more if required.

The Audit Committee has a formal charter that details the roles and responsibilities of the Audit Committee and its obligations to report to the Board. The charter sets out the powers of the Audit Committee, the meeting procedure framework, the process for selection of external auditors and audit planning. The Audit Committee charter can be found in Schedule 2 of the Corporate Governance Charter on the Responsible Entity's website.

4.2 The Board has received a declaration from the Managing Director and the Chief Operating Officer that, in their opinion:

- the financial records of the Fund have been properly maintained in accordance with section 286; and
- that the financial statements and notes referred to in paragraph 295(3)(b) for the financial year comply with the accounting standards; and
- the financial statements and notes give a true and fair view of the financial position and performance of the entity; and
- that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

4.3 As an externally managed scheme, recommendation 4.3 does not apply to the Fund. The Fund has not held an Annual General Meeting during the Statement Period.



PRINCIPLE 5:

Make timely and balanced disclosure

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

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

The policy underlines the Board's commitment to ensuring that unitholders are provided with accurate and timely information about the Fund's activities.



PRINCIPLE 6:

Respect the rights of security holders

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

ASX RECOMMENDATION	FUND'S RESPONSE
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| 6.1 | <p>The Responsible Entity is a boutique fund and asset manager specialising in the rural property sector. The Responsible Entity was established in 1997 to provide retail investors with an opportunity to invest in Australian rural assets.</p> <p>The management team includes specialist fund managers, finance professionals, horticulturists, livestock managers and agronomists. This team provides the Responsible Entity with the specialised skills and experience required to manage the agricultural assets.</p> <p>The Responsible Entity also utilises the best available consultants and supporting resources to achieve desired outcomes and has a substantial network available to ensure that, where appropriate, tasks can be outsourced.</p> <p>The Responsible Entity has the primary responsibility for managing the Fund on behalf of unitholders.</p> <p>Information about the Responsible Entity and the Fund is available on the Responsible Entity's website.</p> <p>Information about the corporate governance practices and policies of the Responsible Entity is available on the Responsible Entity's website.</p> |
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6.2 The Responsible Entity's website has information available to unitholders to facilitate two-way communication. The investment products tab on the website provides a link to the Fund's website which provides a Fund overview, sector, asset and lease information, strategy and investment process, financial information, key documents, news and announcements and details about how to contact the Responsible Entity and the Registry.

In addition, unitholders are encouraged to contact the Responsible Entity using any of the following methods:

Email: investorservices@ruralfunds.com.au

Website: <http://www.ruralfunds.com.au/contact/>

Phone: 1800 026 665

Fax: 1800 625 518

By visiting the Responsible Entity's office:

Level 2, 2 King St, Deakin ACT 2600

From time to time, the Responsible Entity arranges tours of the assets of the Fund. Unitholders are invited to attend these tours. Additionally, unitholders are welcome to make their own arrangements to visit the assets by contacting investor services by any of the methods mentioned above.

6.3 As an externally managed scheme that does not hold periodic meetings, recommendation 6.3 does not apply to the Fund. However, if the Responsible Entity was required to hold a Unitholder meeting, it could use a web-conferencing and/or teleconferencing facility for remote Unitholders along with an online polling system provided by the Registry, enabling Unitholders to vote online at any meeting.

6.4 The Responsible Entity encourages all investors to communicate with it and with the Fund's Registry (Boardroom Pty Limited) electronically; however, the Responsible Entity continues to communicate with any investor via traditional methods (mail and phone) when appropriate.

PRINCIPLE 7:

Recognise and manage risk

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

ASX RECOMMENDATION	FUND'S RESPONSE
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7.1	<p>The Responsible Entity has not established a risk committee. Due to the size of the Board and the nature of the business, the Board has determined that risk oversight should be managed by the full Board. The Board has ultimate responsibility for overseeing the risk management framework and for approving and monitoring compliance with the framework. The Board receives monthly reports on all material business risks in relation to the Fund, including a report on all risks rated extreme or high. The ongoing management of identified risks is undertaken by the relevant executive and/or asset managers of each business area, who report to the Board on the effectiveness of control measures.</p>
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The Responsible Entity has established a Risk Management Policy based on standards set out in the Australian/New Zealand Standard ISO 31000:2009, which documents the Responsible Entity's policy for the oversight and management of material business risks. The Risk Management Policy ensures that risks are identified and assessed, and that measures to monitor and manage each of the material risks are implemented.

The Risk Management Policy is available on the Responsible Entity's website.

7.2	<p>The Responsible Entity's risk management framework is reviewed annually or more often if there has been a change in the relevant legislation or in business requirements. An annual risk review was performed during the Statement Period.</p>
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The annual risk review requires each risk owner to review each risk and assess whether the existing risk rating is appropriate. This results in all risks being re-evaluated. In some cases, the risks may be re-rated and the residual risk amended depending on changes in the likelihood of the risk occurring, the consequence if the risk did occur, and the effectiveness of control measures in place.

7.3 The Responsible Entity has an internal compliance committee that provides assistance to the Board in evaluating the risk management framework and material business risks on an ongoing basis. Whilst not an internal audit committee, this committee reports to the Board quarterly and may make recommendations to the Board for changes to processes and systems to ensure compliance with legal and regulatory requirements.

The Internal Compliance Committee was comprised of:

- Executive Manager Funds Management
- Manager Corporate Services
- Financial Controller
- Client Services Manager (until 10 February 2016)
- Client Services Supervisor (from 10 February 2016)
- Compliance Officer
- Business Manager – Rural Funds Group, Almond and Macadamia Projects (invitee)
- Business Manager – StockBank, RFM Poultry and Cattle JV (invitee)

This broad representation of roles on the committee ensures the committee is fully informed of matters, and there is sufficient skills and experience among its members to make decisions as necessary.



7.4 The Responsible Entity is committed to undertaking the Fund's business activities in a responsible and ethical manner and ensuring that it remains sustainable. Environmental, social and governance issues are embedded in many of our policies and procedures and are considered when making investment decisions.

The nature of the Fund is such that its activities, such as the leasing of agricultural land and infrastructure, are largely passive in nature. Lessees are required to adopt practices which retain the environmental integrity of the Fund's properties.

The table below identifies material risk exposures, some of which fall into more than one category:

Risk type	Identified risk
Economic	<ul style="list-style-type: none">• Counterpart lease default• Contracts management• Interest rate risk, hedging and gearing• Business Strategy• Reduction in water entitlements• Suspension events• Future distributions or reduction in distributions• Fund performance• Competition• Failure to make acquisitions• Asset Valuations• Insurance• Changes in political and regulatory environment including taxation changes• Changes in economic conditions• Conflict of interest and related party transactions• Inflation• Reliance on RFM skills• Property illiquidity• Lack of liquidity• Litigation• Takeover
Environmental	<ul style="list-style-type: none">• Destruction or damage of property• Reduction in water entitlements• Climate change
Social	<ul style="list-style-type: none">• Litigation• Reputation

The Responsible Entity manages the above risks in accordance with its Risk Management Policy available on the Responsible Entity's website.

PRINCIPLE 8:

Remunerate fairly and responsibly

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

ASX RECOMMENDATION	FUND'S RESPONSE
8.1	<p>The Responsible Entity has adopted the ASX's alternative recommendations for externally managed entities and provides the following details governing the remuneration to the Responsible Manager:</p> <ul style="list-style-type: none">• Fund Management Fee – up to 1.0% p.a. of the gross asset value of the Fund• Asset Management Fee – up to 1.0% p.a. of the gross asset value of the Fund• Termination Fee – 1.5% of the gross asset value of the Fund. <p>The fees listed above represent the maximum allowed under the Fund's Constitution.</p> <p>At present the Responsible Entity charges total fees (fund management and asset management fees) of 1.05% of the gross asset value of the Fund.</p>
8.2	Refer to 8.1
8.3	Refer to 8.1

ASX additional information

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below. This information is effective as at 11 August 2016.

(a) Distribution of Equity Securities

HOLDING SIZE	UNITHOLDERS	CLASS
1 – 1,000	336	Ordinary fully stapled securities
1,001 – 5,000	829	Ordinary fully stapled securities
5,001 – 10,000	784	Ordinary fully stapled securities
10,001 – 100,000	2,476	Ordinary fully stapled securities
100,001 and over	187	Ordinary fully stapled securities

(b) Substantial unitholders

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

UNITHOLDER	NUMBER OF UNITS	%
J P Morgan Nominees Australia Limited	30,975,444	14.969%
Netwealth Investments Limited <Wrap Services A/C>	14,153,320	6.840%

(c) Holders of less than marketable parcels

The number of holders of less than marketable parcels, being \$500 based on the ASX unit closing price of \$1.655 as at 11 August 2016 is set out below:

NUMBER OF UNITHOLDERS	NUMBER OF UNITS
117	3,622

(d) Voting rights

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

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

(e) Twenty largest unitholders at 11 August 2016

UNITHOLDER	NUMBER OF UNITS	%
J P Morgan Nominees Australia Limited	30,975,444	14.969%
Netwealth investments Limited <Wrap Services A/C>	14,153,320	6.840%
Citicorp Nominees Pty Ltd	7,916,946	3.826%
HSBC Custody Nominees (Australia) Limited	7,654,574	3.699%
Rural Funds Management Ltd	7,062,888	3.413%
Netwealth Investments Limited <Super Services A/C>	4,548,532	2.198%
Argo Investments Limited	4,237,729	2.048%
Myer Family Investments P/L	2,670,110	1.290%
National Nominees Limited	2,277,603	1.101%
Bryant Family Services Pty Ltd <BFS Super Fund>	2,151,404	1.040%
Bond Street Custodians Ltd <Macquarie Smaller Co's A/C>	1,791,958	0.866%
BNP Paribas Noms Pty Ltd <DRP>	1,636,776	0.791%
CS Fourth Nominees Pty Limited <HSBC Cust Nom Au Ltd 11 A/C>	958,096	0.463%
WF Super Pty Ltd <Wilson Family Super Fund Ac>	892,566	0.431%
One Managed Investment Funds Limited Folkestone Maxim A-Reit Securities A/C Level 11	700,000	0.338%
Boskenna Pty Ltd	666,570	0.322%
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	647,365	0.313%
Karen Mitchell Nominees P/L <Karen Mitchell Family Trust>	589,784	0.285%
Avanteos Investments Limited <1259738 Parsons A/C>	585,000	0.283%
SCA Ft Pty Ltd <The Rowe Family Trust>	550,915	0.266%

(f) On-market buy-back

As at 11 August 2016, RFF confirms there is no on-market buy-back facility in operation.

Securities exchange

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

Financial statements for the year ended 30 June 2016

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

Rural Funds Group

Corporate Directory

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

Rural Funds Group

Directors' Report

30 June 2016

Rural Funds Group (RFF or the Group) comprises the stapled units in two Trusts, Rural Funds Trust (RFT) (ARSN 112 951 578) and RF Active (RFA) (ARSN 168 740 805) (collectively, the Trusts). The Directors of Rural Funds Management Limited (RFM) (ACN 077 492 838, AFSL 226701), the responsible entity of Rural Funds Group present their report on the Group for the year ended 30 June 2016.

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

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

Directors

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

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

Principal activities and significant changes in nature of activities

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

The following activities of the Group changed during the year:

- The Group purchased the Kerarbury and Kamelda properties (collectively referred to as Kerarbury), located near Darlington Point, NSW, to develop a 2,500 hectare almond orchard (including an additional 1,000 hectares announced in July 2016) to be leased by Olam Orchards Australia Pty Limited (Olam);
- Through the acquisition of three macadamia orchards near Bundaberg, QLD, the Group has taken its first measured step into this industry; and,
- The Group invested \$5,275,000 in Perth Markets Limited (PML), the owner of the Market City site near Canning Vale, WA.

Operating results

The consolidated net profit after income tax of the Group for the year ended 30 June 2016 amounted to \$34,788,000 (2015: \$10,153,000).

The Group holds investment property, biological assets and derivatives at fair value. After adjusting for the effects of fair value adjustments, depreciation, impairments and one-off transaction costs during the year the profit before tax would have been \$14,342,000 (2015: \$11,014,000).

Rural Funds Group

Directors' Report

30 June 2016

Adjusted funds from operations (AFFO)

	2016	2015
	\$'000	\$'000
Net profit before income tax	35,963	9,441
Change in fair value of investment property	(3,343)	4,824
Change in fair value of biological assets	(26,495)	(1,835)
Change in fair value of interest rate swaps	7,116	734
Reversal of impairment of intangible assets	-	(2,645)
Depreciation and impairments	939	490
(Gain)/loss on sale of assets	(290)	5
One-off transaction costs	452	-
AFFO	14,342	11,014
AFFO cents per unit	9.26	9.09

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

Financial position

The net assets of the consolidated Group have increased to \$207,864,000 at 30 June 2016 from \$151,940,000 at 30 June 2015.

At 30 June 2016 the Group had total assets of \$379,039,000 (2015: \$252,663,000).

At 30 June 2016, the Group held total water entitlements (including investments in Barossa Infrastructure Limited (BIL) and Coleambally Irrigation Co-operative Limited (CICL)) at a book value of \$69,534,000 (2015: \$29,485,000). Independent valuations as at 30 June 2016 were received on the established almond orchards and associated properties and poultry property and infrastructure that attribute a value to the water entitlements held by the Group. The Directors consider that these valuations remain reasonable estimates of the fair value at 30 June 2016 and on this basis the fair value of water entitlements at 30 June 2016 was \$97,949,000 (2015: \$39,060,000). The value of water entitlements is illustrated in the table below:

	2016	2015
	\$'000	\$'000
Intangible assets (water entitlements)	59,691	28,965
Investment in BIL	509	520
Investment in CICL	9,334	-
Total book value of water entitlements	69,534	29,485
Revaluation of intangible assets per valuation	28,415	9,575
Adjusted total water entitlements	97,949	39,060

Adjusted net asset value

The following depicts the net assets of the Group following the revaluation of intangible assets per these valuations.

	2016	2015
	\$'000	\$'000
Net assets per Consolidated Statement of Financial Position	207,864	151,940
Revaluation of intangible assets per valuation	28,415	9,575
Adjusted net assets	236,279	161,515
Adjusted NAV per unit	1.43	1.22

Rural Funds Group

Directors' Report

30 June 2016

Significant changes in state of affairs

On 9 October 2015 the Group acquired Kerarbury, located near Darlington Point, NSW. In September 2015 a lease for 22 years and 9 months was executed with Olam to develop an initial 1,500 hectare almond orchard on Kerarbury. To fund this development, a placement of \$12,596,000 (11.451 million fully paid stapled securities) and a non-renounceable rights issue of \$22,381,000 (2 new units for every 13 existing units) were completed in October 2015.

On 15 March 2016 the Group acquired three macadamia orchards located near Bundaberg, QLD. Two of these properties are leased to the 2007 Macgrove Project (M07 or the Project) and the third property is leased to RFM. RFM was appointed responsible entity of M07 at a Grower's meeting in February 2016. The Group leases a total of 259 hectares of planted area: 234 hectares to the Project and 25 hectares to RFM.

In January 2016 RFF invested \$5,275,000 in Perth Markets Limited (PML). PML owns the Market City site located at Canning Vale, WA. PML is an industry-based consortium of wholesalers, growers, Market City tenants and state-based market operators. RFF's investment represents an interest of approximately 8.96% in PML.

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

Property leasing

At 30 June 2016 the Group held 31 properties as follows:

- 17 poultry farms (303,216 square metres);
- 3 almond orchards (2,414 planted hectares);
- 1 almond orchard under development (2,500 planted hectares at completion);
- 7 vineyards (666 planted hectares);
- 3 macadamia orchards (259 planted hectares).

During the year ended 30 June 2016, the properties held by the Group recorded a fair value of investment properties increment of \$3,343,000 (2015: \$4,824,000 decrement) and a change in fair value of biological assets increment of \$26,495,000 (2015: \$1,835,000).

Almond orchards

Established almond orchards and associated water licences are located near Hillston, NSW and are leased to tenants who make regular rental payments. On these properties, 2,414 hectares (2015: 1,814 hectares) are applied to almond growing: 1,006 hectares (2015: 1,006) at Yilgah, 808 hectares (2015: 808) at Moorabool and 600 hectares at Tocabil (2015: nil). The full almond area is under lease to the following tenants:

- Select Harvests Limited (SHV) 1,221 hectares (2015: 1,221);
- RFM Almond Fund 2006 (AF06) 272 hectares (2015: 272);
- RFM Almond Fund 2007 (AF07) 73 hectares (2015: 73);
- RFM Almond Fund 2008 (AF08) 206 hectares (2015: 206);
- Olam Orchards Australia Pty Limited (Olam) 600 hectares (2015: nil);
- Rural Funds Management Limited (RFM) 42 hectares (2015: 42).

The Group underwent a rent review for the properties leased to Select Harvests Limited during the year. The rent review is effective from 1 July 2016.

The Group had two almond orchards under development during the year, both of which are under lease to Olam. Tocabil was leased to Olam in March 2015. As stated above, the full 600 hectares of almond orchard at Tocabil is now established and fully leased. The Kerarbury property was leased to Olam from September 2015. A 2,500 hectare almond orchard is being developed in accordance with the lease of this property, including an additional 1,000 hectares announced in July 2016.

Rural Funds Group

Directors' Report

30 June 2016

Property leasing (continued)

Almond orchards (continued)

For its almond orchards the Group owns water entitlements of 59,985ML (2015: 33,219ML). During the year, a total of 26,766ML of water entitlements were purchased. Deposits were paid for an additional 6,591 ML of water entitlements.

For its almond orchards the Group also owns 21,430ML of delivery entitlements (2015: nil).

Poultry property

The poultry property and infrastructure held by the Group includes 17 poultry growing farms located in Griffith, NSW and Lethbridge, VIC and 1,432ML of water entitlements (2015: 1,432ML). Leases are in place with RFM Poultry, a scheme managed by RFM, for 100% (2015: 100%) of the poultry property and infrastructure, with remaining lease terms between 8 and 20 years. The poultry growing operations are performed by RFM Poultry.

Vineyards

The vineyard properties held by the Group include seven vineyards, with six located in South Australia, in the Barossa Valley, Adelaide Hills and Coonawarra regions, and one located in the Grampians in Victoria. For its vineyards, the Group owns 936ML of water entitlements (2015: 936ML). All vineyards produce premium quality grapes and are leased to Treasury Wine Estates Limited until June 2022.

Macadamia orchards

Established macadamia orchards and associated water licences were acquired during the year and are located near Bundaberg, QLD. Orchards are leased to tenants who make regular rental payments. On these properties, 259 hectares are applied to macadamia growing: 130 hectares at Swan Ridge, 104 hectares at Moore Park and 25 hectares at Bonmac. The full planted area is under lease to the following tenants:

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

Other activities

The Group owns a 33.50% stake in RFM StockBank (2015: 33.52%), a scheme managed by RFM, which operates a livestock leasing business. Under the livestock leasing operation, RFM StockBank retains ownership of the livestock and leases them to farmers in return for a placement fee which is similar to interest, and an upfront fee from the livestock agent. RFM, as responsible entity for RFM StockBank, has commenced the process of returning capital to investors and winding up the business.

Agricultural plant and equipment with a net book value of \$4,178,000 (2015: \$3,153,000) is owned by the Group and leased to AF06, AF07, AF08 and M07.

The Group owns a 8.96% interest in Perth Markets Limited, a stapled entity which owns the Market City site in Canning Vale, WA.

Banking facilities

At 30 June 2016 the core debt facility available to the Group was \$147,500,000 (2015: \$103,000,000), with a drawn down balance of \$146,500,000 (2015: \$89,650,000). The facility limit was increased to \$200,000,000 on 12 July 2016. The facility expiry is unchanged (being December 2018), and at 30 June 2016 RFF had active interest rate swaps totalling 60% (2015: 84%) of the drawn down balance to manage interest rate risk.

Rural Funds Group

Directors' Report

30 June 2016

Distributions

	Cents per unit	Total \$
Distribution declared 1 June 2015, paid 30 July 2015	2.1475	2,837,755
Distribution paid 30 October 2015	2.2325	2,955,482
Distribution paid 29 January 2016	2.2325	3,670,193
Distribution paid 29 April 2016	2.2325	3,681,201
Distribution declared 1 June 2016, paid 29 July 2016	2.2325	3,691,602

Earnings per unit

Net profit after income tax for the year (\$)	34,788,000
Weighted average number of units on issue during the year	154,854,317
Basic and diluted earnings per unit (total) (cents)	22.46

Indirect cost ratio

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

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

The ICR for the Group for the year ended 30 June 2016 is 2.43% (2015: 2.42%). The ICR for the year has been impacted by costs associated with the placement and rights issue completed in October 2015.

Matters subsequent to the end of the year

In July 2016 the Group successfully completed a non-renounceable rights issue of \$61,000,000 (1 new unit for every 4 existing units), in order to fund the acquisitions of the macadamia orchards and cattle properties and expansions to the almond development at Kerarbury by a further 1,000 hectares.

In July 2016 the Group negotiated an increase to its debt facility from \$147,500,000 to \$200,000,000.

In July and August 2016 the Group acquired three cattle properties: Rewan, a 17,500 hectare cattle property near Rolleston, QLD and Oakland Park and Mutton Hole, located near the Gulf of Carpentaria in far north Queensland and comprising a combined area of 225,800 hectares. The acquisition of the three cattle properties and associated livestock will increase the Group's total assets by approximately \$50,000,000. The properties and livestock will be leased for ten years to Cattle JV Pty Limited, a wholly owned subsidiary of RFM.

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

Likely developments and expected results of operations

The Group expects to continue to derive its core future income from the holding and leasing of investment property, biological assets and water entitlements. Management is continually looking for growth opportunities in agricultural and related industries.

Rural Funds Group

Directors' Report

30 June 2016

Environmental regulation

The operations of the Group are subject to significant environmental regulations under the laws of the Commonwealth and States or Territories of Australia. Water usage for irrigation, domestic and levee purposes, including containing irrigation water from entering the river, water course or water aquifer are regulated by the *Water Management Act 2000*. Water licences are leased to external parties who are then responsible to meet the legislative requirements of these licences. There have been no known significant breaches of any environmental requirements applicable to the Group.

Units on issue

165,357,290 units in Rural Funds Trust were on issue at 30 June 2016 (2015: 132,142,235). During the year 33,215,055 units were issued by the Trust (2015: 15,043,076) and nil (2015: nil) were redeemed.

165,357,290 units in RF Active were on issue at 30 June 2016 (2015: 132,142,235). During the year 33,215,055 units were issued by the Trust (2015: 15,043,076) and nil (2015: 50,000) were redeemed.

Indemnity of Responsible Entity and Custodian

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

Rounding of amounts

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

Rural Funds Group

Directors' Report

30 June 2016

Information on Directors of the Responsible Entity

Guy Paynter	Non-Executive Chairman
Qualifications	Bachelor of Laws from The University of Melbourne
Experience	Guy Paynter is a former director of broking firm JB Were and brings to RFM more than 30 years of experience in corporate finance. Guy is a former member of the Australian Securities Exchange (ASX) and a former associate of the Securities Institute of Australia (now known as the Financial Services Institute of Australasia). Guy is also Chairman of Bill Peach Group Limited (previously known as Aircruising Australia Limited). Guy's agricultural interests include cattle breeding in the Upper Hunter region in New South Wales.
Special responsibilities	Member of Audit Committee
Directorships held in other listed entities during the three years prior to the current year	RFM Poultry
David Bryant	Managing Director
Qualifications	Diploma of Financial Planning from the Royal Melbourne Institute of Technology and a Masters of Agribusiness from The University of Melbourne.
Experience	David Bryant established RFM in February 1997. Since then, David has led the RFM team that has acquired over \$460 million in agricultural assets across eight Australian agricultural regions. This has included negotiating the acquisition of more than 35 properties and over 79,000 megalitres of water entitlements.
Special responsibilities	Managing Director
Directorships held in other listed entities during the three years prior to the current year	RFM Poultry
Michael Carroll	Non-Executive Director
Qualifications	Bachelor of Agricultural Science from La Trobe University and a Masters of Business Administration from The University of Melbourne's Melbourne Business School. Michael has completed the Advanced Management Program at Harvard Business School, Boston, and is a Fellow of the Australian Institute of Company Directors.
Experience	Michael Carroll serves a range of food and agricultural businesses in a board and advisory capacity. Michael is on the boards of Tassal Group Limited, Select Harvests Limited, Paraway Pastoral Company, Sunny Queen Pty Limited, and the Gardiner Dairy Foundation. Michael also has senior executive experience in a range of companies, including establishing and leading the National Australia Bank (NAB) Agribusiness division.
Special responsibilities	Chairman of Audit Committee
Directorships held in other listed entities during the three years prior to the current year	Michael is on the Board of Tassal Group Limited, RFM Poultry and Select Harvests Limited. Michael was on the Board of Warrnambool Cheese and Butter Limited from August 2009 until May 2014.

Rural Funds Group

Directors' Report

30 June 2016

Interests of Directors of the Responsible Entity

	Guy Paynter Units	David Bryant Units
Balance at 30 June 2014	351,833	3,287,372
Additions	30,323	368,819
Balance at 30 June 2015	382,156	3,656,191
Additions	151,100	3,987,152
Balance at 30 June 2016	533,256	7,643,343

Company Secretaries of the Responsible Entity

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

Meetings of Directors of the Responsible Entity

During the financial year 16 meetings of Directors (including committees of Directors) were held. Attendances by each Director during the year were as follows:

	Directors meetings		Audit Committee meetings	
	No. eligible to attend	No. attended	No. eligible to attend	No. attended
Guy Paynter	16	14	2	2
David Bryant	16	15	-	-
Michael Carroll	16	*15	2	2

* Michael Carroll excused himself from one meeting to avoid any potential conflict of interest.

PricewaterhouseCoopers attended the Board meeting where the Directors considered and approved the Financial Statements for the year ended 30 June 2016 as the audit committee was unable to form a quorum at that time.

Non-audit services

During the year ended 30 June 2016 fees of \$6,121 (2015: nil) were paid or payable to PricewaterhouseCoopers for compliance audit services provided.

Auditor's independence declaration

The auditor's independence declaration in accordance with section 307C of the *Corporations Act* 2001 for the year ended 30 June 2016 has been received and is included on page 34 of the financial report.

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



David Bryant
Director

24 August 2016



Auditor's Independence Declaration

As lead auditor for the audit of Rural Funds Group for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. no contraventions of any applicable code of professional conduct in relation to the audit.

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

David Ronald
Partner
PricewaterhouseCoopers

Sydney
24 August 2016

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

Rural Funds Group

Consolidated Statement of Comprehensive Income For the year ended 30 June 2016

	Note	2016 \$'000	2015 \$'000
Revenue	6	26,549	22,218
Other income		76	69
Management fees		(3,165)	(2,496)
Professional fees		(2,050)	(2,253)
Finance costs		(5,612)	(5,285)
Other expenses		(1,969)	(1,364)
Share of net profit - equity accounted investments		61	125
Gain/(loss) on sale of assets		290	(5)
Depreciation and impairments		(939)	(490)
Change in fair value of biological assets		26,495	1,835
Change in fair value of investment property		3,343	(4,824)
Change in fair value of interest rate swaps		(7,116)	(734)
Reversal of impairment of intangible assets		-	2,645
Net profit before income tax		35,963	9,441
Income tax (expense)/benefit	7	(1,175)	712
Net profit after income tax		34,788	10,153
Other comprehensive income:			
Revaluation (decrement)/increment	25	(14)	8
Income tax relating to these items	7	-	-
Other comprehensive income for the year, net of tax		(14)	8
Total comprehensive income attributable to unitholders		34,774	10,161
Total comprehensive income for the year attributable to unitholders arising from:			
Rural Funds Trust		34,644	10,088
RF Active (non-controlling interest)		130	73
		34,774	10,161
Earnings per unit			
Basic and diluted earnings per unit from continuing operations:			
Per stapled unit (cents)	27	22.46	8.38
Per unit of Rural Funds Trust (cents)	27	22.38	8.32
Per unit of RF Active (cents)	27	0.08	0.06

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Financial Position

As at 30 June 2016

	Note	2016 \$'000	2015 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	9	3,034	712
Trade and other receivables	10	7,239	2,729
Other current assets	14	2,501	307
Total current assets		12,774	3,748
Non-current assets			
Investments accounted for using the equity method	16	9,041	3,903
Financial assets	15	10,078	617
Plant and equipment	12	4,178	3,153
Investment property	13	168,951	142,379
Biological assets	11	113,206	67,581
Intangible assets	17	59,691	28,965
Deferred tax assets	22, 23	1,120	2,317
Total non-current assets		366,265	248,915
Total assets		379,039	252,663
LIABILITIES			
Current liabilities			
Trade and other payables	18	6,920	2,038
Interest bearing liabilities	19	3,030	657
Income tax payable	23	-	29
Distributions payable	26	3,901	2,947
Total current liabilities		13,851	5,671
Non-current liabilities			
Interest bearing liabilities	19	146,500	91,451
Other non-current liabilities	20	1,634	1,553
Derivative financial liabilities	21	9,190	2,048
Total non-current liabilities		157,324	95,052
Total liabilities (excluding net assets attributable to unitholders)		171,175	100,723
Net assets attributable to unitholders		207,864	151,940
Total liabilities		379,039	252,663

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Financial Position

As at 30 June 2016

	Note	2016 \$'000	2015 \$'000
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS			
Unitholders of Rural Funds Trust			
Issued units		134,110	111,711
Asset revaluation reserve	25	1,392	1,406
Accumulated profit		70,476	37,427
Parent entity interest		205,978	150,544
Unitholders of RF Active			
Issued units		1,683	1,323
Accumulated profit		203	73
Non-controlling interest		1,886	1,396
Total net assets attributable to unitholders		207,864	151,940

Water entitlements are held at cost in the Consolidated Statement of Financial Position in accordance with accounting standards. Refer to note 5 for disclosure of the directors' valuation of water entitlements, which are supported by independent property valuations.

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Changes in Net Assets Attributable to Unitholders For the year ended 30 June 2016

2016	Note	Issued units	Retained earnings	Asset revaluation reserve	Total	Non- controlling interest	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2015		111,711	37,427	1,406	150,544	1,396	151,940
Other comprehensive income		-	-	(14)	(14)	-	(14)
Total other comprehensive income		-	-	(14)	(14)	-	(14)
Profit before income tax		-	35,912	-	35,912	51	35,963
Income tax expense	7	-	(1,254)	-	(1,254)	79	(1,175)
Total comprehensive income for the year		-	34,658	(14)	34,644	130	34,774
Issued units							
Units issued during the year	24	36,449	-	-	36,449	368	36,817
Issue costs	24	(1,661)	-	-	(1,661)	(8)	(1,669)
Total issued units		34,788	-	-	34,788	360	35,148
Distributions to unitholders	26	(12,389)	(1,609)	-	(13,998)	-	(13,998)
Balance at 30 June 2016		134,110	70,476	1,392	205,978	1,886	207,864

2015	Note	Issued units	Retained earnings	Asset revaluation reserve	Total	Non- controlling interest	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2014		108,281	27,792	1,398	137,471	-	137,471
Other comprehensive income		-	-	8	8	-	8
Total other comprehensive income		-	-	8	8	-	8
Profit before income tax		-	9,360	-	9,360	81	9,441
Income tax expense	7	-	720	-	720	(8)	712
Total comprehensive income for the year		-	10,080	8	10,088	73	10,161
Issued units							
Units issued during the year	24	14,447	-	-	14,447	1,330	15,777
Issue costs	24	(753)	-	-	(753)	(7)	(760)
Total issued units		13,694	-	-	13,694	1,323	15,017
Distributions to unitholders	26	(10,264)	(445)	-	(10,709)	-	(10,709)
Balance at 30 June 2015		111,711	37,427	1,406	150,544	1,396	151,940

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Cash Flows

For the year ended 30 June 2016

	Note	2016 \$'000	2015 \$'000
Cash flows from operating activities			
Receipts from customers		29,255	24,539
Payments to suppliers		(9,492)	(9,988)
Interest received		80	21
Finance costs		(5,612)	(5,350)
Net cash inflow from operating activities	34	14,231	9,222
Cash flows from investing activities			
Payments for acquisition of macadamia leasing business	31	(7,291)	-
Acquired as a result of stapling transaction		-	591
Payments for investment property		(23,275)	(9,095)
Payments for biological assets		(13,606)	(240)
Payments for intangible assets		(30,381)	(2,730)
Payments for financial assets		(9,359)	-
Payments for plant and equipment		(1,760)	(334)
Payments for deposits		(2,242)	-
Payments for equity accounted investments		(5,275)	-
Proceeds from sale of investment property		1,162	-
Proceeds from sale of assets		348	-
Distributions from equity accounted investment	16	234	132
Distributions received		11	113
Loans to related parties		-	642
Net cash outflow from investing activities		(91,434)	(10,921)
Cash flows from financing activities			
Proceeds from issue of units		35,148	15,017
Proceeds from borrowings		58,079	3,585
Repayment of borrowings		(657)	(8,630)
Distributions paid		(13,045)	(10,284)
Net cash inflow from financing activities		79,525	(312)
Net increase/(decrease) in cash and cash equivalents held		2,322	(2,011)
Cash and cash equivalents at the beginning of the period		712	2,723
Cash and cash equivalents at the end of the period	9	3,034	712

The accompanying notes form part of these financial statements.

Rural Funds Group

Notes to the Financial Statements

30 June 2016

1 General information

This financial report covers the consolidated financial statements and notes of Rural Funds Trust and its Controlled Entities including RF Active (Rural Funds Group, the Group or collectively the Trusts). Rural Funds Group is a for profit entity domiciled in Australia. The Directors of the Responsible Entity authorised the Financial Report for issue on 24 August 2016 and have the power to amend and reissue the Financial Report.

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

The separate financial statements and notes of the parent entity, Rural Funds Trust, have not been presented within this financial report as permitted by amendments made to the *Corporations Act 2001*. Parent entity information is included in note 36.

2 Summary of significant accounting policies

Basis of preparation

The accounting policies that have been adopted in respect of the financial report are those of Rural Funds Management (RFM) as responsible entity of the Trusts.

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

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

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

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

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

Principles of consolidation

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

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

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

Rural Funds Group

Notes to the Financial Statements

30 June 2016

2 Summary of significant accounting policies (continued)

Principles of consolidation (continued)

Controlled entities

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

Associates

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

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

Business combinations

Business combinations are accounted for by applying the acquisition method which requires an acquiring entity to be identified in all cases. The acquisition date under this method is the date that the acquiring entity obtains control over the acquired entity.

The fair value of identifiable assets and liabilities acquired are recognised in the consolidated financial statements at the acquisition date.

Goodwill or a discount on acquisition may arise on the acquisition date, this is calculated by comparing the fair value of the consideration transferred and the amount of non-controlling interest in the acquirer with the fair value of the net identifiable assets acquired. Where the consideration is greater than the identifiable assets, the excess is recorded as goodwill. Where the net assets acquired are greater than the consideration, the measurement basis of the net assets are reassessed and then a discount on acquisition recognised in the Consolidated Statement of Comprehensive Income.

All acquisition-related costs are recognised as expenses in the periods in which the costs are incurred except for costs to issue debt or equity securities.

Any contingent consideration which forms part of the combination is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity then it is not remeasured and the settlement is accounted for within equity. Otherwise subsequent changes in the value of the contingent consideration liability are measured through the statement of comprehensive income.

Comparative amounts

Comparatives amounts have not been restated unless otherwise noted.

Rural Funds Group

Notes to the Financial Statements

30 June 2016

2 Summary of significant accounting policies (continued)

Revenue

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

Revenue from the leasing of investment property, water rights, property, plant and equipment, infrastructure and biological assets, where the Group is a lessor, is recognised in income over the lease term on an accruals basis. The respective leased assets are included in the Consolidated Statement of Financial Position based on that nature.

Interest revenue is recognised on an accruals basis taking into account the interest rates applicable to the financial assets.

All revenue is stated net of the amount of goods and services tax (GST).

Income tax

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

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

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

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

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

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

Goods and services tax (GST)

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

Receivables and payables are stated inclusive of GST.

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

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

Rural Funds Group

Notes to the Financial Statements

30 June 2016

2 Summary of significant accounting policies (continued)

Cash and cash equivalents

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

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

Trade and other receivables

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

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

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

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

Intangible assets

Water rights

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

Goodwill

Goodwill is carried at cost less accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

- the consideration transferred;
- any non-controlling interest; and
- the acquisition date fair value of any previously held equity interest; over the acquisition date fair value of net identifiable assets acquired.

Rural Funds Group

Notes to the Financial Statements

30 June 2016

2 Summary of significant accounting policies (continued)

Financial instruments

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

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

a. Financial assets

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

- loans and receivables;
- financial assets at fair value through profit or loss;
- available-for-sale financial assets; and
- held-to-maturity investments.

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

All income and expenses relating to financial assets are recognised in the consolidated statement of comprehensive income in the 'finance income' or 'finance costs' line item respectively.

b. Loans and receivables

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

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

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

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

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

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

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

In some circumstances, the Group renegotiates repayment terms with customers which may lead to changes in the timing of the payments, the Group does not necessarily consider the balance to be impaired, however assessment is made on a case-by-case basis.

Rural Funds Group

Notes to the Financial Statements

30 June 2016

2 Summary of significant accounting policies (continued)

Financial instruments (continued)

c. Financial assets at fair value through profit or loss

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

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

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

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

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

d. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets.

Purchases and sales of available-for-sale investments are recognised on settlement date.

All available-for-sale financial assets are measured at fair value, with subsequent changes in value recognised in other comprehensive income.

Gains and losses arising from financial instruments classified as available-for-sale are only recognised in profit or loss when they are sold or when the investment is impaired.

In the case of impairment or sale, any gain or loss previously recognised in equity is transferred to the profit or loss.

e. Held-to-maturity investments

The group classifies investments as held-to-maturity if:

- they are non-derivative financial assets;
- they are quoted in an active market;
- they have fixed or determinable payments and fixed maturities; and,
- the group intends to, and is able to, hold them to maturity.

Held-to-maturity financial assets are included in non-current assets, except for those with maturities of less than 12 months from the end of the reporting period, which would be classified as current assets.

Rural Funds Group

Notes to the Financial Statements

30 June 2016

2 Summary of significant accounting policies (continued)

Financial instruments (continued)

f. Financial liabilities

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

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

The Group's financial liabilities include borrowings and trade and other payables, which are measured at amortised cost using the effective interest rate method.

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

g. Impairment of financial assets

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

h. Financial assets at amortised cost

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

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

Plant and equipment

Classes of plant and equipment are measured using the cost model as specified below.

The asset is carried at its cost less any accumulated depreciation and any impairment losses. Costs include purchase price, other directly attributable costs and the initial estimate of the costs of dismantling and restoring the asset, where applicable.

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

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

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

Rural Funds Group

Notes to the Financial Statements

30 June 2016

2 Summary of significant accounting policies (continued)

Plant and equipment (continued)

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

Biological assets

In accordance with AASB 141 *Agriculture*, vines, almond and macadamia trees have been recognised at fair value, less costs to sell. Fair value is determined as follows:

- up until the time when commercial yields are achieved, cost approximates fair value, less costs to sell;
- thereafter based on the present value of expected net cash flows from the vineyards, almond orchards and macadamia orchards, discounted using a pre-tax market determined rate.

Changes in the fair value of biological assets are recognised in the income statement in the year they arise.

Investment property

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

Investment properties are held for long-term rental yields and are not occupied by the Group. They are carried at fair value and changes in fair value are presented in the income statement.

Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the Group are classified as finance leases.

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

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

Provisions

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

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

Rural Funds Group

Notes to the Financial Statements

30 June 2016

2 Summary of significant accounting policies (continued)

Provisions (continued)

Provisions for distributions

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

Borrowing costs

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

Earnings per unit

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

Interest bearing liabilities

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

Issued units

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

Rounding of amounts

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

Parent entity information

The financial information of the parent entity, Rural Funds Trust, disclosed in note 36 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries and associates

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

Rural Funds Group

Notes to the Financial Statements

30 June 2016

2 Summary of significant accounting policies (continued)

New accounting standards and interpretations

Standard Name	Effective date for the Group	Requirements	Impact
AASB 2014-6 Amendments to AASB 116 and AASB 141 for bearer plants	1 Jan 2016	Amends the accounting for bearer plants to now be the same as property, plant and equipment in AASB 116 Property, Plant and Equipment, because their operation is similar to that of manufacturing.	Bearer plants held by the Group will no longer be treated as biological assets, and will be classified as property, plant and equipment. The Group will have the choice to hold the assets at either cost or fair value. Any revaluations held at fair value will be taken through comprehensive income rather than through profit and loss.
AASB 15 Revenue from contracts with customers	1 Jan 2018	Recognise contracted revenue when control of a good or service transfers to a customer. The notion of control replaces the existing notion of risks and rewards.	It is not expected that this standard will have a material impact on the Group.
AASB 16 Leases	1 Jan 2019	Introduces a single lease accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months.	There is no impact on reported financial position or performance expected for the Group as it is a lessor in nature.

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

3 Significant accounting judgements, estimates and assumptions

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

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

Rural Funds Group

Notes to the Financial Statements

30 June 2016

3 Significant accounting judgements, estimates and assumptions (continued)

Valuations

Independent property valuations were obtained for established almond orchards and associated properties, from independent valuer, CBRE Valuations Pty Limited in June 2016. Independent property valuations were obtained for vineyard properties from independent valuer, Gaetjens Pickett Valuers in June 2016. Independent property valuations were obtained for macadamia orchards and associated properties from independent valuer, CBRE Valuations Pty Limited in June 2016.

Independent property valuations were obtained for poultry property and infrastructure from independent valuer, Opteon (Victoria) Pty Limited in June 2016. The Directors have adopted all of the valuations from the independent valuers with the exception of certain poultry assets, where the Directors determined a more conservative view was appropriate in line with assumptions applied with those assets.

Almond orchards and associated properties, including those under development, macadamia orchards and associated properties, poultry property and infrastructure and vineyard properties are valued at fair value excluding the value of water rights. Water rights are treated as intangible assets, which are held at historical cost less accumulated impairment losses.

The valuation model used judgement by using discount rates, capitalisation rates and comparable sales in calculating the values and allocating those values over investment property and biological assets.

Recognition of deferred tax assets

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

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

Valuation of Barossa Infrastructure Limited and Coleambally Irrigation Co-operative Limited shares

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

4 Working capital

The deficiency in working capital at 30 June 2016 is due to the timing of distributions. Based on the forecast cash flows, the Group believes it can pay all of its debts as and when they fall due.

Rural Funds Group

Notes to the Financial Statements

30 June 2016

5 Segment information

The Group operates in one operating segment (2015: one segment), being the holding and leasing of agricultural property and equipment.

Water rights and entitlements

The Board reviews the business based on the internal and external valuations of its properties.

Permanent water rights and entitlements are held at historical cost less accumulated impairment losses. The book value of the water rights (including investments in BIL and CICL) at 30 June 2016 is \$69,534,000 (2015: \$29,485,000).

In June 2016 independent property valuations were performed by CBRE Valuations Pty Limited and Opteon (Victoria) Pty Limited on the almond and macadamia orchards, and associated properties and poultry property and infrastructure that attribute a value to the water entitlements held by the Group. The Directors consider that these valuations are reasonable estimates of the fair value at 30 June 2016. These valuations value the water rights at 30 June 2016 at \$97,949,000 (2015: \$39,060,000) representing a movement in the value of the water rights above cost of \$28,415,000 (2015: \$9,575,000).

The following is a comparison of the book value at 30 June 2016 to an adjusted value based on the Directors' valuation of the water rights.

	Per Statutory Consolidated Statement of Financial Position	Revaluation of water entitlements per Directors' valuation	Adjusted Consolidated Statement of Financial Position
	\$'000	\$'000	\$'000
Assets			
Total current assets	12,774	-	12,774
Total non-current assets	366,265	28,415	394,680
Total assets	379,039	28,415	407,454
Liabilities			
Total current liabilities	13,851	-	13,851
Total non-current liabilities	157,324	-	157,324
Total liabilities	171,175	-	171,175
Net assets	207,864	28,415	236,279
Net asset value per unit (\$)	1.26	0.17	1.43

Rural Funds Group

Notes to the Financial Statements

30 June 2016

6 Revenue

	2016	2015
	\$'000	\$'000
Rental revenue	26,469	21,719
Reimbursement of water charges	-	212
Temporary water sales	-	182
Interest received	80	69
Other revenue	-	36
Total	26,549	22,218

7 Income tax expense

The major components of income tax expense comprise:

	2016	2015
	\$'000	\$'000
Current tax	-	29
Deferred tax	1,210	(741)
Adjustments in respect of current income tax of previous years	(29)	-
Adjustments in respect of deferred income tax of previous years	(6)	-
Income tax expense/(benefit) reported in the Statement of Comprehensive Income	1,175	(712)

Income tax expense is attributable to:

Profit from continuing operations	1,175	(712)
Total	1,175	(712)

Deferred income tax expense/(benefit) included in income tax expense comprises:

Decrease in deferred tax assets	(2,586)	(932)
Decrease in deferred tax liabilities	1,382	191
Total	(1,204)	(741)

Numerical reconciliation of income tax expense to prima facie tax payable

	2016	2015
	\$'000	\$'000
Accounting profit before tax from continuing operations	35,963	9,441
At the statutory income tax rate of 30% (2015: 30%)	10,789	2,832
Tax effect of amounts that are not deductible/(taxable) in determining taxable income	(9,520)	(1,948)
Previously unrecognised deferred tax asset now recognised	-	(1,596)
Adjustments in respect of tax of previous years	(35)	-
Imputation credits received	(59)	-
Total	1,175	(712)

From 1 July 2014 both Rural Funds Trust and RFM Chicken Income Fund are flow through trusts for tax purposes. As a result, it is no longer probable that a tax liability will be incurred in these entities in relation to future sale of assets for a gain or through trading.

Rural Funds Group

Notes to the Financial Statements

30 June 2016

7 Income tax expense (continued)

Amounts recognised directly in equity

	2016	2015
	\$'000	\$'000
Capitalised issue costs	(7)	-
Total	(7)	-

Franking credits

At 30 June 2016 there are \$59,000 of franking credits available to apply to future RF Active income distributions (2015: nil).

8 Remuneration of auditors

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

	2016	2015
	\$	\$
PricewaterhouseCoopers Australia:		
Audit and review of financial statements	210,508	213,073
Compliance audit	6,121	-
Total	216,629	213,073

9 Cash and cash equivalents

	2016	2015
	\$'000	\$'000
Cash at bank	3,034	712
Total	3,034	712

Reconciliation of cash

Cash and cash equivalents reported in the Consolidated Statement of Cash Flows are reconciled to the equivalent items in the Consolidated Statement of Financial Position as follows:

Cash and cash equivalents	3,034	712
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10 Trade and other receivables

	2016	2015
	\$'000	\$'000
Current		
Trade receivables	6,056	1,804
Sundry receivables	433	517
Receivables from related parties	750	408
Total	7,239	2,729

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

As at 30 June 2016, no trade receivables were past due but not impaired (2015: nil).

Rural Funds Group

Notes to the Financial Statements

30 June 2016

11 Biological assets

2016	Almond trees: fair value \$'000	Vines: fair value \$'000	Macadamia trees: fair value \$'000	Total \$'000
Opening balance	42,735	24,846	-	67,581
Additions	12,200	-	1,405	13,605
Acquisitions	-	-	5,525	5,525
Fair value adjustment	34,679	(7,397)	(787)	26,495
Closing balance	89,614	17,449	6,143	113,206

2015	Almond trees: fair value \$'000	Vines: fair value \$'000	Macadamia trees: fair value \$'000	Total \$'000
Opening balance	41,426	24,080	-	65,506
Additions	-	240	-	240
Fair value adjustment	1,309	526	-	1,835
Closing balance	42,735	24,846	-	67,581

Biological assets include mature bearer assets of almond and macadamia trees and new almond tree developments. Mature and new almond trees are situated on properties near Hillston, NSW and Darlington Point, NSW. Mature macadamia trees are situated on properties near Bundaberg, QLD. The Group owns and maintains the trees for the purpose of leasing these assets to third parties. At 30 June 2016 the Group owned almond trees on 2,414 hectares of land (2015: 1,814 hectares) and macadamia trees on 259 hectares of land (2015: nil).

Biological assets also include grape vines located in South Australia and Victoria. The Group owns vines for the purposes of leasing to third parties. At 30 June 2016 the Group owned vines on 668 hectares of land (2015: 668 hectares).

The determination of the fair value of biological assets is discussed further at note 29.

Rural Funds Group

Notes to the Financial Statements

30 June 2016

12 Plant and equipment

2016	Capital works in progress \$'000	Plant and equipment \$'000	Motor vehicles \$'000	Total \$'000
Opening net book amount	44	2,815	294	3,153
Additions	335	1,316	168	1,819
Disposals	-	(52)	(6)	(58)
Depreciation and impairment	-	(665)	(71)	(736)
Closing net book amount	379	3,414	385	4,178

2015	Capital works in progress \$'000	Plant and equipment \$'000	Motor vehicles \$'000	Total \$'000
Opening net book amount	-	-	-	-
Acquisitions	30	2,885	259	3,174
Additions	14	244	93	351
Disposals	-	-	(18)	(18)
Depreciation	-	(314)	(40)	(354)
Closing net book amount	44	2,815	294	3,153

13 Investment property

	2016 \$'000	2015 \$'000
Opening balance	142,379	138,108
Acquisitions	1,116	-
Additions	23,275	9,095
Change in fair value	3,343	(4,824)
Disposals	(1,162)	-
Total	168,951	142,379

Amounts recognised in profit and loss

Rental income	25,319	21,042
Change in fair value	3,343	(4,824)

Leasing arrangements

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

Within one year	35,318	21,665
Later than one year, but not later than five years	156,153	105,396
Later than five years	458,560	223,195
Total	650,031	350,256

Rural Funds Group

Notes to the Financial Statements

30 June 2016

14 Other current assets

	2016	2015
	\$'000	\$'000
Prepayments	118	166
Deposits	1,066	141
Deposits - water purchases	1,317	-
Total	2,501	307

15 Financial assets

	Note	2016	2015
		\$'000	\$'000
Non-current			
Investment - RFM Poultry		133	97
Investment - BIL		509	520
Investment - CICL		9,334	-
Investment - Macadamia Processing Co. Limited		102	-
Total		10,078	617

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

Rural Funds Group

Notes to the Financial Statements

30 June 2016

16 Investments accounted for using the equity method

	RFM StockBank		Perth Markets Limited	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Summarised financial information for associates				
Summarised balance sheet				
Total current assets	14,670	17,560	6,714	-
Total non-current assets	-	-	135,014	-
Total current liabilities	(3,053)	(2,224)	(2,506)	-
Total non-current liabilities	-	(3,693)	(81,777)	-
Net assets	11,617	11,643	57,445	-
Reconciliation to carrying amounts				
Opening net assets	11,643	-	-	-
Net assets at date of gaining significant influence through:				
- Stapling with RFA	-	11,656	-	-
- Initial equity issue	-	-	56,416	-
Profit for the period	588	341	1,029	-
Other comprehensive income	-	-	-	-
Distributions provided for	(608)	(354)	-	-
Closing net assets	11,623	11,643	57,445	-
Group's share in %	33.50%	33.52%	8.96%	-
Group's share in \$'000	3,894	3,903	5,147	-
Carrying value of investment	3,894	3,903	5,147	-
Summarised statement of comprehensive income				
Revenue	2,328	1,440	5,764	-
Profit from continuing operations	588	341	1,029	-
Other comprehensive income	-	-	-	-
Total comprehensive income	588	341	1,029	-
Distributions received or receivable from associate	234	173	-	-

There are no commitments or contingencies relating to investments accounted for using the equity method.

Rural Funds Group

Notes to the Financial Statements

30 June 2016

17 Intangible assets

Intangible assets include water rights and entitlements. Refer to note 5 for Directors' valuation of water rights and entitlements.

30 June 2016	Water licences: Almonds \$'000	Water licences: Poultry infrastructure \$'000	Water licences: Vineyards \$'000	Water licences: Macadamias \$'000	Total \$'000
Non-current					
Opening net book amount	27,416	1,049	500	-	28,965
Additions	30,327	-	-	54	30,381
Acquisitions	-	-	-	548	548
Impairment	(203)	-	-	-	(203)
Closing net book amount	57,540	1,049	500	602	59,691
Cost	57,743	1,049	500	602	59,894
Accumulated amortisation and impairment	(203)	-	-	-	(203)
Net book amount	57,540	1,049	500	602	59,691

30 June 2015	Water licences: Almonds \$'000	Water licences: Poultry infrastructure \$'000	Water licences: Vineyards \$'000	Water licences: Macadamias \$'000	Total \$'000
Non-current					
Opening net book amount	22,041	1,049	500	-	23,590
Additions	2,730	-	-	-	2,730
Reversal of impairment	2,645	-	-	-	2,645
Closing net book amount	27,416	1,049	500	-	28,965
Cost	27,416	1,049	500	-	28,965
Net book amount	27,416	1,049	500	-	28,965

Rural Funds Group

Notes to the Financial Statements 30 June 2016

18 Trade and other payables

	2016	2015
	\$'000	\$'000
Trade payables	659	226
Accruals	694	467
Sundry creditors	5,567	1,345
Total	6,920	2,038

19 Interest bearing liabilities

	2016	2015
	\$'000	\$'000
Current		
Equipment loans (ANZ)	3,030	657
Total	3,030	657
Non-current		
Borrowings (ANZ)	146,500	89,650
Equipment loans (ANZ)	-	1,801
Total	146,500	91,451

Rural Funds Group

Notes to the Financial Statements 30 June 2016

19 Interest bearing liabilities (continued)

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

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

The following assets are pledged as security over the loans:

2016	Investment property \$'000	Water licences \$'000	Biological assets \$'000	Financial assets \$'000	Plant and equipment \$'000	TOTAL \$'000
Mortgage: almond property leasing	58,329	57,540	89,614	9,334	-	214,817
Mortgage: poultry property and infrastructure leasing	86,011	1,049	-	-	-	87,060
Mortgage: vineyard leasing	23,156	500	17,449	509	-	41,614
Mortgage: macadamia orchard leasing	1,455	602	6,143	-	-	8,200
Equipment loans	-	-	-	-	4,178	4,178
Total	168,951	59,691	113,206	9,843	4,178	355,869
2015	Investment property \$'000	Water licences \$'000	Biological assets \$'000	Financial assets \$'000	Plant and equipment \$'000	TOTAL \$'000
Mortgage: almond property leasing	36,927	27,416	42,735	-	-	107,078
Mortgage: poultry property and infrastructure leasing	91,917	1,049	-	-	-	92,966
Mortgage: vineyard leasing	13,535	500	24,846	520	-	39,401
Equipment loans	-	-	-	-	3,153	3,153
Total	142,379	28,965	67,581	520	3,153	242,598

Rural Funds Group

Notes to the Financial Statements

30 June 2016

19 Interest bearing liabilities (continued)

Loan amounts are provided by ANZ at the Bank's floating rate, plus a margin. For bank reporting purposes, these assets are valued at market value. Refer to note 5 for Directors' valuation of water rights and entitlements

Borrowings

At 30 June 2016 the core debt facility available to the Group, and due to expire in December 2018, was \$147,500,000 (2015: \$103,000,000). The facility limit increased to \$200,000,000 on 12 July 2016. As at 30 June 2016 RFF has active interest rate swaps totalling 60% of the drawn down balance (2015: 84%) to manage interest rate risk.

Loan covenants

Under the terms of the ANZ borrowing facility, the Group is required to comply with the following financial covenants:

- maintenance of a maximum loan to value ratio of 50%;
- maintenance of net tangible assets in excess of \$150,000,000; and,
- an interest cover ratio for the Group not less than 2.50:1.00.

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

20 Other non-current liabilities

	2016	2015
	\$'000	\$'000
Lessee deposits	1,634	1,553
Total	1,634	1,553

21 Derivative financial instruments

	2016	2015
	\$'000	\$'000
Interest rate swaps	9,190	2,048
Total	9,190	2,048

Rural Funds Group

Notes to the Financial Statements

30 June 2016

22 Deferred tax

	2016	2015
	\$'000	\$'000
Deferred tax liabilities		
Biological assets	3,513	5,720
Plant & equipment	2,381	2,070
Fair value investment property	515	-
Gross deferred tax liabilities	6,409	7,790
Deferred tax assets		
Fair value investment property	-	2,112
Investments	227	223
Legal costs	80	126
Other	21	17
Unused income tax losses	7,201	7,629
Gross deferred tax assets	7,529	10,107
Set off of deferred tax liabilities	(6,409)	(7,790)
Net deferred tax assets	1,120	2,317

The deferred tax assets include an amount of \$7,201,000 (2015: \$7,629,000), which includes \$7,151,000 (2015: \$7,629,000) of carried forward tax losses of the RFM Australian Wine Fund. The Group has concluded that the deferred tax assets will be recoverable using the estimated future taxable income based on budgets and the contracted cash flows of the subsidiary. The losses can be carried forward indefinitely and have no expiry date.

23 Recognised deferred tax assets and liabilities

	Current income tax		Deferred income tax	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Opening balance	(29)	-	2,317	1,576
Credited/(charged) to income	29	(29)	(1,204)	741
Credited to equity	-	-	7	-
Closing balance	-	(29)	1,120	2,317
Tax expense/(credit) in the Consolidated Statement of Comprehensive Income			1,175	(712)
Amounts recognised in the Consolidated Statement of Financial Position:				
Deferred tax asset			1,120	2,317

24 Issued units

	2016		2015	
	No.	\$	No.	\$
Units on issue at the beginning of the year	132,142,235	113,034,000	117,099,159	108,281,000
Units issued during the year	33,215,055	35,148,000	15,043,076	15,017,000
Distributions to unitholders	-	(12,389,000)	-	(10,264,000)
Units on issue at the end of the year	165,357,290	135,793,000	132,142,235	113,034,000

Rural Funds Group

Notes to the Financial Statements

30 June 2016

25 Asset revaluation reserve

	2016	2015
	\$'000	\$'000
Opening balance	1,406	1,398
Net (decrement)/increment in financial assets	(14)	8
Total comprehensive income	(14)	8
Income tax applicable	-	-
Total	1,392	1,406

26 Distributions

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

	Cents per unit	Total \$
Distribution declared 1 June 2015, paid 30 July 2015	2.1475	2,837,755
Distribution paid 30 October 2015	2.2325	2,955,482
Distribution paid 29 January 2016	2.2325	3,670,193
Distribution paid 29 April 2016	2.2325	3,681,201
Distribution declared 1 June 2016, paid 29 July 2016	2.2325	3,691,602

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

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

27 Earnings per unit

	2016	2015
Per stapled unit		
Net profit after income tax for the year (\$'000)	34,788	10,153
Weighted average number of units on issue during the year	154,854,317	121,153,081
Basic and diluted earnings per unit (total) (cents)	22.46	8.38
Per unit of Rural Funds Trust		
Net profit after income tax for the year (\$'000)	34,658	10,080
Weighted average number of units on issue during the year	154,854,317	121,153,081
Basic and diluted earnings per unit (total) (cents)	22.38	8.32
Per unit of RF Active		
Net profit after income tax for the year (\$'000)	130	73
Weighted average number of units on issue during the year	154,854,317	122,787,543
Basic and diluted earnings per unit (total) (cents)	0.08	0.06

Rural Funds Group

Notes to the Financial Statements

30 June 2016

28 Capital commitments

Significant capital expenditure relating to the Kerarbury and Tocabil almond developments, contracted for but not recognised as liabilities is as follows:

	2016	2015
	\$'000	\$'000
Plant and equipment	440	-
Investment property	33,039	5,817
Intangible assets	39,655	4,149
Biological assets	67,515	14,833
Total	140,649	24,799

29 Fair value measurement of assets and liabilities

Fair value hierarchy

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

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

Level 1	Fair value based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date (such as publicly traded equities).
Level 2	Fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3	One or more significant inputs to the determination of fair value is based on unobservable inputs for the asset or liability.

Rural Funds Group

Notes to the Financial Statements

30 June 2016

29 Fair value measurement of assets and liabilities (continued)

Financial assets and liabilities

Fair value hierarchy

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
At 30 June 2016				
Recurring fair value measurements				
Financial assets				
Equity securities (listed)	133	-	-	133
Equity securities (unlisted)	-	-	9,945	9,945
Total	133	-	9,945	10,078
Financial liabilities				
Derivatives	-	9,190	-	9,190
Total	-	9,190	-	9,190
At 30 June 2015				
Financial assets				
Equity securities (listed)	97	-	-	97
Equity securities (unlisted)	-	-	520	520
Total	97	-	520	617
Financial liabilities				
Derivatives	-	2,048	-	2,048
Total	-	2,048	-	2,048

There were no transfers between levels for recurring fair value measurements during the year.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels at the end of the reporting period. There were no transfers in the current year (2015: nil).

Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments;
- the present value of the estimated future cash flows based on observable yield curves to determine the fair value of the interest rate swaps; and,
- discounted cash flow analysis to determine the fair value of the remaining financial instruments.

All of the resulting fair value estimates are included in level 1 or 2 except for unlisted equity securities which are level 3, where the fair values have been determined based on present values and the discount rates used were adjusted for counterparty or own credit risk.

Rural Funds Group

Notes to the Financial Statements

30 June 2016

29 Fair value measurement of assets and liabilities (continued)

Financial assets and liabilities (continued)

Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the years ended 30 June 2016 and 30 June 2015:

	2016	2015
	\$	\$
Unlisted equity securities		
Opening balance	520	520
Additions	9,437	-
Losses recognised in other comprehensive income	(12)	-
Closing balance	9,945	520

Valuation inputs and relationship to fair value

Description	Fair value at 30 June 2016 \$'000	Unobservable inputs	Range of inputs (probability - weighted average)	Relationship of unobservable inputs to fair value
Investment in BIL	509	Price of water entitlements	+/- 10%	+/- \$50,000
Investment in CICL	9,334	Price of water entitlements	+/- 10%	+/- \$933,000
Closing balance	9,843	-	-	-

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

Rural Funds Group

Notes to the Financial Statements

30 June 2016

29 Fair value measurement of assets and liabilities (continued)

Non-financial assets

Fair value hierarchy

This note explains the judgements and estimates made in determining fair values of the non-financial assets that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its non-financial assets and liabilities into the three levels prescribed under Australian Accounting Standards as mentioned above. At 30 June 2016 all non-financial assets are level 3.

	Level 3 \$'000	Total \$'000
At 30 June 2016		
Investment properties		
Almond orchard property	58,329	58,329
Poultry property and infrastructure	86,011	86,011
Vineyard property	23,156	23,156
Macadamia orchard property	1,455	1,455
Biological assets		
Almond orchard	89,614	89,614
Vines	17,449	17,449
Macadamia orchard	6,143	6,143
Total non-financial assets	282,157	282,157
At 30 June 2015		
Investment properties		
Almond orchard property	36,926	36,926
Poultry property and infrastructure	91,918	91,918
Vineyard property	13,535	13,535
Macadamia orchard property	-	-
Biological assets		
Almond orchard	42,735	42,735
Vines	24,846	24,846
Macadamia orchard	-	-
Total non-financial assets	209,960	209,960

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

Valuation techniques used to determine level 3 fair values

The Group obtains independent valuations for its property assets at least annually, except for properties that are under development. At the end of each reporting period, the directors update their assessment of fair value of each property, taking into account the most recent independent valuations. The directors determine a property's value within a range of reasonable fair value estimates.

29 Fair value measurement of assets and liabilities (continued)

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

Fair value measurements using significant unobservable inputs (level 3)

		Investment Property			Biological assets			Total
	Almond orchard property	Poultry property and infrastructure	Vineyard property	Macadamia orchard property	Almond orchard	Vines	Macadamia orchard	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance 1 July 2015	36,927	91,917	13,535	-	42,735	24,846	-	209,960
Additions	23,138	-	-	137	12,200	-	1,405	36,880
Acquisitions	-	-	-	1,116	-	-	5,525	6,641
Disposals	(1,162)	-	-	-	-	-	-	(1,162)
Fair value adjustment	(574)	(5,906)	9,621	202	34,679	(7,397)	(787)	29,838
Closing balance 30 June 2016	58,329	86,011	23,156	1,455	89,614	17,449	6,143	282,157
Opening balance 1 July 2014	29,227	95,981	12,900	-	41,426	24,080	-	203,614
Additions	8,755	340	-	-	-	240	-	9,335
Fair value adjustment	(1,055)	(4,404)	635	-	1,309	526	-	(2,989)
Closing balance 30 June 2015	36,927	91,917	13,535	-	42,735	24,846	-	209,960

Rural Funds Group

Notes to the Financial Statements

30 June 2016

29 Fair value measurement of assets and liabilities (continued)

Valuation inputs and relationships to fair value

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

Description	Fair value at		Unobservable inputs*	Range of inputs (probability - weighted average)		Relationship of unobservable inputs to fair value
	30 June 2016	30 June 2015		30 June 2016	30 June 2015	
	\$'000	\$'000		%	%	
Almond orchard property (excluding water licences)**	147,943	79,662	Discount rate	9.00% (9.00%)	9.5%-10.5% (10.26%)	The higher the discount rate, the lower the fair value.
Poultry property and infrastructure (excluding water licences)**	86,011	91,918	Capitalisation rate	10.75% - 13.00% (12.01%)	11.32%	The higher the capitalisation rate, the lower the fair value.
Vineyard (excluding water licences)**	40,605	38,380	Discount rate	9.75% (9.75%)	9.5%-10.5% (10.06%)	The higher the discount rate, the lower the fair value.
Macadamia orchard property (excluding water licences)**	7,598	-	Discount rate	9.00% (9.00%)	n/a	The higher the capitalisation rate, the lower the fair value.

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

** Water licences are held at historical cost less accumulated impairment, as detailed in note 17 to the consolidated financial statements.

Valuation processes

The Group engages external, independent and qualified valuers to determine the fair value of the Group's properties. The properties were externally valued by CBRE Valuations Pty Limited, Opteon (Victoria) Pty Limited, and Gaetjens Pickett Valuers at 30 June 2016. Director's valuations have been performed on the poultry assets at 30 June 2016, based on the valuation methodology applied by the valuer and applying Director's assumptions to take a more conservative view on the valuations.

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

Rural Funds Group

Notes to the Financial Statements

30 June 2016

30 Financial risk management

The Group is exposed to a variety of financial risks through its use of financial instruments. This note discloses the Group's objectives, policies and processes for managing and measuring these risks. The Group's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets.

The Group does not speculate in financial assets.

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

Specific risks

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

Financial instruments used

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

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

Financial risk management policies

Risks arising from holding financial instruments are inherent in the Group's activities and are managed through a process of ongoing identification, measurement and monitoring.

The responsible entity is responsible for identifying and controlling the risks that arise from these financial instruments.

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

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

Rural Funds Group

Notes to the Financial Statements 30 June 2016

30 Financial risk management (continued)

Liquidity risk and capital management

The table below reflects all contractually fixed repayments and interest resulting from recognised financial assets and liabilities as at 30 June 2016. The amounts disclosed in the table are the contractual undiscounted cash flows, except for interest rate swaps and bills of exchange where the cash flows have been estimated using interest rates applicable at the reporting date.

	Less than 6 months		6 months to 1 year		1 to 3 years		3 to 5 years		Over 5 years		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets												
Cash and cash equivalents	3,034	712	-	-	-	-	-	-	-	-	3,034	712
Trade and other receivables	7,239	2,729	-	-	-	-	-	-	-	-	7,239	2,729
Investment - BIL	-	-	-	-	-	-	-	-	509	520	509	520
Investment - CICL	-	-	-	-	-	-	-	-	9,334	-	9,334	-
Investment - MPC	-	-	-	-	-	-	-	-	102	-	102	-
Investment - RFP	-	-	-	-	-	-	-	-	133	97	133	97
Total	10,273	3,441	-	-	-	-	-	-	10,078	617	20,351	4,058
Financial liabilities												
Interest bearing liabilities	2,560	1,927	3,560	1,927	155,740	7,710	-	95,908	-	-	161,860	107,472
Trade and other payables	6,920	2,038	-	-	-	-	-	-	-	-	6,920	2,038
Equipment loans	485	500	447	308	1,564	1,102	803	755	149	223	3,448	2,888
Interest rate swaps	568	-	-	-	1,301	1,016	244	1,032	7,077	-	9,190	2,048
Total	10,533	4,465	4,007	2,235	158,605	9,828	1,047	97,695	7,226	223	181,418	114,446

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

Rural Funds Group

Notes to the Financial Statements

30 June 2016

30 Financial risk management (continued)

Liquidity risk and capital management (continued)

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

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

Interest rate swaps held for hedging

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

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

The notional principal amounts of the swap contracts approximates 60% (2015: 84%) of the Group's drawn down balance at 30 June 2016.

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

	Effective average interest rate payable		Balance	
	2016 %	2015 %	2016 \$'000	2015 \$'000
Maturity of notional amounts				
Settlement - between 1 to 3 years	3.44	3.27	75,000	50,000
Settlement - between 3 to 5 years	-	3.77	-	25,000
Settlement - greater than 5 years	3.42	-	13,000	-
Total			88,000	75,000

The following interest rate swap contracts have been entered into at 30 June 2016 but are not yet effective.

	Effective average interest rate payable		Balance	
	2016 %	2015 %	2016 \$'000	2015 \$'000
Maturity of notional amounts				
Settlement - between 3 to 5 years	2.50	2.50	10,000	10,000
Settlement - greater than 5 years	3.10	2.70	75,000	15,000
Total			85,000	25,000

The net loss recognised on the swap derivative instruments for the year ended 30 June 2016 was \$7,116,000 (2015: \$734,000).

Rural Funds Group

Notes to the Financial Statements

30 June 2016

30 Financial risk management (continued)

Interest rate swaps held for hedging (continued)

At 30 June 2016 the Group had the following mix of financial assets and liabilities exposed to variable interest rates:

	2016	2015
	\$'000	\$'000
Cash	3,034	712
Interest bearing liabilities	(146,500)	(92,109)
Total	(143,466)	(91,397)

At 30 June 2016, 2.03% (2015: 0.71%) of the Group's debt is fixed, excluding the impact of interest rate swap contracts.

Credit risk

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

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

Market risk

Interest rate risk (sensitivity analysis)

At 30 June 2016, the effect on profit before tax and equity as a result of changes in the interest rate, net of the effect of interest rate swaps, with all other variables remaining constant, would be as follows:

	2016	2015
	\$'000	\$'000
Change in profit before income tax:		
Increase in interest rate by 1%	6,556	2,098
Decrease in interest rate by 1%	(7,221)	(2,181)
Change in equity:		
Increase in interest rate by 1%	4,498	1,469
Decrease in interest rate by 1%	(4,964)	(1,527)

Rural Funds Group

Notes to the Financial Statements

30 June 2016

31 Business combinations

On 15 March 2016 the Group acquired two macadamia orchards located near Bundaberg, QLD and the leasing businesses associated with these orchards. The acquisition represents the Group's measured first step into the macadamia industry. The consolidated results for the Group for the year includes 3 months and 15 days of results from the leasing businesses acquired.

	2016
	\$'000
Purchase consideration	7,291
Assets and liabilities recognised as a result of the acquisition were as follows:	
Investment property	1,116
Biological assets	5,525
Intangible assets	548
Financial assets	102
Net assets acquired	7,291

Revenue and profit contribution

The acquired business contributed revenues of \$187,000 to the Group for the period from 15 March to 30 June 2016.

Acquisition-related costs

Acquisition-related costs of \$452,000 are included in other expenses in the Consolidated Statement of Comprehensive Income and in operating cash flows in the Consolidated Statement of Cash Flows.

32 Key management personnel

Directors

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

Guy Paynter
David Bryant
Michael Carroll

Interests of Directors of the responsible entity

Units in the Group held by Directors of RFM or related entities controlled by Directors of RFM as at 30 June 2016 are:

	Guy Paynter	David Bryant
	Units	Units
Balance at 30 June 2014	351,833	3,287,372
Additions	30,323	368,819
Balance at 30 June 2015	382,156	3,656,191
Additions	151,100	3,987,152
Balance at 30 June 2016	533,256	7,643,343

Rural Funds Group

Notes to the Financial Statements

30 June 2016

32 Key management personnel (continued)

Other key management personnel

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

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

- Management fee: 0.6% per annum (2015: 0.6%) of the gross value of Group assets; and,
- Asset management fee: 0.45% per annum (2015: 0.45%) of the gross value of Group assets.

Compensation of key management personnel

No amount is paid by the Group directly to the directors of the responsible entity. Consequently, no compensation as defined in AASB 124 *Related Party Disclosures* is paid by the Group to the Directors as key management personnel. Fees paid to RFM as responsible entity are disclosed in note 33.

Rural Funds Group

Notes to the Financial Statements

30 June 2016

33 Related party transactions

Transactions between the Group and related parties are on commercial terms and conditions.

Responsible entity (Rural Funds Management) and related entities

Transactions between the Group and the responsible entity and its associated entities are shown below:

	2016	2015
	\$'000	\$'000
Management fee	1,809	1,435
Asset management fee	1,357	1,061
Total management fees	3,166	2,496
Expenses reimbursed to RFM	2,231	2,114
Expenses reimbursed to RFM Poultry	-	135
Expenses due to Murdock Viticulture	199	518
Distribution paid/payable to RFM	376	128
Total amount paid to RFM and related entities	5,972	5,391
Rental income received from RFM Almond Fund 2006	1,945	1,719
Rental income received from RFM Almond Fund 2007	588	501
Rental income received from RFM Almond Fund 2008	1,498	1,300
Rental income received from RFM	372	279
Rental income received from RFM Farming Pty Limited	390	-
Rental income received from RFM Poultry	10,450	10,349
Rental income received from 2007 Macgrove Project	140	-
Expenses charged to RFM Poultry	54	482
Distribution received/receivable from RFM Poultry	14	15
Distribution received/receivable from RFM StockBank	234	244
Interest income from Murdock Viticulture	-	19
Water sale proceeds from RFM Almond Fund 2006	59	45
Water sale proceeds from RFM Almond Fund 2007	16	12
Water sale proceeds from RFM Almond Fund 2008	44	35
Water sale proceeds from RFM	9	7
Water sale proceeds from RFM Farming Pty Limited	52	-
Total amounts received from RFM and related entities	15,865	15,007

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

Debtors

	2016	2015
	\$'000	\$'000
RFM Farming Pty Limited	3	-
RFM	41	204
RFM Macadamias Pty Limited	20	-
2007 Macgrove Project	538	-
Total	602	204

Rural Funds Group

Notes to the Financial Statements 30 June 2016

33 Related party transactions (continued)

Creditors

	2016 \$'000	2015 \$'000
RFM	153	180
Total	153	180

Entities with influence over the Group

	Units	2016 %	Units	2015 %
Rural Funds Management Limited	5,153,833	3.12	1,450,465	1.24

Interest in related parties

	Units	2016 %	Units	2015 %
RFM StockBank	3,897,259	33.50	3,897,259	33.52
RFM Poultry	108,615	1.58	108,615	1.58

Rural Funds Group

Notes to the Financial Statements

30 June 2016

34 Cash flow information

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

	2016	2015
	\$'000	\$'000
Net profit after income tax	34,788	10,153
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit		
Share of net profit - equity accounted investments	(61)	(125)
Change in fair value of biological assets	(26,495)	(1,835)
Change in fair value of investment property	(3,343)	4,824
Change in fair value of interest rate swaps	7,116	734
Depreciation and impairments	939	490
Reversal of impairment of intangible assets	-	(2,645)
(Gain)/loss on sale of assets	(290)	5
Change in fair value of other assets	(36)	(113)
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	(4,510)	931
(Increase)/decrease in prepayments	48	(65)
Increase/(decrease) in trade and other payables	4,878	(1,359)
Increase/(decrease) in unearned income	-	(476)
Increase/(decrease) in GST (net)	-	(562)
(Increase)/decrease in deferred tax assets (net)	1,197	(735)
Net cash inflow from operating activities	14,231	9,222

35 Events after the reporting date

In July 2016 the Group successfully completed a non-renounceable rights issue of \$61,000,000 (1 new unit for every 4 existing units), in order to fund the acquisitions of the macadamia orchards and cattle properties and expansions to the almond development at Kerarbury by a further 1,000 hectares.

In July 2016 the Group negotiated an increase to its debt facility from \$147,500,000 to \$200,000,000.

In July and August 2016 the Group acquired three cattle properties: Rewan, a 17,500 hectare cattle property near Rolleston, QLD and Oakland Park and Mutton Hole, located near the Gulf of Carpentaria in far north Queensland and comprising a combined area of 225,800 hectares. The acquisition of the three cattle properties and associated livestock will increase the Group's total assets by approximately \$50,000,000. The properties and livestock will be leased for ten years to Cattle JV Pty Limited, a wholly owned subsidiary of RFM.

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

Rural Funds Group

Notes to the Financial Statements

30 June 2016

36 Parent entity

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

	2016 \$'000	2015 \$'000
Statement of Financial Position		
ASSETS		
Current assets	58,736	49,824
Non-current assets	294,920	179,918
Total assets	353,656	229,742
LIABILITIES		
Current liabilities	10,578	4,830
Non-current liabilities	157,324	93,251
Total liabilities (excluding net assets attributable to unitholders)	167,902	98,081
Net assets attributable to unitholders	185,754	131,661
Total liabilities	353,656	229,742
Statement of Comprehensive Income		
Net profit after income tax	33,313	6,332
Other comprehensive income for the period, net of tax	(14)	8
Total comprehensive income attributable to unitholders	33,299	6,340

Rural Funds Group

Directors' Declaration

30 June 2016

In the Directors of the Responsible Entity's opinion:

- 1 The financial statements and notes of Rural Funds Group set out on pages 35 to 79 are in accordance with the *Corporations Act 2001*, including:
 - a. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - b. giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and
- 2 There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Note 2 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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

A handwritten signature in black ink, appearing to read 'David Bryant', is written over a light blue horizontal line.

David Bryant
Director

24 August 2016



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

Report on the financial report

We have audited the accompanying financial report of Rural Funds Group (the registered scheme), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, consolidated statement of changes in net assets attributable to unitholders and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Rural Funds Group (the consolidated entity). The consolidated entity comprises the registered scheme and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of Rural Funds Management Limited (the responsible entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

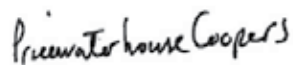
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Auditor's opinion

In our opinion:

- (a) the financial report of Rural Funds Group is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 2.



PricewaterhouseCoopers



David Ronald
Partner

Sydney
24 August 2016

