

ASX Release

12 July 2018

Subject: \$149.5 million Equity Raising and webinar invitation

Rural Funds Management Limited ("**RFM**"), the responsible entity and manager of Rural Funds Group ("**RFF**"), is pleased to announce that it has negotiated a transaction involving:

1. the acquisition of JBS Australia's ("**JBS**") five Australian feedlots and associated cropping land for \$52.7 million including stamp duty ("**Feedlots**") and
2. the provision of a \$75.0 million limited guarantee ("**Guarantee**") to J&F Australia Pty Ltd ("**J&F**") that will enable JBS to replace an existing arrangement for the supply of cattle for its grainfed business.

The Feedlots and Guarantee reflect a total investment by RFF of \$127.7 million ("**JBS Agreements**").

Webinar details

RFM Managing Director, David Bryant will host a webinar to detail the Entitlement Offer and transaction overview at 11.00am AEST, Thursday, 12 July 2018. Participants can register via the following link:

<https://attendee.gotowebinar.com/register/266170166859349507>

Transaction details

On 17 May 2018, RFM announced that RFF had entered into a contract to acquire a cattle property located in central Queensland ("**Comanche**") for \$16.6 million including stamp duty, which together with the JBS Agreements comprise the "**Transactions**".

The Transactions and associated costs will be equity funded via a fully underwritten \$149.5 million accelerated non-renounceable entitlement offer ("**Equity Raising**"). Eligible Unitholders will have the opportunity to subscribe for 3 new units in RFF ("**Units**") for each 10 existing Units at an issue price of \$1.95.

The Transactions will provide a number of benefits to RFF, including:

- Good assets with a good counterpart:
 - Feedlots are located in grain and cattle growing regions, and are operated by JBS, Australia's largest beef processor.
 - Comanche offers productivity improvement potential, similar to that demonstrated on RFF's existing cattle properties.
- Consistent with REIT structure:
 - Feedlots are underpinned by a 10 year¹ triple net lease with CPI indexation. The Guarantee provides a return underpinned by a 10 year agreement with no direct operating risk.
 - Comanche lease will have similar attributes to existing cattle leases.
- Improves sector diversification:
 - Increases exposure to the cattle sector, a sector in which Australia possesses a comparative advantage and RFM has direct operational knowledge.
- Accretive to AFFO as well as creating balance sheet capacity for future acquisitions:
 - See Financial impact (below) for further details.

JBS Agreements

The Feedlots comprise five Australian feedlots and associated cropping land with a combined stocking capacity of 150,000 SCU². The Feedlots are located in grain and cattle growing regions in close proximity to processing facilities and major population centres. The Feedlots include Australia's only two integrated feedlot and processing facilities which reduces freight costs and market price risk, and can improve weight gain performance.

The Feedlots will be secured by a triple net lease to JBS with CPI indexation for a term of approximately 10 years³. RFF holds a put option, and JBS holds a call option, over the Feedlots which can be exercised in year 10 at a price equal to the purchase price of the Feedlots (plus any capex) indexed at CPI⁴.

¹ The cattle agreements between J&F and JBS are for a period of 10 years and are expected to commence shortly after Unitholder approval is received. The leases over the Feedlots will have the same end date as the cattle agreements and will only commence once FIRB and other approvals, including two subdivisions, have been obtained, and thus have a shorter term.

² A Standard Cattle Unit ("SCU") is defined as an animal of 600kg liveweight, at the time of exit from the feedlot.

³ The cattle agreements between J&F and JBS are for a period of 10 years and are expected to commence shortly after Unitholder approval is received. The leases over the Feedlots will have the same end date as the cattle agreements and will only commence once FIRB and other approvals, including two subdivisions, have been obtained, and thus have a shorter term.

⁴ A call option is also held by JBS which can be exercised from year six. In the event this call option is exercised prior to year 10, a break fee is payable to RFF and RFF has the right to terminate the Guarantee.

The Guarantee is being provided to J&F, a special purpose vehicle wholly owned by RFM. J&F will supply JBS with cattle, feed and associated costs up to a limit of \$250 million, which will be financed by bank debt and secured against the Guarantee. The Guarantee will not require a transfer of cash and will be recorded as a contingent liability for RFF. RFF will be paid an ongoing fee for the Guarantee, which has a term of 10 years. RFF will not be exposed to direct operating risks. J&F will be exposed to mortality of cattle above a certain threshold, however insurance against cattle mortality has been arranged.

As J&F will be owned by RFM, the Guarantee is considered a transaction with a person of influence under the ASX Listing Rules and requires RFF Unitholder approval. A Unitholder general meeting is being convened to consider and to vote on the Guarantee on 10 August 2018 ("**Meeting**"). An Independent Expert has concluded that the Guarantee is fair and reasonable to the Non-Associated Unitholders of RFF under the requirements of Listing Rule 10 and Chapter 2E of the Corporations Act.

The acquisition of the Feedlots is conditional upon Unitholder approval of the Guarantee at the Meeting. The Equity Raising will be completed prior to the Meeting and is not subject to Unitholder approval. More information on the Meeting is contained in the Notices of Meeting and Explanatory Memorandum that will be released on Friday, 13 July 2018.

Financial impact

The Transactions and Equity Raising are expected to:

- be accretive to FY19 AFFO per Unit, forecast to be 13.2 cents per Unit;
- maintain FY19 payout ratio, forecast to be 79%;
- increase pro forma adjusted NAV per Unit as at 31 December 2017 to \$1.67; and
- reduce pro forma gearing as at 31 December 2017 to 24.0%, compared to RFF's gearing target of 35%.

RFF re-affirms previous guidance, including:

- FY18 AFFO per Unit of 12.7 cents;
- FY18 DPU of 10.03 cents; and
- FY19 DPU of 10.43 cents, representing growth of 4% per annum.

Equity Raising

The Equity Raising is a fully-underwritten 3 for 10 accelerated non-renounceable entitlement offer to raise \$149.5 million.

The fixed issue price of \$1.95 per Unit represents a:

- 5.8% discount to RFF's last close price on 10 July 2018 of \$2.07;
- 7.0% discount to RFF's 5-day VWAP to 10 July 2018 of \$2.10;
- 4.5% discount to the theoretical ex-rights price of \$2.04; and
- FY19 distribution yield of 5.3%.

New Units issued will rank equally with existing Units in RFF and will be fully entitled to the distribution for the quarter ending 30 September 2018, which is expected to be 2.61 cents per Unit.

RFM, together with Chairman Guy Paynter and Director Mike Carroll, holds approximately 3.9% of RFF Units on issue and have committed to taking up their entitlement in full amounting to approximately \$5.8 million. Managing Director David Bryant holds 1.0% of RFF units and will not be taking up his entitlement.

The Equity Raising is fully underwritten by UBS AG, Australia Branch, Bell Potter Securities Ltd and Wilsons Corporate Finance Ltd.

The institutional component of the Equity Raising will be conducted today, and the retail component will open on 18 July 2018 and close at 5.00pm on 1 August 2018.

Additional information

Additional information regarding the Equity Raising is contained in the investor presentation released to the ASX today. A retail offer booklet will be released separately and sent to Eligible Retail Unitholders. Those Unitholders who have elected to receive notices by email will receive an email with a direct link to their personalised Entitlement and Acceptance Form and the Retail Offer Booklet. Those Unitholders who have not elected to receive notices by email will receive both documents by post.

If you have any questions about the Retail Entitlement Offer, please do not hesitate to contact RFM Investor Services on 1800 026 665 (from within Australia) or +61 2 6203 9700 (from outside Australia) between 8:30am and 5:00pm (Sydney time), Monday to Friday during the Retail Offer Period.

Key dates

| Event | Date (2018) |
|---|--------------------------|
| Trading halt and Institutional Entitlement Offer bookbuild | Thursday, 12 July |
| Trading of Units recommences on ASX on an 'ex-entitlement' basis | Friday, 13 July |
| Record Date for Equity Raising | 7:00PM, Monday, 16 July |
| Retail Entitlement Offer Booklet is dispatched and Retail Entitlement Offer opens | Wednesday, 18 July |
| Early Retail Entitlement Offer acceptances due | 5:00PM, Tuesday, 24 July |
| Settlement of Units issued under the Institutional Entitlement Offer and Early Retail Entitlement Offer | Wednesday, 25 July |
| Allotment and normal trading of Units issued under the Institutional Entitlement Offer and Early Retail Entitlement Offer | Thursday, 26 July |

| Event | Date (2018) |
|---|-----------------------------|
| Retail Entitlement Offer closes | 5:00PM, Wednesday, 1 August |
| Allotment of remaining Units issued under the Retail Entitlement Offer | Wednesday, 8 August |
| Dispatch of holding statement and normal trading of remaining Units issues under the Retail Entitlement Offer | Thursday, 9 August |
| Unitholder general meeting | Friday, 10 August |

All dates and times referred to are based on Sydney time and are subject to change. RFF reserves the right to vary these dates or to withdraw the entitlement offer at any time.

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About Rural Funds Group (RFF)

RFF owns a diversified portfolio of high quality Australian agricultural assets. RFF's investment objective is to generate a stable income stream derived from leasing its assets to suitable counterparts and capital growth through any appreciation in the value of those assets. RFF is a stapled security, incorporating Rural Funds Trust (ARSN 112 951 578) and RF Active (ARSN 168 740 805), trading under the ASX code 'RFF'. Rural Funds Management Ltd (RFM) is the responsible entity of RFF.

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