



## ANNUAL REPORT 2013



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Spreading lime at Puketotara

Front Cover Photograph:  
*Heifer calves at Delorain*

## NOTICE OF ANNUAL MEETING

Notice is given that the Annual Meeting of the shareholders of Rural Equities Limited will be held in The Cushing Foyer, Hawke's Bay Opera House, 107 Hastings Street South, Hastings on Wednesday 20 November 2013 at 3.30pm.

### ORDINARY BUSINESS

1. To receive and consider the Company's financial statements for the year ending 30 June 2013 with the reports of the Directors and the Auditor.
2. To elect Directors. In accordance with clause 13.8 of the Company's constitution, Sir Ronald Carter and Sir Selwyn Cushing retire by rotation. Both are seeking re-election.
3. To authorise the Directors to fix the remuneration of the Auditor for the ensuing year.

### GENERAL BUSINESS

The Chairman will invite shareholders to raise any other issues relating to the Company for discussion.

### NOTES

1. All shareholders are entitled to attend and vote at the Annual Meeting.
2. Any shareholder entitled to attend and vote at the Annual Meeting may appoint another person or persons as their proxy or, in the case of corporate shareholders, a representative to attend and vote on their behalf. A proxy or representative need not be a shareholder of the Company.
3. A form of proxy is enclosed with this notice. The constitution of the Company requires, so as to be valid, that any proxy form must be deposited at the registered office of the Company (First Floor, 120 Karamu Road North, Hastings 4122 or PO Box 783, Hastings 4156) or posted to the Company's Share Registrar, Computershare Investor Services Limited, (Level 2, 159 Hurstmere Road, Takapuna, Auckland 0622 or Private Bag 92119, Auckland 1142) to be received not less than 48 hours before the time of the Annual Meeting.

James Wright  
Chief Operating Officer

## INVITATION

The Directors invite shareholders to join them for refreshments at the conclusion of the Meeting.

## Executive Chairman's Report

### THE YEAR IN REVIEW

The Directors are pleased to present the 2013 Annual Report for the Rural Equities Group.

The Group's audited Total Comprehensive Income for the year was \$10.92 million. This is lower than the \$15.76 million achieved last year and reflects reduced revaluation gains from the Group's rural property portfolio as well as the impact of lower product prices and the widespread drought of last summer.

Important features of the year were:

- Net Asset Value per share at 30 June 2013 was \$4.77 which is a 6.7% increase from \$4.47 as at 30 June 2012. This is a record since REL was separated from Williams & Kettle Limited ten years ago.
- Total Comprehensive Income for the year ended 30 June 2013 was \$10.92 million.
- A 6 cent per share dividend will be paid on 2 October 2013 for the year ended 30 June 2013, a 20% increase on last year's dividend.
- The Group's farm property portfolio increased in value by \$4.87 million over the period.
- Revaluation of the Group's shareholding in Fonterra provided a \$4.75 million increase during the period.
- For the second successive year the six dairy farms achieved record milk production of 1.56 million kilograms of milk solids despite the drought.
- Operating earnings reduced from \$2.93 million to \$2.11 million due to lower prices for milk, sheep and wool while beef returns remained steady. Operating expenses increased primarily as a result of the drought.
- A further buyback offer to shareholders resulted in the repurchase of 1.57 million REL shares at \$3.55 per share.

This has been a difficult farming year. Drought conditions were widespread throughout New Zealand with soil moisture levels the lowest experienced in the past 70 years. In addition, prices for wool and sheep, in particular lambs, plummeted and store cattle prices fell to low levels. The combined effect of weak demand for store stock, lower livestock sale weights and lower meat schedules was a significant blow to sheep and beef farmer incomes.

Milk prices for the season ended 31 May 2013 reduced from the previous year. Fonterra's forecast final milk price for the season is \$5.80 per kilogram of milk solids, a reduction of \$0.25 on that paid last season. International

dairy prices increased substantially in the latter part of the season but this was mostly too late to influence the milk price for the season ended 31 May 2013. However the outlook for the season ending 31 May 2014 is very promising with the current forecast milk price between \$7.80 and \$8.00 per kilogram of milk solids.

During the year REL undertook a review of milk supply options for its six dairy farms. The two Canterbury farms have commenced supplying milk to Synlait Milk Limited from the season that started on 1 June 2013 with the remaining four farms continuing to supply Fonterra. As a result of this change, together with the introduction of Fonterra's Trading Among Farmers and the associated Supply Offer, the Group has divested half of its Fonterra shareholding during the year realising \$5.92 million at an average price in excess of \$7.50 per share.

Rural property values have remained at levels that are similar to last year although values for well-developed properties that are capable of alternative land uses, continue to firm. This is despite lower product prices and livestock values in the current year. There is also continuing strong sales activity in many regions and it is apparent that dairy and arable farms with reliable irrigation capability are being keenly sought in the market. The valuation of the Group's 26 farms increased on average by 2.8% over the year.

The geographical spread, sector diversity and balance between leased and directly managed properties all proved beneficial to minimising risk and exposure to low prices during the past year. We are pleased that the management strategies implemented, as well as the ability to combine resources among the Group's three Waikato sheep and beef farms, minimised the impact of the drought. All three farms have recovered to a position where normal livestock numbers have been wintered which will allow normal income to be derived in the year ahead.



*Steers on winter feed crop at Rollesby*

A long term strategy has been to invest in and develop properties within the Group's portfolio. Examples are, the conversion of both Milford and Shenstone to dairy farms in 2001, the upgrade of Eiffelton from a mixed cropping unit to a fully irrigated dairy support unit in 2005, the Rocklea irrigation conversion in 2011 and over recent years the extensive development of the three Waikato sheep and beef properties. A number of new opportunities are currently being evaluated, including:

- The planned conversion of Eiffelton in mid-Canterbury from a dairy support unit to two dairy farms with the potential to milk 1,500 dairy cows.
- The Hurunui Water Project in North Canterbury which would benefit the Group's Clifton property.
- The Ruataniwha Water Storage project in Central Hawke's Bay which has the potential to irrigate approximately 800 hectares on three existing farms – Maranoa, Middle Hills and Tahuna – all of which are within the command area of the scheme.

There was further investment in developing the farms in the Waikato group this year. The Annandale, Puketotara and Waikoha properties comprising 4,171 hectares and running 30,000 stock units are managed as an integrated sheep and beef farming group. The majority of the development plan, which includes fencing, stock water systems, pasture renewal, farm access, gorse control and capital fertiliser is complete although there will be ongoing management input in order to intensify and fine tune the livestock and grazing management systems to take full advantage of the development. Benefits are becoming evident with production of lambs, beef and wool from these farms showing steady and sustainable annual increases.

Following a direct approach from a neighbour in June 2013, REL entered into an unconditional contract for the sale of the Blairmore property in Central Otago. The sale proceeds will be \$3,450,000, which represents a premium



*Ewes and lambs at Annandale*

of 7% on the 30 June 2012 independent market valuation. Blairmore has been owned by the Group for over 24 years, however it is geographically isolated from the other properties within the REL portfolio, and represents less than 2%, by value, of the portfolio. Settlement will be during the first half of 2014.

In April 2013 the Directors made a share buyback offer to all shareholders to repurchase shares at \$3.55 per share. 266 shareholders accepted the offer for a total of 1.57 million shares. The Directors are pleased with the Company's capital management strategy which, since September 2011, has seen 6.33 million REL shares repurchased at an average of \$3.28 per share.

## **FINANCIAL PERFORMANCE**

The Group's Total Comprehensive Income for the year ended 30 June 2013 was \$10.92 million compared to \$15.76 million the previous year.

Operating Earnings reduced from \$2.93 million to \$2.11 million. Farm income was \$6.91 million compared to \$7.36 million last year. This reduction was due to lower prices for milk, sheep and wool, however beef returns remained relatively steady. In addition, farm operating expenses increased as a consequence of the drought and the need for higher supplementary feed inputs on the six dairy farms.

Net rental income from the Group's leased properties, interest costs and other expenses were all similar to last year.

The asset revaluation movements, including the Group's Fonterra shares, contributed \$9.64 million to Total Comprehensive Income.

Total Assets at 30 June 2013 were \$192.35 million compared with \$201.60 million the previous year. This reduction is primarily due to the settlement of the sale of three properties during the financial year.

Liabilities at balance date of \$21.59 million represent 11% of Total Assets leaving the Group in a very strong financial position.

## **DIVIDEND**

A fully imputed dividend of 6 cents per share will be paid to shareholders with respect to the financial year ended 30 June 2013. This is a 20% increase on the previous year's dividend of 5 cents per share. The record date was Friday, 20 September 2013 and the payment date, Wednesday, 2 October 2013.

## DIRECTORS

Murray Gough and John Green, both long serving Directors, retired from the Board on 30 June 2013. They had been Directors of REL and associated companies for 21 years and nine years respectively. Both have made outstanding contributions to the Group over many years.

In accordance with REL's constitution, Sir Ronald Carter and Sir Selwyn Cushing retire by rotation at the Annual Meeting on Wednesday, 20 November 2013. Both are seeking re-election.

## TANDOU LIMITED

Since balance date, the Group has acquired an 11% stake in Australian agricultural company Tandou Limited. Tandou has operated for over 40 years and owns one of Australia's most significant agricultural land holdings together with a substantial portfolio of both high and general security irrigation water rights. Tandou's land holdings cover approximately 133,000 hectares in New South Wales with over 15,000 hectares under irrigation. Tandou is one of the largest producers of cotton and cereal crops in the Australian market. It is one of the largest organic lamb producers in Australia with 18,000 Dorper breeding ewes.

## OUTLOOK

We have seen over the past year how the fortunes of New Zealand agriculture fluctuate and are affected by climate, markets, the global economy and exchange rates.

The importance of well planned and researched longer term objectives plus sound but flexible shorter term management strategies, all backed by a strong financial position, has once again shown to be an excellent combination. We will



*Bulls grazing at Puketotara*



*Irrigating wheat at Flimby*

continue to see short term volatility in farm product prices from year to year but that must be accepted as a feature of the agricultural sector in which we operate.

We expect the soft market for lamb in Europe will continue but increasing demand from China and the anticipated smaller lamb crop this spring will assist prices to recover from the low levels seen in the past season. Beef schedules are expected to be relatively stable at current levels through the early part of the season but export markets are soft and prices may ease as the year progresses. No significant changes to wool prices are anticipated. The current near-record global prices for dairy products will provide a significant lift in income for the dairy sector. These high prices are however, expected to decline as the season progresses but there are excellent prospects for the year ahead with the forecast milk price currently set at between \$7.80 and \$8.00 per kilogram of milk solids.

Looking ahead, a similar level of activity in the rural property market for all types of farms is expected with values continuing to firm for high quality properties. The irrigation capability of individual farms as well as the flexibility to change to a higher value land use will have a significant effect in determining future value growth.

The Directors strongly believe in the positive long term outlook for premium agricultural assets in New Zealand and Australia. With a quality portfolio of farms in New Zealand, some interesting growth opportunities and a strong balance sheet, REL is well positioned.

David Cushing  
Executive Chairman

## Farming Review

### SCOPE OF OPERATIONS

The Group owns 26 farms comprising 12,734 hectares. The farms are a mix of sheep and beef, dairy, deer and arable farms that are spread throughout New Zealand from northern Waikato to Southland. There are 15 properties in the South Island and 11 in the North Island. Nine farms are directly managed comprising 5,361 hectares. Six of the directly managed farms are dairy farms, all with 50/50 sharemilkers, and the remaining three are the Waikato sheep and beef farms. The six dairy farms total 1,190 hectares and milk approximately 3,820 cows. The three Waikato group farms comprise 4,171 hectares and run approximately 30,000 stock units.

### FARMED PROPERTIES

The directly managed farms produced another solid contribution to profit in the year to 30 June 2013 at \$1.94 million. This compares with \$2.63 million last year. The significantly lower prices received for lambs and wool were the main reasons for the lower profit contribution. However the reduced Fonterra milk price combined with higher feed costs on the dairy farms were also factors. This year much lower livestock values for sheep and beef cattle at balance date impacted negatively on profit.

The farming year in review was one of the most challenging experienced for many years. Favourable climatic conditions in early spring in most areas provided a very strong start for the dairy farms. Milk production to December was 8% ahead of the previous season. However, as the drought intensified through the summer and autumn this advantage rapidly declined to 1.5% at the end of the season. The widespread drought made farming difficult in all regions through the summer and early autumn, not just for the dairy farms. Lamb and cattle killing weights were also compromised.

### DAIRY FARMS

All dairy farms were well provisioned according to our farming policy, however additional supplementary feed had to be sourced on the farms in order to avoid cows drying off prematurely. The economics of buying the feed were closely monitored. Fortunately, favourable pasture growing conditions prevailed through the autumn after the drought broke in April but this provided little late season milk as the herds were smaller, having culled cows early. The benefit of reliable irrigation was again illustrated this season at the two Canterbury dairy farms. Although



*Dairy cows at Milford*

Rocklea was affected to some degree by irrigation water restrictions, this was partly mitigated by the installation of a soil moisture probe which provides information that enables “just in time” rather than “just in case” irrigation. Water can therefore be applied more efficiently as required.

For the second successive year the six dairy farms achieved record milk production despite the drought. This season just over 1.56 million kilograms of milk solids were supplied to Fonterra - a 1.5% increase from the previous season. This is an excellent result with creditable results from Delorain (Taranaki), Peshurst (Manawatu) and Rocklea (Canterbury). It is pleasing to report that Rocklea - where a substantial irrigation redevelopment project was undertaken in 2011 - has achieved the expected production annual increase of 50,000 kilograms of milk solids (a 21% gain) in two years. This justifies the investment in that property and we anticipate a further 15,000 kilograms of milk solids can be produced annually within the next two years as the pasture renewal programme proceeds.

There has been a significant increase in the value of the Group's Fonterra shares as a result of Fonterra's Trading Among Farmers scheme (TAF) that was introduced in November 2012. Fonterra requires suppliers to hold one share for every kilogram of milk solids supplied - for the Group, this is a substantial sum. This capital can be better utilised within the Group provided there is a credible alternative milk processor. Recognising this, the two Canterbury dairy farms (Milford and Rocklea) have commenced supplying milk to Synlait Milk Limited from the season that began on 1 June 2013 - Synlait does not require suppliers to hold shares. As a result of this change,

together with the introduction of TAF and the associated Supply Offer, half of the Group's Fonterra shareholding has been divested during the year.

At this stage it is planned to convert the 396 hectare Eiffelton farm into two dairy units over the next two years using the proceeds received from the sale of the Fonterra shares. Once converted, Eiffelton will milk approximately 1,500 cows with production estimated to be in excess of 600,000 kilograms of milk solids. It is proposed that the milk produced at Eiffelton will also be processed by Synlait.

The forecast Fonterra payout for the season ended 31 May 2013 has decreased by \$0.25 to \$5.80 per kilogram of milk solids. The final milk price for the season will be announced by Fonterra in late September 2013. Looking ahead to the season ending 30 June 2014, the current forecast milk price is very strong - between \$7.80 and \$8.00 per kilogram of milk solids.

A new concrete feed pad was built at Delorain last winter. This was a well-timed investment as the benefit of using a feed pad to increase the utilisation of supplementary feed during periods of drought, as well as when soil conditions are wet, was very apparent this season.

Another significant development project this year was the completion of a large additional effluent storage pond at Shenstone in Southland. This was required for resource consent compliance. These requirements change frequently and often lead to additional capital investment being necessary in order to be able to renew the consents at the required ten yearly intervals. A similar storage pond is being designed for Tatarepo, the other Southland dairy farm, for completion over the coming summer.



*Pastoral scene - Silvertown*



*Holding paddocks at Waikoha*

Caring responsibly for the environment is given high priority within the REL Group with effluent management on the dairy farms being a key operational requirement. There is significant nutrient value derived from spreading the effluent on pasture which enhances pasture production and reduces the quantity of fertiliser required with associated cost savings. All six dairy farms have been compliant for a number of years with the requirement to fence waterways to exclude dairy cows. Tree planting for livestock shelter and amenity value is an ongoing project.

#### **WAIKATO FARM GROUP**

The Waikato farm group comprises three sheep and beef properties – Annandale (515 hectares), Puketotara (1,146 hectares) and Waikoha (2,510 hectares). In total approximately 30,000 stock units are carried on the 4,171 hectares. Annandale and Waikoha are located in close proximity to each other near Whatawhata on the outskirts of Hamilton. Puketotara is located at Ruawaro, west of Huntly.

Annandale and Puketotara operate as livestock finishing units associated with Waikoha, which allows store lambs and surplus weaner cattle bred at Waikoha to be farmed within the Group until they are ready for slaughter. Maximum value is therefore obtained from all stock that is bred. This is a key element in the integration of the three farms and the importance of that integration was illustrated this season during the drought. Early weaning of the Waikoha lambs at lighter weights than normal was necessary this year. All lambs, apart from replacement ewe lambs, were transferred to Annandale and Puketotara and were sold



*Prime steers at Annandale*

for slaughter as the season progressed. Without the other two farms, the Waikoha lambs would have been sold at unacceptable prices on the store market. An additional benefit was that more pasture was available to the breeding ewe flock at Waikoha in the critical pre-tupping period. As a result the ewes were in better condition at tupping with the lambing percentage this spring expected to be close to that achieved last year. This is verified by scanning and is a good result following the drought.

In addition to finishing store lambs from Waikoha, Annandale also finishes 450 cattle, many of which are bred at Waikoha and transferred at weaning. Bulls are also purchased for finishing. The quantities of lambs and beef finished plus wool produced at Annandale are now steadily increasing as pasture growth and utilisation improves following the development work completed three years ago.

The farming policy at Puketotara is to run a predominantly bull beef finishing operation where currently over 1,800 cattle are farmed and up to 8,000 lambs are traded and finished annually. Beef trading at Puketotara was more difficult this year as the price of replacement bulls during the spring were above related schedule prices. Acceptable cattle schedule prices prevailed during the three month period when over 1,100 bulls were sent for slaughter. The average carcass weight of the bulls was similar to previous years but target weights of the bulls killed later were difficult to achieve in the increasingly dry conditions. Autumn replacement bulls were able to be purchased at more favourable prices as the strategy was to build

pasture covers quickly after the drought so that advantage could be taken of the cheaper cattle prices. In contrast, lamb trading was more consistent, even with a low meat schedule due to attractive purchase prices. Benefits from the pasture renewal programme undertaken at Puketotara over the last three years were especially evident this year with lambs from Waikoha able to be carried through the drought.

At Waikoha the development programme continues. This year more of the internal fences have been replaced and additional fertiliser was applied over much of the hill country. The management focus is on growing more grass, improving the performance of the breeding ewe flock and increasing ewe hogget growth rates whilst steadily increasing sheep numbers.

The livestock policies on all three Waikato farms are designed to integrate with each other as well as provide flexibility within the Group in times of drought. The benefits of this were illustrated this year with bulls being sent to slaughter from Puketotara to make room for store lambs from Waikoha. Also, surplus pasture made into baled silage in the previous season at Puketotara was able to be trucked to both Annandale and Waikoha for use during the drought. Following a drought, preservation of the breeding flock is paramount in order to provide income in the year following. This year 1,000 replacement ewe hoggets from Waikoha were grazed through the winter at Puketotara and 100 breeding cows were grazed for a time at Annandale. As a result of the management strategies used, all three farms have normal livestock numbers and sufficient feed to start the new season without any carry over affects from the drought.



*Hoggets grazing on plantain at Puketotara*



## LEASED PROPERTIES

The Trust has seventeen farms that are leased which provide rental income. These properties form an integral part of the geographically and sector diversified farm portfolio and are located in Hawke's Bay, Manawatu, Canterbury and Otago. The steady income base these properties provide to the Group is significant. They are leased predominantly to farmers with other farming interests, providing scale of operation for their businesses and stability of tenure for the Group.

Rent reviews are completed every two years. In recent years the reviews have resulted in modest increases in rents across all sectors with more marked gains particularly where land is suitable for dairy grazing and support activities. With favourable dairy farm returns and increasing conversion of land to dairy, the demand for dairy support land is spreading to areas previously used predominantly for sheep and beef farming. The effect of this is to increase farm rents for pastoral land in areas that were not previously considered strong dairy support land.

Opportunities to develop and change the land use of some of the leased farms have been identified, particularly where there is potential to be part of proposed irrigation schemes or to convert to dairy farms. These opportunities will be taken up where economic viability is justified and improved financial returns as well as higher property values will result.

The name, location, size and type of property for each farm in the Group's portfolio are shown in the Farm Property Schedule and Farm Location Map on pages 8 & 9.



Brian Burrough  
Chief Executive Officer

## Farm Property Schedule

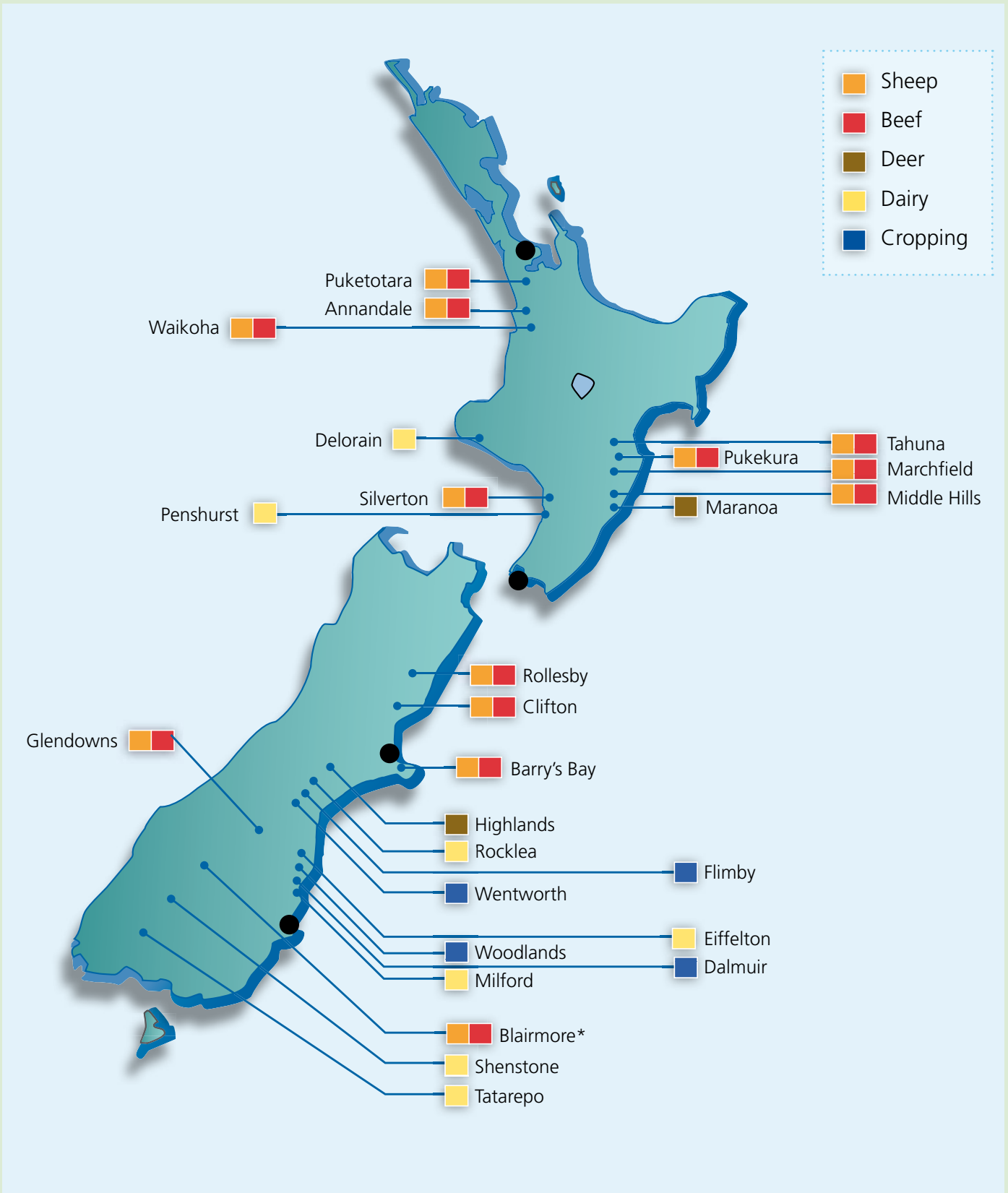
As at 30 June 2013

Property	Type	Region	Total Hectares	Management	Livestock Units (approx.)
Annandale	Sheep/Beef Finishing	Waikato	515	Managed	5,000
Barry's Bay	Sheep/Beef Grazing	Banks Peninsula Canterbury	573	Leased	4,000
Blairmore*	Sheep/Beef/Deer Grazing	Central Otago	647	Leased	4,100
Clifton	Sheep/Beef Finishing	North Canterbury	656	Leased	5,400
Dalmuir	Arable	South Canterbury	219	Leased	n/a
Delorain	Dairy	Taranaki	101	Sharemilked	300 cows
Eiffelton	Dairy Grazing	Canterbury	396	Leased	n/a
Flimby	Arable	Canterbury	266	Leased	n/a
Glendowns	Sheep/Beef Finishing	South Canterbury	399	Leased	4,100
Highlands	Deer Breeding / Finishing	Canterbury	380	Leased	3,800
Maranoa	Deer Breeding / Finishing	Hawke's Bay	306	Leased	3,500
Marchfield	Sheep/Beef/Deer Finishing	Hawke's Bay	481	Leased	5,000
Middle Hills	Sheep/Beef Finishing	Hawke's Bay	545	Leased	6,000
Milford	Dairy	South Canterbury	177	Sharemilked	725 cows
Penshurst	Dairy	Manawatu	257	Sharemilked	725 cows
Pukekura	Sheep/Beef Finishing	Hawke's Bay	444	Leased	3,700
Puketotara	Sheep/Beef Finishing	Waikato	1,146	Managed	12,000
Rocklea	Dairy	Canterbury	189	Sharemilked	720 cows
Rollesby	Sheep/Beef Grazing	North Canterbury	323	Leased	3,500
Shenstone	Dairy	Southland	313	Sharemilked	930 cows
Silverton	Sheep/Beef Finishing	Manawatu	546	Leased	7,000
Tahuna	Sheep/Beef Finishing	Hawke's Bay	580	Leased	5,500
Tatarepo	Dairy	Southland	153	Sharemilked	420 cows
Waikoha	Sheep/Beef Grazing	Waikato	2,510	Managed	13,000
Wentworth	Arable	Canterbury	161	Leased	n/a
Woodlands	Arable	South Canterbury	451	Leased	n/a
Total Landholding - Farms			12,734		

\* Farm under unconditional contract for sale.

# Property Location Map

As at 30 June 2013



\* Farm under unconditional contract for sale.

## Statement of Comprehensive Income

For the year ended 30 June 2013

	Notes	GROUP 2013 \$000	GROUP 2012 \$000	PARENT 2013 \$000	PARENT 2012 \$000
<b>Revenue</b>					
Farm income	3	6,911	7,360	-	-
Leased property income		2,789	2,886	-	-
Inter group dividend		-	-	14,344	-
Inter group administration fee		-	-	1,200	1,200
Other income		315	315	311	312
<b>Total</b>		<b>10,015</b>	<b>10,561</b>	<b>15,855</b>	<b>1,512</b>
<b>Operating expenses</b>					
Farm operating expenses		4,975	4,727	-	-
Leased property expenses		182	207	-	-
Interest costs		1,215	1,297	1,215	1,134
Other expenses		1,532	1,404	1,370	1,213
<b>Total</b>	5	<b>7,904</b>	<b>7,635</b>	<b>2,585</b>	<b>2,347</b>
<b>Profit (loss) before other items</b>		<b>2,111</b>	<b>2,926</b>	<b>13,270</b>	<b>(835)</b>
<b>Other items</b>					
Loss on disposal of forest assets	15	-	(846)	-	-
Gain on disposal of shares in Fonterra Co-operative Group Limited		2,444	-	-	-
Revaluations	4	7,082	11,504	-	(26)
<b>Total other items</b>		<b>9,526</b>	<b>10,658</b>	<b>-</b>	<b>(26)</b>
<b>Net profit (loss) before tax</b>		<b>11,637</b>	<b>13,584</b>	<b>13,270</b>	<b>(861)</b>
Income tax expense (credit)	7	802	492	(16)	(2)
<b>Net profit (loss) after tax</b>	6	<b>10,835</b>	<b>13,092</b>	<b>13,286</b>	<b>(859)</b>
<b>Other comprehensive income</b>					
<i>Items that will not be reclassified subsequently to profit or loss:</i>					
Revaluation of property, plant and equipment	4	110	2,750	14	20
Tax on other comprehensive income	7	24	85	4	8
Total other comprehensive income net of tax		86	2,665	10	12
<b>Total comprehensive income</b>		<b>10,921</b>	<b>15,757</b>	<b>13,296</b>	<b>(847)</b>
Earnings per share - basic and diluted - \$ per share	19	\$0.29	\$0.33		

The accompanying notes form part of these financial statements.

## Statement of Changes in Equity

For the year ended 30 June 2013

GROUP	Notes	Fully Paid	Asset	Retained	Total
		Ordinary Shares	Revaluation Reserve	Earnings	
		\$000	\$000	\$000	\$000
<b>At 1 July 2011</b>		<b>107,122</b>	<b>6,573</b>	<b>53,063</b>	<b>166,758</b>
Net profit after tax for the year		-	-	13,092	13,092
Other comprehensive income net of tax		-	2,665	-	2,665
<b>Total comprehensive income</b>		<b>-</b>	<b>2,665</b>	<b>13,092</b>	<b>15,757</b>
Share repurchase and cancellation		(15,212)	-	-	(15,212)
<b>At 30 June 2012</b>	10	<b>91,910</b>	<b>9,238</b>	<b>66,155</b>	<b>167,303</b>
<b>At 1 July 2012</b>		<b>91,910</b>	<b>9,238</b>	<b>66,155</b>	<b>167,303</b>
Net profit after tax for the year		-	-	10,835	10,835
Other comprehensive income net of tax		-	86	-	86
<b>Total comprehensive income</b>		<b>-</b>	<b>86</b>	<b>10,835</b>	<b>10,921</b>
Share repurchase and cancellation		(5,587)	-	-	(5,587)
Dividend paid		-	-	(1,870)	(1,870)
<b>At 30 June 2013</b>	10	<b>86,323</b>	<b>9,324</b>	<b>75,120</b>	<b>170,767</b>
<b>PARENT COMPANY</b>	Notes	Fully Paid	Asset	Retained	Total
		Ordinary Shares	Revaluation Reserve	Earnings	
		\$000	\$000	\$000	\$000
<b>At 1 July 2011</b>		<b>107,122</b>	<b>44</b>	<b>(10,035)</b>	<b>97,131</b>
Net loss after tax for the year		-	-	(859)	(859)
Other comprehensive income net of tax		-	12	-	12
<b>Total comprehensive income</b>		<b>-</b>	<b>12</b>	<b>(859)</b>	<b>(847)</b>
Share repurchase and cancellation		(15,212)	-	-	(15,212)
<b>At 30 June 2012</b>	10	<b>91,910</b>	<b>56</b>	<b>(10,894)</b>	<b>81,072</b>
<b>At 1 July 2012</b>		<b>91,910</b>	<b>56</b>	<b>(10,894)</b>	<b>81,072</b>
Net profit after tax for the year		-	-	13,286	13,286
Other comprehensive income net of tax		-	10	-	10
<b>Total comprehensive income</b>		<b>-</b>	<b>10</b>	<b>13,286</b>	<b>13,296</b>
Share repurchase and cancellation		(5,587)	-	-	(5,587)
Dividend paid		-	-	(1,870)	(1,870)
<b>At 30 June 2013</b>	10	<b>86,323</b>	<b>66</b>	<b>522</b>	<b>86,911</b>

The accompanying notes form part of these financial statements.

## Balance Sheet

As at 30 June 2013

		GROUP	GROUP	PARENT	PARENT
	Notes	2013	2012	2013	2012
		\$000	\$000	\$000	\$000
<b>Current Assets</b>					
Cash at bank		103	116	1	1
Accounts receivable		866	997	83	74
Properties under contract for sale	12	3,447	12,832	-	-
Livestock	16	1,757	1,697	-	-
Feed on hand		526	560	-	-
Total		6,699	16,202	84	75
<b>Non Current Assets</b>					
Investment properties	11	145,827	144,448	-	-
Property, plant and equipment	13	31,645	31,155	598	583
Livestock	16	1,968	2,450	-	-
Forest	15	69	62	-	-
Shares in Fonterra Co-operative Group Limited	17	5,843	7,015	-	-
Other investments	17	302	264	113,696	113,696
Total		185,654	185,394	114,294	114,279
<b>Total Assets</b>		<b>192,353</b>	<b>201,596</b>	<b>114,378</b>	<b>114,354</b>
<b>Current Liabilities</b>					
Accounts payable and accrued expenses		1,150	1,772	231	321
Provision for tax		297	237	-	-
Other current liabilities	10	-	3,270	-	3,270
Payable to subsidiaries		-	-	8,785	2,278
Total		1,447	5,279	9,016	5,869
<b>Term Liabilities</b>					
Bank loans	18	18,450	27,400	18,450	27,400
Deferred tax liability	7	1,689	1,614	1	13
Total		20,139	29,014	18,451	27,413
<b>Equity</b>					
Fully paid up ordinary shares		86,323	91,910	86,323	91,910
Asset revaluation reserve		9,324	9,238	66	56
Retained earnings		75,120	66,155	522	(10,894)
Total	10	170,767	167,303	86,911	81,072
<b>Total Liabilities and Equity</b>		<b>192,353</b>	<b>201,596</b>	<b>114,378</b>	<b>114,354</b>

On behalf of the Directors, who authorised the issue of these financial statements, dated 29 August 2013.



David Cushing  
EXECUTIVE CHAIRMAN



Rodger Finlay  
DIRECTOR

The accompanying notes form part of these financial statements.

## Statement of Cash Flows

For the year ended 30 June 2013

	Notes	GROUP 2013 \$000	GROUP 2012 \$000	PARENT 2013 \$000	PARENT 2012 \$000
<b>Cash flows from operating activities</b>					
<i>Cash was provided from:</i>					
Receipts from customers		12,258	13,037	302	314
Inter group dividend		-	-	14,344	-
Inter group administration fee		-	-	1,200	1,200
Interest received		4	3	-	-
		12,262	13,040	15,846	1,514
<i>Cash was applied to:</i>					
Payments to suppliers and employees		8,002	7,643	1,308	1,208
Taxation paid		691	730	-	-
Interest paid		1,353	1,283	1,353	1,120
		10,046	9,656	2,661	2,328
<b>Net cash flows from operating activities</b>	6	<b>2,216</b>	<b>3,384</b>	<b>13,185</b>	<b>(814)</b>
<b>Cash flows from investing activities</b>					
<i>Cash was provided from:</i>					
Proceeds from sale of investment property		12,797	2,157	-	-
Proceeds from sale of shares in Fonterra Co-operative Group Limited		5,924	-	-	-
Proceeds from sale of a forest		-	1,465	-	-
Proceeds from sale of property, plant and equipment		18	1,490	-	-
		18,739	5,112	-	-
<i>Cash was applied to:</i>					
Improvements to investment properties		514	630	-	-
Improvements to other properties		180	427	-	-
Purchases of plant and equipment		256	408	15	6
Purchase of shares		341	57	-	-
		1,291	1,522	15	6
<b>Net cash flows from investing activities</b>		<b>17,448</b>	<b>3,590</b>	<b>(15)</b>	<b>(6)</b>
<b>Cash flows from financing activities</b>					
<i>Cash was provided from:</i>					
Repayment by subsidiary		-	-	6,507	7,703
Term loans advance		-	5,050	-	5,050
		-	5,050	6,507	12,753
<i>Cash was applied to:</i>					
Term loans reduction		8,950	-	8,950	-
Dividend paid		1,870	-	1,870	-
Share repurchase and cancellation	10	8,857	11,942	8,857	11,942
		19,677	11,942	19,677	11,942
<b>Net cash flows from financing activities</b>		<b>(19,677)</b>	<b>(6,892)</b>	<b>(13,170)</b>	<b>811</b>
<b>Net increase (decrease) in cash held</b>		<b>(13)</b>	<b>82</b>	<b>-</b>	<b>(9)</b>
Cash at start of period		116	34	1	10
<b>Cash at end of period</b>		<b>103</b>	<b>116</b>	<b>1</b>	<b>1</b>
<b>Cash at bank</b>		<b>103</b>	<b>116</b>	<b>1</b>	<b>1</b>

The accompanying notes form part of these financial statements.

# Notes to the Financial Statements

## NOTE 1 STATEMENT OF ACCOUNTING POLICIES

### REPORTING ENTITY

Rural Equities Limited is a company registered in New Zealand under the Companies Act 1993. The Company is a listed issuer for the purposes of the Financial Reporting Act 1993 and the financial statements have been prepared in accordance with that Act.

The Group ("the Group") consists of:

- (a) The parent, Rural Equities Limited ("the Company") ("REL")
- (b) The subsidiaries, New Zealand Rural Property Trust Management Limited, REL - Trust Management Limited and the New Zealand Rural Property Trust ("the Trust").

REL's ultimate parent company is H&G Limited.

The Group owns twenty six farms. Seventeen of the farms are leased out and six are operated under sharemilking arrangements. The other three farms are sheep and beef farms operated directly by the Group.

### MEASUREMENT BASE

The functional currency is New Zealand dollars and the financial statements are presented in New Zealand dollars. All values are rounded to the nearest thousand dollars (\$000).

The financial statements have been prepared using a historical cost basis, modified by the revaluation to fair value of certain assets and liabilities as disclosed below.

### STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. They also comply with International Financial Reporting Standards (IFRS).

### STANDARDS ISSUED BUT NOT YET EFFECTIVE

There are no new standards, amendments or interpretations that have been issued, but not yet effective, which are expected to have a material impact on the disclosure or reported financial performance or position of the Group.

### CHANGES IN ACCOUNTING POLICIES

There have been no changes to accounting policies. The accounting policies set out below have been applied consistently to both periods presented in these financial statements. Where necessary, comparative information has been reclassified in order to provide a more appropriate basis for comparison.

### SPECIFIC ACCOUNTING POLICIES

The following specific accounting policies have been applied:

#### ***(a) Basis of Consolidation***

The consolidated financial statements include the parent company and its subsidiaries. In preparing the consolidated financial statements all significant inter-company balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

The acquisition of subsidiaries is accounted for using the acquisition method.



## Notes to the Financial Statements

### **(b) Property, Plant and Equipment**

#### **Land and Buildings**

Land and buildings are recorded at fair value, based on annual valuations prepared by registered independent valuers.

All properties are revalued annually as at 30 June.

Any revaluation increment is credited to the revaluation reserve and included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised within net profit in the Statement of Comprehensive Income, in which case the increase is recognised within net profit in the Statement of Comprehensive Income.

Any revaluation decrease is recognised within net profit in the Statement of Comprehensive Income for the period except to the extent that it offsets a previous revaluation increase for the same asset, then the decrease is debited directly to the asset revaluation reserve to the extent of the credit balance in the revaluation reserve for that asset.

Buildings are depreciated on a straight line basis over 50 years.

#### **Plant and Machinery**

Plant and machinery is recorded at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on a straight-line basis so as to allocate the cost of the assets over their estimated useful lives. The estimated useful lives of plant and machinery assets range from four to ten years.

### **(c) Investment Properties**

Investment properties are initially recorded at cost. Subsequent to initial recognition, investment properties are revalued to fair value based on annual valuations prepared by registered independent valuers.

All investment properties are revalued annually as at 30 June.

Changes in value are recorded within net profit in the Statement of Comprehensive Income for the period.

### **(d) Properties under Contract for Sale**

Properties under contract for sale comprise land and buildings that have been sold unconditionally. They are classified under current assets and are recorded at sale value less estimated sale costs.

### **(e) Forest Assets**

Forest assets are recorded at fair value, less estimated point of sale costs, based on valuations by independent valuers.

### **(f) Investments**

Investments, other than the parent company investment in subsidiaries, are initially recorded at cost and subsequently revalued to fair value. Changes in fair value are recorded within net profit in the Statement of Comprehensive Income.

Investments have been designated as “at fair value through profit or loss” on the basis that the assets are both managed and their performance is evaluated on a fair value basis as part of a documented investment strategy.

Investments in subsidiaries are recognised at cost less any provision for impairment.

### **(g) Livestock**

Livestock are recorded at fair value as assessed by an independent valuer, less estimated point of sale costs. Changes in fair value are recorded within net profit in the Statement of Comprehensive Income. Livestock are classified as a current asset if they are likely to be sold within one year.

## Notes to the Financial Statements

### **(h) Taxation**

The income tax expense comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the carrying amounts used for taxation.

A deferred tax asset relating to unused tax losses is only recognised to the extent that taxable profits will be available against which the tax losses can be utilised.

### **(i) Goods and Services Tax**

The financial statements have been prepared on a GST exclusive basis, except for receivables and payables that are stated inclusive of GST.

### **(j) Trade and Other Receivables**

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any impairment losses.

### **(k) Trade and Other Payables**

Trade payables are carried at amortised cost. They represent liabilities for goods and services provided prior to balance date that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

### **(l) Cash and Cash Equivalents**

For purposes of the Cash Flow Statement, cash and cash equivalents include cash at bank, short term deposits and bank overdrafts.

### **(m) Revenue Recognition**

Lease rental revenue is recognised in the Statement of Comprehensive Income on a straight-line basis over the term of the lease.

Farm income consists mainly of milk, wool and livestock sales.

Revenue from the sale of goods, including livestock, is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

Milk sales income is recognised at the time of delivery of milk to Fonterra Co-operative Group Limited at their declared payment rate.

### **(n) Interest-bearing Loans and Borrowings**

All loans are initially recognised at the fair value of the consideration received, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Borrowing costs are expensed in the period they occur as the Group does not have any qualifying assets for which interest needs to be capitalised.

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

### **(o) Derivative Financial Instruments**

Derivative financial instruments are used to economically hedge exposure to interest rates. Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are revalued to fair value. The gain or loss on revaluation is recognised immediately within net profit in the Statement of Comprehensive Income.

## Notes to the Financial Statements

### **(p) Feed on Hand**

Feed on hand consists of livestock feed either purchased or produced on the farms. Feed on hand is valued at the lower of cost or net realisable value.

### **(q) Carbon Credits – New Zealand Units (“NZUs”)**

Allocations of NZUs are recognised where the Group is reasonably certain that they will be received. The Group’s NZUs arise from current and past ownership of pre 1990 forest land. NZUs are treated as intangible assets and are carried at cost.

## **NOTE 2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

In applying the accounting policies management continually evaluate judgments, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgments, estimates and assumptions made are believed to be reasonable, based on the most current set of circumstances available to management. Actual results may differ from the judgments, estimates and assumptions made by management. Significant judgments made in the preparation of these financial statements are outlined below:

- i) **Investment Properties** - The majority of the Group’s assets consist of investment properties. The fair values are based on market values, as assessed by independent registered valuers who estimate the amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing. Changes to market conditions or to assumptions made in the estimation of fair value will result in changes to the fair value of investment properties.
- ii) **Sharemilking arrangements** - The Group has sharemilking agreements in place on six (2012 six) of its properties. The essential nature of these agreements is that of a tenancy and so these properties are treated as investment properties. Therefore all changes in value are recorded in the Statement of Comprehensive Income.
- iii) **Leases** - The Group has entered into leases with farmers for its investment properties. The Group retains all significant risks and rewards of ownership of the properties and has therefore classified the leases as operating leases.
- iv) **Milk Proceeds** - The Group estimates and accrues the final milk proceeds for the dairy season using the latest milk payout amount announced by Fonterra prior to the finalisation of the financial statements. The final amount received could be different from the amount accrued.

## **NOTE 3 FARM INCOME**

Farm income comprises:	GROUP 2013 \$000	GROUP 2012 \$000	PARENT 2013 \$000	PARENT 2012 \$000
Milk income	4,983	4,906	-	-
Livestock income (refer note 16)	1,410	2,115	-	-
Other income	518	339	-	-
	<b>6,911</b>	<b>7,360</b>	<b>-</b>	<b>-</b>

## Notes to the Financial Statements

### NOTE 4 REVALUATIONS

	GROUP	GROUP	PARENT	PARENT
Revaluations recognised in profit and loss:	2013	2012	2013	2012
	\$000	\$000	\$000	\$000
Investment properties	4,391	11,297	-	-
Property, plant and equipment (refer note 1(b))	383	207	-	(26)
Shares in Fonterra Co-operative Group Limited	2,308	-	-	-
	<b>7,082</b>	<b>11,504</b>	<b>-</b>	<b>(26)</b>
Revaluations recognised in other comprehensive income:				
Property, plant and equipment (refer note 1(b))	110	2,750	14	20

### NOTE 5 EXPENSES

	GROUP	GROUP	PARENT	PARENT
Specific disclosures are as follows:	2013	2012	2013	2012
	\$000	\$000	\$000	\$000
Depreciation - on plant and equipment	360	349	10	9
Depreciation - on buildings	46	33	4	4
Directors' fees	270	198	270	198
Operating lease costs	176	198	32	32
Audit fees	40	40	14	14
Fees paid to PwC for advisory work	9	15	9	8
Key management remuneration - short term benefits	687	656	687	656
Other employee remuneration	524	513	57	58
Loss (gain) in fair value of derivatives	(70)	42	(70)	42

Farm operating expenses include the costs of operating the farms that the Group manages directly or under sharemilking agreements. The main items are labour, feed, fertiliser and repairs and maintenance.

### NOTE 6 CASH FLOW RECONCILIATION

	GROUP	GROUP	PARENT	PARENT
	2013	2012	2013	2012
	\$000	\$000	\$000	\$000
<b>Net profit (loss) after tax</b>	10,835	13,092	13,286	(859)
<b>Add (deduct) non-cash items:</b>				
Depreciation	406	382	14	13
Revaluation movements	(7,082)	(11,504)	-	26
	<b>(6,676)</b>	<b>(11,122)</b>	<b>14</b>	<b>39</b>
<b>Changes in assets and liabilities:</b>				
Change in accounts payable	(622)	111	(90)	6
Change in provision for tax	60	237	-	-
Change in deferred taxation	51	(475)	(16)	(2)
Change in livestock and feed on hand	456	78	-	-
Change in accounts receivable	131	939	(9)	2
	<b>76</b>	<b>890</b>	<b>(115)</b>	<b>6</b>
<b>Add (deduct) non-operating items:</b>				
Non-operating items in accounts payable	435	(318)	-	-
Realised (gains) losses on asset sales	(2,454)	842	-	-
	<b>(2,019)</b>	<b>524</b>	<b>-</b>	<b>-</b>
<b>Net cash flows from operating activities</b>	<b>2,216</b>	<b>3,384</b>	<b>13,185</b>	<b>(814)</b>

## Notes to the Financial Statements

### NOTE 7 TAXATION

	GROUP 2013 \$000	GROUP 2012 \$000	PARENT 2013 \$000	PARENT 2012 \$000
<b>Statement of Comprehensive Income</b>				
<b>Net profit (loss) before tax</b>	11,637	13,584	13,270	(861)
Tax at the statutory rate of 28%	3,259	3,804	3,716	(241)
<b>Adjusted for the tax effect of:</b>				
Non assessable asset revaluations and realisations	(2,616)	(3,100)	-	7
Non assessable livestock revaluations	260	(74)	-	-
Non assessable income inter group dividend	-	-	(4,016)	-
Depreciation on land improvements	(91)	(148)	-	-
Group loss offset	-	-	283	231
Other items	(10)	10	1	1
<b>Tax expense (credit)</b>	<b>802</b>	<b>492</b>	<b>(16)</b>	<b>(2)</b>
<b>Represented by:</b>				
Current tax	751	967	-	-
Deferred tax	51	(475)	(16)	(2)
	<b>802</b>	<b>492</b>	<b>(16)</b>	<b>(2)</b>
<b>Balance Sheet</b>				
<b>Deferred tax liabilities relate to the following:</b>				
Buildings depreciation and revaluation	1,643	1,620	23	21
Forest operations and revaluation	19	17	-	-
Plant depreciation	(85)	(78)	-	-
Livestock revaluation	93	17	-	-
Other items	19	38	(22)	(8)
Total	<b>1,689</b>	<b>1,614</b>	<b>1</b>	<b>13</b>
Deferred tax to be recovered after more than 1 year	1,585	1,463	23	21
Deferred tax to be recovered within 1 year	104	151	(22)	(8)
	<b>1,689</b>	<b>1,614</b>	<b>1</b>	<b>13</b>
<b>Changes to deferred tax provision:</b>				
1) Recognised in profit or loss				
Buildings depreciation and revaluation	(1)	159	(2)	-
Forest operations and revaluation	2	(628)	-	-
Plant depreciation	(7)	(1)	-	-
Livestock revaluation	76	(104)	-	-
Utilisation of tax losses	-	104	-	-
Other items	(19)	(5)	(14)	(2)
	<b>51</b>	<b>(475)</b>	<b>(16)</b>	<b>(2)</b>
2) Recognised in other comprehensive income				
	24	85	4	8
<b>Total change in deferred tax provision</b>	<b>75</b>	<b>(390)</b>	<b>(12)</b>	<b>6</b>

## Notes to the Financial Statements

### NOTE 8 IMPUTATION CREDIT ACCOUNT

	GROUP 2013 \$000	GROUP 2012 \$000
Imputation credits available for subsequent reporting periods	1,157	1,131

The above amounts represent the balance of the imputation credit account as at the end of the reporting period, adjusted for imputation credits that will arise from the payment of provisional income tax for the year.

The consolidated amounts include imputation credits that would be available to the parent if the subsidiaries paid dividends to the parent entity. However, the parent entity and all its subsidiaries form a consolidated group for income tax purposes. As such all imputation credit amounts are directly available to the parent entity.

### NOTE 9 FINANCIAL INSTRUMENTS

#### Financial Instrument Classification

	GROUP 2013 \$000	GROUP 2012 \$000	PARENT 2013 \$000	PARENT 2012 \$000
The carrying amounts of financial instruments by category are:				
<b>Loans and receivables:</b>				
Accounts receivable	866	997	83	74
Cash at bank	103	116	1	1
<b>Financial assets at fair value through profit or loss:</b>				
Designated - shares	6,145	7,279	-	-
Properties under contract for sale	3,447	12,832	-	-
<b>Financial liabilities measured at amortised cost:</b>				
Bank loans and overdraft	18,450	27,400	18,450	27,400
Accounts payable and accruals	1,150	5,042	9,016	5,869

#### Interest rate risk

The Group is exposed to changes in interest rates on its bank borrowings. All interest rates are fixed for periods of 90 days or less. As at 30 June 2013 the Group had entered into interest rate swaps to manage 54% (2012 36%) of the interest rate risk on its borrowing.

The Group regularly reviews interest rates for a range of terms and acts to minimise weighted average interest rates over the medium term on its borrowings.

The effect on the Group's profit after tax and the Group's equity of a 1% change in interest rates is \$133,000 (2012 \$197,000).

The notional principal amounts and period of expiry of the interest rate swap contracts are as follows:

	GROUP 2013 \$000	GROUP 2012 \$000	PARENT 2013 \$000	PARENT 2012 \$000
Less than one year	-	10,000	-	10,000
Between one and three years	10,000	-	10,000	-
	10,000	10,000	10,000	10,000

## Notes to the Financial Statements

### FINANCIAL INSTRUMENTS - *continued*

#### Commodity Price Risk

The Group is exposed to price risk on a number of agricultural commodities including wool, meat and milk solids. The Directors have identified changes to milk solid prices as having a material impact on profit. The effect on the Group's profit after tax and the Group's equity of a change in the price of milk solids of \$1.00 per kilogram would be \$562,000 (2012 \$553,000).

#### Market Price Risk

Shares in Fonterra Co-operative Group Limited are valued at the market price as at balance date. If the price changed by 10% the effect on the Group's profit after tax and the Group's equity would be \$584,000 (2012 \$702,000).

#### Credit Risk

Financial instruments which potentially subject the Group to credit risk, consist of cash at bank, bank term deposits, derivative financial instruments and accounts receivable. All cash at bank is with a registered New Zealand bank.

Included in accounts receivable is \$654,000 (2012 \$728,000) receivable from Fonterra Co-operative Group Limited. There are no other significant concentrations of credit risk.

Maximum exposures to credit risk are:	GROUP 2013 \$000	GROUP 2012 \$000	PARENT 2013 \$000	PARENT 2012 \$000
Cash at bank	103	116	1	1
Accounts receivable	866	997	83	74

#### Fair Values

Carrying value approximates to fair value for all classes of financial instrument.

#### Liquidity Risk

The Group's approach to liquidity risk management is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under normal and stressed conditions, without incurring unacceptable losses or risking sustained damage to returns.

Liquidity is assessed by using all information known, expected cash flows and the availability of collateral which could be used to secure additional funding if required. The Company's bank facility runs until 5 May 2015.

The following table sets out the maturity profile of the Group's financial liabilities:

	2013 Less than 12 months \$000	2013 1 to 3 years \$000	2012 Less than 12 months \$000	2012 1 to 3 years \$000
Accounts payable and accrued expenses	1,077	-	4,891	-
Interest bearing loans (incl. contracted interest)	18,523	-	27,551	-
	<u>19,600</u>	<u>-</u>	<u>32,442</u>	<u>-</u>

#### Fair Value of Financial Instruments

The fair values of financial assets designated at fair value through profit or loss are based on quoted prices in an active market for identical assets (Level 1 in the valuation hierarchy). The only material investment in this category is shares in Fonterra Co-operative Group Limited.

## Notes to the Financial Statements

### NOTE 10 EQUITY

	GROUP 2013 \$000	GROUP 2012 \$000	PARENT 2013 \$000	PARENT 2012 \$000
Share capital	86,323	91,910	86,323	91,910
Revaluation reserve	9,324	9,238	66	56
Retained earnings (accumulated deficit)	75,120	66,155	522	(10,894)
<b>Total</b>	<b>170,767</b>	<b>167,303</b>	<b>86,911</b>	<b>81,072</b>

#### Share Capital

There are 35,839,155 shares on issue (2012 38,407,824).

	GROUP AND COMPANY NUMBER OF SHARES		GROUP AND COMPANY VALUE	
	2013 000	2012 000	2013 \$000	2012 \$000
Opening balance	37,408	42,169	91,910	107,122
Shares repurchased and cancelled - see below	(1,569)	(3,761)	(5,587)	(11,942)
<b>Closing balance</b>	<b>35,839</b>	<b>38,408</b>	<b>86,323</b>	<b>95,180</b>
Shares subject to deferred settlement repurchase agreement and subsequent cancellation - see below	-	(1,000)	-	(3,270)
	<b>35,839</b>	<b>37,408</b>	<b>86,323</b>	<b>91,910</b>

All shares participate equally in dividends and any surpluses on winding up the Company. All shares have equal voting rights and have no par value.

On 2 September 2011 the Company repurchased 2,036,108 shares at \$3.15 per share from two investors - Citation Insurance Company and Physicians Insurance Company of Ohio - and cancelled the shares.

The Company entered into an agreement with Rotorua Energy Charitable Trust to repurchase 2,725,000 shares at an average price of \$3.23 per share. Settlement for 1,725,000 shares at \$3.20 took place on 30 March 2012 and the shares were subsequently cancelled. Settlement for the remaining 1,000,000 shares at \$3.27 took place on 4 October 2012 and the shares were cancelled.

On 23 April 2013 the Company repurchased 1,568,669 shares at \$3.55 per share from 266 shareholders pursuant to an offer made to all shareholders. The repurchased shares were cancelled.

#### Capital Maintenance

The Group's capital is primarily invested in rural property which is held for long term capital appreciation. Operational cash inflows are broadly expected to match outflows and where differences arise this is managed within the available banking facilities. The Group's capital consists of share capital, revaluation reserve and retained earnings.

### NOTE 11 INVESTMENT PROPERTIES

	GROUP 2013 \$000	GROUP 2012 \$000
Opening balance	144,448	147,329
Additions	435	441
Disposals	-	(1,787)
Transfer to Properties under Contract for Sale	(3,447)	(12,832)
Revaluations	4,391	11,297
<b>Closing balance</b>	<b>145,827</b>	<b>144,448</b>



## Notes to the Financial Statements

### INVESTMENT PROPERTIES - *continued*

All investment properties held as non current assets were valued as at 30 June 2013 and as at 30 June 2012 by independent registered valuers, P T Mills, BCom. VFM, MNZPI, of Property Advisory Limited or G W Tizard B.Ag.Comm. FNZIV, FPINZ, of Curnow Tizard Limited. The valuations are on the basis of current fair value. Fair value is determined by direct reference to recent market transactions on arm's length terms for properties comparable in size and location to those held by the Group after making allowances or adjustments for relevant differences between the properties - such as improvements, productivity and location - to improve comparability.

Where a property is subject to a lease arrangement the terms and conditions of the lease have been assessed, including exit provisions, and the value of the Group's investment as lessor is established.

A discounted cash flow model is used in situations where there is an absence of sales of properties with a similar lease arrangement to adjust the unencumbered market value of the properties to the value of the Group's interest as lessor. The total lease encumbrance is \$337,000 (2012 \$1,807,000).

Valuations by valuer	GROUP	GROUP
	2013	2012
	\$000	\$000
Curnow Tizard Limited	48,438	47,191
Property Advisory Limited	97,389	97,257
	<u>145,827</u>	<u>144,448</u>

### NOTE 12 PROPERTIES UNDER CONTRACT FOR SALE

	GROUP	GROUP
	2013	2012
	\$000	\$000
Opening balance	12,832	-
Disposals	(12,832)	-
Transferred from Investment Property	3,447	12,832
Closing balance	<u>3,447</u>	<u>12,832</u>

In September 2011 the Directors undertook a strategic review of the Group's rural property portfolio to consider the structure, components and diversification of the portfolio, recognising that the portfolio had been held largely unchanged for ten years. Following that review, four properties that were owned for more than 22 years, have been sold unconditionally.

As at 30 June 2012, the sale of two of these properties and a portion of a third property remained to be settled. Settlement was completed by 30 June 2013.

In May 2013, a property in Otago was sold after an unsolicited offer was received from a neighbour. Settlement is due to be completed by June 2014.

Properties under contract for sale are valued at their net sale proceeds.

## Notes to the Financial Statements

### NOTE 13 PROPERTY, PLANT AND EQUIPMENT

	GROUP 2013 \$000	GROUP 2012 \$000	PARENT 2013 \$000	PARENT 2012 \$000
<b>Land and Buildings</b>				
Opening balance	29,650	27,995	550	560
Additions	163	196	-	-
Disposals	-	(1,465)	-	-
Depreciation	(46)	(33)	(4)	(4)
Revaluations	493	2,957	14	(6)
<b>Closing balance</b>	<b>30,260</b>	<b>29,650</b>	<b>560</b>	<b>550</b>
<b>Plant and Equipment</b>				
Opening balance	1,505	1,471	33	36
Additions	244	388	15	6
Disposals	(4)	(5)	-	-
Depreciation	(360)	(349)	(10)	(9)
<b>Closing balance</b>	<b>1,385</b>	<b>1,505</b>	<b>38</b>	<b>33</b>
Cost	4,640	4,464	96	116
Accumulated depreciation	(3,255)	(2,959)	(58)	(83)
Net carrying amount	1,385	1,505	38	33
<b>Total property, plant and equipment</b>	<b>31,645</b>	<b>31,155</b>	<b>598</b>	<b>583</b>

Rural land and buildings were valued as at 30 June 2013 by independent registered valuer, G W Tizard B.Ag.Comm. FNZIV, FPINZ, of Curnow Tizard Limited. The valuations are on the basis of current fair value. Fair value is determined by direct reference to recent market transactions on arm's length terms for properties comparable in size and location to those held by the Group after making allowances or adjustments for relevant differences between the properties - such as improvements, productivity and location - to improve comparability.

The commercial land and building was valued as at 30 June 2013 by independent registered valuer F E Spencer BBS(Val & PM), FPINZ, FNZIV, AREINZ of Logan Stone Limited. The valuation is on the basis of current fair value. Fair value is determined by direct reference to recent market transactions on arm's length terms for properties of comparable size and location.

	GROUP 2013 \$000	GROUP 2012 \$000	PARENT 2013 \$000	PARENT 2012 \$000
<b>Valuations by valuer</b>				
Curnow Tizard Limited	29,700	29,100	-	-
Logan Stone Limited	560	550	560	550
	<b>30,260</b>	<b>29,650</b>	<b>560</b>	<b>550</b>

If land and buildings were measured at cost less accumulated depreciation and impairment then the carrying amounts would be:

	GROUP 2013 \$000	GROUP 2012 \$000	PARENT 2013 \$000	PARENT 2012 \$000
Land	6,361	6,199	320	320
Buildings	2,128	2,128	185	185
Less accumulated depreciation	(722)	(681)	(8)	(5)
<b>Net carrying amount</b>	<b>7,767</b>	<b>7,646</b>	<b>497</b>	<b>500</b>

### NOTE 14 CARBON CREDITS - NEW ZEALAND UNITS ("NZUs")

The Group owns 58,740 NZUs issued under the New Zealand Government's Emissions Trading Scheme. The NZUs are carried at nil value, being the cost to the Group.

## Notes to the Financial Statements

### NOTE 15 FOREST ASSET

The Group's Ngaruawahia forest was sold during the 2012 financial year. The Group's remaining forest is a block of 41 hectares of pine trees located on the Waikoha property in the Waikato. The trees are under four years of age. This forest has not been revalued in 2012 or 2013 as Directors are of the view that due to the age of the forest, the carrying value has not materially changed during the last two years. Accordingly the forest is held at the 2011 valuation plus forest redevelopment costs.

	GROUP 2013 \$000	GROUP 2012 \$000
Opening balance	62	2,304
Forest redevelopment	7	70
Forest sale	-	(2,312)
<b>Closing balance</b>	<b>69</b>	<b>62</b>

### NOTE 16 LIVESTOCK

The Group operates three sheep and beef cattle farms. Livestock are held for meat and wool production.

	GROUP 2013 No. of Head	GROUP 2012 No. of Head
<b>Livestock on hand:</b>		
Sheep	14,588	12,837
Cattle	3,020	2,896
	GROUP 2013 \$000	GROUP 2012 \$000
<b>Sheep value</b>		
Opening balance	1,585	1,736
Increases due to purchases	572	521
Decreases due to sales	(1,249)	(1,370)
Revaluation gains net of births and deaths	472	698
<b>Closing balance</b>	<b>1,380</b>	<b>1,585</b>
<b>Cattle value</b>		
Opening balance	2,562	2,502
Increases due to purchases	1,098	1,017
Decreases due to sales	(2,253)	(2,374)
Revaluation gains net of births and deaths	938	1,417
<b>Closing balance</b>	<b>2,345</b>	<b>2,562</b>
<b>Total livestock</b>	<b>3,725</b>	<b>4,147</b>
<b>Classified as:</b>		
Current asset	1,757	1,697
Non current asset	1,968	2,450
	<b>3,725</b>	<b>4,147</b>

Livestock were valued as at 30 June 2013 by independent livestock valuers, PGG Wrightson Limited. The valuation is on the basis of current fair value less point of sale costs. Fair value is determined by direct reference to recent market transactions (conducted at public auction) on arm's length terms for livestock of comparable quality and condition in the regions the Group's livestock is located.

## Notes to the Financial Statements

### NOTE 17 INVESTMENTS

	GROUP	GROUP	PARENT	PARENT
	2013	2012	2013	2012
	\$000	\$000	\$000	\$000
<b>Subsidiary Entities</b>				
Shares in New Zealand Rural Property Trust Management Limited - 100% owned	-	-	703	703
Shares in REL - Trust Management Limited - 100% owned	-	-	-	-
Units in the New Zealand Rural Property Trust - 100% owned	-	-	112,993	112,993
<b>Other Investments</b>				
Shares in Fonterra Co-operative Group Limited	5,843	7,015	-	-
Other shares at valuation	302	264	-	-
	<b>6,145</b>	<b>7,279</b>	<b>113,696</b>	<b>113,696</b>

### NOTE 18 BANK LOANS

The Company has loan facilities with ANZ Bank Limited totalling \$33.5M. As at 30 June 2013 the facility was drawn to \$18.45M (2012 \$27.40M) at a weighted average interest rate of 3.95% (2012 3.87%) with maturities reset every 90 days or less.

A general security agreement has been provided to ANZ Bank Limited covering all the Group's assets. The facility expires on 5 May 2015.

See note 9 for interest rate risk management.

### NOTE 19 EARNINGS PER SHARE

	GROUP	GROUP
	2013	2012
<b>Numerator - \$000</b>		
Earnings attributable to parent company interests	10,835	13,092
<b>Denominator - 000 shares</b>		
Weighted average number of shares on issue	37,146	39,791
<b>Basic Earnings per share - \$ per share</b>	<b>\$0.29</b>	<b>\$0.33</b>
<b>Diluted Earnings per share - \$ per share</b>	<b>\$0.29</b>	<b>\$0.33</b>

### NOTE 20 RELATED PARTY DISCLOSURES

During the year REL provided accounting and administration services to H&G Limited and related entities. H&G Limited is REL's parent company. Sir Selwyn Cushing and David Cushing, who are directors of REL, are directors and shareholders of H&G Limited. The fees, charged at commercial rates, were \$32,000 (2012 \$35,000). The amount owing at balance date was \$10,000 (2012 \$12,000) and has since been paid in full.

During the year Andrew Train, a director of REL, provided the Group with agricultural consultancy services with respect to the Group's directly managed farms located in the Waikato. The fees paid for these services totalled \$10,000 (2012 \$8,000). There was no amount outstanding as at 30 June 2013 (2012 \$8,000).

During the year the Public Trust provided trustee services to the Group as trustee for the New Zealand Rural Property Trust. Rodger Finlay, a director of REL, is a Board Member of Public Trust. The fees paid to Public Trust for these services totalled \$28,000 for the year (2012 \$28,000). The amount outstanding as at 30 June 2013 was \$7,000 (2012 \$7,000) and has since been paid in full.

During the year the Group purchased livestock from Makowai Farm Limited, a company owned by Sir Selwyn Cushing, a director of REL. The livestock was purchased on normal commercial terms and conditions at market prices. The total cost was \$84,000.

## Notes to the Financial Statements

### NOTE 21 COMMITMENTS AND CONTINGENT LIABILITIES

#### Operating Lease Commitments

The Group leases farm land adjacent to three of its dairy farms to supplement the feed provided by those farms. The land is leased under standard terms for non-cancellable farm leases and are for periods between one and five years. The Group also leases motor vehicles on standard terms under non-cancellable leases.

Lease commitments under these non-cancellable leases are:

	GROUP 2013 \$000	GROUP 2012 \$000	PARENT 2013 \$000	PARENT 2012 \$000
Within one year	84	171	18	32
After one year but not more than five years	20	104	-	18
<b>Total future minimum lease payments</b>	<b>104</b>	<b>275</b>	<b>18</b>	<b>50</b>

#### Operating Lease Commitments Receivable as Lessor

The Group's investment properties (excluding the six dairy farms) are leased for terms of up to 20 years. Generally the lease agreements provide the right for either the lessor or lessee to give the other party one or two years' notice to terminate the lease within the contract term.

The value of operating lease commitments receivable as lessor is based on the current rental receivable for each property on the assumption that the required early termination notice had been issued by the lessor at balance date.

	GROUP 2013 \$000	GROUP 2012 \$000	PARENT 2013 \$000	PARENT 2012 \$000
Within one year	2,567	2,736	30	30
After one year but not more than five years	1,143	1,312	13	43
<b>Total</b>	<b>3,710</b>	<b>4,048</b>	<b>43</b>	<b>73</b>

#### Capital Commitment

The Group has a commitment to purchase 1,541 shares in Ashburton Lyndhurst Irrigation Limited. The shares will entitle the Group to receive additional irrigation water on Rocklea, a dairy farm owned by the Group in Canterbury. The cost of the shares is \$231,000.

#### Property, Plant and Equipment Commitments

The Group had no commitments contracted for farm development expenditure as at 30 June 2013 (2012 \$99,000).

#### Contingent Liabilities

There are no contingent liabilities as at 30 June 2013 (2012 Nil).

## Notes to the Financial Statements

### NOTE 22 SEGMENT REPORTING

The Group's internal reporting to the Directors is focused on each of the Group's individual rural properties. Due to the nature of the Group's rural properties they can all be grouped into one reportable segment.

#### Major Customers

The Group obtained 50% (2012 46%) of its revenue from Fonterra Co-operative Group Limited. This is for milk supplied by the Group's six dairy farms.

### NOTE 23 EVENTS SUBSEQUENT TO BALANCE DATE

#### Dividend

On 29 August 2013 the Directors approved the payment of a dividend of 6 cents per share amounting to \$2,150,000 to be paid on 2 October 2013.

#### Investment

Since 30 June 2013, the Group has acquired shares in the Australian listed company Tandou Limited. The Group has acquired 11% of the Tandou shares on issue at a cost of NZ\$7,941,000. This has been funded from existing bank facilities. Tandou has significant agricultural land holdings and a substantial portfolio of both high and general security water rights in rural New South Wales.

Additionally, REL's parent H&G Limited acquired 6.5% of Tandou through its subsidiary, Ashfield Farm Limited, prior to 30 June 2013. The combined stake is 17.5%.

## To the Shareholders of Rural Equities Limited

### Report on the Financial Statements

We have audited the financial statements of Rural Equities Limited ("the Company") on pages 10 to 28, which comprise the balance sheets as at 30 June 2013, the statements of comprehensive income and statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 30 June 2013 or from time to time during the financial year.

### Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, 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 Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We have no relationship with, or interests in, Rural Equities Limited or any of its subsidiaries other than in our capacities as Auditor and in the provision of taxation services. These services have not impaired our independence as Auditor of the Company and the Group.

### Opinion

In our opinion, the financial statements on pages 10 to 28:

- (i) comply with generally accepted accounting practice in New Zealand; and
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Company and the Group as at 30 June 2013, and their financial performance and cash flows for the year then ended.

### Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 June 2013:

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

### Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.



Chartered Accountants Napier

29 August 2013

## Additional Disclosures

### DIRECTORS

The Directors of Rural Equities Limited ("REL") holding office on 30 June 2013 were David Cushing (Executive Chairman), Rodger Finlay (Deputy Chairman), Sir Ronald Carter, Sir Selwyn Cushing and Andrew Train. Murray Gough and John Green retired as Directors on 30 June 2013.

The Directors of New Zealand Rural Property Trust Management Limited ("NZRPTML") holding office on 30 June 2013 were David Cushing (Chairman), Rodger Finlay (Deputy Chairman), Sir Selwyn Cushing and Andrew Train. Murray Gough and John Green retired as Directors on 30 June 2013.

The Directors of REL – Trust Management Limited holding office on 30 June 2013 were Sir Ronald Carter, David Cushing, Sir Selwyn Cushing, Rodger Finlay and James Wright. Murray Gough retired as a Director on 30 June 2013.

### DIRECTORS' REMUNERATION

The table below details the remuneration received by the Directors from REL during the year ended 30 June 2013.

	\$
Sir Ronald Carter	30,000
David Cushing	80,000
Sir Selwyn Cushing	30,000
Rodger Finlay	40,000
Murray Gough	30,000
John Green	30,000
Andrew Train	30,000

Andrew Train provided agricultural consultancy services with respect to the Group's directly managed farms located in the Waikato. During the year ending 30 June 2013 he was paid consultancy fees of \$9,750 by REL for the provision of those services.

No other benefits were paid or provided to the Directors during the year.

### ENTRIES RECORDED IN THE INTERESTS REGISTER

The following entries were recorded in the Interests Register of REL and NZRPTML during the year ended 30 June 2013:

Sir Selwyn Cushing ceased to be a Director of PGG Wrightson Limited on 24 October 2012.

Rodger Finlay was appointed a Member of the PGG Wrightson Limited AgriTech Committee on 7 December 2012.

Rodger Finlay is a Board Member of Public Trust.

### Share transactions undertaken by Directors during the year ended 30 June 2013

On 24 October 2012 RP Carter and Staples Rodway Trustee Limited as trustees of the RP Carter Family Trust No 2 (an associate of Sir Ronald Carter) acquired 5,000 REL shares at \$3.26 per share.

On 24 October 2012 RJ and EMA Finlay and MA Weakley as trustees of the Viewfield Trust (an associate of Rodger Finlay) acquired 40,000 REL shares at \$3.26 per share.

On 24 October 2012 RGH Holdings Limited (an associate of Rodger Finlay) acquired 12,707 REL shares at \$3.26 per share.

On 3 January 2013 RJ and EMA Finlay and MA Weakley as trustees of the Viewfield Trust (an associate of Rodger Finlay) acquired 5,700 REL shares at \$3.30 per share.

### Directors' relevant interest in REL shares as at 30 June 2013

	Held Beneficially	Held by Associated Persons
Sir Ronald Carter	-	213,150
David Cushing	263,160	21,981,409 <sup>1</sup>
Sir Selwyn Cushing	85,673	22,119,173 <sup>1</sup>
Rodger Finlay	-	996,188
Murray Gough	-	216,488
John Green	-	35,640
Andrew Train	3,574	-

Note 1 – Some of these holdings relate to the same REL shares.

### DIRECTORS' INDEMNITY AND INSURANCE

On 31 May 2012 REL renewed its Directors' and Officers' Liability insurance policy for the Group for the period 31 May 2012 to 31 May 2013. On 31 May 2013 REL renewed this policy for a further year until 31 May 2014.

### DONATIONS

REL did not make any donations during the financial year ended 30 June 2013.

### EMPLOYEES

The services of Brian Burrough (Chief Executive Officer) are provided through a Secondment Agreement with PGG Wrightson Limited. The Secondment Agreement is for an indefinite term but may be terminated by either party giving six months' notice.

For the year ended 30 June 2013 three employees received remuneration and other benefits of between \$230,000 and \$240,000.



## Shareholder Information

As at 9 September 2013

### TOP TWENTY SHAREHOLDERS

Holder	Number of shares held	%
H&G Limited	21,092,762	58.85
RotoruaTrust Perpetual Capital Fund Limited	1,515,677	4.23
RGH Holdings Limited	930,000	2.59
WJ Greenwood & ISM Robertson & AJ Mansell (Squirrel Trust)	593,544	1.66
FE Mayell & DA Young (FE & H Mayell Trust)	500,000	1.40
BJ Martin	394,127	1.10
Seajay Securities Limited	313,625	0.88
New Zealand Methodist Trust Association	300,000	0.83
BD Cushing & SJ Cushing (KD Cushing Family Trust)	263,160	0.73
Makowai Farm Limited	208,966	0.58
B&S Custodians Limited	182,000	0.51
Ashfield Properties Limited	178,560	0.50
JB Were (NZ) Nominees Limited (53587 A/C)	177,479	0.50
LM Marx-Sheather, WB Sheather, PV Sheather & SM Palmer (Sheather Family Trust)	169,179	0.47
Sky Hill Limited	150,000	0.42
Riddell Funds Management Limited	148,000	0.41
JW & MV Spiers	125,492	0.35
MGS Fund Limited	124,234	0.35
RG Goodrick	120,000	0.33
FNZ Custodians Limited	119,973	0.33

### ANALYSIS OF SHAREHOLDING BY SIZE

	Number of shareholders	%	Number of shares held	%
1000 – 1999	256	24.36	360,407	1.01
2,000 - 4,999	355	33.78	1,141,224	3.18
5,000 – 9,999	227	21.60	1,533,612	4.28
10,000 – 49,999	165	15.70	3,160,635	8.82
50,000 – 99,999	26	2.47	1,833,886	5.12
100,000 and over	22	2.09	27,809,391	77.59
<b>Total</b>	<b>1,051</b>		<b>35,839,155</b>	

## ANALYSIS OF SHAREHOLDING BY LOCATION

	Number of shareholders	%	Number of shares held	%
Upper North Island	498	47.38	6,174,328	17.23
Gisborne	33	3.14	216,739	0.60
Hawke's Bay	139	13.23	23,614,942	65.89
Manawatu/Wanganui/Wairarapa	55	5.23	266,722	0.74
Wellington	106	10.09	2,049,344	5.72
South Island	168	15.98	3,019,369	8.43
Overseas	52	4.95	497,711	1.39
<b>Total</b>	<b>1,051</b>		<b>35,839,155</b>	

## Corporate Governance

### ROLE OF THE DIRECTORS

The Directors of REL are responsible to shareholders for the performance of the REL Group, including the setting of objectives and the strategies for achieving those objectives, identifying significant areas of business risk and implementing policies to deal with those risks, setting the overall policy framework and monitoring the continuing performance of REL and its operating subsidiaries.

The Directors of REL have delegated to the executive staff appropriate authority for the day to day management of the Group.

### BOARD MEMBERSHIP

The Directors of REL are appointed by the REL shareholders. Details of the Directors of REL and its subsidiaries are set out on page 30.

The Directors of REL meet approximately eight times during the year for scheduled meetings, with additional meetings held if necessary to consider urgent issues. The REL Board has a broad mix of skills and experience relevant to the guidance of the Group's business.

### AUDIT COMMITTEE

REL has constituted a Group Audit Committee which is responsible for overseeing compliance with statutory, financial and related responsibilities, ensuring that effective systems of accounting and internal control are established and maintained, overseeing the external audit, liaising with the Auditor and making recommendations to the Directors as to their appointment and their remuneration. The Committee's responsibility encompasses REL and each of its subsidiaries.

The Audit Committee comprises Rodger Finlay (Chairman) and David Cushing.

### HEALTH AND SAFETY COMMITTEE

REL has constituted a Group Health and Safety Committee to ensure that health and safety is an integral component of the Group's everyday business. The Committee is responsible for determining the Group's health and safety strategy, policy and its implementation. The Committee oversees management's implementation, delivery, monitoring and review of that strategy.

The Health and Safety Committee comprises Rodger Finlay (Chairman), Sir Ronald Carter, David Cushing, Sir Selwyn Cushing and Andrew Train.

# DIRECTORY

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## DIRECTORS

David Cushing  
*(Executive Chairman)*

Rodger Finlay  
*(Deputy Chairman)*

Sir Ronald Carter

Sir Selwyn Cushing

Andrew Train

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## EXECUTIVE

Brian Burrough  
*Chief Executive Officer*

Owen Trimmer  
*Chief Financial Officer*

James Wright  
*Chief Operating Officer*

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## REGISTERED OFFICE

Rural Equities Limited  
First Floor, 120 Karamu Road North, Hastings 4122  
PO Box 783, Hastings 4156  
Telephone 06 870 4672  
Facsimile 06 870 4673  
Email [enquiries@ruralequities.co.nz](mailto:enquiries@ruralequities.co.nz)  
Website [www.ruralequities.co.nz](http://www.ruralequities.co.nz)

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## AUDITOR

PricewaterhouseCoopers  
36 Munroe Street, Napier 4110  
PO Box 645, Napier 4140  
Telephone 06 835 6144  
Facsimile 06 835 0360

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## SHARE REGISTRY

Computershare Investor Services Limited  
Level 2, 159 Hurstmere Road, Takapuna, Auckland 0622  
Private Bag 92119, Auckland 1142  
Telephone 09 488 8700  
Facsimile 09 488 8787



*Harvesting grass seed at Dalmuir*



*New effluent pond at Shenstone*

