rural equities
LIMITED

ANNUAL REPORT 2018

CONTENTS

Making baleage at Puketotara

Cover: *Highlands – Rakaia Gorge, Canterbury*

NOTICE OF ANNUAL MEETING

Notice is given that the Annual Meeting of the shareholders of Rural Equities Limited will be held in the Triple Peaks Room, Porters Hotel, 4 Te Aute Road, Havelock North on Monday 12 November 2018 at 3.30 pm.

ORDINARY BUSINESS

1. To receive and consider the Company's financial statements for the year ending 30 June 2018 with the reports of the Directors and the Auditor.
2. To re-elect a Director. In accordance with clause 13.8 of the Company's constitution, Sir Selwyn Cushing retires by rotation and is 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 proxy form 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 (127 Queen Street East, Hastings or PO Box 783, Hastings 4156) to be received not less than 48 hours before the commencement 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 2018 Annual Report for the Rural Equities Limited Group.

The Group's audited Total Comprehensive Income for the year ended 30 June 2018 was $4.45 million. This compares with $8.98 million recorded last year. Group operating earnings before interest and tax were $5.03 million which is a slight improvement on the $4.99 million recorded last year. While last year the value of the Group's rural property, excluding changes to the portfolio, increased by $4.32 million, this year the value reduced by $1.51 million. This reduction was more than offset by a gain in the Webster Limited shareholding of $3.09 million.

Important features of the year were:

- Net Asset Value per share at 30 June 2018 was $5.79 which is an 8 cents per share gain on last year's NAV of $5.71.
- The Group's Earnings before Interest and Taxation increased to $5.03 million compared to $4.99 million recorded last year.
- A 5 cents per share dividend will be paid on 7 November 2018 for the year ended 30 June 2018.
- Milk production increased to 2.08 million kilograms of milk solids with Eiffelton contributing 509,000 kilograms in its third year of production.
- An additional 31.5 hectares of land adjacent to the Penshurst dairy farm was purchased, enabling an additional 80 cows to be milked.

Directors consider this a satisfactory result with solid contributions across the board. There was an increase in the milk price, beef returns were steady and sheep prices increased markedly. Wool prices remained at historically low levels. Overall, climatic conditions were difficult with a very wet winter and spring which was followed by a very dry early summer. These conditions affected farm production and results for the year.

Fonterra's final milk price for the season ended 31 May 2018 was $6.69 per kilogram of milk solids, which is a $0.57 (9.4%) increase on last season's milk price of $6.12. Synlait's final milk price was $6.65 per kilogram of milk solids. Dairy prices are normally inherently volatile, however this year has seen a relatively stable period with supply and demand in reasonable balance. We expect milk prices to ease over the season ending 31 May 2019.

The rural property market was subdued throughout the year. The Government has introduced controls on foreign investors buying land in New Zealand which has impacted on the number of farms sold and the values of larger sheep, beef and dairy properties. Increasing environmental standards are also affecting the market. The value of most farms in the portfolio remained stable, although in the South Island dairy farms reduced by up to 4% and the arable farms increased by up to 3%.

Ewes mustered for annual stock count - Waikoha

Investing in properties within the portfolio to improve land use, value, earnings and the overall quality of the portfolio has been a long-term strategy for the Group. In September 2017 a 31.5 hectare block of land adjacent to the Penshurst dairy farm near Palmerston North was purchased. This acquisition greatly improves the scale, shape and workability of the property, which has increased in size from 257.5 to 289 hectares. The additional land will allow the Penshurst herd to increase by 80 cows to 800 for the new season.

There are attractive opportunities in forestry to plant unproductive or low producing pastoral hill country as a production forest and to earn income from carbon credits. An area of approximately 250 hectares has been identified at the Waikoha property and it is the current intention that this area will be planted during the 2019 winter. The carbon credits earned will be a source of income or be used to offset potential carbon liabilities from the Group's other farming operations.

FINANCIAL PERFORMANCE

The Group's Total Comprehensive Income for the year ended 30 June 2018 was $4.45 million. This compares with $8.98 million in the previous year.

The Group's Operating Earnings before Interest and Taxation ("EBIT") for the year was $5.03 million (2017 - $4.99 million). The contribution from the directly managed farms increased from last year by approximately $328,000 to $4.13 million. The increase is attributable to higher milk prices, steady beef returns and markedly improved sheep prices. The Group's directly managed Waikato sheep and beef properties again provided a solid contribution. The reduction in the Fonterra dividend reduced EBIT by $244,000. Net rental income from the Group's leased properties was lower than last year reflecting the sale of the Barry's Bay, Clifton and Silverton properties late in the previous year. Interest costs were lower and other expenses were similar.

Total Assets at 30 June 2018 were $209.78 million compared with $205.94 million the previous year. Interest bearing debt has increased by $400,000 to $12.8 million at balance date. This is only 6% of Total Assets. The Group remains in a very strong financial position.

Radish seed crop at Wentworth

PORTFOLIO

Since balance date the Group has entered into unconditional contracts to sell two properties - Glendowns, a sheep and beef property in South Canterbury and part of Dalmuir, an arable property near Timaru. Both sales are scheduled to settle in early April 2019. Proceeds from the sales will be over $9 million which is slightly above book value.

Angus heifers - Waikoha

In August 2018 real estate agents were appointed to market three further properties for sale.

As announced last year, Directors are considering long-term investment opportunities and asset classes other than New Zealand rural property, and potentially in other jurisdictions. While nothing has met the Directors' investment criteria during the financial year, the process continues.

CAPITAL MANAGEMENT

In September 2018 the Company made an offer to all shareholders to repurchase up to 650,000 REL shares at $4.90 per share. The price is $0.50 per share higher than the last share buyback in 2016 and a significant premium to the market price at the time the offer was announced. The offer closed on 18 October 2018 and was over-subscribed.

DIVIDEND

A fully imputed dividend of 5 cents per share will be paid to shareholders for the financial year ended 30 June 2018. The dividend has been maintained at the same level for the last three years. The record date is Friday 26 October 2018 and the dividend will be paid on Wednesday 7 November 2018.

DIRECTORS

In accordance with the Company's constitution, Sir Selwyn Cushing retires by rotation at this year's Annual Meeting on 12 November 2018 and is seeking re-election as a Director.

OUTLOOK

The sheep and beef sectors are experiencing good returns despite low wool prices. International dairy prices are showing an easing trend but are expected at this stage to remain above $6.00. There is inevitable price volatility and climatic variation from one season to another, however the effects are mitigated through the diversity of operations.

The impact of controls on foreign investors buying land has resulted in very limited liquidity for large scale properties throughout New Zealand. Uncertainty around possible taxation changes affecting rural land, increasing environmental standards and the impact of mycoplasma bovis are all contributing to a subdued farm property market.

REL is a long-term investor with a diversified quality portfolio of prime agricultural properties. The Directors will continue to invest to enhance the income earning ability and value of the existing portfolio, however other investment opportunities that provide improved returns and portfolio diversification will be considered.

Moving stock - Waikoha

David Cushing
EXECUTIVE CHAIRMAN

Grain harvesting at Woodlands

SCOPE OF OPERATIONS

The Group owns twenty two farms comprising 9,825 hectares. The farms are a mix of sheep and beef, dairy, deer and arable farms that are spread throughout New Zealand from Waikato to Southland. There are thirteen properties in the South Island and nine in the North Island. Twelve farms are leased to external operators. Ten farms are directly managed comprising 5,270 hectares.

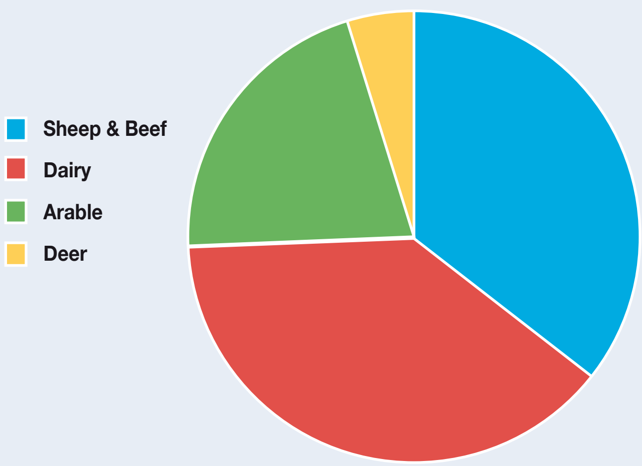
Seven of the directly managed farms are dairy farms comprising 1,531 hectares and approximately 5,090 cows are milked in conjunction with 50-50 sharemilkers. There is one dairy grazing property in Canterbury. The remaining directly managed properties are the two Waikato sheep and beef farms. These two farms comprise 3,656 hectares and run approximately 26,500 stock units.

Shorn ewes - Waikoha

FARMED PROPERTIES

The directly managed farms produced another solid contribution to profit in the year to 30 June 2018 of $4.13 million. This is $325,000 (8.5%) higher than last year. The Waikato sheep and beef farms provided a solid contribution. For a second year, beef trading margins came under pressure at Puketotara due to high store cattle prices in relation to the beef schedule. The increase in the milk price was a significant contributor to the improved result, however this was offset to a degree by the reduction in the Fonterra dividend. Wool prices continued at historically low levels. In contrast, lamb and sheep prices increased markedly.

PORTFOLIO BY SECTOR
(based on current valuation)



The season was one of the most climatically challenging seasons we have faced for many years which presented many farm management challenges. The winter was wet which was followed, by a very slow spring with correspondingly lower pasture growth. In many areas a dry early summer followed, giving little opportunity to grow and harvest silage from surplus pasture and necessitating the unplanned sale of store lambs at Waikoha. Fortunately, rain in January alleviated a drought and a favourable autumn followed.

DAIRY FARMS

This season 2.09 million kilograms of milk solids were supplied to Fonterra and Synlait. This level of milk production is slightly ahead of the 2.04 million kilograms produced in the previous season and is the second year in which milk production has exceeded two million kilograms. Cow numbers on the farms are relatively constant, however each season improvements in the farm systems produces additional milk.

In contrast to recent seasons, we have seen relatively stable milk prices. The opening forecast milk price from Fonterra was $6.50 per kilogram of milk solids which then varied in the range from $6.40 to $6.75, ending the season at $6.69. Synlait's forecast milk price was within a tight range, from $6.50 to $6.65, ending the season at $6.65 per kilogram. Premiums for a2 Milk and Lead With Pride from Synlait were paid in addition to the milk price. Looking ahead, we expect milk prices to ease off during this season ending 31 May 2019.

Milk Price Futures for a proportion of the milk produced were used as a risk management strategy to provide some certainty to a portion of the Group's milk income. We expect this will be an ongoing strategy.

The relatively stable milk prices seen throughout the season resulted from a stable Global Dairy Trade Price Index (GDT Index). In contrast to the 2016 - 2017 season, when the GDT Index increased by a cumulative 56%, this season the GDT Index declined by only 4%. Since balance date the GDT Index has slipped further. Global milk supply and demand dynamics are driving this gradual decline in milk commodity prices with global supply increasing.

We are pleased to continue supplying Synlait from the three Canterbury dairy farms. This allows the Group and its sharemilkers to be financially rewarded for value created

Rocklea

on the farms. At Milford the cow herd has the necessary genetic qualities and is certified to produce a2 Milk for which Synlait pays a premium. Eiffelton and Rocklea now also have cow herds with a2 Milk genetics and contracts with Synlait have been signed to supply a2 Milk from the season just commenced. Strict conditions must be met to supply a2 Milk which has a protein composition different from standard milk and is used in specialty infant formula milk powder. Increasingly, a2 Milk is becoming available in New Zealand as fresh milk.

At Eiffelton, a premium is also earned for having achieved Lead With Pride Gold Plus status for the farm. This is a certified best farming practice system implemented only by Synlait, which provides internationally accredited ISO 65 certification for the farm. Rocklea will also achieve Lead With Pride accreditation during the season just commenced, with Milford expected to reach this standard the following season. Implementing documented and audited best farm practice systems and upgrading the effluent infrastructure, also in accordance with best farm practice, will form part of achieving Lead With Pride status at Rocklea and Milford. The facilities and infrastructure at all three Canterbury dairy farms, together with the hard work and dedication of the sharemilkers and their staff, have made achieving the Lead With Pride accreditation possible.

Environmental considerations and minimising soil nutrient losses are now a normal part of operating a dairy farm. There are now environmental standards and rules in most Regional Plans which require a Farm Environment Plan to be developed and followed in accordance with those rules. This is also increasingly applicable to sheep, beef and arable farms across New Zealand.

WAIKATO FARM GROUP

The Waikato farm group comprises two sheep and beef properties - Puketotara (1,146 hectares) and Waikoha (2,510 hectares). In total approximately 26,500 stock units are carried on 2,800 effective hectares. Puketotara, located near Huntly, operates as a finishing unit in association with Waikoha which is located near Whatawhata, close to Hamilton. Waikoha is a breeding unit with approximately 7,800 ewes and 450 beef breeding cows. This integrated policy allows store lambs and surplus weaner cattle bred at Waikoha to be farmed until they are ready for slaughter. Obtaining maximum value from all stock that is bred, is a key element in the integration of these two farms. This

Angus bulls - Puketotara

Standing guard

integration policy also allows maximum flexibility in relation to the management of the farms which are able to support one another during periods of drought as well as allowing additional finishing stock to be traded at Puketotara.

Puketotara operates a bull beef and lamb finishing programme where approximately 1,400 bulls and 8,000 lambs are finished for slaughter each year. This season, pasture growth during the difficult spring did not allow additional bulls to be traded during that period, thus the number of bulls sold from Puketotara decreased by 156 to 1,363. Accordingly, bull revenue declined by $210,000 to $2.32 million. The number of lambs traded was also impacted by the difficult spring and dry early summer period when summer forage crops did not establish well. Lamb prices remain at near historically high levels, however store lamb prices are also correspondingly higher which is benefitting Waikoha as a sheep breeding property. Lamb trading margins at Puketotara were comparable to previous years.

Waikoha continues to operate as a predominantly sheep and beef cattle breeding property. The stock numbers farmed at Waikoha have increased significantly over the past 12 years since the property has been directly managed, resulting in increased numbers of both lambs and cattle being finished for slaughter. This is a result of new management, improved soil fertility, fencing, stock water and other infrastructure being developed. This year ewe hoggets were lambed for the first time producing an additional 1,470 lambs. A total of 11,540 lambs were docked this year, 2,430 more than last year - a record for Waikoha.

For the second year, we have been working with the Waikato Regional Council on a farm environmental programme at Waikoha. This has included the permanent retirement from grazing of 190 hectares of native bush as well as an extensive stream bank and wetland fencing and planting programme. A plan is in place for further fencing and planting in the 30 June 2019 financial year.

Wetland fencing and native tree planting - Waikoha

FORESTRY

Although Waikoha has a total of 2,510 hectares, the effective grazing area is approximately 1,800 hectares. The remainder of the farm comprises native bush and reverted scrub. There is also approximately 84 hectares of existing pine trees that were replanted following the harvest of the previous plantation in 2010. In recognition of the ability to earn income from carbon credits and attractive long-term returns from pine forests, forestry plantings at Waikoha will be increased. During the next year it is planned to plant pine trees on approximately 250 hectares of land which is currently reverted scrub and gorse. This new forest will not affect the pastoral returns from Waikoha and additional areas may also be planted in subsequent years. This is an appropriate land use, in accordance with environmental sustainability plans and will generate income from an area of land that is currently unproductive. The carbon credits earned will be a source of income or may be used to offset potential carbon liabilities from the Group's other farms.

LEASED PROPERTIES

The Group has twelve properties that are leased which provide rental income. These properties form an integral part of the sector and geographical diversity in the farm portfolio and are located in Hawke's Bay and Canterbury. The steady income base these properties provide to the Group is significant. They are leased predominantly to farmers with other farming interests. This is beneficial to both parties providing operational scale for their businesses and stability of tenure for the Group. Monthly rental income provides regular cash flow to the Group and is unaffected by fluctuating farm product prices in the various sectors.

Rent reviews are completed every two years. As has been the policy for many years, a fair market rental reflecting other rentals in the district, the land class, productive capacity and facilities provided at each farm, is set using a valuer to provide an independent rental assessment. Farm rentals tend to follow property value trends over time. The rental yields from the leased farms tend to be in the range from two to three percent.

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

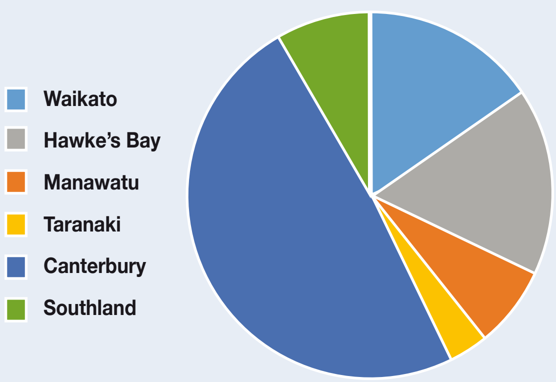
OTHER FARM MATTERS

Mycoplasma bovis

Mycoplasma bovis is a disease affecting dairy and beef cattle and was discovered in New Zealand in July 2017. Since then infected animals have been found on 71 properties, many of which have been destocked, cleaned and after a mandatory 60 day stand down period, normal farming operations have resumed. Although two of the Group's properties have had animals from infected farms traced to them, after testing they have subsequently been cleared. None of the Group's properties are infected and there are currently no restrictions imposed.

PORTFOLIO BY REGION

(based on current valuation)



Marchfield

Health and Safety

The daily operation of our farms exposes our own farm staff and other people who work there to a wide range of risks. The Health and Safety at Work Act 2015 provides that all businesses have the primary responsibility for the health and safety of their workers and are required to take all practical steps to eliminate or mitigate other risks.

A health and safety programme is in place on all the Group's properties and the Directors have constituted a committee specifically to oversee this important area of the Group's activities – further details are provided under Corporate Governance on page 35.

Brian Burrough
CHIEF EXECUTIVE OFFICER

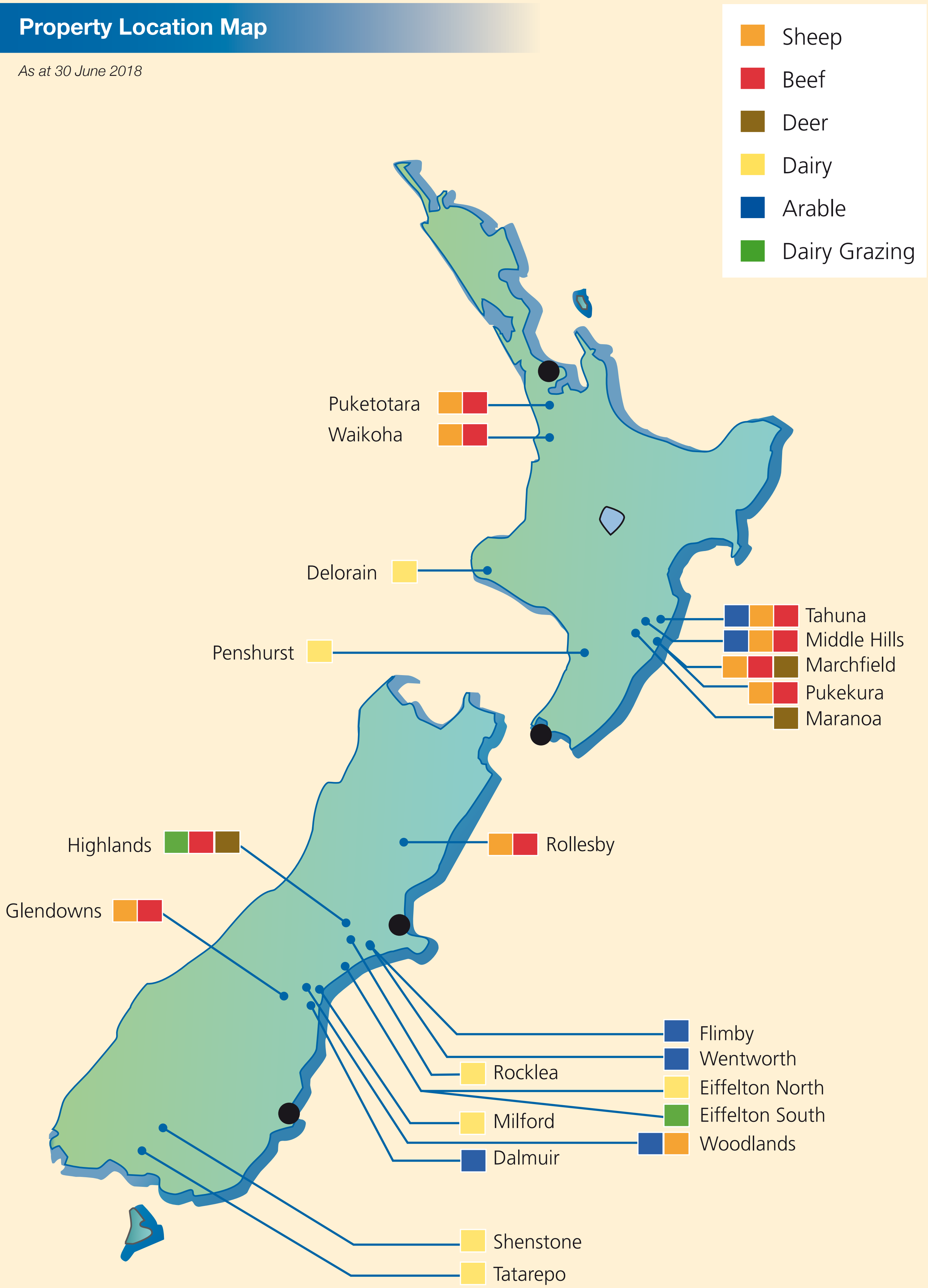
Farm Property Schedule

As at 30 June 2018

Property	Type	Region	Total Hectares	Management	Livestock Units (approx.)
Dalmuir	Arable	South Canterbury	219	Leased	n/a
Delorain	Dairy	Taranaki	101	Sharemilked	300 cows
Eiffelton North	Dairy	Canterbury	313	Sharemilked	1,200 cows
Eiffelton South	Dairy Grazing	Canterbury	83	Managed	1,100
Flimby	Arable	Canterbury	266	Leased	n/a
Glendowns	Sheep/Beef Finishing	South Canterbury	399	Leased	4,100
Highlands	Deer/Beef/Dairy Grazing	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	Arable/Sheep/Beef Finishing	Hawke's Bay	545	Leased	6,000
Milford	Dairy	South Canterbury	177	Sharemilked	720 cows
Penshurst	Dairy	Manawatu	289	Sharemilked	800 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	185	Sharemilked	720 cows
Rollesby	Sheep/Beef Finishing	North Canterbury	323	Leased	3,500
Shenstone	Dairy	Southland	313	Sharemilked	930 cows
Tahuna	Arable/Sheep/Beef Finishing	Hawke's Bay	580	Leased	5,500
Tatarepo	Dairy	Southland	153	Sharemilked	420 cows
Waikoha	Sheep/Beef Breeding/Finishing	Waikato	2,510	Managed	14,500
Wentworth	Arable	Canterbury	161	Leased	n/a
Woodlands	Arable/Sheep Finishing	South Canterbury	451	Leased	n/a
Total Landholding - Farms			9,825 ha		

Property Location Map

As at 30 June 2018



Consolidated Statement of Comprehensive Income

For the year ended 30 June 2018

	Notes	2018 $000	2017 $000
Revenue			
Farm income	4	9,875	8,946
Leased property income		1,977	2,177
Dividend income		261	384
Other income		141	135
		12,254	**11,642**
Expenses			
Farm working expenses	5	5,748	5,140
Leased property expenses		56	97
Other expenses		1,420	1,409
		7,224	**6,646**
Net profit before interest, property sales and revaluations		**5,030**	**4,996**
Interest expense		(636)	(825)
Loss on sale of property, plant and equipment		-	(704)
Revaluations	3	1,103	6,390
Total		**467**	**4,861**
Net profit before tax		**5,497**	**9,857**
Income tax expense	7	977	904
Net profit after tax		**4,520**	**8,953**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of property, plant and equipment	3	(60)	88
Tax credit (expense) on other comprehensive income	7	(9)	(60)
Total other comprehensive income net of tax		**(69)**	**28**
Total comprehensive income		**4,451**	**8,981**

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2018

	Notes	Share Capital $000	Asset Revaluation Reserve $000	Retained Earnings $000	Total $000
Balance at 1 July 2016		**79,949**	**11,429**	**96,036**	**187,414**
Net profit after tax for the year		-	-	8,953	8,953
Other comprehensive income net of tax		-	28	-	28
Total comprehensive income		**-**	**28**	**8,953**	**8,981**
Share repurchase and cancellation		(4,412)	-	-	(4,412)
Dividend paid		-	-	(1,666)	(1,666)
Balance at 30 June 2017	10	**75,537**	**11,457**	**103,323**	**190,317**
Balance at 1 July 2017		**75,537**	**11,457**	**103,323**	**190,317**
Net profit after tax for the year		-	-	4,520	4,520
Other comprehensive income net of tax		-	(69)	-	(69)
Total comprehensive income		**-**	**(69)**	**4,520**	**4,451**
Share repurchase and cancellation		-	-	-	-
Dividend paid		-	-	(1,666)	(1,666)
Balance at 30 June 2018	10	**75,537**	**11,388**	**106,177**	**193,102**

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	2018 $000	2017 $000
Current assets			
Cash and cash equivalents		20	41
Accounts receivable	9	2,004	1,657
Held for trading instruments	9	127	190
Properties held for sale	12	8,815	13,082
Livestock	14	2,111	1,879
Feed and produce on hand		797	663
		13,874	17,512
Non current assets			
Investment properties	11	145,798	140,970
Property, plant and equipment	13	31,354	31,212
Livestock	14	2,637	2,836
Forest		220	116
Investments	15	15,894	13,291
		195,903	188,425
Total assets		**209,777**	**205,937**
Current liabilities			
Accounts payable and accrued expenses		1,390	1,245
Provision for tax		720	250
Bank loans	16	12,800	-
		14,910	1,495
Non-current liabilities			
Bank loans	16	-	12,400
Deferred tax liability	7	1,765	1,725
		1,765	14,125
Equity			
Fully paid up ordinary shares		75,537	75,537
Asset revaluation reserve		11,388	11,457
Retained earnings		106,177	103,323
	10	193,102	190,317
Total liabilities and equity		**209,777**	**205,937**

On behalf of the Directors, who authorised the issue of these financial statements, dated 31 August 2018.

David Cushing
EXECUTIVE CHAIRMAN

Rodger Finlay
DIRECTOR

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2018

	Notes	2018 $000	2017 $000
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers		12,965	12,145
Dividends received		444	304
Interest received		2	5
		13,411	12,454
Cash was applied to:			
Payments to suppliers and employees		8,687	8,806
Taxation paid		477	598
Interest paid		593	1,076
		9,757	10,480
Net cash flows from operating activities	6	**3,654**	**1,974**
Cash flows from investing activities			
Cash was provided from:			
Proceeds from sale of shares		-	85
Proceeds from sale of property, plant and equipment		123	19,621
		123	19,706
Cash was applied to:			
Improvements to investment properties		2,068	844
Improvements to other properties		203	169
Purchases of plant and equipment		261	448
		2,532	1,461
Net cash flows from (used in) investing activities		**(2,409)**	**18,245**
Cash flows from financing activities			
Cash was provided from:			
Term loans advance		400	-
		400	-
Cash was applied to:			
Term loans reduction		-	14,250
Share repurchase and cancellation	10	-	4,411
Dividend paid		1,666	1,666
		1,666	20,327
Net cash flows from (used in) financing activities		**(1,266)**	**(20,327)**
Net change in cash and cash equivalents		**(21)**	**(108)**
Cash and cash equivalents at beginning of year		41	149
Cash and cash equivalents at end of year		**20**	**41**

The accompanying notes form part of these financial statements.

Notes to the Consolidated 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 reporting entity under the Financial Reporting Act 2013. Company shares are traded on the Unlisted Securities Exchange, a financial product market operating under an exemption from the Financial Markets Conduct Act 2013.

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 two farms (2017: twenty two). Two of the farms are sheep and beef farms operated directly by the Group. All other farms are leased to third parties or operated under share milking agreements.

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. For the purpose of complying with NZ GAAP, the Group is a for-profit entity that has followed the Tier 1 for profit reporting requirements set out by the External Reporting Board, in its "Accounting Standards Framework". They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand Financial Reporting Standards and authoritative notices that are applicable to entities that apply NZ IFRS, as appropriate for profit-oriented entities issued by the New Zealand Accounting Standards Board.

CHANGES IN ACCOUNTING POLICIES

There have been no changes to accounting policies during the reporting period. The accounting policies set out below have been applied consistently to both periods presented in these financial statements.

NZ IFRS ISSUED BUT NOT YET EFFECTIVE

A number of new standards, amendments and interpretations have been issued by the New Zealand Accounting Standards Board that are not yet effective and have not been nor intend to be early adopted by the Group. Those which may be relevant to the Group are set out below:

NZ IFRS 9 FINANCIAL INSTRUMENTS

NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces NZ IAS 39 setting out the classification and measurement of financial instruments and hedge accounting. NZ IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition.

The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, where the fair value option is taken, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The new hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risks.

NZ IFRS 9 also incorporates an expected credit loss model for calculating the impairment of financial assets. The Group will adopt this standard during the year ending 30 June 2019.

NZ IFRS 16 LEASES

NZ IFRS 16, 'Leases', replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

For lessors, the accounting for leases under NZ IFRS 16 is almost the same as NZ IAS 17. However, because the guidance on the definition of a lease has been updated (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard.

The standard is effective for accounting periods beginning on or after 1 January 2019.

NZ IFRS 15 REVENUE

NZ IFRS 15 addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in NZ IAS 18 'Revenue' and NZ IAS 11 'Construction Contracts' and is applicable to all entities with revenue. It sets out a 5 step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group will adopt this standard during the year ending 30 June 2019.

Directors preliminary evaluation of the impact of adopting these new standards has indicated that there is no material effect on the Group's result but additional disclosures will be required.

No other standards, amendments or interpretations that have been issued but are not yet effective are expected to materially impact the Group's financial statements.

SPECIFIC ACCOUNTING POLICIES

The following specific accounting policies have been applied:

(a) Basis of Consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date the control ceases.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the period are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

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. All subsidiaries have a reporting date of 30 June.

(b) 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, with sufficient experience with respect to both the location and nature of investment properties.

All investment properties are revalued annually as at 30 June.

Changes in value are recorded within profit and loss in the Consolidated Statement of Comprehensive Income for the reporting period.

(c) 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 Consolidated Statement of Comprehensive Income, in which case the increase is recognised within net profit in the Consolidated Statement of Comprehensive Income.

Any revaluation decrease is recognised within net profit in the Consolidated 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.

Plant and Equipment

"Plant and equipment are initially recognised at acquisition cost including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of use.

Plant and equipment are subsequently measured using the cost model 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 equipment assets range from three to twenty years.

Table of Categories and Rates

Plant and equipment	5% - 33%

Gains or losses arising on the disposal of plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets, and are recognised in profit or loss.

(d) Properties Held for Sale

Properties held for sale comprise land and buildings that have been identified to be sold within the next financial year. They are classified under current assets and are measured at fair value based upon valuation prepared by registered independent valuers or sale value if an unconditional sale agreement has been obtained.

(e) 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 profit or loss in the Consolidated Statement of Comprehensive Income. Livestock are classified as a current asset if they are likely to be sold within one year.

(f) Taxation

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

Deferred tax is recognised using the liabilities 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.

(g) 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.

(h) Statement of Cash Flows

For purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents include cash at bank and short term deposits which are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

(i) Revenue Recognition

Lease rental revenue from investment properties is recognised in profit or loss in the Consolidated 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 and Synlait Milk Limited at their declared payment rate.

(j) 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.

(k) 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 ('NRV').

Cost includes all expenses directly attributable to the manufacturing process. NRV is the estimated selling price in the ordinary course of business less any applicable selling expenses.

(l) Operating Leases

All other leases are treated as operating leases. Where the Group is a lessee, payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

(m) Impairment testing of property, plant and equipment

Individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows.

All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the asset's recoverable amount exceeds its carrying amount.

(n) Financial Instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument, and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- Loans and receivables
- Financial assets at fair value through profit or loss (FVTPL)
- Available for sale (AFS assets)

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less an allowance for credit losses. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Financial assets at FVTPL

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. The Group's shares in Fonterra Co-operative Group Limited, shares in Webster Limited and derivative financial instruments used to economically hedge exposure to interest rates and milk futures fall into this category.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include borrowings and trade and other payables.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

NOTE 2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In applying the accounting policies, management continually evaluate judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, 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 judgements, estimates and assumptions made by management. Significant judgements 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. The carrying value of investment properties is $145,798,000 (2017: $140,970,000).

ii) Land and Buildings - The fair values of land and buildings 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 land and buildings. The carrying value of land and buildings is $28,200,000 (2017: $28,100,000).

iii) Deferred Tax - The Group has investment properties measured at fair value. NZ IAS 12, as amended, includes a rebuttable presumption that investment property measured at fair value is recovered entirely through sale. The presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time rather than through sale.

The Group does not rebutt the presumption.

Deferred tax in relation to investment properties is therefore calculated on a sale basis. See note 7.

iv) Livestock - The fair value of livestock is based on market values, as assessed by an independent registered valuer. These market values reflect livestock of similar age, breed and genetic merit throughout New Zealand. Trading stock is carried on the statement of financial position as a current asset of $2,111,000 (2017: $1,879,000), and breeding stock is carried on the statement of financial position as a non current asset of $2,637,000 (2017: $2,836,000).

v) Milk Proceeds - The Group estimates and accrues the final milk proceeds for the dairy season using the latest forecast milk price announced by the dairy companies prior to the finalisation of their financial statements. The final amount received could be different from the amount accrued. Total milk income accrued in the financial statements is $1,704,000 (2017: $1,265,000).

NOTE 3 REVALUATIONS

	2018	2017
Revaluations recognised in profit and loss:	$000	$000
Investment properties	(1,545)	5,126
Property, plant and equipment (refer note 1(c))	44	(807)
Investments in shares	2,604	2,071
	1,103	6,390
Revaluations recognised in other comprehensive income:		
Property, plant and equipment (refer note 1(c))	(60)	88

NOTE 4 FARM INCOME

	2018	2017
Farm income comprises:	$000	$000
Milk income	7,018	6,288
Livestock income (refer note 14)	2,700	2,481
Other farm income	157	177
	9,875	8,946

NOTE 5 EXPENSES

Expenses include:	2018 $000	2017 $000
Depreciation - on plant and equipment	382	360
Depreciation - on buildings	42	39
Directors' fees	235	235
Operating lease costs	231	223
Statutory audit fees	26	36
Other fees to auditor	-	-
Key management remuneration - short term benefits	731	677
Other employee remuneration	458	398
Loss in fair value of derivatives	103	90

Farm operating expenses include the costs of operating the farms that the Group manages directly or under sharemilking agreements.

Farm expenses include:		
Animal health	142	168
Depreciation	391	373
Feed	873	552
Fertiliser	944	966
Grazing	657	669
Farm salaries and wages	459	398
Repairs and maintenance	778	632
Weed and pest	130	223
Other farm expenses	1,374	1,159
	5,748	5,140

NOTE 6 CASH FLOW RECONCILIATION

	2018 $000	2017 $000
Net profit (loss) after tax	4,520	8,953
Add (deduct) non-cash items:		
Depreciation	425	399
Milk Price Futures mark to market	60	-
Revaluation movements	(1,103)	(6,558)
	(618)	(6,159)
Changes in assets and liabilities:		
Increase in accounts payable	(238)	115
Increase (decrease) in current tax liability	460	336
Increase (decrease) in deferred taxation liability	40	(30)
Increase in livestock and feed on hand	(166)	(1,005)
Increase in accounts receivable	(333)	(932)
	(237)	(1,516)
Add (deduct) non-operating items:		
Realised (profit) loss on asset sales	(11)	696
	(11)	696
Net cash flows from operating activities	3,654	1,974

NOTE 7 TAXATION

	2018 $000	2017 $000
Statement of comprehensive income		
Net profit (loss) before tax	5,497	9,857
Tax at the statutory rate of 28%	1,539	2,760
Adjusted for the tax effect of:		
Non assessable asset revaluations and realisations	(358)	(1,568)
Non assessable livestock revaluations	(61)	(125)
Depreciation on land improvements	(141)	(164)
Other items	(2)	1
Tax expense	977	904
Represented by:		
Current tax	937	934
Deferred tax	40	(30)
	977	904
Statement of Financial Position		
Deferred tax assets and liabilities relate to the following:		
Buildings depreciation and revaluation	1,619	1,644
Forest operations and revaluation	61	32
Plant depreciation	89	52
Livestock revaluation	(56)	(51)
Other items	52	48
	1,765	1,725
To be recovered after more than 1 year	1,713	1,672
To be recovered within 1 year	52	53
	1,765	1,725
Disclosed as:		
Deferred tax liability	1,765	1,725
Deferred tax asset	-	-
	1,765	1,725
Changes to deferred tax liability:		
1) Recognised in profit or loss:		
Buildings depreciation and revaluation	(25)	4
Forest operations and revaluation	29	-
Plant depreciation	37	58
Livestock revaluation	(5)	(94)
Other items	4	2
	40	(30)
2) Recognised in other comprehensive income	9	60
Total change in deferred tax liability	49	30

NOTE 8 IMPUTATION CREDIT ACCOUNT

	2018 $000	2017 $000
Imputation credits available for subsequent reporting periods	1,471	1,176

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 (or refund) of the amount of the provision for income tax.

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 RISK MANAGEMENT

Fair value estimation

Assets and liabilities recorded at fair value are valued according to the fair value hierarchy as follows:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Financial instrument classification

The carrying amounts of financial instruments by category are listed below. For those held at fair value the applicable level in the fair value hierarchy is shown.

The carrying amounts of financial instruments by category are:	2018 $000	2017 $000
Loans and receivables:		
Accounts receivable	2,004	1,657
Cash at bank	20	41
Financial assets at fair value through profit or loss:		
Shares - Level 1 fair value hierarchy	15,592	12,987
Derivatives - Level 2 fair value hierarchy	127	190
Financial liabilities measured at amortised cost:		
Bank loans and overdraft	12,800	12,400
Accounts payable and accruals	1,233	1,208
Available for sale		
Other investments	303	303

Interest rate risk

The Group is exposed to changes in interest rates on its bank borrowings. As at 30 June 2018 the Group had entered into interest rate swaps to manage 78% (2017: 81%) of the interest rate risk on its borrowing. As at 30 June 2018 the fair value of the interest rate swap agreements was a liability to the Group of $136,000 (2017: a liability of $95,000).

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 of a 1% increase/decrease in interest rates on the Group's profit after tax and the Group's equity is a decrease/increase of $92,000 (2017: $89,000).

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 of an increase/decrease in the price of milk solids of $1.00 per kilogram on the Group's profit after tax and the Group's equity would be an increase/decrease of $758,000 (2017: $736,000).

New Zealand Stock Exchange ("NZX") offers fixed price contracts in the form of milk price futures. The Group evaluates milk price futures and uses them to manage commodity risk by securing a minimum price for a determined share of the expected milk solids production for the season.

At financial year end the Group holds the following milk price futures.

	2018 $000	2017 $000
2017 Milk Price Futures - expire 2 October 2017	-	1,320
2018 Milk Price Futures - expire 1 October 2018	2,400	1,620
2019 Milk Price Futures - expire 1 October 2019	903	-

These have been revalued to market at reporting period end which resulted in a loss of $144,000 (2017: $277,000).

Market price risk

Shares reported at market value are valued at the market price at period reporting ending 30 June 2018. If the price increased/decreased by 10% the effect on the Group's profit after tax and the Group's equity would be an increase/decrease of $1,559,000 (2017: $1,299,000).

Credit risk

Credit risk is the risk of loss arising from a counterparty to a contract failing to discharge its obligation.

Financial instruments which potentially subject the Group to credit risk, consist of derivative financial instruments and accounts receivable.

Included in accounts receivable is $552,000 (2017: $592,000) receivable from Fonterra Co-operative Group Limited and $776,000 (2017: $651,000) receivable from Synlait Milk Limited. There are no other significant concentrations of credit risk.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. There is no history of customer default and management consider the credit quality of trade receivables to be good. On this basis, the Group does not feel it necessary to have a written credit policy in place, however management continue to monitor this risk.

Maximum exposures to credit risk are:	2018 $000	2017 $000
Accounts receivable	2,004	1,657
Properties held for sale	8,815	13,082
Derivatives (milk price futures and interest rate swaps)	408	373

The Group does not expect the non-performance of any obligations to date.

The status of accounts receivable at balance date was:

Not yet due	2,004	1,646
Past due - up to 30 days	-	11
Past due - more than 31 days	-	-
	2,004	1,657

Fair values

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

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 3 May 2019.

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

	2018 Less than 12 months $000	2017 Less than 12 months $000
Accounts payable and accrued expenses	1,185	1,161
Interest bearing loans (incl. accrued interest)	12,848	12,447
	14,033	13,608

Currency risk

Foreign currency risk arises on the Group's investment in Australian listed company Webster Limited. A 10% strengthening in the Australian dollar exchange rate would increase the Group's profit after tax and the Group's equity by $1,245,000 (2017: $901,000). A 10% weakening in the Australian dollar exchange rate would decrease the Group's profit after tax and the Group's equity by $1,019,000 (2017: $737,000).

The Group does not enter into any foreign currency hedging to mitigate the risk of currency movements.

Held for trading instruments

Derivative financial instruments are used by the Group to hedge interest rate, and commodity price risks. The Group has elected not to apply hedge accounting. This means that all derivative financial instruments are accounted for at fair value through profit and loss.

Held for trading instruments are recognised in the Consolidated Statement of Financial Position as either assets or liabilities at fair value on trade date, with changes in fair value reported in other comprehensive income.

NOTE 10 EQUITY

	2018 $000	2017 $000
Share capital - see below	75,537	75,537
Revaluation reserve	11,388	11,457
Retained earnings	106,177	103,323
Total	193,102	190,317

Share capital

There are 33,323,842 authorised shares on issue (2017: 33,323,842). All shares are fully paid up.

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 26 October 2016 the Company repurchased 999,636 shares from 135 shareholders at $4.40 per share, totalling $4,398,398. The repurchased shares were then cancelled.

Total transaction fees relating to capital matters totalled $nil (2017: $13,000).

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.

The Group is required to maintain debt covenants on its debt to ANZ Bank. The company has complied with all covenants in the reporting period (2017: no breaches).

NOTE 11 INVESTMENT PROPERTIES

	2018 $000	2017 $000
Opening balance	140,970	163,681
Additions to existing properties	2,090	511
Disposals	-	(15,876)
Properties no longer classified as held for sale	3,774	-
Property no longer classified as Property Plant and Equipment	-	610
Properties held for sale	-	(13,082)
Revaluations	(1,036)	5,126
Closing balance	145,798	140,970

All rural investment properties held as non current assets were valued as at 30 June 2018 by independent registered valuers Property Advisory Limited or 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. This is level 2 of the fair value hierarchy - refer to note 9.

The commercial land and building was valued as at 30 June 2018 by independent registered valuer 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. This is level 2 of the fair value hierarchy - refer to note 9.

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.

Valuations by valuer	2018 $000	2017 $000
Curnow Tizard Limited	49,600	47,970
Logan Stone Limited	630	610
Property Advisory Limited	95,568	92,390
	145,798	140,970

NOTE 12 PROPERTIES HELD FOR SALE

	2018 $000	2017 $000
Opening balance	13,082	4,655
Disposals	-	(4,655)
Movements in properties held for sale	(3,774)	13,082
Revaluations	(493)	-
Closing balance	8,815	13,082

As at 30 June 2018 there was one property subject to a conditional contract for sale. That contract became unconditional in July 2018 and settlement is in April 2019. A contract for another property held for sale as at 30 June 2018 was signed in early August 2018. That contract was declared unconditional in late August 2018 and will settle in April 2019.

There were two properties under conditional contract for sale at 30 June 2017. In both instances the purchaser was unable to satisfy the conditions therefore the contracts lapsed.

NOTE 13 PROPERTY, PLANT AND EQUIPMENT

	2018 $000	2017 $000
Land and buildings		
Opening balance	28,100	29,300
Additions	175	169
Disposals	-	-
Reclassed as Investment Property	-	(610)
Revaluations	(75)	(759)
Closing balance	28,200	28,100
Plant and equipment		
Opening balance	3,112	3,168
Additions	425	323
Disposals	(1)	(19)
Depreciation	(382)	(360)
Closing balance	3,154	3,112
Cost	7,783	7,414
Accumulated depreciation	(4,629)	(4,302)
Net carrying amount	3,154	3,112
Total property, plant and equipment	31,354	31,212

Rural land and buildings were valued as at 30 June 2018 by independent registered valuer 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. This is level 2 of the fair value hierarchy - refer to note 9.

Valuations by valuer	2018 $000	2017 $000
Curnow Tizard Limited	28,200	28,100
	28,200	28,100

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

	2018 $000	2017 $000
Land	5,222	5,073
Buildings	1,782	1,756
Less accumulated depreciation	(771)	(731)
Net carrying amount	6,233	6,098

NOTE 14 LIVESTOCK

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

	2018 No. of Head	2017 No. of Head
Livestock on hand:		
Sheep	13,785	13,116
Cattle	2,507	2,692
	$000	$000
Sheep value		
Opening balance	1,615	1,358
Increases due to purchases	478	433
Decreases due to sales	(989)	(920)
Gains due to net births and deaths	301	362
Revaluation gains	840	382
Closing balance	2,245	1,615
Cattle value		
Opening balance	3,100	2,340
Increases due to purchases	1,259	1,939
Decreases due to sales	(2,316)	(1,926)
Gains due to net births and deaths	(35)	18
Revaluation gains	495	729
Closing balance	2,503	3,100
Total livestock	4,748	4,715
Classified as:		
Current asset	2,111	1,879
Non current asset	2,637	2,836
	4,748	4,715

Livestock were valued as at 30 June 2018 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, condition and age in the regions the Group's livestock is located. This is level 2 of the fair value hierarchy - refer to note 9.

Livestock Income	2018 $000	2017 $000
Sheep	1,714	1,062
Beef	986	1,419
	2,700	2,481
Livestock sales	4,404	3,835
Book value of livestock sold	(3,524)	(3,050)
Births	560	551
Losses	(294)	(171)
Increase in value	1,554	1,316
	2,700	2,481

NOTE 15 INVESTMENTS

	2018 $000	2017 $000
Shares at market value	15,591	12,988
Shares at cost	303	303
	15,894	13,291

Shares at market value are valued at quoted prices in active markets for identical assets at balance date. This is level 1 of the fair value hierarchy - refer to note 9.

NOTE 16 BANK LOANS

The Company has loan facilities with ANZ Bank Limited totalling $20M (2017: $20M). As at 30 June 2018 the facility was drawn to $12.8M (2017: $12.4M) at a weighted average interest rate of 3.64% (2017: 3.56%).

A global security deed has been provided to ANZ Bank Limited covering all the Group's assets. The facility expires on 3 May 2019. Loans have been classified as current liabilities.

See note 9 for interest rate risk management.

The fair value of borrowings equals their carrying amount.

NOTE 17 EARNINGS PER SHARE

	2018	2017
Numerator - $000		
Net Profit after tax attributable to parent company shareholders	4,520	8,953
Denominator - 000 shares		
Weighted average number of shares on issue	33,324	33,574
Basic earnings per share - $ per share	$0.14	$0.27
Diluted earnings per share - $ per share	$0.14	$0.27

NOTE 18 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 were $34,000 (2017: $31,000). The amount owing at balance date was $15,000 (2017: $9,000) and has since been paid in full.

On 1 October 2016 the Company entered into a Deed of Lease with Seajay Securities Limited for the lease of its office premises at 127 Queen Street East, Hastings. David Cushing and Sir Selwyn Cushing, who are directors of REL, are shareholders and directors of Seajay Securities Limited. The lease is for an initial term of three years with an annual rental of $40,000 (plus outgoings). The amount of rental paid to Seajay Securities Limited during the financial year was $40,000 (2017: $30,000).

During the year the Group purchased $160,000 of livestock from Makowai Farm Limited, a company owned by Sir Selwyn Cushing and David Cushing, directors of REL (2017: $nil).

On 1 May 2018 Rural Equities Limited Director Nigel Atherfold was appointed a Director of Landcorp Farming Limited. Landcorp Farming Limited leases one of the Group's properties. Rental paid by Landcorp Farming Limited for lease of that property during the year was $105,000 (2017: $105,000). The rental is set by reference to an assessment completed by an independent registered valuer.

NOTE 19 COMMITMENTS AND CONTINGENT LIABILITIES

Operating lease commitments

The Group leases farm land adjacent to three of its 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:

	2018 $000	2017 $000
Within one year	89	164
After one year but not more than five years	28	117
More than five years	-	-
Total future minimum lease payments	117	281

Operating lease commitments receivable as lessor

The Group's investment properties (excluding the 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.

	2018 $000	2017 $000
Within one year	1,041	1,915
After one year but not more than five years	349	721
More than five years	-	-
Total	1,390	2,636

Property, plant and equipment and investment properties commitments

The Group had no commitments contracted but not provided for as at 30 June 2018 (2017: $nil).

Contingent liabilities

There are no contingent liabilities as at 30 June 2018 (2017: $nil).

NOTE 20 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. All revenue is derived from New Zealand domiciled entities, other than income from the investment in Webster Limited which is domiciled in Australia.

The Directors are the decision makers who assess the segment reporting and decide on the resource allocation.

Major customers

The Group obtained 22% or $2,716,000 (2017: 27% or $3,123,000) of its revenue from Fonterra Co-operative Group Limited. This is for milk supplied by four of the Group's dairy farms. The Group obtained 25% or $3,055,000 (2017: 30% or $3,518,000) of its revenue from Synlait Milk Limited for milk supplied by three of its dairy farms.

NOTE 21 EVENTS SUBSEQUENT TO THE REPORTING DATE

Dividend

On 31 August 2018 the Directors approved the payment of a dividend of five cents per share amounting to $1,666,000 to be paid on 7 November 2018.

Properties held for sale

In July 2018 the conditional contract as at 30 June 2018 became unconditional. Settlement is on 1 April 2019.

In August 2018 the Group entered into an unconditional contract for the sale of a second property held for sale. Settlement is on 1 April 2019.

In August 2018, Real Estate Agents have been appointed to market three further properties for sale.

Independent Auditor's Report

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To the Shareholders of Rural Equities Limited

Opinion

We have audited the consolidated financial statements of Rural Equities Limited on pages 10 to 30 which comprise the consolidated statement of financial position as at 30 June 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Rural Equities Limited as at 30 June 2018 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) issued by the New Zealand Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Group.

Other Information

The directors are responsible for all other information included in the Group's Annual Report. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Chartered Accountants and Business Advisers
Member of Grant Thornton International Limited

Directors' responsibilities for the Consolidated Financial Statements

The Directors are responsible on behalf of the Group for the preparation and fair presentation of these consolidated financial statements in accordance New Zealand equivalents to International Financial Reporting Standards issued by the New Zealand Accounting Standards Board, and for such internal control as those charged with governance determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, those charged with governance are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the External Reporting Board's website at: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-7/

Restriction on use of our report

This report is made solely to the Group's shareholders, as a body. Our audit work has been undertaken so that we might state to the Group's shareholders, as a body 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 Group and the Group's shareholders, as a body, for our audit work, for this report or for the opinion we have formed.

Grant Thornton New Zealand Audit Partnership

Grant Thornton

K. Price
Partner
Auckland

31 August 2018

Chartered Accountants and Business Advisers
Member of Grant Thornton International Limited

Additional Disclosures

DIRECTORS AND REMUNERATION

The Directors of Rural Equities Limited ("REL") on 30 June 2018 were David Cushing (Executive Chairman), Rodger Finlay (Deputy Chairman), Nigel Atherfold and Sir Selwyn Cushing.

The Directors of REL – Trust Management Limited on 30 June 2018 were David Cushing (Chairman), Nigel Atherfold, Sir Selwyn Cushing, Rodger Finlay and James Wright.

The Directors of New Zealand Rural Property Trust Management Limited on 30 June 2018 were David Cushing (Chairman), Nigel Atherfold, Sir Selwyn Cushing and Rodger Finlay.

The Directors of REL Trustee Services Limited on 30 June 2018 were David Cushing (Chairman), Nigel Atherfold, Sir Selwyn Cushing, Rodger Finlay and James Wright.

The Directors of New Zealand Rural Property Trust Nominees Limited as at 30 June 2018 were David Cushing (Chairman), Nigel Atherfold, Sir Selwyn Cushing, Rodger Finlay and James Wright.

There were no resignations or appointments to REL or any of REL's four subsidiary companies during the year ended 30 June 2018.

The table below details the remuneration received by the Directors from REL during the year ended 30 June 2018.

Name	$
Nigel Atherfold	40,000
David Cushing	100,000
Sir Selwyn Cushing	40,000
Rodger Finlay	55,000

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

ENTRIES RECORDED IN THE INTERESTS REGISTER

The following entries were recorded in the Group's Interests Registers during the year ended 30 June 2018:

Nigel Atherfold was appointed a director of Landcorp Farming Limited on 1 May 2018

David Cushing is a director and shareholder of H&G Limited.

David Cushing is a director and shareholder of Seajay Securities Limited.

David Cushing is a director of Webster Limited.

Sir Selwyn Cushing is a director and shareholder of H&G Limited.

Sir Selwyn Cushing is a director and shareholder of Seajay Securities Limited.

Share transactions undertaken by Directors during the year ended 30 June 2018

H&G Limited (an associate of David Cushing and Sir Selwyn Cushing) acquired:

33,291 REL shares for $4.67 per share on 7 September 2017.
9,340 REL shares for $4.65 per share on 13 September 2017.
9,529 REL shares for $4.76 per share on 13 April 2018.
77,150 REL shares for $4.76 per share on 4 May 2018.
75,000 REL shares for $4.75 per share on 28 May 2018.
3,297 REL shares for $4.75 per share on 13 June 2018.

Directors' relevant interest in REL shares as at 30 June 2018

Name	Held Beneficially	Held by Associated Persons
Nigel Atherfold	-	-
David Cushing	263,160	22,310,866
Sir Selwyn Cushing	85,673	22,472,203
Rodger Finlay	-	1,089,811

Directors' indemnity and insurance

On 31 May 2017 REL renewed its Directors' and Officers' Liability insurance policy for the Group for the period 31 May 2017 to 31 May 2018. On 31 May 2018 REL renewed this policy for a further year until 31 May 2019.

DONATIONS

REL did not make any donations during the financial year ended 30 June 2018.

EMPLOYEES

Until 30 September 2017 the services of Brian Burrough were provided by PGG Wrightson Limited through a secondment agreement. The secondment agreement terminated on 30 September 2017 and from 1 October 2017 Brian Burrough became directly employed by REL.

For the year ended 30 June 2018 employees received remuneration and other benefits from REL in the following salary brackets:

1 employee	$210,000 and $220,000
1 employee	$230,000 and $240,000
1 employee	$250,000 and $260,000

Shareholder Information

As at 9 October 2018

TOP TWENTY SHAREHOLDERS

Holder	Number of shares held	%
H&G Limited	21,445,792	64.35
RGH Holdings Limited	1,089,811	3.27
FE Mayell and D A Young (F E & H Mayell Trust)	500,000	1.5
BJ Martin	394,127	1.18
JN Pearson and AJ Mansell (Sam Pearson Family Trust)	393,804	0.87
Seajay Securities Limited	313,625	0.94
New Zealand Methodist Trust Association	300,000	0.9
BD Cushing and SJ Cushing (K D Cushing Family Trust)	263,160	0.78
Makowai Farm Limited	208,966	0.62
Winders Investments Limited	203,789	0.61
B&S Custodians Limited	182,000	0.54
Ashfield Properties Limited	178,560	0.53
Custodial Services Limited (A/C 3)	175,560	0.52
CAZNA (2904) Limited (Douglas Goodfellow Charitable Trust)	165,854	0.49
MGS Fund Limited	162,336	0.48
Sky Hill Limited	150,000	0.45
AJ Mansell, SL Pearson and JN Pearson (Squirrel Trust)	143,544	0.43
LM Marx-Sheather, WB Sheather, PV Sheather and SM Palmer (Sheather Family Trust)	125,716	0.37
FNZ Custodians Limited	121,968	0.36
RG Goodrick	120,000	0.36

ANALYSIS OF SHAREHOLDING BY SIZE

	Number of shareholders	%	Number of shares held	%
2,000 - 4,999	310	45.52	942,929	2.82
5,000 - 9,999	187	27.46	1,281,499	3.85
10,000 - 49,999	140	20.56	2,809,707	8.43
50,000 - 99,999	20	2.94	1,348,482	4.05
100,000 and over	24	3.52	26,941,225	80.85
Total	**681**		**33,323,842**	

ANALYSIS OF SHAREHOLDING BY LOCATION

	Number of shareholders	%	Number of shares held	%
Upper North Island	335	49.18	3,865,126	11.60
Gisborne	19	2.79	194,696	0.58
Hawke's Bay	89	13.07	23,782,115	71.37
Manawatu/Whanganui/Wairarapa	33	4.85	299,823	0.90
Wellington	74	10.87	1,762,287	5.29
South Island	101	14.83	2,987,337	8.96
Overseas	30	4.41	432,458	1.30
Total	**681**		**33,323,842**	

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 33.

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 an Audit Committee. Its responsibilities are to:

- Ensure that the Company has adequate risk management controls in place.
- Advise on accounting policies, practices and disclosure.
- Review the scope and outcome of the external audit.
- Make recommendations to the Directors on the appointment of the Auditor and the Auditor's remuneration.
- Review the annual financial statements prior to approval by the Directors.

The committee's responsibilities include REL and each of its subsidiaries.

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

HEALTH AND SAFETY COMMITTEE

REL has constituted a Health and Safety Committee to ensure that health and safety is an integral component of the Group's everyday business. The Committee's responsibilities are to:

- Provide leadership and policy for health and safety management within the Group.
- Advise on health and safety strategy and policy.
- Review management systems to ensure that they are appropriate to manage hazards and risks within the business.
- Monitor and review performance by specifying and receiving timely reports on incidents, investigations and resultant actions, with the assistance of internal and external audits.

The Committee meets in conjunction with the Directors' meetings. The committee comprises Nigel Atherfold (Chairman), David Cushing, Sir Selwyn Cushing and Rodger Finlay.

REMUNERATION COMMITTEE

The Remuneration Committee reviews the remuneration arrangements for the Group's three Executives.

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

DIRECTORY

DIRECTORS

David Cushing
Executive Chairman

Nigel Atherfold

Rodger Finlay
Deputy Chairman

Sir Selwyn Cushing

EXECUTIVE

Brian Burrough
Chief Executive Officer

James Wright
Chief Operating Officer

Shona Devescovi
Chief Financial Officer

REGISTERED OFFICE

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Young calves - Waikoha


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equities
LIMITED