



Annual Report

for the year ended 30 June 2020

About Rural Funds Group (ASX: RFF)

Rural Funds Group is an agricultural Real Estate Investment Trust (REIT) listed on the ASX under the code RFF. RFF owns a diversified portfolio of Australian agricultural assets which are leased predominantly to corporate agricultural operators. RFF targets distribution growth of 4% per annum by owning and improving farms that are leased to good counterparties.

About Rural Funds Management Limited (RFM)

RFM is the responsible entity and manager of RFF. RFM is an agricultural fund and asset manager established in 1997. The management team includes specialist fund managers, corporate professionals, horticulturists, agricultural scientists and managers. RFM's company culture is informed by its long-standing motto "managing good assets with good people".



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

Issued on: 30 September 2020

Image: almond bloom, Mooral, Hillston, NSW, August 2020.

*Cover image: Red-winged parrots (*Aprosmictus erythropterus*) perched on forage Sorghum at Comanche, central Queensland, August 2020.*

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Letter from the Managing Director



Dear Unitholder,

We are pleased to present to you the Rural Funds Group (RFF, the Fund) Annual Report for the year ended 30 June 2020 (FY20).

Review of FY20

During FY20 the Fund continued to diversify earnings, lessees and exposure to climatic zones. This was achieved in part through acquisitions, including eight cattle and cropping properties in central Queensland and Western Australia.

The investment strategy for these natural resource acquisitions is to improve the assets' productivity, or to develop them to higher and better use. Both of these strategies aim to improve the value of the assets and their lease income-generating potential. This is a continuation of the strategy that Rural Funds Management Limited (RFM), the responsible entity and manager of RFF, has successfully implemented within the portfolio over a number of years in numerous agricultural sectors.

Reinforcing this strategy, independent valuations were undertaken for several of the Funds' cattle properties during FY20, resulting in an increase in value of \$14.3 million (m). The higher valuations reflect improved productivity and sector fundamentals. Similarly, three almond orchards, which have been developed by RFM, received net increased revaluations of \$22.3m. Macadamia orchards and unleased water entitlements also benefitted from combined revaluation gains of \$22.2m.

RFM has also sought to dispose of assets where deemed appropriate. In April 2020, RFM announced that it had commenced a process to sell the Mooral almond orchard after observing investor demand for these types of assets. As part of the release of the FY20 results RFM confirmed that it had exchanged conditional contracts for the sale of this asset at a premium to the value recorded in the financial accounts.

Prior to the Mooral sale process, RFM completed the sale of RFF's poultry assets for \$71.9m. The decision to sell the poultry assets took into consideration the upcoming material capital requirement for their refurbishment. RFM's view was that investing in refurbishment of the poultry assets would achieve a lower return than investing in other agricultural opportunities.

The sale of the poultry assets and expected sale of the Mooral almond orchard provide funding for further investment into productivity and higher and better use developments. To this end, in August 2020 RFM announced that it had entered into contracts to acquire 5,409 ha of cropping properties located in central Queensland and 8,060 ML of associated water entitlements. RFM intends to progressively convert these assets and several of the existing cattle properties to 5,000 ha of macadamia orchards.

The macadamia sector has a number of appealing characteristics, such as low levels of existing global production and increasing demand. RFM first invested in the macadamia sector in 2016 and has since accumulated valuable operating and development knowledge that will be beneficial to the planning of this significant investment.

The orchards will be located in three Queensland regions, Maryborough, Bundaberg and Rockhampton, and are expected to be developed over five years. RFF has also acquired a macadamia tree nursery to supply planting material for the developments.

When complete the macadamia orchards are expected to provide development gains, increased rental income, improved diversification and increased weighted average lease expiry (WALE). The WALE profile of RFF is currently 10.9 years. RFM will continue to seek to increase RFF's WALE to provide ongoing long-term income predictability for investors.

Another benefit of the developments is they further diversify into Australia's northern climatic zone (see Figure 2). Diversifying RFF this way is one of the strategies in which RFM seeks to reduce the impact of climatic events. As we entered calendar year 2020, bushfires that were fuelled by above average temperatures and prolonged drought raged in the eastern states of Australia. While, sadly, many people were devastated by the fires, no RFF properties were materially impacted. Other strategies in which RFM seeks to address climatic events and climate change are detailed in the Environmental, Social and Governance section of this report.

Almost as soon as the final bushfires were extinguished the world was learning of the emergence of a novel coronavirus (COVID-19), which would be later declared by the World Health Organization to be a pandemic. While many businesses have needed to respond with unprecedented measures to the pandemic there has been no material impact to RFF as a result of COVID-19. RFF's lessees, which are predominantly corporate entities, have continued to produce food from RFF's assets for both local and global markets. Indeed, many of these industries are prospering with favourable seasonal and market conditions.

FY20 financial results

FY20 property revenue increased by 8%, primarily as a result of acquisitions during the year. Total Comprehensive Income, which includes property revenue as well as the effect of independent property valuations, increased by 87%. The adjusted Net Asset Value (NAV) of the Fund finished the period with a value of \$655.7m, or \$1.94 on a per unit basis. This equates to an 8% NAV per unit increase, when compared to FY19.

Gearing at the end of FY20 was 29.7%, which is at the lower end of the Fund's target range of 30-35%. The lower gearing provides capacity for the Fund to complete acquisitions and commence the macadamia orchard developments, as described above.

Most pleasingly, RFF ended the year with adjusted funds from operations (AFFO) of 13.5 cents per unit (cpu) and distributions of 10.85 cpu, both in line with forecasts. This is the sixth consecutive financial year (FY15 to FY20) in which the Fund has achieved AFFO forecasts and distribution growth, the latter in line

with the 4% growth target (see Figure 1). The distribution growth target is one of the primary focuses of the RFM management team in the ongoing management of RFF.

Looking ahead to FY21

RFM's focus is to commence the macadamia orchard developments and enter into leasing arrangements for these assets. Part of the funding for these developments is expected to be from asset sales (poultry assets and the Mooral almond orchard), which will result in a short term reduction in AFFO per unit, but is expected to be compensated by higher, medium and long term AFFO generation.

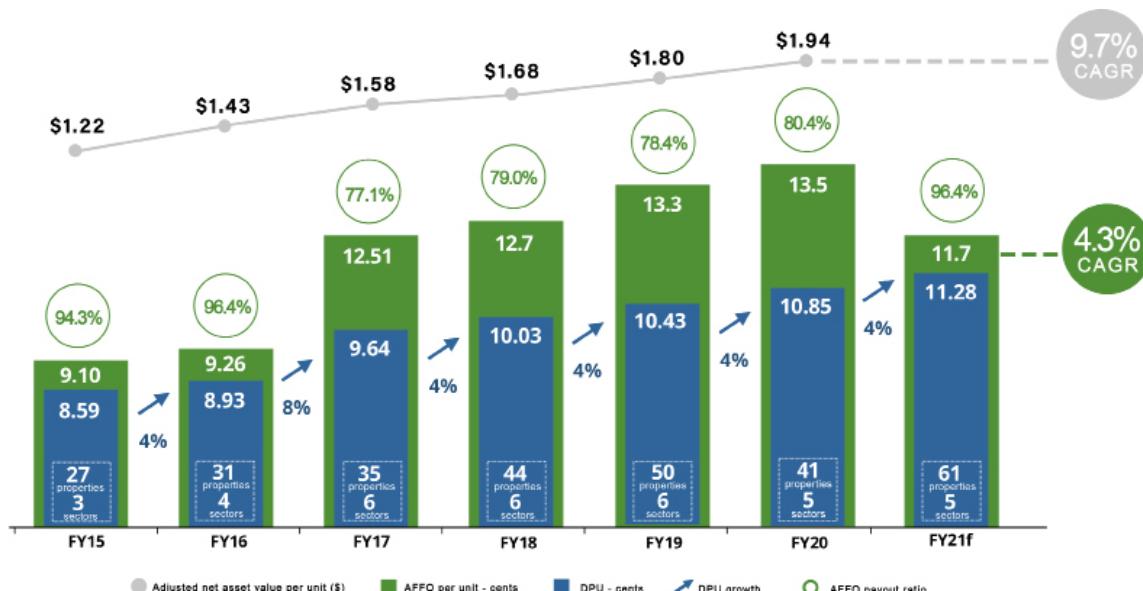
Despite this material reconfiguration of the portfolio as part of the full year results presented in August 2020, RFM provided a forecast FY21 AFFO of 11.7 cpu, and forecast distributions of 11.28 cpu. This represents a 4% increase on FY20 distributions and therefore consistent with the Fund's strategy.

We look forward to providing you with updates as they arise during FY21 and encourage you to contact our Investor Services team if you have any queries. In the meantime, we will continue to prudently manage your investment in line with our long-standing company motto of "managing good assets with good people".

Yours faithfully,

David Bryant
Managing Director
Rural Funds Management Limited

Figure 1: DPU, DPU growth, AFFO payout and adjusted NAV since listing¹



1. Adjusted assets incorporates independent property valuations, inclusive of water entitlements. Pro forma properties and sectors presented where applicable.
CAGR - Compound annual growth rate.

Portfolio overview

The portfolio of assets are diversified by climatic zone and agricultural sector. The Fund seeks to invest in sectors in which Australia has a comparative advantage and the manager, RFM, has operating knowledge.

Figure 2: Sectors and assets²

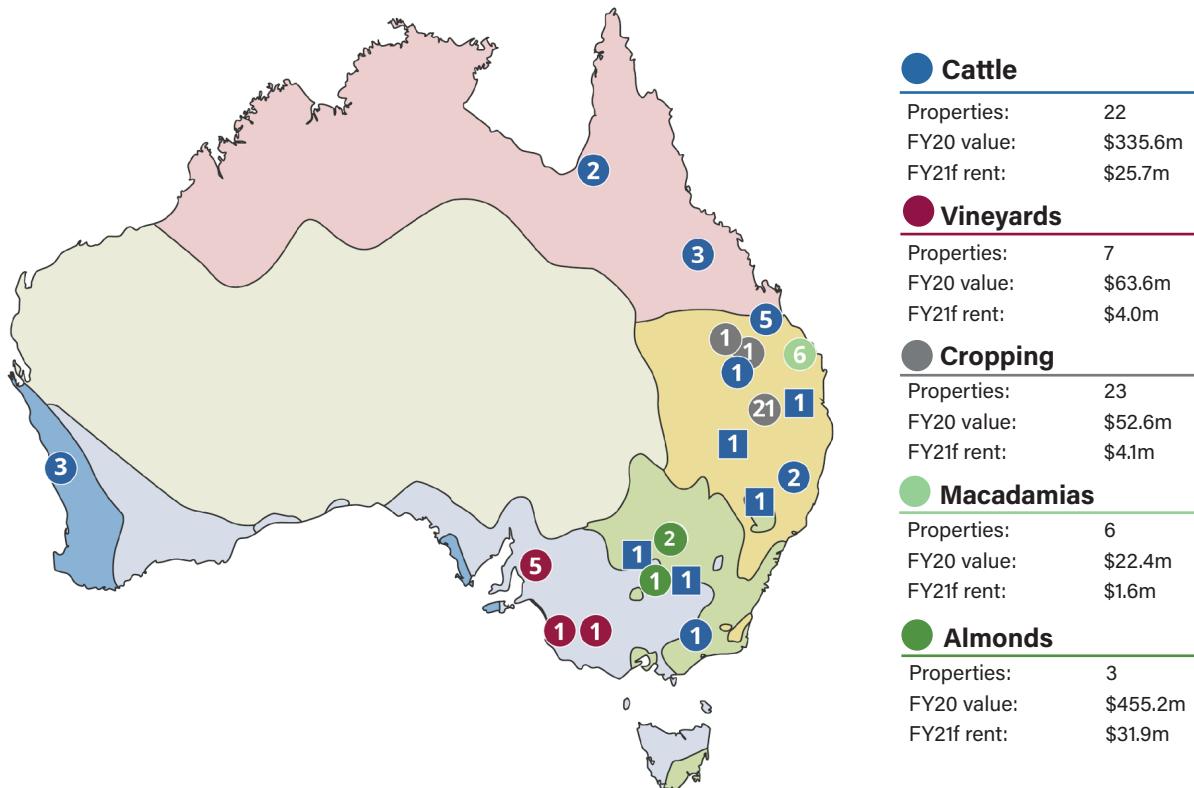
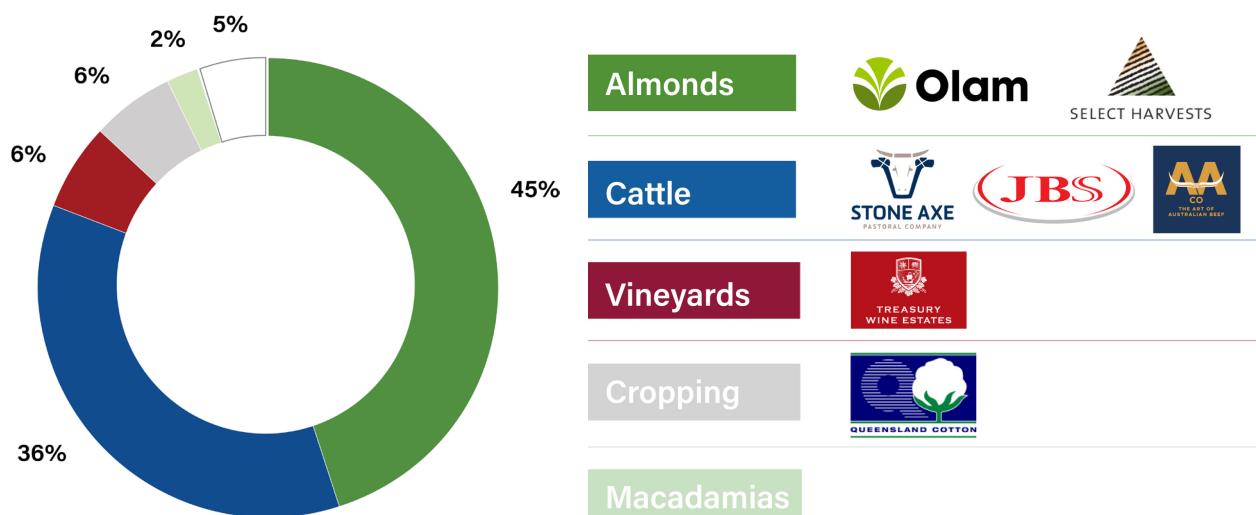


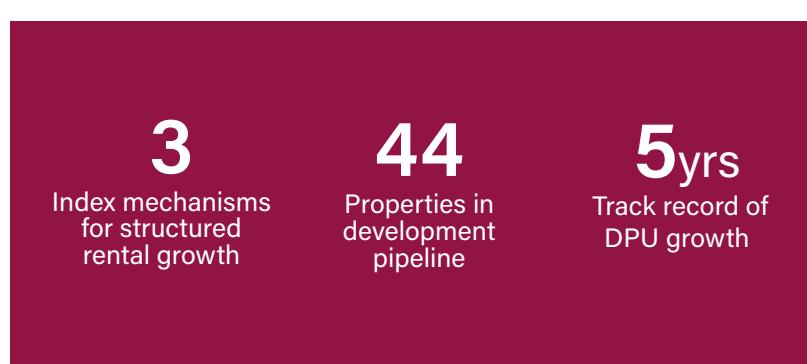
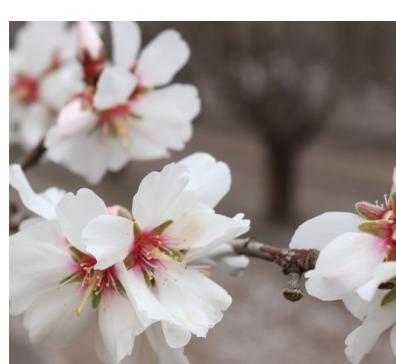
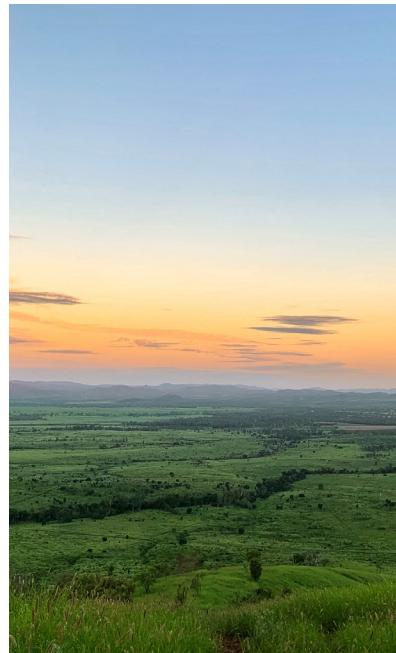
Figure 3: Total agricultural sector exposure (FY21f revenue) and corporate lessee (78% FY21 revenue) by sector.³



2. Shaded areas denote climatic zones differentiated by rainfall seasonality. Source: Bureau of Meteorology; see RFF Climatic Diversification discussion paper, 20 Jun 2016. Numbers in the icons show number of assets in that area. Blue square boxes on map denote cattle feedlots. Number of properties and forecast FY21 rent includes Maryborough properties (expected to settle Oct 2020), shown as cropping until converted to macadamias, and the disposal of the Mooral almond orchard (expected to settle Dec 2020). The Mooral sale is conditional on completion of due diligence and Foreign Investment Review Board approval. FY20 values and FY21f rent include plant and equipment.

Strategy and portfolio highlights

RFF generates income by owning and improving farms that are leased to good operators. Lease income growth is achieved through indexation mechanisms, productivity improvements and higher and better use developments. The Fund targets distribution growth of 4% per annum.



Images from top left: green pastureland after early autumn rainfall, Comanche, central Queensland, March 2020; pruned grapevines at Kleinig vineyard (developed by RFM), Barossa Valley, South Australia, August 2020; winter muster at Cobungra, Victorian high country, August 2020; almond tree blossoms at Mooral orchard (developed by RFM), Hillston, NSW, August 2020.

3. Figures shown are subject to rounding. Sectors shown by FY21f revenue. Assumes the disposal of Mooral and includes Maryborough properties. Olam refers to Olam Orchards Australia Pty Ltd, a wholly owned subsidiary of SGX-listed Olam International Ltd (SGX: O32). Income from J&F Australia Pty Ltd attributed to JBS Australia. Cotton JV income split 50% RFM and 50% Queensland Cotton Corporation Pty Ltd. White area denotes "other" revenue (5%). Excludes non-lessee income e.g. annual water allocation sales and properties not leased. Corporate lessees shown in the right of the pie graph represent 78% of FY21f revenue (see presentation dated 25 August 2020, for additional information).

4. Calculated by FY21 forecast rent and the year of lease expiry. Excludes properties not leased.

FY20 results highlights

The positive FY20 results are largely due to the ongoing expansion of the portfolio and independent valuations of various assets. The Fund achieved FY20 forecast adjusted funds from operations (AFFO) and distributions per unit (DPU). Forecast FY21 DPU of 11.28 cents is in line with the 4% growth target.

Property revenue

\$72.0m

↑ 8% on FY19

Earnings (total comprehensive income) per unit

18.4 cents

↑ 82% on FY19

AFFO

13.5 cents

↑ 2% on FY19 in line with forecast

Gearing⁶

29.7%

Below 30%-35% target range

DPU

10.85 cents

↑ 4% on FY19 in line with forecast

Adjusted net asset value (NAV) per unit

\$1.94 per unit

↑ 8% on FY19

Adjusted total assets⁵

\$1,012.6m

↑ 7% on FY19

FY21 forecast DPU

11.28 cents

↑ 4% on FY20 in line with strategy

Image: pruned shiraz grapevines at Kleinig vineyard, Barossa Valley, South Australia, August 2020.

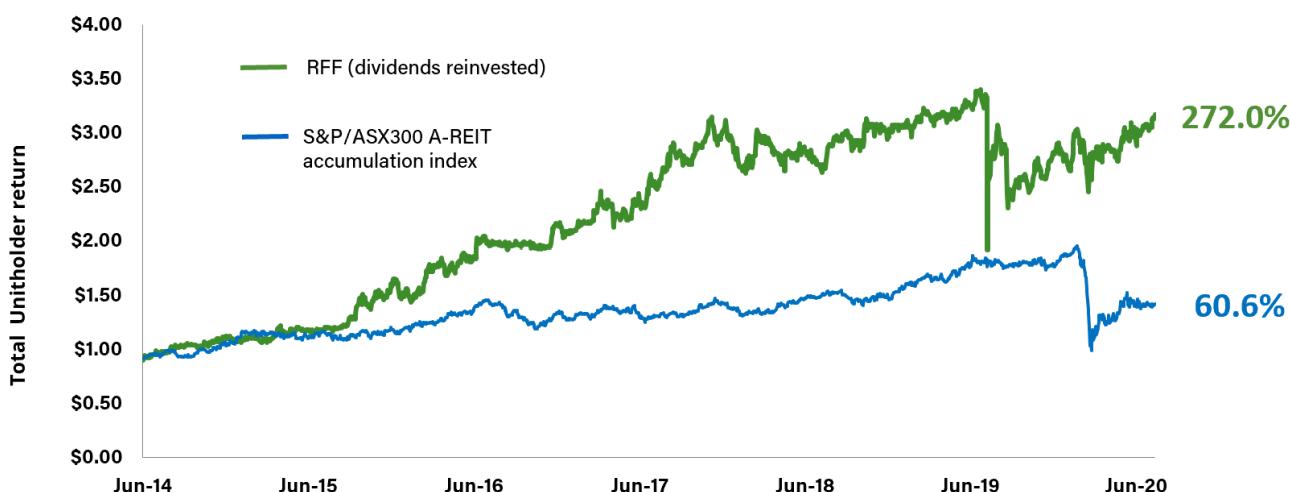
5. Assets adjusted for the independent valuation of water entitlements which are recognised at the lower of cost or fair value on balance sheet.

6. Gearing calculated as external borrowings/adjusted total assets.

FY20 operating highlights

- Ongoing expansion of the portfolio increasing property revenue.
- Positive independent valuations for assets which have been undergoing productivity improvement or higher and better use developments including almond orchards and cattle properties.
- Recycling capital out of poultry and almond assets.⁷
- Acquisitions suitable for productivity improvements and higher and better use development including assets to develop 5,000 ha of macadamia orchards.
- Reconfiguration of the portfolio whilst continuing to grow distributions in line with strategy.
- Total Unitholder return July 2014 to September 2020 of 272% (see Figure 4).

Figure 4: Total Unitholder return (compared to S&P/ASX 300 A-REIT accumulation index).⁸



7. Refer to Figure 2, page 6.

8. Calculation period 1 July 2014 to 11 September 2020. S&P/ASX 300 A-REIT Accumulation Index rebased to \$1.00. RFF accumulation return rebased to \$1.00 and assumes dividends reinvested.



Image: beehives adjacent to almond trees in bloom, Mooral, Hillston, NSW, August 2020.

Corporate governance statement

Corporate governance statement

Definitions

AFS Licence	Australian Financial Services Licence No. 226701
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange Limited or ASX Limited
Board	The Board of Directors of the Responsible Entity
Corporations Act	<i>Corporations Act 2001 (Cth)</i>
Corporate Governance Charter	RFM's Corporate Governance Charter
RFM	Rural Funds Management Limited ACN 077 492 838
WGEA	Workplace Gender Equality Agency or Agency
WGE Act	<i>Workplace Gender Equality Act 2012 (Cth)</i>
Unitholders	The registered holder of a unit in the Fund

Rural Funds Group (the Fund) is listed on the ASX and comprises Rural Funds Trust ARSN 112 951 578 and RF Active ARSN 168 740 805, both registered managed investment schemes under the *Corporations Act 2001 (Cth)* (the Corporations Act). Units in Rural Funds Trust are stapled to units in RF Active. Rural Funds Management Limited (RFM) ACN 077 492 838 is the Responsible Entity for the Fund and has established and oversees the corporate governance of the Fund. The Responsible Entity holds an Australian Financial Services (AFS) Licence authorising it to operate the Fund. It has a duty to act in the best interests of unitholders of the Fund (Unitholders). The Fund's compliance plan has been lodged with ASIC, a copy of which can be obtained from ASIC or by contacting the Responsible Entity. The Responsible Entity publishes its corporate governance related policies on its website at:

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

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

To the extent that they are applicable for an externally managed fund, the Responsible Entity has adopted and complies with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations 3rd Edition. In accordance with ASX Listing Rule 4.10.3, set out in this section are the ASX Corporate Governance Council's eight principles of corporate governance, and the extent to which there is compliance with the recommendations for each principle. The statement has been approved by the Board of the Responsible Entity and applies to the period 1 July 2019 to 30 June 2020 (Statement Period).

The ASX Corporate Governance Council has released an updated version of the Corporate Governance Principles and Recommendations (4th Edition) which, for a listed entity, takes effect in the first full financial year on or after 1 January 2020. RFM will adopt the 4th Edition in its annual report for the year ended 30 June 2021.

At the time of printing this statement, there have been no material changes to corporate governance policies and practices since 30 June 2020.

Principle 1: Lay solid foundations for management and oversight

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

ASX recommendation 1.1

The business of the Fund is managed under the direction of the Board of the Responsible Entity comprising:

Chair: Guy Paynter (independent non-executive director)

Managing Director: David Bryant

Non-Executive Director: Michael Carroll (independent non-executive director)

Non-Executive Director: Julian Widdup (independent non-executive director)

The conduct of the Board is governed by the Constitution of the Fund and the Corporations Act. The broad functions and responsibilities of the Board are set out in paragraphs four and five of RFM's Corporate Governance Charter. Their specific responsibilities are set out in paragraph six.

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

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

ASX recommendation 1.2

As an externally managed scheme, recommendation 1.2 does not apply to the Fund.

ASX recommendation 1.3

All directors of the Responsible Entity receive letters of appointment setting out the key terms and conditions of their appointment.

All senior managers of the Responsible Entity enter into an employment agreement setting out the key terms and conditions of their employment including a position description, duties, rights, responsibilities, remuneration and entitlements on termination.

ASX recommendation 1.4

The Company Secretary of the Responsible Entity is accountable to the Board, through the Chair, on all matters to do with the proper functioning of the Board.

As stated in the Corporate Governance Charter, the Company Secretary reports directly to the Managing Director.

ASX recommendation 1.5

As an externally managed scheme, recommendation 1.5 does not apply to the Fund. The Responsible Entity has a Diversity Policy, which is reviewed annually with any changes approved by the Board. The policy provides the framework by which the Responsible Entity actively manages and encourages diversity and inclusion. It recognises that its employees are one of its greatest assets and it has a range of employees with skills and capabilities that ensure the ongoing strength, continuity and stability of the Responsible Entity. The policy addresses issues of diversity in developing selection criteria, skills mix and the process when identifying candidates for appointment to the Board. Additionally, the Responsible Entity seeks to attract a diverse pool of suitably skilled candidates for available positions within the organisation. Due to the size of the Responsible Entity's Board and its senior management team, and the limited turnover of personnel at this level, it does not set quantitative gender diversity objectives. The Responsible Entity will endeavour to maintain, or improve, its current level of gender diversity as senior management vacancies arise. A copy of the policy is available on the Responsible Entity's website.

As at 30 June 2020, the Responsible Entity's senior management included two female managers (out of a total of 15 senior managers). Of the 107 staff members RFM and its associated entities employ, 29% are female.

The *Workplace Gender Equality Act 2012 (Cth)* (WGE Act) applies to RFM as the Responsible Entity and its associated entities, together employing more than 100 employees in Australia. The Agency confirmed the annual compliance report sent by RFM is compliant with the WGE Act for FY20, having achieved the required targets.

ASX recommendation 1.6

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

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

ASX recommendation 1.7

The performance of all staff, including senior managers, is reviewed throughout the year, as appropriate, in accordance with the timelines outlined in the Responsible Entity's Performance Management Policy.

Principle 2: Structure the board to add value

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

ASX recommendation 2.1

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

ASX recommendation 2.2

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

ASX recommendation 2.3

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

Director	Commencement	Independent
David Bryant	17 February 1997	No
Guy Paynter	15 April 2010*	Yes
Michael Carroll	15 April 2010*	Yes
Julian Widdup	15 February 2017	Yes

* Both Mr Paynter and Mr Carroll have more than ten years of service as Directors of the Responsible Entity. It remains RFM's opinion that both Mr Paynter and Mr Carroll have an independence of mind and a strong element of objectivity regarding the affairs of RFM and the Fund. All members of the RFM Board advocate their professional views as part of robust discussions.



Guy Paynter
Non-Executive Chairman
10 years



David Bryant
Managing Director
23 years



Michael Carroll
Non-Executive Director
10 years



Julian Widdup
Non-Executive Director
3 years

Guy Paynter is an Independent Non-Executive Director, holds the role of Chair of the Board and is a member of the Audit Committee and the Remuneration Committee.

Guy Paynter is a former director of broking firm JB Were. Guy brings to RFM more than 30 years of experience in corporate finance. Guy is a former member of the Australian Securities Exchange (ASX) and a former associate of the Securities Institute of Australia (now known as the Financial Services Institute of Australasia).

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

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

David Bryant is the Managing Director. David holds 78.01% of shares on issue in the Responsible Entity.

David Bryant established RFM in February 1997 and since that time has led the team responsible for the acquisition of large-scale agricultural property assets and associated water entitlements. As at 30 June 2020, RFM manages over \$1.3 billion of agricultural assets.

On a day-to-day level, David is responsible for leading the RFM senior management team, maintaining key commercial relationships and sourcing new business opportunities.

David holds a Diploma of Financial Planning from the Royal Melbourne Institute of Technology (RMIT) University and a Master of Agribusiness from the University of Melbourne.

Michael Carroll is an Independent Non-Executive Director and is the Chair of the Audit Committee and the Remuneration Committee.

Michael Carroll serves in a board and advisory capacity for a range of agribusiness entities. Michael is Chairman of Viridis Ag Pty Limited and Australian Rural Leadership Foundation. Michael is a Director on the Boards of Select Harvests Limited and Paraway Pastoral Company Limited. Former board positions include Elders Limited, Sunny Queen Australia Pty Limited, Tassal Group Limited, the Australian Farm Institute, Warrnambool Cheese and Butter Factory Company Holdings Limited, Queensland Sugar Limited, Rural Finance Corporation of Victoria, Meat and Livestock Australia and the Geoffrey Gardiner Dairy Foundation.

Michael's advisory clients have included government, major banks and institutional investors. He comes from a family who have been involved in agriculture for over 145 years and has his own property in South West Victoria. Michael has senior executive experience in a range of companies, including establishing and leading the National Australia Bank (NAB) Agribusiness division.

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

Julian Widdup is an Independent Non-Executive Director and is a member of the Audit Committee and Remuneration Committee.

Julian Widdup has been involved in the financial services industry for over 25 years. Julian's current Directorships include Australian Catholic Superannuation & Retirement Fund, Catholic Schools NSW, Screen Canberra and Cultural Facilities Corporation.

Julian brings extensive board experience to RFM having previously served as a Director for several domestic and international organisations. Julian is a former executive of infrastructure investment management companies, Palisade Investment Partners and Access Capital Advisers (now Whitehelm Capital) and previously worked with Towers Perrin (now Willis Towers Watson) as an asset consultant, the Australian Bureau of Statistics and the Insurance and Superannuation Commission (now APRA).

Julian holds a Bachelor of Economics from the Australian National University, is a Fellow of the Institute of Actuaries of Australia and a Fellow of the Australian Institute of Company Directors.

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

ASX recommendation 2.4

As an externally managed scheme, recommendation 2.4 does not apply to the Fund; however, as outlined in 2.3, the Responsible Entity's Board is comprised of a majority of independent Directors.

ASX recommendation 2.5

As an externally managed scheme, recommendation 2.5 does not apply to the Fund; however, independent non-executive Director, Guy Paynter, holds the role of Chair of the Responsible Entity.

ASX recommendation 2.6

As an externally managed scheme, recommendation 2.6 does not apply to the Fund; however, any new Directors would be provided with an induction relevant to the Responsible Entity and the Fund. Directors are also provided with opportunities to develop and maintain their skills and knowledge, through both formal and informal training.

Principle 3: Act ethically and responsibly

A listed entity should act ethically and responsibly.

ASX recommendation 3.1

The Responsible Entity has adopted a Directors' Code of Conduct that sets out the minimum acceptable standards of behaviour. The Code seeks to give directors guidance on how best to perform their duties, meet their obligations and understand RFM's corporate governance practices. The Code focuses on directors' obligations to comply with codes and law, their general duties, their application of business judgement, the application of independent and sound decision making, confidentiality, improper use of information, cooperation, personal interests and conflicts, conduct, and complaints.

In addition to the Directors' Code of Conduct, the Responsible Entity has a general Code of Conduct that is applicable to directors and all staff including senior managers. The Corporate Governance Charter which includes the Directors' Code of Conduct is available on the Responsible Entity's website.

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

Principle 4: Safeguard integrity in corporate reporting

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

ASX recommendation 4.1

The Board of the Responsible Entity has established an Audit Committee. The purpose of the Audit Committee is to assist the Board in overseeing the integrity of financial reporting, financial controls and procedures in respect of the Fund as well as the independence of the Fund's external auditors.

The Audit Committee is comprised of three members, all of whom are independent non-executive directors. An independent director, who is not the Chair of the Board of the Responsible Entity, is Chair of the Committee. The relevant qualifications and experience of the members is available on the Responsible Entity's website.

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

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

The Audit Committee has a formal charter that details its roles and responsibilities and its obligations to report to the Board. The charter sets out the powers of the Audit Committee, the meeting procedure framework, the process for selection of external auditors and audit planning. The Audit Committee Charter can be found in Schedule 1 of the Corporate Governance Charter on the Responsible Entity's website.

ASX recommendation 4.2

The Board of the Responsible Entity has been given declarations by the person performing the chief financial officer function. It is their opinion that the:

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

ASX recommendation 4.3

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

Principle 5: Make timely and balanced disclosure

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

ASX recommendation 5.1

The Responsible Entity has adopted a Continuous Disclosure Policy (the policy) that applies to all directors and employees of the Responsible Entity. The policy is available on the Responsible Entity's website. The policy reflects the desire to promote a fair market in the Fund's units, honest management, and timely, full and fair disclosure. It complies with the disclosure requirements of the ASX and explains the Fund's disclosure obligations, the types of information that need to be disclosed, identifies who is responsible for disclosure and explains how employees of the Responsible Entity can contribute to the Fund's disclosure requirements and obligations. The policy underlines the Board's commitment to ensuring that Unitholders are provided with accurate and timely information about the Fund's activities.



Image: macadamia development planting material at Nursery Farm, Bundaberg, central Queensland, August 2020.

Principle 6: Respect the rights of security holders

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

ASX recommendation 6.1

The Responsible Entity is one of the oldest and most experienced agricultural fund managers in Australia. The Responsible Entity was established in 1997 to provide retail investors with an opportunity to invest in Australian rural assets.

The management team includes specialist fund managers; finance, legal, governance and human resource professionals; horticulturists; agricultural managers; and livestock managers. This team provides the Responsible Entity with the specialised skills and experience required to manage the agricultural assets.

The Responsible Entity also utilises the best available consultants and supporting resources to achieve desired outcomes and has a substantial network available to ensure that, where appropriate, tasks can be outsourced.

The Responsible Entity has the primary responsibility for managing the Fund on behalf of Unitholders.

Information about the Responsible Entity and the Fund, including corporate governance practices and policies are available on the Responsible Entity's website.

ASX recommendation 6.2

The Responsible Entity's website has information available to Unitholders to facilitate two-way communication. The investment products tab on the website provides a link to the Fund's website which provides a Fund overview, asset and lease information, strategy and investment processes, financial information, key documents, news and announcements, and details about how to contact the Responsible Entity and the Fund Registry.

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

Email: investorservices@ruralfunds.com.au
Website: <https://ruralfunds.com.au/contact-us/>

Phone: 1800 026 665

Fax: 1800 625 518

By visiting the Responsible Entity's office: Level 2, 2 King St, Deakin ACT 2600

From time to time, the Responsible Entity arranges tours of the assets of the Fund. Additionally, Unitholders are welcome to make their own arrangements to visit the assets by contacting Investor Services.

ASX recommendation 6.3

As an externally managed scheme that does not hold periodic meetings, recommendation 6.3 does not apply to the Fund. If the Responsible Entity is required to hold a Unitholder meeting, it could use a web-conferencing and/or a teleconferencing facility for remote Unitholders.

ASX recommendation 6.4

The Responsible Entity encourages all investors to communicate with it and with the Fund's registry electronically however, the Responsible Entity continues to communicate with investors via traditional methods (mail and phone) when appropriate.



Image: cattle grazing at Comanche, central Queensland, August 2020.

Principle 7: Recognise and manage risk

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

ASX recommendation 7.1

The Responsible Entity has not established a Risk Committee. Due to the size of the Board and the nature of the business, the Board has determined that risk oversight should be managed by the Board. The Board has ultimate responsibility for overseeing the risk management framework and for approving and monitoring compliance with the framework. The Board receives monthly reports on all material business risks in relation to the Fund, including a report on all risks rated extreme or high. The ongoing management of identified risks is undertaken by the relevant managers of each business area, who report to the Board on the effectiveness of mitigation measures.

The Responsible Entity has established a Risk Management Policy that documents the Responsible Entity's policy for the oversight and management of material business risks. It ensures that risks are identified and assessed, and that measures to monitor and manage each of the material risks are implemented. The Risk Management Policy is based on standards set out in the International Standards ISO 31000:2018.

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

ASX recommendation 7.2

The Responsible Entity's risk management framework is reviewed annually, or more often if there has been a substantive change in the risk profile. An annual risk review was performed during the Statement Period.

The Annual Risk Review is a re-evaluation of all risks based on each risk owner reviewing each risk and assessing whether the existing risk rating is appropriate. In some cases, the risks may be re-rated, and the residual risk amended depending on changes in the likelihood of the risk occurring, the consequence if the risk did occur, and the effectiveness of control measures in place.

ASX recommendation 7.3

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

During the Statement Period, the Internal Compliance Committee comprised:

- Company Secretary (Chair)
- Chief Financial Officer
- National Manager – Human Resources
- Assistant Manager – Compliance and Risk
- Senior Fund Administrator

In addition, the Chief Operating Officer, National Manager – RFF, Senior Business Manager and Business Manager are invited to each Internal Compliance Committee meeting.

This broad representation of roles on the Internal Compliance Committee ensures it is fully informed of matters and recommendations across the Fund and associated RFM entities.

ASX recommendation 7.4

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

RFF's core activity is the leasing of agricultural land, water and infrastructure, and thus the Fund is largely passive in nature. Lessees are required to adopt practices that retain or improve the sustainability of the Fund's assets.

In response to disclosing ESG matters for the Responsible Entity with the greatest materiality to the Fund and its investors, please refer to the Environmental, Social and Governance Responsibilities section starting at page 22.

Principle 8: Remunerate fairly and responsibly

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

ASX recommendation 8.1

The Responsible Entity has adopted the ASX's alternative recommendations for externally managed entities and provides the following details governing the remuneration to the Responsible Manager:

- Fund Management Fee – up to 1.0% p.a. of the adjusted gross asset value of the Fund
- Asset Management Fee – up to 1.0% p.a. of the adjusted gross asset value of the Fund
- Termination Fee – 1.5% of the adjusted gross asset value of the Fund.

The fees listed above represent the maximum allowed under the Fund's Constitution.

At present, the Responsible Entity charges total fees (fund management and asset management fees) of 1.05% of the adjusted gross asset value of the Fund. For further information on these fees, refer to page 87 for the dollar amounts.

The Board of Directors of the Responsible Entity has established a Remuneration Committee. The purpose of the Remuneration Committee is to advise on remuneration and issues relevant to the remuneration policies and practices for senior managers and non-executive directors.

The Remuneration Committee is comprised of three members, all of whom are independent non-executive directors. An independent director, who is not the Chair of the Board of the Responsible Entity, is Chair of the Remuneration Committee. Information on the relevant qualifications and experience of the members is available on the Responsible Entity's website.

The Remuneration Committee will routinely invite other individuals to attend meetings, including senior management of the Responsible Entity. The Remuneration Committee and invitees will review the remuneration and diversity report and provide commentary to the Board as required.

No Remuneration Committee meetings were held in relation to remuneration during the Statement Period due to the effects of the COVID-19 pandemic. Two remuneration meetings are expected to be held in FY21.

The Remuneration Committee has a formal charter that details its responsibilities and its obligations to report to the Board. The charter sets out the powers of the Remuneration Committee and the meeting procedure framework.

The Remuneration Committee Charter can be found in Schedule 2 of the Corporate Governance Charter on the Responsible Entity's website.

ASX recommendation 8.2

As an externally managed scheme, refer to recommendation 8.1.

ASX recommendation 8.3

As an externally managed scheme, refer to recommendation 8.1.



Image: flowering mungbean crop at Lynora Downs, central Queensland, June 2020.



Image: winter at Cobungra Station, Omeo, Victoria, August 2020.

Environmental, Social and Governance responsibilities



Environmental, Social and Governance responsibilities

ASX recommendation 7.4 (continued)

Commitment and responsibility for implementation

RFM, as Responsible Entity for RFF, is committed to sustainable practices that benefit the environment, land management, our staff and the community. These practices are underpinned by RFM's ESG responsibilities and are reflected in our policies, conduct and community support.

The below information provides a summary of our ESG commitments. Please note that some sections relevant to ESG fall under the corporate governance section, which can be found from page 10 or in policies which are available on RFM's website.

Environment

Climate change

RFM is aware of the potential risks that climate change could present to RFF's assets. RFM has committed to a climatic diversification strategy to mitigate these risks. Given that the majority of RFF's assets are leased out, the most significant risks of climate change lie in the residual risk of the assets at the end of lease terms. These risks may be mitigated by how the assets are managed. In addition, external valuations consider these and other risks when determining the valuations of the assets.

In addition, RFM has considered the impact of emissions from RFF's assets, including carbon dioxide, methane, and nitrous oxide. The assets produce these emissions through agricultural infrastructure and machinery, cattle assets and through the application of fertiliser.

During FY20 RFM participated in a study with Meat & Livestock Australia (MLA) to assess emissions from a selection of RFF's cattle properties. The goal of this project is to work towards carbon neutrality on RFF assets and contribute to the industry's objective of achieving this goal (see Case study, page 25).

Also during FY20, RFM worked with a major Australian energy company to assess the viability of solar energy systems on assets including an almond orchard, to generate the majority of the operators energy requirements. Consideration of the feasibility of these projects is ongoing and subject to lessee discussion.

As part of RFM's ongoing strategy to mitigate and improve climate related risks, RFM will continue to monitor emissions and seek to implement infrastructure and practice changes where appropriate.

Management of natural resources

RFF owns a portfolio of Australian agricultural assets and the stewardship of these assets is of critical importance to the performance and growth of RFF.

RFF leases require operators to use appropriate agricultural production methods. These include farm management methods to minimise environmental impact, protect biodiversity, manage water and sustain soil health. Wherever practical, the Responsible Entity as manager of the Fund promotes:

- monitoring industry developments and adopt farm management practices that incorporate the latest research findings and technologies to minimise environmental impact, protect biodiversity and better use natural resources;
- maximising water-use efficiency by using modern, well-managed irrigation systems;
- water management practices consider and manage water quality and minimise run-off;
- use of communication technologies to access water-use data remotely; and, assisting with optimal water use, adopt nutrient management practices that improve long-term soil health;
- pest and weed management requiring the use of chemicals occurs in a safe and environmentally responsible manner; and
- lessees and personnel understand and are focused on sustainable farming principles and adhere to environmental legislation and regulations.

For the full details, see the Environmental Policy located on the Responsible Entity's website.

Case study: Working with MLA to reduce greenhouse gas (GHG) emissions by the cattle industry



MLA have set a target for Australia's red meat industry to become carbon neutral by 2030. In January 2020, RFM and MLA commenced a project to assess GHG emissions using data gathered from a selection of RFF's cattle properties in Queensland and New South Wales. The final report was prepared by Research Scientist, Dr Natalie Doran-Browne and published in June 2020.

The project focused on assessing the emissions intensity of livestock production on the properties since 2016. Emissions intensity, rather than total emissions, is a common metric for assessing farming enterprises as it compares the GHG emissions generated per unit of farm product (e.g kilograms of beef produced). For instance, improved emissions intensity may be a result of higher farm production and a significant level of avoided emissions that would have otherwise been produced.

The report calculated that from 2016-17 to 2018-19 GHG emissions intensity declined by 17% on the New South Wales properties and 43% on the Queensland properties. The report identifies that improved feed quality and animal management as contributing factors to these results. A reduction of this magnitude is the equivalent of not running about 2,800 average Australian cars for a year.

The project is thought to benefit the industry by increasing the awareness of farm GHG emissions accounting and providing appropriate benchmarks. The report also provides a process which can be followed by other red meat producers who would like to take steps towards carbon reduction and neutrality. RFM will use the findings of the report to continue to improve farm practices to further reduce emissions intensity.

To learn how RFM is "Managing Good Assets with Good People" scan the QR code.



Social

Our staff

As RFF does not directly employ staff, the Responsible Entity is responsible for staff management associated with the management and operation of the Fund. A selection of RFM staff, with responsibility for RFF, are presented in Figure 5.

- Code of Conduct;
- Work Health, Safety, and Environment (WHSE);
- Incident Management;
- Diversity; and,
- Equal Employment Opportunity.

The aim of these policies is to create a safe, diverse and equitable workplace.

The Responsible Entity takes its Work Health and Safety (WHS) obligations seriously and has implemented an extensive management system to educate employees and contractors and protect them from harm. The Board receives a monthly workplace health and safety report identifying any issues and incidents. The Responsible Entity periodically reviews arrangements with contractors to determine that their practices and standards meet its safe work practices and expectations, legislative requirements and contractual obligations.

The Responsible Entity is committed to providing employees with ongoing opportunities for WHS training and development

Figure 5: RFM corporate management (including tenure)



Tim Sheridan

Chief Operating Officer
12 years



Daniel Yap

Chief Financial Officer
8 years



Emma Spear

Company Secretary
11 years



Dan Edwards

National Manager -
Rural Funds Group
15 years



James Powell

General Manager - Investor
Relations and Marketing
12 years



David Thomson

Senior Business Manager
13 years



Scott Roxburgh

Business Manager
10 years



Kristina Smith

National Manager - Human
Resources
14 years

Animal welfare

Some of RFF's properties are leased to agricultural producers involved in intensive production, such as cattle feedlots. The Responsible Entity has policies and procedures that are explicit about animal treatment and welfare.

RFF's cattle lessees are required to comply with best husbandry and pastoral practice. This is stipulated in leases signed with RFF. Best practice includes low-stress handling, disease minimisation and sustainable stocking rates. Most cattle sold by RFF lessees are sold and processed domestically, but a small number may be sold to the live export market.

Community engagement

The Responsible Entity continues to provide support to Tehen, a village in the Battambang province of Cambodia. The Responsible Entity has committed \$1m over three years to assist farmers in their agricultural practices to improve productivity and commodity diversification. The project aims to educate and mentor local farmers to develop more modern, sustainable and diversified agricultural enterprises. It is hoped that Tehen will also become a model that could be replicated by other local communities. To view an update on the Tehen project visit www.ruralfunds.com.au/mgawgp.

The Responsible Entity has also supported a number of organisations through donations and labour. Further details can be located on the Community Involvement page on the Responsible Entity's website.



Applying RFM's agricultural expertise in Cambodia

Scan to learn more >



Governance

Corporate governance

The Responsible Entity has established an Internal Compliance Committee (ICC) that reports to the Board of Directors quarterly. The ICC monitors and reports on compliance with the Responsible Entity's AFS Licence, and compliance program to ensure that it is effective in meeting the Responsible Entity's compliance requirements. The ICC also provides a supporting role to the Compliance Manager. The ICC is structured to include representatives from different business units to ensure compliance monitoring and review is well embedded across the Responsible Entity.

Conflicts of interest and related party transactions

RFM manages a number of entities, including its role as Responsible Entity for four funds. Where related party transactions occur between RFF and another RFM-managed entity, they are subject to the Conflict of Interest Management Policy. The Responsible Entity's responsibilities and contractual obligations are set out in the Fund's Constitution, the Corporations Act, the ASX Listing Rules and its AFS Licence. As the Responsible Entity, RFM must always act in the best interests of Unitholders, and if there is a conflict between Unitholders' interests and its own interests, it must give priority to Unitholders' interests.

The Responsible Entity has also established protocols, including appointing separate personnel to act for each entity with separate external advisers. To monitor compliance with these obligations, the Board receives a monthly report from the Compliance Department, who reports on the Responsible Entity's compliance, and any conflicts of interests or related party transactions.

Ethical conduct

The Responsible Entity's employees are obligated to conduct themselves in accordance with the standards set out in the RFM Code of Conduct, the Corporate Governance Charter and other related policy documents. Our employees are expected to conduct themselves with integrity, in compliance with legislative requirements and internal policies and procedures. Employee performance is monitored by management through a combination of ongoing informal reviews.

The Responsible Entity's recruitment process includes reference checking of all potential employees, as well as national police checks and bankruptcy checks for high and medium risk roles. RFM's anti-money laundering and counter-terrorism financing program aims to identify, mitigate and manage the risk that the Company or its Officers may unwittingly facilitate money laundering or financing of terrorism. The Responsible Entity manages the above risks in accordance with its Risk Management Policy available on the Responsible Entity's website.



Image: macadamia orchard harvest, Bundaberg, central Queensland, August 2020.

ASX additional information



ASX additional information

Additional information required by the ASX, under the Listing Rules and not disclosed elsewhere in this report is set out below. This information is effective as at 14 September 2020.

(a) Distribution of Equity Securities

Holding Size	Unitholders	Class
1 – 1,000	3,740	Ordinary fully stapled securities
1,001 – 5,000	5,283	Ordinary fully stapled securities
5,001 – 10,000	2,361	Ordinary fully stapled securities
10,001 – 100,000	3,405	Ordinary fully stapled securities
100,001 and over	181	Ordinary fully stapled securities

(b) Substantial Unitholders

Unitholder	Number of units	%
Vanguard Investments Australia	32,584,896	9.702%
Daiwa Securities Group Inc ⁸	16,808,337	5.02%
Sumitomo Mitsui DS Asset Management Company ⁸	16,808,337	5.02%
Sumitomo Mitsu Financial Group ⁸	16,808,337	5.02%

(c) Holders of less than marketable parcels

The number of holders of less than marketable parcels, being \$500 based on the ASX unit closing price of \$2.30 as at 14 September 2020 is set out below:

Number of Unitholders	Number of units
1,835	475,531

(d) Voting rights

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

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

⁸. There is overlap in the relevant interest of each of these entities. Persons reading the annual report should refer to the applicable substantial holder notices released via the ASX.

(e) Twenty largest unitholders

Unitholder	Number of units	%
HSBC Custody Nominees (Australia) Limited	53,026,798	15.672%
JP Morgan Nominees Australia Pty Limited	49,300,692	14.571%
Argo Investments Limited	16,281,523	4.812%
Netwealth Investments Limited (Wrap Services A/C)	14,537,052	4.296%
CITICORP Nominees Pty Limited	14,058,715	4.155%
Rural Funds Management Ltd	11,843,659	3.500%
National Nominees Limited	3,657,167	1.081%
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	3,621,281	1.070%
Bryant Family Services Pty Ltd <BFS Superannuation Fund A/C>	3,377,583	0.998%
Netwealth Investments Limited <Super Services A/C>	3,081,372	0.911%
One Managed Investment Funds Limited <Charter Hall Maxim Property Securities A/C>	3,000,000	0.887%
SCCASP Holdings Pty Ltd <H & R Super Fund A/C>	1,663,073	0.492%
Boskenna Pty Ltd	1,209,104	0.357%
BNP Paribas Noms Pty Ltd <DRP>	1,129,262	0.334%
BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd <DRP A/C>	1,070,312	0.316%
Capital Property Corporation Pty Ltd <Carrington A/C>	936,276	0.277%
BNP Paribas Nominees Pty Ltd <IB AU Noms Retailclient DRP>	900,092	0.266%
CS Fourth Nominees Pty Ltd <HSBC Cust Nom Au Ltd 11 A/C>	823,039	0.243%
WF Super Pty Ltd <Wilson Family S/F A/C>	770,335	0.228%
NOELJEN Pty Ltd <N & J Peters Family A/C>	711,902	0.210%

(f) On-market buy-back

RFF confirms there is no on-market buy-back facility in operation.

(g) Material lease details subsequent to listing rule 10.1 waiver

Lessees	AETL as custodian and RFM as responsible entity of RFM Almond Fund⁹
Area	593 hectares of almond orchards
Property and location	Mooral, Hillston NSW
Expiry	29-Jun-26 and 02-Jul-28
Capital commitments:	Capex required to meet orchard development requirements and replacement capital items on account of lessor, both subject to additional rental.
Indexation:	2.5% per annum
Payment frequency:	FY20: 50% 31-Dec and 50% 30-Jun From FY21: 25% 30-Sep, 25% 31-Dec, 50% 30-Jun

Securities exchange

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

9. The RFM Almond Fund is a result of the merger of the RFM Almond Fund 2006, RFM Almond Fund 2007 and RFM Almond Fund 2008.



Image: irrigated wheat, Lynora Downs, Queensland, August 2020.

Financial Statements

for the year ended 30 June 2020

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



Rural Funds Group

Corporate Directory

Registered Office	Level 2, 2 King Street DEAKIN ACT 2600
Responsible Entity	Rural Funds Management Limited ABN 65 077 492 838 AFSL 226701 Level 2, 2 King Street DEAKIN ACT 2600 Ph: 1800 026 665
Directors	Guy Paynter David Bryant Michael Carroll Julian Widdup
Company Secretary	Emma Spear
Custodian	Australian Executor Trustees Limited ABN 84 007 869 794 Level 19, 60 Castlereagh Street SYDNEY NSW 2000
Auditors	PricewaterhouseCoopers One International Towers Sydney Watermans Quay BARANGAROO NSW 2000
Share Registry	Boardroom Pty Limited Level 12, 225 George Street SYDNEY NSW 2000 Ph: 1300 737 760
Bankers	Australia and New Zealand Banking Group Limited (ANZ) 242 Pitt Street SYDNEY NSW 2000
	Rabobank Australia Group Darling Park Tower 3 201 Sussex Street SYDNEY NSW 2000
Stock Exchange Listing	Rural Funds Group units (Rural Funds Trust and RF Active form a stapled investment vehicle) are listed on the Australian Securities Exchange (ASX)
ASX Code	RFF

Rural Funds Group

Directors' Report

30 June 2020

Rural Funds Group (RFF or the Group) comprises the stapled units in two Trusts, Rural Funds Trust (RFT) (ARSN 112 951 578) and RF Active (RFA) (ARSN 168 740 805) (collectively, the Trusts). The Directors of Rural Funds Management Limited (RFM) (ACN 077 492 838, AFSL 226701), the Responsible Entity of Rural Funds Group present their report on the Group for the year ended 30 June 2020.

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

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

Directors

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

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

Principal activities and significant changes in state of affairs

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

The following activities of the Group changed during the year:

In July 2019, the Group entered into simultaneous arrangements that terminated the current Rewan lease with Cattle JV Pty Limited and commenced a new ten year lease with Australian Agricultural Company Limited (AACo).

In August 2019, the Group settled the acquisition of the Beef City feedlot, located in Queensland, for \$12.8 million. Adjacent cropping land settled in October 2019 for \$0.5 million.

In October 2019, the Group purchased Cygnet, a property located in Queensland, for \$1.6 million. The property is currently unleased and under development to 40 hectares of macadamia plantings.

In December 2019, the Group sold its poultry assets to ProTen Investment Management Pty Ltd as trustee for ProTen Investment Trust (ProTen) for \$71.0 million. The sale consisted of shedding assets and water entitlements. The Group also sold its poultry related plant and equipment held in RF Active to ProTen for \$0.9 million.

In January 2020, the Group purchased Wattlebank, a 321 hectare cattle property located in central Queensland for \$1.8 million including transaction costs. A lessee is currently being sought.

In February 2020 the Group purchased Petro, High Hill and Willara for \$22.6 million including transaction costs. These three cattle properties are located in Western Australia and are leased to Stone Axe Pastoral Company for a period of ten years.

In February 2020, the Group disposed of unleased groundwater assets totaling 1,910 ML for \$6.7 million.

In March 2020, the Group purchased Swan Ridge South, a 123 hectare property adjoining Swan Ridge, located in the Bundaberg region for \$1.6 million including transaction costs. The property is currently unleased and under development for macadamia plantings. The Group also purchased a 64 hectare property in the Bundaberg region for \$2.2 million including transaction costs. The property is currently unleased and under development for macadamia plantings and the establishment of a macadamia tree nursery.

Rural Funds Group

Directors' Report

30 June 2020

Principal activities and significant changes in state of affairs (continued)

In April 2020, unitholders approved an increase to the guarantee provided to J&F Australia Pty Limited (J&F), a wholly owned subsidiary of Rural Funds Management Limited from \$75 million to \$100 million. The initial guarantee increase was \$7.5 million. The Group receives a fee from J&F on the guarantee provided.

In April 2020, the Group announced the commencement of the marketing process for the sale of the Mooral almond orchard. These assets have been treated as held for sale.

In May 2020, the Group settled the acquisition of the Riverina feedlot, located in New South Wales, for \$11.6 million including transaction costs. The Group also purchased Yarra, a 2,173 hectare cattle property located in the Rockhampton region of Queensland for \$7.5 million including transaction costs. A lessee is currently being sought.

In June 2020, the Group purchased Homehill, a 3,270 hectare cattle property located in the Rockhampton region of Queensland for \$8.7 million including transaction costs. A lessee is currently being sought.

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

Operating results

The consolidated net profit after income tax of the Group for the year ended 30 June 2020 amounted to \$48,988,000 (2019: \$33,355,000). The consolidated total comprehensive income of the Group for the year ended 30 June 2020 amounted to \$61,938,000 (2019: \$33,078,000).

The Group holds investment property, bearer plants and derivatives at fair value. After adjusting for the effects of fair value adjustments, depreciation, impairments and one-off transaction costs during the year, the profit would have been \$45,427,000 (2019: \$43,246,000), representing adjusted funds from operations (AFFO).

Adjusted funds from operations (AFFO)

The adjusted funds from operations (AFFO) calculated below effectively represents the underlying and recurring cash earnings from the Group's operations from which distributions are funded:

	2020 \$'000	2019 \$'000
Net profit before income tax from continuing operations	49,096	36,982
Change in fair value of interest rate swaps	7,624	18,208
Depreciation and impairments - plant and equipment	2,244	1,230
Depreciation - bearer plants	4,838	4,600
Impairment/(reversal of impairment) of bearer plants	499	(8,854)
Change in fair value of investment property	(16,194)	(15,344)
Change in fair value of financial assets/liabilities	(510)	70
Impairment/(reversal of impairment) of intangible assets	798	(105)
Straight-lining of rental revenue	(1,232)	(953)
Interest component of JBS feedlot finance lease	(789)	(352)
Income tax payable (RF Active)	(884)	(413)
Gain on sale of assets	(4,032)	(12)
Net profit before income tax from discontinued operations	1,502	1,197
Depreciation and impairments	649	-
Change in fair value of investment property	1,250	6,992
Income tax payable (RF Active)	(57)	-
Loss on disposal	29	-
Loss on disposal - one off transaction costs	596	-
AFFO	45,427	43,246
AFFO cents per unit	13.5	13.3

Rural Funds Group

Directors' Report

30 June 2020

Financial position

The net assets of the consolidated Group have increased to \$557,966,000 at 30 June 2020 from \$525,872,000 at 30 June 2019. At 30 June 2020, the Group had total assets of \$914,920,000 (2019: \$869,087,000).

At 30 June 2020, the Group held total water entitlements (including investments in Barossa Infrastructure Limited (BIL) and Coleambally Irrigation Co-operative Limited (CICL)) at a book value of \$129,246,000 (2019: \$131,273,000). Directors obtain independent valuations on RFF properties ensuring that each property will have been independently valued every two years or more often where appropriate. These valuations attribute a value to the water entitlements held by the Group. The Directors have taken into account the most recent valuations on each property and consider that they remain a reasonable estimate. On this basis the fair value of water entitlements at 30 June 2020 was \$226,945,000 (2019: \$208,042,000). The value of water entitlements is illustrated in the table below:

	2020	2019
	\$'000	\$'000
Intangible assets (water entitlements)	117,262	118,531
Investment in CICL	11,464	12,222
Investment in BIL	520	520
Total book value of water entitlements	129,246	131,273
Revaluation of intangible assets per valuation	97,699	76,769
Adjusted total water entitlements	226,945	208,042

Adjusted net asset value

The following depicts the net assets of the Group following the revaluation of water entitlements comprising intangible assets and investments in BIL and CICL per these valuations.

	2020	2019
	\$'000	\$'000
Net assets per Consolidated Statement of Financial Position	557,966	525,872
Revaluation of intangible assets per valuation	97,699	76,769
Adjusted net assets	655,665	602,641
Adjusted NAV per unit	1.94	1.80

Property leasing

At 30 June 2020 the Group held 41 properties as follows:

- 4 almond orchards (4,947 planted hectares);
- 7 vineyards (666 planted hectares);
- 3 macadamia orchards (261 planted hectares);
- 3 macadamia orchards under development (118 hectares);
- 22 cattle properties made up of 17 breeding, backgrounding and finishing properties (671,010 hectares) and 5 cattle feedlots with combined capacity of 150,000 head;
- 2 cropping properties (7,822 hectares).

During the year ended 30 June 2020, the properties held by the Group recorded an increment in the fair value of investment properties of \$14,944,000 (2019: \$8,352,000) and an increment in bearer plants revaluation of \$12,451,000 (2019: \$8,579,000).

Rural Funds Group

Directors' Report

30 June 2020

Property leasing (continued)

Almond orchards

The three fully established almond orchard properties (including water entitlements) are located in Hillston, NSW and are leased to tenants who make regular rental payments. These encompass a planted area of 4,947 hectares (2019: 2,414 hectares plus 2,500 hectares under development):

- Yilgah 1,006 planted hectares (2019: 1,006 hectares);
- Mooral 808 planted hectares (2019: 808 hectares);
- Tocabil 603 planted hectares (2019: 600 hectares);
- Kerarbury 2,530 planted hectares (2019: 2,500 hectares).

These properties are under lease to the following tenants:

- Select Harvests Limited (SHV) 1,221 planted hectares (2019: 1,221 hectares);
- Olam Orchards Australia Pty Limited (Olam) 3,133 planted hectares (2019: 3,100 hectares);
- RFM Almond Fund (RAF) 593 planted hectares (2019: 593 hectares). RAF is the result of the merger between the RFM Almond Fund 2006 (AF06), RFM Almond Fund 2007 (AF07), RFM Almond Fund 2008 (AF08) and RFM's Almondlots that took place in August 2019.

For its almond orchards the Group owns water entitlements of 67,743ML (2019: 67,743ML) comprising groundwater, high security river water, general security river water, supplementary river water, and domestic and stock river water. In addition, the Group owns 21,430ML (2019: 21,430ML) of water delivery entitlements that provide access to water delivery through CICL, with a low annual allocation expected to be provided.

Vineyards

The vineyard properties held by the Group include seven vineyards, with six located in South Australia, in the Barossa Valley, Adelaide Hills and Coonawarra regions, and one located in the Grampians in Victoria. For its vineyards, the Group owns 936ML of water entitlements (2019: 936ML). All vineyards are leased to Treasury Wine Estates Limited and produce premium quality grapes. Six of the vineyards are leased until June 2026 and one is leased until June 2022.

Macadamia orchards

Three established macadamia orchards located near Bundaberg, QLD and leased to the following tenants:

- 2007 Macgrove Project (M07) 234 hectares (2019: 234 hectares);
- RFM Farming Pty Limited 27 hectares, novated from Rural Funds Management Limited (RFM) during the year (2019: 27 hectares).

The Cygnet property located in Bundaberg, Queensland is currently unleased and under development to 38 hectares of macadamia plantings.

Swan Ridge South located in Bundaberg, Queensland is currently unleased and under development to 40 hectares of macadamia plantings.

The Nursery Farm property located in Bundaberg, Queensland is currently unleased with 12 hectares of macadamia plantings. The property is under development for an additional 28 hectares of macadamia plantings and the establishment of a macadamia tree nursery.

Cattle property

Cattle properties held by the Group comprise of cattle breeding, backgrounding and finishing properties and cattle feedlots.

- Rewan located near Rolleston in central Queensland 17,479 hectares (2019: 17,479 hectares);
- Mutton Hole and Oakland Park located in far north Queensland 225,800 hectares (2019: 225,800 hectares);
- Natal aggregation located near Charters Towers in north Queensland 390,600 hectares (2019: 390,600 hectares);
- Comanche located in central Queensland 7,600 hectares (2019: 7,600 hectares);
- Cerberus located north west of Rockhampton in central Queensland 8,280 hectares (2019: 8,280 hectares);
- Dyamberin located in the New England region of New South Wales 1,728 hectares (2019: 1,728 hectares);
- Woodburn located in the New England region of New South Wales 1,063 hectares (2019: 1,063 hectares);

Rural Funds Group

Directors' Report

30 June 2020

Property leasing (continued)

Cattle property (continued)

- Cobungra located in the East Gippsland region of Victoria 6,500 hectares (2019: 6,500 hectares);
- Petro, High Hill and Willara located in Western Australia 6,196 hectares (2019: N/A);
- Wattlebank located north west of Rockhampton in central Queensland 321 hectares (2019: N/A);
- Yarra located south west of Rockhampton in central Queensland 2,173 hectares (2019: N/A);
- Homehill located north west of Rockhampton in central Queensland 3,270 hectares (2019: N/A); and
- Prime City, Mungindi, Caroona, Beef City and Riverina, 5 cattle feedlots with a combined capacity of 150,000 head (2019: 70,500 head).

The properties comprise a combined 671,010 hectares and are leased to the following tenants:

- Australian Agricultural Company Limited, leasing Rewan;
- Cattle JV Pty Limited, a wholly owned subsidiary of RFM, leasing Mutton Hole and Oakland Park;
- DA & JF Camm Pty Limited, a member of the Camm Agricultural Group, leasing the Natal aggregation;
- Elrose Enterprises Pty Limited, leasing Comanche;
- Katena Pty Limited, leasing Cerberus; and
- Stone Axe Pastoral Company Pty Limited, leasing Dyamberin, Woodburn, Cobungra, Petro, High Hill and Willara.

In addition to this, JBS Australia Pty Limited leases the Prime City, Mungindi, Caroona, Beef City and Riverina feedlots.

The remaining properties are not currently leased as at 30 June 2020.

The lease arrangement for the Natal aggregation includes a \$10 million secured loan provided to the lessee and a \$5 million cattle financing facility to fund the purchase of cattle.

The lease arrangement for the Cerberus property includes a \$1.6 million financing facility to fund the purchase of cattle.

Cropping property

Cropping properties held by the group comprise of:

- Lynora Downs, a 4,880 hectare (2019: 4,880 hectare) cropping property located near Emerald, QLD is leased to Cotton JV Pty Limited, a joint venture between RFM and Queensland Cotton Corporation Pty Limited (a subsidiary of Olam International Limited) until April 2022.
- Mayneland, a 2,942 hectare (2019: 2,942 hectare) cropping property located 25 km north of Lynora Downs in central Queensland, is leased to RFM Farming Pty Limited (a wholly owned subsidiary of RFM) until 30 June 2021. A long-term lessee is being sought.

Other activities

Agricultural plant and equipment with a net book value of \$6,969,000 (2019: \$8,537,000) and finance leases of agricultural plant and equipment with a net book value of \$978,000 (2019: nil) is owned by the Group and leased to RFM Almond Fund, M07, Cotton JV, Cattle JV and RFM Farming. Of this, \$3,768,000 of plant and equipment is classified as held for sale as at 30 June 2020.

Breeder assets with a net book value of \$14,383,000 (2019: \$14,431,000) are leased to Cattle JV Pty Limited.

Banking facilities

At 30 June 2020 the core debt facility available to the Group was \$335,000,000 (2019: \$335,000,000), with a drawn balance of \$297,248,000 (2019: \$291,445,000). The facility is split into two tranches with a \$225,000,000 tranche expiring in November 2021 and a \$110,000,000 tranche expiring in November 2023. Approval has been received from the banks to extend the \$225,000,000 tranche to \$290,000,000. The \$290,000,000 tranche will reduce to \$260,000,000 at the earlier of the potential Mooral almond property sale or November 2021. At 30 June 2020, RFF had active interest swaps totaling 61.6% (2019: 55.9%) of the drawn balance to manage interest rate risk.

Rural Funds Group

Directors' Report

30 June 2020

Distributions

	Cents per unit	Total \$
Distribution declared 3 June 2019, paid 31 July 2019	2.6075	8,715,923
Distribution paid 31 October 2019	2.7118	9,082,534
Distribution paid 31 January 2020	2.7118	9,107,837
Distribution paid 30 April 2020	2.7118	9,133,908
Distribution declared 2 June 2020, paid 31 July 2020	2.7118	9,158,113

Earnings per unit

Net profit after income tax for the year (\$'000)	48,988
Weighted average number of units on issue during the year	336,035,155
Basic and diluted earnings per unit (total) (cents)	14.58

Indirect cost ratio

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

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

The ICR for the Group for the year ended 30 June 2020 is 1.99% (2019: 1.87%).

Matters subsequent to the end of the year

On 23 July 2020, the Group contracted to acquire 1,655 hectares of grazing land adjacent to the Homehill property for \$4.1 million excluding transaction costs. Settlement is expected to occur in December 2020 and will be funded from RFF's debt facility.

On 3 August 2020, the Group contracted to acquire 5,409 hectares of sugar cane farms (with associated plant and equipment) and 8,060 ML of water entitlements from MSF Sugar Pty Ltd for \$81.1 million excluding transaction costs. Settlement is expected to occur in October 2020 and will be funded from an approved increase to the Group's debt facility.

On 24 August 2020, the Group exchanged contracts for the sale of the Mooral almond orchard for \$98.0m (subject to various adjustments and inclusions) with a global agriculture and timberland investment manager as nominee for a special purpose vehicle that will be owned by pension funds and institutional investors. The sale is conditional on completion of due diligence (within 45 days but subject to possible extensions) and Foreign Investment Review Board approval.

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

Likely developments and expected results of operations

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

Environmental regulation

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

Rural Funds Group

Directors' Report

30 June 2020

Climate change risk

RFM is aware of the potential risks that climate change could present to the Group's assets. RFM has committed to a climatic diversification strategy in order to mitigate these risks. Some of the areas that RFM is focused on is the impact of emissions from Group's assets, including carbon dioxide, methane, and nitrous oxide. The Group's assets produce these emissions through its agricultural infrastructure and machinery, cattle assets and through the application of fertiliser. As part of RFM's ongoing strategy to mitigate and improve climate related risks, RFM will continue to monitor emissions and seek to implement infrastructure and practice changes. RFM considers that climate change may present risks for the Group primarily in the form of residual risk of the Group's assets at the end of the lease terms. These risks may be mitigated by how the assets are managed. External valuations consider these types of factors as well as other risks when determining the valuations of the assets.

COVID-19 outbreak

During the year ended 30 June 2020, there was an outbreak of Coronavirus Disease 2019. There have been unprecedented measures put in place by the Australian Government, as well as governments across the globe, to contain the coronavirus which has led to significant uncertainty and has had a significant impact on the Australian and global economies. Following the outbreak, the Group continues to operate with no significant impacts to its ongoing operation to date. RFM will continue to monitor the potential impacts of the outbreak.

Units on issue

337,713,420 units in Rural Funds Trust were on issue at 30 June 2020 (2019: 334,263,593). During the year 3,449,827 units (2019: 78,633,078) were issued by the Trust and nil (2019: nil) were redeemed.

Indemnity of Responsible Entity and Custodian

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

Rounding of amounts

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

Information on Directors of the Responsible Entity

Guy Paynter	Non-Executive Chairman
Qualifications	Bachelor of Laws from The University of Melbourne
Experience	Guy Paynter is a former director of broking firm JB Were. Guy brings to RFM more than 30 years of experience in corporate finance. Guy is a former member of the Australian Securities Exchange (ASX) and a former associate of the Securities Institute of Australia (now known as the Financial Services Institute of Australasia). Guy's agricultural interests include cattle breeding in the Upper Hunter region in New South Wales.
Special responsibilities	Member of Audit Committee and Remuneration Committee
Directorships of other listed entities in the last three years	RFM Poultry
David Bryant	Managing Director
Qualifications	Diploma of Financial Planning from the Royal Melbourne Institute of Technology and Masters of Agribusiness from The University of Melbourne.
Experience	David Bryant established RFM in February 1997 and since that time has led the team that is responsible for the acquisition of large-scale agricultural property assets and associated water entitlements. RFM manages approximately \$1.3 billion of agricultural assets. David is responsible for leading the RFM management team, maintaining key commercial relationships and sourcing new business opportunities.
Special responsibilities	Managing Director
Directorships of other listed entities in the last three years	RFM Poultry

Rural Funds Group

Directors' Report

30 June 2020

Information on Directors of the Responsible Entity (continued)

Michael Carroll

Qualifications

Non-Executive Director

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

Experience

Michael Carroll serves in a board and advisory capacity for a range of agribusiness entities. Michael is Chairman of Viridis Ag Pty Limited and Australian Rural Leadership Foundation. Michael is a Director on the Boards of Select Harvests Limited and Paraway Pastoral Company Limited. Former board positions include Elders Limited, Sunny Queen Australia Pty Limited, Tassal Group Limited, the Australian Farm Institute, Warrnambool Cheese and Butter Factory Company Holdings Limited, Queensland Sugar Limited, Rural Finance Corporation of Victoria, Meat and Livestock Australia and the Geoffrey Gardiner Dairy Foundation.

Michael's advisory clients have included government, major banks and institutional investors. He comes from a family who have been involved in agricultural for over 145 years and has his own property in South West Victoria. Michael has senior executive experience in a range of companies, including establishing and leading the National Australia Bank (NAB) Agribusiness division. Michael worked for several years as a Senior Adviser in the NAB internal investment banking and corporate advisory team. Before joining the NAB, Michael worked for a range of agribusiness companies including Monsanto Agricultural Products and a biotechnology venture capital company.

Special responsibilities

Chairman of Audit Committee and Remuneration Committee

Directorships of other listed entities in the last three years

Michael is on the Boards of Select Harvests Limited with previous roles as Chairman of Elders Limited and Director of Tassal Group Limited and RFM Poultry.

Julian Widdup

Qualifications

Non-Executive Director

Bachelor of Economics from the Australian National University. Julian is a Fellow of the Institute of Actuaries of Australia and a Fellow of the Australian Institute of Company Directors.

Experience

Julian Widdup has been involved in the financial services industry for over 25 years. Julian's current Directorships include Australian Catholic Superannuation & Retirement Fund, Catholic Schools NSW, Screen Canberra and Cultural Facilities Corporation. Julian is a former executive of infrastructure investment management companies, Palisade Investment Partners and Access Capital Advisers (now Whitehelm Capital) where he was responsible for the acquisition and asset management of major infrastructure assets, risk management, portfolio construction, institutional client management and overseeing all aspects of investment operations. Previously Julian had worked with Towers Perrin (now Willis Towers Watson) as an asset consultant, the Australian Bureau of Statistics and the Insurance and Superannuation Commission (now APRA). Julian brings extensive experience to the RFM board having previously served as a director of Palisade Investment Partners, Darwin International Airport, Alice Springs Airport, NZ timberland company Taumata Plantations Limited, Regional Livestock Exchange Investment Company, Merredin Energy power generation company, Victorian AgriBioscience Research Facility, Casey Hospital in Melbourne and Mater Hospital in Newcastle.

Special responsibilities

Member of Audit Committee and Remuneration Committee

Directorships of other listed entities in the last three years

RFM Poultry

Rural Funds Group

Directors' Report

30 June 2020

Interests of Directors of the Responsible Entity

	Guy Paynter Units	David Bryant* Units	Michael Carroll Units	Julian Widdup Units
Balance at 30 June 2018	814,696	11,678,182	20,322	-
Additions	244,408	2,736,672	7,301	-
Balance at 30 June 2019	1,059,104	14,414,854	27,623	-
Additions	500,000	823,180	57,111	110,203
Balance at 30 June 2020	1,559,104	15,238,034	84,734	110,203

*Includes interests held by Rural Funds Management Limited as the Responsible Entity.

Company Secretary of the Responsible Entity

Emma Spear is RFM's company secretary. Emma joined RFM in 2008, is a member of CPA Australia and is admitted as a Legal Practitioner of the Supreme Court of the ACT.

Meetings of Directors of the Responsible Entity

During the financial year 19 meetings of Directors (including committees of Directors) were held. Attendances by each Director during the year were as follows:

	Directors meetings		Audit Committee meetings		Remuneration Committee meetings	
	No. eligible to attend	No. attended	No. eligible to attend	No. attended	No. eligible to attend	No. attended
Guy Paynter	16	15	3	3	-	-
David Bryant	16	16	-	-	-	-
Michael Carroll	16	16	3	3	-	-
Julian Widdup	16	16	3	3	-	-

Non-audit services

Fees of \$15,690 (2019: \$9,425) were paid or payable to PricewaterhouseCoopers for compliance audit services provided for the year ended 30 June 2020.

Auditor's independence declaration

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001* for the year ended 30 June 2020 has been received and is included on page 11 of the financial report.

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



David Bryant
Director

25 August 2020



Auditor's Independence Declaration

As lead auditor for the audit of Rural Funds Group for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink, appearing to read 'Rod Dring'.

Rod Dring
Partner
PricewaterhouseCoopers

Sydney
25 August 2020

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Rural Funds Group

Consolidated Statement of Comprehensive Income For the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Continuing operations			
Revenue	B3	66,818	55,674
Other income	B3	4,397	2,541
Management fees		(9,621)	(7,651)
Property expenses		(2,038)	(1,534)
Finance costs		(10,255)	(8,532)
Other expenses		(4,938)	(3,723)
Gain on sale of assets		4,032	12
Depreciation and impairments - plant and equipment	C6	(2,244)	(1,230)
Depreciation - bearer plants	C3	(4,838)	(4,600)
(Impairment)/reversal of impairment of bearer plants	C3	(499)	8,854
Change in fair value of investment property	C2	16,194	15,344
Change in fair value of interest rate swaps		(7,624)	(18,208)
(Impairment)/reversal of impairment of intangible assets	C5	(798)	105
Change in fair value of financial assets/liabilities		510	(70)
Net profit before income tax from continuing operations		49,096	36,982
Income tax expense	D1	(1,553)	(4,824)
Net profit after income tax from continuing operations		47,543	32,158
Net profit before income tax from discontinued operations	G3	1,502	1,197
Income tax expense on discontinued operations	G3	(57)	-
Net profit after income tax from discontinued operations		1,445	1,197
Net profit after income tax		48,988	33,355
Other comprehensive income:			
<i>Items that will not be reclassified to profit or loss</i>			
Revaluation increment - bearer plants	C3	12,950	(275)
Income tax relating to these items	D1	-	(2)
Other comprehensive income for the year, net of tax		12,950	(277)
Total comprehensive income attributable to unitholders		61,938	33,078

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Total net profit after income tax is attributable to:			
Rural Funds Trust		44,627	32,388
RF Active (non-controlling interest)		4,361	967
		48,988	33,355

Total comprehensive income for the year is attributable to:

Rural Funds Trust	57,577	32,111
RF Active (non-controlling interest)	4,361	967
	61,938	33,078

Total comprehensive income for the year attributable to unitholders arising from:

Continuing operations	60,493	31,881
Discontinued operations	1,445	1,197
	61,938	33,078

Earnings per unit

Basic and diluted earnings per unit from continuing operations:

Per stapled unit (cents)	14.15	9.86
Per unit of Rural Funds Trust (cents)	12.85	9.56
Per unit of RF Active (cents)	1.30	0.30

Basic and diluted earnings per unit attributable to the unitholders:

Per stapled unit (cents)	B4	14.58	10.23
Per unit of Rural Funds Trust (cents)	B4	13.28	9.93
Per unit of RF Active (cents)	B4	1.30	0.30

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Financial Position

As at 30 June 2020

	Note	2020 \$'000	2019 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	F1	5,085	2,588
Trade and other receivables	F2	5,446	5,043
Assets held for sale	C7	63,358	-
Other current assets	F3	2,688	1,699
Total current assets		76,577	9,330
Non-current assets			
Investment property	C2	474,838	489,327
Plant and equipment - bearer plants	C3	153,528	172,915
Financial assets	C4, E2	100,225	70,447
Intangible assets	C5	106,551	118,531
Plant and equipment - other	C6	3,201	8,537
Total non-current assets		838,343	859,757
Total assets		914,920	869,087
LIABILITIES			
Current liabilities			
Trade and other payables	F4	3,502	6,101
Interest bearing liabilities	E1	3,814	3,832
Income tax payable	D2	1,533	439
Derivative financial liabilities	E3	3,666	103
Distributions payable	E8	9,460	8,950
Total current liabilities		21,975	19,425
Non-current liabilities			
Interest bearing liabilities	E1	297,248	291,445
Other non-current liabilities	F5	3,877	2,629
Derivative financial liabilities	E3	27,999	23,938
Deferred tax liabilities	D2	5,855	5,778
Total non-current liabilities		334,979	323,790
Total liabilities (excluding net assets attributable to unitholders)		356,954	343,215
Net assets attributable to unitholders		557,966	525,872
Total liabilities		914,920	869,087

*Water entitlements are held at cost in the Consolidated Statement of Financial Position in accordance with accounting standards. Refer to note B1 Segment information, for disclosure of the Directors' valuation of water entitlements, which are supported by independent property valuations.

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Financial Position

As at 30 June 2020

	Note	2020 \$'000	2019 \$'000
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS			
Unitholders of Rural Funds Trust			
Issued units	E7	355,923	358,269
Asset revaluation reserve	F6	59,412	46,462
Retained earnings		131,628	114,565
Parent entity interest		546,963	519,296
Unitholders of RF Active			
Issued units	E7	4,651	4,585
Retained earnings		6,352	1,991
Non-controlling interest		11,003	6,576
Total net assets attributable to unitholders		557,966	525,872

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the year ended 30 June 2020

2020	Note	Issued units \$'000	Asset revaluation reserve \$'000	Retained earnings \$'000	Total \$'000	Non-controlling interest \$'000	Total \$'000
Balance at 1 July 2019		358,269	46,462	114,565	519,296	6,576	525,872
Other comprehensive income		-	12,950	-	12,950	-	12,950
Total other comprehensive income		-	12,950	-	12,950	-	12,950
Profit before income tax		-	-	45,213	45,213	5,385	50,598
Income tax expense	D1	-	-	(586)	(586)	(1,024)	(1,610)
Total comprehensive income for the year		-	12,950	44,627	57,577	4,361	61,938
Issued units							
Units issued during the year		6,494	-	-	6,494	66	6,560
Issue costs		79	-	-	79	-	79
Total issued units	E7	6,573	-	-	6,573	66	6,639
Distributions to unitholders	B4, E7	(8,919)	-	(27,564)	(36,483)	-	(36,483)
Balance at 30 June 2020		355,923	59,412	131,628	546,963	11,003	557,966

2019		Issued units \$'000	Asset revaluation reserve \$'000	Retained earnings \$'000	Total \$'000	Non-controlling interest \$'000	Total \$'000
Balance at 1 July 2018		230,574	46,739	97,310	374,623	4,112	378,735
Other comprehensive income		-	(277)	-	(277)	-	(277)
Total other comprehensive income		-	(277)	-	(277)	-	(277)
Profit before income tax		-	-	36,799	36,799	1,380	38,179
Income tax expense	D1	-	-	(4,411)	(4,411)	(413)	(4,824)
Total comprehensive income for the year		-	(277)	32,388	32,111	967	33,078
Issued units							
Units issued during the year		152,288	-	-	152,288	1,540	153,828
Issue costs		(4,948)	-	-	(4,948)	(43)	(4,991)
Total issued units	E7	147,340	-	-	147,340	1,497	148,837
Distributions to unitholders	B4, E7	(19,645)	-	(15,133)	(34,778)	-	(34,778)
Balance at 30 June 2019		358,269	46,462	114,565	519,296	6,576	525,872

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Cash Flows

For the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		71,021	66,199
Payments to suppliers (inclusive of GST)		(26,723)	(19,139)
Interest received		139	83
Finance income		10,218	6,853
Finance costs		(10,881)	(9,985)
Income tax paid		(439)	(277)
Net cash inflow from operating activities		43,335	43,734
Cash flows from investing activities			
Payments for investment property	C2	(59,779)	(123,657)
Payments for plant and equipment - bearer plants	C3	(2,997)	(11,697)
Payments for intangible assets	C5	(3,250)	(11,500)
Payments for financial assets		(27,243)	(32,076)
Payments for plant and equipment	C6	(2,228)	(4,277)
Proceeds from sale of intangible assets		6,668	-
Proceeds from sale of plant and equipment		173	50
Proceeds from other assets/liabilities		-	2,322
Proceeds from sale of poultry assets	G3	71,913	-
Transaction costs on disposal of poultry assets	G3	(596)	-
Distributions received		50	31
Net cash outflow from investing activities		(17,289)	(180,804)
Cash flows from financing activities			
Proceeds from issue of units	E7	6,639	148,832
Proceeds from borrowings		78,101	221,646
Repayment of borrowings		(72,316)	(199,569)
Distributions paid		(35,973)	(32,461)
Net cash (outflow)/inflow from financing activities		(23,549)	138,448
Net increase in cash and cash equivalents held		2,497	1,378
Cash and cash equivalents at the beginning of the year		2,588	1,210
Cash and cash equivalents at the end of the year		5,085	2,588

The accompanying notes form part of these financial statements.

Rural Funds Group

Notes to the Financial Statements

30 June 2020

A. REPORT OVERVIEW

General information

This financial report covers the consolidated financial statements and notes of Rural Funds Trust and its Controlled Entities including RF Active (Rural Funds Group, the Group or collectively the Trusts). Rural Funds Group is a for profit entity incorporated and domiciled in Australia. The Directors of the Responsible Entity authorised the Financial Report for issue on 25 August 2020 and have the power to amend and reissue the Financial Report.

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

The separate financial statements and notes of the parent entity, Rural Funds Trust, have not been presented within this financial report as permitted by amendments made to the *Corporations Act 2001*. Parent entity information is included in section G4.

COVID-19 outbreak

During the year ended 30 June 2020, there was an outbreak of Coronavirus Disease 2019. There have been unprecedented measures put in place by the Australian Government, as well as governments across the globe, to contain the coronavirus which has led to significant uncertainty and has had a significant impact on the Australian and global economies. Following the outbreak, the Group continues to operate with no significant impacts to its ongoing operation to date. RFM will continue to monitor the potential impacts of the outbreak.

Basis of preparation

The Trusts have common business objectives and operate collectively as an economic entity known as Rural Funds Group. The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, and other authoritative pronouncements of the Australian Accounting Standards Board, the *Corporations Act 2001* and the Trusts' Constitution.

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

These financial statements are consolidated financial statements and accompanying notes of both Rural Funds Trust and RF Active.

Rounding of amounts

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

Principles of consolidation

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

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

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

Controlled entities

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

Rural Funds Group

Notes to the Financial Statements

30 June 2020

Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements, estimates and assumptions in relation to assets, liabilities, contingent liabilities, revenue and expenses.

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

The following are areas for which significant judgements, estimates or assumptions are made:

Valuation of property related assets

Independent valuations on the Group's properties are obtained, ensuring that each property will have been independently valued every two financial years or more often where appropriate. Independent valuation reports assess and provide value for properties in their entirety.

Significant judgement is applied in order to allocate the total property value, as disclosed in the independent valuation reports where applicable, to investment property, bearer plants and water entitlements. The allocation technique will vary depending on the nature of the lease arrangement.

Where information is available, each component of the property, meaning the land and infrastructure, the trees and any water assets, disclosed in the financial statements as investment property, bearer plants and water entitlements, will be allocated on an encumbered (subject to lease) basis.

If this information is not available, the valuation report may provide additional information, such as the summation basis of the unencumbered (not subject to lease) value, which along with other sources, including the nature of capital expenditure on the property, is used to determine the encumbered allocation to components. Significant judgement is applied as part of these allocations, which vary from property to property, given the individual circumstances of the leasing arrangements. The allocation technique may change to reflect the best estimate of fair value attributable to each component at reporting date. Allocation techniques are disclosed in Note C1.

Estimation of useful lives of bearer plants

The useful lives of bearer plants have been estimated by assessing industry data. The useful lives of bearer plants are disclosed in Note C3.

Comparative amounts

Comparative amounts have not been restated unless otherwise noted.

Going concern

These consolidated financial statements have been prepared on a going concern basis which contemplates the realisation of assets and settlement of liabilities in the normal course of business as they become due.

On 3 August 2020, the Group announced it has contracted to acquire 5,409 ha of sugar cane farms (with associated plant and equipment) and 8,060 ML of water entitlements from MSF Sugar Pty Ltd (MSF) for \$81.1m. Settlement is expected to occur in October 2020.

At the date of these accounts, the Group announced that conditional contracts have been exchanged for the sale of the Mooral almond orchard. The Mooral almond orchard sale was a consideration in determining the funding requirements for these transactions. Approvals were obtained from RFF's bankers in July 2020 and modified in August 2020 to increase the limit of the \$225,000,000 tranche of the debt facility to \$290,000,000. This tranche of the facility will reduce from \$290,000,000 to \$260,000,000 at the earlier of the potential Mooral almond property sale and November 2021. There were no changes to the \$110,000,000 tranche with maturity in November 2023.

The directors are confident the Group has sufficient funding in place to meet its ongoing working capital requirements for a minimum period of twelve months from the date of these financial statements. Accordingly, the directors have prepared the financial report on a going concern basis.

Working capital

Working capital at 30 June 2020 is impacted by the timing of distributions. Based on the forecast cash flows, the Group believes it can pay all its debts as and when they fall due for at least a minimum period of 12 months from the date of these accounts. The Group has headroom in its bank facility limit of approximately \$37.8 million as at 30 June 2020 subject to compliance with the Group's bank covenants.

Rural Funds Group

Notes to the Financial Statements 30 June 2020

B. RESULTS

B1 Segment information

The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Directors of the Responsible Entity. During the year ended 30 June 2020, the Group held property in agricultural sectors presented in six segments (2019: six segments) each holding and leasing agricultural property and equipment. Segment revenue includes rental income, finance income and interest income. Segment property assets include investment property, bearer plants, intangible assets and plant and equipment. Revenue and property assets not categorised in these sectors are managed at a corporate level. Liabilities and direct or indirect expenses are not allocated to individual segments as these are reviewed by the chief operating decision maker on a consolidated basis.

Segment revenue and revaluation movements

	Almonds	Cattle	Vineyards	Cropping	Macadamias	Other	Poultry (Discontinued)	Total
2020								
Rental revenue	33,457	12,235	3,891	3,296	1,335	1,502	5,136	60,852
Interest received	-	80	-	-	-	35	24	139
Finance income	-	10,981	-	-	6	-	-	10,987
Total revenue	33,457	23,296	3,891	3,296	1,341	1,537	5,160	71,978
Loss on disposal								
	-	-	-	-	-	-	(625)	(625)
Depreciation - bearer plants	(3,656)	-	(965)	-	(217)	-	-	(4,838)
Change in fair value through profit or loss	2,473	12,866	-	(534)	44	558	(1,250)	14,157
Revaluation increment through other comprehensive income	12,335	-	-	-	615	-	-	12,950
Total revaluation recognised in financial statements	14,808	12,866	-	(534)	659	558	(1,250)	27,107

Revaluation for the almond segment relates to the external valuations of the Kerarbury, Tocabil, Mooral and Yigah properties. The revaluation increment is largely due to market movements and reflecting development capital expenditure spent on the Kerarbury and Tocabil properties.

Revaluation for the cattle segment largely relates to the external valuations of the Natal aggregation, the Comanche property, and the Cerberus property. The revaluation increment is mainly due to market movements and a result of the development capital expenditure that has been spent which has improved the productive capacity of the properties.

Refer to section C1 for details on properties valued during the year.

Rural Funds Group

Notes to the Financial Statements 30 June 2020

B1 Segment information (continued)

Segment revenue and revaluation movements (continued)

	Almonds	Cattle	Vineyards	Cropping	Macadamias	Other	Poultry	Total
2019	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Rental revenue	29,658	9,093	3,777	3,250	1,344	1,264	10,717	59,103
Interest received	-	-	-	-	-	83	-	83
Finance income	-	7,205	-	-	-	-	-	7,205
Total revenue	29,658	16,298	3,777	3,250	1,344	1,347	10,717	66,391
Depreciation - bearer plants	(3,607)	-	(950)	-	(43)	-	-	(4,600)
Change in fair value through profit or loss	12,297	1,335	12,616	(1,934)	-	(81)	(6,992)	17,241
Revaluation increment through other comprehensive income	(280)	-	5	-	-	-	-	(275)
Total revaluation recognised in financial statements	12,017	1,335	12,621	(1,934)	-	(81)	(6,992)	16,966

Rural Funds Group

Notes to the Financial Statements
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B1 Segment information (continued)

Segment assets	Almonds \$'000	Cattle \$'000	Vineyards \$'000	Cropping \$'000	Macadamias \$'000	Poultry \$'000	Unallocated \$'000	Total \$'000
2020								
Investment Property	127,519	249,534	38,170	47,896	11,719	-	-	474,838
Plant and equipment - bearer plants	126,805	-	19,756	-	6,967	-	-	153,528
Financial assets - property related	11,464	82,577	520	-	811	-	-	97,557
Intangible assets (water)	66,707	2,947	500	3,672	1,161	-	31,564	106,551
Plant and equipment	-	510	-	1,048	1,643	-	-	3,201
Assets held for sale	63,358	-	-	-	-	-	-	63,358
Total property assets per statutory accounts	395,853	335,568	58,946	52,616	22,301	-	-	33,749
Revaluation of water entitlements per director's valuation	59,306	-	4,688	-	53	-	-	33,652
Total adjusted property assets at director's valuation	455,159	335,568	63,634	52,616	22,354	-	-	67,401
Other assets per statutory accounts	-	-	-	-	-	-	-	15,887
Total adjusted assets	455,159	335,568	63,634	52,616	22,354	-	-	83,288
2019								
Investment Property	136,016	193,447	37,651	46,260	4,857	71,096	-	489,327
Plant and equipment - bearer plants	145,226	-	20,721	-	6,968	-	-	172,915
Financial assets - property related	12,222	54,565	520	-	-	-	-	953
Intangible assets (water)	76,660	1,599	500	3,672	815	1,049	34,236	118,531
Plant and equipment	3,089	1,420	-	1,198	1,713	242	875	8,537
Total property assets per statutory accounts	373,213	251,031	59,392	51,130	14,353	72,387	36,064	857,570
Revaluation of water entitlements per director's valuation	52,439	-	4,688	-	82	2,595	16,965	76,769
Total adjusted property assets at director's valuation	425,652	251,031	64,080	51,130	14,435	74,982	53,029	934,339
Other assets per statutory accounts	-	-	-	-	-	-	11,517	11,517
Total adjusted assets	425,652	251,031	64,080	51,130	14,435	74,982	64,546	945,856

Rural Funds Group

Notes to the Financial Statements

30 June 2020

B1 Segment information (continued)

Net asset value adjusted for water rights

The chief operating decision maker of RFF assesses the segments on property asset values adjusted for water rights. RFF owns permanent water rights and entitlements which are recorded at historical cost less accumulated impairment losses. Such rights have an indefinite life and are not depreciated. The carrying value is tested annually for impairment as well as for possible reversal of impairment. If events or changes in circumstances indicate impairment, or reversal of impairment, the carrying value is adjusted to take account of impairment losses.

The book value of the water rights (including investments in BIL and CICL recognised as financial assets) at 30 June 2020 is \$129,246,000 (2019: \$131,273,000).

Independent valuations on the Group's properties are obtained, ensuring that each property will have been independently valued every two years or more often where appropriate. Independent valuation reports assess and provide value for properties in their entirety. The independent valuation reports contains information with which judgement is applied in order to allocate values to investment property, bearer plants and water entitlements. The Directors have taken into account the most recent valuations on each property and consider that they remain a reasonable estimate and on this basis the fair value of water entitlements before deferred tax adjustments at 30 June 2020 was \$226,945,000 (2019: \$208,042,000) representing the value of the water rights of \$97,699,000 (2019: \$76,769,000) above cost.

The following is a reconciliation of the book value at 30 June 2020 to an adjusted value based on the Directors' valuation of the water rights which are assessed by the chief operating decision maker.

	Per Statutory Consolidated Statement of Financial Position \$'000	Revaluation of water entitlements per Directors' valuation \$'000	Directors' valuation (Adjusted) \$'000
Assets			
Total current assets	76,577	-	76,577
Total non-current assets	838,343	97,699	936,042
Total assets	914,920	97,699	1,012,619
Liabilities			
Total current liabilities	21,975	-	21,975
Total non-current liabilities	334,979	-	334,979
Total liabilities	356,954	-	356,954
Net assets	557,966	97,699	655,665
Net asset value per unit (\$)	1.65	0.29	1.94

Rural Funds Group

Notes to the Financial Statements

30 June 2020

B1 Segment information (continued)

Total property assets by property

30 June 2020	Area	30 June 20 Adjusted	30 June 19 Adjusted	Most Recent Independent Valuation	
		property value \$'000	property value \$'000	Date \$'000	Encumbered valuation \$'000
Almonds					
Mooral (NSW) (held for sale)	808 ha	75,879	74,850	Mar 2020	76,000
Yilgah (NSW)	1,006 ha	105,112	111,248	Mar 2020	105,000
Tocabil (NSW)	603 ha	47,119	40,126	Mar 2020	47,000
Kerarbury (NSW)	2,530 ha	223,282	196,340	Mar 2020	223,000
Cattle					
Rewan (QLD)	17,479 ha	43,159	43,075	Jun 2019	43,075
Mutton Hole (QLD)	140,300 ha	9,209	8,635	Jun 2019	8,695
Oakland Park (QLD)	85,500 ha	5,605	5,365	Jun 2019	5,365
Natal Aggregation (QLD)	390,600 ha	63,700	55,675	Dec 2019	63,700
Comanche (QLD)	7,600 ha	22,003	15,827	Jun 2020	21,997
Cerberus (QLD)	8,280 ha	13,849	10,891	Jun 2020	13,844
Dyamberin (NSW)	1,728 ha	13,900	14,073	Jun 2020	13,900
JBS Feedlots Finance Lease Receivable (NSW/QLD)	150,000 hd	54,846	29,034	N/A	N/A
Woodburn (NSW)	1,063 ha	7,300	6,503	Jun 2020	7,300
Cobungra (VIC)	6,500 ha	35,050	35,000	Feb 2019	35,000
Petro (WA)	2,942 ha	11,700	-	Feb 2020	11,700
High Hill (WA)	1,601 ha	4,900	-	Feb 2020	4,900
Willara (WA)	1,653 ha	4,900	-	Feb 2020	4,900
Wattlebank (QLD)	321 ha	1,795	-	Jun 2020	1,800
Yarra (QLD)	2,173 ha	6,194	-	Jun 2020	6,150
Homehill (QLD)	3,270 ha	7,750	-	Jun 2020	7,750
Cropping					
Lynora Downs (QLD)	4,880 ha	33,736	33,055	Jun 2019	33,050
Mayneland (QLD)	2,942 ha	17,832	16,876	Apr 2020	17,500
Macadamias					
Swan Ridge (QLD)	130 ha	6,653	5,986	Oct 2019	6,400
Moore Park (QLD)	104 ha	3,953	4,914	Oct 2019	4,000
Bonmac (QLD)	27 ha	2,852	1,822	Oct 2019	2,900
Cygnet (QLD)	38 ha	1,770	-	-	-
Swan Ridge South (QLD)	40 ha	1,645	-	-	-
Nursery Farm (QLD)	40 ha	3,028	-	-	-
Vineyards					
Kleinig (SA)	206 ha	22,286	22,805	Jun 2019	22,700
Geier (SA)	243 ha	27,748	28,200	Jun 2019	28,200
Dohnt (SA)	30 ha	1,019	1,025	Jun 2019	1,025
Hahn (SA)	50 ha	5,154	4,850	Jun 2019	4,850
Mundy and Murphy (SA)	55 ha	4,062	3,800	Jun 2019	3,800
Rosebank (VIC)	82 ha	3,365	3,400	Jun 2019	3,400
Water					
River water (NSW)	8,754 ML	65,216	48,147	Jun 2020	65,217
Ground water (NSW)	1,910 ML	-	3,056	Dec 2017	3,056
Total property and water assets		957,571	824,578		
Cattle finance leases and other assets		29,031	25,531		
Plant and equipment		3,201	8,537		
Other receivables and equipment leases		3,161	953		
Plant and equipment held for sale		3,768	-		
Total adjusted property assets		996,732	859,599		

The almond, vineyard and macadamia areas detailed above refer to planted and planned development areas.

Rural Funds Group

Notes to the Financial Statements

30 June 2020

B1 Segment information (continued)

Total property assets by property (continued)

Revaluations from external valuations

The four almond properties have been revalued during the year ended 30 June 2020. On an overall basis, the aggregated almond properties encumbered value have increased since 30 June 2019 which have been driven by a number of factors as outlined below. As noted in note C1, the valuer adopts a discounted cash flow approach as its primary technique in deriving a value. This is supported by market transactions including comparable sales evidence. There has been a decrease in the discount rates adopted by the external independent valuer in the current financial year as part of the discounted cash flow approach. This has been a result of various factors including market transactions and comparable sales evidence, the decrease in the 10-year government bond rate over the past year, and market sentiment for these classes of assets which has been largely driven by an increase in demand. As part of the valuation process, the external independent valuer performs comparisons between the subject property to any market transactions. In doing so, the valuer would identify and contrast key aspects of the subject property including any encumbrances, such as any lease arrangements, as part of the analysis in determining the encumbered valuation. For the newly developed almond properties, Tocabil and Kerarbury, the valuer noted a decrease in the discount rates adopted based on the above factors and also as a reflection of the age profile of the orchards approaching maturity and the lease arrangements in place. Given the age profile of the Mooral and Yilgah properties, which are mature orchards, the discount rates adopted have not decreased to the same extent as the Tocabil and Kerarbury properties.

The cattle properties have increased in value during the year ended 30 June 2020. The Group acquired an additional six cattle properties and two feedlots during the year. In addition, there has been a noted increase in the valuation for a number of the Group's properties. External valuations were completed for eleven of the Group's cattle properties during the year. Six of these valuations were completed as part of the acquisition of the properties, and five valuations were completed for properties that were acquired prior to the start of the year, namely the Natal Aggregation, Comanche, Cerberus, Dyamberin and Woodburn properties. These five properties have been the key contributors to the revaluation uplift recognised for the cattle properties. The uplift has been a result of factors including increased productivity of the properties which is measured by the rate of adult equivalents and the number of adult equivalents as part of a carrying capacity analysis performed by the external valuer. The increase to the rate of adult equivalents has been driven by improved demand and market sentiment for cattle properties across these locations. Demand and market sentiment have also been affected by a decrease in interest rates. The increase in number of adult equivalents has been driven by the development capital expenditure that the Group has spent on the properties to date with the aim of being able to increase the amount of cattle that is able to be run on the properties. Further information on the significant unobservable inputs adopted by the external valuer in the fair value measurement of the properties is described in note C1.

The river water valuation has increased as a result of comparable market transactions as assessed by the independent external valuer. Any increases in value above the cost for these intangible water assets are not recognised in the financial statements but disclosed as an adjustment to asset values as noted in the segment note in B1.

Adjusted property values movements subsequent to external revaluations

Increases to the adjusted property value from the last encumbered valuation is primarily a result of new acquisitions or capital expenditure subsequent to the valuation, designed to improve an asset's productivity and value.

Decrease to the adjusted property value from the last encumbered valuation is primarily a result of depreciation on the bearer plants.

Rural Funds Group

Notes to the Financial Statements

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B2 Adjusted funds from operations (AFFO)

The following presents the components of adjusted funds from operations (AFFO) and provides a reconciliation from AFFO to Net profit after income tax which is assessed by the chief operating decision maker.

	2020	2019
	\$'000	\$'000
Continuing operations		
Revenue	66,818	55,674
Other income	4,397	2,541
Management fees	(9,621)	(7,651)
Property expenses	(2,038)	(1,534)
Finance costs	(10,255)	(8,532)
Other expenses	(4,938)	(3,723)
Straight-lining of rental revenue	(1,232)	(953)
Interest component of JBS feedlot finance lease	(789)	(352)
Income tax payable on public trading trust (RF Active)	(884)	(413)
Discontinued operations		
Revenue	5,160	10,717
Other income	4	-
Management fees	(334)	(845)
Property expenses	(28)	(61)
Finance costs	(626)	(1,453)
Other expenses	(150)	(169)
Income tax payable on public trading trust (RF Active)	(57)	-
Adjusted Funds From Operations (AFFO)	45,427	43,246
Change in fair value of interest rate swaps	(7,624)	(18,208)
Depreciation and impairments – plant and equipment	(2,893)	(1,230)
Depreciation - bearer plants	(4,838)	(4,600)
(Impairment)/reversal of impairment of bearer plants	(499)	8,854
Change in fair value of investment property	16,194	15,344
Change in fair value of investment property - discontinued operations	(1,250)	(6,992)
Change in fair value of financial assets/liabilities	510	(70)
Impairment of intangible assets	(798)	105
Straight-lining of rental revenue	1,232	953
Interest component of JBS feedlot finance lease	789	352
Income tax expense	(669)	(4,411)
Gain on sale of assets	4,003	12
Loss on disposal - one off transaction costs	(596)	-
Net profit after income tax	48,988	33,355
AFFO cents per unit	13.5	13.3

Rural Funds Group

Notes to the Financial Statements

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B3 Revenue

	2020 \$'000	2019 \$'000
Continuing operations		
Rental income	55,716	48,386
Finance income	10,987	7,205
Interest received	115	83
Total	66,818	55,674
Discontinued operations		
Rental income	5,136	10,717
Interest received	24	-
Total	5,160	10,717

The Group's revenue is largely comprised of income under leases and finance income. All revenue is stated net of the amount of goods and services tax (GST).

Rental income arises from the leasing of property assets and operational plant and equipment and is accounted for on a straight-line basis over the period of the lease. The respective leased assets are included in the Consolidated Statement of Financial Position based on that nature.

Finance income arises from the provision of financial guarantees and working capital loans, finance leases on cattle feedlots and cattle breeders and leased agricultural plant and equipment and recognised on an accrual basis using the effective interest rate method.

Other Income

	2020 \$'000	2019 \$'000
Sale of temporary water allocations	4,308	2,427
Other income	89	114
Other income - discontinued operations	4	-
Total	4,401	2,541

Expenses

Expenses such as Responsible Entity fees, property expenses and overheads are recognised on an accruals basis. Interest expenses are recognised on an accrual basis using the effective interest method.

B4 Earnings per unit

	2020	2019
Per stapled unit		
Net profit after income tax for the year (\$'000)	48,988	33,355
Weighted average number of units on issue during the year (thousands)	336,035	326,170
Basic and diluted earnings per unit (total) (cents)	14.58	10.23
Per unit of Rural Funds Trust		
Net profit after income tax for the year (\$'000)	44,627	32,388
Weighted average number of units on issue during the year (thousands)	336,035	326,170
Basic and diluted earnings per unit (total) (cents)	13.28	9.93
Per unit of RF Active		
Net profit after income tax for the year (\$'000)	4,361	967
Weighted average number of units on issue during the year (thousands)	336,035	326,170
Basic and diluted earnings per unit (total) (cents)	1.30	0.30

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

Rural Funds Group

Notes to the Financial Statements

30 June 2020

B5 Distributions

The group paid and declared the following distributions during the year:

	Cents per unit	Total \$
Distribution declared 3 June 2019, paid 31 July 2019	2.6075	8,715,923
Distribution paid 31 October 2019	2.7118	9,082,534
Distribution paid 31 January 2020	2.7118	9,107,837
Distribution paid 30 April 2020	2.7118	9,133,908
Distribution declared 2 June 2020, paid 31 July 2020	2.7118	9,158,113

Rural Funds Group

Notes to the Financial Statements

30 June 2020

C. PROPERTY ASSETS

This section includes detailed information regarding RFF's properties, which are made up of multiple line items on the Consolidated Statement of Financial Position including Investment property, Plant and equipment – bearer plants, Intangible assets, Financial assets and Plant and equipment – other. These asset items generate rental and other property income.

C1 RFF property assets

		2020	2019
		\$'000	\$'000
Investment property	C2	474,838	489,327
Plant and equipment - bearer plants	C3	153,528	172,915
Financial assets - property related	C4	97,557	68,260
Intangible assets	C5	106,551	118,531
Plant and equipment - other	C6	3,201	8,537
Asset held for sale	C7	63,358	-
Total		899,033	857,570

Rental income and fair value movements from RFF property assets

		2020	2019
		\$'000	\$'000
Continuing operations (including Mooral)			
Rental income from property assets		66,703	55,591
Change in fair value of investment property		16,194	15,344
Revaluation increment - bearer plants		12,451	8,579

Discontinued operations

Rental income from property assets	5,136	10,717
Change in fair value of investment property	(1,250)	(6,992)
Loss on disposal	(625)	-

Leasing arrangements

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

		2020	2019
		\$'000	\$'000
Within 1 year		56,860	63,703
Between 1 and 2 years		56,959	63,509
Between 2 and 3 years		56,902	63,349
Between 3 and 4 years		55,239	61,674
Between 4 and 5 years		55,785	60,414
Later than 5 years		370,538	413,953
Total		652,283	726,602

Rural Funds Group

Notes to the Financial Statements

30 June 2020

C1 RFF property assets (continued)

Key changes to the property portfolio during the year:

- In July 2019, the Group entered into a simultaneous arrangement that terminated the current Rewan lease with Cattle JV Pty Limited and commenced a new ten year lease with Australian Agricultural Company Limited (AACo).
- In August 2019, the Group settled the acquisition of the Beef City feedlot, located in Queensland, for \$12.8 million. Adjacent cropping land settled in October 2019 for \$0.5 million.
- In October 2019, the Group purchased Cygnet, a property located in Queensland, for \$1.6 million. The property is currently unleased and under development to 40 hectares of macadamia plantings.
- In December 2019, the Group sold its poultry assets to ProTen Investment Management Pty Ltd as trustee for ProTen Investment Trust (ProTen) for \$71.0 million. The sale consisted of shedding assets and water entitlements. The Group also sold its poultry related plant and equipment held in RF Active to ProTen for \$0.9 million.
- In January 2020, the Group purchased Wattlebank, a 321 hectare cattle property located in central Queensland for \$1.8 million including transaction costs. A lessee is currently being sought.
- In February 2020 the Group purchased Petro, High Hill and Willara for \$22.6 million including transaction costs. These three cattle properties are located in Western Australia and are leased to Stone Axe Pastoral Company for a period of ten years.
- In February 2020, the Group disposed of unleased groundwater assets totaling 1,910 ML for \$6.7 million.
- In March 2020, the Group purchased Swan Ridge South, a 123 hectare property adjoining Swan Ridge, located in the Bundaberg region for \$1.6 million including transaction costs. The property is currently unleased and under development for macadamia plantings. The Group also purchased a 64 hectare property in the Bundaberg region for \$2.2 million including transaction costs. The property is currently unleased and under development for macadamia plantings and the establishment of a macadamia tree nursery.
- In April 2020, unitholders approved an increase to the guarantee provided to J&F Australia Pty Limited (J&F) a wholly owned subsidiary of Rural Funds Management Limited from \$75 million to \$100 million. The initial guarantee increase was \$7.5 million. The Group receives a fee from J&F on the guarantee provided.
- In April 2020, the Group announced the commencement of the marketing process for the sale of the Mooral almond orchard.
- In May 2020, the Group settled the acquisition of the Riverina feedlot, located in New South Wales, for \$11.6 million including transaction costs. The Group also purchased Yarra, a 2,173 hectare cattle property located in the Rockhampton region of Queensland for \$7.5 million including transaction costs. A lessee is currently being sought.
- In June 2020, the Group purchased Homehill, a 3,270 hectare cattle property located in the Rockhampton region of Queensland for \$8.7 million including transaction costs. A lessee is currently being sought.

Rural Funds Group

Notes to the Financial Statements

30 June 2020

C1 RFF property assets (continued)

Valuations

Independent valuations on the Group's properties are obtained, ensuring that each property will have been independently valued every two financial years or more often where appropriate. Independent valuers engaged hold recognised and relevant professional qualifications with experience in agricultural properties.

The following existing properties had relevant independent valuations during the year ended 30 June 2020:

Almond properties	Tocabil, Yilgah, Mooral, Kerarbury
Cattle properties	Comanche, Cerberus, Dyamberin, Woodburn, Natal Aggregation
Cropping properties	Mayneland
Macadamia properties	Swan Ridge, Moore Park, Bonmac
Other	Unleased High Security Murrumbidgee Water

The Directors have considered independent valuations and market evidence where appropriate to determine the appropriate fair value to adopt. The Directors have adopted all valuations from independent valuers in the periods where valuations have been obtained.

The Directors have deemed that independent valuations were not required on the remaining properties as there have been no material changes to the industry, physical and geographical conditions of these properties in which the independent valuers have previously assessed. For these properties, the Directors have performed internal assessments, considering the latest valuation reports, that the carrying amount is still reflective of the fair value of the properties at reporting date.

The Group's properties, including those under development, are carried at fair value excluding the value of water rights. Water rights are treated as intangible assets, which are held at historical cost less accumulated impairment losses. Independent valuation reports assess and provide value for properties in its entirety. The independent valuation reports contain information with which judgement is applied in order to allocate values to investment property, bearer plants and water entitlements, where relevant.

Judgement is applied in order to allocate the total property value, as disclosed in the independent valuation reports, to each component; investment property, bearer plants and water entitlements. The allocation technique will vary depending on the nature of the lease arrangement.

Where information is available, such as when provided by the external valuer, each component of the property, meaning the land and infrastructure, the trees and any water assets, disclosed in the financial statements as investment property, bearer plants and water entitlements, will be allocated on an encumbered (subject to lease) basis.

If this information is not available, the valuation report may provide additional information, such as the summation basis of the unencumbered (not subject to lease) value, which along with other sources, including the nature of capital expenditure on the property, is used to determine the encumbered allocation to components. Judgement is applied as part of these allocations which vary from property to property given the individual circumstances of the leasing arrangements. The allocation technique may change to reflect the best estimate of fair value attributable to each component at reporting date.

Valuation reports obtained subsequent to December 2019 have referred to circumstances of uncertainty as a result of the outbreak of COVID-19. For the avoidance of doubt, such references have not meant that the valuations cannot be relied upon but rather ensures transparency of the fact that in the current circumstances, less certainty can be attached to the valuation than would otherwise be the case. Discussions held with the valuers have confirmed that there is no expected material impact to the valuations as a result of COVID-19.

Significant accounting judgements, estimates and assumptions in relation to valuation of property assets

At the end of each reporting period, the Directors update their assessment of fair value of each property, considering the most recent independent valuations. The Directors determine a property's value using reasonable fair value estimates from the most recent independent valuer's valuation reports.

Independent valuation reports assess and provide fair values for properties in their entirety. Judgement is applied in order to allocate the total property values as disclosed in the independent valuation reports, to investment property, bearer plants and water entitlements. The independent valuation reports contain information with which judgement is applied to allocate values to investment property, bearer plants and water entitlements.

Rural Funds Group

Notes to the Financial Statements 30 June 2020

C1 RFF property assets (continued)

Valuations (continued)

Investment property and Bearer plants

The main level 3 inputs used by the Group include discount rates, terminal capitalisation rates, capitalisation rates, rate per area of land, adult equivalent rates and carrying capacity estimated in the respective valuations based on comparable transactions and industry data. At the end of each reporting period, the directors update their assessment of the fair value of each property. Changes in level 3 fair values are analysed at each reporting date and during discussions with the independent valuers.

The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements used by independent valuers:

Segment*	Fair value at		Allocation technique	Unobservable inputs**	Range of inputs	
	2020 \$'000	2019 \$'000			2020 %	2019 %
Almond orchard properties	303,203	281,242	Discounted Cash Flow	Rental base Component based*** (2019: Proportionate)	Discount rate (%) Terminal Capitalisation Rate (%)	7.00 - 7.75 8.50 - 12.50
Cattle properties	249,534	193,447	Summation assessment Productive unit	Component based	\$ per adult equivalent (AE) carrying capacity (Background properties) \$ per adult equivalent (AE) carrying capacity (Breeder properties)	\$2,600 - \$7,381 \$870 - \$1,507
Vineyard properties	57,926	58,372	Discounted Cash Flow	Component based	Discount rate (%) Capitalisation rate (%)	\$870 - \$1,200 8.25 - 8.75
Cropping properties	47,896	46,260	Summation assessment	Component based	\$ per average irrigated hectare	7.50 - 8.00
Macadamia orchard properties	18,686	11,825	Discounted Cash Flow	Rental base Proportionate	Discount rate (%) Capitalisation rate (%)	\$17,909 7.25 - 8.50
Poultry properties	-	71,096	N/A	N/A		N/A
Total	677,245	662,242				11.23 - 18.95

*Fair values disclosed exclude water assets. Almond orchard properties include the Mororal orchard property held for sale.
**There were no significant inter-relationships between unobservable inputs that materially affect fair values. Unobservable inputs are based on assessments and determinations by external valuers.

***The allocation technique has been refined during the year. Previously the allocation technique was based on a proportionate approach by applying judgment based on available information to determine encumbered allocation to components. As part of the refinement of the allocation technique, the Group has adopted a component based technique determined by information provided by the external independent valuer.

Rural Funds Group

Notes to the Financial Statements

30 June 2020

C1 RFF property assets (continued)

Valuations (continued)

Primary valuation technique

External valuations typically assess property values using different valuation techniques.

Discounted cash flow	Valuation based on future net rental cash flows discounted to the present value. The terminal value (as determined by the terminal capitalisation rate) is typically assessed and discounted in these types of valuations. The valuer may also use comparative sales as supporting information.
Income Capitalisation	Valuation based on a capitalisation rate on passing rent
Summation assessment	Assessment of the property on an asset by asset basis based on comparative sales evidence and typically driven by a rate per productive hectare and assessment of other components such as water and supporting buildings.
Productive unit	Assessment on the property driven by the value per adult equivalent head that is supported by the property and carrying capacity of the property.

Allocation technique

Independent valuation reports assess and provide value for properties in their entirety. Component allocation techniques are adopted to allocate the total property value to investment property, bearer plants and water entitlements. The component allocation technique applied is assessed on each external valuation to ensure that the allocation technique is consistent with the nature and characteristics of the property including any lease encumbrances. The allocation technique may change to reflect the best estimate of fair value attributable to each component at reporting date.

The following allocation techniques have been applied:

Rental base	Applied for properties with long term indexed leases by allocating value to component assets using the rental base. The rental base is identifiable and generally determined by the cost of the assets. The allocation by rental base reflects the encumbered nature of the assets where rental incomes are not affected by short term market fluctuations in the value of the assets due to lack of rental review mechanism.
Component based	The encumbered value is allocated based on information in the valuation report which enables the allocation by components on an encumbered basis. To determine the allocation of components on an encumbered basis, the external valuer will assess various factors such as market indicators, comparable sales data of encumbered assets, comparable rental data and other relevant information such as replacement cost concepts.
Component based - Almonds	Applied for properties where leases include rental reviews. Information is provided in the valuation to allocate the encumbered value of the property to water assets, investment property and bearer plants on an encumbered basis. Firstly, the approach allocated value to water assets based on comparable encumbered rental data. The value of land was determined based on comparable sales data. Orchard infrastructure including irrigation was determined based on a replacement cost assumption adjusted for an estimate of the age of the assets. Bearer plants was identified as being the residual value of the total encumbered value of the property.
Proportionate	Applied for properties where leases include rental reviews and where component based information is not able to be used. For properties with water assets, the allocation considers the unencumbered value of water assets and allocates this on a proportionate basis to the encumbered value of the property. Judgement is then applied to allocate encumbered values to investment property and bearer plants using available information, including information from the valuation report and the nature of capital expenditure on the relevant property.

Rural Funds Group

Notes to the Financial Statements

30 June 2020

C1 RFF property assets (continued)

Valuations (continued)

Unobservable inputs

Unobservable inputs are assumptions based on the assessments and determinations made by external valuers in their capacity as qualified experts which are key inputs in the valuation techniques utilised.

Discount rate (%)	The higher the discount rate the lower the fair value					
Terminal capitalisation rate (%)	The higher the terminal capitalisation rate the lower the fair value					
Capitalisation rate (%)	The higher the capitalisation rate the lower the fair value					
Average \$ per irrigated hectare	The higher the value per irrigated hectare, the higher the fair value					
\$ per adult equivalent carrying capacity	The higher the value per adult equivalent carrying capacity, the higher the fair value					

C2 Investment property

2020	Almond property \$'000	Cattle property \$'000	Vineyard property \$'000	Cropping property \$'000	Macadamia property \$'000	Poultry property \$'000	Total \$'000
Opening net book amount	136,016	193,447	37,651	46,260	4,857	71,096	489,327
Acquisitions	-	38,753	-	-	5,329	-	44,082
Additions	7,911	3,908	519	2,170	904	285	15,697
Classified as held for sale or disposals	(18,881)	-	-	-	-	(70,131)	(89,012)
Amortisation of lease incentives	-	(200)	-	-	-	-	(200)
Fair value adjustment	2,473	13,626	-	(534)	629	(1,250)	14,944
Closing net book amount	127,519	249,534	38,170	47,896	11,719	-	474,838
2019	Almond property \$'000	Cattle property \$'000	Vineyard property \$'000	Cropping property \$'000	Macadamia property \$'000	Poultry property \$'000	Total \$'000
Opening net book amount	118,214	104,897	25,435	27,131	4,685	77,156	357,518
Acquisitions	-	84,542	-	17,879	-	-	102,421
Additions	13,923	2,873	152	3,184	172	932	21,236
Amortisation of lease incentives	-	(200)	-	-	-	-	(200)
Fair value adjustment	3,879	1,335	12,064	(1,934)	-	(6,992)	8,352
Closing net book amount	136,016	193,447	37,651	46,260	4,857	71,096	489,327

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

Investment properties are held for long-term rental yields and capital growth and are not occupied by the Group. RFF measures and recognises investment property at fair value where the valuation technique is based on unobservable inputs. Changes in fair value are presented through profit or loss in the Consolidated Statement of Comprehensive Income.

Capital expenditure that enhances the future economic benefits of the assets are capitalised to investment property. Incentives provided are also capitalised to the investment property and are amortised on a straight-line basis over the term of the lease as a reduction of rental revenue.

Rural Funds Group

Notes to the Financial Statements

30 June 2020

C3 Plant and equipment – bearer plants

2020	Bearer Plants - Almonds \$'000	Bearer Plants - Vineyards \$'000	Bearer Plants - Macadamias \$'000	Total \$'000
Opening net book amount	145,226	20,721	6,968	172,915
Additions	2,897	-	100	2,997
Classified as held for sale or disposals	(29,998)	-	-	(29,998)
Depreciation and impairment	(3,655)	(965)	(217)	(4,837)
Fair value adjustment - profit and loss	-	-	(499)	(499)
Fair value adjustment - other comprehensive income	12,335	-	615	12,950
Closing net book amount	126,805	19,756	6,967	153,528

2019	Bearer Plants - Almonds \$'000	Bearer Plants - Vineyards \$'000	Bearer Plants - Macadamias \$'000	Total \$'000
Opening net book amount	129,330	20,898	7,011	157,239
Additions	11,470	227	-	11,697
Depreciation and impairment	(3,607)	(950)	(43)	(4,600)
Fair value adjustment - profit and loss	8,313	541	-	8,854
Fair value adjustment - other comprehensive income	(280)	5	-	(275)
Closing net book amount	145,226	20,721	6,968	172,915

Bearer plants are solely used to grow produce over their productive lives and are accounted for under AASB 116 *Property, Plant and Equipment*.

Bearer plants are held for long-term rental yields and are not operated by the Group. RFF initially measures and recognises bearer plants at cost. After initial measurement, the Group adopts the revaluation model and bearer plants are carried at fair value less any accumulated depreciation and accumulated impairment losses.

Bearer plants are subject to revaluations based on the Group's valuation policies. Increases in the carrying amounts arising from revaluation of bearer plants are recognised in other comprehensive income and accumulated in net assets attributable to unitholders under asset revaluation reserve. Revaluation increases which reverse a decrease previously recognised in profit and loss are recognised in profit or loss. Revaluation decreases which offset previous increases are recognised in other comprehensive income in the asset revaluation reserve. Any other decreases are recognised in profit and loss.

Bearer plants are subject to depreciation over their respective useful lives calculated on a straight-line basis on the carrying amount. Depreciation commences when bearer plants are assumed ready for use which is based on when the trees reach maturity. The useful lives and maturity assumptions used for each class of depreciable asset are shown below:

Fixed asset class:	Useful life:	Depreciation commences from years:
Almond bearer plants	30 years	6 years
Vineyard bearer plants	40 years	4 years
Macadamia bearer plants	45 years	13 years

At the end of each annual reporting period, the useful life, maturity assumptions and carrying amount of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

Rural Funds Group

Notes to the Financial Statements

30 June 2020

C3 Plant and equipment – bearer plants (continued)

Bearer plants as stated on a historical cost basis is as follows:

	2020 \$'000	2019 \$'000
Cost	148,698	145,701
Accumulated depreciation	(14,389)	(11,328)
Accumulated impairment	(2,840)	(2,355)
Net book amount	131,469	132,018

C4 Financial assets – property related

	2020 \$'000	2019 \$'000
Non-current		
Property related		
Investment - BIL	520	520
Investment - CICL	11,464	12,222
Finance Lease - Breeders	14,383	14,431
Finance Lease - Feedlots	54,846	29,034
Finance Lease - Equipment	978	-
Cattle Facility - Katena Pty Ltd ATF Schafferius Family Trust	1,300	1,100
Cattle Facility - DA & JF Camm Pty Limited	1,881	-
Term Loan - DA & JF Camm Pty Limited	10,000	10,000
Other receivables	2,185	953
Total	97,557	68,260

Barossa Infrastructure Ltd (BIL) is an unlisted public Company supplying non-potable supplementary irrigation water for viticulture in the Barossa. The Group holds a minority interest in BIL.

Coleambally Irrigation Co-operative Limited (CICL) is one of Australia's major irrigation companies and is wholly owned by its farmer members. CICL's irrigation delivery system delivers water to 400,000 hectares of area across the Coleambally Irrigation District, in the Riverina, near Griffith, NSW. The Group holds a minority interest in CICL.

Finance Lease – Breeders is comprised of breeders which have been leased to Cattle JV Pty Limited, a wholly-owned subsidiary of Rural Funds Management Limited, for a term of ten years ending in 2026.

Finance Lease – Feedlots is comprised of feedlots leased to JBS Australia Pty Limited (JBS) for a term of ten years ending in 2028 with a repurchase call option exercisable by JBS and a sale put option exercisable by the Group. The call option held by JBS can be exercised from year six but will incur a break fee if exercised before year ten.

Finance Lease – Equipment is comprised of agricultural plant and equipment leased to 2007 Macgrove Project and Cattle JV Pty Limited.

A \$1,600,000 cattle financing facility with a term of ten years was extended to Katena Pty Ltd, the lessee of the Cerberus property to fund the purchase of trade cattle. The facility is due to expire in September 2028. The balance drawn as at 30 June 2020 is \$1,300,000 (2019: \$1,100,000). Its fair value approximates its carrying amounts.

A \$5,000,000 cattle financing facility with a term of five years was extended to DA & JF Camm Pty Limited, the lessee of the Natal aggregation to fund the purchase of cattle. The facility is due to expire in December 2022. The balance drawn as at 30 June 2020 is \$1,881,000 (2019: Nil). A \$10,000,000 secured loan with a term of ten years was also extended to DA & JF Camm Pty Limited and is due in December 2027. Its fair value approximates its carrying amount.

Other receivables relates to recognition of rental revenue on a straight-line basis in accordance with AASB 16 *Leases*.

Significant accounting judgements in the valuation of Coleambally Irrigation Co-operative and Barossa Infrastructure Limited shares

The investments in BIL and CICL are treated the same as water rights, that is, recorded at historical cost less accumulated impairment losses and not revalued.

Rural Funds Group

Notes to the Financial Statements

30 June 2020

C4 Financial assets – property related (continued)

Finance leases

Finance leases are measured at amortised cost. Each lease payment was allocated as a reduction to the finance lease receivable and as finance income. The finance income was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the receivable for each period. These represent leases of property or biological assets where all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are substantially transferred from the lessor.

Minimum lease payments receivable under non-cancellable finance leases of feedlots, breeders and equipment not recognised in the financial statements, are receivable as follows:

	2020	2019
	\$'000	\$'000
Within 1 year	5,234	1,990
Between 1 and 2 years	5,201	1,990
Between 2 and 3 years	5,200	1,990
Between 3 and 4 years	5,185	1,990
Between 4 and 5 years	5,148	1,990
Later than 5 years	81,788	37,055
Total	107,756	47,005

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Notes to the Financial Statements

30 June 2020

C5 Intangible assets

Intangible assets are made up of water rights and entitlements. Refer to note B1 for Directors' valuation of water rights and entitlements.

2020	Almonds \$'000	Cattle \$'000	Vineyards \$'000	Cropping \$'000	Macadamias \$'000	Poultry \$'000	Other \$'000	Total \$'000
Non-current								
Opening net book amount	76,660	1,599	500	3,672	815	1,049	34,236	118,531
Additions	758	2,060	-	-	432	-	-	3,250
Classified as held for sale	(10,711)	-	-	-	-	-	(10,711)	
Disposals	-	-	-	-	-	(1,049)	(2,672)	(3,721)
Impairment	-	(712)	-	-	(86)	-	-	(798)
Closing net book amount	66,707	2,947	500	3,672	1,161	-	31,564	106,551
Cost	67,462	3,659	500	3,672	1,247	-	31,564	108,104
Accumulated amortisation and impairment	(755)	(712)	-	-	(86)	-	-	(1,553)
Net book amount	66,707	2,947	500	3,672	1,161	-	31,564	106,551
2019								
Almonds \$'000	Cattle \$'000	Vineyards \$'000	Cropping \$'000	Macadamias \$'000	Poultry \$'000	Other \$'000	Total \$'000	
Non-current								
Opening net book amount	66,633	-	500	3,672	815	1,049	34,257	106,926
Additions	9,901	1,599	-	-	-	-	-	11,500
Transfers	21	-	-	-	-	-	(21)	-
Reversal of impairment	105	-	-	-	-	-	-	105
Closing net book amount	76,660	1,599	500	3,672	815	1,049	34,236	118,531
Cost	77,415	1,599	500	3,672	815	1,049	34,236	119,286
Accumulated amortisation and impairment	(755)	-	-	-	-	-	-	(755)
Net book amount	76,660	1,599	500	3,672	815	1,049	34,236	118,531

Rural Funds Group

Notes to the Financial Statements

30 June 2020

C5 Intangible assets (continued)

Water rights

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

C6 Plant and equipment – other

2020	Plant and equipment \$'000	Total \$'000
Opening net book amount	8,537	8,537
Additions	2,228	2,228
Classified as held for sale or disposals	(4,671)	(4,671)
Depreciation	(1,600)	(1,600)
Impairment	(1,293)	(1,293)
Closing net book amount	3,201	3,201
Cost	10,043	10,043
Accumulated depreciation	(5,549)	(5,549)
Accumulated impairment	(1,293)	(1,293)
Net book amount	3,201	3,201

2019	Plant and equipment \$'000	Total \$'000
Opening net book amount	5,480	5,480
Additions	4,277	4,277
Disposals	(38)	(38)
Depreciation and impairment	(1,182)	(1,182)
Closing net book amount	8,537	8,537
Cost	12,486	12,486
Accumulated depreciation	(3,949)	(3,949)
Net book amount	8,537	8,537

Classes of plant and equipment other than bearer plants are measured using the cost model as specified below. The asset is carried at its cost less any accumulated depreciation and any impairment losses. Costs include purchase price, other directly attributable costs and the initial estimate of the costs of dismantling and removing the asset, where applicable.

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

The Group manages and monitors its leased assets and physically attend to properties where assets are located on a regular basis.

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

Fixed asset class:	Useful life:
Capital works in progress	Not applicable
Plant and equipment	2-16 years
Motor vehicles	2-16 years

Rural Funds Group

Notes to the Financial Statements

30 June 2020

C6 Plant and equipment – other (continued)

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit and loss.

C7 Assets held for sale

		2020 \$'000	2019 \$'000
Investment property	C2	18,881	-
Bearer plants	C3	29,998	-
Intangible assets	C5	10,711	-
Plant and equipment	C6	3,768	-
Total		63,358	-

In April 2020, the Group commenced the marketing process for the sale of the Mooral almond orchard. The Mooral almond orchard is not considered a separate line of business and has not been treated as a discontinued operation.

C8 Capital commitments

Capital expenditure across all properties largely relates to cropping property developments, almond property improvements, cattle property developments and the macadamia developments. These commitments are contracted for but not recognised as liabilities:

		2020 \$'000	2019 \$'000
Bearer plants		2,728	2,409
Investment property		22,050	12,805
Intangible assets		-	1,959
Total		24,778	17,173

Rural Funds Group

Notes to the Financial Statements

30 June 2020

D. TAX

Since 1 July 2014 both Rural Funds Trust and RFM Chicken Income Fund (a subsidiary of Rural Funds Trust) became flow through trusts for tax purposes. As a result, it is no longer probable that a tax liability will be incurred in these entities in relation to future sale of assets for a gain or through trading. RFM Chicken Income Fund was treated as a flow through trust up until the date of disposal. RFM Australian Wine Fund (a subsidiary of Rural Funds Trust) is the head of a separate tax consolidated group, taxed in its own right. RF Active (a subsidiary of Rural Funds Trust) is a public trading trust and is taxed as a company.

D1 Income tax expense

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

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

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

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

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

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

The major components of income tax expense comprise:

	2020	2019
	\$'000	\$'000
Current tax	1,533	439
Deferred tax	77	4,376
Adjustments in respect of deferred income tax of previous years	-	9
Income tax expense reported in the Statement of Comprehensive Income	1,610	4,824

Income tax expense is attributable to:

Profit from continuing operations	1,553	4,824
Profit from discontinued operation	57	-
Total	1,610	4,824

Deferred income tax expense included in income tax expense comprises:

Increase in deferred tax liabilities	77	4,372
Total	77	4,372

Amounts charged or credited directly to net assets attributable to unitholders

	2020	2019
	\$'000	\$'000
Capitalised issue costs	-	(15)
Change in fair value taken through asset revaluation reserve	-	2
Total	-	(13)

Rural Funds Group

Notes to the Financial Statements

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D1 Income tax expense (continued)

*Numerical reconciliation of income tax expense to *prima facie* tax payable*

	2020	2019
	\$'000	\$'000
Net profit before income tax	50,598	38,179
At the statutory income tax rate of 30% (2019: 30%)	15,179	11,454
Tax effect of amounts that are not taxable in determining taxable income	(12,977)	(6,637)
Adjustments in respect of tax of previous years	-	9
Imputation credits received	-	(2)
General capital gain tax discount on the sale of capital assets	(592)	-
Total	1,610	4,824

Franking credits

At 30 June 2020 there are \$901,000 of franking credits available to apply to future income distributions (2019: \$463,000).

D2 Deferred tax and current tax payable

	2020	2019
	\$'000	\$'000
Deferred tax liabilities		
Bearer plants	3,795	4,046
Plant and equipment	2,208	2,723
Fair value investment property	4,461	4,405
Other assets	60	43
Gross deferred tax liabilities	10,524	11,217
Set off of deferred tax assets	(4,669)	(5,439)
Net deferred tax liabilities	5,855	5,778

Deferred tax assets

Investments	223	223
Other	35	31
Unused income tax losses	4,411	5,185
Gross deferred tax assets		
	4,669	5,439
Set off of deferred tax liabilities	(4,669)	(5,439)
Net deferred tax assets	-	-

Recognised tax assets and liabilities

	Current income tax	Deferred income tax
	2020	2019
	\$'000	\$'000
Opening balance	(439)	(277)
Charged to income	(1,533)	(439)
Credited to net assets attributable to unitholders	-	-
Tax payments	439	277
Closing balance	(1,533)	(439)
Tax expense in the Consolidated Statement of Comprehensive Income		1,610
Amounts recognised in the Consolidated Statement of Financial Position:		4,824
Net deferred tax liability	(5,855)	(5,778)

Rural Funds Group

Notes to the Financial Statements

30 June 2020

E. CAPITAL STRUCTURE AND FINANCIAL RISK MANAGEMENT

RFM, the Responsible Entity of RFF, is responsible for managing the policies designed to optimise RFF's capital structure. This is primarily monitored through an internal gearing ratio target range of 30-35% calculated as interest bearing liabilities on adjusted total assets. The optimal capital structure is reviewed periodically, although this may be impacted by market conditions which may result in an actual position which may differ from the desired position.

E1 Interest bearing liabilities

	2020 \$'000	2019 \$'000
Current (Secured)		
Equipment loans (ANZ)	3,775	3,793
J&F Guarantee - Borrowing loss provision	39	39
Total	3,814	3,832
Non-current (Secured)		
Borrowings (ANZ)	190,008	186,525
Borrowings (Rabobank)	107,240	104,920
Total	297,248	291,445

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

J&F Guarantee

The J&F Guarantee is a \$82.5 million limited guarantee provided to J&F Australia Pty Ltd (J&F), a wholly owned subsidiary of Rural Funds Management Limited, for a period of ten years from August 2018. From the provision of this guarantee, the Group earns a guarantee fee classified as finance income as noted in B3, paid on a monthly basis. The guarantee enables J&F to supply cattle to JBS Australia Pty Limited (JBS) for its grain fed business. The guarantee may be payable in the event of a JBS default and a subsequent material fall in cattle price resulting in a shortfall in the J&F bank loans.

Financial liabilities relate to the credit loss allowance taking into account the likelihood of the financial guarantee to J&F being triggered and its financial impact for the Group. In calculating the allowance, consideration was given to counterparty risk associated with the arrangement. The credit loss allowance is recognised at fair value through profit or loss.

As part of the JBS transaction, the Group has contracted to purchase five feedlots from JBS Australia Pty Limited (JBS). All these feedlots have settled as at 30 June 2020. The feedlots are classified as a finance lease with a repurchase call option exercisable by JBS and a sale put option exercisable by the Group as noted in C4. The call option held by JBS can be exercised from year six in 2024 but will incur a break fee if exercised before year ten in 2028.

Borrowings

At 30 June 2020 the core debt facility available to the Group was \$335,000,000 (2019: \$335,000,000), split into two tranches, with a \$225,000,000 tranche expiring in November 2021 and a \$110,000,000 tranche expiring in November 2023. Approval has been received from the banks to extend the \$225,000,000 tranche to \$290,000,000. The \$290,000,000 tranche will reduce to \$260,000,000 at the earlier of the potential Mooral almond property sale or November 2021.

As at 30 June 2020 RFF had active interest rate swaps totaling 61.6% (2019: 55.9%) of the drawn down balance to manage interest rate risk. Hedging requirements under the terms of the borrowing facility may vary with bank consent.

Rural Funds Group

Notes to the Financial Statements

30 June 2020

E1 Interest bearing liabilities (continued)

Loan covenants

Under the terms of the updated borrowing facility, the Group was required to comply with the following financial covenants for the year ended 30 June 2020:

- maintain a maximum loan to value ratio of 50%;
- maintain net tangible assets (including water entitlements) in excess of \$400,000,000;
- a minimum hedging requirement of 40% of debt drawn under the borrowing facility; and
- an interest cover ratio for the Group not less than 3.00:1.00.

The loan to value ratio calculation includes the J&F guarantee of \$82.5 million (2019: \$75.0 million).

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

Loan amounts are provided at the Bankers' floating rate, plus a margin. For bank reporting purposes, these assets are valued at market value based on latest external valuation report. Refer to section B1 for Directors' valuation of water rights and entitlements.

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

- a fixed and floating charge over the assets held by Australian Executor Trustee Limited (AETL) as custodian for Rural Funds Trust, RFM Chicken Income Fund (up until 18 December 2019), RFM Australian Wine Fund (a subsidiary of Rural Funds Trust) and RF Active; and
- registered mortgages over all property owned by the Rural Funds Trust and its subsidiaries provided by AETL as custodian for Rural Funds Trust and its subsidiaries.

The following assets are pledged as security over the loans:

2020	Investment property	Water licences	Plant and equipment - Bearer Plants	Financial assets	Plant and equipment	Assets held for sale	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Mortgage: Leased Properties	474,838	74,987	153,528	12,649	-	59,590	775,592
Other assets	-	31,564	-	74,093	-	-	105,657
Equipment loans	-	-	-	-	3,201	3,768	6,969
Total	474,838	106,551	153,528	86,742	3,201	63,358	888,218

2019	Investment property	Water licences	Plant and equipment - Bearer Plants	Financial assets	Plant and equipment	Assets held for sale	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Mortgage: Leased properties	489,327	84,295	172,915	12,844	-	-	759,381
Other assets	-	34,236	-	57,603	-	-	91,839
Equipment loans	-	-	-	-	8,537	-	8,537
Total	489,327	118,531	172,915	70,447	8,537	-	859,757

E2 Financial assets – other (non-property related)

	2020	2019
	\$'000	\$'000
Investment - RFM Poultry	-	81
Investment - Marquis Macadamias Limited	664	102
Investment - Almondco Australia Limited	2,004	2,004
Total	2,668	2,187

The Group's investments in Marquis Macadamias Limited (formerly Macadamia Processing Co Limited) and Almondco Australia Limited are held at fair value through profit and loss (level 3 – see section E4).

Rural Funds Group

Notes to the Financial Statements

30 June 2020

E3 Derivative financial instruments measured at fair value

	2020 \$'000	2019 \$'000
Current		
Interest rate swaps	3,666	103
Total other liabilities	3,666	103
Non-current		
Interest rate swaps	27,999	23,938
Total other liabilities	27,999	23,938

The Group's derivative financial instruments are held at fair value (level 2 - see section E4).

E4 Fair value measurement of assets and liabilities

This note explains the judgements and estimates made in determining fair values of Investment property, Plant and equipment – bearer plants and financial assets and liabilities that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified each item into the three levels prescribed under Australian Accounting Standards as mentioned above.

Level 1 Fair value based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date (such as publicly traded equities).

Level 2 Fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 One or more significant inputs to the determination of fair value is based on unobservable inputs for the asset or liability.

RFF's listed equity investments are level 1.

RFF's financial liabilities, being interest rate swap derivatives are level 2.

At 30 June 2020 all non-financial assets are level 3.

RFF's unlisted equity investments, BIL, CICL, Marquis Macadamias Ltd (formerly MPC) and Almondco are level 3.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels at the end of the reporting period. There were no transfers in the current year (2019: nil).

Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments via level 1 and level 2 inputs include:

- the use of quoted market prices or dealer quotes for similar instruments;
- the fair value of interest rate swaps is calculated as the present value of estimated future cash flows based on observable yield curves

Specific valuation techniques used to value financial assets, investment property and bearer plants via level 3 are discussed in section C1.

Rural Funds Group

Notes to the Financial Statements

30 June 2020

E5 Financial instruments

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

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

a. *Financial assets*

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

- financial assets at amortised cost; and
- financial assets at fair value through profit or loss.

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

b. *Financial assets at amortised cost*

Financial assets held with the objective of collecting contractual cash flows are recognised at amortised cost. After initial recognition these are measured using the effective interest method, less provision for expected credit loss. Any change in their value is recognised in profit or loss.

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

For trade receivables, impairment provisions are recorded in a separate allowance account with the loss being recognised in profit or loss. Subsequent recoveries of amounts previously written off are credited against other income in profit or loss.

c. *Financial assets at fair value through profit or loss*

The group classifies the following financial assets at fair value through profit or loss:

- debt investments that do not qualify for measurement at either amortised cost
- equity investments for which the entity has not elected to recognise fair value gains and losses through other comprehensive income

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

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

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

d. *Financial liabilities*

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

Financial liabilities that measured at fair value through profit or loss include the Group's derivatives. All other financial liabilities are measured at amortised cost.

Rural Funds Group

Notes to the Financial Statements

30 June 2020

E6 Financial risk management

The Group is exposed to a variety of financial risks through its use of financial instruments. The Group's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets. The Group does not speculate in financial assets.

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

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

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

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

a. *Financial risk management policies*

Risks arising from holding financial instruments are inherent in the Group's activities and are managed through a process of ongoing identification, measurement and monitoring. The Responsible Entity is responsible for identifying and controlling risks that arise from these financial instruments.

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

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

b. *Interest rate risk and swaps held for hedging*

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

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

The notional principal amounts of the swap contracts approximate 61.6% (2019: 55.9%) of the Group's drawn down debt at 30 June 2020.

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

	Average interest rate payable		Balance	
	2020	2019	2020	2019
	%	%	\$'000	\$'000
Maturity of notional amounts				
Settlement - between 0 to 3 years	2.70	2.62	15,000	25,000
Settlement - 3 to 5 years	3.42	-	13,000	-
Settlement - greater than 5 years	3.06	3.08	155,000	138,000
			183,000	163,000

Rural Funds Group

Notes to the Financial Statements

30 June 2020

E6 Financial risk management (continued)

b. Interest rate risk and swaps held for hedging (continued)

The following interest rate swap contracts that have been entered into but are not yet effective as at 30 June 2020 are:

	Average interest rate payable		Balance	
	2020 %	2019 %	2020 \$'000	2019 \$'000
Maturity of notional amounts				
Settlement - greater than 5 years	1.99	3.04	90,000	60,000
Total			90,000	60,000

The net loss recognised on the swap derivative instruments for the year ended 30 June 2020 was \$7,624,000 (2019: \$18,208,000 loss).

At 30 June 2020 the Group had the following mix of financial assets and liabilities exposed to variable interest rates:

	2020 \$'000	2019 \$'000
Cash	5,085	2,588
Interest bearing liabilities	(297,248)	(291,445)
Total	(292,163)	(288,857)

At 30 June 2020, 1.25% (2019: 1.30%) of the Group's debt is fixed, excluding the impact of interest rate swaps.

c. Interest rate risk (sensitivity analysis)

At 30 June 2020, the effect on profit before tax and net assets attributable to unitholders as a result of changes in the interest rate, net of the effect of interest rate swaps, with all other variables remaining constant, would be as follows:

	2020 \$'000	2019 \$'000
Change in profit before income tax:		
Increase in interest rate by 1%	19,749	14,334
Decrease in interest rate by 1%	(21,794)	(15,935)
Change in net assets attributable to unitholders:		
Increase in interest rate by 1%	19,749	14,334
Decrease in interest rate by 1%	(21,794)	(15,935)

d. Credit risk

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

Credit risk and associated impacts are also managed through security, in the form of guarantees, security deposits and property security in favor of the group. Counterparty credit risk for finance leases have also been assessed and accounted for through the recognition of credit loss provisions.

All of the entity's debt investments at amortised cost are considered to have low credit risk and the loss allowance recognised during the year was therefore limited to 12 months' expected losses. Management considers the credit risk to be low where the counterparty does not have material outstanding repayments and has capacity to meet its contractual debt obligations. Debt investments are secured against collateral which is monitored by management. In recognising any potential credit loss provisions, management also assesses the collateral held. Where the fair value of such collateral is greater than the debt investment, a lower loss allowance amount is recognised.

Rural Funds Group

Notes to the Financial Statements

30 June 2020

E6 Financial risk management (continued)

e. *Liquidity risk and capital management*

The Responsible Entity of the Group defines capital as net assets attributable to unitholders. The Group's objectives when managing capital are to safeguard the going concern of the Group and to maintain an optimal capital structure. The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate headroom on borrowing facilities are maintained. The Group is able to maintain or adjust its capital by divesting assets to reduce debt or adjusting the amount of distributions paid to unitholders.

The table below reflects all contractually fixed repayments and interest resulting from recognised financial liabilities as at 30 June 2020. The amounts disclosed in the table are the contractual undiscounted cash flows which have been estimated using interest rates applicable at the reporting date.

Financial liabilities	Less than 6 months		6 months to 1 year		1 to 3 years		3 to 5 years		Over 5 years		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Interest bearing liabilities	1,564	3,391	1,564	3,391	231,258	238,563	73,948	69,522	-	-	308,335	
Trade and other payables	3,502	6,101	-	-	-	-	-	-	-	-	3,502	
Equipment loans	573	610	587	639	1,658	1,948	957	1,407	-	-	178	
Interest rate swaps	1,833	551	1,833	551	7,003	2,182	6,838	2,089	6,280	2,310	23,789	
Total	7,472	10,653	3,984	4,581	239,919	242,693	81,743	73,018	6,280	2,488	339,401	333,433

Rural Funds Group

Notes to the Financial Statements

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E7 Issued units

	2020	2019		
	No.	\$'000	No.	\$'000
Units on issue at the beginning of the year	334,263,593	362,854	255,630,515	233,666
Units issued during the year	3,449,827	6,639	78,633,078	148,833
Distributions to unitholders	-	(8,919)	-	(19,645)
Units on issue	337,713,420	360,574	334,263,593	362,854

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

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

E8 Distributions payable

	2020	2019
	\$'000	\$'000
Distributions payable	9,460	8,950
Total	9,460	8,950

Rural Funds Group

Notes to the Financial Statements

30 June 2020

F. OTHER ASSETS AND LIABILITIES

F1 Cash and cash equivalents

	2020	2019
	\$'000	\$'000
Cash at bank	5,085	2,588
Total	5,085	2,588

Reconciliation of cash

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

	2020	2019
	\$'000	\$'000
Cash and cash equivalents	5,085	2,588

F2 Trade and other receivables

	2020	2019
	\$'000	\$'000
Current		
Trade receivables	3,607	1,963
Sundry receivables	623	1,388
Receivables from related parties	1,216	1,692
Total	5,446	5,043

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue with no significant overdue amounts.

F3 Other current assets

	2020	2019
	\$'000	\$'000
Prepayments	2,101	1,679
Deposits	587	20
Total	2,688	1,699

F4 Trade and other payables

	2020	2019
	\$'000	\$'000
Trade payables	725	4,136
Accruals	1,189	1,279
Sundry creditors	1,588	686
Total	3,502	6,101

Rural Funds Group

Notes to the Financial Statements 30 June 2020

F5 Other non-current liabilities

	2020 \$'000	2019 \$'000
Lessee deposits	3,877	2,629
Total	3,877	2,629

F6 Asset revaluation reserve

	2020 \$'000	2019 \$'000
Opening balance	46,462	46,739
Bearer plants revaluation	12,950	(275)
Income tax applicable	-	(2)
Closing balance	59,412	46,462

Rural Funds Group

Notes to the Financial Statements

30 June 2020

G. ADDITIONAL INFORMATION

G1 Key management personnel

Related parties are persons or entities that are related to the Group as defined by AASB 124 *Related Party Disclosures*. These include directors and other key management personnel and their close family members and any entities they control as well as subsidiaries and associates of the Group. The following provides information about transactions with related parties during the year as well as balances owed to or from related parties as at 30 June 2020.

Directors

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

Guy Paynter
David Bryant
Michael Carroll
Julian Widdup

Interests of Directors of the Responsible Entity

Units in the Group held by Directors of RFM or related entities controlled by Directors of RFM as at 30 June 2020 are:

	Guy Paynter Units	David Bryant* Units	Michael Carroll Units	Julian Widdup Units
Balance at 30 June 2018	814,696	11,678,182	20,322	-
Additions	244,408	2,736,672	7,301	-
Balance at 30 June 2019	1,059,104	14,414,854	27,623	-
Additions	500,000	823,180	57,111	110,203
Balance at 30 June 2020	1,559,104	15,238,034	84,734	110,203

*Includes interests held by Rural Funds Management Limited as the Responsible Entity.

Other key management personnel

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

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

- Management fee: 0.6% per annum (2019: 0.6%) of adjusted total assets; and,
- Asset management fee: 0.45% per annum (2019: 0.45%) of adjusted total assets.

Compensation of key management personnel

No amount is paid by the Group directly to the Directors of the Responsible Entity. Consequently, no compensation as defined in AASB 124 *Related Party Disclosures* is paid by the Group to the Directors as key management personnel. Fees paid and payable to RFM as Responsible Entity are disclosed in note G2.

Rural Funds Group

Notes to the Financial Statements

30 June 2020

G2 Related party transactions

Responsible Entity (Rural Funds Management) and related entities

Transactions between the Group and the Responsible Entity and its associated entities are shown below:

	2020	2019
	\$'000	\$'000
Management fee	5,689	4,855
Asset management fee	4,266	3,641
Total management fees	9,955	8,496
Expenses reimbursed to RFM	5,222	4,068
Expenses reimbursed to RFM Poultry	-	401
Expenses reimbursed to RFM Almond Fund	90	-
Distribution paid/payable to RFM	1,272	1,155
Total amount paid to RFM and related entities	16,539	14,120
Rental income received from RFM Almond Fund	2,640	-
Rental income received from RFM Almond Fund 2006	717	1,533
Rental income received from RFM Almond Fund 2007	266	567
Rental income received from RFM Almond Fund 2008	753	1,602
Rental income received from RFM	409	1,108
Rental income received from RFM Farming Pty Limited	2,168	1,917
Rental income received from Cattle JV	1,363	2,933
Rental income received from Cotton JV	2,320	2,168
Rental income received from 2007 Macgrove Project	716	767
Rental income received from RFM Macadamias	380	352
Finance income from Cattle JV	1,198	1,243
Interest income from Cattle JV	87	46
Finance income from J&F Australia Pty Limited	5,622	3,818
Rental income received from RFM Poultry	5,158	10,717
Distribution received/receivable from RFM Poultry	-	10
Water sale proceeds from RFM Poultry	-	49
Water expenses charged to RFM Almond Fund	59	-
Water sale proceeds from RFM Almond Fund 2006	-	3
Water sale proceeds from RFM Almond Fund 2007	-	1
Water sale proceeds from RFM Almond Fund 2008	-	3
Water sale proceeds from RFM	-	1
Water sale proceeds from RFM Farming Pty Limited	-	151
Water expenses charged to RFM Farming Pty Limited	164	-
Expenses charged to RFM Farming Pty Limited	5	483
Total amounts received from RFM and related entities	24,026	29,472

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

The terms and nature of the historical transactions between the Group and related parties have not changed during the year ended 30 June 2020. Transactions entered into between related parties during the year have been reviewed.

Rural Funds Group

Notes to the Financial Statements

30 June 2020

G2 Related party transactions (continued)

Responsible Entity (Rural Funds Management) and related entities (continued)

The key movements during the year:

Expenses reimbursed to RFM relates to expenses incurred or paid by RFM on behalf of the Group which are subsequently reimbursed by the Group. Examples of these expenses include corporate overheads, professional service fees such as legal, audit and tax matter costs and regulatory fees and charges.

Rental income from RFM Almond Fund (RAF) relates to rent which was previously charged to RFM Almond Fund 2006, RFM Almond Fund 2007, RFM Almond Fund 2008 and RFM's Almond Lots which merged to form RAF during the year ended 30 June 2020.

Rental income from CJV relates to the lease of properties including the lease of Rewan which was terminated and leased to Australia Agricultural Company Limited in October 2019.

Finance income from J&F Australia Pty Limited (J&F) relates to the \$82.5 million (2019: \$75.0 million) limited guarantee provided to J&F, a wholly owned subsidiary of Rural Funds Management Limited. From the provision of this guarantee, the Group earns a guarantee fee classified as finance income.

Expenses reimbursed to RAF relates to fees to carry over water for the Group between seasons on licences which have been leased to RAF.

Rental income from RFM Poultry ceased on 18 December 2019 when the poultry assets were sold to ProTen Investment Management Pty Ltd as trustee for ProTen Investment Trust (ProTen).

Debtors (including finance lease receivables)

	2020 \$'000	2019 \$'000
RFM Farming Pty Limited	307	213
RFM Macadamias Pty Limited	429	37
Cattle JV Pty Limited	14,352	15,526
Cotton JV Pty Limited	8	-
J&F Australia Pty Limited	575	-
RFM Almond Fund	721	-
RFM Poultry	-	7
Total	16,392	15,783

Creditors

	2020 \$'000	2019 \$'000
RFM	195	364
RFM Farming Pty Limited	-	12
Total	195	376

Custodian fees

	2020 \$'000	2019 \$'000
Australian Executor Trustees Limited	286	250
Total	286	250

Financial Guarantee

The Group provides a \$82.5 million (2019: \$75.0 million) guarantee to J&F Australia Pty Limited (J&F), a subsidiary of RFM. The guarantee enables J&F to supply cattle to JBS Australia Pty Limited for its grain fed business. In April 2020, unitholders approved an increase to the guarantee provided to J&F from \$75 million to \$100 million. The initial guarantee increase was \$7.5 million to \$82.5 million.

Rural Funds Group

Notes to the Financial Statements

30 June 2020

G2 Related party transactions (continued)

Entities with influence over the Group

	2020		2019	
	Units	%	Units	%
Rural Funds Management	11,843,659	3.51	11,843,659	3.54

Interest in related parties

	2020		2019	
	Units	%	Units	%
RFM Poultry	-	-	225,529	3.28

Other

Michael Carroll is a director of Select Harvests Limited which leases orchards from Rural Funds Group. This is not a related party as defined by AASB 124 *Related Party Disclosure*. Transactions are on commercial terms and procedures are in place to manage any potential conflicts of interest. Mr. Carroll does not participate in the negotiation of these leases.

G3 Discontinued operations

On 28 October 2019, the Group announced its intention to sell its poultry assets to ProTen. The poultry assets were sold on 18 December 2019 and the poultry segment is reported in the current year as a discontinued operation. Financial information relating to the discontinued operation for the year is set out below:

	2020	2019
	\$'000	\$'000
Revenue	5,160	10,717
Other income	4	-
Management fees	(334)	(845)
Property expenses	(28)	(61)
Finance costs	(626)	(1,453)
Other expenses	(150)	(169)
Depreciation and impairment	(649)	-
Change in fair value of investment property	(1,250)	(6,992)
Loss on disposal	(29)	-
Loss on disposal - one off transaction costs	(596)	-
Net profit before income tax	1,502	1,197
Income tax (expense)/benefit	(57)	-
Profit from discontinued operation	1,445	1,197

	Cents	Cents
	\$'000	\$'000
Basic and diluted earnings per unit from discontinued operations	0.43	0.37
Net cash inflow from operating activities	2020	2019
Net cash inflow from investing activities (includes an inflow of \$71,913,000 from the sale of the segment)	71,628	(932)
Net cash outflow from financing activities	(3,625)	(7,180)
Net increase/(decrease) in cash generated by the subsidiary	71,946	(24)

Rural Funds Group

Notes to the Financial Statements

30 June 2020

G3 Discontinued operations (continued)

Details of the disposal of the discontinued operations

	18 December 2019 \$'000
Consideration received:	
Cash	71,913
Total disposal consideration	71,913
<i>The carrying amounts of assets and liabilities as at the date of sale (18 December 2019) were as follows:</i>	
Investment property	70,131
Intangible assets	1,049
Plant & equipment - other	762
Total assets	71,942
Carrying amount of net assets sold	71,942
Loss on sale before income tax	(29)
Transaction cost on disposal	(596)
Loss on sale before income tax, net of transaction costs	(625)
Income tax expense	(57)
Loss on sale after income tax	(682)

G4 Parent entity information

RFF was formed by the stapling of the units in two trusts, RFT and RFA. In accordance with Accounting Standard AASB 3 *Business Combinations*, the stapling arrangement referred to above is regarded as a business combination and the RFT has been identified as the parent for preparing Consolidated Financial Reports. The financial information of the parent entity, Rural Funds Trust has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries and associates

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

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

	2020 \$'000	2019 \$'000
Statement of Financial Position		
ASSETS		
Current assets	9,789	7,631
Non-current assets	859,031	813,100
Total assets	868,820	820,731
LIABILITIES		
Current liabilities	12,639	14,662
Non-current liabilities	332,453	318,153
Total liabilities (excluding net assets attributable to unitholders)	345,092	332,815
Net assets attributable to unitholders	523,728	487,916
Total liabilities	868,820	820,731

Rural Funds Group

Notes to the Financial Statements

30 June 2020

G4 Parent entity information (continued)

	2020	2019
	\$'000	\$'000
Statement of Comprehensive Income		
Net profit after income tax	52,769	26,218
Other comprehensive income for the year, net of tax	12,950	(280)
Total comprehensive income attributable to unitholders	65,719	25,938

G5 Cash flow information

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

	2020	2019
	\$'000	\$'000
Net profit/(loss) after income tax		
Cash flows excluded from profit attributable to operating activities	48,988	33,355
Non-cash flows in profit		
Gain on sale of assets	(3,407)	(12)
Depreciation and impairment - plant and equipment	2,893	1,230
Depreciation - bearer plants	4,838	4,600
Amortisation of lease incentives	200	200
Finance income - lease receivable	(789)	(352)
Change in fair value of bearer plants	499	(8,854)
Change in fair value of investment property	(14,944)	(8,352)
Change in fair value of financial assets/liabilities	(510)	70
Impairment/ (reversal of impairment) of intangible assets	798	(105)
Change in fair value of interest rate swaps	7,624	18,208
Straight-lining of rental revenue	(1,232)	(953)
Dividend income classified as investing cash flows	(50)	-
Changes in operating assets and liabilities		
(Increase)/decrease in trade and other receivables	(403)	338
Increase in other assets	(989)	(1,103)
Decrease in trade and other payables	(2,600)	(27)
Increase in net tax liabilities	1,171	4,534
Increase in other liabilities	1,248	957
Net cash inflow from operating activities	43,335	43,734

Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

	2020	2019
	\$'000	\$'000
Cash and cash equivalents		
Cash and cash equivalents	5,085	2,588
Borrowings - repayable within one year	(3,775)	(3,793)
Borrowings - repayable after one year	(297,248)	(291,445)
Net debt	(295,938)	(292,650)
Cash and cash equivalents	5,085	2,588
Gross debt - fixed interest rates	(3,775)	(3,793)
Gross debt - variable interest rates	(297,248)	(291,445)
Net debt	(295,938)	(292,650)

Rural Funds Group

Notes to the Financial Statements

30 June 2020

G5 Cash flow information (continued)

Net debt reconciliation (continued)

Reconciliation of net debt is presented below:

	Borrowings \$'000	Cash \$'000	Total \$'000
Net debt as at 1 July 2019	(295,238)	2,588	(292,650)
Cash flows	(5,785)	2,497	(3,288)
Net debt as at 30 June 2020	(301,023)	5,085	(295,938)
Net debt as at 1 July 2018	(273,161)	1,210	(271,951)
Cash flows	(22,077)	1,378	(20,699)
Net debt as at 30 June 2019	(295,238)	2,588	(292,650)

G6 Remuneration of auditors

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

	2020 \$	2019 \$
PricewaterhouseCoopers Australia:		
Audit and review of financial statements	379,473	274,900
Other audit related service	90,168	-
Compliance audit	15,690	9,425
Total	485,331	284,325

G7 Other accounting policies

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term investments with less than 3 months of original maturity which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

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

Goods and services tax (GST)

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

Receivables and payables are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as part of trade and other receivables or payables in the Consolidated Statement of Financial Position.

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

Rural Funds Group

Notes to the Financial Statements

30 June 2020

G7 Other accounting policies (continued)

Leases

Leases of fixed assets or biological assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred from the lessor, are classified as finance leases.

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

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

Provisions

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

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

Provisions for distributions

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

G8 Events after the reporting date

On 23 July 2020, the Group contracted to acquire 1,655 hectares of grazing land adjacent to the Homehill property for \$4.1 million excluding transaction costs. Settlement is expected to occur in December 2020 and will be funded from RFF's debt facility.

On 3 August 2020, the Group contracted to acquire 5,409 hectares of sugar cane farms (with associated plant and equipment) and 8,060 ML of water entitlements from MSF Sugar Pty Ltd for \$81.1 million excluding transaction costs. Settlement is expected to occur in October 2020 and will be funded from an approved increase to the Group's debt facility.

On 24 August 2020, the Group exchanged contracts for the sale of the Mooral almond orchard for \$98.0m (subject to various adjustments and inclusions) with a global agriculture and timberland investment manager as nominee for a special purpose vehicle that will be owned by pension funds and institutional investors. The sale is conditional on completion of due diligence (within 45 days but subject to possible extensions) and Foreign Investment Review Board approval.

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

G9 Contingent liabilities

Other than what has been disclosed in the accounts there are no contingent liabilities as at 30 June 2020.

Rural Funds Group

Directors' Declaration

30 June 2020

In the Directors of the Responsible Entity's opinion:

- 1 The financial statements and notes of Rural Funds Group set out on pages 12 to 60 are in accordance with the *Corporations Act 2001*, including:
 - a. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - b. giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the year ended on that date; and
- 2 There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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

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

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



David Bryant
Director

25 August 2020



Independent auditor's report

To the stapled security holders of Rural Funds Group

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Rural Funds Trust (the Registered Scheme) and its controlled entities (together Rural Funds Group, or the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2020
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in net assets attributable to unitholders for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

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

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if

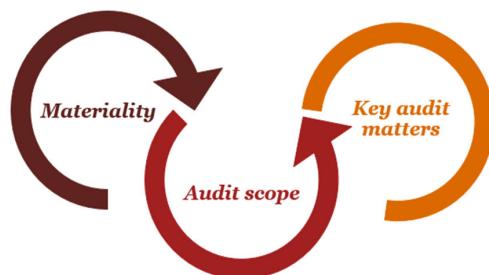
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individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

The structure of Rural Funds Group is commonly referred to as a “stapled group”. In a stapled group the securities of two or more entities are 'stapled' together and cannot be traded separately. In the case of the Group, the units in Rural Funds Trust have been stapled to the units in RF Active. For the purposes of consolidation accounting, Rural Funds Trust is 'deemed' the parent and the Group financial report reflects the consolidation of Rural Funds Trust and its controlled entities, including RF Active.



Materiality

- For the purpose of our audit we used overall Group materiality of \$2.3 million, which represents approximately 5% of the Group's Adjusted Funds From Operations.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Adjusted Funds From Operations because, in our view, it is a benchmark against which the performance of the Group is most commonly measured.
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The audit of the Group was performed by a team which included individuals with industry expertise and property valuation experts.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit Committee.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of agricultural properties, which comprise:</p> <ul style="list-style-type: none"> - Investment property \$474.8m - Bearer plants \$153.5m - Water entitlements \$106.5m <p><i>Refer to note C2, C3, C5</i></p> <p>The Group holds agricultural properties for long-term leasing.</p> <p>Each agricultural property comprises one or more of the following three components:</p> <ul style="list-style-type: none"> • investment properties (including land and infrastructure attached to land) • bearer plants (including almond trees, macadamia trees and wine grape vines) • water entitlements. <p>The Group's valuation policy requires agricultural properties to be externally valued by an expert every two financial years or more often where the Group considers appropriate.</p> <p>External valuations provide an aggregate value for each agricultural property. Key variables and consideration in the valuations can include discount rates, passing rents, comparable sales, market rent, cattle carrying capacity, value per cattle adult equivalent. Factors such as associated lease agreements, prevailing market conditions, and the individual nature, condition and location of these properties impact these variables, and overall valuations.</p> <p>The aggregate value of each agricultural property is allocated across the three components of investment properties (carried at fair value), bearer plants (carried under revaluation model) and water entitlements (carried at cost less accumulated impairment).</p> <p>The directors, or external valuers where appropriate, determined the suitable allocation technique to be applied to each agricultural property, taking into account the nature and characteristics of the property including any lease encumbrances.</p> <p>This was a key audit matter because:</p>	<p>For a selection of external valuations obtained by the Group, together with PwC real estate property valuation experts:</p> <ul style="list-style-type: none"> • we assessed the competency, qualifications, experience and objectivity of any external valuers • we read the valuers' terms of engagement to identify any terms that might affect their objectivity or impose limitations on their work relevant to the valuation • we interviewed external valuers in relation to a selection of properties subject to valuation and on the rationale behind the chosen allocation techniques • we compared a sample of inputs used in the valuation and allocation models, such as rental income and lease terms, to the relevant lease agreements • we assessed the reasonableness of certain inputs including, where applicable, market rents, discount rates and capitalisation rates, rates per ha, cattle carrying capacity, value per cattle adult equivalent used in the valuation and allocation models, for a sample of properties based on benchmark market data • we inspected the final valuation reports and compared the fair value as per the valuation to the value recorded in the Group's accounting records. <p>For properties not subject to external valuations, we discussed with the directors and evaluated the directors' internal assessment of the fair value of the properties and their assertion that the properties are carried at fair value as per the latest external valuation report, adding any capital expenditure made during the intervening period.</p>

Key audit matter	How our audit addressed the key audit matter
<ul style="list-style-type: none"> agricultural properties are fundamental to the Group's business model. Investment properties, bearer plants and water entitlements form the majority of the Group's assets in the consolidated statement of financial position the quantum of changes in fair value of agricultural properties directly impact the consolidated statement of comprehensive income the nature of agricultural property valuations is inherently subjective due to the use of assumptions and estimates in the valuation model. The COVID-19 outbreak has caused an increase in estimation uncertainty for fair value of properties the selection and application of allocation technique are inherently subjective due to the unique characteristics of each property the valuations and allocation outcomes are sensitive to key inputs/assumptions in the model such as the discount rate and capitalisation rates, the utilisation of comparable sales data and to allocation techniques. 	
<p>Related party transactions (Refer to note G2)</p> <p>The Group's Responsible Entity, along with other funds for which it is the Responsible Entity, are considered related parties of the Group. Key transactions with these parties include:</p> <ul style="list-style-type: none"> rental income from the lease of agricultural properties and plant and equipment finance income from the lease of cattle finance and interest income management fees and asset management fees paid distributions paid reimbursement of operating expenses provision of a limited financial guarantee and receipt of associated fee income <p>Related party transactions were a key audit matter due to the significant impact of these transaction on the results of the Group. Additionally, because of their nature, they are pervasive and material to the presentation of and disclosures within the financial report.</p>	<p>We developed an understanding of the Group's relevant controls and processes for identifying related parties and related party transactions.</p> <p>For significant contracts entered into during the year, we verified that the transactions were appropriately approved.</p> <p>For a sample of lease income recorded during the year, we compared the lease income to the relevant supporting documents including the lease agreements.</p> <p>For management fees and asset management fees, we compared the rates used to determine fees to the rates disclosed in the explanatory memorandum issued on formation of the Group.</p> <p>We discussed the related party transactions with management to develop an understanding of the business rationale for the transactions.</p> <p>In relation to the increase in the financial guarantee from \$75m to \$100m (\$82.5m of which was utilised as at year end), we developed an understanding of the arrangement from reading the Explanatory</p>

Key audit matter	How our audit addressed the key audit matter
	<p>memorandum, and from discussions with management and others of the purpose, terms and conditions, and substance of the arrangement.</p> <p>We assessed the adequacy of the disclosures in Note G2, of related party relationships and transactions in light of the requirements of Australian Accounting Standards.</p>

Other information

The directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Corporate Directory, Directors' Report and Additional Information for Listed Public Entities. We expect the remaining other information to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors of the Responsible Entity and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors of the Responsible Entity for the financial report

The directors of the Responsible Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors of the Responsible Entity determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors of the Responsible Entity are responsible for assessing the ability of the Group 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 of the Responsible Entity either intends 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 financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards 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 the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

A handwritten signature in black ink, appearing to read 'Rod Dring'.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Rod Dring'.

Rod Dring
Partner

Sydney
25 August 2020

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Managing good assets with good people

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