

ASX Release

9 October 2019

Subject: Independent property valuations and reconciliation to FY19 Financial Statements

In response to investor enquiries, Rural Funds Management Limited (RFM), as responsible entity for the Rural Funds Group (ASX:RFF), provides the following reconciliations to the FY19 Financial Statements:

1. Adjusted funds from operations (AFFO) by agricultural sector to net profit after tax.
2. Total adjusted property assets, which have been based on independent asset valuations, to Total adjusted assets.

Figure 1 shows AFFO derived from RFF assets, grouped by agricultural sector and adjusted for non-cash tax expenses. AFFO represents the underlying and recurring cash earnings from its operations from which distributions are funded.

Figure 1: AFFO calculation

	12 MTHS ENDED 30 JUNE 2019 \$'000
Revenue - Almonds	29,658
Revenue - Poultry	10,717
Revenue - Vineyards	3,777
Revenue - Cotton	3,250
Revenue - Cattle	16,298
Revenue - Macadamias	1,344
Straight-lining of rental revenue	953
Water allocation sales	2,427
Other income	508
Total income	68,932
Management fees	(8,496)
Property Expenses	(1,595)
Finance costs	(9,985)
Other expenses	(3,892)
Adjustment for straight-lining of rental revenue	(953)
Interest component of JBS feedlot finance lease	(352)
Income tax payable on public trading trust - RF Active	(413)
Total expenses and non-cash adjustments	(25,686)
AFFO	43,246
AFFO per unit	13.3 cents
Distributions per unit	10.43 cents
AFFO payout ratio	78%

Figure 2: Reconciliation of AFFO to net profit after tax

	12 MTHS ENDED 30 JUNE 2019 \$'000
AFFO	43,246
Change in fair value of interest rate swaps	(18,208)
Depreciation and amortisation - other	(1,230)
Depreciation - bearer plants	(4,600)
Reversal of impairment of bearer plants	8,854
Change in fair value of investment property	8,352
Change in fair value of financial assets/liabilities	(70)
Reversal of impairment of intangible assets	105
Straight-lining of rental revenue	953
Interest component of JBS feedlot finance lease	352
Income tax expense	(4,411)
Gain on sale of assets	12
Net profit after income tax	33,355

Figure 3 provides details of the independent valuations, acquisition and lease expiry for each of RFF's assets.

RFM has a policy to independently value assets at least every two years and rotate valuers every three years. The firms that completed valuation reports are part of global real estate businesses.

- CBRE – the world's largest commercial real estate and investment firm with 2018 revenues of \$21.3B.
- Colliers – an industry leading global real estate company with more than 14,000 employees in 68 countries.
- JLL – a leading professional services firm that specialises in real estate and investment management, with more than 90,000 employees in 80 countries.

Valuation reports are prepared in accordance with International Valuation Standards. At least one qualified valuer physically inspects each asset when preparing the valuation. A second qualified valuer reviews the work and co-signs the completed report.

The valuations adopted by RFM are primarily on an encumbered basis, as is appropriate where an executed lease is in place over the asset. Valuation reports are addressed to the reliant parties as follows:

- Rural Funds Management Ltd for Financial Reporting purposes; and
- ANZ Fiduciary Services Pty Ltd as security trustee for First Mortgage Security purposes.

Figure 3: Adjusted Property Assets: valuation, valuer and lease expiry as at 30 June 2019

PROPERTY BY SECTOR	STATE	BRIEF DESCRIPTION	ACQUISITION DATE	ADJUSTED PROPERTY VALUE 30 JUNE 2019 \$M	VALUATION DATE	VALUATION \$M	VALUER	WEIGHTED AVERAGE LEASE EXPIRY DATE	WEIGHTED AVERAGE LEASE EXPIRY (YEARS)
Almond									
Mooral	NSW	808 ha orchard	Apr-2010	\$74.9	Mar-2019	\$73.0	JLL	Jun-2028	8.9
Yilgah	NSW	1,006 ha orchard	Jun-2008	\$111.2	Mar-2019	\$110.0	JLL	May-2030	10.8
Tocabil	NSW	600 ha orchard	Oct-2014	\$40.1	Mar-2019	\$40.0	JLL	Apr-2037	17.8
Kerarbury	NSW	2,500 ha orchard	Oct-2015	\$196.3	Sep-2018	\$171.9	CBRE	Apr-2038	18.8
Cattle									
Rewan	QLD	17,479 ha property	Aug-2016	\$43.1	Jun-2019	\$43.1	CBRE	Oct-2029	10.3
Mutton Hole	QLD	140,300 ha property	Jul-2016	\$8.6	Jun-2019	\$8.7	CBRE	Mar-2025	5.8
Oakland Park	QLD	85,500 ha property	Aug-2016	\$5.4	Jun-2019	\$5.4	CBRE	Mar-2025	5.8
Natal Aggregation	QLD	390,600 ha property	Dec-2017	\$55.7	Oct-2017	\$52.8	CBRE	Oct-2027	8.3
Comanche	QLD	7,600 ha property	Jul-2018	\$15.8	Jun-2018	\$15.7	CBRE	Jun-2028	9.0
Cerberus	QLD	8,280 ha property	Sep-2018	\$10.9	Aug-2018	\$10.2	CBRE	Sep-2028	9.2
Dyamberin	NSW	1,728 ha property	Oct-2018	\$14.1	Jun-2018	\$14.0	CBRE	Oct-2028	9.3
JBS Carroona, Mungindi & Prime City (finance lease)	QLD/ NSW	70,500 head feedlots (total)	Oct-2018	\$29.0	Oct-2018	\$28.7	Purchase price	Jul-2028	9.0
Woodburn	NSW	1,063 ha property	Jan-2019	\$6.5	Jun-2018	\$6.5	CBRE	Jan-2029	9.5
Cobungra	VIC	6,500 ha property	Mar-2019	\$35.0	Feb-2019	\$35.0	Colliers	Feb-2029	9.7
Cotton									
Lynora Downs	QLD	4,880 ha	Dec-2016	\$33.1	Jun-2019	\$33.1	CBRE	Apr-2022	2.8
Mayneland	QLD	2,942 ha	Sep-2018	\$16.9	Aug-2018	\$16.7	JLL	Jun-2020	1.0
Poultry									
Farm 53	NSW	34,830 sqm	Mar-2004	\$5.7	Jun-2019	\$5.7	Directors	Mar-2024	4.8
Farm 54-56	NSW	48,600 sqm	Mar-2004	\$7.7	Jun-2019	\$7.7	Directors	Mar-2024	4.8
Farm 57-58	NSW	27,360 sqm	Mar-2004	\$5.0	Jun-2019	\$5.0	Directors	Mar-2024	4.8
Farm 63-66	NSW	60,000 sqm	Mar-2004	\$9.4	Jun-2019	\$9.4	Directors	Mar-2024	4.8
Farm 67-68	NSW	70,584 sqm	Dec-2004	\$24.3	Jun-2019	\$24.3	Directors	Dec-2026	7.5
Lethbridge L1	VIC	14,790 sqm	Feb-2006	\$5.6	Jun-2019	\$5.6	Directors	Jul-2036	17.0
Lethbridge L2	VIC	14,790 sqm	Feb-2006	\$5.6	Jun-2019	\$5.6	Directors	Jul-2036	17.0
Lethbridge L3-4	VIC	29,580 sqm	Feb-2006	\$11.3	Jun-2019	\$11.3	Directors	Jul-2036	17.0
Macadamias									
Swan Ridge	QLD	130 ha orchard	Mar-2016	\$6.0	May-2018	\$6.0	CBRE	Jun-2028	9.0
Moore Park	QLD	104 ha orchard	Mar-2016	\$4.9	May-2018	\$4.8	CBRE	Jun-2028	9.0
Bonmac	QLD	25 ha orchard	Mar-2016	\$1.8	May-2018	\$1.8	CBRE	Dec-2036	17.5
Vineyards									
Kleinig	SA	206 ha vineyard	May-2002	\$22.8	Jun-2019	\$22.7	Colliers	Jun-2026	7.0
Geier	SA	243 ha vineyard	Sep-2000	\$28.2	Jun-2019	\$28.2	Colliers	Jun-2026	7.0
Dohnt	SA	30 ha vineyard	Sep-2004	\$1.0	Jun-2019	\$1.0	Colliers	Jun-2022	3.0
Hahn	SA	50 ha vineyard	Feb-2000	\$4.9	Jun-2019	\$4.9	Colliers	Jun-2026	7.0
Mundy and Murphy	SA	55 ha vineyard	Apr-2000	\$3.8	Jun-2019	\$3.8	Colliers	Jun-2026	7.0
Rosebank	VIC	82 ha vineyard	Aug-2003	\$3.4	Jun-2019	\$3.4	Colliers	Jun-2026	7.0
Adjusted property assets				\$848.1		\$815.9			-
Breeders (finance lease) and other				\$25.5	n/app	n/app	n/app	n/app	n/app
Unencumbered water entitlements – River									
	NSW	8,754 ML	Dec-2016	\$48.1	Sep-2018	\$48.1	CBRE	n/app	n/app
Unencumbered water entitlements - Ground									
	NSW	1,910 ML	Mar-2016	\$3.1	Dec-2017	\$3.1	CBRE	n/app	n/app
Financial assets				\$76.7					
Total adjusted property assets				\$924.8					

Notes to Figure 3:

- Many of the assets have ancillary assets which are not included in the brief description, for example additional land. These ancillary assets also form part of the independent valuation.
- Consistent with previous disclosures, RFM applies a directors' valuation to the poultry assets, to reflect the increasing average age of the infrastructure. For the avoidance of doubt, the director's valuation applied to the poultry assets is less than the independent valuation.

- RFF owns a significant amount of water entitlements (116,829 ML) and water delivery entitlements (21,430 ML) representing a fair value of \$208.0m. Most of these entitlements are not shown separately as they are embedded in an asset (e.g. an almond orchard) and therefore included in that independent valuation.
- Some independent valuations differ from the value recognised in the Financial Statements. This is primarily a result of capital expenditure subsequent to the valuation, designed to improve an asset's productivity and value and attracts additional lease income.

Figure 4 provides a reconciliation of Total adjusted property assets to Total adjusted assets in the FY19 Financial Statements.

Figure 4: Reconciliation of Total adjusted property assets to Total adjusted assets

	AS AT 30 JUNE 2019 \$M	PAGE NUMBER IN FY19 FINANCIAL STATEMENTS
Adjusted property assets		
Investment property	\$489.3	14
Bearer plants	\$172.9	14
Intangible assets	\$118.5	14
Adjustment for water entitlements at fair value	\$76.8	24
Financial Assets - Property related (excluding other receivables)	\$67.3	31 (note C4)
Total adjusted property assets	\$924.8	24
Cash and cash equivalents	\$2.6	14
Trade and other receivables	\$5.0	14
Other current assets	\$1.7	14
Financial Assets - Property related (other receivables)	\$1.0	31 (note C4)
Financial Assets - Non-property related (other)	\$2.2	41 (note E2)
Plant and Equipment - other	\$8.5	14
Total adjusted assets	\$945.9	24

In summary:

- The principal activity of RFF is to distribute income to investors from leasing agricultural assets.
- The assets owned by RFF are independently valued by qualified valuers employed by reputable organisations.
- The underlying and recurring cash earnings from its operations, represented by AFFO, generated by RFF from leasing these assets exceeds distributions.
- RFF is managed by RFM; a highly competent manager with 22 years' experience in agricultural operations and funds management.

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About Rural Funds Group (RFF)

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

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