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Rural Funds Group (RFF)

Financial Statements

For the Half Year Ended 31 December 2019

Rural Funds Group

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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

31 December 2019

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 half year ended 31 December 2019.

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 period 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 half 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, cotton properties, agricultural plant and equipment, cattle and water rights.

The following activities of the Group changed during the half 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 the opinion of the Directors, there were no other significant changes in the state of affairs of the Group during the half year.

Operating results

The consolidated net profit after income tax of the Group for the half year ended 31 December 2019 amounted to \$29,116,000 (31 December 2018: \$21,179,000). The consolidated total comprehensive income of the Group for the half year ended 31 December 2019 amounted to \$29,731,000 (31 December 2018: \$24,620,000).

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 half year, the profit would have been \$23,656,000 (31 December 2018: \$20,320,000), representing adjusted funds from operations (AFFO).

Rural Funds Group

Directors' Report

31 December 2019

Adjusted funds from operations (AFFO)

Having eliminated fair value adjustments and one-off transaction costs, the adjusted funds from operations (AFFO) effectively represents funds from operations of RFF.

	31 December 2019 \$'000	31 December 2018 \$'000
Net profit before income tax from continuing operations	27,413	19,393*
Change in fair value of interest rate swaps	(178)	3,908
Depreciation and impairments - other	565	591
Depreciation - bearer plants	2,405	2,383*
Impairment/(reversal) of impairment of bearer plants	499	(5,133)*
Change in fair value of investment property	(9,948)	(4,332)
Change in fair value of financial assets/liabilities	24	34
Reversal of impairment of intangible assets	86	(105)
Straight-lining of rental revenue	(646)	-
Interest component of JBS feedlot finance lease	(346)	(93)
Income tax payable (RF Active)	(173)	(387)
Gain on sale of assets	(13)	(26)
Net profit before income tax from discontinued operations	2,220	2,587
Depreciation	39	-
Change in fair value of investment property	1,250	1,500
Income tax payable (RF Active)	(57)	-
Loss on disposal	29	-
Loss on disposal - one off transaction costs	487	-
AFFO	23,656	20,320
AFFO cents per unit	7.1	6.4

* Refer to Note A Plant and Equipment – bearer plants for details of restatement.

Financial position

The net assets of the consolidated Group have increased to \$540,678,000 at 31 December 2019 from \$525,872,000 at 30 June 2019. At 31 December 2019 the Group had total assets of \$872,431,000 (30 June 2019: \$869,087,000).

At 31 December 2019, 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 \$130,361,000 (30 June 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 31 December 2019 was \$208,136,000 (30 June 2019: \$208,042,000). The value of water entitlements is illustrated in the table below:

	31 December 2019 \$'000	30 June 2019 \$'000
Intangible assets (water entitlements)	118,375	118,531
Investment in CICL	11,466	12,222
Investment in BIL	520	520
Total book value of water entitlements	130,361	131,273
Revaluation of intangible assets per valuation	77,775	76,769
Adjusted total water entitlements	208,136	208,042

Rural Funds Group

Directors' Report

31 December 2019

Financial position (continued)

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.

	31 December 2019	30 June 2019
	\$'000	\$'000
Net assets per Consolidated Statement of Financial Position	540,678	525,872
Revaluation of intangible assets per valuation	77,775	76,769
Adjusted net assets	618,453	602,641
Adjusted NAV per unit	1.84	1.80

Property leasing

At 31 December 2019 the Group held 32 properties as follows:

- 3 almond orchards (2,414 planted hectares);
- 1 almond orchard under development with plantings completed (2,500 planted hectares);
- 7 vineyards (666 planted hectares);
- 4 macadamia orchards (259 planted hectares);
- 15 cattle properties made up of 11 breeding, backgrounding and finishing properties (659,050 hectares) and 4 cattle feedlots with combined capacity of 97,000 head;
- 2 cotton properties (7,822 hectares).

During the half year ended 31 December 2019, the properties held by the Group recorded an increment in the fair value of investment properties of \$8,698,000 (31 December 2018: \$2,832,000) and an increment in bearer plants revaluation of \$116,000 (31 December 2018: \$8,595,000).

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 2,414 hectares (31 December 2018: 2,414 hectares):

- Yilgah 1,006 planted hectares (30 June 2019: 1,006 hectares);
- Mooral 808 planted hectares (30 June 2019: 808 hectares);
- Tocabil 600 planted hectares (30 June 2019: 600 hectares).

These properties are under lease to the following tenants:

- Select Harvests Limited (SHV) 1,221 planted hectares (30 June 2019: 1,221 hectares);
- Olam Orchards Australia Pty Limited (Olam) 600 planted hectares (30 June 2019: 600 hectares);
- RFM Almond Fund (RAF) 593 planted hectares. RAF is the result of the merger between the following Funds and RFM's Almond Lots that took place in August 2019 during the half year:
 - RFM Almond Fund 2006 (AF06) 272 planted hectares (30 June 2019: 272 hectares);
 - RFM Almond Fund 2007 (AF07) 73 planted hectares (30 June 2019: 73 hectares);
 - RFM Almond Fund 2008 (AF08) 206 planted hectares (30 June 2019: 206 hectares);
 - Rural Funds Management Limited (RFM) 42 planted hectares (30 June 2019: 42 hectares).

The Kerarbury property is located in Darlington Point, NSW and is leased to Olam. The full 2,500 hectares of almond orchard at Kerarbury is planted with a portion of the water delivery infrastructure to be completed.

For its almond orchards the Group owns water entitlements of 65,614ML (30 June 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 (30 June 2019: 21,430ML) of water delivery entitlements that provide access to water delivery through CICL, with a low annual allocation expected to be provided.

Rural Funds Group

Directors' Report

31 December 2019

Property leasing (continued)

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 (30 June 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 (30 June 2019: 234 hectares);
- RFM Farming Pty Limited 25 hectares, transferred from Rural Funds Management Limited (RFM) during the half year (30 June 2019: 25 hectares).

The Cygnet property located in Queensland is currently unleased and under development to 40 hectares of macadamia plantings.

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 (30 June 2019: 17,479 hectares);
- Mutton Hole and Oakland Park located in far north Queensland 225,800 hectares (30 June 2019: 225,800 hectares);
- Natal aggregation located near Charters Towers in north Queensland 390,600 hectares (30 June 2019: 390,600 hectares);
- Comanche located in central Queensland 7,600 hectares (30 June 2019: 7,600 hectares);
- Cerberus located north west of Rockhampton in central Queensland 8,280 hectares (30 June 2019: 8,280 hectares);
- Dyamberin located in the New England region of New South Wales 1,728 hectares (30 June 2019: 1,728 hectares);
- Woodburn located in the New England region of New South Wales 1,063 hectares (30 June 2019: 1,063 hectares);
- Cobungra located in the East Gippsland region of Victoria 6,500 hectares (30 June 2019: 6,500 hectares); and
- Prime City, Mungindi, Caroona and Beef City, 4 cattle feedlots with a combined capacity of 97,000 head (30 June 2019: 70,500 head).

The properties comprise a combined 659,050 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 and Cobungra.

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

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.

Rural Funds Group

Directors' Report

31 December 2019

Property leasing (continued)

Cotton property

Cotton properties held by the group comprise of:

- Lynora Downs, a 4,880 hectare (30 June 2019: 4,880 hectare) cotton 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 (30 June 2019: 2,942 hectare) cotton 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 2020. A long-term lessee is being sought.

Other activities

Agricultural plant and equipment with a net book value of \$7,738,000 (30 June 2019: \$8,537,000) and finance leases of agricultural plant and equipment with a net book value of \$947,000 (30 June 2019: nil) is owned by the Group and leased to RAF, M07, Cotton JV, Cattle JV and RFM Farming.

Breeder assets with a net book value of \$14,407,000 (30 June 2019: \$14,431,000) are leased to Cattle JV Pty Limited.

Banking facilities

At 31 December 2019 the core debt facility available to the Group was \$335,000,000 (30 June 2019: \$335,000,000), with a drawn balance of \$277,744,000 (30 June 2019: \$291,445,000). The facility is split into two tranches with a \$225,000,000 tranche expiring in December 2021 and a \$110,000,000 tranche expiring in December 2023. At 31 December 2019, RFF had active interest swaps totaling 69.5% (30 June 2019: 55.9%) of the drawn balance to manage interest rate risk.

Distributions

	Cents per unit	Total
Distribution declared 3 June 2019, paid 31 July 2019	2.6075	8,715,923
Distribution declared 2 September 2019, paid 31 October 2019	2.7118	9,082,534
Distribution declared 2 December 2019, paid 31 January 2020	2.7118	9,107,837

Earnings per unit

Net profit after income tax for the year (\$'000)	29,116
Weighted average number of units on issue during the half year	335,124,056
Basic and diluted earnings per unit (total) (cents)	8.69

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 period, expressed as a percentage.

Management costs include management fees and reimbursement of other expenses 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 half year ended 31 December 2019 is 2.02% (31 December 2018: 4.02%). The ICR for the prior year has been impacted by costs associated with the rights issue completed in August 2018.

Rural Funds Group

Directors' Report

31 December 2019

Matters subsequent to the end of the half year

On 31 January 2020, the Group completed the purchase of Wattlebank, a 320 hectare property located in central Queensland. The purchase price of \$1.8 million including transaction costs and delivers 1,766ML of water entitlements.

On 31 January 2020, the Group exchanged on the purchase of a property adjoining Swan Ridge, a 123 hectare property located in the Bundaberg region. The contracted purchase price was \$1.6 million and included 104ML of water entitlements. The property is expected to be developed into a macadamia orchard.

On 5 February 2020, the Group completed the purchase of three cattle properties in Western Australia, Petro, High Hill and Willara, totaling 6,191 hectares, for \$22.6 million including transaction costs and leased to a subsidiary of Stone Axe Pastoral Company Pty Ltd.

On 28 February 2020, unleased groundwater assets totaling 1,910 ML was disposed of by the Group for \$6.7 million.

On 2 March 2020, a unitholder vote was announced to be held in April 2020 to increase 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 Group receives a fee from J&F on the guarantee provided.

No other matter or circumstance has arisen since the end of the half 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 investment property, bearer plants 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*. Water licences are leased to external parties who are then responsible to meet the legislative requirements of these licences. There have been no known significant breaches of any environmental requirements applicable to the Group.

Climate change risk

RFM is aware of the potential risks that climate change could present to RFF assets. RFM has committed to a climatic diversification strategy in order to mitigate these risks. Some of the areas that RFM is focused on the impact of emissions on RFF assets including carbon dioxide, methane, and nitrous oxide. RFF's assets do produce these emissions through the use of infrastructure including water pumps and machinery, cattle assets and through the application of fertilisers. As part of RFM's ongoing strategy to mitigate and improve climate related risks, RFM will continue to quantify the emissions and undergo infrastructure and practice changes in response.

Units on issue

335,859,474 units in Rural Funds Trust were on issue at 31 December 2019 (31 December 2018: 333,137,778). During the half year 1,595,881 units (31 December 2018: 77,507,263) were issued by the Trust and nil (31 December 2018: nil) were redeemed.

Indemnity of Responsible Entity and Custodian

In accordance with its constitution, Rural Funds Group indemnifies the Directors, Company Secretaries 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.

Rural Funds Group

Directors' Report

31 December 2019

Auditor's independence declaration

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001* for the half year ended 31 December 2019 has been received and is included on page 9 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

2 March 2020

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Auditor's Independence Declaration

As lead auditor for the review of Rural Funds Group for the half-year ended 31 December 2019, 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 review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

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



Rod Dring
Partner
PricewaterhouseCoopers

Sydney
2 March 2020

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Rural Funds Group

Consolidated Statement of Comprehensive Income For the half year ended 31 December 2019

		Restated*	31 December	31 December
			2019	2018
	Note		\$'000	\$'000
Continuing operations				
Revenue	B3		32,433	25,326
Other income			1,405	1,604
Management fees			(4,710)	(3,454)
Property expenses			(841)	(732)
Finance costs			(5,041)	(3,918)
Other expenses			(2,393)	(2,113)
Gain on sale of assets			13	26
Depreciation and impairments - other			(565)	(591)
Depreciation - bearer plants	C3		(2,405)	(2,383)
(Impairment)/reversal of impairment of bearer plants	C3		(499)	5,133
Change in fair value of investment property	C2		9,948	4,332
Change in fair value of interest rate swaps			178	(3,908)
Impairment of intangible assets	C5		(86)	105
Change in fair value of financial assets/liabilities			(24)	(34)
Net profit before income tax from continuing operations			27,413	19,393
Income tax expense			(460)	(801)
Net profit after income tax from continuing operations			26,953	18,592
Net profit before income tax from discontinued operations	E3		2,220	2,587
Income tax expense on discontinued operations	E3		(57)	-
Net profit after income tax from discontinued operations			2,163	2,587
Net profit after income tax			29,116	21,179
Other comprehensive income:				
<i>Items that will not be reclassified to profit or loss</i>				
Revaluation increment - bearer plants	C3		615	3,462
Income tax relating to these items			-	(21)
Other comprehensive income for the half year, net of tax			615	3,441
Total comprehensive income attributable to unitholders			29,731	24,620

* Refer to Note E3 Discontinued operations and Note A Plant and Equipment – bearer plants for details of restatement.

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Comprehensive Income For the half year ended 31 December 2019

		Restated*	
		31 December 2019	31 December 2018
	Note	\$'000	\$'000
Total net profit after income tax for the half year attributable to unitholders arising from:			
Rural Funds Trust		28,540	20,282
RF Active (non-controlling interest)		576	897
		29,116	21,179
Total comprehensive income for the half year attributable to unitholders arising from:			
Rural Funds Trust		29,155	23,723
RF Active (non-controlling interest)		576	897
		29,731	24,620
Total comprehensive income for the half year attributable to unitholders arising from:			
Continuing operations		27,568	22,033
Discontinued operations		2,163	2,587
		29,731	24,620
Earnings per unit			
Basic and diluted earnings per unit from continuing operations:			
Per stapled unit (cents)		8.04	5.83
Per unit of Rural Funds Trust (cents)		7.87	5.55
Per unit of RF Active (cents)		0.17	0.28
Basic and diluted earnings per unit attributable to the unitholders:			
Per stapled unit (cents)		8.69	6.64
Per unit of Rural Funds Trust (cents)		8.52	6.36
Per unit of RF Active (cents)		0.17	0.28

* Refer to Note E3 Discontinued operations and Note A Plant and Equipment – bearer plants for details of restatement.

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Financial Position

As at 31 December 2019

	Note	31 December 2019	30 June 2019
		\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents		41,711	2,588
Trade and other receivables		3,741	5,043
Intangible assets held for sale	C5	2,672	-
Other current assets		3,292	1,699
Total current assets		51,416	9,330
Non-current assets			
Investment property	C2	439,449	489,327
Plant and equipment - bearer plants	C3	173,151	172,915
Financial assets	C4, E1	84,974	70,447
Intangible assets	C5	115,703	118,531
Plant and equipment - other	C6	7,738	8,537
Total non-current assets		821,015	859,757
Total assets		872,431	869,087
LIABILITIES			
Current liabilities			
Trade and other payables		7,003	6,101
Interest bearing liabilities	D1	3,925	3,832
Income tax payable		676	439
Derivative financial liabilities		40	103
Distributions payable		9,401	8,950
Total current liabilities		21,045	19,425
Non-current liabilities			
Interest bearing liabilities	D1	277,744	291,445
Other non-current liabilities		3,084	2,629
Derivative financial liabilities		23,823	23,938
Deferred tax liabilities		6,057	5,778
Total non-current liabilities		310,708	323,790
Total liabilities (excluding net assets attributable to unitholders)		331,753	343,215
Net assets attributable to unitholders		540,678	525,872
Total liabilities		872,431	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 31 December 2019

	Note	31 December 2019	30 June 2019
		\$'000	\$'000
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS			
Unitholders of Rural Funds Trust			
Issued units		354,654	358,269
Asset revaluation reserve		47,077	46,462
Retained earnings		131,762	114,565
Parent entity interest		533,493	519,296
Unitholders of RF Active			
Issued units		4,617	4,585
Retained earnings		2,568	1,991
Non-controlling interest		7,185	6,576
Total net assets attributable to unitholders		540,678	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 half year ended 31 December 2019

31 December 2019	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	-		615	-	615	-	615
Total other comprehensive income		-	615	-	615	-	615
Profit before income tax	-		-	28,827	28,827	806	29,633
Income tax expense	-		-	(287)	(287)	(230)	(517)
Total comprehensive income for the period		-	615	28,540	29,155	576	29,731
Issued units							
Units issued during the period		3,154		-	3,154	33	3,187
Issue costs		79		-	79	-	79
Total issued units	D2	3,233		-	3,233	33	3,266
Distributions to unitholders	D2	(6,848)		(11,343)	(18,191)	-	(18,191)
Balance at 31 December 2019		354,654	47,077	131,762	533,493	7,185	540,678

31 December 2018		Restated*		Restated*		Non-controlling interest \$'000	Total \$'000
		Issued units \$'000	Asset revaluation reserve \$'000	Retained earnings \$'000	Total \$'000		
Balance at 1 July 2018		230,574	46,739	97,310	374,623	4,112	378,735
Other comprehensive income	-		3,441	-	3,441	-	3,441
Total other comprehensive income		-	3,441	-	3,441	-	3,441
Profit before income tax	-		-	20,697	20,697	1,283	21,980
Income tax expense	-		-	(415)	(415)	(386)	(801)
Total comprehensive income for the period		-	3,441	20,282	23,723	897	24,620
Issued units							
Units issued during the period		149,789		-	149,789	1,513	151,302
Issue costs		(4,849)		-	(4,849)	(32)	(4,881)
Total issued units	D2	144,940		-	144,940	1,481	146,421
Distributions to unitholders	D2	(10,873)		(6,490)	(17,363)	-	(17,363)
Balance at 31 December 2018		364,641	50,180	111,102	525,923	6,490	532,413

* Refer to Note A Plant and Equipment – bearer plants for details of restatement.

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Cash Flows

For the half year ended 31 December 2019

	Note	31 December 2019 \$'000	31 December 2018 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		42,597	28,735
Payments to suppliers (inclusive of GST)		(17,284)	(1,323)
Interest received		45	51
Finance income		4,876	2,748
Finance costs		(5,667)	(4,655)
Net cash inflow from operating activities		24,567	25,556
Cash flows from investing activities			
Payments for investment property	C2	(11,655)	(65,444)
Payments for plant and equipment - bearer plants	C3	(2,525)	(6,840)
Payments for intangible assets	C5	(979)	(1,598)
Payments for financial assets		(13,580)	(31,077)
Payments for plant and equipment	C6	(617)	(2,205)
Proceeds from sale of plant and equipment		63	28
Proceeds from other assets/liabilities		455	-
Proceeds from sale of poultry assets	E3	71,913	-
Transaction costs on disposal of poultry assets	E3	(487)	-
Distributions received		50	31
Net cash inflow/(outflow) from investing activities		42,638	(107,105)
Cash flows from financing activities			
Proceeds from issue of units	D2	3,266	146,419
Proceeds from borrowings		42,146	124,784
Repayment of borrowings		(55,754)	(164,561)
Distributions paid		(17,740)	(15,044)
Net cash (outflow)/inflow from financing activities		(28,082)	91,598
Net increase in cash and cash equivalents held		39,123	10,049
Cash and cash equivalents at the beginning of the period		2,588	1,210
Cash and cash equivalents at the end of the period		41,711	11,259

Rural Funds Group

Notes to the Financial Statements

For the half year ended 31 December 2019

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 2 March 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*.

Basis of preparation

The accounting policies that have been adopted in respect of the financial report are those of Rural Funds Management Limited (RFM) as Responsible Entity of the Trusts. The accounting policies adopted for the half year ended 31 December 2019 are consistent with those of the financial year ended 30 June 2019 other than updates in accounting policies to reflect newly effective accounting standards.

The Trusts have common business objectives and operate as an economic entity collectively 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 report has been prepared on a going concern basis.

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.

This general purpose financial report for the half year ended 31 December 2019 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the full financial report.

It is recommended that the half year financial report be read in conjunction with the annual financial report for the financial year ended 30 June 2019 and any public announcements made by the Group during the half year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

As permitted by ASIC Corporations (Stapled Group Reports) Instrument 2015/838, issued by the Australian Securities and Investments Commission, these financial statements are consolidated financial statements and accompanying notes of both Rural Funds Trust and RF Active.

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.

Rural Funds Group

Notes to the Financial Statements

For the half year ended 31 December 2019

Significant accounting judgements, estimates and assumptions (continued)

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.

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 intangible assets. The allocation approach will vary depending on the nature of the lease arrangement.

Where information are 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 intangible assets, 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 approach may change to reflect the best estimate of fair value attributable to each component at reporting date.

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.

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.

Comparative amounts

Comparative amounts have not been restated unless otherwise noted.

Rural Funds Group

Notes to the Financial Statements

For the half year ended 31 December 2019

Plant and equipment – bearer plants

Bearer plants are solely used to grow produce over their productive lives. Under AASB 116 *Property, Plant and Equipment* bearer plants are initially measured at cost. Bearer plants will then be subject to depreciation over their respective useful lives.

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 equity under asset revaluation reserve. Revaluation increases which reverse a decrease previously recognised in profit and loss is 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.

Restatement: Plant and equipment – bearer plants

For reporting periods starting before 1 July 2016, the Group's grape vines, almond trees and macadamia trees qualified as bearer plants under the definition in AASB 141 *Agriculture* and were measured at fair value.

The amendments to AASB 2014-6 *Amendments to Australian Accounting Standards – Agriculture: Bearer Plants*, from 1 July 2016 result in bearer plants being accounted for under AASB 116 *Property, Plant and Equipment*. While the bearer plants continued to be revalued, they should also be depreciated. The Group changed its policy to account for the impact of depreciation, which resulted in a restatement to the 2018 comparative results in the 30 June 2019 Financial Statements.

The restatement above results in the need to restate these half year financial statements for bearer plant depreciation in the half year ended 31 December 2018 and the associated reallocation between other comprehensive income and the profit and loss of fair value movements.

In addition, in the half year to 31 December 2018, a revaluation increment of bearer plants had been recognised in other comprehensive income. This should have been recognised through the profit and loss as it reversed a previous impairment recorded through the profit and loss in earlier periods. This amount has been restated in the half year ended 31 December 2018. This was correctly recognised in the financial statements for the year ended 30 June 2019.

These restatements have no impact on the carrying amount of bearer plants, total assets and net assets of the Group because bearer plants were revalued to their fair value at each reporting date. Accordingly, these restatements have no impact on total comprehensive income of the Group. Nevertheless, these restatements have resulted in the reclassification among components of total comprehensive income and components of net assets attributable to unit holders as presented below:

Consolidated Statement of Comprehensive Income (extract)

	As originally stated For the half year ended 31 December 2018 \$'000	Increase/ (Decrease)	Restated*	
			For the half year ended	31 December 2018 \$'000
			31 December	
Depreciation - bearer plants	-	(2,383)	(2,383)	(2,383)
Reversal of impairment of bearer plants	-	5,133	5,133	5,133
Net profit before income tax	19,230	2,750	21,980	
Income tax (expense)/benefit	(822)	21	(801)	
Net profit after income tax	18,408	2,771	21,179	
Revaluation increment - bearer plants	6,212	(2,771)	3,441	
Total comprehensive income	24,620	-	24,620	

Basic and diluted earnings per unit

Per stapled unit (cents)	5.78	0.86	6.64
Per unit of Rural Funds Trust (cents)	5.50	0.86	6.36
Per unit of RF Active (cents)	0.28	-	0.28

* Refer to Note A Plant and Equipment – bearer plants for details of restatement.

Rural Funds Group

Notes to the Financial Statements

For the half year ended 31 December 2019

Consolidated Statement of Financial Position (extract)

	As originally stated		Restated 31 December 2018 \$'000	As originally stated		Restated* 1 July 2018 \$'000
	31 December 2018	Increase/ (Decrease) \$'000		1 July 2018	Increase/ (Decrease) \$'000	
	\$'000	\$'000		\$'000	\$'000	
Plant and equipment - bearer plants	170,291	-	170,291	157,239	-	157,239
Total assets	802,789	-	802,789	673,808	-	673,808
Deferred tax liability	1,823	-	1,823	1,406	-	1,406
Total liabilities	270,376	-	270,376	295,073	-	295,073
Net assets	532,413	-	532,413	378,735	-	378,735
Retained earnings (unitholders of Rural Funds Trust)	119,515	(8,413)	111,102	108,494	(11,184)	97,310
Asset revaluation reserve	41,767	8,413	50,180	35,555	11,184	46,739
Total net assets attributable to unitholders	532,413	-	532,413	378,735	-	378,735

* Refer to Note A Plant and Equipment – bearer plants for details of restatement.

Rural Funds Group

Notes to the Financial Statements

For the half year ended 31 December 2019

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 period, the Group held property in agricultural sectors presented in six segments (30 June 2019: six segments) each holding and leasing agricultural property and equipment. In December 2019, the Group disposed its poultry assets and currently holds property in five segments. 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 \$'000	Cattle \$'000	Vineyards \$'000	Cotton \$'000	Macadamias \$'000	Poultry \$'000	Other \$'000	Total \$'000
31 December 2019								
Rental revenue	16,474	5,727	1,936	1,619	661	5,133	768	32,318
Interest received	-	-	-	-	-	26	19	45
Finance income	5	5,223	-	-	1	-	-	5,229
Total revenue	16,479	10,950	1,936	1,619	662	5,159	787	37,592
 Depreciation - bearer plants	 (1,815)	 -	 (483)	 -	 (107)	 -	 -	 (2,405)
 Loss on disposal	 -	 -	 -	 -	 -	 (516)	 -	 (516)
 Change in fair value through profit or loss	 -	 9,295	 -	 -	 44	 (1,250)	 -	 8,089
 Revaluation increment through other comprehensive income	 -	 -	 -	 -	 615	 -	 -	 615
 Total revaluation	 -	 9,295	 -	 -	 659	 (1,250)	 -	 8,704

Revaluation for the cattle segment relates to the external valuation of Natal aggregation in the half year, largely due to market movements and a result of the development capital expenditure which has improved the productivity of the property.

Rural Funds Group

Notes to the Financial Statements

For the half year ended 31 December 2019

B1 Segment information (continued)

Segment revenue and revaluation movements (continued)

	Almonds \$'000	Cattle \$'000	Vineyards \$'000	Cotton \$'000	Macadamias \$'000	Poultry \$'000	Other \$'000	Total \$'000
31 December 2018								
Rental revenue	14,594	3,864	1,889	1,438	666	5,355	94	27,900
Interest received	-	-	-	-	-	19	33	52
Finance income	-	2,748	-	-	-	-	-	2,748
Total revenue	14,594	6,612	1,889	1,438	666	5,374	127	30,700
 Depreciation - bearer plants	 (1,886)	 -	 (475)	 -	 (22)	 -	 -	 (2,383)
Reversal of impairment	4,729	-	404	-	-	-	-	5,133
Change in fair value through profit or loss*	7,369	(1,830)	-	(1,136)	-	(1,500)	-	2,903
Revaluation increment through other comprehensive income*	3,369	-	71	-	22	-	-	3,462
Total revaluation	15,467	(1,830)	475	(1,136)	22	(1,500)	-	11,498

*Refer to Note A Plant and Equipment – bearer plants for details of restatement

Rural Funds Group

Notes to the Financial Statements

For the half year ended 31 December 2019

B1 Segment information (continued)

Segment assets

	Almonds \$'000	Cattle \$'000	Vineyards \$'000	Cotton \$'000	Macadamias \$'000	Poultry \$'000	Unallocated \$'000	Total \$'000
31 December 2019								
Investment Property	141,478	205,008	38,002	47,977	6,984	-	-	439,449
Plant and equipment - bearer plants	145,936	-	20,238	-	6,977	-	-	173,151
Financial assets - property related	12,243	68,350	520	-	76	-	1,598	82,787
Intangible assets	77,417	1,599	500	3,672	951	-	34,236	118,375
Plant and equipment	2,767	1,323	-	1,140	1,585	-	923	7,738
Total property assets per statutory accounts	379,841	276,280	59,260	52,789	16,573	-	36,757	821,500
Revaluation of intangible assets per director's valuation	52,439	-	4,688	-	53	-	20,595	77,775
Total adjusted property assets at director's valuation	432,280	276,280	63,948	52,789	16,626	-	57,352	899,275
Other assets per statutory accounts	-	-	-	-	-	-	50,931	50,931
Total adjusted assets	432,280	276,280	63,948	52,789	16,626	-	108,283	950,206
 30 June 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	68,260
Intangible assets	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 intangible assets 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

For the half year ended 31 December 2019

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) at 31 December 2019 is \$130,361,000 (30 June 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 intangible assets. 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 31 December 2019 was \$208,136,000 (30 June 2019: \$208,042,000) representing the value of the water rights of \$77,775,000 (30 June 2019: \$76,769,000) above cost.

The following is a reconciliation of the book value at 31 December 2019 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	51,416	-	51,416
Total non-current assets	821,015	77,775	898,790
Total assets	872,431	77,775	950,206
Liabilities			
Total current liabilities	21,045	-	21,045
Total non-current liabilities	310,708	-	310,708
Total liabilities (excluding net assets attributable to unitholders)	331,753	-	331,753
Net assets attributable to unitholders	540,678	77,775	618,453
Net asset value per unit (\$)	1.61	0.23	1.84

* Refer to Note A Plant and Equipment – bearer plants for details of restatement.

Rural Funds Group

Notes to the Financial Statements

For the half year ended 31 December 2019

B1 Segment information (continued)

Total property assets by property

31 December 2019		31 Dec 19 Adjusted property value \$'000	30 June 19 Adjusted property value \$'000	Most Recent Valuation Date	Independent Encumbered valuation \$'000
Asset	Area				
Almonds					
Mooral (NSW)	808 ha	74,900	74,850	Mar 2019	73,000
Yilgah (NSW)	1,006 ha	110,208	111,248	Mar 2019	110,000
Tocabil (NSW)	600 ha	40,233	40,126	Mar 2019	40,000
Kerarbury (NSW)	2,500 ha	203,395	196,340	Sep 2018	171,900
Cattle					
Rewan (QLD)	17,479 ha	43,153	43,075	Jun 2019	43,075
Mutton Hole (QLD)	140,300 ha	8,931	8,635	Jun 2019	8,695
Oakland Park (QLD)	85,500 ha	5,550	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	16,241	15,827	Jun 2018	15,700
Cerberus (QLD)	8,280 ha	11,887	10,891	Aug 2018	10,200
Dyamberin (NSW)	1,728 ha	14,075	14,073	Jun 2018	14,005
JBS Feedlots Finance Leases (NSW/QLD)	97,000 hd	42,750	29,034	N/A	N/A
Woodburn (NSW)	1,063 ha	6,503	6,503	Jun 2018	6,500
Cobungra (VIC)	6,500 ha	35,000	35,000	Feb 2019	35,000
Vineyards					
Kleinig (SA)	206 ha	22,387	22,805	Jun 2019	22,700
Geier (SA)	243 ha	27,974	28,200	Jun 2019	28,200
Dohnt (SA)	30 ha	1,022	1,025	Jun 2019	1,025
Hahn (SA)	50 ha	5,118	4,850	Jun 2019	4,850
Mundy and Murphy (SA)	55 ha	4,064	3,800	Jun 2019	3,800
Rosebank (VIC)	82 ha	3,383	3,400	Jun 2019	3,400
Cotton					
Lynora Downs (QLD)	4,880 ha	33,554	33,055	Jun 2019	33,050
Mayneland (QLD)	2,942 ha	18,095	16,876	Aug 2018	16,700
Macadamias					
Swan Ridge (QLD)	130 ha	6,479	5,986	Oct 2019	6,400
Moore Park (QLD)	104 ha	3,988	4,914	Oct 2019	4,000
Bonmac (QLD)	25 ha	2,888	1,822	Oct 2019	2,900
Cygnet (QLD)	40 ha	1,610	-	-	-
River water (NSW)	8,754 ML	48,147	48,147	Sep 2018	48,147
Ground water (NSW)	1,910 ML	6,684	3,056	Dec 2017	3,056
Total property and water assets		861,919	824,578		
Cattle finance leases and other assets		27,073	25,531		
Plant and equipment		7,738	8,537		
Other receivables and equipment leases		2,545	953		
Total adjusted property assets		899,275	859,599		

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

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

For the half year ended 31 December 2019

B2 Adjusted funds from operations (AFFO)

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

	31 December 2019 \$'000	31 December 2018 \$'000
Continuing operations		
Revenue	32,433	25,326
Other income	1,405	1,604
Management fees	(4,710)	(3,454)
Property expenses	(841)	(732)
Finance costs	(5,041)	(3,918)
Other expenses	(2,393)	(2,113)
Straight-lining of rental revenue	(646)	-
Interest component of JBS feedlot finance lease	(346)	(93)
Income tax payable on public trading trust (RF Active)	(173)	(387)
Discontinued operations		
Revenue	5,159	5,374
Other income	4	-
Management fees	(334)	(424)
Property expenses	(28)	(27)
Finance costs	(626)	(737)
Other expenses	(150)	(99)
Income tax payable on public trading trust (RF Active)	(57)	-
Adjusted Funds From Operations (AFFO)	23,656	20,320
Change in fair value of interest rate swaps	178	(3,908)
Depreciation and impairments - other	(604)	(591)
Depreciation - bearer plants	(2,405)	(2,383)
(Impairment)/reversal of impairment of bearer plants	(499)	5,133
Change in fair value of investment property	9,948	4,332
Change in fair value of investment property - discontinued operations	(1,250)	(1,500)
Change in fair value of financial assets/liabilities	(24)	(34)
Impairment of intangible assets	(86)	105
Straight-lining of rental revenue	646	-
Interest component of JBS feedlot finance lease	346	93
Income tax expense	(287)	(414)
(Loss)/gain on sale of assets	(16)	26
Loss on disposal - one off transaction costs	(487)	-
Net profit after income tax	29,116	21,179
AFFO cents per unit	7.1	6.4

Rural Funds Group

Notes to the Financial Statements

For the half year ended 31 December 2019

B3 Revenue

	31 December 2019	31 December 2018
	\$'000	\$'000
Continuing operations		
Rental income	27,185	22,545
Finance income	5,229	2,748
Interest received	19	33
Total	32,433	25,326
Discontinued operations		
Rental income	5,133	5,355
Interest received	26	19
Total	5,159	5,374

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 an accruals basis. The respective leased assets are included in the Consolidated Statement of Financial Position based on that nature.

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

B4 Distributions

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

	Cents per unit	Total
		\$
Distribution declared 3 June 2019, paid 31 July 2019	2.6075	8,715,923
Distribution declared 2 September 2019, paid 31 October 2019	2.7118	9,082,534
Distribution declared 2 December 2019, paid 31 January 2020	2.7118	9,107,837

Rural Funds Group

Notes to the Financial Statements

For the half year ended 31 December 2019

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, Plant and equipment – bearer plants, Intangible assets and Financial assets. These asset items generate rental and other property income.

C1 RFF property assets

		31 December 2019	30 June 2019
		\$'000	\$'000
Investment property	C2	439,449	489,327
Plant and equipment - bearer plants	C3	173,151	172,915
Financial assets - property related	C4	82,787	68,260
Intangible assets	C5	118,375	118,531
Plant and equipment - other	C6	7,738	8,537
Total		821,500	857,570

Rental income and fair value movements from RFF property assets

	31 December 2019	31 December 2018
	\$'000	\$'000
Continuing operations		
Rental income from property assets	32,414	25,293
Change in fair value of investment property	9,948	4,332
Revaluation increment/(decrement) - bearer plants	116	8,595
Discontinued operations		
Rental income from property assets	5,133	5,355
Change in fair value of investment property	(1,250)	(1,500)
Loss on disposal	(516)	-

Key changes to the property portfolio during the period:

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 19 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 \$0.9m on the completion date 18 December 2019.

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

Rural Funds Group

Notes to the Financial Statements

For the half year ended 31 December 2019

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 for the half year ended 31 December 2019:

Cattle properties	Natal Aggregation
Macadamia properties	Swan Ridge, Moore Park, Bonmac

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 remaining properties as there have been no material changes to the industry 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 intangible assets.

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 intangible assets. The allocation approach 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 intangible assets, 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 approach may change to reflect the best estimate of fair value attributable to each component at reporting date.

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 intangible assets. The independent valuation reports contain information with which judgement is applied to allocate values to investment property, bearer plants and intangible assets.

Rural Funds Group

Notes to the Financial Statements

For the half year ended 31 December 2019

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:

Description	Fair value at		Primary valuation technique	Allocation methodology	Unobservable inputs*	Range of inputs	
	31 December 2019 \$'000	30 June 2019 \$'000				31 December 2019 %	30 June 2019 %
Almond orchard property	287,414	281,242	Discounted cash flow	Rental base Proportionate	Discount rate (%) Terminal Capitalisation rate (%)	8.00 - 9.00 8.50 - 15.00	8.00 - 9.00 8.50 - 15.00
Poultry property and infrastructure	-	71,096	N/A	N/A	Capitalisation rate (%)	N/A	11.23 - 18.95
Vineyard property and infrastructure	58,240	58,372	Discounted cash flow Income capitalisation	Component based	Discount rate (%) Capitalisation rate (%)	8.25 - 8.75 7.50 - 8.00	8.25 - 8.75 7.50 - 8.00
Cotton property and infrastructure	47,977	46,260	Summation assessment	Rental base	\$ per average irrigated hectare	\$18,000	\$18,000
Cattle property and infrastructure	205,008	193,447	Summation assessment Productive unit	Component based	\$ per adult equivalent carrying capacity	\$650 - \$4,550	\$900 - \$5,550
Macadamia orchard property	13,961	11,825	Discounted cash flow	Rental base Proportionate	Discount rate (%)	7.25 - 8.50	7.00
Total	612,600	662,242					

* 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.

Rural Funds Group

Notes to the Financial Statements

For the half year ended 31 December 2019

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.
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.

Allocation approach

The component allocation approach applied is assessed on each external valuation to ensure that the allocation approach is consistent with the nature and characteristics of the property including any lease encumbrances. The allocation approach may change to reflect the best estimate of fair value attributable to each component at reporting date.

The following allocation approaches 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.
Proportionate	Applied for properties where leases include rental reviews. 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. The aim of this allocation methodology is to provide an estimate of the fair value of the components of the properties on an encumbered basis. As part of this assessment of fair value, there may be some correlation between each of the components which will be assessed. Under this approach, if the unencumbered value of water was to increase as a proportion of the overall unencumbered value of the property, the result would be a decrease in the value allocated to bearer plants and investment property on an encumbered basis.
Component based	The encumbered value is allocated based on information in the valuation report which enables the allocation by components on an encumbered basis.

Rural Funds Group

Notes to the Financial Statements

For the half year ended 31 December 2019

C1 RFF property assets (continued)

Valuations (continued)

Unobservable inputs

Unobservable inputs are assumptions based 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

31 December 2019	Almond property	Cattle property	Vineyard property	Cotton property	Macadamia property	Poultry property	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening net book amount	136,016	193,447	37,651	46,260	4,857	71,096	489,327
Acquisitions	-	-	-	-	1,450	-	1,450
Additions	5,462	2,342	351	1,717	48	285	10,205
Disposals	-	-	-	-	-	(70,131)	(70,131)
Amortisation of lease incentives	-	(100)	-	-	-	-	(100)
Fair value adjustment	-	9,319	-	-	629	(1,250)	8,698
Closing net book amount	141,478	205,008	38,002	47,977	6,984	-	439,449
30 June 2019	Almond property	Cattle property	Vineyard property	Cotton property	Macadamia property	Poultry property	Total
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
Disposals	-	-	-	-	-	-	-
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

For the half year ended 31 December 2019

C3 Plant and equipment – bearer plants

31 December 2019	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	2,525	-	-	2,525
Disposals	-	-	-	-
Depreciation and impairment	(1,815)	(483)	(107)	(2,405)
Fair value adjustment - profit and loss	-	-	(499)	(499)
Fair value adjustment - other comprehensive income	-	-	615	615
Closing net book amount	145,936	20,238	6,977	173,151
30 June 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
Disposals	-	-	-	-
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 equity 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 and based on the maturity profile. The useful lives used for each class of depreciable asset are shown below:

Fixed asset class:	Useful life:
Almond bearer plants	30 years
Vineyard bearer plants	40 years
Macadamia bearer plants	45 years

At the end of each annual reporting period, the useful life 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

For the half year ended 31 December 2019

C3 Plant and equipment – bearer plants (continued)

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

	31 December 2019 \$'000	30 June 2019 \$'000
Cost	146,169	145,701
Accumulated depreciation	(12,962)	(11,328)
Accumulated impairment	(2,902)	(2,355)
Net book amount	130,305	132,018

C4 Financial assets – property related

	31 December 2019 \$'000	30 June 2019 \$'000
Non-current		
Property related		
Investment - BIL	520	520
Investment - CICL	11,466	12,222
Finance Lease - Breeders	14,407	14,431
Finance Lease - Feedlots	42,749	29,034
Finance Lease - Equipment	947	-
Cattle Facility - Katena Pty Ltd ATF Schafferius Family Trust	1,100	1,100
Term Loan - DA & JF Camm Pty Limited	10,000	10,000
Other receivables	1,598	953
Total	82,787	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 in the form 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 in the form 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.

Finance Lease – Equipment is in the form of agricultural plant and equipment leased to RFM Almond Fund, 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 balance drawn as at 31 December 2019 is \$1,100,000 and is due to be repaid in September 2028. Its fair value approximates carrying amounts.

A \$10,000,000 secured loan with a term of ten years was extended to DA & JF Camm Pty Limited as part of the lease of the Natal aggregation due in December 2027. Its fair value approximates carrying amounts.

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.

Finance leases

Finance leases are measured at amortised cost. These represent leases of fixed assets 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.

Rural Funds Group

Notes to the Financial Statements

For the half year ended 31 December 2019

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.

31 December 2019	Almonds \$'000	Cattle \$'000	Vineyards \$'000	Cotton \$'000	Macadamias \$'000	Poultry infrastructure \$'000	Other \$'000	Asset held for sale \$'000	Total \$'000
Non-current									
Opening net book amount	76,660	1,599	500	3,672	815	1,049	34,236	-	118,531
Additions	757	-	-	-	222	-	-	-	979
Transfers	-	-	-	-	-	-	(2,672)	2,672	-
Disposals	-	-	-	-	-	(1,049)	-	-	(1,049)
Impairment	-	-	-	-	(86)	-	-	-	(86)
Reversal of impairment	-	-	-	-	-	-	-	-	-
Closing net book amount	77,417	1,599	500	3,672	951	-	31,564	2,672	118,375
Cost	78,172	1,599	500	3,672	1,037	-	31,564	2,672	119,216
Accumulated amortisation and impairment	(755)	-	-	-	(86)	-	-	-	(841)
Net book amount	77,417	1,599	500	3,672	951	-	31,564	2,672	118,375
30 June 2019	Almonds \$'000	Cattle \$'000	Vineyards \$'000	Cotton \$'000	Macadamias \$'000	Poultry infrastructure \$'000	Other \$'000	Asset held for sale \$'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)	-	-
Disposals	-	-	-	-	-	-	-	-	-
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

For the half year ended 31 December 2019

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

31 December 2019	Plant and equipment	Total
	\$'000	\$'000
Opening net book amount	8,537	8,537
Additions	617	617
Disposals	(812)	(812)
Depreciation and impairment	(604)	(604)
Closing net book amount	7,738	7,738
Cost	12,291	12,291
Accumulated depreciation	(4,553)	(4,553)
Net book amount	7,738	7,738

30 June 2019	Plant and equipment	Total
	\$'000	\$'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.

Rural Funds Group

Notes to the Financial Statements

For the half year ended 31 December 2019

C6 Plant and equipment – other (continued)

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	3-16 years
Motor vehicles	5-16 years

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 Capital commitments

Significant capital expenditure largely relates to the acquisitions of Petro, High Hill and Willara, Wattlebank and Swan Ridge South. Other capital expenditure across all properties largely relates to cattle property developments, almond property improvements and the Cygnet development. These commitments are contracted for but not recognised as liabilities:

	31 December 2019 \$'000	30 June 2019 \$'000
Bearer plants	890	2,409
Investment property	41,625	12,805
Intangible assets	210	1,959
Total	42,725	17,173

Other commitments

Other significant commitments contracted for but not recognised as a liability relate to the provision of the \$5.0 million cattle financing facility to DA & JF Camm Pty Limited, the lessee of the Natal aggregation. The facility was not drawn during the half year ended 31 December 2019.

Rural Funds Group

Notes to the Financial Statements

For the half year ended 31 December 2019

D. 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 target ratio of less than 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.

D1 Interest bearing liabilities

	31 December 2019 \$'000	30 June 2019 \$'000
Current		
Equipment loans (ANZ)	3,886	3,793
J&F Guarantee - Borrowing loss provision	39	39
Total	3,925	3,832
Non-current		
Borrowings (ANZ)	189,440	186,525
Borrowings (Rabobank)	88,304	104,920
Total	277,744	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.

Credit loss allowance

The J&F Guarantee is a \$75.0 million limited guarantee provided to J&F Australia Pty Ltd (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 as noted in B3, paid on a monthly basis.

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. The credit loss allowance is recognised at fair value through profit or loss.

As part of this transaction, the Group has contracted to purchase five feedlots from JBS Australia Pty Limited. Four of these feedlots have settled as at 31 December 2019. 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.

Borrowings

At 31 December 2019 the core debt facility available to the Group was \$335,000,000 (30 June 2019: \$335,000,000), split into two tranches, with a \$225,000,000 tranche expiring in December 2021 and a \$110,000,000 tranche expiring in December 2023.

As at 31 December 2019 RFF had active interest rate swaps totaling 69.5% (30 June 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

For the half year ended 31 December 2019

D1 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 half year ended 31 December 2019:

- 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.

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

Loan amounts are provided at the Bankers' floating rate, plus a margin.

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 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.

For bank reporting purposes, these assets are valued at market value. Refer to section B1 for Directors' valuation of water rights and entitlements.

D2 Issued units

	31 December		31 December	
	2019	\$'000	2018	\$'000
Units on issue at the beginning of the period	334,263,593	362,853	255,630,515	233,666
Units issued during the period	1,595,881	3,266	77,507,263	146,421
Distributions to unitholders	-	(6,848)	-	(10,873)
Units on issue	335,859,474	359,271	333,137,778	369,214

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.

Ordinary units are classified as liabilities in accordance with AASB 132 *Financial Instruments: Presentation*. Incremental costs directly attributable to the issue of ordinary units and unit options which vest immediately are recognised as a deduction from net assets attributable to unitholders, net of any tax effects. There is no equity relating to the group.

Rural Funds Group

Notes to the Financial Statements

For the half year ended 31 December 2019

E. OTHER INFORMATION

E1 Financial assets - other (non-property related)

	31 December 2019 \$'000	30 June 2019 \$'000
Investment - RFM Poultry	81	81
Investment - Macadamia Processing Co	102	102
Investment - Almondco Australia Limited	2,004	2,004
Total	2,187	2,187

The Group's investment in RFM Poultry is held at fair value.

The Group's investments in Macadamia Processing Co Limited and Almondco Australia Limited is held at fair value.

E2 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:

	31 December 2019 \$'000	31 December 2018 \$'000
Management fee	2,882	2,216
Asset management fee	2,162	1,662
Total management fees	5,044	3,878
Expenses reimbursed to RFM	2,406	2,030
Expenses due to Murdock Viticulture	23	-
Distribution paid/payable to RFM	951	846
Total amount paid to RFM and related entities	8,424	6,754
Rental income received from RFM Almond Fund	206	-
Rental income received from RFM Almond Fund 2006	704	772
Rental income received from RFM Almond Fund 2007	260	285
Rental income received from RFM Almond Fund 2008	735	806
Rental income received from RFM	547	504
Rental income received from RFM Farming Pty Limited	888	760
Rental income received from Cattle JV	882	2,100
Rental income received from Cotton JV	1,147	1,036
Rental income received from 2007 Macgrove Project	539	555
Finance income from Cattle JV	599	619
Finance income from J&F Australia Pty Limited	2,713	1,479
Rental income received from RFM Poultry	5,158	5,404
Distribution received/receivable from RFM Poultry	-	6
Interest income from Cattle JV	44	3
Total amounts received from RFM and related entities	14,422	14,329

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

Rural Funds Group

Notes to the Financial Statements

For the half year ended 31 December 2019

E2 Related party transactions (continued)

The terms and nature of the historical transactions between the Group and related parties have not changed during the half year ended 31 December 2019. Transactions entered into between related parties during the period have been reviewed.

The key movements during the period:

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 half year ended 31 December 2019.

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 \$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)

	31 December 2019 \$'000	30 June 2019 \$'000
RFM Farming Pty Limited	28	213
RFM Macadamias Pty Limited	44	37
Cattle JV Pty Limited	15,300	15,526
2007 Macgrove Project	155	-
J&F Australia Pty Limited	545	-
RFM Almond Fund	1,004	-
RFM Poultry	-	7
Total	17,076	15,783

Creditors

	31 December 2019 \$'000	30 June 2019 \$'000
RFM	490	364
RFM Farming Pty Limited	37	12
RFM Almond Fund	26	-
Total	553	376

Custodian fees

	31 December 2019 \$'000	31 December 2018 \$'000
Australian Executor Trustees Limited	144	114
Total	144	114

Rural Funds Group

Notes to the Financial Statements

For the half year ended 31 December 2019

E2 Related party transactions (continued)

Financial Guarantee

The Group provides a \$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 grained business.

Entities with influence over the Group

	31 December 2019		30 June 2019	
	Units	%	Units	%
Rural Funds Management	11,843,659	3.53	11,843,659	3.54

Interest in related parties

	31 December 2019		30 June 2019	
	Units	%	Units	%
RFM Poultry	108,615	1.58	108,615	1.58

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.

E3 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 period as a discontinued operation. Financial information relating to the discontinued operation for the period is set out below:

	31 December 2019	31 December 2018
	\$'000	\$'000
Revenue	5,159	5,374
Other income	4	-
Management fees	(334)	(424)
Property expenses	(28)	(27)
Finance costs	(626)	(737)
Other expenses	(150)	(99)
Depreciation	(39)	-
Change in fair value of investment property	(1,250)	(1,500)
Loss on disposal	(29)	-
Loss on disposal - one off transaction costs	(487)	-
Net profit before income tax	2,220	2,587
Income tax expense	(57)	-
Profit from discontinued operation	2,163	2,587
	Cents	Cents
Basic and diluted earnings per unit from discontinued operations	0.65	0.81

Rural Funds Group

Notes to the Financial Statements

For the half year ended 31 December 2019

E3 Discontinued operations (continued)

	31 December 2019 \$'000	31 December 2018 \$'000
Net cash inflow from operating activities	3,943	4,025
Net cash inflow from investing activities (includes an inflow of \$71,913,000 from the sale of the segment)	71,628	-
Net cash (outflow) from financing activities	(3,625)	(3,800)
Net increase in cash generated by the subsidiary	71,946	225

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	(487)
Loss on sale before income tax, net of transaction costs	(516)
Income tax expense	(57)
Loss on sale after income tax	(573)

E4 Other accounting policies

New accounting standards and interpretations

Standard Name	Effective date for the Group	Requirements	Impact
AASB 16 Leases	1-Jul-19	Introduces a single lease accounting model and requires lessees to recognise on the balance sheet an asset (right of use) and a corresponding liability (lease commitment) for leases with a term of more than 12 months.	There is no impact on reported financial position or performance expected for the Group as it is a lessor in nature.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting period.

Rural Funds Group

Notes to the Financial Statements

For the half year ended 31 December 2019

E4 Events after the reporting date

On 31 January 2020, the Group completed the purchase of Wattlebank, a 320 hectare property located in central Queensland. The purchase price of \$1.8 million including transaction costs delivers 1,766ML of water entitlements.

On 31 January 2020, the Group exchanged on the purchase of a property adjoining Swan Ridge, a 123 hectare property located in the Bundaberg region. The contracted purchase price was \$1.6 million and included 104ML of water entitlements. The property is expected to be developed into a macadamia orchard.

On 5 February 2020, the Group completed the purchase of three cattle properties in Western Australia, Petro, High Hill and Willara, totaling 6,191 hectares, for \$22.6 million including transaction costs and leased to a subsidiary of Stone Axe Pastoral Company Pty Ltd.

On 28 February 2020, unleased groundwater assets totaling 1,910 ML was disposed of by the Group for \$6.7 million.

On 2 March 2020, a unitholder vote was announced to be held at in April 2020 to increase 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 Group receives a fee from J&F on the guarantee provided.

No other matter or circumstance has arisen since the end of the half 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.

Rural Funds Group

Directors' Declaration

31 December 2019

In the Directors of the Responsible Entity's opinion:

- 1 The financial statements and notes of Rural Funds Group set out on pages 10 to 43 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 31 December 2019 and of its performance for the half 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.

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



David Bryant
Director

2 March 2020

Independent auditor's review report to the stapled security holders of Rural Funds Group

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Rural Funds Trust (the Registered Scheme) and the entities it controlled during the half-year (together Rural Funds Group, or the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, consolidated statement of changes in net assets attributable to unitholders and consolidated statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

Directors of the Responsible Entity's responsibility for the half-year financial report

The directors of the Responsible Entity of the Registered Scheme are responsible for the preparation of the half-year 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 determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Rural Funds Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Rural Funds Group is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



PricewaterhouseCoopers



Rod Dring
Partner

Sydney
2 March 2020

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Responsible Entity

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