

Rural Funds Group (RFF)

Financial Statements

For the Half Year Ended 31 December 2020

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 2020

Rural Funds Group (RFF or the Group) comprises the stapled units in two Trusts, Rural Funds Trust (RFT) (ARSN 112 951 578) and RF Active (RFA) (ARSN 168 740 805) (collectively, the Trusts). The Directors of Rural Funds Management Limited (RFM) (ACN 077 492 838, AFSL 226701), the Responsible Entity of Rural Funds Group present their report on the Group for the half year ended 31 December 2020.

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

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

Directors

The following persons held office as Directors of the Responsible Entity during the 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, vineyards, cattle properties, cropping properties, agricultural plant and equipment, cattle and water rights.

The following activities of the Group changed during the half year:

In November 2020, the Group settled on the Maryborough acquisition, consisting of 5,258 hectares of sugar cane farms and 7,740 megalitres of water entitlements located in Maryborough, Queensland and associated plant and equipment for approximately \$83.7m including transaction costs. The farms will progressively be converted to approximately 2,200 hectares of macadamia orchards with a substantial portion of the remaining area able to be used for cropping.

In November 2020, the Group purchased the Riverton property located in the Fitzroy region in Queensland for \$6.5m including transaction costs with potential for development into macadamia orchards.

In December 2020, the Group purchased the Stoneleigh property located in the Fitzroy region in Queensland for \$6.6m including transaction costs with potential for development into macadamia orchards.

In December 2020, the Group completed the sale of the Moorall almond orchard and associated plant and equipment for a contracted price of approximately \$98.0m excluding transaction costs and adjustments. A remaining portion of the land contracted for \$4.1m as part of the transaction is expected to settle in the second half of the financial year.

In December 2020, the Group purchased an additional 1,655 hectares of land as part of the Homehill property, located in the Fitzroy region in Queensland for \$4.3m including transaction costs.

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

Operating results

The consolidated net profit after income tax of the Group for the half year ended 31 December 2020 amounted to \$58,425,000 (31 December 2019: \$29,116,000). The consolidated total comprehensive income of the Group for the half year ended 31 December 2020 amounted to \$58,425,000 (31 December 2019: \$29,731,000).

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 \$22,170,000 (31 December 2019: \$23,656,000), representing adjusted funds from operations (AFFO).

Rural Funds Group

Directors' Report

31 December 2020

Adjusted funds from operations (AFFO)

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

	31 December 2020 \$'000	31 December 2019 \$'000
Net profit before income tax from continuing operations	59,304	27,413
Change in fair value of interest rate swaps	(2,939)	(178)
Depreciation and impairments - other	268	565
Depreciation - bearer plants	2,019	2,405
Impairment of bearer plants	-	499
Change in fair value of investment property	(5,832)	(9,948)
Impairment of property - owner occupied	1,651	-
Change in fair value of financial assets/liabilities	24	24
Impairment of intangible assets	467	86
Straight-lining of rental revenue	521	(646)
Interest component of JBS feedlot finance lease	(538)	(346)
Income tax payable (RF Active)	(237)	(173)
Gain on sale of assets	(32,538)	(13)
Net profit before income tax from discontinued operations	-	2,220
Depreciation	-	39
Change in fair value of investment property	-	1,250
Income tax payable (RF Active)	-	(57)
Loss on sale	-	29
One off transaction costs on disposal	-	487
AFFO	22,170	23,656
AFFO cents per unit	6.6	7.1

Financial position

The net assets of the consolidated Group have increased to \$599,814,000 at 31 December 2020 from \$557,966,000 at 30 June 2020. At 31 December 2020, the Group had total assets of \$982,580,000 (30 June 2020: \$914,920,000).

At 31 December 2020, the Group held total water entitlements (including investments in Barossa Infrastructure Limited (BIL) and Coleambally Irrigation Co-operative Limited (CICL)) at a book value of \$125,114,000 (30 June 2020: \$129,246,000). 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 2020 was \$206,525,000 (30 June 2020: \$226,945,000). The value of water entitlements is illustrated in the table below:

	31 December 2020 \$'000	30 June 2020 \$'000
Intangible assets (water entitlements)	113,130	117,262
Investment in CICL	11,464	11,464
Investment in BIL	520	520
Total book value of water entitlements	125,114	129,246
Revaluation of intangible assets per valuation	81,411	97,699
Adjusted total water entitlements	206,525	226,945

Rural Funds Group

Directors' Report

31 December 2020

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 2020 \$'000	30 June 2020 \$'000
Net assets per Consolidated Statement of Financial Position	599,814	557,966
Revaluation of intangible assets per valuation	81,411	97,699
Adjusted net assets	681,225	655,665
Adjusted NAV per unit	2.01	1.94

Property leasing

At 31 December 2020 the Group held 67 properties as follows:

- 3 almond orchards (4,139 planted hectares);
- 7 vineyards (666 planted hectares);
- 3 macadamia orchards (261 planted hectares);
- 3 macadamia orchards under development (118 hectares);
- 2 properties with potential for areas to be developed into macadamia orchards (2,308 hectares);
- 22 cattle properties made up of 17 breeding, backgrounding and finishing properties (672,665 hectares) and 5 cattle feedlots with combined capacity of 150,000 head;
- 2 cropping properties (7,822 hectares).
- Maryborough, a total of 25 properties, with areas under development into macadamia orchards, leased out and owner operated (total 5,258 hectares).

During the half year ended 31 December 2020, the properties held by the Group recorded an increment in the fair value of investment properties of \$5,832,000 (31 December 2019: \$8,698,000), an increment in bearer plants revaluation of nil (31 December 2019: \$116,000), an impairment of intangibles of \$467,000 (31 December 2019: \$86,000) and an impairment in property – owner occupied of \$1,651,000 (31 December 2019: nil).

Almond orchards

The three fully established almond orchard properties (including water entitlements) are located in Hillston, NSW and Darlington Point, NSW and are leased to tenants who make regular rental payments. These encompass a planted area of 4,139 hectares (30 June 2020: 4,947 hectares):

- Yilgah 1,006 planted hectares (30 June 2020: 1,006 hectares);
- Tocabil 603 planted hectares (30 June 2020: 603 hectares);
- Kerarbury 2,530 planted hectares (30 June 2020: 2,530 hectares).

These properties are under lease to the following tenants:

- Select Harvests Limited (SHV) 1,006 planted hectares (30 June 2020: 1,221 hectares);
- Olam Orchards Australia Pty Limited (Olam) 3,133 planted hectares (30 June 2020: 3,133 hectares);

For its almond orchards the Group owns water entitlements of 55,525ML (30 June 2020: 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 2020: 21,430ML) of water delivery entitlements that provide access to water delivery through CICL, with a low annual allocation expected to be provided.

Vineyards

The vineyard properties held by the Group include seven vineyards, with six located in South Australia, in the Barossa Valley, Adelaide Hills and Coonawarra regions, and one located in the Grampians in Victoria. For its vineyards, the Group owns 936ML of water entitlements (30 June 2020: 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.

Rural Funds Group

Directors' Report

31 December 2020

Property leasing (continued)

Macadamia orchards

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

- 2007 Macgrove Project (M07) 234 hectares (30 June 2020: 234 hectares);
- RFM Farming Pty Limited 27 hectares, novated from Rural Funds Management Limited (RFM) (30 June 2020: 27 hectares).

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

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

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

The Riverton and Stoneleigh properties, totaling 2,308 hectares, located in the Fitzroy region in Queensland are currently unleased which have been identified as potential development sites for macadamia orchards.

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 2020: 17,479 hectares);
- Mutton Hole and Oakland Park located in far north Queensland 225,800 hectares (30 June 2020: 225,800 hectares);
- Natal aggregation located near Charters Towers in north Queensland 390,600 hectares (30 June 2020: 390,600 hectares);
- Comanche located in central Queensland 7,600 hectares (30 June 2020: 7,600 hectares);
- Cerberus located north west of Rockhampton in central Queensland 8,280 hectares (30 June 2020: 8,280 hectares);
- Dyamberin located in the New England region of New South Wales 1,728 hectares (30 June 2020: 1,728 hectares);
- Woodburn located in the New England region of New South Wales 1,063 hectares (30 June 2020: 1,063 hectares);
- Cobungra located in the East Gippsland region of Victoria 6,500 hectares (30 June 2020: 6,500 hectares);
- Petro, High Hill and Willara located in Western Australia 6,196 hectares (30 June 2020: 6,196);
- Wattlebank located north west of Rockhampton in central Queensland 321 hectares (30 June 2020: 321);
- Yarra located south west of Rockhampton in central Queensland 2,173 hectares (30 June 2020: 2,173);
- Homehill located north west of Rockhampton in central Queensland 4,925 hectares (30 June 2020: 3,270); and
- Prime City, Mungindi, Caroon, Beef City and Riverina, 5 cattle feedlots with a combined capacity of 150,000 head (30 June 2020: 150,000 head).

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

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

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

The remaining properties are not currently leased as at 31 December 2020.

Rural Funds Group

Directors' Report

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Property leasing (continued)

Cattle property (continued)

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

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

Cropping property

Cropping properties held by the group comprise of:

- Lynora Downs, a 4,880 hectare (30 June 2020: 4,880 hectare) cropping property located near Emerald, QLD is leased to Cotton JV Pty Limited (Cotton JV), 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 2020: 2,942 hectare) cropping property located 25 km north of Lynora Downs in central Queensland, is leased to RFM Farming Pty Limited (a wholly owned subsidiary of RFM) until 30 June 2021. A long-term lessee is being sought.

Maryborough

The Maryborough properties located in Queensland, comprise of 5,258 hectares and 7,740 ML of water entitlements, with areas having potential to be developed into approximately 2,200 hectares of macadamia orchards. While in the development phase, parts of the property will be:

- Under development into macadamia orchards
- Leased out to different parties for cropping operations
- Owner occupied and carrying out various cropping operations

Other activities

The Group provides a \$82,500,000 (30 June 2020: \$82,500,000) limited guarantee to J&F Australia Pty Ltd (J&F). The guarantee is currently used to support \$82,500,000 of J&F's debt facility which is used for cattle purchases, feed and other costs associated with finishing the cattle on the feedlots, enabling J&F to supply cattle to JBS Australia Pty Limited (JBS) for its grain fed business. The guarantee earns a return for RFF equivalent to an equity rate of return which is calculated on the amount of the guarantee during the period.

Breeder assets under finance lease with a net book value of \$17,802,000 (30 June 2020: \$14,383,000) are leased to Cattle JV Pty Limited.

Agricultural plant and equipment with a net book value of \$8,022,000 (30 June 2020: \$6,969,000) is owned by the Group and leased to M07, Cotton JV, Cattle JV and RFM Farming and used for the Group's cropping operations and developments. Finance leases of agricultural plant and equipment with a net book value of \$1,010,000 (30 June 2020: \$978,000) is owned by the Group and are leased to M07, Cotton JV, Cattle JV and RFM Farming.

Banking facilities

At 31 December 2020 the core debt facility available to the Group was \$380,000,000 (30 June 2020: \$335,000,000), with a drawn balance of \$319,243,000 (30 June 2020: \$297,248,000). The facility is split into two tranches with a \$270,000,000 tranche expiring in November 2022 and a \$110,000,000 tranche expiring in November 2023. At 31 December 2020, RFF had active interest swaps totaling 57.3% (30 June 2020: 61.6%) of the drawn balance to manage interest rate risk.

Distributions

	Cents per unit	Total \$
Distribution declared 2 June 2020, paid 31 July 2020	2.7118	9,158,113
Distribution paid 30 October 2020	2.8203	9,542,697
Distribution declared 2 December 2020, paid 29 January 2021	2.8203	9,558,150

Earnings per unit

Net profit after income tax for the half year (\$'000)	58,425
Weighted average number of units on issue during the half year	338,430,646
Basic and diluted earnings per unit (total) (cents)	17.26

Rural Funds Group

Directors' Report

31 December 2020

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 half year, expressed as a percentage.

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

The ICR for the Group for the half year ended 31 December 2020 is 1.95% (31 December 2019: 2.02%).

Matters subsequent to the end of the half year

In January 2021, the J&F guarantee was increased from \$82.5 million to \$99.9 million to facilitate an increase in J&F's supply of cattle to JBS as part of its grain fed business. The guarantee earns a return for RFF equivalent to an equity rate of return which is calculated on the amount of the guarantee during the period.

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 agricultural property and water entitlements. Management is continually looking for growth opportunities in agricultural and related industries.

Environmental regulation

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

Climate change risk

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

COVID-19 outbreak

The outbreak of Coronavirus Disease 2019 was ongoing during the half year ended 31 December 2020. There have been unprecedented measures put in place by the Australian Government, as well as governments across the globe, to contain the coronavirus which has led to significant uncertainty and has had a significant impact on the Australian and global economies. Following the outbreak, the Group continues to operate with no significant impacts to its ongoing operation to date. RFM will continue to monitor the potential impacts of the outbreak.

Units on issue

338,905,436 units in Rural Funds Trust were on issue at 31 December 2020 (30 June 2020: 337,713,420). During the period 1,192,016 units (30 June 2020: 3,449,827) were issued by the Trust and nil (30 June 2020: nil) were redeemed.

Indemnity of Responsible Entity and Custodian

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

Rural Funds Group

Directors' Report

31 December 2020

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.

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 2020 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.

A handwritten signature in black ink, appearing to read 'David Bryant', is written over a faint, light-colored circular stamp or watermark.

David Bryant
Director

18 February 2021



Auditor's Independence Declaration

As lead auditor for the review of Rural Funds Group for the half-year ended 31 December 2020, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the 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.

A handwritten signature in black ink, appearing to read 'Rod Dring', with a large, stylized flourish at the end.

Rod Dring
Partner
PricewaterhouseCoopers

Sydney
18 February 2021

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Liability limited by a scheme approved under Professional Standards Legislation.

Rural Funds Group

Consolidated Statement of Comprehensive Income

For the half year ended 31 December 2020

		31 December 2020 \$'000	31 December 2019 \$'000
Continuing operations			
Revenue	B3	33,916	32,433
Other income	B3	2,859	1,405
Management fees		(5,424)	(4,710)
Property expenses		(1,156)	(841)
Finance costs		(5,280)	(5,041)
Other expenses		(2,491)	(2,393)
Gain on sale of assets		32,538	13
Depreciation and impairments - other		(268)	(565)
Depreciation - bearer plants	C3	(2,019)	(2,405)
Impairment of bearer plants	C3	-	(499)
Change in fair value of investment property	C2	5,832	9,948
Impairment of property - owner occupied	C6	(1,651)	-
Change in fair value of interest rate swaps		2,939	178
Impairment of intangible assets	C5	(467)	(86)
Change in fair value of financial assets/liabilities		(24)	(24)
Net profit before income tax from continuing operations		59,304	27,413
Income tax expense		(879)	(460)
Net profit after income tax from continuing operations		58,425	26,953
Net profit before income tax from discontinued operations		-	2,220
Income tax expense on discontinued operations		-	(57)
Net profit after income tax from discontinued operations		-	2,163
Net profit after income tax		58,425	29,116
Other comprehensive income:			
<i>Items that will not be reclassified to profit or loss</i>			
Revaluation increment - Bearer plants	C3	-	615
Income tax relating to these items		-	-
Other comprehensive income for the half year, net of tax		-	615
Total comprehensive income attributable to unitholders		58,425	29,731

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Comprehensive Income

For the half year ended 31 December 2020

	31 December 2020	31 December 2019
Note	\$'000	\$'000
Total net profit after income tax for the half year attributable to unitholders arising from:		
Rural Funds Trust	57,144	28,540
RF Active (non-controlling interest)	1,281	576
	58,425	29,116
Total comprehensive income for the half year attributable to unitholders arising from:		
Rural Funds Trust	57,144	29,155
RF Active (non-controlling interest)	1,281	576
	58,425	29,731
Total comprehensive income for the half year attributable to unitholders arising from:		
Continuing operations	58,425	27,568
Discontinued operations	-	2,163
	58,425	29,731
Earnings per unit		
Basic and diluted earnings per unit from continuing operations:		
Per stapled unit (cents)	17.26	8.04
Per unit of Rural Funds Trust (cents)	16.88	7.87
Per unit of RF Active (cents)	0.38	0.17
Basic and diluted earnings per unit attributable to the unitholders:		
Per stapled unit (cents)	17.26	8.69
Per unit of Rural Funds Trust (cents)	16.88	8.52
Per unit of RF Active (cents)	0.38	0.17

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Financial Position

As at 31 December 2020

		31 December 2020 \$'000	30 June 2020 \$'000
	Note		
ASSETS			
Current assets			
Cash and cash equivalents		10,924	5,085
Trade and other receivables		4,439	5,446
Biological assets	E2	822	-
Assets held for sale	C8	4,111	63,358
Other current assets		3,010	2,688
Total current assets		23,306	76,577
Non-current assets			
Investment property	C2	551,242	474,838
Plant and equipment - bearer plants	C3	153,116	153,528
Financial assets	C4, E1	105,526	100,225
Intangible assets	C5	113,130	106,551
Property - owner occupied	C6	28,238	-
Plant and equipment - other	C7	8,022	3,201
Total non-current assets		959,274	838,343
Total assets		982,580	914,920
LIABILITIES			
Current liabilities			
Trade and other payables		10,234	3,502
Interest bearing liabilities	D1	2,612	3,814
Income tax payable		1,606	1,533
Derivative financial liabilities		3,785	3,666
Distributions payable		9,943	9,460
Total current liabilities		28,180	21,975
Non-current liabilities			
Interest bearing liabilities	D1	319,243	297,248
Other non-current liabilities		3,948	3,877
Derivative financial liabilities		24,941	27,999
Deferred tax liabilities		6,454	5,855
Total non-current liabilities		354,586	334,979
Total liabilities (excluding net assets attributable to unitholders)		382,766	356,954
Net assets attributable to unitholders		599,814	557,966
Total liabilities		982,580	914,920

*Water entitlements are held at cost less accumulated impairment 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 2020

	31 December	30 June
	2020	2020
Note	\$'000	\$'000
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		
Unitholders of Rural Funds Trust		
Issued units	364,415	355,923
Asset revaluation reserve	44,064	59,412
Retained earnings	179,026	131,628
Parent entity interest	587,505	546,963
Unitholders of RF Active		
Issued units	4,676	4,651
Retained earnings	7,633	6,352
Non-controlling interest	12,309	11,003
Total net assets attributable to unitholders	599,814	557,966

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 2020

31 December 2020	Note	Issued units \$'000	Asset revaluation reserve \$'000	Retained earnings \$'000	Total \$'000	Non- controlling interest \$'000	Total \$'000
Balance at 1 July 2020		355,923	59,412	131,628	546,963	11,003	557,966
Other comprehensive income		-	-	-	-	-	-
Total other comprehensive income		-	-	-	-	-	-
Profit before income tax		-	-	57,474	57,474	1,830	59,304
Income tax expense		-	-	(330)	(330)	(549)	(879)
Total comprehensive income for the period		-	-	57,144	57,144	1,281	58,425
Transfer on disposal of bearer plants to retained earnings		-	(15,348)	15,348	-	-	-
Issued units							
Units issued during the period	D2	2,499	-	-	2,499	25	2,524
Issue costs	D2	-	-	-	-	-	-
Total issued units		2,499	-	-	2,499	25	2,524
Distributions to unitholders		5,993	-	(25,094)	(19,101)	-	(19,101)
Balance at 31 December 2020		364,415	44,064	179,026	587,505	12,309	599,814

31 December 2019		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	D2	3,154	-	-	3,154	33	3,187
Issue costs	D2	79	-	-	79	-	79
Total issued units		3,233	-	-	3,233	33	3,266
Distributions to unitholders		(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

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Cash Flows

For the half year ended 31 December 2020

		31 December 2020 \$'000	31 December 2019 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		40,091	42,597
Payments to suppliers (inclusive of GST)		(11,648)	(17,284)
Interest received		26	45
Finance income		5,992	4,876
Finance costs		(5,280)	(5,667)
Income tax paid		(206)	-
Net cash inflow from operating activities		28,975	24,567
Cash flows from investing activities			
Payments for investment property	C2	(72,443)	(11,655)
Payments for plant and equipment - bearer plants	C3	(1,549)	(2,525)
Payments for intangible assets	C5	(7,046)	(979)
Payments for financial assets	C4	(5,307)	(13,580)
Payments for property – owner occupied	C6	(29,889)	-
Payments for plant and equipment	C6	(4,940)	(617)
Proceeds from sale of Moorai assets		93,300	-
Proceeds from sale of plant and equipment		-	63
Proceeds from other assets/liabilities		-	455
Proceeds from sale of poultry assets		-	71,913
Transaction costs on disposal of poultry assets		-	(487)
Distributions received		39	50
Net cash inflow/(outflow) from investing activities		(27,835)	42,638
Cash flows from financing activities			
Proceeds from issue of units	D2	2,524	3,266
Proceeds from borrowings		136,291	42,146
Repayment of borrowings		(115,498)	(55,754)
Distributions paid		(18,618)	(17,740)
Net cash (outflow)/inflow from financing activities		4,699	(28,082)
Net increase in cash and cash equivalents held		5,839	39,123
Cash and cash equivalents at the beginning of the period		5,085	2,588
Cash and cash equivalents at the end of the period		10,924	41,711

The accompanying notes form part of these financial statements.

Rural Funds Group

Notes to the Financial Statements

31 December 2020

A. REPORT OVERVIEW

General information

This financial report covers the consolidated financial statements and notes of Rural Funds Trust and its Controlled Entities including RF Active (Rural Funds Group, the Group or collectively the Trusts). Rural Funds Group is a for profit entity incorporated and domiciled in Australia. The Directors of the Responsible Entity authorised the Financial Report for issue on 18 February 2021 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*.

COVID-19 outbreak

The outbreak of Coronavirus Disease 2019 was ongoing during the half year ended 31 December 2020. There have been unprecedented measures put in place by the Australian Government, as well as governments across the globe, to contain the coronavirus which has led to significant uncertainty and has had a significant impact on the Australian and global economies. Following the outbreak, the Group continues to operate with no significant impacts to its ongoing operation to date. RFM will continue to monitor the potential impacts of the outbreak.

Basis of preparation

The Trusts have common business objectives and operate collectively as an economic entity known as Rural Funds Group. The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, and other authoritative pronouncements of the Australian Accounting Standards Board, the *Corporations Act 2001* and the Trusts' Constitution. The 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 2020 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 2020 and any public announcements made by the Group during the half year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

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

Rounding of amounts

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

Principles of consolidation

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

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

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

Rural Funds Group

Notes to the Financial Statements

31 December 2020

Principles of consolidation (continued)

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.

Significant accounting judgements, estimates and assumptions

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

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

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

Valuation of property related assets

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

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

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

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

Estimation of useful lives of bearer plants

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

Comparative amounts

Comparative amounts have not been restated unless otherwise noted.

Working capital

Working capital at 31 December 2020 is impacted by the timing of distributions. Based on the forecast cash flows, the Group believes it can pay all its debts as and when they fall due for at least a minimum period of 12 months from the date of these accounts. The Group has sufficient headroom in its bank facility limit to draw upon as at 31 December 2020, subject to compliance with the Group's bank covenants.

Rural Funds Group

Notes to the Financial Statements

31 December 2020

B. RESULTS

B1 Segment information

The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Directors of the Responsible Entity. During the half year ended 31 December 2020, the Group held property in agricultural sectors presented in five segments (30 June 2020: six segments) each holding and leasing agricultural property and equipment. Segment revenue includes rental income, finance income and interest income. Segment property assets include investment property, bearer plants, intangible assets and plant and equipment. Revenue and property assets not categorised in these sectors are managed at a corporate level. Liabilities and direct or indirect expenses are not allocated to individual segments as these are reviewed by the chief operating decision maker on a consolidated basis.

Segment revenue and revaluation movements

	Almonds	Cattle	Vineyards	Cropping	Macadamias	Poultry (discontinued)	Other	Total
31 December 2020	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Rental revenue	16,757	6,751	2,014	1,539	699	-	121	27,881
Rental revenue – straight-lining	(824)	227	76	-	-	-	-	(521)
Interest received	-	22	-	2	-	-	2	26
Finance income	12	6,502	-	-	16	-	-	6,530
Total revenue	15,945	13,502	2,090	1,541	715	-	123	33,916
Gain on disposal	32,562	-	-	-	-	-	(24)	32,538
Depreciation - bearer plants	(1,428)	-	(483)	-	(108)	-	-	(2,019)
Change in fair value through profit or loss	1,052	7,087	-	(3,351)	(1,098)	-	-	3,690
Total revaluation	1,052	7,087	-	(3,351)	(1,098)	-	-	3,690

Revaluation for the cattle segment largely relates to the external valuation of Rewan. The revaluation increment is mainly due to market movements.

Revaluation of the Maryborough assets has been allocated to the Cropping, Macadamias and Other segments. The revaluation largely relates to transaction costs that have been written off as part of the acquisition. Refer to section B1 – Maryborough note for further details of the segment allocation.

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

Rural Funds Group

Notes to the Financial Statements

31 December 2020

B1 Segment information (continued)

Segment revenue and revaluation movements (continued)

	Almonds	Cattle	Vineyards	Cropping	Macadamias	Poultry (discontinued)	Other	Total
31 December 2019	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Rental revenue	16,474	5,727	1,936	1,619	661	5,133	122	31,672
Rental revenue – straight-lining	360	228	55	-	3	-	-	646
Interest received	-	-	-	-	-	26	19	45
Finance income	5	5,223	-	-	1	-	-	5,229
Total revenue	16,839	11,178	1,991	1,619	665	5,159	144	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

Rural Funds Group

Notes to the Financial Statements

31 December 2020

B1 Segment information (continued)

Segment assets

	Almonds \$'000	Cattle \$'000	Vineyards \$'000	Cropping \$'000	Macadamias \$'000	Unallocated \$'000	Total \$'000
31 December 2020							
Investment property	130,128	264,821	38,181	75,576	42,536	-	551,242
Plant and equipment - bearer plants	126,250	-	19,273	-	7,593	-	153,116
Financial assets - property related	11,797	89,368	796	-	880	17	102,858
Intangible assets (water)	66,707	2,947	500	7,908	3,504	31,564	113,130
Property - owner occupied	-	-	-	28,238	-	-	28,238
Plant and equipment	111	621	-	3,867	3,423	-	8,022
Assets held for sale	4,111	-	-	-	-	-	4,111
Total property assets per statutory accounts	339,104	357,757	58,750	115,589	57,936	31,581	960,717
Revaluation of intangible assets per director's valuation	43,018	-	4,688	-	53	33,652	81,411
Total adjusted property assets at director's valuation	382,122	357,757	63,438	115,589	57,989	65,233	1,042,128
Other assets per statutory accounts	-	-	-	-	-	21,863	21,863
Total adjusted assets	382,122	357,757	63,438	115,589	57,989	87,096	1,063,991
30 June 2020							
Investment property	127,519	249,534	38,170	47,896	11,719	-	474,838
Plant and equipment - bearer plants	126,805	-	19,756	-	6,967	-	153,528
Financial assets - property related	12,621	83,382	720	-	817	17	97,557
Intangible assets (water)	66,707	2,947	500	3,672	1,161	31,564	106,551
Plant and equipment	-	510	-	1,048	1,643	-	3,201
Assets held for sale	63,358	-	-	-	-	-	63,358
Total property assets per statutory accounts	397,010	336,373	59,146	52,616	22,307	31,581	899,033
Revaluation of intangible assets per director's valuation	59,306	-	4,688	-	53	33,652	97,699
Total adjusted property assets at director's valuation	456,316	336,373	63,834	52,616	22,360	65,233	996,732
Other assets per statutory accounts	-	-	-	-	-	15,887	15,887
Total adjusted assets	456,316	336,373	63,834	52,616	22,360	81,120	1,012,619

Rural Funds Group

Notes to the Financial Statements

31 December 2020

B1 Segment information (continued)

Maryborough allocation

The Maryborough properties located in Queensland, comprise of 5,258 hectares and 7,740 ML of water entitlements, with areas having potential to be developed into a planned 2,200 hectares of macadamia orchards. While in the development phase, parts of the property will be:

- Under development into macadamia orchards (classified as Investment property)
- Leased out to different parties for cropping operations (classified as investment property)
- Owner occupied and carrying out various cropping operations (classified as property – owner occupied). While these properties are being operated by the Group, the intention is for these properties to be leased out and/or developed into macadamia orchards.

Revaluation movements for the period largely relates to transaction costs that have been written off as part of the acquisition.

Revaluation

	Cropping	Macadamias	Total
31 December 2020	\$'000	\$'000	\$'000
Change in fair value of investment property	(1,400)	(932)	(2,332)
Impairment of Property - owner occupied	(1,651)	-	(1,651)
Impairment of intangible assets	(301)	(166)	(467)
Total revaluation	(3,352)	(1,098)	(4,450)

Assets

	Cropping	Macadamias	Total
31 December 2020	\$'000	\$'000	\$'000
Investment Property	23,973	16,093	40,066
Plant and equipment - bearer plants	-	33	33
Property - owner occupied	28,238	-	28,238
Intangible assets	4,236	2,343	6,579
Total property assets per statutory accounts	56,447	18,469	74,916
Revaluation of intangible assets per director's valuation	-	-	-
Total adjusted property assets at director's valuation	56,447	18,469	74,916

Rural Funds Group

Notes to the Financial Statements

31 December 2020

B1 Segment information (continued)

Net asset value adjusted for water rights

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

The book value of the water rights (including investments in BIL and CICL recognised as financial assets) at 31 December 2020 is \$125,114,000 (30 June 2020: \$129,246,000).

Independent valuations on the Group's properties are obtained, ensuring that each property will have been independently valued every two years or more often where appropriate. Independent valuation reports assess and provide value for properties in their entirety. The independent valuation reports contains information with which judgement is applied in order to allocate values to investment property, bearer plants and water entitlements. The Directors have taken into account the most recent valuations on each property and consider that they remain a reasonable estimate and on this basis the fair value of water entitlements before deferred tax adjustments at 31 December 2020 was \$206,525,000 (30 June 2020: \$226,945,000) representing the value of the water rights of \$81,411,000 (30 June 2020: \$97,699,000) above cost.

The following is a reconciliation of the book value at 31 December 2020 to an adjusted value based on the Directors' valuation of the water rights which are assessed by the chief operating decision maker.

	Per Statutory Consolidated Statement of Financial Position \$'000	Revaluation of water entitlements per Directors' valuation \$'000	Directors' valuation (Adjusted) \$'000
Assets			
Total current assets	23,306	-	23,306
Total non-current assets	959,274	81,411	1,040,685
Total assets	982,580	81,411	1,063,991
Liabilities			
Total current liabilities	28,180	-	28,180
Total non-current liabilities	354,586	-	354,586
Total liabilities (excluding net assets attributable to unitholders)	382,766	-	382,766
Net assets attributable to unitholders	599,814	81,411	681,225
Net asset value per unit (\$)	1.77	0.24	2.01

Rural Funds Group

Notes to the Financial Statements

31 December 2020

B1 Segment information (continued)

Total property assets by property	Area*	31 December 2020	30 June 2020	Most Recent Independent Valuation	
		Adjusted property value \$'000	Adjusted property value \$'000	Date \$'000	Encumbered valuation \$'000
31 December 2020					
Almonds					
Mooral (NSW) (held for sale)	N/A	4,111	75,879	-	-
Yilgah (NSW)	1,006 ha	105,784	105,112	Mar 2020	105,000
Tocabil (NSW)	603 ha	47,157	47,119	Mar 2020	47,000
Kerarbury (NSW)	2,530 ha	224,626	223,282	Mar 2020	223,000
Cattle					
Rewan (QLD)	17,479 ha	50,400	43,159	Dec 2020	50,400
Mutton Hole (QLD)	140,300 ha	9,448	9,209	Jun 2019	8,695
Oakland Park (QLD)	85,500 ha	5,859	5,605	Jun 2019	5,365
Natal Aggregation (QLD)	390,600 ha	64,735	63,700	Dec 2019	63,700
Comanche (QLD)	7,600 ha	23,397	22,003	Jun 2020	21,997
Cerberus (QLD)	8,280 ha	13,925	13,849	Jun 2020	13,844
Dyamberin (NSW)	1,728 ha	13,944	13,900	Jun 2020	13,900
JBS Feedlots Finance Lease Receivable (NSW/QLD)	150,000 hd	55,384	54,846	N/A	N/A
Woodburn (NSW)	1,063 ha	7,340	7,300	Jun 2020	7,300
Cobungra (VIC)	6,500 ha	35,307	35,050	Feb 2019	35,000
Petro (WA)	2,942 ha	11,700	11,700	Feb 2020	11,700
High Hill (WA)	1,601 ha	4,900	4,900	Feb 2020	4,900
Willara (WA)	1,653 ha	4,900	4,900	Feb 2020	4,900
Wattlebank (QLD)	321 ha	1,862	1,795	Jun 2020	1,800
Yarra (QLD)	2,173 ha	6,219	6,194	Jun 2020	6,150
Homehill (QLD)	4,925 ha	12,463	7,750	Jun 2020	7,750
Cropping					
Lynora Downs (QLD)	4,880 ha	36,246	33,736	Jun 2019	33,050
Mayneland (QLD)	2,942 ha	19,030	17,832	Apr 2020	17,500
Maryborough – Cropping (QLD)	4,140 ha	56,447	-	Sep 2020	56,386
Macadamias					
Swan Ridge (QLD)	130 ha	6,703	6,653	Oct 2019	6,400
Moore Park (QLD)	104 ha	3,917	3,953	Oct 2019	4,000
Bonmac (QLD)	27 ha	2,815	2,852	Oct 2019	2,900
Cygnets (QLD)	38 ha	2,311	1,770	-	-
Swan Ridge South (QLD)	40 ha	1,679	1,645	-	-
Nursery Farm (QLD)	40 ha	4,667	3,028	-	-
Riverton (QLD)	1,015 total ha	6,508	-	-	-
Stoneleigh (QLD)	1,293 total ha	6,618	-	-	-
Maryborough – Macadamias (QLD)	1,118 total ha	18,469	-	Sep 2020	18,273
Vineyards					
Kleinig (SA)	206 ha	22,098	22,286	Jun 2019	22,700
Geier (SA)	243 ha	27,523	27,748	Jun 2019	28,200
Dohnt (SA)	30 ha	1,026	1,019	Jun 2019	1,025
Hahn (SA)	50 ha	5,120	5,154	Jun 2019	4,850
Mundy and Murphy (SA)	55 ha	4,047	4,062	Jun 2019	3,800
Rosebank (VIC)	82 ha	3,348	3,365	Jun 2019	3,400
Water					
River water (NSW)	8,754 ML	65,216	65,216	Jun 2020	65,217
Total property and water assets		997,249	957,571		
Cattle finance leases and other assets		34,182	29,031		
Plant and equipment		8,022	3,201		
Other receivables and equipment leases		2,675	3,161		
Plant and equipment held for sale		-	3,768		
Total adjusted property assets		1,042,128	996,732		

* Unless otherwise denoted, the almond, vineyard and macadamia areas detailed refer to planted and planned development areas.

Rural Funds Group

Notes to the Financial Statements

31 December 2020

B1 Segment information (continued)

Total property assets by property (continued)

Revaluations from external valuations

The cattle properties have increased in value during the half year ended 31 December 2020. An external valuation was completed for the Rewan property during the half year ended 31 December 2020. The uplift has been largely due to the external valuer's assessment of the value of the land which can be measured by an increase in the rate of adult equivalents for the property. The uplift has been driven by improved demand and market sentiment for cattle properties in the region. Demand and market sentiment have also been affected by a decrease in the cost of funding. Further information on the significant unobservable inputs adopted by the external valuer in the fair value measurement of the properties is described in note C1.

Adjusted property values movements subsequent to external revaluations

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

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

Rural Funds Group

Notes to the Financial Statements

31 December 2020

B2 Adjusted funds from operations (AFFO)

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

	31 December 2020 \$'000	31 December 2019 \$'000
Continuing operations		
Revenue	33,916	32,433
Other income	2,859	1,405
Management fees	(5,424)	(4,710)
Property expenses	(1,156)	(841)
Finance costs	(5,280)	(5,041)
Other expenses	(2,491)	(2,393)
Straight-lining of rental revenue	521	(646)
Interest component of JBS feedlot finance lease	(538)	(346)
Income tax payable on public trading trust (RF Active)	(237)	(173)
Discontinued operations		
Revenue	-	5,159
Other income	-	4
Management fees	-	(334)
Property expenses	-	(28)
Finance costs	-	(626)
Other expenses	-	(150)
Income tax payable on public trading trust (RF Active)	-	(57)
Adjusted Funds From Operations (AFFO)	22,170	23,656
Change in fair value of interest rate swaps	2,939	178
Depreciation and impairments - other	(268)	(604)
Depreciation - bearer plants	(2,019)	(2,405)
Impairment of bearer plants	-	(499)
Change in fair value of investment property	5,832	9,948
Change in fair value of investment property - discontinued operations	-	(1,250)
Change in fair value of financial assets/liabilities	(24)	(24)
Impairment of intangible assets	(467)	(86)
Impairment of property - owner occupied	(1,651)	-
Straight-lining of rental revenue	(521)	646
Interest component of JBS feedlot finance lease	538	346
Income tax expense	(642)	(287)
Gain/(loss) on sale of assets	32,538	(16)
Loss on disposal - one off transaction costs on disposal	-	(487)
Net profit after income tax	58,425	29,116
AFFO cents per unit	6.6	7.1

Rural Funds Group

Notes to the Financial Statements

31 December 2020

B3 Revenue

	31 December 2020	31 December 2019
	\$'000	\$'000
Continuing operations		
Rental income	27,360	27,185
Finance income	6,530	5,229
Interest received	26	19
Total	33,916	32,433
Discontinued operations		
Rental income	-	5,133
Interest received	-	26
Total	-	5,159

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

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

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

Other Income

	31 December 2020	31 December 2019
	\$'000	\$'000
Sale of temporary water allocations	2,806	1,276
Other income	53	129
Other income – discontinued operations	-	4
Total	2,859	1,409

Expenses

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

B4 Distributions

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

	Cents per unit	Total \$
Distribution declared 2 June 2020, paid 31 July 2020	2.7118	9,158,113
Distribution declared 1 September 2020, paid 30 October 2020	2.8203	9,542,697
Distribution declared 2 December 2020, paid 29 January 2021	2.8203	9,558,150

Rural Funds Group

Notes to the Financial Statements

31 December 2020

C. PROPERTY ASSETS

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

C1 RFF property assets

		31 December	30 June
		2020	2020
		\$'000	\$'000
Investment property	C2	551,242	474,838
Plant and equipment – bearer plants	C3	153,116	153,528
Financial assets – property related	C4	102,858	97,557
Intangible assets	C5	113,130	106,551
Property – owner occupied	C6	28,238	-
Plant and equipment – other	C7	8,022	3,201
Asset held for sale	C8	4,111	63,358
Total		960,717	899,033

Rental income and fair value movements from RFF property assets

	31 December	31 December
	2020	2019
	\$'000	\$'000
Continuing operations (including Moorall)		
Rental income from property assets	33,890	32,414
Change in fair value of investment property	5,832	9,948
Revaluation increment/(decrement) – bearer plants	-	116
Discontinued operations		
Rental income from property assets	-	5,133
Change in fair value of investment property	-	(1,250)
Loss on disposal	-	(516)

Key changes to the property portfolio during the half year:

- In November 2020, the Group settled on the Maryborough acquisition, consisting of 5,258 hectares of sugar cane farms and 7,740 megalitres of water entitlements located in Maryborough, Queensland and associated plant and equipment for approximately \$83.7m including transaction costs. The farms will progressively be converted to approximately 2,200 hectares of macadamia orchards with a substantial portion of the remaining area able to be used for cropping.
- In November 2020, the Group purchased the Riverton property located in the Fitzroy region in Queensland for \$6.5m including transaction costs with potential for development into macadamia orchards.
- In December 2020, the Group purchased the Stoneleigh property located in the Fitzroy region in Queensland for \$6.6m including transaction costs with potential for development into macadamia orchards.
- In December 2020, the Group completed the sale of the Moorall almond orchard and associated plant and equipment for a contracted price of approximately \$98.0m excluding transaction costs and adjustments. A remaining portion of the land contracted for \$4.1m as part of the transaction is expected to settle in the second half of the financial year.
- In December 2020, the Group purchased an additional 1,655 hectares of land as part of the Homehill property, located in the Fitzroy region in Queensland for \$4.3m including transaction costs.

Rural Funds Group

Notes to the Financial Statements

31 December 2020

C1 RFF property assets (continued)

Valuations

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

The following existing properties had relevant independent valuations during the half year ended 31 December 2020:

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

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

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

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

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

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

Valuation reports obtained during the half year ended to December 2020 have referred to circumstances of uncertainty as a result of the outbreak of COVID-19. For the avoidance of doubt, such references have not meant that the valuations cannot be relied upon but rather ensures transparency of the fact that in the current circumstances, less certainty can be attached to the valuation than would otherwise be the case. Discussions held with the valuers have confirmed that there is no expected material impact to the valuations as a result of COVID-19.

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

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

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

Rural Funds Group

Notes to the Financial Statements

31 December 2020

C1 RFF property assets (continued)

Valuations (continued)

Investment property, Bearer plants and Property – owner occupied

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 measurement:

Segment*	Fair value at		Primary valuation technique	Allocation technique	Unobservable inputs**	Range of inputs	
	31 December 2020 \$'000	30 June 2020 \$'000				31 December 2020 %	30 June 2020 %
Almond orchard property	256,378	303,203	Discounted Cash Flow	Rental base	Discount rate (%)	7.00 – 7.75	7.00 – 7.75
				Component based	Terminal Capitalisation Rate (%)	8.50 – 12.50	8.50 – 12.50
Cattle property and infrastructure	264,821	249,534	Summation assessment	Component based	\$ per adult equivalent (AE) carrying capacity (Backgrounding properties)	\$2,667 - \$7,368	\$2,600 - \$7,381
			Productive unit		\$ per adult equivalent (AE) carrying capacity (Breeder properties)	\$870 - \$1,555	\$870 - \$1,507
Vineyard property and infrastructure	57,454	57,926	Discounted Cash Flow	Component based	Discount rate (%)	8.25 – 8.75	8.25 – 8.75
					Capitalisation rate (%)	7.50 – 8.00	7.50 – 8.00
Cropping property and infrastructure	103,814	47,896	Summation assessment	Component based	Average \$ per irrigated hectare	\$17,909	\$17,909
					Average \$ per plantable hectare (Maryborough)	\$10,544	-
Macadamia orchard property	50,129	18,686	Discounted Cash Flow	Rental base / Proportionate	Discount rate (%)	7.25 – 8.50	7.25 – 8.50
				Component based	Average \$ per plantable hectare (Development)	\$12,065	-
Total	732,596	677,245					

*Fair values disclosed exclude water assets. Almond orchard properties include the Moorall orchard property held for sale.

**There were no significant inter-relationships between unobservable inputs that materially affect fair values. Unobservable inputs are based on assessments by external valuers.

Rural Funds Group

Notes to the Financial Statements

31 December 2020

C1 RFF property assets (continued)

Valuations (continued)

Primary valuation technique

External valuations typically assess property values using different valuation techniques.

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

Allocation technique

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

The following allocation techniques have been applied:

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

Rural Funds Group

Notes to the Financial Statements

31 December 2020

C1 RFF property assets (continued)

Valuations (continued)

Unobservable inputs

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

Discount rate (%)	The higher the discount rate the lower the fair value
Terminal capitalisation rate (%)	The higher the terminal capitalisation rate the lower the fair value
Capitalisation rate (%)	The higher the capitalisation rate the lower the fair value
Average \$ per irrigated hectare	The higher the value per irrigated hectare, the higher the fair value
Average \$ per plantable hectare	The higher the value per plantable 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 2020	Almond property	Cattle property	Vineyard property	Cropping property	Macadamia property	Poultry property	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening net book amount	127,519	249,534	38,170	47,896	11,719	-	474,838
Acquisitions	-	4,405	-	25,330	29,979	-	59,714
Additions	3,328	3,870	11	3,750	1,770	-	12,729
Classified as held for sale or disposals	(1,771)	-	-	-	-	-	(1,771)
Lease incentives	-	-	-	-	-	-	-
Amortisation of lease incentives	-	(100)	-	-	-	-	(100)
Fair value adjustment	1,052	7,112	-	(1,400)	(932)	-	5,832
Closing net book amount	130,128	264,821	38,181	75,576	42,536	-	551,242
30 June 2020	Almond property	Cattle property	Vineyard property	Cropping property	Macadamia property	Poultry property	Total
Opening net book amount	136,016	193,447	37,651	46,260	4,857	71,096	489,327
Acquisitions	-	38,753	-	-	5,329	-	44,082
Additions	7,911	3,908	519	2,170	904	285	15,697
Classified as held for sale or disposals	(18,881)	-	-	-	-	(70,131)	(89,012)
Amortisation of lease incentives	-	(200)	-	-	-	-	(200)
Fair value adjustment	2,473	13,626	-	(534)	629	(1,250)	14,944
Closing net book amount	127,519	249,534	38,170	47,896	11,719	-	474,838

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

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C3 Plant and equipment – bearer plants

31 December 2020	Bearer Plants – Almonds	Bearer Plants – Vineyards	Bearer Plants – Macadamias	Total
	\$'000	\$'000	\$'000	\$'000
Opening net book amount	126,805	19,756	6,967	153,528
Additions	890	-	735	1,625
Disposals	(18)	-	-	(18)
Depreciation and impairment	(1,427)	(483)	(109)	(2,019)
Closing net book amount	126,250	19,273	7,593	153,116

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

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

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

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

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

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

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

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Notes to the Financial Statements

31 December 2020

C3 Plant and equipment – bearer plants (continued)

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

	31 December 2020	30 June 2020
	\$'000	\$'000
Cost	130,253	148,698
Accumulated depreciation	(11,277)	(14,389)
Accumulated impairment	(2,938)	(2,840)
Bearer plants (historical cost basis)	116,038	131,469

C4 Financial assets – property related

	31 December 2020	30 June 2020
	\$'000	\$'000
Investment – BIL	520	520
Investment – CICL	11,464	11,464
Finance Lease – Breeders	17,802	14,383
Finance Lease – Feedlots	55,384	54,846
Finance Lease – Equipment	1,010	978
Cattle Facility – Katena Pty Ltd ATF Schafferius Family Trust	1,300	1,300
Finance Lease – DA & JF Camm Pty Limited	3,713	1,881
Term Loan – DA & JF Camm Pty Limited	10,000	10,000
Other receivables	1,665	2,185
Total	102,858	97,557

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

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

Finance Lease – Breeders is comprised of breeders owned by the Group 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. As part of the arrangement, the lessee is required to maintain the breeder herd and maintain an active breeding program. During the period, additional breeders were leased to Cattle JV Pty Limited and were included as part of the breeder herd.

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

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

A \$1,600,000 cattle financing facility with a term of ten years was extended to Katena Pty Ltd, the lessee of the Cerberus property to fund the purchase of trade cattle. The facility is due to expire in September 2028. The balance drawn as at 31 December 2020 is \$1,300,000 (30 June 2020: \$1,300,000). Its fair value approximates its carrying amounts.

Finance Lease – DA & JF Camm Pty Limited comprises of cattle owned by the Group and leased to DA & JF Camm Pty Limited, the lessee of the Natal aggregation, as part of a \$5,000,000 facility. The facility is due to expire in December 2022. The balance drawn as at 31 December 2020 is \$3,713,000 (30 June 2020: 1,881,000). A \$10,000,000 secured loan with a term of ten years was also extended to DA & JF Camm Pty Limited and is due in December 2027. Its fair value approximates its carrying amount.

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

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

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

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Notes to the Financial Statements

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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 2020	Almonds	Cattle	Vineyards	Cropping	Macadamias	Poultry infrastructure	Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-current								
Opening net book amount	66,707	2,947	500	3,672	1,161	-	31,564	106,551
Additions	-	-	-	4,537	2,509	-	-	7,046
Impairment	-	-	-	(301)	(166)	-	-	(467)
Closing net book amount	66,707	2,947	500	7,908	7,740	-	31,564	113,130
Cost	67,462	3,659	500	8,209	3,756	-	31,564	115,150
Accumulated amortisation and impairment	(755)	(712)	-	(301)	(252)	-	-	(2,020)
Net book amount	66,707	2,947	500	7,908	3,504	-	31,564	113,130
30 June 2020	Almonds	Cattle	Vineyards	Cropping	Macadamias	Poultry infrastructure	Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-current								
Opening net book amount	76,660	1,599	500	3,672	815	1,049	34,236	118,531
Additions	758	2,060	-	-	432	-	-	3,250
Classified as held for sale	(10,711)	-	-	-	-	-	-	(10,711)
Disposals	-	-	-	-	-	(1,049)	(2,672)	(3,721)
Impairment	-	(712)	-	-	(86)	-	-	(798)
Closing net book amount	66,707	2,947	500	3,672	1,161	-	31,564	106,551
Cost	67,462	3,659	500	3,672	1,247	-	31,564	108,104
Accumulated amortisation and impairment	(755)	(712)	-	-	(86)	-	-	(1,553)
Net book amount	66,707	2,947	500	3,672	1,161	-	31,564	106,551

Rural Funds Group

Notes to the Financial Statements

31 December 2020

C5 Intangible assets (continued)

Water rights

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

C6 Property – owner occupied

31 December 2020	Land \$'000	Building \$'000	Total \$'000
Opening net book amount	-	-	-
Additions	28,231	1,658	29,889
Depreciation and impairment	(1,651)	-	(1,651)
Closing net book amount	26,580	1,658	28,238

Property – owner occupied relates to owner occupied property that is being used to conduct cropping operations by the Group and accounted for under AASB 116 *Property, Plant and Equipment*. Property – owner occupied are held under the revaluation model.

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

Elements of Property – owner occupied are subject to depreciation over their respective useful lives calculated on a straight-line basis on the carrying amount. The useful lives and for each class of depreciable asset are shown below:

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

Fixed asset class:	Useful life:
Land	Not applicable
Buildings	20 years

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

Property – owner occupied as stated on a historical cost basis is as follows:

31 December 2020	Land \$'000	Building \$'000	Total \$'000
Cost	28,231	1,658	29,889
Accumulated depreciation and impairment	(1,651)	-	(1,651)
Property – owner occupied (historical cost basis)	26,580	1,658	28,238

Rural Funds Group

Notes to the Financial Statements

31 December 2020

C7 Plant and equipment – other

31 December 2020	Plant and equipment \$'000	Total \$'000
Opening net book amount	3,201	3,201
Additions	4,940	4,940
Transfers from held for sale	248	248
Disposals	(23)	(23)
Depreciation	(239)	(239)
Impairment	(29)	(29)
Capitalised to developments	(76)	(76)
Closing net book amount	8,022	8,022
Cost	15,208	15,208
Accumulated depreciation	(5,864)	(5,864)
Accumulated impairment	(1,322)	(1,322)
Net book amount	8,022	8,022

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

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

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

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

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

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

Rural Funds Group

Notes to the Financial Statements

31 December 2020

C7 Plant and equipment – other (continued)

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

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

C8 Assets held for sale

		31 December	30 June
		2020	2020
		\$'000	\$'000
Investment property	C2	4,111	18,881
Bearer plants	C3	-	29,998
Intangible assets	C5	-	10,711
Plant and equipment	C6	-	3,768
Total		4,111	63,358

In December 2020, the Group completed the sale of the Moorall almond orchard and associated plant and equipment for a contracted price of approximately \$98.0m excluding transaction costs and adjustments. A remaining portion of the land contracted for \$4.1m as part of the transaction is expected to settle in the second half of the year. The Moorall almond orchard is not considered a separate line of business and has not been treated as a discontinued operation.

C8 Capital commitments

Capital expenditure across all properties largely relates to macadamia developments, almond property improvements, cattle property developments and cropping property developments. These commitments are contracted for but not recognised as liabilities. Increase in the commitments during the period largely relates to contracted purchases of water entitlements in relation to Rookwood Weir.

		31 December	30 June
		2020	2020
		\$'000	\$'000
Bearer plants		91	2,728
Investment property		10,767	22,050
Intangible assets		32,400	-
Total		43,258	24,778

Rural Funds Group

Notes to the Financial Statements

31 December 2020

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 ratio target range of 30-35% calculated as interest bearing liabilities on adjusted total assets. The optimal capital structure is reviewed periodically, although this may be impacted by market conditions which may result in an actual position which may differ from the desired position.

D1 Interest bearing liabilities

	31 December	30 June
	2020	2020
	\$'000	\$'000
Current		
Equipment loans (ANZ)	2,573	3,775
J&F Guarantee – Credit loss provision	39	39
Total	2,612	3,814
Non-current		
Borrowings (ANZ)	204,316	190,008
Borrowings (Rabobank)	114,927	107,240
Total	319,243	297,248

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

J&F Guarantee Accounting policy

Subsequent to initial recognition, financial guarantee contracts are measured as financial liabilities at the higher of any loss allowance calculated and the amount initially recognised. A loss allowance is recognised for expected credit losses on a financial guarantee contract. The expected credit loss is assessed based on the probability of default and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the risk of default at reporting date is compared to the risk of default at the date of initial recognition. Consideration is made to factors that could impact the financial guarantee such as actual or expected significant adverse changes in business, financial or economic conditions, and any material / adverse changes to the operating results of the associated parties of the financial guarantee.

J&F Guarantee

The J&F Guarantee is a \$82.5 million limited guarantee provided by the Group to J&F Australia Pty Ltd (J&F), a wholly owned subsidiary of Rural Funds Management Limited, for a period of ten years from August 2018. From the provision of this guarantee, the Group earns a guarantee fee classified as finance income as noted in B3, paid on a monthly basis. The guarantee is currently used to support \$82.5 million of J&F's debt facility which is used for cattle purchases, feed and other costs associated with finishing the cattle on the feedlots, enabling J&F to supply cattle to JBS Australia Pty Limited (JBS) for its grain fed business. Given J&F's primary source of income is from payments from JBS, a J&F default is only likely to occur in the event of a JBS default. In the event of a JBS default, J&F would cease buying cattle and commence selling cattle in the feedlots. As cattle are sold, J&F bank loans would be repaid. Given that lot-fed cattle can gain up to 2kgs per day, and are sold on a per kg basis, a material fall in the cattle price would be required for there to be a shortfall. The guarantee would be called to cover any shortfall between J&F borrowings and cattle sales, but limited to \$82.5 million, or up to a maximum of \$100.0 million if any future increases in the guarantee have been agreed.

The guarantee fee received from J&F during the period was \$3,039,000. The annualised return to the Group relating to the guarantee fee arrangement for the period was approximately 10.3% inclusive of interest offset savings. There was no event of default during the period, and as a result, the guarantee has not been called.

Rural Funds Group

Notes to the Financial Statements

31 December 2020

D1 Interest bearing liabilities (continued)

J&F Guarantee (continued)

The financial guarantee was recognised at fair value at inception, which was nil. Subsequently, it is carried at the value of the expected credit loss. The credit loss has been calculated considering the likelihood of the financial guarantee being triggered and its financial impact on the Group. In calculating the allowance, consideration is given to counterparty risk associated with the arrangement, with JBS being the ultimate counterparty. The credit risk of JBS was determined to not have increased significantly since initial recognition, therefore the loss allowance for the guarantee has been recognised at an amount equal to 12-month expected credit losses. Consideration is also given to the value of cattle in assessing any potential shortfall should the guarantee be called by the Group. The credit loss allowance is recognised at fair value through profit or loss. The additional credit loss provision recognised in the half year was nil.

As part of the JBS transaction, the Group purchased five feedlots from JBS Australia Pty Limited (JBS) and leased them back to JBS. The feedlots are classified as a finance lease with a repurchase call option exercisable by JBS and a sale put option exercisable by the Group as noted in C4. The call option held by JBS can be exercised from year six in 2024 but will incur a break fee if exercised before year ten in 2028.

Borrowings

At 31 December 2020 the core debt facility available to the Group was \$380,000,000 (30 June 2020: \$335,000,000), split into two tranches, with a \$270,000,000 tranche expiring in November 2022 and a \$110,000,000 tranche expiring in November 2023.

As at 31 December 2020 RFF had active interest rate swaps totaling 57.3% (30 June 2020: 61.6%) of the drawn down balance to manage interest rate risk. Hedging requirements under the terms of the borrowing facility may vary with bank consent.

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 2020:

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

The loan to value ratio calculation includes the J&F guarantee of \$82.5 million (30 June 2020: \$82.5 million).

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

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

- a fixed and floating charge over the assets held by Australian Executor Trustee Limited (AETL) as custodian for Rural Funds Trust, RFM 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.

Rural Funds Group

Notes to the Financial Statements

31 December 2020

D2 Issued units

	31 December 2020		31 December 2019	
	No.	\$'000	No.	\$'000
Units on issue at the beginning of the period	337,713,420	360,574	334,263,593	362,853
Units issued during the period	1,192,016	2,524	1,595,881	3,266
Distributions to unitholders	-	5,993	-	(6,848)
Units on issue	338,905,436	369,091	335,859,474	359,271

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.

An increase to the value of units on issue is the result of retained earnings distributed to unitholders exceeding the amount of the distribution for the period.

Rural Funds Group

Notes to the Financial Statements

31 December 2020

E. OTHER INFORMATION

E1 Financial assets – other (non-property related)

	31 December 2020 \$'000	30 June 2020 \$'000
Investment - Macadamia Processing Co	664	664
Investment - Almondco Australia Limited	2,004	2,004
Total	2,668	2,668

The Group's investments in Marquis Macadamias Limited (formerly Macadamia Processing Co Limited) and Almondco Australia Limited are held at fair value through profit and loss. Fair value has been assessed based on financial information relating to the investment and management's assessment of net realisable value.

E2 Biological assets

	31 December 2020 \$'000	30 June 2020 \$'000
Opening net book amount	-	-
Additions	822	-
Closing net book amount	822	-

Biological assets of the Group include crops such as sugar cane. In accordance with AASB 141 *Agriculture* the Trust's biological assets have been recognised at fair value less costs to sell.

Fair value is determined as follows:

- up until the time when commercial yields are achieved, cost approximates fair value, less costs to sell;
- thereafter based on the present value of expected net cash flows from the crops.

Changes in the fair value of biological assets are recognised in the statement of comprehensive income in the year they arise.

Rural Funds Group

Notes to the Financial Statements

31 December 2020

E3 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 2020 \$'000	31 December 2019 \$'000
Management fee	3,099	2,882
Asset management fee	2,325	2,162
Total management fees	5,424	5,044
Expenses reimbursed to RFM	2,923	2,406
Expenses due to Murdock Viticulture	-	23
Distribution paid/payable to RFM	989	951
Total amount paid to RFM and related entities	9,336	8,424
Rental income received from RFM Almond Fund	2,123	206
Rental income received from RFM Almond Fund 2006	-	704
Rental income received from RFM Almond Fund 2007	-	260
Rental income received from RFM Almond Fund 2008	-	735
Rental income received from RFM	-	547
Rental income received from RFM Farming Pty Limited	616	888
Rental income received from Cattle JV	499	882
Rental income received from Cotton JV	1,178	1,147
Rental income received from 2007 Macgrove Project	609	539
Finance income from Cattle JV	763	599
Finance income from J&F Australia Pty Limited	3,039	2,713
Rental income received from RFM Poultry	-	5,158
Expenses charged to RFM Almond Fund	58	-
Expenses charged to RFM Macadamias	55	-
Expenses charged to RFM Farming	2	-
Interest income from Cattle JV	-	44
Total amounts received from RFM and related entities	8,942	14,422

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

The terms and nature of the historical transactions between the Group and related parties have not changed during the half year ended 31 December 2020. Transactions entered into between related parties during the half year have been reviewed.

Rural Funds Group

Notes to the Financial Statements

31 December 2020

E2 Related party transactions (continued)

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

The key movements during the half year:

Expenses reimbursed to RFM relates to expenses incurred or paid by RFM on behalf of the Group which are subsequently reimbursed by the Group. Examples of these expenses include corporate overheads, professional service fees such a legal, audit and tax matter costs and regulatory fees and charges. During the half year, additional costs were incurred by RFM on behalf of the Group as a result of transactional activity including the sale of the Moorall almond orchard and property acquisitions and developments.

Rental income from RFM Almond Fund (RAF) relates to rent on the Moorall almond orchard which was previously charged to RFM Almond Fund 2006, RFM Almond Fund 2007, RFM Almond Fund 2008 and RFM's Almond Lots which merged to form RAF during the year ended 30 June 2020. Rental income from RAF ceased on 2 December 2020 when the Group completed the sale of the Moorall almond orchard and associated plant and equipment.

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

Finance income from J&F Australia Pty Limited (J&F) relates to the \$82.5 million (31 December 2019: \$75.0 million) limited guarantee provided to J&F, a wholly owned subsidiary of Rural Funds Management Limited. From the provision of this guarantee, the Group earns a guarantee fee classified as finance income which is calculated on the amount of the guarantee during the period.

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	30 June
	2020	2020
	\$'000	\$'000
RFM Farming Pty Limited	60	307
RFM Macadamias Pty Limited	873	429
Cattle JV Pty Limited	18,052	14,352
Cotton JV Pty Limited	-	8
J&F Australia Pty Limited	606	575
RFM Almond Fund	70	721
Total	19,661	16,392

During the period, additional breeders were leased to Cattle JV Pty Limited and were included as part of the breeder herd.

Creditors

	31 December	30 June
	2020	2020
	\$'000	\$'000
RFM	-	195
Total	-	195

Custodian fees

	31 December	31 December
	2020	2019
	\$'000	\$'000
Australian Executor Trustees Limited	153	144
Total	153	144

Rural Funds Group

Notes to the Financial Statements

31 December 2020

E2 Related party transactions (continued)

Financial Guarantee

The Group provides a \$82.5 million (30 June 2020: \$82.5 million) guarantee to J&F Australia Pty Limited (J&F), a subsidiary of RFM. The guarantee is currently used to support \$82.5 million of J&F's debt facility which is used for cattle purchases, feed and other costs associated with finishing the cattle on the feedlots, enabling J&F to supply cattle to JBS Australia Pty Limited (JBS) for its grain fed business. The guarantee earns a return for RFF equivalent to an equity rate of return which is calculated on the amount of the guarantee during the period.

Entities with influence over the Group

	31 December 2020		30 June 2020	
	Units	%	Units	%
Rural Funds Management	11,843,659	3.49	11,843,659	3.51

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 Events after the reporting date

In January 2021, J&F guarantee was increased from \$82.5 million to \$99.9 million to facilitate an increase in J&F's supply of cattle to JBS as part of its grain fed business. The guarantee earns a return for RFF equivalent to an equity rate of return which is calculated on the amount of the guarantee during the period.

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.

E4 Contingent liabilities

Other than what has been disclosed in the accounts there are no contingent liabilities as at 31 December 2020.

Rural Funds Group

Directors' Declaration

31 December 2020

In the Directors of the Responsible Entity's opinion:

- 1 The financial statements and notes of Rural Funds Group set out on pages 12 to 44 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 2020 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

18 February 2021



Independent auditor's review report to the unitholders of Rural Funds Group

Report on the half-year financial report

Conclusion

We have reviewed the 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 2020, 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, significant accounting policies and explanatory notes and the directors' declaration.

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

1. giving a true and fair view of the Group's financial position as at 31 December 2020 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*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

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

Responsibility of the directors of the Responsible Entity for the half-year financial report

The directors of the Responsible Entity 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.

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Auditor's responsibility for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether 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 2020 and of 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*.

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.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'Rod Dring'.

Rod Dring
Partner

Sydney
18 February 2021

Responsible Entity

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