

RURAL FUNDS GROUP ANNUAL REPORT

for the year ended 30 June 2019





Rural Funds Group (ASX: RFF) stapled group comprising:
Rural Funds Trust ARSN 122 951 578 and
RF Active ARSN 168 740 805
Responsible Entity: Rural Funds Management Limited
ACN 077 492 838 AFSL 226701

Issued on: 30 September 2019



Front cover: Cotton harvest, Lynora Downs, Rolleston, QLD, March 2019.

Mooral almond orchard, Hillston, NSW, April 2019.

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LETTER FROM THE MANAGING DIRECTOR

Dear Unitholder,

We are pleased to present to you the Rural Funds Group (ASX: RFF, the Fund) Annual Report for the year ended 30 June 2019 (FY19).

RFF at 30 June 2019

RFF ended the year with adjusted funds from operations (AFFO) of 13.3 cents per unit (cpu), which represents an increase of 4.7% since FY18. Distributions per unit totaling 10.43 cents were paid from AFFO, which represents a conservative payout ratio of 78%.

The adjusted Net Asset Value (NAV) of the Fund increased to \$602.6 million(m), or \$1.80 on a per unit basis. This equates to a 7.1% NAV per unit increase, when compared to the previous corresponding period. Adjusted total assets increased by \$222.2m compared to 30 June 2018, primarily through the acquisition of assets that will be described in greater detail below. The weighted average duration of the leases of the Funds' assets is 11.3 years.

In summary, the results for FY19 are very pleasing in that they are consistent with RFM's objectives of the Fund; to grow AFFO, maintain distribution growth at 4% and increase diversification and scale.

Review of financial year 2019

During July 2018, RFF completed a \$149.5m entitlement offer (Entitlement Offer) with proceeds primarily used to fund transactions with JBS Australia Pty Limited (JBS), the country's largest lot feeder and meat processor. The JBS transactions include the purchase of feedlots from JBS and the provision of a \$75.0m limited guarantee that will enable JBS to replace an existing arrangement for the supply of cattle for its grainfed business. The Entitlement Offer also created funding capacity to support several cattle and cotton property acquisitions.

The first of these acquisitions, which was described in the Entitlement Offer material, was Comanche. Comanche is a 7,600 hectare(ha) cattle property located in central Queensland. When announcing the purchase, RFM outlined a development program focusing on additional water points, increasing cultivation area and pasture improvements. The aim of the program is to increase the carrying capacity of the property, and ultimately have this increase reflected in a valuation uplift for the benefit of RFF unitholders. Shortly after this, RFM announced the acquisition of Cerberus, an 8,280 ha cattle property located in central Queensland with similar attributes as Comanche.

FY19 also saw the establishment of a relationship with another corporate lessee in Stone Axe Pastoral Company (SAP). SAP are a beef company focusing on premium full-blood Wagyu production. The Rural Funds Group acquired and leased three properties to SAP in FY19. The properties; Dyamberin (1,728 ha), Woodburn (1,062 ha) and Cobungra (6,486 ha), are located in New South Wales and Victoria. Similar to the other cattle properties acquired in FY19, these also have development potential to improve productivity.

Importantly, all the cattle properties acquired in FY19 are leased for a period of ten years, with a rent review in year five. This lease duration and structure provides a predictable level of income for RFF and the opportunity to monetise growth in asset values at the point of rent review.

RFF's investment in the cattle sector started in 2016, via the purchase of three properties, including one called Rewan. Since Rewan was acquired, capital expenditure and operational improvements have increased both the value and productivity of the property. In July 2019, RFM was pleased to announce the transfer of the lease of Rewan from Cattle JV Pty Ltd (an entity owned by RFM) to the Australian Agricultural Company Ltd (ASX: AAC). This transaction has achieved several benefits. Firstly, the lease brings forward an increase to the income generated by this asset. Secondly, the transaction provides validation of RFM's productivity development

strategy. Thirdly, it introduces another high-quality lessee to the RFF portfolio. Established in 1824, AAC is Australia's largest integrated cattle and beef producer, operating approximately 1% of Australia's landmass. AAC is also the oldest continuously operating company in Australia.

During the period RFF also acquired Mayneland, a 2,942 ha cotton property in central Queensland, 25kms north of Lynora Downs, another cotton asset owned by the Fund. RFM will operate and lease Mayneland in FY20 to enable development of unutilised water entitlements and to improve economies of scale which will make the asset more financially attractive to third party lessees.

Cotton yields achieved in the past year were up to 12.5 bales per ha on Lynora Downs and 15 bales per ha on Mayneland. These record yields support the investment in cotton farms in this region by RFF.

Pages 8 and 9 of this Annual Report provides a map of Australia showing the 50 assets which are owned by the Rural Funds Group and includes those expected to settle in the coming months.

In summary, the assets acquired during the year, and the ongoing development programs undertaken, strengthened portfolio diversification in terms of sector, geographic and climatic measures. Pages 10 and 11 of this Annual Report provides further detail of the Funds diversification by these measures.

Several of the existing properties saw increases from independent valuations during the period. Almond orchards, including the Kerarbury orchard, which consists of 2,500 ha of plantings, received a combined \$15.9m valuation increase. Notably too, the vineyards owned by RFF, received valuation increases of \$15.8m, representing a 33% increase to their prior values. These assets are primarily located in Australia's premier wine growing region, the Barossa Valley.

Looking ahead to FY20

As part of the full year results presented in August, RFM provided a forecast FY20 AFFO per unit of 14.0 cents. From this AFFO RFF will pay forecast distributions totalling 10.85 cents per unit. This represents a 4.0% increase on FY19 distributions and therefore consistent with the Fund's strategy.

RFM will continue to pursue acquisition opportunities driven by structural trends in the Australian agricultural sector. However, the objectives for RFF remain unchanged; investing in assets, and where possible developing those assets, with the aim of achieving consistent distribution growth, diversification and scale.

We look forward to providing you with updates as they arise during FY20. As always please don't hesitate to contact the RFM team should you have any questions about your investment.

Yours faithfully,



David Bryant
Managing Director
Rural Funds Management Limited



Rural Funds Group overview¹

Rural Funds Group (RFF) is an agricultural real estate investment trust which owns a diversified portfolio of Australian agricultural assets across six sectors. These assets have long-term leases with experienced agricultural operators.

50²
assets

11.3 yrs
WALE³

5
vineyards

Climatic zones



Cattle

16
cattle
properties

\$274.7m
FY19 value

7 lessees

\$21.5m
FY20f rent



Poultry

17
poultry
farms

\$75.0m
FY19 value

1 lessee

\$10.9m
FY20f rent



Vineyards

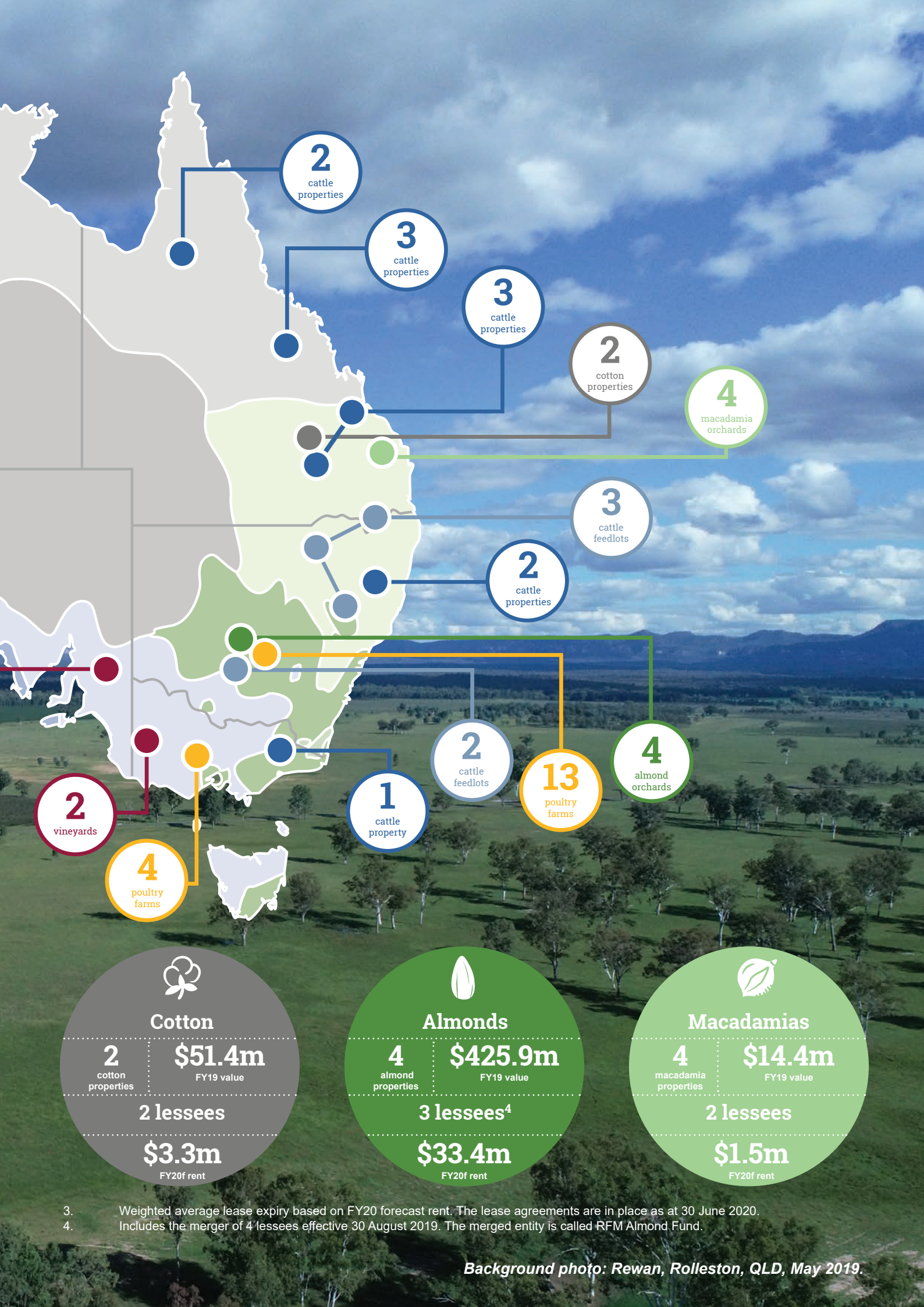
7
vineyard
properties

\$64.1m
FY19 value

1 lessee

\$3.9m
FY20f rent

1. Shaded areas denote climatic zones differentiated by rainfall seasonality. Source: Bureau of Meteorology; see RFF Climatic Diversification discussion paper, 20 June 2016. Background picture: Rewan May 2019.
2. Includes Beef City feedlot (settled Aug 2019), Riverina Beef feedlot (expected to settle Dec 2019), Cygnet macadamia development (expected to settle Nov 2019).



2
cattle
properties

3
cattle
properties

3
cattle
properties

2
cotton
properties

4
macadamia
orchards

3
cattle
feedlots

2
cattle
properties

2
vineyards

4
poultry
farms

1
cattle
property

2
cattle
feedlots

13
poultry
farms

4
almond
orchards


Cotton

2 cotton properties	\$51.4m FY19 value
2 lessees	
\$3.3m FY20f rent	


Almonds

4 almond properties	\$425.9m FY19 value
3 lessees⁴	
\$33.4m FY20f rent	


Macadamias

4 macadamia properties	\$14.4m FY19 value
2 lessees	
\$1.5m FY20f rent	

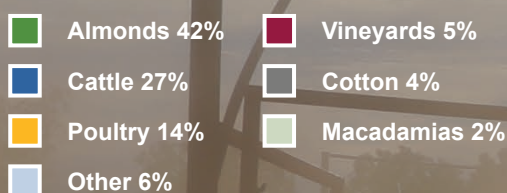
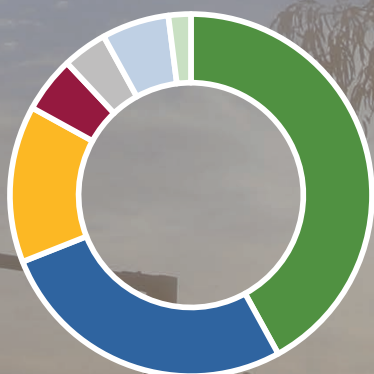
3. Weighted average lease expiry based on FY20 forecast rent. The lease agreements are in place as at 30 June 2020.
4. Includes the merger of 4 lessees effective 30 August 2019. The merged entity is called RFM Almond Fund.

Background photo: Rewan, Rolleston, QLD, May 2019.

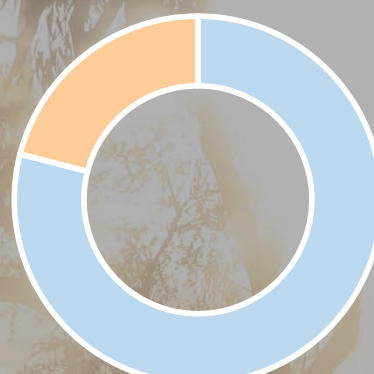
Investment strategy

RFM continues to oversee and manage existing assets, including capex and developments, while pursuing new acquisitions with the potential for productivity development. RFM seeks to diversify RFF by sector, asset type and climatic zone. RFM aims to grow distributions by 4% p.a.

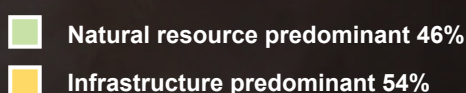
Agricultural sector¹



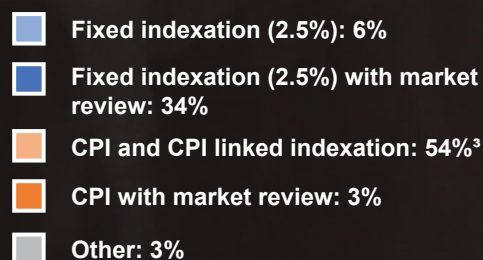
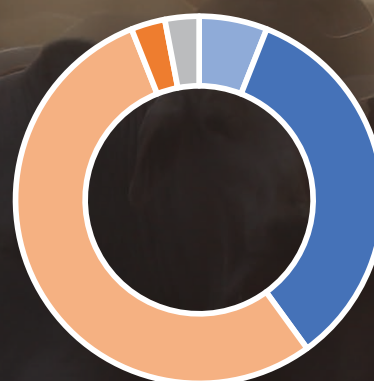
Climatic zone¹



Asset type^{1,2}



Indexation¹



1. Figures based on FY20 forecast revenue.
2. Assumes: Poultry, feedlots (and guarantee fee) are infrastructure predominant; vineyards, cotton, and, cattle properties are natural resource predominant; almond and macadamia orchards are split equally.
3. CPI linked indexation refers to RFM Poultry which is 65% of CPI capped at 2%.

FY19 results highlights

Key financial metrics⁴:

Adjusted Funds from Operations (AFFO) increased due to JBS transactions, acquisitions, development capital expenditure, and lease indexation.

EPU lower mainly due to \$18m non-cash revaluation decrements on interest rate swaps.

AFFO 13.3 CPU

EPU 10.1 cents

10.43¢
DPU

78%
AFFO PAYOUT
RATIO

Balance sheet metrics:

Increase in adjusted total assets of \$222m primarily due to acquisitions, capex and revaluations of almond orchards, vineyards and water entitlements.

Gearing of 31% remains within target range of 30-35%.

Adj. total assets \$945.9m⁵ FY19

Debt \$291.4m

\$1.80
ADJ. NAV
PER UNIT

31.2%
GEARING

FY20 forecasts:

FY20 DPU forecast of 10.85 cents consistent with 4% annual growth target. Represents a forecast payout ratio of 77%.

AFFO 14.0 CPU

DPU 10.85 cents

4.0%
FY20 DPU
GROWTH

5.5%
FORECAST YIELD⁶

Capital management:

Facility was refinanced in November 2018, with limit increased and split into two tranches of three and five years.

Term debt facility \$335.0m

Term debt drawn \$291.4m

55.9%
DEBT HEDGED

4.18%
EFFECTIVE COST
OF TOTAL DEBT

4. Earnings per unit (EPU), distributions per unit (DPU) and cents per unit (CPU). EPU calculated as Total Comprehensive Income/ weighted average units.
5. Adjusted total assets incorporates most recent independent property valuations, including water entitlements, and is adjusted for the independent valuation of water entitlements, which are recognised at the lower of cost or fair value on the balance sheet.
6. FY20 forecast yield based on DPU of 10.85 cents as at 9 September 2019 divided by closing price of \$2.00.

Background photo: Mutton Hole, Gulf Muster, QLD, June 2018.



Geier vineyard, Barossa Valley, SA, March 2019.



CORPORATE GOVERNANCE STATEMENT

Definitions

ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange Limited or ASX Limited
RE	Responsible Entity

Rural Funds Group (the Fund) is listed on the ASX and comprises Rural Funds Trust ARSN 112 951 578 and RF Active ARSN 168 740 805, both registered managed investment schemes under the *Corporations Act 2001* (Cth) (the Corporations Act). Units in Rural Funds Trust are stapled to units in RF Active. Rural Funds Management Limited (RFM) ACN 077 492 838 is the Responsible Entity for the Fund and has established and oversees the corporate governance of the Fund. The Responsible Entity holds Australian Financial Services Licence (AFSL) 226701 authorising it to operate the Fund. It has a duty to act in the best interests of unitholders of the Fund. The Fund's compliance plan has been lodged with ASIC, a copy of which can be obtained from ASIC or by contacting the Responsible Entity. The Responsible Entity publishes a number of its corporate governance related policies on its website at:

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

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

To the extent that they are applicable for an externally managed fund, the Responsible Entity has adopted and complies with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations 3rd Edition. In accordance with ASX Listing Rule 4.10.3, set out in this section are the ASX Corporate Governance Council's eight principles of good corporate governance, and the extent to which there is compliance with the recommendations for each principle. The statement has been approved by the Board of the Responsible Entity and applies to the period 1 July 2018 to 30 June 2019 (Statement Period).

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

At the time of printing this statement, there have been no material changes to corporate governance policies and practices since 30 June 2019.

PRINCIPLE 1

Lay solid foundations for management and oversight

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

ASX RECOMMENDATION	FUND'S RESPONSE
1.1	The business of the Fund is managed under the direction of the Board of the Responsible Entity comprising: > Chair: Guy Paynter (independent non-executive director) > Managing Director: David Bryant > Non-Executive Director: Michael Carroll (independent non-executive director) > Non-Executive Director: Julian Widdup (independent non-executive director) The conduct of the Board is governed by the Constitution of the Fund and the Corporations Act. The broad functions and responsibilities of the Board are set out in sections 2.3 and 2.4 of the Corporate Governance Charter. The specific responsibilities are set out in section 2.5. The Board has delegated responsibility for the day-to-day management of the Fund to the Managing Director of the Responsible Entity. The delegations are outlined in the Corporate Governance Charter. The Managing Director, David Bryant, is responsible for financial oversight, continuous disclosure and compliance oversight, media, analyst briefings, responses to member questions, and for ensuring that the Board is provided with information to make fully informed decisions. The Constitution of the Fund is available by contacting the Responsible Entity. The Corporate Governance Charter is available on the Responsible Entity's website.
1.2	As an externally managed scheme, recommendation 1.2 does not apply to the Fund.
1.3	All directors of the Responsible Entity receive letters of appointment setting out the key terms and conditions of their appointment. All senior managers of the Responsible Entity enter into an employment agreement setting out the key terms and conditions of their employment including a position description, duties, rights, responsibilities, remuneration and entitlements on termination.
1.4	The Company Secretary of the Responsible Entity is accountable to the Board, through the Chair, on all matters to do with the proper functioning of the Board. As stated in the Corporate Governance Charter, the Company Secretary reports directly to the Managing Director.

ASX RECOMMENDATION (CONT')	FUND'S RESPONSE
1.5	As an externally managed scheme, recommendation 1.5 does not apply to the Fund. The Responsible Entity has a diversity policy, which is reviewed annually with any changes approved by the Board. The policy provides the framework by which the Responsible Entity actively manages and encourages diversity and inclusion. It recognises that its employees are one of its greatest assets and it has a range of employees with skills and capabilities that ensure the ongoing strength, continuity and stability of the Responsible Entity. The policy addresses issues of diversity in developing selection criteria, skills mix and process when identifying candidates for appointment to the Board. Additionally, the Responsible Entity seeks to attract a diverse pool of suitably skilled candidates for available positions within the organisation. Due to the size of the Responsible Entity's Board and its senior management team, and the limited turnover of personnel at this level, it does not set quantitative gender diversity objectives. The Responsible Entity will endeavour to maintain, or improve, its current level of gender diversity as senior management vacancies arise. A copy of the policy is available on the Responsible Entity's website. The Responsible Entity's senior management includes two female managers (out of a total of 15 senior managers. Of the 162 staff members RFM and its associated entities employ, 27% are female. The <i>Workplace Gender Equality Act 2012</i> (Cth) applies to RFM as the Responsible Entity employs more than 100 employees in Australia. This is the first financial year that the Responsible Entity has met this threshold. Therefore, the Responsible Entity is now required to report annually to the Workplace Gender Equality Agency (WGEA). The Responsible Entity has advised WGEA of the updated employment figures and is registered to report to WGEA for the periods ending 31 March annually, commencing in 2020.
1.6	The performance of the Board, its committees and individual directors is outlined in the Corporate Governance Charter. The performance of individual Board members is reviewed annually in accordance with the timelines outlined in the Responsible Entity's Performance Management Policy.
1.7	The performance of all staff, including senior managers, is reviewed throughout the year, as appropriate, in accordance with the timelines outlined in the Responsible Entity's Performance Management Policy.



Swan Ridge orchard, Bundaberg QLD, 2018.

PRINCIPLE 2

Structure the board to add value

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

ASX RECOMMENDATION	FUND'S RESPONSE															
2.1	As an externally managed scheme, recommendation 2.1 does not apply to the Fund. Additionally, due to the small size of the Responsible Entity's Board, it is usual that all of the Board members are involved in the full spectrum of discussion and decisions on matters. As a result, they bring the full complement of skills and experience available to address matters as they arise. External advice is sought from senior consultants including specialist tax, legal or business advisers when required.															
2.2	As an externally managed scheme, recommendation 2.2 does not apply to the Fund.															
2.3	The Responsible Entity Board comprises of four members, three of whom are independent non-executive directors. <table><tr><th>HOLDING SIZE</th><th>UNITHOLDERS</th><th>CLASS</th></tr><tr><td>David Bryant</td><td>17 February 1997</td><td>No</td></tr><tr><td>Guy Paynter</td><td>15 April 2010</td><td>Yes</td></tr><tr><td>Michael Carroll</td><td>15 April 2010</td><td>Yes</td></tr><tr><td>Julian Widdup</td><td>15 February 2017</td><td>Yes</td></tr></table> Guy Paynter is an Independent Non-Executive Director, holds the role of Chair of the Board and is a member of the Audit Committee and the Remuneration Committee.  Guy Paynter is a former director of broking firm JB Were and brings to the Responsible Entity more than 30 years of experience in corporate finance. Guy is a former member of the ASX and a former associate of the Securities Institute of Australia (now known as the Financial Services Institute of Australasia). Guy's agricultural interests include cattle breeding in the Upper Hunter region of New South Wales. Guy holds a Bachelor of Laws from the University of Melbourne.	HOLDING SIZE	UNITHOLDERS	CLASS	David Bryant	17 February 1997	No	Guy Paynter	15 April 2010	Yes	Michael Carroll	15 April 2010	Yes	Julian Widdup	15 February 2017	Yes
HOLDING SIZE	UNITHOLDERS	CLASS														
David Bryant	17 February 1997	No														
Guy Paynter	15 April 2010	Yes														
Michael Carroll	15 April 2010	Yes														
Julian Widdup	15 February 2017	Yes														

ASX RECOMMENDATION (CONT')	FUND'S RESPONSE
2.3 continued	 David Bryant is the Managing Director. David holds 77.87% of shares on issue in the Responsible Entity. David Bryant established RFM in February 1997 and since that time has led the team responsible for the acquisition of large-scale agricultural property assets and associated water entitlements. As at 30 June 2019, RFM manages over \$1.2 billion of agricultural assets. On a day-to-day level, David is responsible for leading the RFM senior management team, maintaining key commercial relationships and sourcing new business opportunities. David holds a Diploma of Financial Planning from the Royal Melbourne Institute of Technology (RMIT) University and a Master of Agribusiness from the University of Melbourne.
	 Michael Carroll is an Independent Non-Executive Director and is the Chair of the Audit Committee and the Remuneration Committee. Michael Carroll serves in a board and advisory capacity for a range of agribusinesses entities. Michael is the Chairman of Viridis Ag Limited and the Australian Rural Leadership Foundation. Michael is a Director on the boards of Elders Limited, Select Harvests Limited and Paraway Pastoral Company Limited. Former board positions include Sunny Queen Australian Pty Limited, Tassal Group Limited, the Australian Farm Institute, Warrnambool Cheese & Butter Factory Company Holdings Limited, Meat & Livestock Australia, Queensland Sugar Limited, the Geoffrey Gardiner Dairy Foundation and the Rural Finance Corporation of Victoria. Michael's advisory clients have included government, major banks and institutional investors. He comes from a family who have been involved in agriculture for over 145 years and owns his own property in South West Victoria. Michael has senior executive experience in a range of companies, including establishing and leading the National Australia Bank (NAB) Agribusiness division. Michael worked for several years as a senior adviser in the NAB internal investment banking and corporate advisory team. Before joining the NAB, Michael worked for a range of agribusiness companies including Monsanto Agricultural Products and a biotechnology venture capital company. Michael holds a Bachelor of Agricultural Science from La Trobe University and a Master of Business Administration (MBA) from the University of Melbourne's Melbourne Business School. Michael has completed the Advanced Management Program at Harvard Business School, Boston, and is a Fellow of the Australian Institute of Company Directors.

ASX RECOMMENDATION (CONT')	FUND'S RESPONSE
2.3 continued	 Julian Widdup is an Independent Non-Executive Director and is a member of the Audit Committee and Remuneration Committee. Julian Widdup is a former executive of infrastructure investment management companies Palisade Investment Partners and Access Capital Advisers (now Whitehelm Capital), where he was responsible for the acquisition and asset management of major infrastructure assets, risk management, portfolio construction, institutional client management and overseeing all aspects of investment operations. Julian has previously worked with Towers Perrin (now Willis Towers Watson) as an asset consultant, the Australian Bureau of Statistics and the Insurance and Superannuation Commission (now APRA). Julian brings extensive experience to the RFM Board, having previously served as a director of Palisade Investment Partners, Darwin International Airport, Alice Springs Airport, NZ timberland company Taumata Plantations Limited, Regional Livestock Exchange Investment Company, Merredin Energy power generation company, Victorian AgriBioscience Research Facility, the Casey Hospital in Melbourne and the Mater Hospital in Newcastle. Julian is currently a director of Australian Catholic Superannuation & Retirement Fund, Catholic Schools NSW and Screen Canberra. Julian holds a Bachelor of Economics from the Australian National University, is a Fellow of the Institute of Actuaries of Australia and a Fellow of the Australian Institute of Company Directors. Further information on the composition of the Responsible Entity's Board, senior management profiles, and the skills, knowledge, and experience of individual members can be found on the Responsible Entity's website. The independence of the Non-Executive Directors has been ascertained in compliance with the Corporations Act and the ASX Listing Rules, and there are no other factors which might reasonably be seen as undermining their independence. All directors must declare actual or potential conflicts of interest and excuse themselves from discussions on issues where an actual or potential conflict of interest arises. The directors' interests and any subsequent changes have been disclosed to the ASX. The Responsible Entity directors are subject to director rotation consistent with the Responsible Entity's constitution and ASX Listing Rules.

ASX RECOMMENDATION (CONT')	FUND'S RESPONSE
2.4	As an externally managed scheme, recommendation 2.4 does not apply to the Fund; however, as outlined in 2.3, the Responsible Entity's Board is comprised of a majority of independent directors.
2.5	As an externally managed scheme, recommendation 2.5 does not apply to the Fund; however, Independent Non-Executive Director, Guy Paynter, holds the role of Chair of the Responsible Entity.
2.6	As an externally managed scheme, recommendation 2.6 does not apply to the Fund; however, any new directors are provided with an induction relevant to the Responsible Entity and the Fund. Directors are also provided with opportunities to develop and maintain their skills and knowledge, through both formal and informal training.



Rosebank vineyard, Barossa Valley, SA, March 2019.

PRINCIPLE 3

Act ethically and responsibly

A listed entity should act ethically and responsibly.

ASX RECOMMENDATION	FUND'S RESPONSE
3.1	The Responsible Entity has adopted a Directors' Code of Conduct (the Code) that sets out the minimum acceptable standards of behaviour. The Code seeks to give directors guidance on how best to perform their duties, meet their obligations and understand the company's corporate governance practices. The Code focuses on directors' obligations to comply with codes and law, their general duties, their application of business judgement, the application of independent and sound decision making, confidentiality, improper use of information, cooperation, personal interests and conflicts, conduct, and complaints. In addition to the Directors' Code of Conduct, the Responsible Entity has a general Code of Conduct that is applicable to directors and all staff including senior managers. The Corporate Governance Charter which includes the Directors' Code of Conduct is available on the Responsible Entity's website. Both codes are reviewed annually to ensure that they remain current and relevant.

PRINCIPLE 4

Safeguard integrity in corporate reporting

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

ASX RECOMMENDATION	FUND'S RESPONSE
4.1	The Board of Directors of the Responsible Entity has established an audit committee. The purpose of the Audit Committee is to assist the Board in overseeing the integrity of financial reporting, financial controls and procedures in respect of the Fund as well as the independence of the Fund's external auditors. The Audit Committee is comprised of three members, all of whom are non-executive independent directors. An independent director, who is not the Chair of the Board of the Responsible Entity, is Chair of the Committee. The relevant qualifications and experience of the members is available on the Responsible Entity's website. The Audit Committee will routinely invite other individuals to attend meetings, including senior management of the Responsible Entity and the Auditor of the Fund. The Audit Committee and invitees review the financial reports and provide commentary to the Board as required. Two meetings of the Audit Committee were held in relation to the accounts during the Statement Period. The Audit Committee ordinarily hold two meetings per year or more if required. The Audit Committee has a formal charter that details its roles and responsibilities and its obligations to report to the Board. The charter sets out the powers of the Audit Committee, the meeting procedure framework, the process for selection of external auditors and audit planning. The Audit Committee charter can be found in Schedule 1 of the Corporate Governance Charter on the Responsible Entity's website.
4.2	The Board of the Responsible Entity has been given declarations by the persons performing the chief executive officer and chief financial officer functions. It is their opinion that the: > Financial records of the Fund have been properly maintained in accordance with section 286 of the Corporations Act > Financial statements and notes, referred to in paragraph 295(3)(b) of the Corporations Act, for the financial year comply with the accounting standards > Financial statements and notes give a true and fair view of the financial position and performance of the entity > Opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.
4.3	As an externally managed scheme, recommendation 4.3 does not apply to the Fund. The Fund has not held an Annual General Meeting during the Statement Period.

PRINCIPLE 5

Make timely and balanced disclosure

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

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



Lynora Downs, central QLD, July 2019.

PRINCIPLE 6

Respect the rights of security holders

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

ASX RECOMMENDATION	FUND'S RESPONSE
6.1	The Responsible Entity is one of the oldest and most experienced agricultural fund managers in Australia. The Responsible Entity was established in 1997 to provide retail investors with an opportunity to invest in Australian rural assets. The management team includes specialist fund managers, finance professionals, horticulturists, agricultural managers and livestock managers. This team provides the Responsible Entity with the specialised skills and experience required to manage the agricultural assets. The Responsible Entity also utilises the best available consultants and supporting resources to achieve desired outcomes and has a substantial network available to ensure that, where appropriate, tasks can be outsourced. The Responsible Entity has the primary responsibility for managing the Fund on behalf of unitholders. Information about the Responsible Entity and the Fund is available on the Responsible Entity's website. Information about the corporate governance practices and policies of the Responsible Entity is available on the Responsible Entity's website.
6.2	The Responsible Entity's website has information available to unitholders to facilitate two-way communication. The investment products tab on the website provides a link to the Fund's website which provides a Fund overview, sector, asset and lease information, strategy and investment processes, financial information, key documents, news and announcements, and details about how to contact the Responsible Entity and the Unit Registry. In addition, unitholders are encouraged to contact the Responsible Entity using any of the following methods: Email: investorservices@ruralfunds.com.au Website: https://ruralfunds.com.au/contact-us/ Phone: 1800 026 665 Fax: 1800 625 518 By visiting the Responsible Entity's office: Level 2, 2 King St, Deakin ACT 2600 From time to time, the Responsible Entity arranges tours of the assets of the Fund. Additionally, unitholders are welcome to make their own arrangements to visit the assets by contacting Investor Services.

ASX RECOMMENDATION (CONT')	FUND'S RESPONSE
6.3	As an externally managed scheme that does not hold periodic meetings, recommendation 6.3 does not apply to the Fund. If the Responsible Entity is required to hold a unitholder meeting, it could use a web-conferencing and/or a teleconferencing facility for remote unitholders along with an online polling system provided by the Fund's registry, enabling unitholders to vote online at any meeting.
6.4	The Responsible Entity encourages all investors to communicate with it and with the Fund's registry electronically however, the Responsible Entity continues to communicate with investors via traditional methods (mail and phone) when appropriate.



Mutton Hole, Gulf Muster, QLD, July 2019.

PRINCIPLE 7

Recognise and manage risk

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

ASX RECOMMENDATION	FUND'S RESPONSE
7.1	The Responsible Entity has not established a risk committee. Due to the size of the Board and the nature of the business, the Board has determined that risk oversight should be managed by the Board. The Board has ultimate responsibility for overseeing the risk management framework and for approving and monitoring compliance with the framework. The Board receives monthly reports on all material business risks in relation to the Fund, including a report on all risks rated extreme or high. The ongoing management of identified risks is undertaken by the relevant managers of each business area, who report to the Board on the effectiveness of mitigation measures. The Responsible Entity has established a risk management policy that documents the Responsible Entity's policy for the oversight and management of material business risks. It ensures that risks are identified and assessed, and that measures to monitor and manage each of the material risks are implemented. The Risk Management Policy is based on standards set out in the International Standards ISO 31000:2018. The Risk Management Policy is available on the Responsible Entity's website.
7.2	The Responsible Entity's risk management framework is reviewed annually, or more often if there has been a substantive change in the risk profile. An annual risk review was performed during the Statement Period. The Annual Risk Review requires each risk owner to review each risk and assess whether the existing risk rating is appropriate. This results in all risks being re-evaluated. In some cases, the risks may be re-rated and the residual risk amended depending on changes in the likelihood of the risk occurring, the consequence if the risk did occur, and the effectiveness of control measures in place.

ASX RECOMMENDATION (CONT')	FUND'S RESPONSE
7.3	The Responsible Entity has an Internal Compliance Committee that provides assistance to the Board in evaluating the risk management framework and material business risks on an ongoing basis. While not an internal audit committee, the Internal Compliance Committee reports to the Board quarterly and may make recommendations to the Board for changes to processes and systems to ensure compliance with legal and regulatory requirements. During the Statement Period, the Internal Compliance Committee comprised: > Executive Manager – Funds Management (resigned as Chair 7 August 2018) > Company Secretary (appointed Chair 7 August 2018) > Financial Controller > National Manager – Human Resources > Senior Fund Administrator > Compliance Officer In addition, the Chief Operating Officer, Business Managers and National Managers are invited to each Internal Compliance Committee meeting. This broad representation of roles on the Internal Compliance Committee ensures it is fully informed of matters and recommendations.
7.4	The Responsible Entity is committed to undertaking the Fund's business activities in a responsible and ethical manner and ensuring that it remains sustainable. Environmental, social and governance (ESG) issues are embedded in many of its policies and procedures and are considered when making investment decisions. RFF's core activity is the leasing of agricultural land, water and infrastructure, and thus the Fund is largely passive in nature. Lessees are required to adopt practices that retain or improve the sustainability of the Fund's assets. In response to disclosing ESG matters for the Responsible Entity with the greatest materiality to the Fund and its investors, please refer to the Environmental, Social and Governance Responsibilities section starting at page 30.

PRINCIPLE 8

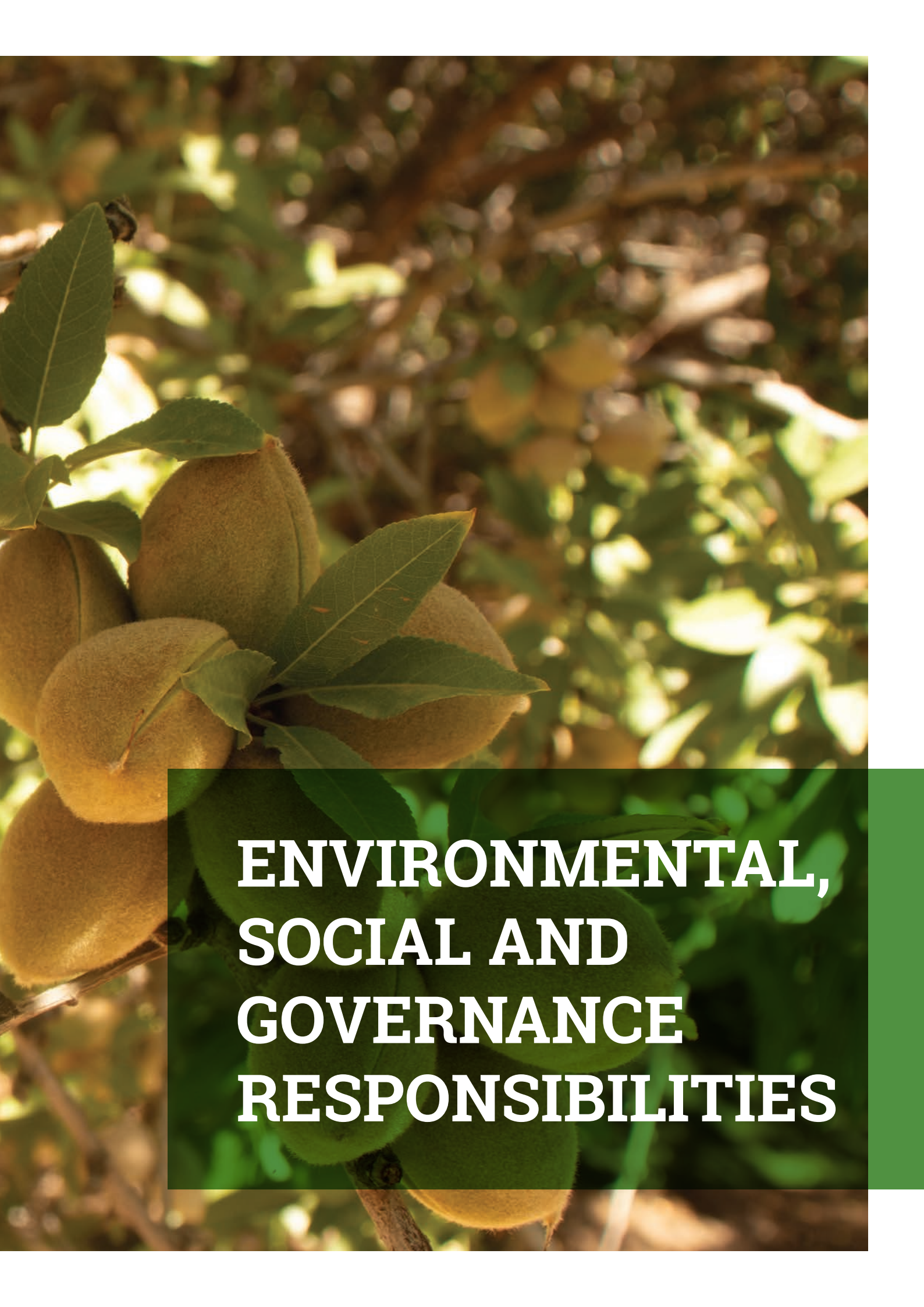
Remunerate fairly and responsibly

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

ASX RECOMMENDATION	FUND'S RESPONSE
8.1	The Responsible Entity has adopted the ASX's alternative recommendations for externally managed entities and provides the following details governing the remuneration to the Responsible Manager: > Fund Management Fee – up to 1.0% p.a. of the adjusted gross asset value of the Fund > Asset Management Fee – up to 1.0% p.a. of the adjusted gross asset value of the Fund > Termination Fee – 1.5% of the adjusted gross asset value of the Fund. The fees listed above represent the maximum allowed under the Fund's Constitution. At present, the Responsible Entity charges total fees (fund management and asset management fees) of 1.05% of the adjusted gross asset value of the Fund. For further information on these fees, refer to page 92 for the dollar amounts. The Board of Directors of the Responsible Entity has established a Remuneration Committee. The purpose of the Remuneration Committee is to advise on remuneration and issues relevant to the remuneration policies and practices for senior managers and non-executive directors. The Remuneration Committee is comprised of three members, all of whom are non-executive independent directors. An independent director, who is not the Chair of the Board of the Responsible Entity, is Chair of the Committee. Information on the relevant qualifications and experience of the members is available on the Responsible Entity's website. The Remuneration Committee will routinely invite other individuals to attend meetings, including senior management of the Responsible Entity. The Remuneration Committee and invitees will review the remuneration and diversity report and provide commentary to the Board as required. One meeting of the Remuneration Committee was held in relation to remuneration during the Statement Period. The Remuneration Committee has a formal charter that details the responsibilities of the Remuneration Committee and its obligations to report to the Board. The charter sets out the powers of the Remuneration Committee and the meeting procedure framework. The Remuneration Committee charter can be found in Schedule 2 of the Corporate Governance Charter on the Responsible Entity's website.
8.2	As an externally managed scheme, refer to recommendation 8.1.
8.3	As an externally managed scheme, refer to recommendation 8.1.



Mooral almond orchard, Hillston, NSW, January 2019.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE RESPONSIBILITIES

ASX recommendation 7.4

Commitment and responsibility for implementation

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

Please note that some sections of our ESG statement fall under the corporate governance section, which can be found from page 12.

7.4 Environment

Climate change

RFM is aware of the potential risks that climate change could present to RFF assets. RFM has committed to a climatic diversification strategy in order to mitigate these risks.

This year RFM committed to undergoing a quantification of the primary emissions on specific RFF assets (Carbon dioxide, Methane and Nitrous oxide). Having engaged independent experts, RFM is expected to be able to quantify the emissions from RFF's assets and undergo infrastructure and practice changes in response. For more information, see Discussion Paper #9 *Understanding the drivers of climate change* on RFM's website.

Carbon dioxide

Through the use of infrastructure such as water pumps, diesel generators and machinery, RFF's almond orchards, macadamia orchards, vineyards, cotton and poultry assets are producers of carbon dioxide.

Steps have been taken by RFM towards reducing emissions on RFF's assets. Some of RFF's cattle and poultry farms have benefitted from solar energy installations to offset energy use. RFM has also entered into a feasibility study for one of RFF's almond orchards to explore the possibility of a future solar energy installation.

Methane

RFF's cattle assets are a producer of methane. RFM is investigating the means of quantifying these emissions and exploring ways to reduce them, including pasture improvements and supplementary feeding. Dietary changes have the potential to reduce methane emissions in cattle, as the feed that would have been converted to methane becomes energy for the animal instead.

Nitrous oxide

Cereal and cotton cropping is a common source of nitrous oxide emissions, mostly through the application of nitrogen-based fertilisers. Waterlogging caused by excessive irrigation is also a source of nitrous oxide emissions. These are issues that best management practice avoids on RFF's cotton and almond properties, but nevertheless will be the subject of future review and measurement.

Management of natural resources

RFF owns a portfolio of Australian agricultural assets and the stewardship of these assets is of critical importance to the performance and growth of RFF. RFF's leases require operators to use appropriate agricultural production methods.

Wherever practical, the Fund will:

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

Best farming practice

RFF leases require operators to use appropriate agricultural production methods. These include farm management tactics to minimise environmental impact, protect biodiversity, manage water and sustain soil health. For the full details, see the Environmental Policy located on RFM's website.

7.4 Social

Animal welfare

Some of RFF's properties are leased to agricultural producers involved in intensive production, such as broiler chickens and cattle feedlots. RFM has policies and procedures which are explicit about animal treatment and welfare.

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

The birds produced at RFF's poultry sheds are accredited under the RSPCA's Approved Farming Scheme Standards – Meat Chickens. The RSPCA monitors compliance to these standards by conducting two audits each year, as well as random audits throughout the year. Chickens are raised in accordance with RSPCA standards for prescribed stocking densities.

Community engagement

An integral part of our corporate culture is to donate to charities and causes that are close to the hearts of our employees, including in the communities in which we operate.

Taken Project

Taken is a village in the Battambang province of Cambodia. RFM has committed \$1 million over three years to assist farmers in agricultural practices to improve productivity and commodity diversification. The project aims to provide guidance and education to sustainably and reliably improve production. It is hoped that Taken will also become a model which could be replicated by other local communities.

Additional support

RFM has also supported a number of organisations through donations and labour. Further details can be located on the Community Involvement page on the RFM website.

Our staff

As RFF does not directly employ staff, RFM is responsible for staff management associated with the management and operation of the Fund. RFM has implemented a range of staff related policies, including: Code of Conduct, Environmental, Health, Safety and Environment (HSE), Incident Management, Diversity and Equal Employment Opportunity. The aim of these policies is to create a safe, diverse and equitable workplace.

RFM takes its obligations relating to Work Health and Safety seriously and has implemented an extensive HSE management system to educate employees and contractors and protect them from harm. The RFM Board receives a monthly workplace health and safety report identifying any issues and incidents. RFM periodically reviews arrangements with contractors to determine their practices and standards meet our safe work practices and expectations, legislative requirements and contractual obligations. RFM is committed to providing employees with ongoing opportunities for HSE training and development.

RFM staff are permitted to organise flexible working arrangements, tailored specifically to the needs of the individual. Staff undergoing additional training and development to support their current role are eligible to apply for study leave and flexible working arrangements.

7.4 Governance

Corporate governance

RFM has established an internal compliance committee (ICC) that reports to the RFM Board of Directors monthly. The ICC monitors and reports on compliance with RFM's Australian Financial Services Licence (AFSL) and compliance program to ensure that it is effective in meeting RFM's compliance requirements. The ICC also provides a supporting role to the Compliance Officer. The ICC is structured to include representatives from different business units to ensure compliance monitoring and review are well embedded across RFM.

Conflicts of interest and related party transactions

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

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

The Board of the Responsible Entity confirms all related party transactions are on an arm's length basis.

Ethical conduct

RFM seeks to act ethically while doing business and this underpins our approach with all transactions.

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

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



Mutton Hole, Gulf Muster, QLD, June 2018.

ASX ADDITIONAL INFORMATION

Additional information required by the ASX Limited (ASX) Listing Rules and not disclosed elsewhere in this report is set out below. This information is effective as at 10 September 2019.

(a) Distribution of Equity Securities

HOLDING SIZE	UNITHOLDERS	CLASS
1 – 1,000	2,977	Ordinary fully stapled securities
1,001 – 5,000	4,922	Ordinary fully stapled securities
5,001 – 10,000	2,395	Ordinary fully stapled securities
10,001 – 100,000	3,458	Ordinary fully stapled securities
100,001 and over	179	Ordinary fully stapled securities

(b) Substantial unitholders

The number of substantial unitholders and their associates are set out below:

UNITHOLDER	NUMBER OF UNITS	%
The Vanguard Group, Inc	22,238,563	8.69
Daiwa Securities Group Inc ¹	16,815,367	5.02
Sumitomo Mitsui DS Asset Management Company ¹	16,808,337	5.02
Sumitomo Mitsu Financial Group ¹	16,808,337	5.02

(c) Holders of less than marketable parcels

The number of holders of less than marketable parcels, being \$500 based on the ASX unit closing price of \$2.01 as at 10 September 2019 is set out below:

NUMBER OF UNITHOLDERS	NUMBER OF UNITS
1,401	378,982

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

(d) Voting rights

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

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

(e) Twenty largest unitholders at 10 September 2019

UNITHOLDER	NUMBER OF UNITS	%
HSBC Custody Nominees (Australia) Limited	54,176,352	16.17
J P Morgan Nominees Australia Pty Limited	44,320,233	13.23
Netwealth Investments Limited <Wrap Services A/C>	14,871,729	4.44
Citicorp Nominees Pty Limited	13,697,756	4.09
Argo Investments Limited	12,494,364	3.73
Rural Funds Management Ltd	11,843,659	3.53
National Nominees Limited	9,332,173	2.78
Netwealth Investments Limited <Super Services A/C>	3,555,341	1.06
One Managed Investment Funds Limited <Charter Hall Maxim Property Securities A/C>	2,650,000	0.79
Bryant Family Services Pty Ltd <BFS Super Fund A/C>	2,555,941	0.76
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	2,344,442	0.70
SCCASP Holdings Pty Ltd <H & R Super Fund A/C>	1,663,073	0.49
ABN AMRO Clearing Sydney Nominees Pty Ltd <Custodian A/C>	1,443,314	0.43
Boskenna Pty Ltd	1,209,104	0.36
Bond Street Custodians Limited <SHAWK1 - V04785 A/C>	781,363	0.23
WF Super Pty Ltd <Wilson Family S/F A/C>	770,335	0.23
BNP Paribas Nominees Pty Ltd <IB AU Noms Retailclient DRP>	750,186	0.22
Noeljen Pty Ltd <N & J PetersS Family A/C>	711,902	0.21
HSBC Custodian Nominees (Australia) Limited -A/C2	688,143	0.20
BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd DRP	676,798	0.20

(f) On-market buy-back

As at 10 September 2019, RFF confirms there is no on-market buy-back facility in operation.

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

LESSEES:	AETL AS CUSTODIAN AND RFM AS RESPONSIBLE ENTITY FOR RFM ALMOND FUND	AETL AS CUSTODIAN AND RFM AS RESPONSIBLE ENTITY FOR RFM POULTRY
Area:	592 hectares of almond orchards	303,216 sq metres of poultry sheds
Property and location:	Mooral, Hillston NSW	13 farms (134 sheds) Griffith, NSW, and 4 farms (20 sheds) Lethbridge, VIC.
Expiry:	2-Jul-28	Weighted average lease expiry 15-Jan-23
Capital commitments:	R&M on account of lessee. Development and replacement capital items on account of lessor – subject to additional lease income	R&M and ongoing capital expenditure on account of lessee
Indexation:	2.5% per annum	65% of CPI capped at 2%
Payment frequency:	Quarterly and half yearly in arrears	Quarterly in arrears

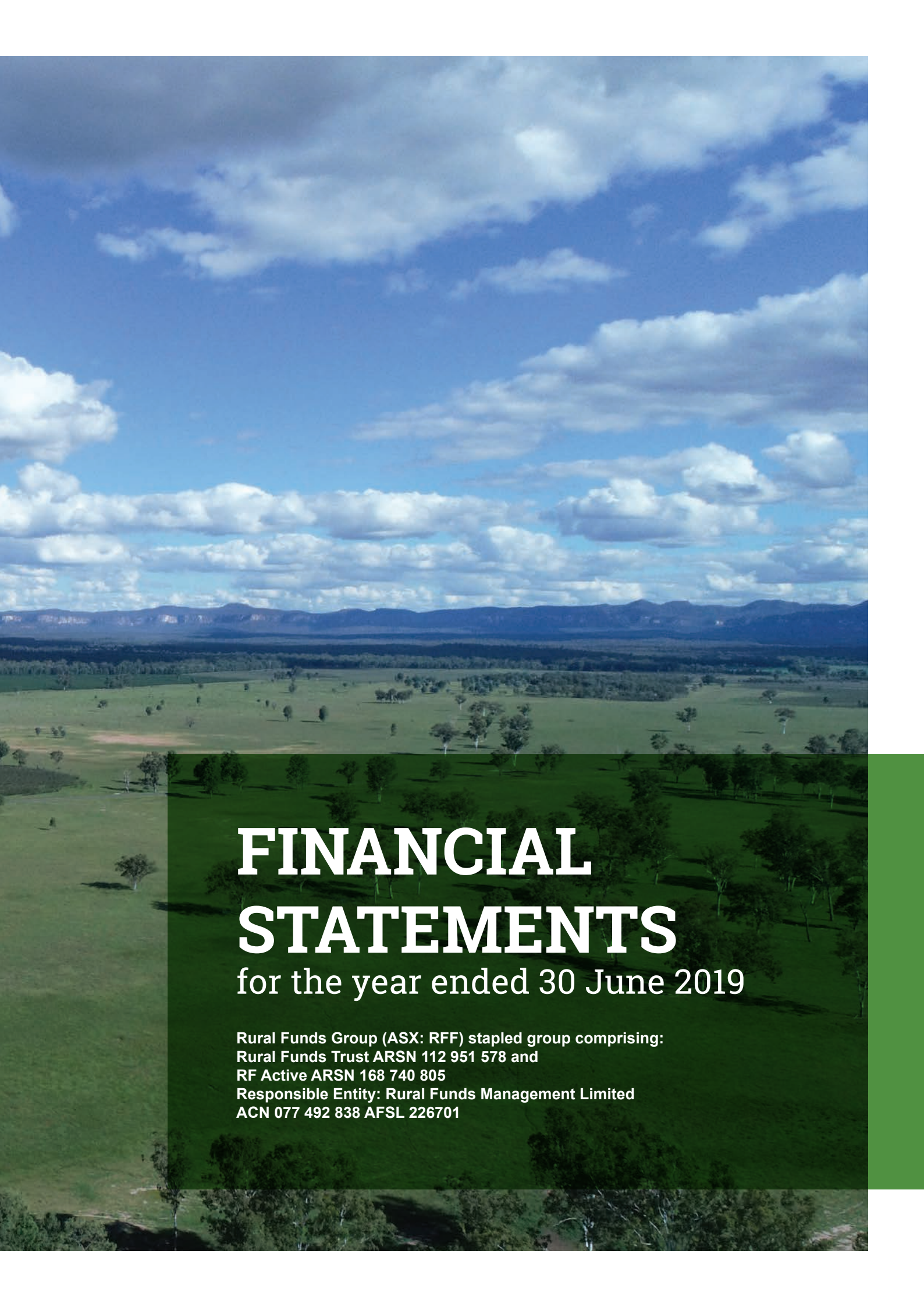
Securities exchange

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

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Rewan, central QLD, May 2019.



FINANCIAL STATEMENTS

for the year ended 30 June 2019

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

Rural Funds Group

Corporate Directory

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

Rural Funds Group

Directors' Report

30 June 2019

Rural Funds Group (RFF or the Group) comprises the stapled units in two Trusts, Rural Funds Trust (RFT) (ARSN 112 951 578) and RF Active (RFA) (ARSN 168 740 805) (collectively, the Trusts). The Directors of Rural Funds Management Limited (RFM) (ACN 077 492 838, AFSL 226701), the Responsible Entity of Rural Funds Group present their report on the Group for the year ended 30 June 2019.

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

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

Directors

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

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

Principal activities and significant changes in state of affairs

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

The following activities of the Group changed during the year:

In July 2018, the Group announced that it had negotiated a transaction involving the acquisition of JBS Australia Pty Limited's (JBS) five Australian feedlots and associated cropping land for \$52.7 million, including stamp duty and the provision of a \$75.0 million guarantee to J&F Australia Pty Limited (J&F). The transaction will enable JBS to replace an existing arrangement for the supply of cattle for its grainfed business. The guarantee transaction was subject to RFF unitholder approval as J&F would become a subsidiary of Rural Funds Management Limited on settlement. Approval was granted at the unitholder meeting held in August 2018.

During July 2018, the Group also purchased Comanche, a 7,600 hectare (ha) cattle property located in central Queensland for \$16.7 million including transaction costs.

In August 2018, the Group completed a \$149.5 million equity raise to fund the JBS transaction, associated costs, as well as the acquisition of Comanche. The \$75.0 million limited guarantee was provided to J&F as part of the JBS transaction in August 2018.

In September 2018, the Group purchased Cerberus, an 8,280 ha cattle property located in central Queensland for \$10.9 million including transaction costs. The Group also purchased Mayneland, a 2,942 ha cotton property in central Queensland for \$17.9 million including transaction costs, inclusive of plant and equipment associated with the property.

In October 2018, the Group settled three feedlots, Prime City, Carroona and Mungindi as part of the JBS transaction for \$28.7 million including transaction costs. The two remaining feedlots, Beef City and Riverina Beef, remain subject to subdivision approvals related to the on-site processing facilities and are expected to settle during August 2019 and December 2019 respectively.

During the month, the Group also purchased Dyamberin, a 1,728 ha cattle property located in the New England region of New South Wales for \$14.2 million including transaction costs.

In January 2019, the Group purchased Woodburn, a 1,062 ha cattle property located in the New England region of New South Wales for \$7.5 million including transaction costs.

In March 2019, the Group purchased Cobungra, a 6,486 ha cattle property located in the East Gippsland region of Victoria for \$36.9 million including transaction costs.

Rural Funds Group

Directors' Report

30 June 2019

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

The Group negotiated an increase to its syndicated debt facility from \$275,000,000 to \$300,000,000 in October 2018. As part of this process, the facility was split into two tranches and the term was extended.

The syndicated debt facility was increased from \$300,000,000 to \$335,000,000 in March 2019. A \$225,000,000 tranche is due to expire in November 2021 and a \$110,000,000 tranche is due to expire in November 2023.

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

Operating results

The consolidated net profit after income tax of the Group for the year ended 30 June 2019 amounted to \$33,355,000 (2018: \$29,895,000). The consolidated total comprehensive income of the Group for the year ended 30 June 2019 amounted to \$33,078,000 (2018: \$44,012,000).

The Group holds investment property, bearer plants and derivatives at fair value. After adjusting for the effects of fair value adjustments, depreciation, impairments, straight-lining and other unrealised one-off transactions during the year, the profit would have been \$43,246,000 (2018: \$32,323,000), representing adjusted funds from operations (AFFO).

Adjusted funds from operations (AFFO)

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

	2019 \$'000	2018 \$'000
Net profit before income tax	38,179	30,952*
Change in fair value of interest rate swaps	18,208	1,956
Depreciation and amortisation - other	1,230	1,001
Depreciation - bearer plants	4,600	4,001*
(Reversal of impairment)/impairment of bearer plants	(8,854)	2,159*
Change in fair value of investment property	(8,352)	(7,398)
Change in fair value of financial assets/liabilities	70	-
Reversal of impairment of intangible assets	(105)	(54)
Straight-lining of rental revenue	(953)	-
Interest component of JBS feedlot finance lease	(352)	-
Income tax payable on public trading trust - RF Active	(413)	(277)
Gain on sale of assets	(12)	(17)
AFFO	43,246	32,323
AFFO cents per unit	13.3	12.7

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

The net assets of the consolidated Group have increased to \$525,872,000 at 30 June 2019 from \$378,735,000 at 30 June 2018. At 30 June 2019 the Group had total assets of \$869,087,000 (2018: \$673,808,000).

At 30 June 2019, the Group held total water entitlements (including investments in Barossa Infrastructure Limited (BIL) and Coleambally Irrigation Co-operative Limited (CICL)) at a book value of \$131,273,000 (2018: \$119,657,000). Directors obtain independent valuations on RFF properties ensuring that each property will have been independently valued every two years or more often where appropriate. The Directors have taken into account the most recent valuations on each property and consider that they remain a reasonable estimate. On this basis the fair value of water entitlements at 30 June 2019 was \$208,042,000 (2018: \$169,498,000). The value of water entitlements is illustrated in the table overleaf:

Rural Funds Group

Directors' Report

30 June 2019

Financial position (continued)

Adjusted net asset value

	2019	2018
	\$'000	\$'000
Intangible assets (water entitlements)	118,531	106,926
Investment in CICL	12,222	12,222
Investment in BIL	520	509
Total book value of water entitlements	131,273	119,657
Revaluation of intangible assets per valuation	76,769	49,841
Adjusted total water entitlements	208,042	169,498

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.

	2019	2018
	\$'000	\$'000
Net assets per Consolidated Statement of Financial Position	525,872	378,735
Revaluation of intangible assets per valuation	76,769	49,841
Adjusted net assets	602,641	428,576
Adjusted NAV per unit	1.80	1.68

Property leasing

At 30 June 2019 the Group held 47 properties as follows:

- 17 poultry farms (303,216 square metres);
- 3 almond orchards (2,414 planted hectares);
- 1 almond orchard under development with plantings completed (2,500 planted hectares);
- 7 vineyards (666 planted hectares);
- 3 macadamia orchards (259 planted hectares);
- 14 cattle properties made up of 11 breeding, backgrounding and finishing properties (659,050 hectares) and 3 cattle feedlots with combined capacity of 110,240 Standard Cattle Units;
- 2 cotton properties (1,434 irrigable hectares).

During the year ended 30 June 2019, the properties held by the Group recorded an increment in the fair value of investment properties of \$8,352,000 (2018: \$7,398,000) and an increment in bearer plants revaluation of \$8,579,000 (2018: \$11,981,000).

Almond orchards

The three fully established almond orchard properties (including water entitlements) are located in Hillston, NSW and are leased to tenants who make regular rental payments. These encompass a planted area of 2,414 hectares (2018: 2,414 hectares):

- Yilgah 1,006 planted hectares (2018: 1,006);
- Moorai 808 planted hectares (2018: 808);
- Tocabil 600 planted hectares (2018: 600).

Rural Funds Group

Directors' Report

30 June 2019

Property leasing (continued)

These properties are under lease to the following tenants:

- Select Harvests Limited (SHV) 1,221 planted hectares (2018: 1,221);
- Olam Orchards Australia Pty Limited (Olam) 600 planted hectares (2018: 600);
- RFM Almond Fund 2006 (AF06) 272 planted hectares (2018: 272);
- RFM Almond Fund 2007 (AF07) planted 73 hectares (2018: 73);
- RFM Almond Fund 2008 (AF08) 206 planted hectares (2018: 206);
- Rural Funds Management Limited (RFM) 42 planted hectares (2018: 42).

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

For its almond orchards the Group owns water entitlements of 67,743ML (2018: 65,743ML) 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 (2018: 21,430ML) of water delivery entitlements that provide access to water delivery through CICL, with a low annual allocation expected to be provided.

Poultry property

The poultry property and infrastructure held by the Group includes 17 poultry growing farms located in Griffith, NSW and Lethbridge, VIC and 1,432ML of water entitlements (2018: 1,432ML). Leases are in place with RFM Poultry, a scheme managed by RFM, for 100% (2018: 100%) of the poultry property and infrastructure, with remaining lease terms between 5 and 17 years. The poultry growing operations are performed by RFM Poultry which is contracted with Baiada Poultry Pty Limited and Turi Foods Pty Limited.

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 (2018: 936ML). All vineyards are leased to Treasury Wine Estates and produce premium quality grapes. Six of the vineyards are leased until June 2026 and one is leased until June 2022.

Macadamia orchards

Established macadamia orchards located near Bundaberg, QLD are leased to the following tenants:

- 2007 Macgrove Project (M07) 234 hectares (2018: 234 hectares); and
- Rural Funds Management Limited (RFM) 25 hectares (2018: 25 hectares).

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;
- Mutton Hole and Oakland Park located in far north Queensland 225,800 hectares;
- Natal aggregation located near Charters Towers in north Queensland 390,600 hectares;
- Comanche located in central Queensland 7,600 hectares;
- Cerberus located north west of Rockhampton in central Queensland 8,280 hectares;
- Dyamberin located in the New England region of New South Wales 1,728 hectares;
- Woodburn located in the New England region of New South Wales 1,063 hectares;
- Cobungra located in the East Gippsland region of Victoria 6,500 hectares; and
- Prime City, Mungindi and Caroon, 3 cattle feedlots with a combined capacity of 110,240 Standard Cattle Units.

Rural Funds Group

Directors' Report

30 June 2019

Property leasing (continued)

The properties comprise a combined 659,050 hectares and are leased to the following tenants:

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

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

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

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

Cotton property

Cotton properties held by the group comprise of:

- Lynora Downs, a 4,880-hectare cotton property (1,949 irrigable hectares) located near Emerald, QLD is leased to Cotton JV Pty Limited, a joint venture between RFM and Queensland Cotton Corporation Pty Limited (a subsidiary of Olam International Limited) until April 2022.
- Mayneland, a 2,942-hectare cotton property (485 irrigable hectares) located 25 km north of Lynora Downs in central Queensland, is leased to RFM Farming Pty Limited (a wholly owned subsidiary of RFM) until 30 June 2020. A long-term lessee is being sought.

Other activities

Agricultural plant and equipment with a net book value of \$8,537,000 (2018: \$5,480,000) is owned by the Group and leased to AF06, AF07, AF08, M07, Cotton JV, Cattle JV and RFM Farming.

Breeder assets with a net book value of \$14,431,000 (2018: \$14,179,000) are leased to Cattle JV Pty Limited.

Banking facilities

At 30 June 2019 the core debt facility available to the Group was \$335,000,000 (2018: \$275,000,000), with a drawn balance of \$291,445,000 (2018: \$269,800,000). The facility is split into two tranches with a \$225,000,000 tranche expiring in November 2021 and a \$110,000,000 tranche expiring in November 2023. At 30 June 2019, RFF had active interest swaps totaling 55.9% (2018: 40.0%) of the drawn balance to manage interest rate risk.

Distributions

	Cents per unit	Total \$
Distribution paid 31 July 2018	2.5075	6,409,935
Distribution paid 31 October 2018	2.6075	8,675,317
Distribution paid 31 January 2019	2.6075	8,686,568
Distribution paid 30 April 2019	2.6075	8,699,809
Distribution declared 28 June 2019, paid 31 July 2019	2.6075	8,715,923

Earnings per unit

Net profit after income tax for the year (\$'000)	33,355
Weighted average number of units on issue during the year	326,169,808
Basic and diluted earnings per unit (total) (cents)	10.23

Rural Funds Group

Directors' Report

30 June 2019

Indirect cost ratio

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

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

The ICR for the Group for the year ended 30 June 2019 is 1.87% (2018: 1.72%).¹

Matters subsequent to the end of the year

On 31 July, the Group announced the lease of Rewan to Australian Agricultural Company Limited for 10 years. The lease is subject to approval by the Foreign Investment Review Board (FIRB). The lease rate and terms are consistent with the Group's existing cattle properties.

On 16 August, the Group completed the purchase of the Beef City feedlot for approximately \$12.7 million including transaction costs.

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

Likely developments and expected results of operations

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

Environmental regulation

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

Units on issue

334,263,593 units in Rural Funds Trust were on issue at 30 June 2019 (2018: 255,630,515). During the year 78,633,078 units (2018: 1,249,617) were issued by the Trust and nil (2018: nil) were redeemed.

Indemnity of Responsible Entity and Custodian

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

Rounding of amounts

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

1. The ICR calculated excluded equity raising costs for the year ended 30 June 2019. If equity raising costs are included in the calculation, the ICR for the year ended 30 June 2019 is 2.99%.

Rural Funds Group

Directors' Report

30 June 2019

Information on Directors of the Responsible Entity

Guy Paynter	Non-Executive Chairman
Qualifications	Bachelor of Laws from The University of Melbourne
Experience	Guy Paynter is a former director of broking firm JB Were and brings to RFM more than 30 years of experience in corporate finance. Guy is a former member of the Australian Securities Exchange (ASX) and a former associate of the Securities Institute of Australia (now known as the Financial Services Institute of Australasia). Guy's agricultural interests include cattle breeding in the Upper Hunter region in New South Wales.
Special responsibilities	Member of Audit Committee and Remuneration Committee
Directorships currently held in other listed entities and during the three years prior to the current year	RFM Poultry
David Bryant	Managing Director
Qualifications	Diploma of Financial Planning from the Royal Melbourne Institute of Technology and a Masters of Agribusiness from The University of Melbourne.
Experience	David Bryant established RFM in February 1997 and since that time has led the team that is responsible for the acquisition of large-scale agricultural property assets and associated water entitlements. As at 30 June 2019, RFM manages over \$1.2 billion of agricultural assets. On a day-to-day level, David is responsible for maintaining key commercial relationships and sourcing new business opportunities.
Special responsibilities	Managing Director
Directorships currently held in other listed entities and during the three years prior to the current year	RFM Poultry
Michael Carroll	Non-Executive Director
Qualifications	Bachelor of Agricultural Science from La Trobe University and a Master of Business Administration from The University of Melbourne's Melbourne Business School. Michael has completed the Advanced Management Program at Harvard Business School, Boston, and is a Fellow of the Australian Institute of Company Directors.
Experience	Michael Carroll serves a range of food and agricultural businesses in a board and advisory capacity. Michael is on the boards of Elders Limited, Select Harvests Limited, Paraway Pastoral Company and Viridis Agriculture Pty Limited. Michael has senior executive experience in a range of companies, including establishing and leading the National Australia Bank (NAB) Agribusiness division.
Special responsibilities	Chairman of Audit Committee and Remuneration Committee
Directorships currently held in other listed entities and during the three years prior to the current year	Michael is on the Board of Elders Limited, RFM Poultry, Select Harvests Limited and was a director at Tassal Group Limited.

Rural Funds Group

Directors' Report

30 June 2019

Information on Directors of the Responsible Entity (continued)

Julian Widdup	Non-Executive Director
Qualifications	Bachelor of Economics from the Australian National University. Julian is a Fellow of the Institute of Actuaries of Australia and a Fellow of the Australian Institute of Company Directors.
Experience	Julian brings extensive experience to the RFM board having previously served as a director of Palisade Investment Partners, Darwin International Airport, Alice Springs Airport, NZ timberland company Taumata Plantations Limited, Regional Livestock Exchange Investment Company, Merredin Energy power generation company, Victorian AgriBioscience Research Facility, Casey Hospital in Melbourne and Mater Hospital in Newcastle.
Special responsibilities	Member of Audit Committee and Remuneration Committee
Directorships currently held in other listed entities and during the three years prior to the current year	RFM Poultry

Interests of Directors of the Responsible Entity

	Guy Paynter Units	David Bryant* Units	Michael Carroll Units	Julian Widdup Units
Balance at 30 June 2017	814,696	11,678,182	19,389	-
Additions	-	-	933	-
Balance at 30 June 2018	814,696	11,678,182	20,322	-
Additions	244,408	2,736,672	7,301	-
Balance at 30 June 2019	1,059,104	14,414,854	27,623	-

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

Company Secretaries of the Responsible Entity

Stuart Waight and Emma Spear are RFM's joint company secretaries. Stuart joined RFM in 2003 and is a Chartered Accountant. Emma joined RFM in 2008 and is a CPA.

Meetings of Directors of the Responsible Entity

During the financial year 15 meetings of Directors (including committees of Directors) were held. Attendances by each Director during the year were as follows:

	Directors meetings		Audit Committee meetings		Remuneration Committee meetings	
	No. eligible to attend	No. attended	No. eligible to attend	No. attended	No. eligible to attend	No. attended
Guy Paynter	15	14	4	4	1	1
David Bryant	15	15	-	-	-	-
Michael Carroll	15	14	4	4	1	1
Julian Widdup	15	15	4	4	1	1

Non-audit services

Fees of \$9,425 (2018: \$9,425) were paid or payable to PricewaterhouseCoopers for compliance audit services provided for the year ended 30 June 2019.

Rural Funds Group

Directors' Report

30 June 2019

Auditor's independence declaration

The auditor's independence declaration in accordance with section 307C of the *Corporations Act* 2001 for the year ended 30 June 2019 has been received and is included on page 52 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 blue circular stamp.

David Bryant
Director

27 August 2019



Auditor's Independence Declaration

As lead auditor for the audit of Rural Funds Group for the year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in black ink, appearing to read 'Rod Dring', is positioned above the printed name.

Rod Dring
Partner
PricewaterhouseCoopers

Sydney
27 August 2019

PricewaterhouseCoopers, ABN 52 780 433 757

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Rural Funds Group

Consolidated Statement of Comprehensive Income

As at 30 June 2019

		2019	Restated*
	Note	\$'000	2018 \$'000
Revenue	B2	66,391	51,087
Other income	B2	2,541	1,183
Management fees		(8,496)	(6,263)
Property expenses		(1,595)	(1,383)
Finance costs		(9,985)	(9,053)
Other expenses		(3,892)	(2,971)
Gain on sale of assets		12	17
Depreciation and amortisation - other		(1,230)	(1,001)
Depreciation - bearer plants	C3	(4,600)	(4,001)
Reversal of impairment/(impairment) of bearer plants	C3	8,854	(2,159)
Change in fair value of investment property	C2	8,352	7,398
Change in fair value of financial assets/liabilities		(70)	-
Reversal of impairment of intangible assets	C6	105	54
Change in fair value of interest rate swaps		(18,208)	(1,956)
Net profit before income tax		38,179	30,952
Income tax expense	D1	(4,824)	(1,057)
Net profit after income tax		33,355	29,895
Other comprehensive income:			
Revaluation (decrement)/increment - bearer plants	C3	(275)	14,140
Income tax relating to these items	D1	(2)	(23)
Other comprehensive income for the year, net of tax		(277)	14,117
Total comprehensive income attributable to unitholders		33,078	44,012
Total net profit after income tax for the year attributable to unitholders arising from:			
Rural Funds Trust		32,388	29,172
RF Active (non-controlling interest)		967	723
		33,355	29,895
Total comprehensive income for the year attributable to unitholders arising from:			
Rural Funds Trust		32,111	43,289
RF Active (non-controlling interest)		967	723
		33,078	44,012

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

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Comprehensive Income

As at 30 June 2019

		2019	Restated* 2018
Earnings per unit			
Basic and diluted earnings per unit from continuing operations:			
Per stapled unit (cents)	B3	10.23	11.72
Per unit of Rural Funds Trust (cents)	B3	9.93	11.44
Per unit of RF Active (cents)	B3	0.30	0.28

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

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Financial Position

As at 30 June 2019

	Note	2019 \$'000	2018 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	F1	2,588	1,210
Trade and other receivables	F2	5,043	5,381
Other current assets	F3	1,699	2,918
Total current assets		9,330	9,509
Non-current assets			
Investment property	C2	489,327	357,518
Plant and equipment - bearer plants	C3	172,915	157,239
Financial assets	C4, E2	70,447	37,136
Intangible assets	C6	118,531	106,926
Plant and equipment - other	C8	8,537	5,480
Total non-current assets		859,757	664,299
Total assets		869,087	673,808
LIABILITIES			
Current liabilities			
Trade and other payables	F4	6,101	6,128
Interest bearing liabilities	E1	3,832	3,361
Income tax payable	D2	439	277
Derivative financial liabilities	E3	103	-
Distributions payable	E8	8,950	6,633
Total current liabilities		19,425	16,399
Non-current liabilities			
Interest bearing liabilities	E1	291,445	269,800
Other non-current liabilities	F5	2,629	1,634
Derivative financial liabilities	E3	23,938	5,834
Deferred tax liabilities	D2	5,778	1,406
Total non-current liabilities		323,790	278,674
Total liabilities (excluding net assets attributable to unitholders)		343,215	295,073
Net assets attributable to unitholders		525,872	378,735
Total liabilities		869,087	673,808

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

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Financial Position

As at 30 June 2019

		2019	Restated*
	Note	\$'000	2018 \$'000
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS			
Unitholders of Rural Funds Trust			
Issued units		358,269	230,574
Asset revaluation reserve	F6	46,462	46,739
Retained earnings		114,565	97,310
Parent entity interest		519,296	374,623
Unitholders of RF Active			
Issued units		4,585	3,091
Retained earnings		1,991	1,021
Non-controlling interest		6,576	4,112
Total net assets attributable to unitholders		525,872	378,735

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

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the year ended 30 June 2019

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

		Issued units \$'000	Restated* Retained earnings \$'000	Restated* Asset revaluation reserve \$'000	Total \$'000	Non- controlling interest \$'000	Total \$'000
2018							
Balance at 1 July 2017		252,880	68,813	32,622	354,315	3,363	357,678
Other comprehensive income		-	-	14,117	14,117	-	14,117
Total other comprehensive income		-	-	14,117	14,117	-	14,117
Profit before income tax		-	29,935	-	29,935	1,017	30,952
Income tax expense	D1	-	(763)	-	(763)	(294)	(1,057)
Total comprehensive income for the year		-	29,172	14,117	43,289	723	44,012
Issued units							
Units issued during the year		2,610	-	-	2,610	26	2,636
Issue costs		(3)	-	-	(3)	-	(3)
Total issued units	E7	2,607	-	-	2,607	26	2,633
Distributions to unitholders	E7	(24,913)	(675)	-	(25,588)	-	(25,588)
Balance at 30 June 2018		230,574	97,310	46,739	374,623	4,112	378,735

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

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Cash Flows

For the year ended 30 June 2019

	Note	2019 \$'000	2018 \$'000
Cash flows from operating activities			
Receipts from customers		66,199	55,006
Payments to suppliers		(19,144)	(16,606)
Interest received		83	71
Finance income received		6,853	1,554
Finance costs		(9,985)	(9,053)
Income tax paid		(277)	-
Net cash inflow from operating activities	G4	43,729	30,972
Cash flows from investing activities			
Payments for investment property	C2	(123,657)	(74,470)
Payments for plant and equipment - bearer plants	C3	(11,697)	(28,066)
(Payments)/proceeds for intangible assets	C6	(11,500)	1,893
Payments for financial assets		(32,076)	(13,275)
Payments for plant and equipment	C8	(4,277)	(1,360)
Proceeds from sale of plant and equipment		50	36
Proceeds from other assets		2,322	-
Proceeds from sale of assets		-	9
Deposits paid		-	(1,167)
Distributions received		31	30
Net cash outflow from investing activities		(180,804)	(116,370)
Cash flows from financing activities			
Proceeds from issue of units		148,837	2,636
Proceeds from borrowings		221,646	105,457
Repayment of borrowings		(199,569)	-
Distributions paid		(32,461)	(25,323)
Net cash inflow from financing activities		138,453	82,770
Net increase/(decrease) in cash and cash equivalents held		1,378	(2,628)
Cash and cash equivalents at the beginning of the year		1,210	3,838
Cash and cash equivalents at the end of the year	F1	2,588	1,210

The accompanying notes form part of these financial statements.

Rural Funds Group

Notes to the Financial Statements

30 June 2019

A. REPORT OVERVIEW

General information

This financial report covers the consolidated financial statements and notes of Rural Funds Trust and its Controlled Entities including RF Active (Rural Funds Group, the Group or collectively the Trusts). Rural Funds Group is a for profit entity incorporated and domiciled in Australia. The Directors of the Responsible Entity authorised the Financial Report for issue on 27 August 2019 and have the power to amend and reissue the Financial Report.

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

The separate financial statements and notes of the parent entity, Rural Funds Trust, have not been presented within this financial report as permitted by amendments made to the *Corporations Act 2001*. Parent entity information is included in section G3.

Basis of preparation

The Trusts have common business objectives and operate as an economic entity collectively known as Rural Funds Group.

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, and other authoritative pronouncements of the Australian Accounting Standards Board, the *Corporations Act 2001* and the Trusts' Constitution. The report has been prepared on a going concern basis.

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

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

Significant accounting judgements, estimates and assumptions

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

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 years or more often where appropriate. Independent valuation reports assess and provide value for properties in their entirety. The independent valuation reports contain information with which judgement is applied to allocate values to investment property, bearer plants and intangible assets.

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.

Rural Funds Group

Notes to the Financial Statements

30 June 2019

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

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

Controlled entities

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

Comparative amounts

Comparative amounts have not been restated unless otherwise noted.

Working capital

The deficiency in working capital at 30 June 2019 is due to the timing of distributions. Based on the forecast cash flows, the Group believes it can pay all its debts as and when they fall due for at least a minimum period of 12 months from the date of these accounts. The Group has headroom in its bank facility limit of approximately \$43.6 million as at 30 June 2019 subject to compliance with the Group's bank covenants.

New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies:

- AASB 9 *Financial Instruments*, and
- AASB 15 *Revenue from Contracts with Customers*.

The adoption AASB 9 and AASB 15 and other amendments did not have any material impact on the financial performance of the Group.

Plant and equipment – bearer plants

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

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Plant and equipment – bearer plants (continued)

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

Restatement: Plant and equipment – bearer plants

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

Subsequent to the changes in accounting standard AASB 2014-6 *Amendments to Australian Accounting Standards – Agriculture: Bearer Plants*, as at 1 July 2016, the Group has been valuing its bearer plants at fair value at each reporting date and not separately recording depreciation. The company has changed its policy to account for the impact of depreciation.

The restatement to account for bearer plant depreciation in the financial year ended 30 June 2018 and prior years and the associated reallocation between other comprehensive income and the profit and loss has no impact on the carrying amount of bearer plants, total assets and net assets of the Group because bearer plants were revalued to their fair value at each reporting date. Accordingly, this restatement has no impact on total comprehensive income of the Group. Nevertheless, the restatement has resulted in the reclassification among components of total comprehensive income and components of net assets attributable to unit holders as presented below:

Consolidated Statement of Comprehensive Income (extract)

	As originally stated For the year ended 30 June 2018 \$'000	Comprehensive income Increase/ (Decrease) \$'000	Restated For the year ended 30 June 2018 \$'000
Depreciation – bearer plants	-	(4,001)	(4,001)
Impairment losses on bearer plants	-	(2,159)	(2,159)
Net profit before income tax	37,112	(6,160)	30,952
Income tax (expense)/benefit	(1,080)	23	(1,057)
Net profit after income tax	36,032	(6,137)	29,895
Other comprehensive income	7,980	6,137	14,117
Total comprehensive income	44,012	-	44,012
Per stapled unit (cents)	14.13	(2.41)	11.72
Per unit of Rural Funds Trust (cents)	13.85	(2.41)	11.44
Per unit of RF Active (cents)	0.28	-	0.28

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Consolidated Statement of Financial Position (extract)

	As originally stated 30 June 2018 \$'000	Increase/ (Decrease) \$'000	Restated 30 June 2018 \$'000	As originally stated 1 July 2017 \$'000	Increase/ (Decrease) \$'000	Restated 1 July 2017 \$'000
Plant and equipment - bearer plants	157,239	-	157,239	121,193	-	121,193
Total assets	673,808	-	673,808	543,003	-	543,003
Deferred tax liability	1,406	-	1,406	603	-	603
Total liabilities	295,073	-	295,073	185,325	-	185,325
Net assets	378,735	-	378,735	357,678	-	357,678
Retained earnings (unitholders of Rural Funds Trust)	108,494	(11,184)	97,310	73,860	(5,047)	68,813
Asset revaluation reserve	35,555	11,184	46,739	27,575	5,047	32,622
Total net assets attributable to unitholders	378,735	-	378,735	357,678	-	357,678

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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. The Group currently holds property in six agricultural sectors presented in six segments (2018: one segment) 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

2019	Almonds \$'000	Cattle \$'000	Poultry \$'000	Vineyards \$'000	Cotton \$'000	Macadamia \$'000	Unallocated \$'000	Total \$'000
Total revenue	29,658	16,298	10,717	3,777	3,250	1,344	1,346	66,391
Depreciation - bearer plants	(3,607)	-	-	(950)	-	(43)	-	(4,600)
Total revaluation to profit or loss and other comprehensive income	12,017	1,335	(6,992)	12,621	(1,934)	-	(81)	16,966
2018								
Total revenue	26,581	6,732	10,670	3,636	1,969	1,262	237	51,087
Depreciation - bearer plants	(3,097)	-	-	(860)	-	(44)	-	(4,001)
Total revaluation to profit or loss and other comprehensive income	15,591	5,017	(5,855)	860	1,470	2,350	-	19,433

Two customers in the Almonds segment and one customer in the Poultry segment each account for more than 10% of the Group's revenue.

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

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B1 Segment information (continued)

Segment assets

2019	Almonds \$'000	Cattle \$'000	Poultry \$'000	Vineyards \$'000	Cotton \$'000	Macadamias \$'000	Unallocated \$'000	Total \$'000
Total property assets per statutory accounts	373,482	250,575	72,387	59,392	51,398	14,274	36,063	857,570
Other assets per statutory accounts	-	-	-	-	-	-	11,517	11,517
Total assets per statutory accounts	373,482	250,575	72,387	59,392	51,398	14,274	47,580	869,087
Revaluation of intangible assets per director's valuation	52,439	-	2,595	4,688	-	82	16,965	76,769
Adjusted total assets at director's valuation	425,921	250,575	74,982	64,080	51,398	14,356	64,545	945,856
2018								
Total property assets per statutory accounts	329,925	130,051	78,205	47,341	30,803	13,490	34,257	664,073
Other assets per statutory accounts	-	-	-	-	-	-	9,735	9,735
Total assets per statutory accounts	329,925	130,051	78,205	47,341	30,803	13,490	43,992	673,808
Revaluation of intangible assets per director's valuation	45,000	-	2,595	518	-	82	1,647	49,841
Adjusted total assets at director's valuation	374,925	130,051	80,800	47,859	30,803	13,572	45,639	723,649

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B1 Segment information (continued)

Net asset value adjusted for water rights

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

The book value of the water rights (including investments in BIL and CICL) at 30 June 2019 is \$131,273,000 (2018: \$119,657,000).

Independent valuations on the Group's properties are obtained, ensuring that each property will have been independently valued every two years or more often where appropriate. Independent valuation reports assess and provide value for properties in their entirety. The independent valuation reports contains information with which judgement is applied in order to allocate values to investment property, bearer plants and intangible assets. The Directors have taken into account the most recent valuations on each property and consider that they remain a reasonable estimate and on this basis the fair value of water entitlements before deferred tax adjustments at 30 June 2019 was \$208,042,000 (2018: \$169,498,000) representing the value of the water rights of \$76,769,000 (2018: \$49,841,000) above cost.

The following is a reconciliation of the book value at 30 June 2019 to an adjusted value based on the Directors' valuation of the water rights which are assessed by the chief operating decision maker.

	Per Statutory Consolidated Statement of Financial Position \$'000	Revaluation of water entitlements per Directors' valuation \$'000	Directors' valuation (Adjusted) \$'000
Assets			
Total current assets	9,330	-	9,330
Total non-current assets	859,757	76,769	936,526
Total assets	869,087	76,769	945,856
Liabilities			
Total current liabilities	19,425	-	19,425
Total non-current liabilities	323,790	-	323,790
Total liabilities (excluding net assets attributable to unitholders)	343,215	-	343,215
Net assets attributable to unitholders	525,872	76,769	602,641
Net asset value per unit (\$)	1.57	0.23	1.80

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B1 Segment information (continued)

Adjusted funds from operations (AFFO)

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

	2019	Restated*
	\$'000	\$'000
Revenue	66,391	51,087
Other income	2,541	1,183
Management fees	(8,496)	(6,263)
Property Expenses	(1,595)	(1,383)
Finance costs	(9,985)	(9,053)
Other expenses	(3,892)	(2,971)
Straight-lining of rental revenue	(953)	-
Interest component of JBS feedlot finance lease	(352)	-
Income tax payable on public trading trust - RF Active	(413)	(277)
Adjusted Funds From Operations (AFFO)	43,246	32,323
Change in fair value of interest rate swaps	(18,208)	(1,956)
Depreciation and amortisation - other	(1,230)	(1,001)
Depreciation - bearer plants	(4,600)	(4,001)
Reversal of impairment/(impairment) of bearer plants	8,854	(2,159)
Change in fair value of investment property	8,352	7,398
Change in fair value of financial assets/liabilities	(70)	-
Reversal of impairment of intangible assets	105	54
Straight-lining of rental revenue	953	-
Interest component of JBS feedlot finance lease	352	-
Income tax expense	(4,411)	(780)
Gain on sale of assets	12	17
Net profit after income tax	33,355	29,895
AFFO cents per unit	13.3	12.7

B2 Revenue

	2019	2018
	\$'000	\$'000
Rental income	59,103	49,462
Finance income	7,205	1,554
Interest received	83	71
Total	66,391	51,087

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).

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

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B2 Revenue (continued)

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

Other Income

	2019 \$'000	2018 \$'000
Temporary water sales	2,427	1,093
Other income	114	90
Total	2,541	1,183

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.

B3 Earnings per unit

	2019	Restated* 2018
Per stapled unit		
Net profit after income tax for the year (\$'000)	33,355	29,895
Weighted average number of units on issue during the year (thousands)	326,170	255,028
Basic and diluted earnings per unit (total) (cents)	10.23	11.72
Per unit of Rural Funds Trust		
Net profit after income tax for the year (\$'000)	32,388	29,172
Weighted average number of units on issue during the year (thousands)	326,170	255,028
Basic and diluted earnings per unit (total) (cents)	9.93	11.44
Per unit of RF Active		
Net profit after income tax for the year (\$'000)	967	723
Weighted average number of units on issue during the year (thousands)	326,170	255,028
Basic and diluted earnings per unit (total) (cents)	0.30	0.28

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

B4 Distributions

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

	Cents per unit	Total \$
Distribution paid 31 July 2018	2.5075	6,409,935
Distribution paid 31 October 2018	2.6075	8,675,317
Distribution paid 31 January 2019	2.6075	8,686,568
Distribution paid 30 April 2019	2.6075	8,699,809
Distribution declared 28 June 2019, paid 31 July 2019	2.6075	8,715,923

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

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C. PROPERTY ASSETS

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

C1 RFF property assets

		2019 \$'000	2018 \$'000
Investment property	C2	489,327	357,518
Plant and equipment - bearer plants	C3	172,915	157,239
Financial assets - property related	C4	68,260	36,910
Intangible assets	C6	118,531	106,926
Plant and equipment - other	C8	8,537	5,480
Total		857,570	664,073

Rental income and fair value movements from RFF property assets

	2019 \$'000	2018 \$'000
Rental income from property assets	59,103	49,462
Finance income from property assets	7,205	1,554
Change in fair value of investment property	8,352	7,398
Reversal of impairment/(impairment) of bearer plants	8,854	(2,159)
Revaluation (decrement)/increment - bearer plants	(275)	14,140

Leasing arrangements

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

	2019 \$'000	2018 \$'000
Within one year	65,693	51,858
Later than one year, but not later than five years	256,907	243,679
Later than five years	421,974	509,219
Total	744,575	804,756

Key changes to the property portfolio during the year:

- In July 2018, the Group purchased Comanche, a 7,600 ha cattle property located in central Queensland for \$16.7 million including transaction costs.
- In October 2018, the Group settled three feedlots, Mungindi, Carroona and Prime City from JBS for \$28.7 million including transaction costs.
- In September 2018, the Group purchased Cerberus, an 8,280 ha cattle property located in central Queensland for \$10.9 million including transaction costs.
- In September 2018, the Group purchased Mayneland, a 2,942 ha cotton property in central Queensland for \$17.9 million including transaction costs.
- In October 2018, the Group purchased Dyamberin, a 1,728 ha cattle property located in the New England region of New South Wales for \$14.2 million including transaction costs.
- In January 2019, the Group purchased Woodburn, a 1,062 ha cattle property located in the New England region of New South Wales for \$7.5 million including transaction costs.
- In March 2019, the Group purchased Cobungra, a 6,486 ha cattle property located in the East Gippsland region of Victoria for \$36.9 million including transaction costs.

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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 years or more often where appropriate. Independent valuers engaged hold recognised and relevant professional qualifications with experience in agricultural properties.

Independent valuations have been obtained for newly acquired properties prior to acquisition for the year ended 30 June 2019. The following existing properties had relevant independent valuations for the year ended 30 June 2019:

Almond properties	Kerarbury, Tocabil, Moorai, Yilgah
Vineyard properties	Kleinig, Geier, Dohnt, Rosebank, Mundy and Murphy, Hahn
Cattle properties	Cobungra, Woodburn, Dyamberin, Cerberus, Comanche, Rewan, Mutton Hole, Oakland Park
Cotton properties	Lynora, Mayneland
Other	Unleased High Security Murrumbidgee Water

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 exception to this is in relation to certain poultry assets, where the Directors determined a more conservative view was appropriate in line with assumptions applied with those assets.

The Directors have deemed that independent valuations were not required on remaining properties as there have been no material changes to the industry and geographical conditions of these properties in which the independent valuers have previously assessed. For these properties, the Directors have performed internal assessments, considering the latest valuation reports, that the fair value is still reflective 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 their investment property, bearer plants and intangible assets.

Where available, each component of the property, meaning the land, the trees, infrastructure and any water assets, will be valued on an encumbered (subject to lease) basis using a discounted cashflow approach from future rents. If this information is not available, the valuation report may provide a summation basis of either the encumbered or unencumbered (not subject to lease) value which can be used to determine the allocation of the components. Judgement is applied as part of these allocations which vary from property to property given the individual circumstances of the leasing arrangements. As a result of significant volatility experienced in the water market for almond properties, the previous allocation technique used, based on the market approach for water, no longer reflected the unencumbered and long term value of water entitlements. The allocation technique was modified to one based on underlying rents. The Directors deem this to be an appropriate allocation technique for each asset category given the change and reflect fair value for each asset category.

Significant accounting judgments, 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.

The main level 3 inputs used by the Group include discount rates, capitalisation rates, rate per area of land and adult equivalent rates estimated in the respective valuations based on comparable transactions and industry data. Changes in level 3 fair values are analysed at each reporting date and during discussions with the independent valuers.

Significant judgment is applied in order to allocate values to investment property, bearer plants and intangible assets as disclosed in the independent valuation reports. Independent valuation reports assess and provide value for properties in their entirety. The independent valuation reports contain information with which judgement is applied to allocate values to investment property, bearer plants and intangible assets. The allocation method may change to reflect best estimates of value attributed to each asset class at reporting date.

The Group's policy is to recognise transfers in to and transfers out of fair value hierarchy levels as at the end of the reporting period. There were no transfers between levels for recurring fair value measurements during the year.

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C2 Investment property

2019	Almond property	Cattle property	Poultry property	Vineyard property	Cotton property	Macadamia property	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening net book amount	118,214	104,897	77,156	25,435	27,131	4,685	357,518
Acquisitions	-	84,542	-	-	17,879	-	102,421
Additions	13,923	2,873	932	152	3,184	172	21,236
Amortisation of lease incentives	-	(200)	-	-	-	-	(200)
Fair value adjustment	3,879	1,335	(6,992)	12,064	(1,934)	-	8,352
Closing net book amount	136,016	193,447	71,096	37,651	46,260	4,857	489,327
2018	Almond property	Cattle property	Poultry property	Vineyard property	Cotton property	Macadamia property	Total
Opening net book amount	95,605	43,560	83,011	25,435	24,157	2,015	273,783
Acquisitions	-	53,156	-	-	-	-	53,156
Additions	17,257	3,297	-	-	2,440	320	23,314
Amortisation of lease incentives	-	(133)	-	-	-	-	(133)
Fair value adjustment	5,352	5,017	(5,855)	-	534	2,350	7,398
Closing net book amount	118,214	104,897	77,156	25,435	27,131	4,685	357,518

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.

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C3 Plant and equipment – bearer plants

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

2018	Bearer Plants - Almonds \$'000	Bearer Plants - Vineyards \$'000	Bearer Plants - Macadamias \$'000	Total \$'000
Opening net book amount	95,285	19,789	6,119	121,193
Additions	26,957	1,109	-	28,066
Depreciation - bearer plants - Restated*	(3,098)	(860)	(43)	(4,001)
Fair value adjustment - profit and loss - Restated*	(3,584)	785	640	(2,159)
Fair value adjustment - other comprehensive income - Restated *	13,770	75	295	14,140
Closing net book amount	129,330	20,898	7,011	157,239

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

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

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

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

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

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

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

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C3 Plant and equipment – bearer plants (continued)

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

	2019	2018
	\$'000	\$'000
Cost	145,701	134,003
Accumulated depreciation	(11,328)	(8,482)
Accumulated impairment	(2,355)	(11,449)
Net book amount	132,018	114,072

C4 Financial assets – property related

	2019	2018
	\$'000	\$'000
Non-current		
Property related		
Investment - BIL	520	509
Investment - CICL	12,222	12,222
Finance Lease - Breeders	14,431	14,179
Finance Lease - Feedlots	29,034	-
Cattle Facility - Katena Pty Ltd ATF Schafferius Family Trust	1,100	-
Term Loan - DA & JF Camm Pty Limited	10,000	10,000
Other receivables	953	-
Total	68,260	36,910

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

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

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

Finance Lease – Feedlots is in the form of feedlots leased to JBS Australia Pty Limited (JBS) for a term of ten years ending in 2028 with a repurchase call option exercisable by JBS and a sale put option exercisable by the Group.

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

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

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

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

The investments in BIL and CICL are treated the same as water rights, that is, recorded at historical cost less accumulated impairment losses.

Finance leases

Finance leases are measured at amortised cost. These represent leases of fixed assets or biological assets where all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are substantially transferred from the lessor.

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C5 Fair value measurement of Investment property, Bearer plants and Financial assets – property related

Investment property and Bearer plants

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. The main level 3 inputs include discount rates, capitalisation rates, rate per area of land and adult equivalent rates 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 (section E4) fair value measurements:

Description	Fair value at		Unobservable inputs*	Range of inputs		Relationship of unobservable inputs to fair value
	2019 \$'000	2018 \$'000		2019 %	2018 %	
Almond orchard property	281,242	247,544	Discount rate (%) Capitalisation rate (%)	8.00 - 9.00 8.50 - 15.00	8.00 - 9.00 8.61 - 14.24	The higher the discount and capitalisation rate, the lower the fair value.
Cattle property and infrastructure	193,447	104,897	\$ per adult equivalent carrying capacity	\$900 - \$5,500	\$650 - \$4,550	The higher the value per each adult equivalent carrying capacity, the higher the value.
Poultry property and infrastructure	71,096	77,156	Capitalisation rate (%)	11.23 - 18.95	11.00 - 15.50	The higher the capitalisation rate, the lower the fair value.
Vineyard	58,372	46,333	Discount rate (%)	8.25 - 8.75	9.50	The higher the discount rate, the lower the fair value.
Cotton property and infrastructure	46,260	27,131	Discount rate (%)	n/a	8.50	The higher the discount rate, the lower the fair value.
			\$ per average irrigated hectare	\$18,000	n/a	The higher the value per average irrigated hectare, the higher the fair value.
Macadamia orchard property	11,825	11,696	Discount rate (%)	7.00	7.00	The higher the capitalisation rate, the lower the fair value.
Total	662,242	514,757				

* There were no significant inter-relationships between unobservable inputs that materially affect fair values.

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C6 Intangible assets

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

2019	Almonds \$'000	Cattle \$'000	Poultry infrastructure \$'000	Vineyards \$'000	Cotton \$'000	Macadamias \$'000	Other \$'000	Total \$'000
Non-current								
Opening net book amount	66,633	-	1,049	500	3,672	815	34,257	106,926
Additions	9,901	1,598	-	-	-	-	-	11,500
Reversal of impairment	105	-	-	-	-	-	-	105
Transfers	21	-	-	-	-	-	(21)	-
Closing net book amount	76,660	1,598	1,049	500	3,672	815	34,236	118,531
Cost	77,415	1,598	1,049	500	3,672	815	34,236	119,286
Accumulated impairment	(755)	-	-	-	-	-	-	(755)
Net book amount	76,660	1,598	1,049	500	3,672	815	34,236	118,531
2018								
Non-current								
Opening net book amount	68,333	-	1,049	500	3,672	808	34,376	108,738
Additions	-	-	-	-	-	7	-	7
Transfers	179	-	-	-	-	-	(179)	-
Disposals	(1,879)	-	-	-	-	-	6	(1,873)
Reversal of impairment	-	-	-	-	-	-	54	54
Closing net book amount	66,633	-	1,049	500	3,672	815	34,257	106,926
Cost	67,493	-	1,049	500	3,672	815	34,257	107,786
Accumulated impairment	(860)	-	-	-	-	-	-	(860)
Net book amount	66,633	-	1,049	500	3,672	815	34,257	106,926

Rural Funds Group

Notes to the Financial Statements

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C6 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.

C7 Capital commitments

Significant capital expenditure across all properties, largely relating to the Kerarbury development, contracted for but not recognised as liabilities is as follows:

	2019	2018
	\$'000	\$'000
Plant and equipment - bearer plants	2,409	13,718
Investment property	12,805	15,250
Intangible assets	1,959	19,866
Total	17,173	48,833

Other commitments

Other significant commitments contracted but not recognised as a liability relate to the provision of the \$5.0 million cattle financing facility to DA & JF Camm Pty Limited, the lessee of the Natal aggregation. The facility was not drawn during the year ended 30 June 2019.

C8 Plant and equipment – other

2019	Plant and equipment	Total
	\$'000	\$'000
Opening net book amount	5,480	5,480
Additions	4,277	4,277
Disposals	(38)	(38)
Depreciation	(1,182)	(1,182)
Closing net book amount	8,537	8,537
Cost	12,486	12,486
Accumulated depreciation	(3,949)	(3,949)
Net book amount	8,537	8,537
 2018	 Plant and equipment	 Total
	\$'000	\$'000
Opening net book amount	5,128	5,128
Additions	1,324	1,324
Disposals	(19)	(19)
Depreciation	(952)	(952)
Closing net book amount	5,480	5,480
Cost	8,258	8,258
Accumulated depreciation	(2,778)	(2,778)
Net book amount	5,480	5,480

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C8 Plant and equipment – other (continued)

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

Fixed asset class:	Useful life:
Capital works in progress	Nil
Plant and equipment	3-16 years
Motor vehicles	5-16 years

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

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

Rural Funds Group

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D. TAX

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

D1 Income tax expense

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

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

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

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

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

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

The major components of income tax expense comprise:

	2019	Restated*
	\$'000	2018
		\$'000
Current tax	439	277
Deferred tax	4,376	780
Adjustments in respect of deferred income tax of previous years	9	-
Income tax expense reported in the Statement of Comprehensive Income	4,824	1,057

Income tax expense is attributable to:		
Profit from continuing operations	4,824	1,057
Total	4,824	1,057

Deferred income tax expense included in income tax expense comprises:		
Decrease in deferred tax assets	-	-
Increase in deferred tax liabilities	4,372	803
Total	4,372	803

Amounts charged or credited directly to equity	2019	Restated*
	\$'000	2018
		\$'000
Capitalised issue costs	(15)	-
Change in fair value taken through asset revaluation reserve	2	23
Total	(13)	23

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

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Notes to the Financial Statements

30 June 2019

D1 Income tax expense (continued)

Numerical reconciliation of income tax expense to prima facie tax payable

	2019	Restated*
	2018	
	\$'000	\$'000
Net profit before income tax	38,179	30,952
At the statutory income tax rate of 30% (2018: 30%)	11,454	9,286
Derecognition of tax losses that are no longer available for utilisation	-	(17)
Tax effect of profits in non-taxable trusts	(6,637)	(8,217)
Previously unrecognised deferred tax asset now recognised	9	23
Imputation credits received	(2)	(18)
Total	4,824	1,057

Franking credits

At 30 June 2019 there are \$463,000 of franking credits available to apply to future income distributions (2018: \$183,000).

D2 Deferred tax and current tax payable

	2019	2018
	\$'000	\$'000
Deferred tax liabilities		
Plant and equipment - bearer plants	4,046	4,127
Plant and equipment - other	2,723	1,960
Fair value investment property	4,405	1,519
Other assets	43	-
Gross deferred tax liabilities	11,217	7,606
Set off of deferred tax assets	(5,439)	(6,200)
Net deferred tax liabilities	5,778	1,406
Deferred tax assets		
Investments	223	227
Other	31	34
Unused income tax losses	5,185	5,940
Gross deferred tax assets	5,439	6,200
Set off of deferred tax liabilities	(5,439)	(6,200)
Net deferred tax assets	-	-

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

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30 June 2019

D2 Deferred tax and current tax payable (continued)

Recognised tax assets and liabilities

	Current income tax		Deferred income tax	
	2019	2018	2019	Restated* 2018
	\$'000	\$'000	\$'000	\$'000
Opening balance	(277)	-	(1,406)	(603)
(Charged) to income	(439)	(277)	(4,385)	(780)
Credited/(charged) to equity	-	-	13	(23)
Tax payments	277	-	-	-
Closing balance	(439)	(277)	(5,778)	(1,406)
Tax expense in the Consolidated Statement of Comprehensive Income			4,824	1,057
Amounts recognised in the Consolidated Statement of Financial Position:				
Deferred tax liability			(5,778)	(1,406)

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

Rural Funds Group

Notes to the Financial Statements

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E. CAPITAL STRUCTURE AND FINANCIAL RISK MANAGEMENT

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

E1 Interest bearing liabilities

	2019	2018
	\$'000	\$'000
Current		
Equipment loans (ANZ)	3,793	3,361
J&F Guarantee - credit loss allowance	39	-
Total	3,832	3,361
Non-current		
Borrowings (ANZ)	186,525	172,672
Borrowings (Rabobank)	104,920	97,128
Total	291,445	269,800

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

Credit loss allowance

The J&F Guarantee is a \$75.0 million limited guarantee provided to J&F Australia Pty Ltd (J&F), a wholly owned subsidiary of Rural Funds Management Limited. From the provision of this guarantee, the Group earns a guarantee fee classified as finance income as noted in B2, paid on a monthly basis.

Financial liabilities relate to the credit loss allowance taking into account the likelihood of the financial guarantee to J&F being triggered and its financial impact for the Group. The credit loss allowance is recognised at fair value through profit or loss.

As part of this transaction, the Group has contracted to purchase five feedlots from JBS Australia Pty Limited. Three of these feedlots have settled as at 30 June 2019. A fourth feed lot settled on 16 August 2019. The feedlots are classified as a finance lease with a repurchase call option exercisable by JBS and a sale put option exercisable by the Group as noted in C4.

Borrowings

At 30 June 2019 the core debt facility available to the Group was \$335,000,000 (2018: \$275,000,000), split into two tranches, with a \$225,000,000 tranche expiring in November 2021 and a \$110,000,000 tranche expiring in November 2023.

As at 30 June 2019 RFF had active interest rate swaps totaling 55.9% (2018: 40.0%) of the drawn down balance to manage interest rate risk. Hedging requirements under the terms of the borrowing facility may vary with bank consent.

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Notes to the Financial Statements

30 June 2019

E1 Interest bearing liabilities (continued)

Loan covenants

Under the terms of the updated borrowing facility, the Group was required to comply with the following financial covenants for the period ended 30 June 2019:

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

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

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

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

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

The following assets are pledged as security over the loans:

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

2018						
	Investment property	Water licences	Plant and equipment - Bearer Plants	Financial assets	Plant and equipment	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Mortgage: Leased properties	355,652	72,669	157,239	12,833	-	598,393
Other assets	1,866	34,257	-	24,303	-	60,426
Equipment loans	-	-	-	-	5,480	5,480
Total	357,518	106,926	157,239	37,136	5,480	664,299

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E2 Financial assets – other (non-property related)

	2019	2018
	\$'000	\$'000
Investment - RFM Poultry	81	124
Investment - Macadamia Processing Co Limited	102	102
Investment - Almondco Australia Limited	2,004	-
Total	2,187	226

The Group's investment in RFM Poultry is held at fair value (level 1 - see section E4).

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

E3 Derivative financial instruments measured at fair value

	2019	2018
	\$'000	\$'000
Current		
Interest rate swaps	103	-
Total	103	-
Non-current		
Interest rate swaps	23,938	5,834
Total	23,938	5,834

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

E4 Fair value measurement of assets and liabilities

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

- Level 1 Fair value based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date (such as publicly traded equities).
- Level 2 Fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 One or more significant inputs to the determination of fair value is based on unobservable inputs for the asset or liability.

RFF's listed equity investments are level 1.

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

At 30 June 2019 all non-financial assets are level 3.

RFF's unlisted equity investments, BIL, CICL, MPC and AlmondCo are level 3.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels at the end of the reporting period. There were no transfers in the current year (2018: nil).

Valuation techniques used to determine fair values

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

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

Specific valuation techniques used to value financial assets, investment property and bearer plants via level 3 are discussed in section C5.

Rural Funds Group

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E5 Financial instruments

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

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

a. Financial assets

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

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

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

b. Financial assets at amortised cost

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

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

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

c. Financial assets at fair value through profit or loss

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

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

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

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

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

d. Financial liabilities

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

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

Rural Funds Group

Notes to the Financial Statements

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E6 Financial risk management

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

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

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

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

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

a. Financial risk management policies

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

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

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

b. Interest rate risk and swaps held for hedging

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

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

The notional principal amounts of the swap contracts approximate 55.9% (2018: 40.0%) of the Group's drawn down debt at 30 June 2019.

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

	Average interest rate payable		Balance	
	2019	2018	2019	2018
	%	%	\$'000	\$'000
Maturity of notional amounts				
Settlement - between 0 to 3 years	2.62	3.40	25,000	35,000
Settlement - 3 to 5 years	-	2.70	-	15,000
Settlement - greater than 5 years	3.08	3.05	138,000	58,000
			163,000	108,000

Rural Funds Group

Notes to the Financial Statements

30 June 2019

E6 Financial risk management (continued)

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

The following interest rate swap contracts that have been entered into but are not yet effective as at 30 June 2019 are:

	Average interest rate payable		Balance	
	2019 %	2018 %	2019 \$'000	2018 \$'000
Maturity of notional amounts				
Settlement - greater than 5 years	3.04	3.11	60,000	110,000
Total			60,000	110,000

The net loss recognised on the swap derivative instruments for the year ended 30 June 2019 was \$18,208,000 (2018: \$1,956,000 loss).

At 30 June 2019 the Group had the following mix of financial assets and liabilities exposed to variable interest rates:

	2019 \$'000	2018 \$'000
Cash	2,588	1,210
Interest bearing liabilities	(291,445)	(269,800)
Total	(288,857)	(268,590)

At 30 June 2019, 1.30% (2018: 1.23%) of the Group's debt is fixed, excluding the impact of interest rate swaps.

c. Interest rate risk (sensitivity analysis)

At 30 June 2019, the effect on profit before tax and equity as a result of changes in the interest rate, net of the effect of interest rate swaps, with all other variables remaining constant, would be as follows:

	2019 \$'000	2018 \$'000
Change in profit before income tax:		
Increase in interest rate by 1%	14,334	11,327
Decrease in interest rate by 1%	(15,935)	(12,585)
Change in equity:		
Increase in interest rate by 1%	14,334	11,327
Decrease in interest rate by 1%	(15,935)	(12,585)

d. Credit risk

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

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

Rural Funds Group

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30 June 2019

E6 Financial risk management (continued)

e. Liquidity risk and capital management

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

The table overleaf reflects all contractually fixed repayments and interest resulting from recognised financial assets and liabilities as at 30 June 2019. The amounts disclosed in the table are the contractual undiscounted cash flows, except for interest rate swaps and bills of exchange where the cash flows have been estimated using interest rates applicable at the reporting date.

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E6 Financial risk management (continued)

	Less than 6 months		6 months to 1 year		1 to 3 years		3 to 5 years		Over 5 years		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets												
Cash and cash equivalents	2,588	1,210	-	-	-	-	-	-	-	-	2,588	1,210
Trade and other receivables	5,043	5,381	-	-	-	-	-	-	-	-	5,043	5,381
Finance Lease - Breeders	599	613	599	613	2,396	2,452	2,396	2,452	16,487	17,470	22,477	23,600
Term Loan - DA & JF Camm Pty Ltd	187	221	187	221	750	1,323	750	1,323	11,287	11,066	13,161	14,154
Cattle Facility - Katena Pty Ltd	44	-	44	-	176	-	176	-	1,468	-	1,908	-
Total	8,461	7,425	830	834	3,322	3,775	3,322	3,775	29,242	28,536	45,177	44,345
Financial liabilities												
Interest bearing liabilities	3,391	4,117	3,391	4,117	238,563	286,267	69,522	-	-	-	314,867	294,500
Trade and other payables	6,101	6,128	-	-	-	-	-	-	-	-	6,101	6,128
Equipment loans	610	621	639	627	1,948	1,676	1,407	874	178	271	4,782	4,069
Interest rate swaps	-	-	-	-	772	322	-	290	23,269	5,221	24,041	5,834
Total	10,102	10,866	4,030	4,744	241,283	288,265	70,929	1,164	23,447	5,492	349,791	310,531

Rural Funds Group

Notes to the Financial Statements

30 June 2019

E7 Issued units

	2019		2018	
	No.	\$'000	No.	\$'000
Units on issue at the beginning of the period	255,630,515	233,666	254,380,898	255,946
Units issued during the year	78,633,078	148,833	1,249,617	2,633
Distributions to unitholders	-	(19,645)	-	(24,913)
Units on issue	334,263,593	362,854	255,630,515	233,666

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

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

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

E8 Distributions payable

	2019	2018
	\$'000	\$'000
Distributions payable	8,950	6,633
Total	8,950	6,633

Rural Funds Group

Notes to the Financial Statements

30 June 2019

F. OTHER ASSETS AND LIABILITIES

F1 Cash and cash equivalents

	2019	2018
	\$'000	\$'000
Cash at bank	2,588	1,210
Total	2,588	1,210

Reconciliation of cash

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

	2019	2018
	\$'000	\$'000
Cash and cash equivalents	2,588	1,210

F2 Trade and other receivables

	2019	2018
	\$'000	\$'000
Current		
Trade and other receivables	1,963	2,964
Sundry receivables	1,388	1,030
Receivables from related parties	1,692	1,387
Total	5,043	5,381

Trade receivables are non-interest bearing and are generally on 30-day terms.

Where the debt is in relation to amounts due on almond groves and the impact of non-payment would result in the cancellation of the almond grove rights, which would revert to the Group, then the impairment provision is measured against the value of the rights that would be obtained by the Group.

F3 Other current assets

	2019	2018
	\$'000	\$'000
Prepayments	1,679	352
Deposits	20	2,566
Total	1,699	2,918

F4 Trade and other payables

	2019	2018
	\$'000	\$'000
Trade and other payables	4,136	598
Accruals	1,279	780
Sundry creditors	686	4,750
Total	6,101	6,128

Rural Funds Group

Notes to the Financial Statements

30 June 2019

F5 Other non-current liabilities

	2019	2018
	\$'000	\$'000
Lessee deposits	2,629	1,634
Total	2,629	1,634

F6 Asset revaluation reserve

	2019	Restated*
	\$'000	\$'000
Opening balance	46,739	32,622
Bearer plants revaluation	(275)	14,140
Income tax applicable	(2)	(23)
Closing balance	46,462	46,739

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

Rural Funds Group

Notes to the Financial Statements

30 June 2019

G. ADDITIONAL INFORMATION

G1 Key management personnel

Related parties are persons or entities that are related to the Group as defined by AASB 124 *Related Party Disclosures*. These include directors and other key management personnel and their close family members and any entities they control as well as subsidiaries and associates of the Group. The following provides information about transactions with related parties during the year as well as balances owed to or from related parties as at 30 June 2019.

Directors

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

Guy Paynter
David Bryant
Michael Carroll
Julian Widdup

Interests of Directors of the Responsible Entity

Units in the Group held by Directors of RFM or related entities controlled by Directors of RFM as at 30 June 2019 are:

	Guy Paynter	David Bryant*	Michael Carroll	Julian Widdup
	Units	Units	Units	Units
Balance at 30 June 2017	814,696	11,678,182	19,389	-
Additions	-	-	933	-
Balance at 30 June 2018	814,696	11,678,182	20,322	-
Additions	244,408	2,736,672	7,301	-
Balance at 30 June 2019	1,059,104	14,414,854	27,623	-

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

Other key management personnel

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

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

- Management fee: 0.6% per annum (2018: 0.6%) of adjusted total assets; and,
- Asset management fee: 0.45% per annum (2018: 0.45%) of adjusted total assets.

Compensation of key management personnel

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

Rural Funds Group

Notes to the Financial Statements

30 June 2019

G2 Related party transactions

Responsible Entity (Rural Funds Management) and related entities

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

	2019	2018
	\$'000	\$'000
Management fee	4,855	2,664
Asset management fee	3,641	3,599
Total management fees	8,496	6,263
Expenses reimbursed to RFM	4,068	3,056
Expenses reimbursed to RFM Poultry	401	-
Expenses due to Murdock Viticulture	-	114
Distribution paid/payable to RFM	1,155	1,122
Total amount paid to RFM and related entities	14,120	10,555
Rental income received from RFM Almond Fund 2006	1,533	1,611
Rental income received from RFM Almond Fund 2007	567	565
Rental income received from RFM Almond Fund 2008	1,602	1,599
Rental income received from RFM	1,108	992
Rental income received from RFM Farming Pty Limited	1,917	288
Rental income received from Cattle JV	2,933	3,448
Rental income received from Cotton JV	2,168	1,969
Rental income received from 2007 Macgrove Project	767	757
Rental income received from RFM Macadamias	352	326
Finance income from Cattle JV	1,243	1,321
Interest income from Cattle JV	46	1
Finance income from J&F Australia Pty Limited	3,818	-
Rental income received from RFM Poultry	10,717	10,670
Distribution received/receivable from RFM Poultry	10	14
Water sale proceeds from RFM Poultry	49	-
Water sale proceeds from RFM Almond Fund 2006	3	26
Water sale proceeds from RFM Almond Fund 2007	1	7
Water sale proceeds from RFM Almond Fund 2008	3	20
Water sale proceeds from RFM	1	4
Water sale proceeds from RFM Farming Pty Limited	151	51
Expenses charged to RFM Farming Pty Ltd	483	-
Total amounts received from RFM and related entities	29,472	23,669

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

The terms and nature of the historical transactions between the Group and related parties have not changed during the year ended 30 June 2019. Transactions entered into between related parties during the year have been reviewed.

Expenses reimbursed to RFM Poultry relates to the Group's capital expenditure costs initially incurred by RFM Poultry that were subsequently reimbursed by the Group.

Additional rental income received from RFM Farming Pty Limited relates to the Mayneland and Comanche properties which were licensed to RFM Farming Pty Limited during the year ended 30 June 2019.

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

Rural Funds Group

Notes to the Financial Statements

30 June 2019

G2 Related party transactions (continued)

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

Expenses charged to RFM Farming Pty Limited relate to the reimbursement of crop costs prior to the Mayneland acquisition. These costs were charged by the Group to RFM Farming Pty Limited as the licensee of the property.

Debtors (including finance lease receivable)

	2019	2018
	\$'000	\$'000
RFM Farming Pty Limited	213	656
RFM	-	10
RFM Macadamias Pty Limited	37	30
Cattle JV Pty Limited	15,526	14,236
2007 Macgrove Project	-	70
Cotton JV Pty Limited	-	564
RFM Poultry	7	-
Total	15,783	15,565

Creditors

	2019	2018
	\$'000	\$'000
RFM	364	150
RFM Farming Pty Limited	12	-
Total	376	150

Custodian fees

	2019	2018
	\$'000	\$'000
Australian Executor Trustees Limited	250	215
Total	250	215

Financial guarantee

The Group provides a \$75.0 million guarantee to J&F Australia Pty Limited (J&F), a subsidiary of RFM. The guarantee enables J&F to supply cattle to JBS Australia Pty Limited for its grainfed business.

Entities with influence over the Group

	2019		2018	
	Units	%	Units	%
Rural Funds Management	11,843,659	3.54	9,110,507	3.56

Interest in related parties

	2019		2018	
	Units	%	Units	%
RFM Poultry	225,529	3.28	225,529	3.28

Other

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

Rural Funds Group

Notes to the Financial Statements

30 June 2019

G3 Parent entity information

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

Investments in subsidiaries and associates

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

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

	2019 \$'000	Restated* 2018 \$'000
Statement of Financial Position		
ASSETS		
Current assets	7,631	10,413
Non-current assets	813,100	628,856
Total assets	820,731	639,269
LIABILITIES		
Current liabilities	14,662	12,583
Non-current liabilities	318,153	277,267
Total liabilities (excluding net assets attributable to unitholders)	332,815	289,850
Net assets attributable to unitholders	487,916	349,419
Total liabilities	820,731	639,269
Statement of Comprehensive Income		
Net profit after income tax	26,218	29,853
Other comprehensive income for the period, net of tax	(280)	14,065
Total comprehensive income attributable to unitholders	25,938	43,918

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

Rural Funds Group

Notes to the Financial Statements

30 June 2019

G4 Reconciliation of profit to operating cashflow

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

	2019	Restated*
	\$'000	\$'000
Net profit after income tax	33,355	29,895
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit		
(Gain) on sale of assets	(12)	(17)
Depreciation and amortisation - other	1,230	1,001
Depreciation - bearer plants	4,600	4,001
Amortisation of lease incentives	200	133
Finance income - lease receivable	(352)	-
(Reversal of impairment)/impairment of bearer plants	(8,854)	2,159
Change in fair value of investment property	(8,352)	(7,398)
Change in fair value of financial assets/liabilities	70	-
Reversal of impairment of intangible assets	(105)	(54)
Change in fair value of interest rate swaps	18,208	1,956
Straight-lining of rental revenue	(953)	-
Other non-cash items	-	(2,000)
Changes in operating assets and liabilities		
Decrease/(increase) in trade and other receivables	333	(800)
(Increase)/decrease in other assets	(1,103)	49
(Decrease)/Increase in trade and other payables	(27)	990
Decrease in tax liabilities	4,534	1,057
Increase in other liabilities	957	-
Net cash inflow from operating activities	43,729	30,972

G5 Remuneration of auditors

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

	2019	2018
	\$	\$
PricewaterhouseCoopers Australia:		
Audit and review of financial statements	274,900	223,422
Compliance audit	9,425	9,425
Total	284,325	232,847

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

Rural Funds Group

Notes to the Financial Statements

30 June 2019

G6 Other accounting policies

Cash and cash equivalents

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

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

Goods and services tax (GST)

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

Receivables and payables are stated inclusive of GST.

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

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

Leases

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

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

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

New accounting standards and interpretations

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

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

Provisions

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

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

Rural Funds Group

Notes to the Financial Statements

30 June 2019

G6 Other accounting policies (continued)

Provisions (continued)

Provisions for distributions

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

G7 Events after the reporting date

On 31 July, the Group announced the lease of Rewan to Australian Agricultural Company Limited for 10 years. The lease is subject to approval by the Foreign Investment Review Board (FIRB). The lease rate and terms are consistent with the Group's existing cattle properties.

On 16 August, the Group completed the purchase of the Beef City feedlot for approximately \$12.7 million including transaction costs.

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

Rural Funds Group

Directors' Declaration

30 June 2019

In the Directors of the Responsible Entity's opinion:

- 1 The financial statements and notes of Rural Funds Group set out on pages 42 to 106 are in accordance with the *Corporations Act 2001*, including:
 - a. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - b. giving a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the year ended on that date; and
- 2 There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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

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

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



David Bryant
Director

27 August 2019



Independent auditor's report

To the stapled security holders of Rural Funds Group

Report on the audit of the financial report

Our opinion

In our opinion:

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

- (a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2019
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in net assets attributable to unitholders for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

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

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

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

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



Materiality

- For the purpose of our audit we used overall Group materiality of \$5.3 million, which represents approximately 1% of the Group's net assets at 30 June 2019.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group net assets because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.
- We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit Scope

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



Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation of: • Investment properties • Bearer plants • Water entitlements (Refer to note C1, C2, C3, C6) Investment properties, bearer plants (including almond trees, macadamia trees and wine grape vines) are carried at fair value, while water entitlements are carried at cost less accumulated impairment. The Group's valuation policy requires these agricultural assets to be externally valued by experts every two years or more often where the Group considers appropriate. Key variables and considerations in the valuations include discount rates, capitalisation rates, passing rents, value per cattle adult equivalent, and comparable sales. Factors such as prevailing market conditions, and the individual nature, condition, location and the expected future income of these properties impacted these variables. This was a key audit matter because of the: • size of the investment properties, bearer plants and water entitlements balance in the consolidated statement of financial position • quantum of revaluation gains/losses that could directly impact the consolidated statement of comprehensive income through the net fair value gain/loss of investment properties and bearer plants • inherently subjective nature of agricultural	Where an external valuation was obtained by the Group: • We assessed the competency, qualifications, experience and objectivity of any external valuers used by the Group. • We engaged PwC valuation experts to assist us with our work on selected valuations. • We read the valuers' terms of engagement – we did not identify any terms that might affect their objectivity or impose limitations on their work relevant to the valuation. • We interviewed external valuers in relation to a selection of properties subject to valuation. • We compared a sample of inputs used in a sample of valuations, such as rental income and lease terms, to the relevant tenancy schedules and lease agreements. We assessed reasonableness of the market rents, discount rates, capitalisation rates, comparable sales used in the valuation models for a sample of properties based on benchmark market data. • We inspected the final valuation reports and agreed the fair value as per the valuation to the value recorded in the Group's accounting

Key audit matter	How our audit addressed the key audit matter
property valuations due to the use of assumptions and estimates in the valuation model and the allocation of fair value to components in the balance sheet sensitivity of valuations to key inputs/assumptions in the model such as the discount rate and capitalisation rates.	records. We assessed the directors' allocation techniques to allocate the fair value of the property to the components of investment property, bearer plants, and water entitlements. We assessed the adequacy of disclosure in relation to the directors' judgment applied in adopting allocation techniques, including disclosure on changes to allocation techniques during the year. For properties not subject to external valuations in the current financial year, we evaluated the directors' internal assessment of the fair value of the properties and their assertion that the properties are carried at fair value as per latest external valuation report, adjusting for any additional capital expenditure made during the intervening period. We also performed procedures in relation to the Group's policy of depreciating bearer plants including evaluating estimates of useful life and tree maturity assumptions applied for calculating depreciation on a straight line basis.
Related party transactions (Refer to note G2) The Group's Responsible Entity, along with other funds for which it is the Responsible Entity, are considered related parties of the Group. Key transactions disclosed in the notes with these parties include: - Rental income from the lease of investment properties, bearer plants, plant and equipment - Finance income from lease of cattle - Finance and interest income - Management & asset management fees paid - Distributions paid from investments - Cost recovery of operating expenses - Provision of a limited financial guarantee and	We obtained an understanding of the Group's controls and processes for identifying related parties and related party transactions. For significant contracts entered into during the year, we assessed that the transactions were appropriately approved. For a sample of new lease income received during the year, we agreed the lease income to the relevant supporting documents including the lease agreements. For management and asset management fees, we compared the rates used to determine fees to the rates



Key audit matter	How our audit addressed the key audit matter
receipt of fee income We considered the related party transactions to be a key audit matter due to the influence of related parties on the Group, as well as the potential impact of these transaction on the results of the Group. Additionally, because of their nature, they are pervasive and material to the presentation of and disclosures within the financial report.	disclosed in the explanatory memorandum issued on formation of the Group. We discussed the related party transactions with management to obtain an understanding of the business rationale for the transactions. We assessed the adequacy of the disclosures in Note G2, of related party relationships and transactions in light of the requirements of Australian Accounting Standards.
Accounting treatment of feedlots acquisitions and financial guarantee (“JBS transaction”) (Refer to note C4, E1) During the financial year, the Group entered into two arrangements with JBS Australia (“JBS”): 1. Feedlot acquisition: The Group entered into transactions for the acquisition and subsequent execution of a 10 year finance lease for JBS’s five Australian feedlots. Lease agreements include a call option on the feedlots exercisable by JBS from year six to the end of year ten and a put option exercisable by the Group at the end of year ten. As at 30 June 2019, transactions for three of the five feedlots had been completed. 2. Financial guarantee: The Group provided a \$75 m limited ten year financial guarantee to a special purpose vehicle called J&F Australia Pty Ltd (acquired by Rural Funds Management) that enabled JBS to replace an existing arrangement for the supply of cattle for its grainfed feedlot business. The guarantee earns a monthly income return based on a cost plus arrangement, net of the Groups interest savings. Given the complexity and significance of the accounting for the feedlot acquisitions and financial guarantee, we considered the JBS transactions as a key audit matter.	We obtained an understanding from management and others on the purpose, terms and conditions, and substance of the transaction including reading the details of transaction included in the Retail Offer Booklet. We read the Sales and Purchase Agreements, the Lease Agreement, and the Financial Guarantee Agreement. We considered if the Group’s accounting treatment and recognition in the financial statements for the feedlots and the financial guarantee were in line with the requirements of Australian Accounting Standards. We assessed the adequacy of disclosures in the Note C4, E1 in light of the requirements of Australian Accounting Standards.

Other information

The directors of Rural Funds Management Limited (the Responsible Entity of Rural Funds Trust) (the directors) are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Directors' Report and Additional Information for Listed Public Entities, and Corporate Directory. We expect the remaining other information to be made available to us after the date of this auditor's report.

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intends to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

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



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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

A stylized signature of PricewaterhouseCoopers.

PricewaterhouseCoopers

A stylized signature of Rod Dring.

Rod Dring
Partner

Sydney
27 August 2019

Additional Information for Listed Public Entities

30 June 2019

Unitholder information

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below. This information is effective as at 30 June 2019.

Distribution of equity securities

Analysis of number of unitholders by size of holding:

	Unitholders 2019
1 - 1,000	2,612
1,001 - 5,000	4,558
5,001 - 10,000	2,273
10,001 - 100,000	3,478
100,001 and over	193

RFM considers that there are 336 holders of a less than marketable parcel of units at 30 June 2019.

Substantial unitholders

The number of substantial unitholders and their associates are set out below:

	Units held	%
HSBC Custody Nominees (Australia) Limited	48,948,715	14.64
J P Morgan Nominees Australia Limited	44,949,850	13.45
Netwealth Investments Limited (Wrap services)	13,508,131	4.04

Voting rights

Ordinary units

All ordinary units carry one vote per unit without restriction.

Twenty largest unitholders at 30 June 2019

	Units held	%
HSBC Custody Nominees (Australia) Limited	48,948,715	14.64
J P Morgan Nominees Australia Limited	44,949,850	13.45
Netwealth Investments Limited (Wrap services)	13,508,131	4.04
Argo Investments Limited	12,494,364	3.74
Rural Funds Management Limited	11,843,659	3.54
Citicorp Nominees Pty Limited	9,477,652	2.84
National Nominees Limited	8,757,590	2.62
eCapital Nominees Pty Limited	5,457,592	1.63
BNP Paribas Nominees Pty Limited	4,098,894	1.23
Netwealth Investments Limited (Super Services)	3,557,677	1.06
Bryant Family Services Pty Limited	2,555,941	0.77
One Managed Investment Funds Limited	2,000,000	0.60
SCCASP Holdings Pty Limited	1,663,073	0.50
AMP Life Limited	1,387,980	0.42
Morgan Stanley Australia Securities Pty Limited	1,222,257	0.37
Boskenna Pty Limited	1,059,104	0.32
Bainpro Nominees Pty Limited	1,059,063	0.32
Bond Street Custodians Limited	781,363	0.23
WF Super Pty Limited	770,335	0.23
Noeljen Pty Limited	711,902	0.21
Total	176,305,142	52.74

Securities exchange

The Group is listed on the Australian Securities Exchange (ASX).



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