

Rural Funds Group | ASX: RFF

Managed by:



Financial results presentation

for the year ended 30 June 2022

31 August 2022



Disclaimer and glossary of terms

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Glossary

Adjusted NAV – Net Asset Value (NAV) adjusted for the independent valuation of water entitlements, **Adjusted total assets** – Total assets adjusted for the independent valuation of water entitlements, **ASX** – Australian Securities Exchange, **AFFO** – Adjusted funds from operations, a financial metric used in the REIT sector to measure available cash flow from operations (adjustment relates to non-cash tax expense), **Counterparties** – Parties other than RFF involved in a financial transaction, usually referring to the lessee of a property, **CPI** – Consumer Price Index, **cpu** – cents per unit, **DPU** – Distributions per Unit, **DRP** – Distribution reinvestment plan, **EBITDA** – Earnings Before Interest, Taxes, Depreciation and Amortisation, **EPU** – Earnings per unit (calculated TCI/weighted average units), **Fair value** – Value of an asset as determined by an independent valuation, **FY22** – Full-year ended 30 June 2022, **FY23** – Full-year ended 30 June 2023, **Gearing** – Calculated as external borrowings/adjusted total assets, **GL** – Gigalitre, **Group** – Term used for the Rural Funds Group, **ha** – Hectare(s), **LVR** – Loan to valuation ratio, a bank covenant calculated as debt divided by tangible assets (including water entitlements), **Market capitalisation** – Total market value of a company's shares on the market, **ML** – Megalitre, **m** – Million(s), **NAV** – Net asset value, calculated as assets less the value of liabilities (does not recognise fair value of water entitlements), **P&E** – Plant and equipment, **REIT** – Real Estate Investment Trust, **RFF** – Rural Funds Group (ASX: RFF), **RFM** – Rural Funds Management Limited, manager and responsible entity for RFF, **TCI** – Total comprehensive income, **Total assets** – Total value of assets as presented on the balance sheet (water entitlements recorded at the lower of cost or fair value), **WALE** – Weighted average lease expiry.

Presenters



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1 FY22 financial results

Learn more:



Dryland wheat crop, Lynora Downs, central Queensland, July 2022.

FY22 summary

Active period of acquisitions, developments and leasing activity.

Key activities during FY22 by sector

Cattle

- Entered a 10-year lease with Australian Agricultural Company (ASX: AAC) for two existing properties.
- Entered a 20-year lease with Mort & Co for two properties acquired during the period.
- Entered a 25-year lease with Clarke Creek Energy Pty Ltd for a portion of an existing property.
- JBS Guarantee investment expanded from \$100m to \$132m.
- Rent review completed for Natal which provided approximately 60% rent increase in FY23.
- Acquired two cattle properties to begin productivity improvements before seeking lessees.¹

Cropping

- Extended lease with existing joint-venture lessee Queensland Cotton and RFM for five years.
- Acquired a cropping property to begin productivity improvements before seeking a lessee.

Macadamias

- Lease negotiations for macadamia developments subject to an exclusivity agreement.
- Acquired two mature macadamia orchards and additional development sites.

Key metrics as at 30 June 2022

Portfolio
size
\$1.5b

Adjusted NAV
per unit
\$2.69

Number of
properties
68

Weighted average
lease expiry
9.1 years

Note:

1. One property (Kaiuroo) has a settlement period of up to November 2023.

Earnings and balance sheet summary

Earnings per unit up 52% and adjusted net asset value per unit up 24%.

Income and earnings metrics

	12 months ended 30 June 2022	12 months ended 30 June 2021	Movement	
Property revenue – \$	73,956,000	67,166,000	10%	Property revenue increased primarily due to income from the acquisitions, increased J&F Guarantee, development capital expenditure and lease indexation (inc. market rent reviews). Prior corresponding period included \$2.9m lease income from Moorall almond orchard (sold for \$98.0m December 2020).
Total comprehensive income (TCI) – \$	210,206,000	123,917,000	70%	
Earnings per unit (EPU) ¹ – cents	55.58	36.56	52%	TCI and EPU driven by positive revaluations primarily on cattle properties and interest rate swaps. Prior corresponding period included the gain on sale of \$32.5m (primarily Moorall almond orchard).
Adjusted funds from operations (AFFO) – \$	44,215,000	40,423,000	9%	
AFFO per unit – cents	11.7	11.9	(2%)	FY22 AFFO increase compared to prior corresponding period. AFFO per unit of 11.7 cents lower compared to prior period primarily due to unleased development assets in FY22.
Distributions per unit (DPU) – cents	11.73	11.28	4%	
AFFO payout ratio	100%	95%	5%	FY22 DPU of 11.73 cents an increase of 4% on prior period.

Balance sheet summary

	As at 30 June 2022	As at 30 June 2021	Movement	
Total assets – \$	1,403,829,000	1,041,904,000	35%	Assets increased primarily due to acquisitions of \$179m and revaluations of \$134m. See slide 7.
Adjustment for water at fair value ² – \$	110,316,000	90,178,000	22%	
Adjusted total assets ² – \$	1,514,145,000	1,132,082,000	34%	External borrowings increased due to acquisitions and developments. Gearing lower driven by revaluations. Gearing of 30% at lower end of 30–35% target range, providing balance sheet capacity for development capex.
External borrowings – \$	457,625,000	346,550,000	32%	
Gearing ³ – %	30.2%	30.6%	(0.4%)	Net assets increased primarily due to revaluations.
Net asset value (NAV) – \$	917,011,000	648,544,000	41%	
NAV per unit – \$	2.39	1.91	25%	
Adjusted NAV ² – \$	1,027,327,000	738,722,000	39%	
Adjusted NAV per unit ² – \$	2.69	2.17	24%	

Refer to pages 25 to 31 for further information.

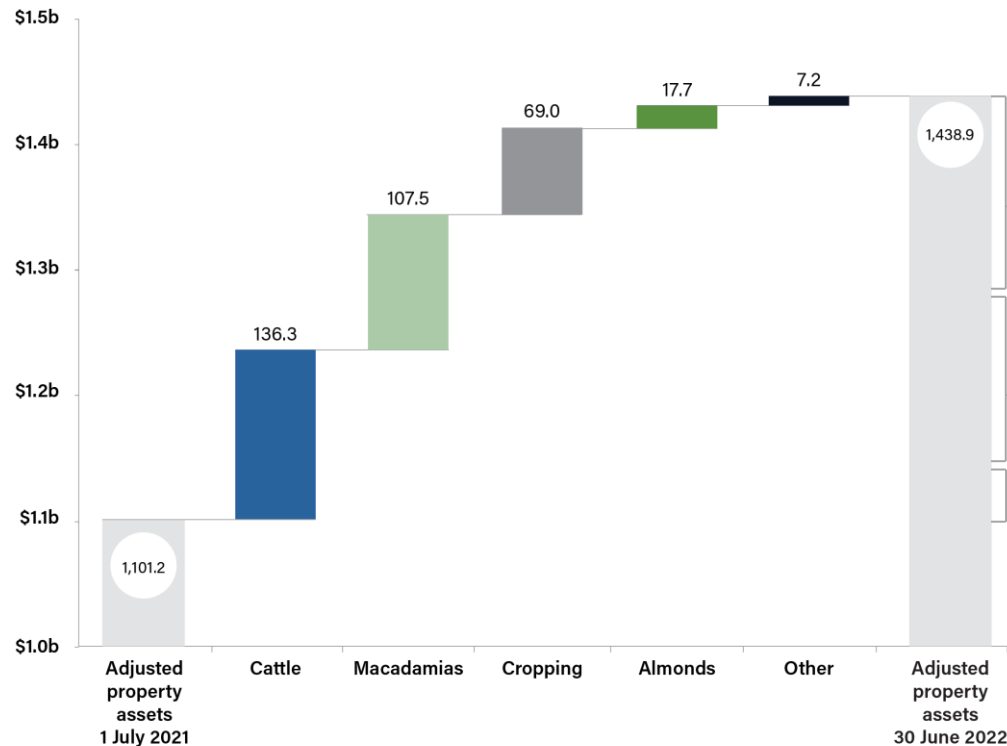
Notes:

- Earnings calculated TCI/weighted average units (see page 25).
- Assets adjusted for the independent valuation of water entitlements which are recognised at the lower of cost or fair value on balance sheet.
- Gearing calculated as external borrowings/adjusted total assets.

Property movements

Adjusted property asset increase of \$338m mainly driven by acquisitions of \$179m and revaluations of \$134m.

Adjusted property assets movements (\$m) by sector¹



Primary contributors to adjusted property assets movement:

Acquisitions of \$179.2m including:

- Cattle properties \$44.5m – The Pocket \$14.6m, Coolibah \$4.9m, Thirsty Creek \$6.5m and Kaiuroo \$18.5m deposit.
- Macadamia orchards \$62.3m – Beerwah and Bauple \$62.3m.
- Cropping \$72.4m – Baamba Plains \$34.0m and water entitlements leased to cropping operators \$38.4m.

Revaluations of \$134.0m including:

- Cattle properties \$104.7m – Natal \$48.3m, Rewan \$12.0m, Cerberus \$10.1m, Comanche \$10.0m, Dyamberin \$7.0m and Home Hill \$5.8m.
- Macadamia orchards (\$0.8m) – Beerwah and Bauple transaction costs (\$4.1m), Rookwood Farms development area \$2.1m and Bundaberg mature orchards \$1.5m.
- Cropping properties \$6.1m – Maryborough sugar cane properties and assoc. water entitlements \$7.2m.
- Almonds \$17.7m – Kerarbury \$16.6m and Tocabil \$3.7m.
- Other \$6.3m – includes water entitlements \$12.2m and vineyards (\$5.9m).

Development capex of \$45.9m including:

- Higher-and-better-use developments \$33.2m – macadamia orchards \$33.2m.
- Productivity improvements \$10.0m – cropping properties \$5.1m and cattle properties \$4.9m.

For details of independent valuations see page 31.

Note:

1. The sector totals presented in the chart are net of depreciation and inclusive of capex. Acquisition amounts include transaction costs and stamp duty. Revaluations include straight-lining adjustment for rent, and finance lease adjustments and bearer plants depreciation. Adjusted property assets include plant and equipment (P&E). Directors' valuation applied to bearer plants where applicable, which are treated as property, plant and equipment and depreciated in accordance with AASB116. Cattle financing facilities totalling \$17.9m were repaid during the period.

2 Capital management



Learn more:



Water storage at cropping property Mayneland, central Queensland, July 2022.

Capital management

Debt facility refinanced and additional forward dated interest rate hedges entered into.

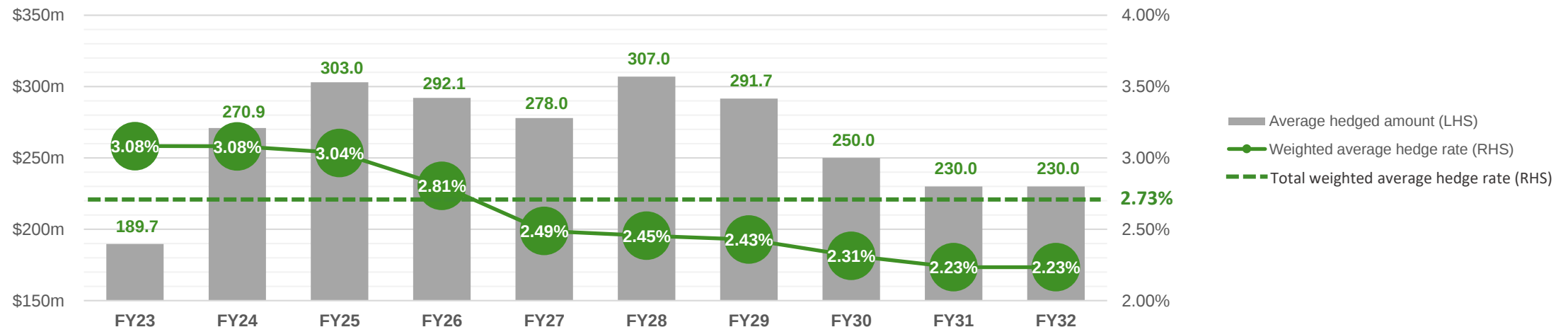
Equity

Item	Details
Equity raised	Entitlement Offer completed August 2021 (\$100.0m at \$2.47 per unit) to provide funding for acquisitions and macadamia orchard developments.
Distribution	FY22 DPU of 11.73 cents, an increase of 4% from FY21. Forecast FY23 DPU 11.73 cpu (plus franking credits of 0.47 cpu).
DRP	Remains open with 1.5% discount. FY22 average DRP participation 14%.
Trading price	Decrease of 5.3% (\$2.65 to \$2.51) from 30 June 2021 to 30 June 2022. Current price \$2.61 (22 August 2022).

Debt

Item	Details
Facility	Increase of debt facility limit, extension of tenor and updated covenants (LVR increased to 55%, ICR reduced to >2.00x with distribution permitted at >2.15x and hedging requirement reduced to 30% for FY23). Introduction of third lender to the debt syndicate (National Australia Bank) and margin refinance for \$110.0m.
Limit	Facility limits increased to \$520.0m.
Maturity	Expiry date November 2023 (\$110.0m) and November 2024 (\$410.0m).
Hedging	Interest rate hedges totalling \$210.0m entered since 1 July 2021. Weighted average duration of these hedges 10.4 years (including forward start period) at weighted average rate of 2.76%.

Interest rate hedges (FY23 to FY32)



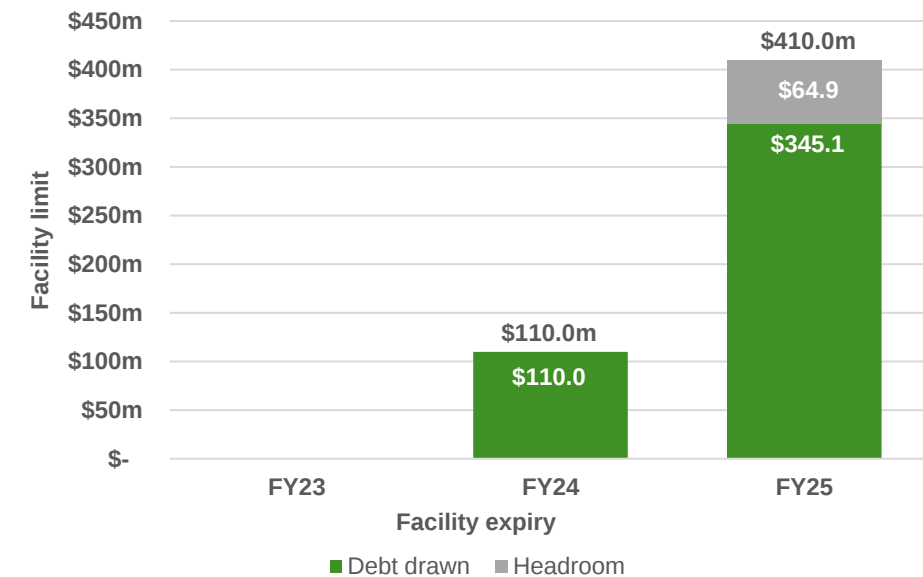
Debt facility

Proportion of debt hedged 40% and weighted average duration of hedges 8.6 years.

Debt facility metrics

		30 June 2022	30 June 2021
Debt facility	Term debt facility limit ^{1,2}	\$520.0m	\$380.0m
	Term debt drawn	\$455.1m	\$344.1m
	Headroom	\$64.9m	\$35.9m
	Cost of debt ³	2.92%	3.20%
Covenants	Loan to Value Ratio (LVR) ^{1,4}	42.7%	41.9%
	Interest Cover Ratio (ICR) ¹	5.07	8.10
	Adj. Net Tangible Assets (NTA) ¹	\$1,027.3m	\$738.7m
Hedging	Total amount hedged ⁵	\$183.0m	\$183.0m
	Proportion debt hedged ^{1,6}	40.2%	53.2%
	Weighted average duration ⁷	8.6 years	7.5 years

Debt facility tenor



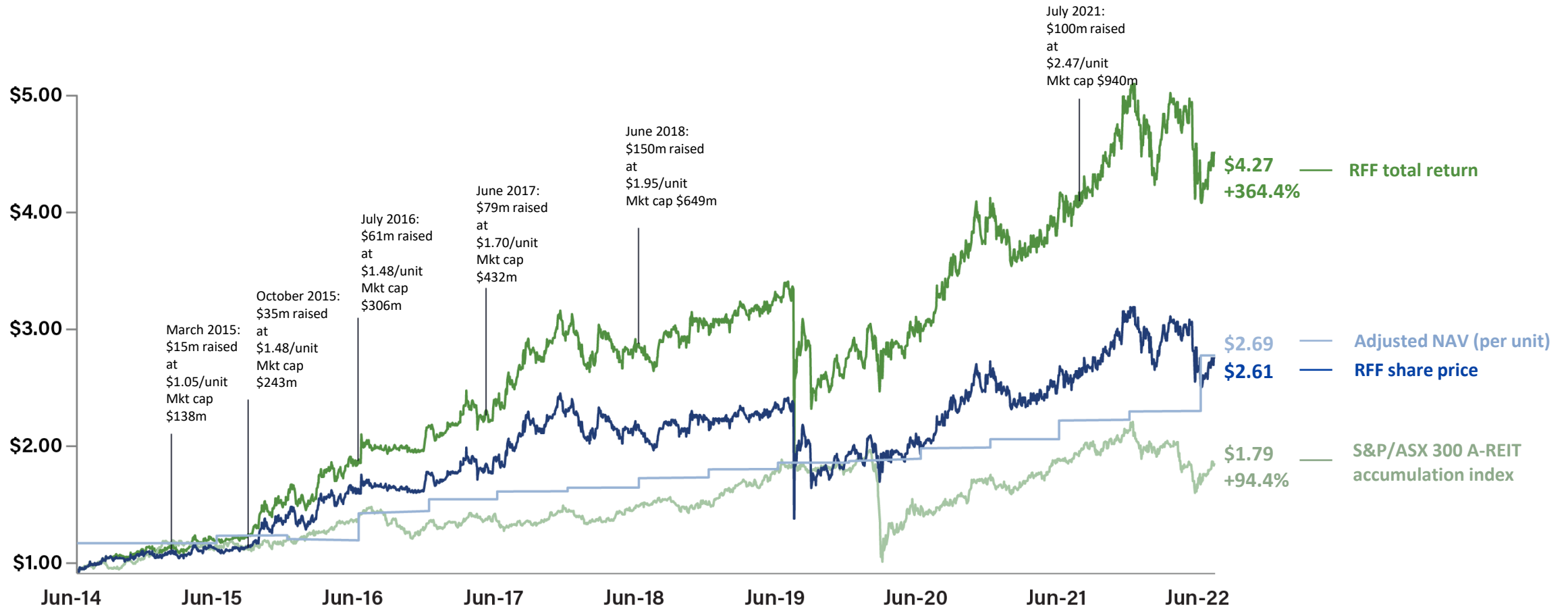
Notes:

- Key financial covenants FY23 (from August 2022): LVR <55%, ICR >2.00x, with distribution permitted at >2.15x, Adjusted NTA including water entitlements >\$400m, undertaking to maintain minimum 30% hedging requirement in FY23. Hedging requirement may vary with bank consent.
- Security: real property mortgages, general security agreement, cross guarantees between RFF and subsidiaries.
- Total interest expense plus cost of hedges, divided by average term debt drawn. Excludes capitalised borrowing costs.
- LVR calculated as term debt drawn plus guarantee of \$132.0m (as at 30 June 2022) divided by directly secured assets based on independent valuations. Guarantee increased to \$132.0m in April 2022.
- Current hedges only.
- Proportion hedged calculated as current hedges/term debt drawn.
- Duration remaining as at 30 June 2022 and includes forward start hedges.

Performance

Material outperformance compared to S&P/ASX 300 accumulation index.

RFF performance compared to adjusted NAV and S&P/ASX 300 A-REIT accumulation index¹



Note:

1. Calculation period 1 July 2014 to 22 August 2022. S&P/ASX 300 A-REIT Accumulation Index rebased to \$1.00. RFF total return rebased to \$1.00 and assumes distributions reinvested. RFF total return does not take into account any benefit of participating in equity raises. Market capitalisation (Mkt cap) amounts are subject to rounding. RFF share price of \$2.61 as at 22 August 2022, adjusted NAV per unit of \$2.69 as at 30 June 2022.

3

Acquisition, development and leasing update



Learn more:



Macadamia developments at Riverton (foreground) and Rookwood Weir construction (background), central Queensland, May 2022.

Acquisition, development and leasing activity

Entered or extended leases for six properties and acquired additional properties to be developed prior to leasing.¹

Central Queensland properties



Summary of activities

	Sector	Strategy	Activity
1. Cerberus	Cattle	Productivity improvement	- Leased to Clarke Creek Energy for 25 years from May 2022 to install wind turbines (remnant vegetation areas only). - Productivity developments to continue on grazing areas prior to leasing (RFF to operate in interim).
2. Kaiuroo	Cattle	Productivity improvement	Productivity developments to commence during settlement period (settlement period up to November 2023).
3. Comanche and Homehill	Cattle	Productivity improvement	Leased to Australian Agricultural Company (ASX: AAC) for 10 years from May 2022.
4. Riverton and Rookwood Farms	Macadamia	Higher and better use	- Aggregation formed to develop macadamia orchards. - Lease negotiations for macadamia developments subject to an exclusivity agreement.
5. Thirsty Creek and Coolibah	Cattle (feedlot ²)	Higher and better use	Leased to Mort & Co for 20 years from May 2022 (portion only).
6. Yarra (inc. The Pocket)	Cattle	Productivity improvement	- Aggregation formed through the acquisition of The Pocket. - Productivity developments to commence prior to leasing (RFF to operate in interim).
7. Baamba Plains	Cropping	Productivity improvement	Productivity developments to commence prior to leasing (RFF to operate in interim).
8. Mayneland	Cropping	Productivity improvement	RFM to operate FY23 while productivity developments continue.
9. Lynora Downs	Cropping	Productivity improvement	Lease extension for five years with existing joint venture tenant Queensland Cotton and RFM.
Beerwah and Bauple (not shown on map)	Macadamia	—	RFF to operate before leasing.

Note:

- Properties leased in FY22 include: Cerberus (remnant vegetation areas only), Comanche, Homehill, Thirsty Creek (portion), Coolibah and Lynora Downs.
- Feedlot development is subject to council approval.

Higher and better use development updates

Converting cattle properties and sugarcane farms to generate higher lease income and capital growth potential.



- FY22 development schedule was impacted by above average rainfall – 477 ha have been planted and an additional 523 ha in development phase (Maryborough, Rockhampton and Bundaberg). A total of 1,000 ha expected to be planted by November 2022.
- Approximately 2,200 ha of macadamia orchards are planned to be developed on sugarcane farms acquired in Maryborough.
- To generate revenue before being converted to macadamia orchards, sugarcane farms are leased to private operators or operated directly by RFF.¹

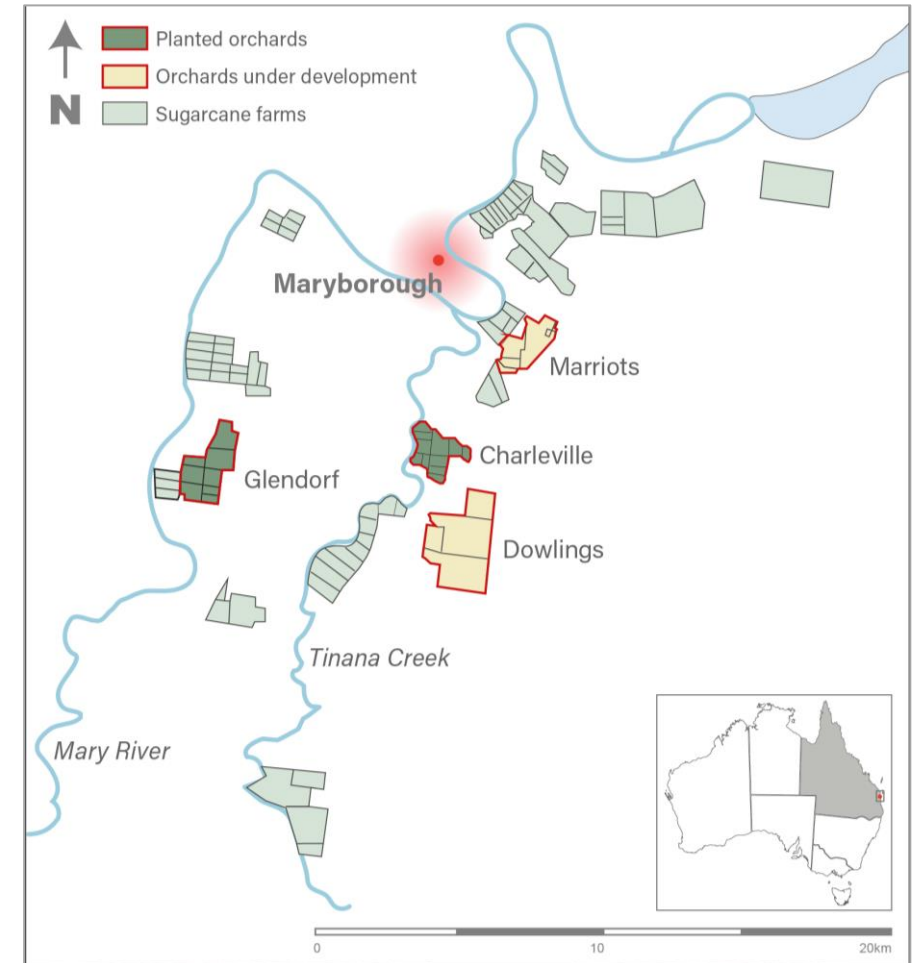


Development phase - connecting irrigation at the 101 ha Charleville orchard, April 2022.



Newly planted trees at the 248 ha Glendorf orchard, April 2022.

Maryborough development sites¹



Note:

1. Operated by RFM Macadamias Pty Ltd (RMA) a subsidiary of RFM on behalf of RFF.

Productivity improvements

Productivity improvements complete on Lynora Downs and being implemented on Mayneland and Baamba Plains.

- Since the acquisition of Lynora Downs in December 2016, RFM has:
 - increased water storages from 10,000 ML to 14,142 ML
 - increased irrigation area from 779 ha to 1,560 ha
 - installed levee banks for flood protection.
- Expanding water storage and irrigation area provides higher and more reliable return per hectare.
- Similar productivity development strategies are being deployed on nearby cropping properties Mayneland and Baamba Plains.

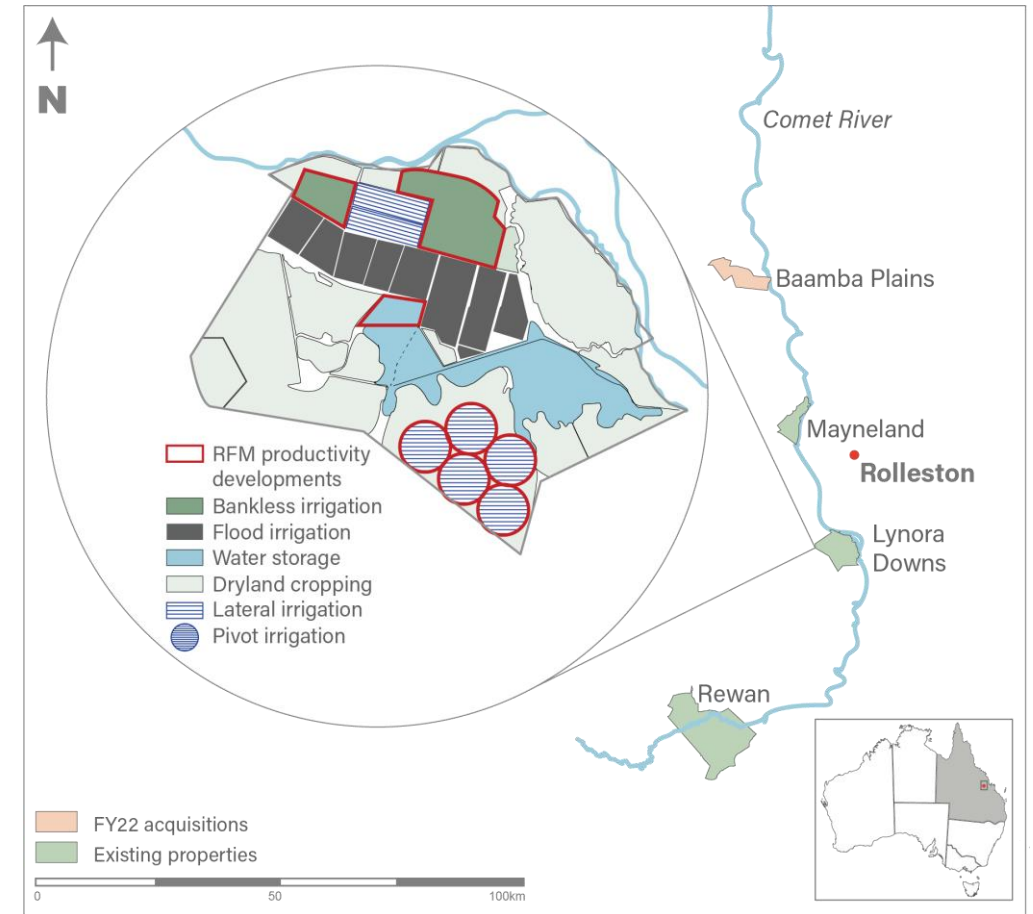


One of five 80 ha pivot irrigation systems installed in 2020, February 2022.



Water storage increase of 4,142 ML was completed in 2020, February 2022.

Lynora Downs productivity developments



Learn more:



4 Portfolio update

Harvesting cotton at cropping property Lynora Downs, central Queensland, June 2022.

Portfolio overview

68 properties located in multiple climatic zones.

Assets map, sector information and key lessees¹

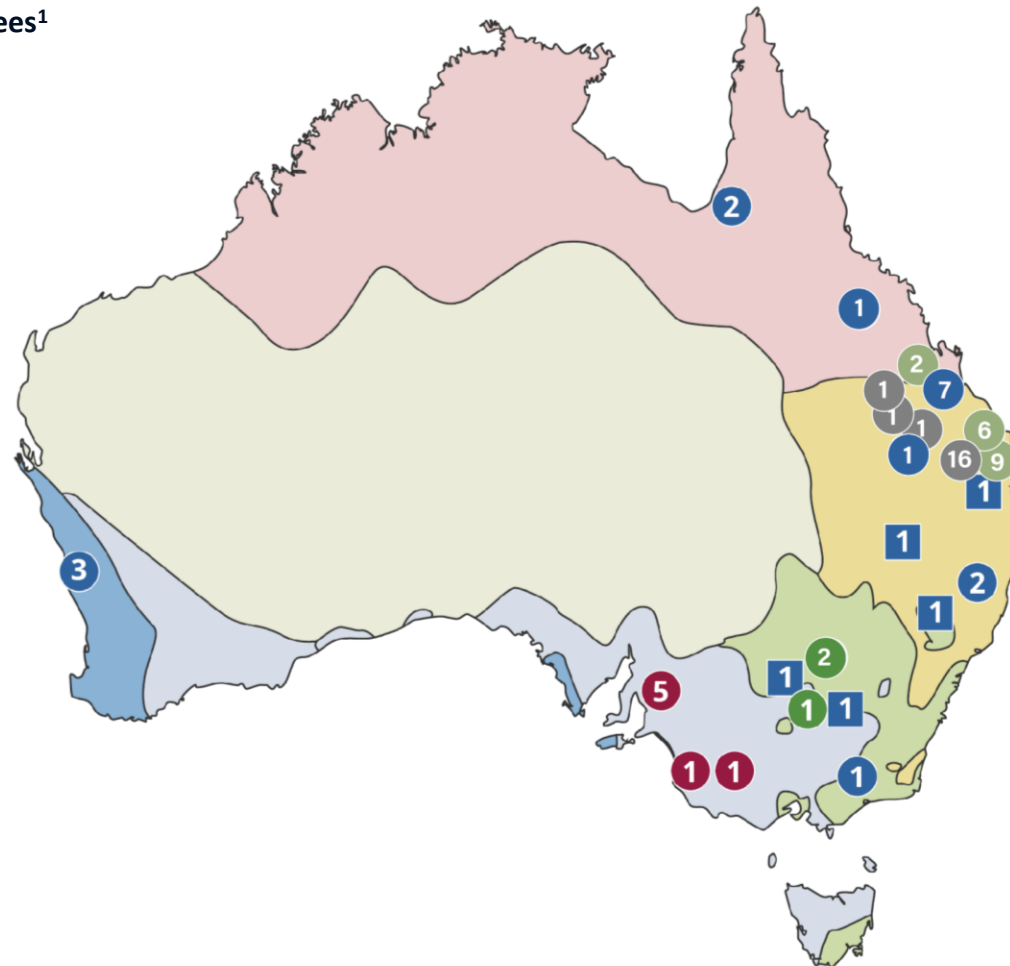
Cattle 39%

Properties: 22
Description: 675,744 ha of breeding and backgrounding land. 150,000 head feedlot capacity.
FY22 value: \$534.7m
FY23f revenue: \$32.2m (39%)
Water entitlements: 14,459 ML
Corporate and listed lessees:



Vineyards 5%

Properties: 7
Description: 666 ha of mature vineyards.
FY22 value: \$60.0m
FY23f revenue: \$4.3m (5%)
Water entitlements: 936 ML
Corporate and listed lessees:



Almonds 36%

Properties: 3
Description: 1,006 ha of mature orchards, 3,133 ha of maturing orchards.
FY22 value: \$400.0m
FY23f revenue: \$29.7m (36%)
Water entitlements: 55,396 ML
Corporate and listed lessees:



Cropping 9%

Properties: 19
Description: 15,200 ha of irrigated cropping and dryland cropping land.
FY22 value: \$186.9m
FY23f revenue: \$7.6m (9%)
Water entitlements: 58,188 ML
Corporate and listed lessees:



Macadamias 7%

Properties: 17
Description: 1,114 ha of planted area.
FY22 value: \$178.3m
FY23f revenue: \$5.5m (7%)
Water entitlements: 7,598 ML

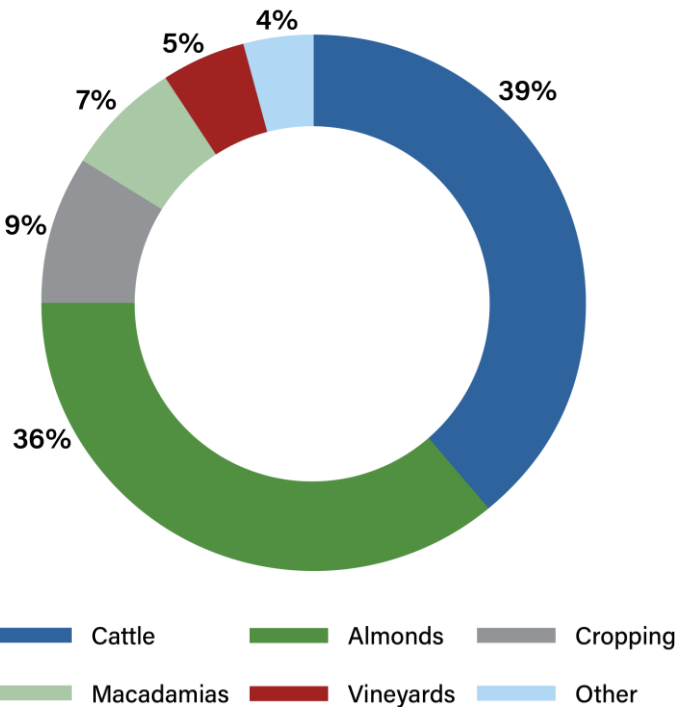
Note:

- Shaded areas denote climatic zones differentiated by rainfall seasonality (source: Bureau of Meteorology); see Climatic Diversification discussion paper dated 20 June 2016. Numbers in the circles/boxes on map show number of assets. Blue square boxes denote cattle feedlots. Cattle property Kaiuroo, which has a settlement period of up to November 2023, included in number of properties; value of deposit and interest on deposit included in FY22 value and FY23f revenue. FY23f revenue includes AFFO contribution from farming operations from owner-occupied properties that RFF is currently operating (Beerwah and Bauple – Macadamias; unleased Maryborough properties and Baamba Plains – Cropping; Yarra and Cerberus – Cattle). Other income of 4% not shown.

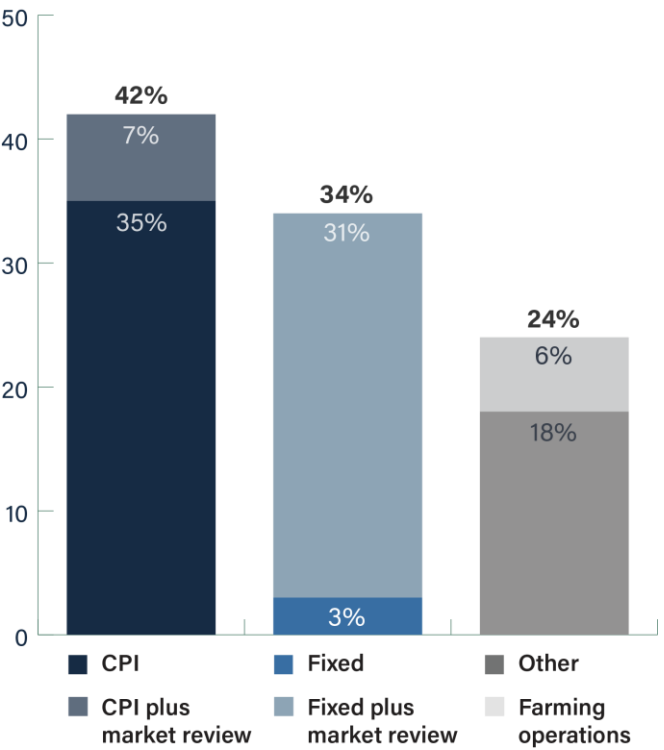
Revenue by sector and indexation type

Diversification of revenue across five agricultural sectors and majority of leases with inflation-linked indexation (CPI and market rent reviews).

FY23f revenue by sector¹



Lease indexation mechanisms (by FY23f revenue)¹

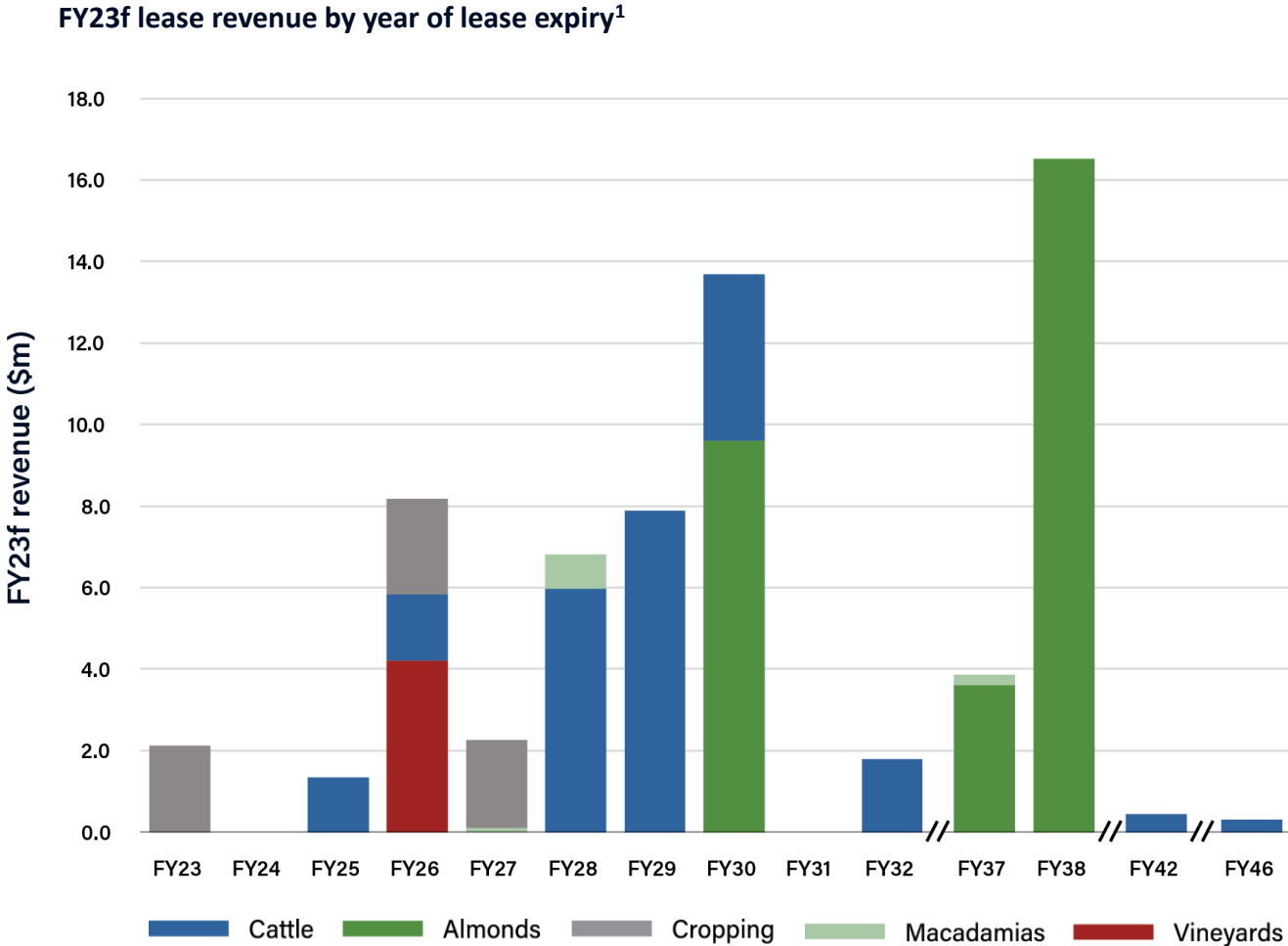


Notes:

1. Figures shown are subject to rounding. Includes income from annual water allocation sales, revenue from owner-occupied properties and agistment. “Other” includes: J&F Australia guarantee fee (indexation chart only), other short-term leases, revenue from Kaiuroo deposit (indexation chart only), cattle finance leases and income from annual water allocation sales. Farming operations revenue represents 6% FY23f from cattle, macadamias and cropping sectors. Sector percentages include forecast AFFO contributions from owner-occupied properties including Beerwah and Bauple – Macadamias; unleased Maryborough properties and Baamba Plains – Cropping; Yarra and Cerberus – Cattle.

Revenue and WALE

Weighted average lease expiry (WALE) of 9.1 years and majority of lessees corporate entities.



Corporate lessees²



Notes:

- 1. WALE is calculated as the FY23 forecast rent and the year of lease expiry.
- 2. Other lease categories include direct farming operations 6%, RFM Farming 7%, Investment Funds 1%, Private farming businesses 12% and other 4% (e.g. annual water allocation sales).

Sustainability

RFM has continued to progress sustainability initiatives.

- During FY22, RFM underwent a review process to identify appropriate sustainability reporting frameworks. Further details to be provided in RFF's 2022 Annual Report.
- RFM is also assessing Scope 1 and 2 emissions quantification. However, the majority of RFF assets are leased and are within operational control of lessees (therefore not RFF Scope 1 or 2 emissions).
- Several lessees report emissions and/or have strategies to reduce them, including to achieve net-zero emissions.

Summary of largest lessees sustainability initiatives¹

Lessee	Lease	Summary of sustainability initiatives	TCFD	Net zero target
 Olam	\$295m almond orchards	• Undertaking climate change risk modelling to seek to reduce emissions within its operations and throughout its supply chain. • Responding to the Task Force on Climate-related Financial Disclosures (TCFD).	✓	
 CAM AGRICULTURAL GROUP	\$138m cattle properties	• Commitment to sustainable agricultural practices. • Reducing emissions through the implementation of solar energy and utilising feedlot waste and composting to improve soil carbon.		
 SELECT HARVESTS	\$105m almond orchards	• Several environmental focuses including resource efficiency, sustainable farm management, climate change and water management. • Plans to align with the TCFD.	✓	
 STONE AXE POLYMER COMPANY	\$99m cattle properties	• Adheres to the Australian Beef Sustainability Framework. • Committed to reducing emissions intensity through efficient cattle management, improved soil carbon capture and the planting of trees.		
 MCO THE ART OF AUSTRALIAN BEEF	\$98m cattle properties	• Committed to setting a science-based net zero target. • Investing in emerging methane reduction technologies and reducing emissions intensity through improvement in operational efficiencies.		✓
 TREASURY WINE ESTATES	\$59m vineyards	• Net zero emissions target by 2030 (Scopes 1 and 2) which includes using 100% renewable electricity by 2024. • Plans to align with the TCFD.	✓	✓
 JBS	\$59m cattle feedlots	• Net-zero greenhouse gas emissions by 2040. • Plans to align with the TCFD.	✓	✓

Note:

1. For further information see RFF Newsletter dated June 2022.

5 Forecasts and conclusion



Learn more:



Cattle grazing at Rewan, central Queensland, August 2021.

FY23 forecasts

FY23 forecast AFFO 10.1 cpu and distributions of 11.73 cpu plus 0.47 cpu franking credit.

- FY23 forecast AFFO of 10.1 cpu lower than FY22 AFFO of 11.7 cpu primarily due to:
 - higher assumed interest rates – 2.0 cpu impact¹
 - interest costs on development expenditure – 0.6 cpu impact
 - partially offset by rental increases.
- Development pipeline of \$261m. Some assets are currently generating lower levels of income, however AFFO is expected to increase as assets are developed and leased:
 - macadamia developments \$165m²
 - cattle and cropping properties \$96m.
- Distribution forecast of 11.73 cpu plus 0.47 cpu franking credit maintained.

FY23 forecasts

	FY23
AFFO	10.1 cpu
Distributions	11.73 cpu
Franking credits	<u>0.47 cpu</u>
Grossed-up distributions	12.20 cpu
AFFO payout ratio	116%

Note:

1. Assumes one-month BBSW of 3.5% from January 2023 to June 2023.
2. Includes macadamia development capex of \$68m forecast to be deployed in FY23.

Conclusion

Leasing of macadamia orchards will have a material impact on AFFO.

1. Positive results for FY22:

- EPU up 52% and adjusted NAV up 24%.

2. Challenges in FY23:

- higher interest rates
- relatively low level of hedging but increasing from FY24
- unleased assets in the development pipeline.

3. Positive announcements anticipated for FY23:

- lease negotiations for macadamia developments subject to an exclusivity agreement
- leasing of macadamia orchards will have a material impact on AFFO, though timing is not certain.

4. Beyond FY23:

- inflation will increase RFF's rental income
- interest expenses are well hedged long term
- agricultural land values likely to be stable
- additional rents from development assets likely.

6 Appendices



Dryland wheat crop at the RFF cropping property Lynora Downs, central Queensland, August 2021.

FY22 results – summarised comprehensive income

Summarised statement of comprehensive income

	12 months ended 30 June 2022 \$	12 months ended 30 June 2021 \$
Property revenue	73,956,000	67,166,000
Sale of agricultural produce – farming operations	7,909,000	484,000
Revenue	81,865,000	67,650,000
Other income	3,475,000	3,451,000
Cost of goods sold – farming operations	(7,708,000)	(484,000)
Property expenses	(3,457,000)	(2,591,000)
Other expenses	(6,638,000)	(5,523,000)
Property and Other expenses – farming operations	(1,745,000)	(324,000)
Management fees ²	(6,850,000)	(6,295,000)
Asset management fees ²	(5,138,000)	(4,722,000)
Finance costs	(11,186,000)	(10,498,000)
Gain on sale of assets	320,000	32,868,000
Depreciation and impairments	(1,634,000)	(840,000)
Property revaluations – Bearer plants	(9,636,000)	(3,025,000)
Property revaluations – Investment property	123,191,000	42,289,000
Property revaluations – Intangible assets	(1,059,000)	(4,188,000)
Property revaluations – Property-owner occupied	(912,000)	(1,651,000)
Change in fair value of financial assets/liabilities	669,000	116,000
Change in fair value of biological assets – farming operations	5,054,000	1,136,000
Change in fair value of derivatives	51,852,000	12,923,000
Profit before tax	210,463,000	120,292,000
Income tax expense	(1,327,000)	(658,000)
Profit after tax	209,136,000	119,634,000
Other comprehensive income	1,070,000	4,283,000
Total comprehensive income	210,206,000	123,917,000
Weighted average units	374.6m units	339.0m units
Earnings per unit	55.58	36.56

Notes:

- RFM Australian Wine Fund (AWF) is a subsidiary of Rural Funds Trust (RFT) that has formed its own tax consolidated group.
- Management fees calculated 0.6% and asset management fees calculated 0.45% of adjusted total assets excluding acquisition costs of macadamia properties under development, Kaiuroo deposit and derivative financial assets. FY22 management fee is 0.93% of the average adjusted total assets during the year.

FY22 results – AFFO composition

- AFFO is pre-tax and excludes fair value adjustments, depreciation and impairment to represent RFF's property rental business.
- Property expenses relate to costs directly attributable to the properties (eg insurance, rates and taxes on properties, applicable cost recovery). Other expenses relate to non-property overheads (eg ASX, bank, audit, registry fees, cost recovery).
- Sale of produce includes harvest income from farming operations on Maryborough properties, Beerwah and Bauple, and Baamba Plains. Cost of goods sold related to the harvested farming operations. Change in fair value of biological assets related to the profit recognised for the harvested crops (or realised) during the year.
- Property leases are largely triple net.

Composition of AFFO (pre-tax)

	12 months ended 30 June 2022 \$	12 months ended 30 June 2021 \$
Property revenue	71,504,000	67,249,000
Property expenses	(3,457,000)	(2,591,000)
Net property income	68,047,000	64,658,000
Other income	3,475,000	3,451,000
Sale of agricultural produce – farming operations	7,909,000	484,000
Cost of goods sold – farming operations	(7,708,000)	(484,000)
Change in fair value of biological assets (realised from harvested crops)	3,235,000	108,000
Change in fair value of biological assets (prior year unharvested crops realised during the year)	814,000	–
Other expenses	(6,638,000)	(5,523,000)
Property and Other expenses – farming operations	(1,745,000)	(324,000)
Management fees	(6,850,000)	(6,295,000)
Asset management fees	(5,138,000)	(4,722,000)
EBITDA	55,401,000	51,353,000
Income tax payable (RF Active)	–	(432,000)
Finance costs	(11,186,000)	(10,498,000)
AFFO	44,215,000	40,423,000
AFFO per unit¹	11.7 cents	11.9 cents
DPU	11.73 cents	11.28 cents

Note:

1. Based on the weighted average number of units on issue during the year.

FY22 results – reconciliation of net profit to AFFO

Non-cash items added back to reconcile net profit after tax to AFFO.

Key adjustments include:

- Property revaluations (excluding other comprehensive income) include \$101.7m in cattle properties, \$13.5m in almonds properties, \$3.7m in cropping properties, (\$0.6m) in vineyards and (\$1.2m) in macadamia properties.
- Depreciation and impairments related mainly to plant and equipment owned within RF Active.
- Straight-lining reflects a smoothing of rent earned over a lifetime of the lease (under AASB16 for leases with fixed indexation).
- Interest component of JBS feedlot finance lease reflects indexation due to finance lease classification.

Reconciliation of net profit after tax to AFFO

	12 months ended 30 June 2022 \$	12 months ended 30 June 2021 \$
Net profit after income tax	209,136,000	119,634,000
Adjusted for:		
Property revaluations	(117,117,000)	(37,457,000)
Depreciation – Bearer plants	5,533,000	4,032,000
Depreciation and impairment	1,634,000	840,000
Gain on sale of assets	(320,000)	(32,868,000)
Straight-lining of rental income	735,000	852,000
Interest component of JBS feedlot finance lease	(3,187,000)	(769,000)
Change in fair value of biological assets (prior year unharvested crops realised during the year)	814,000	-
Change in fair value of biological assets (unharvested crops not realised)	(1,819,000)	(1,028,000)
Change in fair value of financial assets/liabilities	(669,000)	(116,000)
Change in fair value of interest rate swaps	(51,852,000)	(12,923,000)
FFO	42,888,000	40,197,000
Adjusted for income tax expense	1,327,000	226,000
AFFO	44,215,000	40,423,000
AFFO per unit¹	11.7	11.9

Note:

1. Based on the weighted average number of units on issue during the year.

FY22 results – summarised balance sheet

- Water entitlements are recorded as intangible assets, and held at the lower of cost less accumulated impairment or fair value in accordance with accounting standards and ASIC guidance. The adjustment for water entitlements shows the difference between book value and fair value (based on current independent valuations).
- Water entitlements totalled 149.2 GL and water delivery entitlements totalled 21.4 GL, representing a fair value of \$280.0m or 18% of total adjusted assets.
- See page 31 for details of independent valuations.

Summarised balance sheet

	As at 30 June 2022 \$	As at 30 June 2021 \$
Cash	4,961,000	11,647,000
Property investments	1,312,065,000	1,002,341,000
Plant and equipment	16,530,000	8,716,000
Current tax receivable	1,038,000	477,000
Derivative financial assets	33,698,000	2,930,000
Other assets	35,537,000	15,793,000
Total assets	1,403,829,000	1,041,904,000
Interest-bearing liabilities:		
– Current	2,723,000	2,456,000
– Non-current	455,100,000	344,143,000
Derivative financial liabilities	589,000	21,673,000
Deferred tax liabilities	7,634,000	7,450,000
Other liabilities	20,772,000	17,638,000
Total liabilities	486,818,000	393,360,000
Net assets	917,011,000	648,544,000
Units on issue	382,514,759	339,900,556
NAV per unit	2.39	1.91
Adjustment for water entitlements fair value per unit	0.30	0.26
Adjusted NAV per unit	2.69	2.17

FY22 results – total assets reconciliation

Total assets reconciliation

	Investment property	Bearer plants	Intangible assets ^{1, 3}	Property-owner occupied	Financial assets (property) ^{2, 3}	Plant and equipment	Deposits ⁵	Other assets	Total	Adjustment for water entitlements at fair value ^{1, 3}	Adjusted total assets
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance as at 30 June 2021	598,545,000	160,782,000	110,418,000	28,284,000	104,312,000	8,716,000	-	30,847,000	1,041,904,000	90,178,000	1,132,082,000
Additions – Cattle	26,375,000	-	4,190,000	-	3,395,000	514,000	18,504,000	-	52,978,000	-	52,978,000
Additions – Cropping	1,457,000	-	6,056,000	29,180,000	-	2,829,000	-	-	39,521,000	-	39,521,000
Additions – Almond orchard	1,356,000	363,000	-	-	-	-	-	-	1,719,000	-	1,719,000
Additions – Macadamias	37,496,000	40,495,000	-	14,057,000	380,000	7,139,000	-	-	99,567,000	-	99,567,000
Additions – Vineyards	924,000	-	-	-	-	-	-	-	924,000	-	924,000
Additions – Water	-	-	38,402,000	-	-	-	-	-	38,402,000	-	38,402,000
Disposals	(1,621,000)	-	(328,000)	(3,290,000)	(17,901,000)	(382,000)	-	-	(23,522,000)	-	(23,522,000)
Depreciation and impairments	-	(5,533,000)	-	(178,000)	-	(1,456,000)	-	-	(7,167,000)	-	(7,167,000)
Fair value adjustment ⁴	123,191,000	(5,446,000)	(1,059,000)	374,000	(180,000)	-	-	849,000	117,729,000	20,138,000	137,867,000
Other movements	(200,000)	-	-	-	(735,000)	(830,000)	-	43,538,000	41,773,000	-	41,773,000
Balance as at 30 June 2022	787,523,000	190,661,000	157,679,000	68,427,000	89,271,000	16,530,000	18,504,000	75,234,000	1,403,829,000	110,316,000	1,514,145,000

Notes:

- Accounting standards and ASIC guidance require water entitlements to be recorded as intangible assets, and held at the lower of cost less accumulated impairment or fair value. The adjustment for water entitlements shows the adjustment to the fair value of the water entitlements held.
- Relates to water entitlements held as part of the investment in Barossa Infrastructure Limited, Coleambally Irrigation Co-operative Limited, breeder herd finance lease, straight-lined asset, equipment finance leases and finance lease with JBS Australia for five feedlots, which are accounted for as financial assets.
- Water entitlements of 149,170 ML and water delivery entitlements of 21,430 ML held by the Group representing a fair value of \$280.0m.
- Fair value adjustments as part of valuations for the year ended 30 June 2022.
- Relates to \$18.5m deposit paid on Kaiuroo, which has a settlement period of up to November 2023. The Group will receive interest on the deposit amount prior to settlement.

Acquisition and development strategy

Rural Funds Group is Australia’s first diversified agricultural real estate investment trust.

Acquisition and development strategy overview

Lease agricultural assets predominantly to corporate lessees.

Diversify assets by agricultural sector and climatic zone.

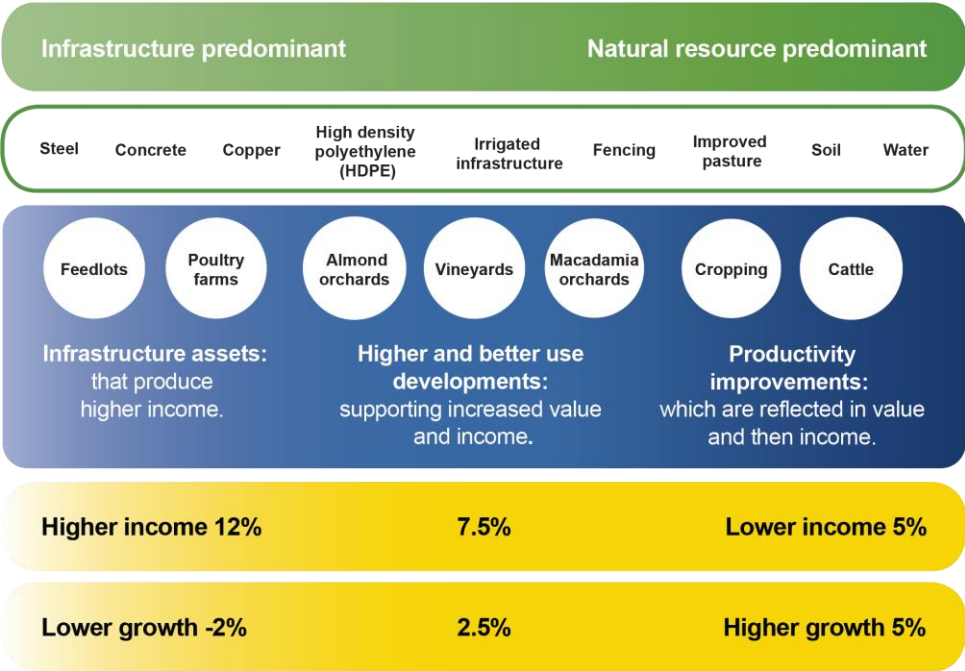
Expand the portfolio preferencing sectors where:

- Australia has a comparative advantage, and
- RFM has operational experience.

Generate growth in income and capital values through:

- productivity improvements, and
- conversion of assets to higher and better use.

Spectrum of investment opportunities¹



Note:

1. The income and growth figures presented in the chart above have been provided to differentiate the profile of income and growth that can be derived from different assets. They are based on RFM’s experience and historical observations of agricultural lease transactions and historical rates of growth. They are neither forecasts nor projections of future returns. Past performance is not a guide to future performance.

Valuations and capital expenditure

Policy to conduct independent valuations at least every two years and rotation of valuers every five years.

Valuations, valuers and capex by sector^{1,2}

	Property by sector	State	Brief description	Acquisition date	Adjusted property value 30 June 2022	Valuation date (reporting date)	Valuation	Valuer		FY22 capex by sector	FY23f capex by sector
Almonds	Yilgah*	NSW	1,006 ha orchard	Jun-2008	\$ 105.0m	Jun-2021	\$ 105.0m	JLL			
	Tocabil	NSW	603 ha orchard	Oct-2014	\$ 52.9m	Jun-2022	\$ 53.0m	JLL		\$1.8m	\$1.1m
	Kerabury	NSW	2,530 ha orchard	Oct-2015	\$ 242.1m	Jun-2022	\$ 242.0m	JLL			
Cattle	Rewan*	Qld	17,479 ha property	Aug-2016	\$ 62.4m	Dec-2021	\$ 62.4m	LAWD			
	Mutton Hole*	Qld	140,300 ha property	Jul-2016	\$ 16.8m	Jun-2021	\$ 16.7m	Herron Todd White			
	Oakland Park*	Qld	85,500 ha property	Aug-2016	\$ 8.7m	Jun-2021	\$ 8.5m	Herron Todd White			
	Natal Aggregation*	Qld	390,600 ha property	Dec-2017	\$ 137.8m	Jun-2022	\$ 137.3m	LAWD			
	Comanche*	Qld	7,600 ha property	Jul-2018	\$ 35.1m	Jun-2022	\$ 35.0m	LAWD			
	Cerberus	Qld	8,280 ha property	Sep-2018	\$ 24.3m	Jun-2022	\$ 24.3m	LAWD			
	Dyam berin*	NSW	1,728 ha property	Oct-2018	\$ 21.0m	Jun-2022	\$ 21.0m	CBRE			
	Woodburn*	NSW	1,063 ha property	Jan-2019	\$ 11.3m	Jun-2022	\$ 11.3m	CBRE		\$4.9m	\$18.8m
	Cobungra*	Vic	6,494 ha property	Mar-2019	\$ 40.8m	Jun-2021	\$ 40.8m	Colliers			
	Petro, High Hill & Willara (WA properties)*	WA	6,196 ha property	Feb-2020	\$ 25.8m	Dec-2021	\$ 24.4m	Herron Todd White			
	JBS Carroona, Mungindi, Prime City, Beef City, Riverina	NSW/Qld	150,000 head feedlots (total)	Oct-2018	\$ 58.8m	N/A	N/A	Purchase price			
	Homehill*	Qld	4,925 ha property	Jun-2020	\$ 19.5m	Jun-2022	\$ 19.3m	LAWD			
	Yarra	Qld	4,090 ha property	May-2020	\$ 23.8m	Dec-2021	\$ 23.6m	CBRE			
Cropping	Coolibah	Qld	724 ha property	Dec-2021	\$ 5.7m	Jun-2022	\$ 5.6m	LAWD			
	Thirsty Creek	Qld	762 ha property	Mar-2022	\$ 5.2m	Jun-2022	\$ 5.2m	LAWD			
	Lynora Downs	Qld	4,963 ha property	Dec-2016	\$ 41.7m	Jun-2021	\$ 41.5m	JLL			
	Mayneland	Qld	2,942 ha property	Sep-2018	\$ 24.6m	Dec-2021	\$ 23.3m	CBRE		\$5.1m	\$15.0m
Macadamias	Maryborough	Qld	3,165 ha property	Nov-2020	\$ 47.6m	Jun-2022	\$ 47.6m	CBRE			
	Baamba Plains	Qld	4,130 ha property	Nov-2021	\$ 30.7m	Dec-2021	\$ 30.0m	CBRE			
	Swan Ridge	Qld	130 ha orchard	Mar-2016	\$ 7.2m	Dec-2021	\$ 7.0m	CBRE			
	Moore Park	Qld	104 ha orchard	Mar-2016	\$ 4.5m	Dec-2021	\$ 4.6m	CBRE			
	Bonmac*	Qld	27 ha orchard	Mar-2016	\$ 3.1m	Dec-2021	\$ 3.2m	CBRE			
	Cygnat	Qld	37 ha orchard	Oct-2019	\$ 3.3m	Jun-2021	\$ 2.8m	Herron Todd White			
	Swan Ridge South	Qld	123 ha property	Mar-2020	\$ 1.6m	Dec-2021	\$ 1.6m	CBRE			
	Nursery Farm	Qld	41 ha orchard	Mar-2020	\$ 6.2m	Jun-2021	\$ 3.8m	Herron Todd White		\$33.2m	\$69.2m
	Riverton	Qld	1,015 ha property	Nov-2020	\$ 18.4m	Jun-2021	\$ 4.5m	CBRE			
	Rookwood Farms	Qld	2,452 ha property	Dec-2020	\$ 17.4m	Jun-2021	\$ 12.8m	CBRE			
	Maryborough	Qld	1,915 ha property	Nov-2020	\$ 50.2m	Jun-2022	\$ 49.2m	CBRE			
	Beerwah	Qld	340 ha property	Dec-2021	\$ 35.6m	Dec-2021	\$ 36.3m	CBRE			
	Bauple	Qld	135 ha property	Dec-2021	\$ 18.0m	Dec-2021	\$ 18.4m	CBRE			
Vineyards	Kleinig*, Geier*, Dohnt, Hahn*, Mundy*, Murphy*, Rosebank*	SA/Vic	666 ha vineyard	2000-04	\$ 60.0m	Jun-2021	\$ 60.3m	JLL		\$0.9m	\$0.0m
Water	Ground water	NSW	8,338 ML	Aug-2021	\$ 38.4m	Dec-2021	\$ 38.4m	JLL			
	Unencumbered water entitlement – River	Qld	2,155 ML	Jan-2020	\$ 1.1m	Jun-2020	\$ 1.1m	CBRE			
	Unencumbered water entitlement – River	NSW	8,754 ML	Dec-2016	\$ 77.9m	Jun-2022	\$ 77.9m	JLL			
Adjusted property assets					\$ 1384.3m		\$ 1299.7m		Total capex	\$45.9m	\$104.1m
Total adjusted property assets					\$ 1438.9m						

Notes:

- Where no independent valuation has been conducted since acquisition, the purchase price and acquisition date have been listed. JBS feedlots are not independently valued in financial statements as they are accounted for as a finance lease and are measured at amortised cost. Total adjusted property assets include cattle financial lease and other assets \$17.4m, plant and equipment \$16.5m, other receivables and equipment leases \$2.1m, and Kaiuroo deposit \$18.5m (includes stamp duty). FY23f macadamia capex primarily attributable to orchard development costs with 1,537 ha forecast to be complete by June 2023. Forecast capex includes rentable and non-rentable amounts. Properties with developments plans to be finalised include: Homehill, The Pocket (Yarra) and Baamba Plains. *indicates properties with rent review in lease.
- Directors' valuations adopted for Yilgah, Cobungra and Vineyards. Independent desktop valuations were considered as part of the fair value assessment at 30 June 2022. Dohnt vineyard is held for sale.

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For more information on the RFM management team, visit the RFM website.