

Annual Report

for the year ended 30 June 2023

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Rural Funds Group | ASX:
RFF



Rural Funds Group | ASX: RFF

Rural Funds Group (RFF, the Fund) is an agricultural Real Estate Investment Trust (REIT). RFF was listed in 2014 and is included in the S&P/ASX 300 index. The Fund owns a diversified portfolio of Australian agricultural assets which are predominantly subject to long-term triple net leases to high-quality lessees. Distribution growth of 4% per annum is targeted.



Rural Funds Management Limited (RFM) is the manager and the Responsible Entity of RFF. RFM manages over \$2.0 billion of agricultural assets on behalf of retail and institutional investors and has a depth of experience accumulated over 26 years owning, developing and operating Australian farmland, agricultural infrastructure and other assets. The management team includes specialist fund managers, finance professionals, horticulturalists, agronomists and other agricultural managers. RFM's culture is built on the core principle of 'managing good assets with good people'.

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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 226 701

Issued on: 28 September 2023

Cover image: Cattle grazing on developed cultivation area, Rewan,
central Queensland, August 2023.

Adjacent image: Almond trees in bloom, Kerarbury, NSW August 2023.



Letter from the Managing Director

Dear Unitholder,

We are pleased to provide you with the Rural Funds Group (RFF, the Fund) Annual Report for the financial year ended 30 June 2023 (FY23).

Financial results

During FY23, Rural Funds Management (RFM) announced it had leased 3,000 ha of macadamia orchards which are being developed by the Fund.¹ This lease was the main driver for property revenue to increase 10.6%, to \$81.8m.

During the period, RFF generated earnings of \$115.5m, or 30.1 cents on a per unit basis, as a consequence of property revenue and increased independent valuations, that were completed on two thirds of the Fund's assets.

Independent valuations also increased RFF's adjusted net asset value (NAV). Adjusted NAV increased 8.9%, to end the year at \$2.93 per unit. Higher valuations were recorded for the main asset classes within the Fund, including macadamia orchards, almond orchards, cattle properties, cropping properties and vineyards.

Adjusted funds from operations (AFFO) of 10.7 cents per unit (cpu) and distributions of 11.73 cpu were in line with forecast.

Developments and acquisitions

The significance of the new macadamia lease is highlighted in Figures 1 and 2. Rent is calculated

on the cumulative capital base which is forecast to increase from \$139m to \$244m by the end of 2024 financial year (FY24). Consequently, the rent received by RFF from the lease, is forecast to double in FY24 and increase again in FY25.

Cattle is another sector that RFM has previously identified as having desirable investment attributes. Two additional cattle properties were acquired by RFF during FY23. Wyseby, which adjoins the existing cattle property Rewan, will add approximately 14,000 ha of fertile land to this already highly productive farm. Also, a 28,000 ha cattle and cropping aggregation, Kaiuroo, was settled in FY23. RFM secured the acquisition in November 2021 and the development of this asset will now accelerate.

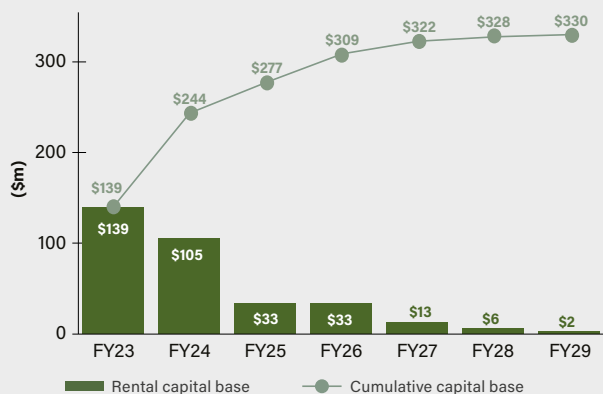
Strategy update

The macadamia developments and cattle property acquisitions provide good examples of RFM's two primary methods to achieve higher returns for RFF's Unitholders: higher and better use and productivity developments.

The core business of RFF is renting agricultural assets. However during the early development phase of assets, some will be operated prior to leasing, which provides a source of income during this phase of ownership.

RFM is working on several transactions, primarily focused on unleased assets. Negotiations on the leasing of two cotton farms continue to progress. RFM is also working with parties interested in

Figure 1: Forecast rent capital base²



leasing the mature macadamia assets owned by the Fund. Material progress is expected on these transactions in FY24.

RFM is also reviewing non-core asset sales, which as outlined in the June edition of the biannual newsletter, will assist in managing RFF's gearing within the target range of 30–35%.

Capital management and forecasts

The macadamia developments present the most significant capital commitment for the Fund. RFM has arranged sufficient funding for the immediate capital expenditure through an increase to RFF's debt facilities. As at 30 June 2023 the facilities had \$156.8m headroom.

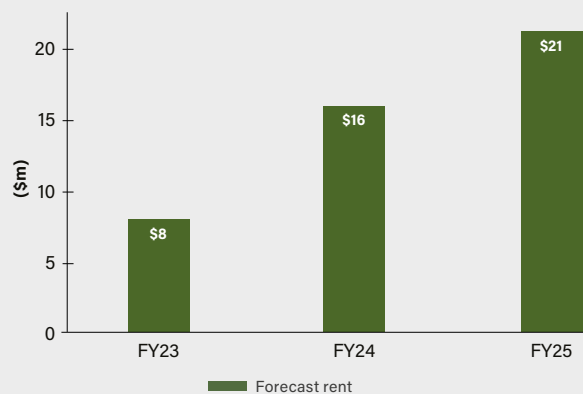
As we entered a higher interest rate environment, RFM acquired additional interest rate hedges within the Fund. In FY24, 67.0% of debt will be either fixed or hedged, compared to 35.9% in FY23.⁴

As part of the full-year results released on 24 August 2023, RFM announced forecast FY24 AFFO of 11.2 cpu and distributions of 11.73 cpu.

Conclusion

Over the coming year, we will continue to focus on completing transactions to further improve earnings generation to support RFF's distribution growth target of 4%.

Figure 2: Forecast rent (FY23–FY25)³



We encourage our Unitholders to subscribe to and read our biannual newsletter which contains mid-year updates on the Fund.

We also look forward to providing further updates as part of the half-year results in February 2024. In the interim, should you have any queries about your investment, we encourage you to contact our Investor Services team.

Yours faithfully

David Bryant
Managing Director
Rural Funds Management Limited



1. Second stage of lease (1,800 ha) subject to completion of water supply infrastructure.
2. Assumes development costs of \$110,000/ha comprising approximately \$90,000/ha (land, water, orchard development and planting) and \$20,000/ha (capitalised establishment costs over 5 years).
3. Rent earned on capital base dependent on timing of deployment throughout the relevant financial year.
4. FY24 average hedges and total fixed debt facility divided by total facilities. FY23 based on actuals.

Strategy

Leasing model

Maintain a majority of long WALE triple net leases of agricultural assets to high-quality lessees. Target distribution growth of 4% per annum.

Acquisition considerations

Preference agricultural sectors where:

- low cost of production assets can be acquired or developed
- Australia has a comparative advantage
- RFM has operational experience.

Seek appropriate diversification by agricultural sector and climatic zone. Target gearing range of 30–35%.

Developments

Seek improved leasing outcomes by developing assets for increased productivity or higher and better use. Both strategies aim to lift the value and income earning potential of an asset. Income may be generated during the development phase by operating assets prior to leasing.



1. Includes planted area and area to be developed.
2. Includes 29% CPI, 18% CPI (cap and collar) plus profit share, 3% CPI plus market rent review, 2% CPI (cap and collar) plus market rent review.
3. FY24 average hedges and total fixed debt facility divided by total facilities.

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Portfolio metrics

\$1.8b

adjusted total assets

67

properties

5

agricultural sectors and multiple climatic zones

13.9yrs

weighted average lease expiry (WALE)

79%

FY24f income from corporate lessees

\$2.93

net asset value (NAV) per unit

52%²

lease indexation mechanisms CPI linked (by FY24f revenue)

67%³

portion of debt hedged and fixed

\$157m

total debt headroom

35%

gearing

Riverton macadamia orchard, central Queensland, August 2023.

Results highlights

Property revenue increased 10.6%

up \$7.9m to \$81.8m primarily due to rental income earned on macadamia developments, as a result of a 40-year lease entered into during the year.

Earnings of 30.1 cents per unit (cpu)¹

driven by property revenue and asset revaluations.

Adjusted net asset value (NAV) increased 8.9%

up \$0.24 to \$2.93 per unit, benefiting from externally revalued assets.

FY23 results in line with prior forecasts

including distributions per unit (DPU) of 11.73 cents and adjusted funds from operations (AFFO) of 10.7 cpu.

FY24 forecast AFFO growth of 4.7%

to 11.2 cpu and forecast distributions of 11.73 cpu.



For more detailed information, scan to access the RFF FY23 financial results presentation and webinar.

External revaluations increases in FY23²

Almonds ↑ \$47.1m 11.7%

Cattle ↑ \$26.1m 9.8%

Macadamias ↑ \$21.9m 14.4%

Cropping ↑ \$6.8m 6.5%

Vineyards ↑ \$1.6m 2.7%

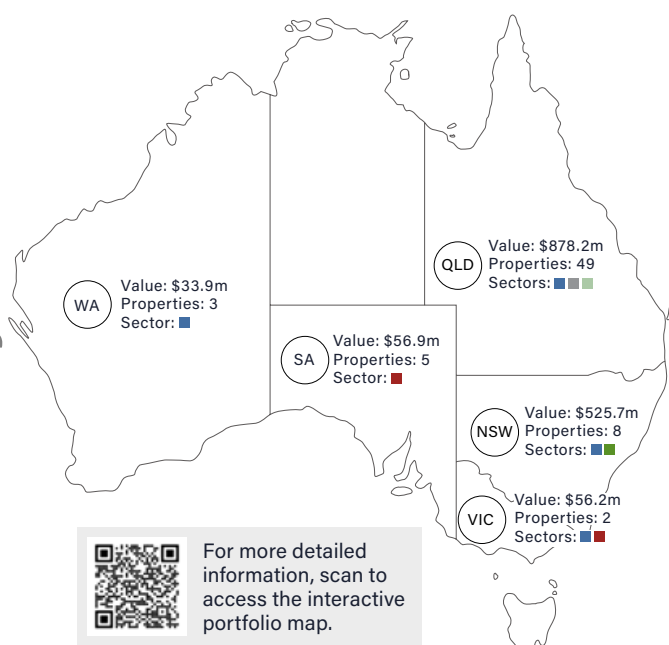
1. Based on Total Comprehensive Income.

2. Revaluation movement (\$ and %). Excludes Directors' valuation of water entitlements (value \$116.2m, movement -\$6.3m).



Portfolio overview

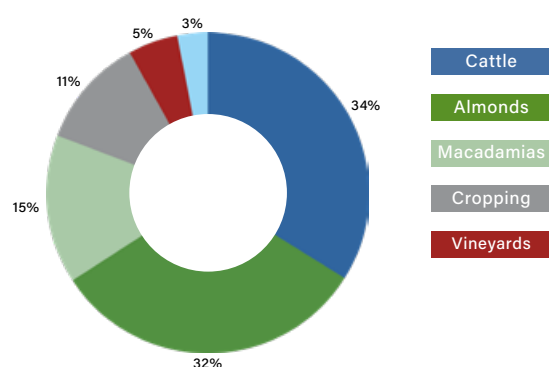
Asset map



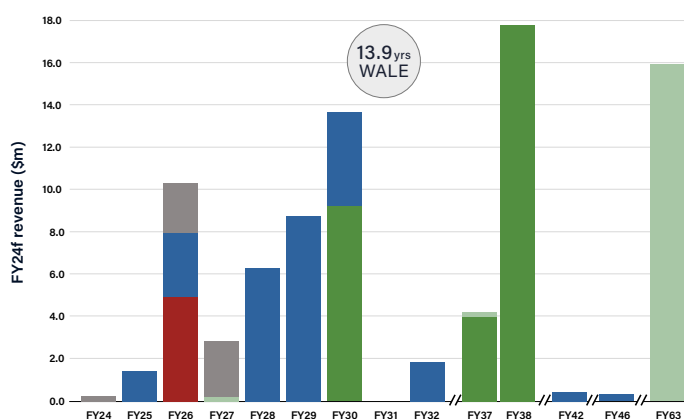
Listed or corporate lessees¹

Lessees	Sector	% FY24f income
Olam	Almonds	22%
THE ROHATYN GROUP	Macadamias	16%
JBS	Cattle	10%
SELECT HARVESTS	Almonds	9%
CAM	Cattle	6%
STONE AXE	Cattle	6%
TREASURY WINE ESTATES	Vineyards	5%
MCO	Cattle	5%

FY24f revenue by sector²



Weighted average lease expiry (WALE)³



- Income from JBS includes lease income from feedlots and Guarantee fee income from J&F Australia Pty Ltd. TRG (The Rohatyn Group) lessee is a joint venture between TRG and a global institutional investor.
- Figures subject to rounding. Includes AFFO contribution from farming operations from owner-occupied properties including Swan Ridge, Moore Park, Beerwah and Bauple –macadamias; unleased Maryborough properties –sugar cane; Baamba Plains –cropping; Yarra, Cerberus and Kaiuroo–cattle. Light blue portion of pie chart (3%) is 'other'.
- Weighted average lease expiry, calculated as the FY24 forecast rent and the year of lease expiry. Excludes J&F Australia guarantee fee, income from annual water allocation sales, operating income from owner occupied properties and other income.

Sustainability

RFM seeks to operate in a sustainable manner by considering the impact of its activities on the environment, the people within the business and the local communities where we operate.

As an externally managed fund, RFF adopts the Sustainability Policy of the Responsible Entity, RFM.

Applying sustainable practices is in the best interest of investors and the environment, and RFM believes that good environmental practices typically produce good farming outcomes. Environmental sustainability is defined as responsible stewardship of natural systems and resources. RFM's farming activities are dependent on using these natural systems and resources. To ensure sustainable productivity now and into the future, we recognise it is important that these assets are managed appropriately.

RFM's business is also dependent on its people and other stakeholders, such as the communities in which the company operates. Social aspects of sustainability consider the impact of our activities on these stakeholders.

Appropriate governance is another important element of sustainability, please refer to the Corporate Governance Statement for further information on this aspect.

RFM aims to provide information to investors about sustainability initiatives relevant to RFF. During FY23, continued progress was made on commitments outlined in the FY22 Annual Report. Key initiatives and progress on commitments are presented on the following pages.



Sorghum under water efficient pivot irrigation, Lynora Downs, central Queensland, April 2023.



FY23 highlights



Governance

- Implementation of a Sustainability Policy considering environmental and social aspects.
- Updated Risk Management Policy to include climatic considerations.



GHG emissions

- Greenhouse gas (GHG) emissions quantification.¹
- Improved knowledge of emissions profile and data capture processes.



Sustainability reporting progress

- Continued review of evolving sustainability reporting.



Carbon feasibility studies

- Engaged with multiple lessees to carry out carbon sequestration feasibility analysis.



Diversity

- Formalised target of 40% female representation on the RFM Board by 2026.



Community engagement

- Engaged with and supported several groups throughout the year.



Safety

- Implemented ongoing improvements to the safety management system.

Cattle at Yarra where productivity improvements are seeking higher average daily weight gains and lower emissions intensity, central Queensland, February 2023.

1. Scope 1 and Scope 2 emissions for assets owned for the entirety of FY23 for which RFF receives the operational proceeds.

Progress of sustainability focus areas

As part of the development of the Sustainability Policy, RFM identified a number of environmental and social focus areas. Progress achieved in FY23, and future actions in these areas are presented below:

Focus area	FY23 progress	Future actions
Environment: Responsible consumption and production		
Projects Projects and initiatives 1	- Second year of macadamia orchard monitoring program. - Two macadamia progeny field trials planted. - Recycling project on macadamia irrigation installation.	Continue macadamia program, project and trial.
Environment: Protecting land and water		
Certifications Projects and initiatives 1	- Awarded accreditation with Hort360 Reef Certification. - Commenced myBMP Certification.	Finalise myBMP Certification.
Environment: Climate change and climate-related risk management		
Governance	- Implementation of Sustainability Policy considering environmental and social aspects. - Updated Risk Management Policy to include climatic considerations.	Review and update of relevant policies as required.
Scope 1 and Scope 2 emissions Projects and initiatives 2	- Quantified Scope 1 and Scope 2 emissions from assets for which RFF receives the operational proceeds. - Improved internal knowledge of RFF emissions profile. - Developed internal processes for primary data capture for ongoing emissions analysis.	- Quantify appropriate Scope 1 and Scope 2 emissions to enable comparison. - Utilise cattle supplement program and deep-rooted perennial pastures with legumes on appropriate grazing assets, which can decrease emissions intensity. - Use of precision agricultural practices to optimise fertiliser application.
Carbon project feasibility Projects and initiatives 3	- Engaged with multiple lessees to carry out carbon sequestration project feasibility analysis, specifically, environmental plantings, human induced regeneration, and soil carbon. - Submission of two carbon abatement project applications with the Clean Energy Regulator, which are now conditionally registered.	Continued review of carbon abatement opportunities.
Sustainability reporting Projects and initiatives 4	Reviewed evolving sustainability reporting standards.	Continue towards alignment with evolving sustainability reporting requirements.
Resourcing and oversight	- Dedicated resource for sustainability analysis and reporting. - Established sustainability as a responsibility within the leadership team.	Continue to improve internal processes to aid with ongoing reporting on sustainability topics.
Renewable energy	Converted nine bore pumps from diesel to solar energy.	Continue to explore renewable energy options where viable.

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Focus area	FY23 progress	Future actions
Social: Safety		
Health, safety, and wellbeing Projects and initiatives 5	- Ongoing improvements to safety management system. - Additional training. - Improved Employee Assistance Program service.	Continue improvements to existing processes and standards.
Social: Diversity and inclusion		
Diversity, equity and inclusion Projects and initiatives 6	- Formalised target of 40% female representation on the RFM Board by 2026. - Improved recruitment processes to establish gender-balanced shortlists whenever possible.	Ongoing review of relevant processes.
Social: Learning and development		
Training	- Implemented additional training, including: - Mental health - Indigenous cultural awareness - Anti-discrimination and human rights - Emissions reporting - Diversity, equity, and inclusion - Workplace, health and safety.	Implement additional training focusing on identified areas including health, safety and wellbeing.
Social: Community		
Engagement Projects and initiatives 7	Engaged with a number of organisations to build community partnerships.	Expansion of partnerships with identified organisations.
Industry development	Engaged with Advance Rockhampton – Rockhampton Regional Council and Queensland Agricultural Workforce Network (QAWN) through in-kind donation.	Participate in the AgCAREERSTART Program providing opportunities for multiple positions in the program across horticulture, livestock and cropping.
Social: Governance		
Governance	- Review of all policies and updates including: - Corporate Governance Statement - Risk Management Policy - Code of Conduct - Equal Employment Opportunity - Diversity Policy - Leave Policy. - Implementation of Sustainability Policy.	- Review and update of all relevant policies as required. - Implement two new policies to formalise our employment practices: - Sexual Harassment Policy - Reward and Recognition Policy.

Projects and initiatives Please see the following pages for more details on the projects and initiatives.

Projects and initiatives

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Macadamia orchard monitoring program PSP including communications, vapour pressure deficit sensor, sap flow meter and soil moisture sensor at Riverton, central Queensland, September 2023.

1. Responsible production and consumption projects

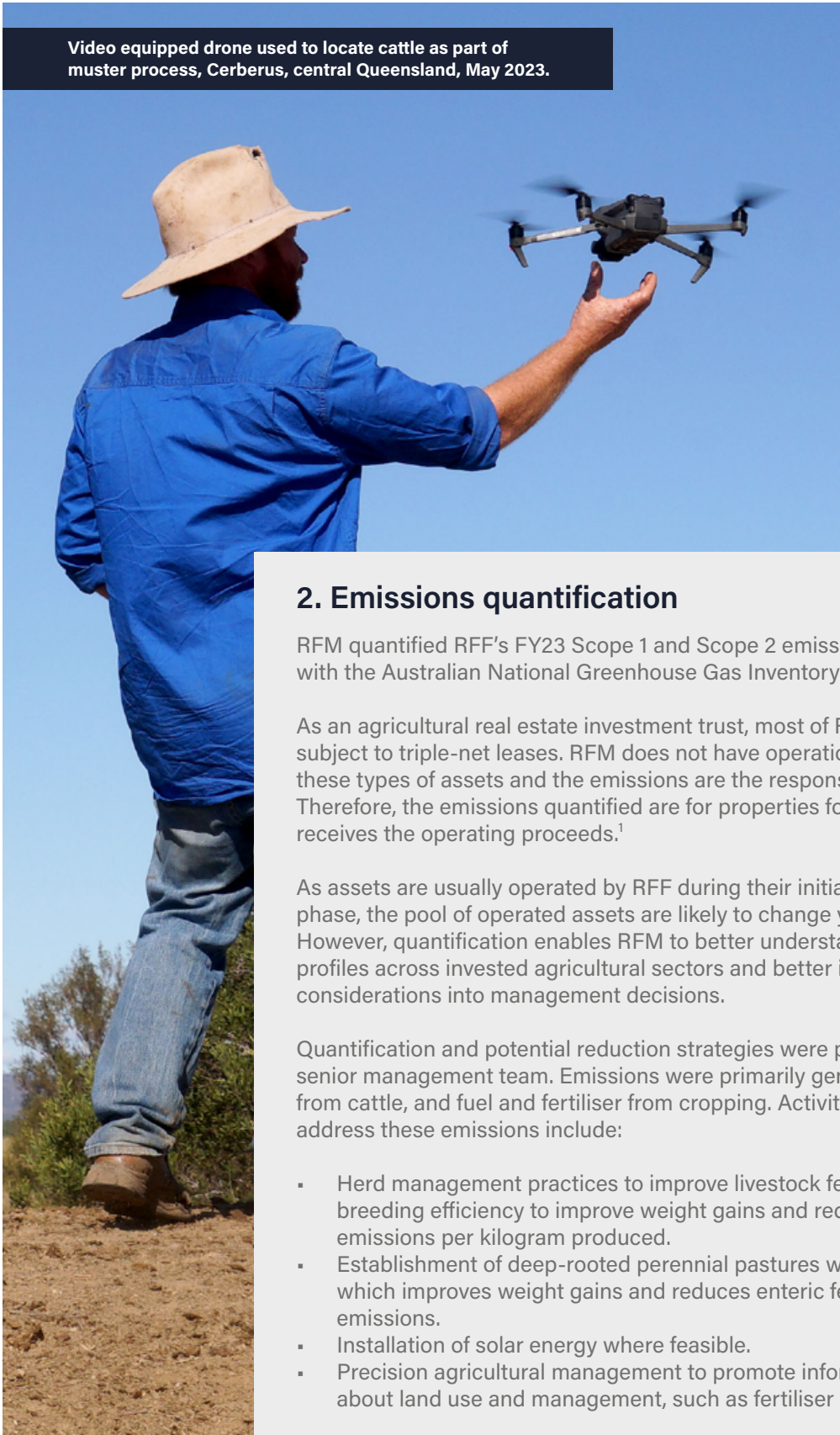
RFM recognises that the sustainability of natural resources is linked to responsible consumption and production. We seek to minimise environmental impacts by improving resource efficiency and reducing waste and pollution, aligning with our aim to produce more with less. The following are key examples of our initiatives in this area.

- **Orchard monitoring program:** The program is in its second year of operation and was expanded to include additional Permanent Samples Plots (PSP). The PSP provide data to improve precision agronomic management concerning nutrient efficiency and yield.
- **Progeny trial:** In collaboration with The University of Queensland, the trial seeks to develop resource efficient macadamia cultivars capable of producing higher yields and high-quality nuts. Trees planted in Maryborough and Rockhampton in FY23.
- **Polyethylene pipe recycling:** Included as part of the installation of an irrigation pipeline to supply water from the Fitzroy River to several water storages within the macadamia developments. The recycling program reduced waste from pipe welding. Believed to be a first of its kind, the project is estimated to recycle approximately 18 cubic metres of polyethylene plastic shavings which would otherwise have become landfill.
- **myBMP Certification:** Occurring on cotton properties, the certification focuses on farm-level improvements to promote sustainable production through efficient water use, water storage and water quality as well as maintaining and enhancing soil structure and fertility.
- **Hort360 Reef Certification:** The certification attained for Bundaberg macadamia orchards promotes standards to protect sensitive marine environments such as the Great Barrier Reef from potential run-off, including sediment and fertiliser.



Polyethylene waste recycling program during installation of the rising main pipeline, Rookwood Farms, central Queensland, July 2023.

Video equipped drone used to locate cattle as part of muster process, Cerberus, central Queensland, May 2023.



2. Emissions quantification

RFM quantified RFF's FY23 Scope 1 and Scope 2 emissions in accordance with the Australian National Greenhouse Gas Inventory (NGGI) method.

As an agricultural real estate investment trust, most of RFF's assets are subject to triple-net leases. RFM does not have operational control over these types of assets and the emissions are the responsibility of lessees. Therefore, the emissions quantified are for properties for which RFF receives the operating proceeds.¹

As assets are usually operated by RFF during their initial development phase, the pool of operated assets are likely to change year-to-year. However, quantification enables RFM to better understand the emission profiles across invested agricultural sectors and better incorporate emission considerations into management decisions.

Quantification and potential reduction strategies were presented to RFM's senior management team. Emissions were primarily generated by methane from cattle, and fuel and fertiliser from cropping. Activities which seek to address these emissions include:

- Herd management practices to improve livestock feed utilisation and breeding efficiency to improve weight gains and reduce methane emissions per kilogram produced.
- Establishment of deep-rooted perennial pastures with a mix of legumes which improves weight gains and reduces enteric fermentation emissions.
- Installation of solar energy where feasible.
- Precision agricultural management to promote informed decisions about land use and management, such as fertiliser application.

1. Sectors and properties include: cattle (Yarra and Cerberus), cropping (Baamba Plains, Maryborough sugarcane properties) and macadamia orchards (Beerwah and Bauple).

Mustering cattle at Mutton Hole station, Carpentaria, northern Queensland, July 2021.



3. Carbon projects

RFM continued to conduct due diligence, profiling the risks and opportunities across the available Australian carbon credit methodologies. We engaged with multiple lessees to carry out carbon sequestration project feasibility analysis for environmental plantings, human induced regeneration, and soil carbon.

Two applications were submitted with the Clean Energy Regulator (CER) for carbon abatement projects on cattle properties under the Human-Induced Regeneration Method. These projects are now conditionally registered. The projects will establish forest cover through assisted regeneration on land that has not had forest cover for at least the last ten years.

RFM will continue to assess projects with the potential to benefit RFF and/or its lessees.

4. Sustainability reporting update

This year, the International Sustainability Standards Board (ISSB) issued two sustainability reporting standards, IFRS S1 and IFRS S2, relating to sustainability disclosure. Locally, The Treasury of the Australian Government has carried out consultation on climate-related financial disclosure. Based on these consultation papers, climate-related disclosure is likely to become mandatory, with mandated reporting potentially commencing for the largest entities from 2024/25 onwards. At this stage, RFF is likely to be part of cohort 3 (2027/2028) for mandatory reporting.

As part of the FY22 Annual Report RFM presented how climate-related risks and opportunities were considered using the Taskforce on Climate-related Financial Disclosure framework. During FY23, further progress towards aligning with sustainability reporting frameworks by establishing emissions and updating policies and procedures.

RFM will continue towards alignment with evolving sustainability reporting requirements.

Staff at Riverton undertaking routine maintenance, central Queensland, September 2023.



5. Safety

The safety of RFM employees and contractors is a priority. RFM supports, promotes, and protects the health, safety and wellbeing of employees.

A culture of safety is fostered through our management system that is focused on precision and practicality. These principles are promoted through our online platform which includes policies, procedures, risk assessments, meetings, machinery inspections and other safety tasks.

Throughout the year the implementation of the online platform was significantly broadened. Improved approaches to safety are monitored on an ongoing basis and all incidents are reported monthly to the Board. Safety obligations are also included in RFF lessee agreements.

RFM corporate staff, Canberra office, September 2023.



6. Diversity, equity and inclusion

RFM values its employees and recognises them as one of its greatest assets. We are committed to maintaining gender balance throughout the organisation and ensuring equity across genders in respect of remuneration, benefits and equal work. We aim to attract people with diverse skills, experience and backgrounds, and create a fair and flexible working environment that promotes personal and professional growth.

RFM has committed to achieving 40% female participation on the RFM Board by 2026 and continues to aim for gender balanced shortlists in recruitment whenever possible. RFM's corporate team consists of 46% female representation and we continually strive to provide opportunities and improve the gender balance in our operational and corporate teams. See RFM website for further details.



7. Community partnerships

RFM continues to engage and provide support to organisations connected to the agricultural industry, regional service providers, community groups, and organisations linked to our employees, including:

- Hartley Lifecare: supported accommodation for people with disabilities.
- Yoorana: Maryborough based womens domestic violence and resource service.
- Queensland Agricultural Workforce Network: Queensland Government program.
- Taken Project: RFM project to mentor Cambodian farmers in the village of Taken to develop a sustainable and diversified agricultural enterprise.
- AgCAREERSTART: program introducing young Australians to the agriculture industry.

More information is available on the RFM website.

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 11 September 2023.

Distribution of equity securities

Holding size	Unitholders	Class
1 – 1,000	5,047	Ordinary fully stapled securities
1,001 – 5,000	6,488	Ordinary fully stapled securities
5,001 – 10,000	2,845	Ordinary fully stapled securities
10,001 – 100,000	4,046	Ordinary fully stapled securities
100,001 and over	191	Ordinary fully stapled securities

Substantial Unitholders¹

Unitholder	Number of units	%
The Vanguard Group, Inc	32,584,896	9.7%
Argo Investments Limited	19,260,565	5.0%

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 11 September 2023 is set out below:

Number of Unitholders	Number of units
1,189	127,169

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 one vote; and
- (ii) On a poll, each member of the scheme has one vote for each dollar of the value of the total interests they have in the scheme.

1. Based on the latest substantial holder notice lodged with the ASX.

The 20 largest Unitholders

Unitholder	Number of units	%
HSBC Custody Nominees Australia Limited	62,394,893	16.159%
J P Morgan Nominees Australia Pty Limited	55,276,823	14.315%
Argo Investments Limited	21,282,657	5.512%
Citicorp Nominees Pty Ltd	14,875,591	3.852%
Rural Funds Management Ltd	11,843,659	3.067%
National Nominees Limited	8,825,436	2.286%
BNP Paribas Noms Pty Ltd <DRP>	8,387,770	2.172%
Netwealth Investments Limited <Wrap Services A/C>	3,793,025	0.982%
Bryant Family Services Pty Ltd <BFS Superannuation Fund A/C>	3,768,012	0.976%
One Managed Investment Funds Ltd <Charter Hall Maxim Property Sec>	2,800,722	0.725%
BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd <DRP A/C>	2,000,140	0.518%
SCCASP Holdings Pty Ltd <H & R Super Fund A/C>	1,663,073	0.431%
BNP Paribas Nominees Pty Ltd <IB AU Noms Retailclient DRP>	1,644,210	0.426%
Charter Hall Wholesale Management LTD ATF DVAP3	1,387,615	0.359%
Boskenna Pty Ltd	1,353,044	0.350%
Netwealth Investments Limited <Super Services A/C>	1,235,658	0.320%
BNP Paribas Nominees Pty Ltd ACF Clearstream	1,231,641	0.319%
DGMH Super Pty Ltd <Lethbridge Super A/C>	1,014,497	0.263%
Citicorp Nominees Pty Ltd <Colonial First State Inv A/C>	993,827	0.257%
Bond Street Custodians Limited <Shawk1 – V04785 A/C>	823,985	0.213%

On-market buy-back

RFF confirms there is no on-market buy-back facility in operation.

Securities exchange

The Fund is listed on the ASX. The 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.

Financial Statements

for the year ended 30 June 2023

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Rural Funds Group

Corporate Directory

Registered Office	Level 2, 2 King Street DEAKIN ACT 2600
Responsible Entity	Rural Funds Management Limited ABN 65 077 492 838 AFSL 226701 Level 2, 2 King Street DEAKIN ACT 2600 Ph: 1800 026 665
Directors	Guy Paynter David Bryant Michael Carroll Julian Widdup Andrea Lemmon
Company Secretary	Emma Spear
Custodian	Certane CT Pty Limited ACN 106 424 088 Level 6, 80 Clarence Street SYDNEY NSW 2000
Auditors	PricewaterhouseCoopers One International Towers Sydney Watermans Quay BARANGAROO NSW 2000
Share Registry	Boardroom Pty Limited Level 8, 210 George Street SYDNEY NSW 2000 Ph: 1300 737 760
Bankers	Australia and New Zealand Banking Group Limited (ANZ) 242 Pitt Street SYDNEY NSW 2000 Cooperatieve Rabobank UA Darling Park Tower 3 201 Sussex Street SYDNEY NSW 2000 National Australia Bank (NAB) Level 6, 2 Carrington 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

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Rural Funds Group

Directors' Report

30 June 2023

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 2023.

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
Andrea Lemmon	Non-Executive Director

Principal activities and significant changes in state of affairs

The principal activity of the Group during the year was the development and leasing of agricultural properties. The Group is a lessor of agricultural property with revenue derived from leasing almond orchards, macadamia orchards, vineyards, cattle properties, cropping properties, agricultural plant and equipment, cattle and water rights. The Group also carries out farming operations on an interim basis for unleased properties and properties under development.

The Group also provides a guarantee to J&F Australia Pty Ltd (J&F), a wholly owned subsidiary of RFM, earning a return equivalent to an equity rate of return calculated on the amount of the guarantee during the year.

The following activities of the Group changed during the year:

In July 2022, the Group acquired Brooklands, a 972ha property west of Rockhampton in Central Queensland for \$6.2m including transaction costs. The property will be incorporated as part of Rookwood Farms.

In August 2022, the Group acquired Greenfields, a 229ha property west of Rockhampton in Central Queensland for \$3.1m including transaction costs. The property will be incorporated as part of Rookwood Farms.

In September 2022, the Group entered into an agreement to lease up to 3,000ha of macadamia orchards to a company managed by The Rohatyn Group (TRG) on behalf of a joint venture between TRG and a global institutional investor. The lease commenced in January 2023.

In November 2022, the Group completed the disposal of Dohnt, a 37ha vineyard located in Coonawarra, South Australia for \$0.6m.

In December 2022, the Group increased its available core debt to \$670,000,000 (2022: \$520,000,000). The facility limit on the \$110,000,000 tranche expiring in November 2023 was increased to \$260,000,000 and extended to November 2025.

In April 2023, the Group acquired 412 Macgroves in the 2007 Macgrove Project. In June 2023, the Group acquired the remaining 167 Macgroves in the 2007 Macgrove Project. The 2007 Macgrove Project was in the business of growing, harvesting and marketing of macadamia nuts to be sold for processing and consumption in Australia and internationally. The 2007 Macgrove Project operated on the Group's Swan Ridge and Moore Park properties. The 2007 Macgrove Project was subsequently wound up in July 2023. Following the wind up, the Group will operate the macadamia orchards on these properties.

In April 2023, the Group acquired Kaiuroo, a 27,879ha property north-west of Rockhampton in Central Queensland for \$74.0m including plant and equipment and transaction costs.

Rural Funds Group

Directors' Report

30 June 2023

In June 2023, the Group acquired a property adjoining the Rewan cattle property, Wyseby, as a tenant-in-common arrangement (57.25% ownership) for \$37.0m including transaction costs. The total property is 18,500ha located south-west of Rockhampton in Central Queensland.

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 2023 amounted to \$94,498,000 (2022: \$209,136,000). The consolidated total comprehensive income of the Group for the year ended 30 June 2023 amounted to \$115,521,000 (2022: \$210,206,000).

The Group holds investment property, bearer plants, owner-occupied property and derivatives at fair value. After adjusting for the effects of unrealised fair value adjustments, depreciation, impairments and non-cash tax expense, and one-off transaction costs during the year, the profit would have been \$41,077,000 (2022: \$44,215,000), representing adjusted funds from operations (AFFO).

Adjusted funds from operations (AFFO)

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

	2023 \$'000	2022 \$'000
Net profit before income tax	94,171	210,463
Property related		
Change in fair value of investment property	(61,106)	(123,191)
Change in fair value of bearer plants	(2,475)	4,103
Impairment of property - owner occupied	3,202	912
Impairment of intangible assets	247	1,059
Depreciation - bearer plants	9,583	5,533
Depreciation and impairments - other	2,838	1,634
Gain on sale of assets	(802)	(320)
Farming operations		
Change in fair value of biological assets (unharvested crops not realised and unsold cattle)	1,505	(1,819)
Change in fair value of biological assets (prior year biological assets realised during the year)	1,819	814
Macgrove acquisition		
Impairment of goodwill - Macgrove acquisition	195	-
Loss on settlement of pre-existing relationship - Macgrove acquisition	1,281	-
Gain on bargain purchase - Macgrove acquisition	(440)	-
Revenue items		
Rental revenue - prepaid rent (TRG)	6,050	-
Lease incentive amortisation (TRG)	9	-
Straight-lining of rental revenue	(1,470)	735
Interest component of JBS feedlot finance lease	(4,187)	(3,187)
Other		
Change in fair value of financial assets/liabilities	(156)	(669)
Change in fair value of interest rate swaps	(8,930)	(51,852)
Income tax payable (AWF)	(257)	-
AFFO	41,077	44,215
AFFO cents per unit	10.7	11.7

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Rural Funds Group

Directors' Report

30 June 2023

Financial position

The net assets of the consolidated Group have increased to \$993,159,000 at 30 June 2023 from \$917,011,000 at 30 June 2022. At 30 June 2023, the Group had total assets of \$1,671,009,000 (2022: \$1,403,829,000).

At 30 June 2023, 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 \$178,972,000 (2022: \$169,663,000). Directors obtain independent valuations on RFF properties ensuring that each property will have been independently valued at least every two years or more often where appropriate. These valuations attribute a value to the water entitlements held by the Group. The Directors have taken into account the most recent valuations on each property and consider that they remain a reasonable estimate of fair value. On this basis the fair value of water entitlements at 30 June 2023 was \$314,486,000 (2022: \$279,979,000). The value of water entitlements is illustrated in the table overleaf:

	2023 \$'000	2022 \$'000
Intangible assets (water entitlements)	166,988	157,679
Investment in CICL	11,464	11,464
Investment in BIL	520	520
Total book value of water entitlements	178,972	169,663
Revaluation of intangible assets per valuation	135,514	110,316
Adjusted total water entitlements	314,486	279,979

Adjusted net asset value

The following depicts the net assets of the Group following the revaluation of water entitlements comprising intangible assets and investments in BIL and CICL per these valuations.

	2023 \$'000	2022 \$'000
Net assets per Consolidated Statement of Financial Position	993,159	917,011
Revaluation of intangible assets per valuation	135,514	110,316
Adjusted net assets	1,128,673	1,027,327
Adjusted NAV per unit (\$)	2.93	2.69

Property leasing

At 30 June 2023 the Group held 67 (2022: 67) properties as follows:

- 3 almond orchards (4,068 planted hectares);
- 6 vineyards (636 planted hectares);
- 13 macadamia orchards (1,906 planted hectares);
- 7 macadamia orchards currently being developed or with the potential to be developed into macadamia orchards (2,520 planted and planned hectares);
- 23 cattle properties made up of 18 breeding, backgrounding and finishing properties (721,863 hectares)* and 5 cattle feedlots with combined capacity of 150,000 head;
- 15 cropping properties (14,573 hectares).

During the year ended 30 June 2023, the properties held by the Group recorded an increment in the fair value of investment properties of \$61,106,000 (2022: \$123,191,000), an increment in the fair value of bearer plants of \$22,128,000 (2022: \$5,446,000 impairment), an impairment of intangibles of \$247,000 (2022: \$1,059,000 impairment) relating to water entitlements and an impairment of property – owner occupied of \$1,359,000 (2022: \$374,000 increment) relating to properties carrying out various farming operations.

* Area for Wyseby (held as tenant-in-common in the interest of 57.25%) excluded from number of hectares.

Rural Funds Group

Directors' Report

30 June 2023

Property leasing (continued)

Almond orchards

The three fully established almond orchard properties (including water entitlements) are located in Hillston, NSW and Darlington Point, NSW and are leased to tenants who make regular rental payments. These encompass a planted area of 4,068 hectares (2022: 4,139 hectares):

- Yilgah 935 planted hectares (2022: 1,006 hectares);
- Tocabil 603 planted hectares (2022: 603 hectares);
- Kerarbury 2,530 planted hectares (2022: 2,530 hectares).

These properties are under lease to the following tenants:

- Select Harvests Limited (SHV) 935 planted hectares (2022: 1,006 hectares);
- Olam Orchards Australia Pty Limited (Olam) 3,133 planted hectares (2022: 3,133 hectares);

The planted area of the Yilgah property decreased due to a loss of trees from floods to the area.

For its almond orchards the Group owns water entitlements of 55,525ML (2022: 55,525ML) 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 (2022: 21,430ML) of water delivery entitlements that provide access to water delivery through CICL, with a low annual allocation expected to be provided.

Vineyards

The vineyard properties held by the Group include six vineyards, with five 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 884ML of water entitlements (2022: 936ML). All vineyards are leased to Treasury Wine Estates Limited and produce premium quality grapes. All of the vineyards are leased until June 2026.

Macadamia orchards

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

- Swan Ridge and Moore Park, 234 hectares (2022: 234 hectares), located in Bundaberg leased to the 2007 Macgrove Project (M07). Following the wind up of M07, the properties will be operated by the Group.
- Bonmac, 27 hectares (2022: 27 hectares), located in Bundaberg currently leased to RFM Farming.

Beerwah and Bauple, 475 hectares (2022: 475 hectares) located in the Glass House mountains and Wide Bay regions of Queensland are unleased and currently operated by the Group.

Swan Ridge South, located in Bundaberg, Queensland totalling 123 hectares (2022: 123 hectares) is under development to 40 hectares of planned macadamia plantings.

The following initial properties are leased to a company managed by The Rohatyn Group:

- Cygnet, located in Bundaberg, Queensland consists of 37 hectares (2022: 37 hectares) of newly established plantings.
- Nursery Farm, located in Bundaberg, Queensland consists of 41 hectares (2022: 41 hectares) of newly established plantings and a macadamia tree nursery, separately leased to another external party.
- Four properties located in Maryborough, Queensland, Glendorf, Charleville, Dowlings and Marriots totalling 1,335 hectares (2022: 1,335 hectares) are under development, consisting of 753 hectares of newly established macadamia plantings.
- Riverton property 1,015 hectares (2022: 1,015 hectares), located in the Fitzroy region in Queensland is under development, consisting of 321 hectares of newly established plantings and 99 hectares of planned macadamia plantings.

Rural Funds Group

Directors' Report

30 June 2023

Property leasing (continued)

Macadamia orchards (continued)

The following properties are currently under development:

- Six properties located in Maryborough, Queensland totalling 1,188 hectares (2022: 1,188 hectares) with 661 hectares of planned and planted macadamia plantings.
- The Rookwood Farms aggregation, totalling 4,136 hectares (2022: 2,452 hectares), located in the Fitzroy region in Queensland with 1,150 hectares of planned macadamia plantings.

Cattle property

Cattle properties held by the Group comprise of cattle breeding, backgrounding and finishing properties and cattle feedlots.

- Rewan located near Rolleston in central Queensland 17,479 hectares (2022: 17,479 hectares);
- Mutton Hole and Oakland Park located in far north Queensland 225,800 hectares (2022: 225,800 hectares);
- Natal aggregation located near Charters Towers in north Queensland 390,600 hectares (2022: 390,600 hectares);
- Comanche located in central Queensland 7,600 hectares (2022: 7,600 hectares);
- Cerberus located north west of Rockhampton in central Queensland 8,280 hectares (2022: 8,280 hectares);
- Dyamberin located in the New England region of New South Wales 1,728 hectares (2022: 1,728 hectares);
- Woodburn located in the New England region of New South Wales 1,063 hectares (2022: 1,063 hectares);
- Cobungra located in the East Gippsland region of Victoria 6,497 hectares (2022: 6,497 hectares);
- Petro, High Hill and Willara located in Western Australia 6,196 hectares (2022: 6,196);
- Yarra located south west of Rockhampton in central Queensland 4,090 hectares (2022: 4,090);
- Homehill located north west of Rockhampton in central Queensland 4,925 hectares (2022: 4,925);
- Coolibah and River Block located south west of Rockhampton in central Queensland 724 hectares (2022: 724 hectares);
- Thirsty Creek located south west of Rockhampton in central Queensland 762 hectares (2022: 762 hectares);
- Prime City, Mungindi, Caroon, Beef City and Riverina, 5 cattle feedlots with a combined capacity of 150,000 head (2022: 150,000 head).
- Kaiuroo, located north west of Rockhampton in central Queensland, 27,879 hectares (2022: 27,879 hectares).
- Wyseby, held as tenant-in-common arrangement (57.25% interest), located south-west of Rockhampton in Central Queensland adjoining Rewan 14,071 hectares (2022: nil).

The properties comprise a combined 663,374 hectares and are leased to the following tenants:

- Australian Agricultural Company Limited, leasing Rewan, Comanche and Home Hill;
- Cattle JV Pty Limited, a wholly owned subsidiary of RFM, leasing Mutton Hole and Oakland Park;
- DA & JF Camm Pty Limited, a member of the Camm Agricultural Group, leasing the Natal aggregation;
- Stone Axe Pastoral Company Pty Limited, leasing Dyamberin, Woodburn, Cobungra, Petro, High Hill and Willara;
- Mort & Co Lot Feeder Pty Limited, leasing Coolibah, River Block and Thirsty Creek; and
- Clarke Creek Energy Pty Limited, leasing a portion of Cerberus.
- Caldwell Family (Milong) Pty Limited, leasing a portion of Wyseby.

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

The remaining properties are not currently leased as at 30 June 2023.

Cerberus, Yarra and Kaiuroo are currently being operated by the Group, allowing for capital development and improvement designed to improve the productivity of the properties while a long-term lessee is currently being sought.

Rural Funds Group

Directors' Report

30 June 2023

Property leasing (continued)

Cropping property

Cropping properties held by the Group comprise of:

- Lynora Downs, a 4,963 hectare (2022: 4,963 hectare) cropping property located near Emerald, QLD is leased to Cotton JV Pty Limited (Cotton JV), a joint venture between RFM and Queensland Cotton Corporation Pty Limited (a subsidiary of Olam International Limited) until April 2027.
- Mayneland, a 2,942 hectare (2022: 2,942 hectare) cropping property located 25 km north of Lynora Downs in central Queensland, currently under negotiation to be leased to RFM Farming Pty Limited (a wholly owned subsidiary of RFM) until 30 June 2024. A long-term lessee is being sought.
- Baamba Plains, a 4,130 hectare (2022: 4,130 hectare) cropping property located 60 km south-east of Emerald in central Queensland. A capital development program has been designed to improve the productivity of the property. The property is currently operated by the Group on an interim basis while a long-term lessee is being sought.
- The 22 Maryborough properties located in Queensland, have potential to be developed into approximately 2,200 hectares of macadamia orchards. 12 of these properties are currently being leased out or owner occupied for various cropping operations.

Other activities

The Group provides a \$132,000,000 (2022: \$132,000,000) limited guarantee to J&F Australia Pty Ltd (J&F). The guarantee is currently used to support \$132,000,000 of J&F's debt facility which is used for cattle purchases, feed and other costs associated with finishing the cattle on the feedlots, enabling J&F to supply cattle to JBS Australia Pty Limited (JBS) for its grain fed business. The guarantee earns a return for RFF equivalent to an equity rate of return which is calculated on the amount of the guarantee during the year.

Breeder herd assets under finance lease of \$16,621,000 (2022: \$16,365,000) are leased to Cattle JV.

Agricultural plant and equipment with a net book value of \$2,244,000 (2022: \$2,248,000) is owned by the Group and leased to Cattle JV and RFM Farming. Agricultural plant and equipment with a net book value of \$24,801,000 (2022: \$14,282,000) is used for the Group's farming operations and macadamia developments.

Banking facilities

At 30 June 2023 the core debt facility available to the Group was \$670,000,000 (2022: \$520,000,000), with a drawn balance of \$574,606,000 (2022: \$455,100,000). The facility is split into two tranches with a \$410,000,000 tranche expiring in November 2024 and a \$260,000,000 tranche expiring in November 2025. At 30 June 2023, RFF had active interest swaps totalling 44.0% (2022: 40.2%) of the drawn balance to manage interest rate risk.

Distributions

	Cents per unit	Total \$
Distribution declared 1 June 2022, paid 29 July 2022	2.9331	11,219,540
Distribution declared 1 September 2022, paid 31 October 2022	2.9325	11,233,192
Distribution declared 1 December 2022, paid 31 January 2023	2.9325	11,250,718
Distribution declared 01 March 2023, paid 28 April 2023	2.9325	11,268,192
Distribution declared 01 June 2023, paid 31 July 2023	2.9325	11,285,919

Earnings per unit

Net profit after income tax for the year (\$'000)	94,498
Weighted average number of units on issue during the year	383,760,812
Basic and diluted earnings per unit (total) (cents)	24.62

Rural Funds Group

Directors' Report

30 June 2023

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

The ICR for the Group for the year ended 30 June 2023 is 1.65% (2022: 2.11%).

Matters subsequent to the end of the year

As at 30 June 2023 a borrowing facility provided to the Group relating to the Wyseby property was \$24,455,000. At balance date, the facility was due to mature on 26 June 2024. Subsequent to the year end, this facility was extended to 26 September 2024.

During the year ended 30 June 2023, the Group acquired all 579 Macgroves in the 2007 Macgrove Project which was in the business of growing, harvesting and marketing of macadamia nuts to be sold for processing and consumption. The 2007 Macgrove Project operated on the Group's Swan Ridge and Moore Park properties. The 2007 Macgrove Project was subsequently wound up in July 2023. Following the wind up, the Group will operate the macadamia orchards on these properties.

In August 2023, the Group received approval from the banking syndicate to reduce the interest cover ratio financial covenant from 2.00:1.00 to 1.50:1.00 with distributions permitted if the interest cover ratio is not less than 1.65:1.00 from 1 July 2023 to 30 June 2025. At 30 June 2023, the Group was in compliance with its banking covenants.

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

Likely developments and expected results of operations

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

Environmental regulation

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

Climate change risk

RFM is aware of the potential risks that climate change could present to the Group's assets. RFM has committed to a climatic diversification strategy in order to mitigate these risks. Some of the areas that RFM is focused on is the impact of emissions from Group's assets, including carbon dioxide, methane, and nitrous oxide.

The Group's assets produce these emissions through its agricultural infrastructure and machinery, cattle assets and through the application of fertiliser. As part of RFM's ongoing strategy to mitigate and improve climate related risks, RFM will continue to monitor emissions and seek to implement infrastructure and practice changes. RFM considers that climate change may present risks for the Group primarily in the form of residual risk of the Group's assets at the end of the lease terms. These risks may be mitigated by how the assets are managed. External valuations consider these types of factors as well as other risks when determining the valuations of the assets.

Units on issue

384,856,558 units in Rural Funds Trust were on issue at 30 June 2023 (2022: 382,514,759). During the year 2,341,799 units (2022: 42,614,203) were issued by the Trust and nil (2022: nil) were redeemed.

Rural Funds Group

Directors' Report

30 June 2023

Indemnity of Responsible Entity and Custodian

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

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.

Information on Directors of the Responsible Entity

Guy Paynter	Non-Executive Chairman
Qualifications	Bachelor of Laws from The University of Melbourne
Experience	Guy is a former director of broking firm JB Were. Guy 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 Remuneration Committee.
Directorships of other listed entities in the last three years	None
David Bryant	Managing Director
Qualifications	Diploma of Financial Planning from the Royal Melbourne Institute of Technology and Masters of Agribusiness from The University of Melbourne.
Experience	David Bryant established RFM in February 1997 and leads the RFM team. RFM manages approximately \$2.0 billion of agricultural assets. David focuses on strategic planning, maintaining key commercial relationships and sourcing new business opportunities.
Special responsibilities	Managing Director
Directorships of other listed entities in the last three years	None

Rural Funds Group

Directors' Report

30 June 2023

Information on Directors of the Responsible Entity (continued)

Michael Carroll

Non-Executive Director

Qualifications

Bachelor of Agricultural Science, La Trobe University and Master of Business Administration, Melbourne University Business School. Michael has also completed the Advanced Management Program, Harvard Business School and is a Fellow of the Australian Institute of Company Directors.

Experience

Michael is currently the Chair of Viridis Ag Pty Limited, a Director of Paraway Pastoral Company Limited and Incitec Pivot Limited. Michael also runs his own cattle business in south west Victoria.

Former board positions include the Australian Rural Leadership Foundation, Genetics Australia, Regional Investment Corporation, Select Harvests Limited, Elders Limited, Sunny Queen Australia Pty Limited, Tassal Group Limited, the Australian Farm Institute, Warrnambool Cheese and Butter Factory Company Holdings Limited, Queensland Sugar Limited, Rural Finance Corporation of Victoria, Meat and Livestock Australia and the Geoffrey Gardiner Dairy Foundation.

Michael's executive experience includes establishing and leading the National Australia Bank's Agribusiness division and as a Senior Adviser in NAB's internal investment banking and corporate advisory team. Prior to that Michael worked for Monsanto Agricultural Products and a biotechnology venture capital company.

Special responsibilities

Chairman of Audit Committee and Remuneration Committee

Directorships of other listed entities in the last three years

Incitec Pivot Limited

Michael held previous roles as Chairman of Elders Limited and Director of Select Harvests Limited.

Julian Widdup

Non-Executive Director

Qualifications

Bachelor of Economics, Master of Business Administration and University Medal from the Australian National University. Completed the Senior Executive Leadership Program at Harvard Business School. Fellow of the Institute of Actuaries of Australia and Fellow of the Australian Institute of Company Directors.

Experience

Julian is currently a director of Equip Super, Screen Canberra and the Australian Catholic University. His former board positions include the Australian Catholic Superannuation Retirement Fund, Darwin International Airport, Alice Springs Airport, NZ timberland company Taumata Plantations, Regional Livestock Exchange Company, Merredin Energy power utility, Cultural Facilities Corporation, Victorian Agribioscience Research Facility, Casey Hospital and Mater Hospital. Julian has over 20 years' experience in the financial services including as an executive director of Palisade Investment Partners, a partner of Access Capital Advisers, a consultant with Towers Perrin (now Willis Towers Watson) and previously worked in the Australian Government.

Special responsibilities

Member of Audit Committee and Remuneration Committee

Directorships of other listed entities in the last three years

None

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Rural Funds Group

Directors' Report

30 June 2023

Information on Directors of the Responsible Entity (continued)

Andrea Lemmon

Qualifications	Diploma in Financial Planning from Deakin University
Experience	Andrea was employed by RFM from its inception in 1997 until her retirement in October 2018. During her tenure with RFM, Andrea held a variety of senior executive roles and was responsible for overseeing RFM's investment into the macadamia industry. From August 2020 until November 2022, Andrea was Chair of Marquis Macadamias Ltd, Australia's largest macadamia processor and a non-executive Director of Marquis Marketing, the company responsible for marketing around 25% of the global macadamia crop. Andrea's extensive experience consists of previously serving as a non-executive director of Perth Markets Limited and Market City Operator.
Special responsibilities	Member of Audit Committee and Remuneration Committee
Directorships of other listed entities in the last three years	None

Interests of Directors of the Responsible Entity

	Guy Paynter	David Bryant*	Michael Carroll	Julian Widdup	Andrea Lemmon
	Units	Units	Units	Units	Units
Balance at 30 June 2021	1,559,104	15,238,034	218,402	115,765	-
Additions	185,606	1,087,428	36,338	19,261	183,357
Balance at 30 June 2022	1,744,710	16,325,462	254,740	135,026	183,357
Additions	-	619,000	12,668	6,714	-
Balance at 30 June 2023	1,744,710	16,944,462	267,408	141,740	183,357

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

Company Secretary of the Responsible Entity

Emma Spear is RFM's company secretary. Emma joined RFM in 2008, is a member of CPA Australia and is admitted as a Legal Practitioner of the Supreme Court of the ACT.

Meetings of Directors of the Responsible Entity

During the financial year 16 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	13	13	-	-	1	-
David Bryant	13	12	-	-	-	-
Michael Carroll	13	12	2	2	1	1
Julian Widdup	13	10	2	2	1	1
Andrea Lemmon	13	12	2	2	1	1

Non-audit services

Fees of \$36,812 (2022: \$35,647) were paid or payable to PricewaterhouseCoopers for compliance audit services provided for the year ended 30 June 2023.

Rural Funds Group

Directors' Report

30 June 2023

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 2023 has been received and is included on page 33 of the financial report.

The Directors' report is signed in accordance with a resolution of the Board of Directors of Rural Funds Management Limited.



David Bryant
Director

24 August 2023

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Auditor's Independence Declaration

As lead auditor for the audit of Rural Funds Group for the year ended 30 June 2023, 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.



Rod Dring
Partner
PricewaterhouseCoopers

Sydney
24 August 2023

Rural Funds Group

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2023

		2023	2022
	Note	\$'000	\$'000
Revenue	B3	95,004	81,865
Other income	B3	3,493	3,475
Management fee		(8,558)	(6,850)
Asset management fee		(6,419)	(5,138)
Property expenses		(3,165)	(3,457)
Other expenses		(7,522)	(6,638)
Finance costs		(17,281)	(11,186)
Cost of goods sold - farming operations		(13,049)	(7,708)
Property and other expenses - farming operations		(5,408)	(1,745)
Gain on sale of assets		802	320
Loss on settlement of pre-existing relationship - Macgrove acquisition		(1,281)	-
Gain on bargain purchase - Macgrove acquisition	G3	440	-
Impairment of goodwill - Macgrove acquisition	G3	(195)	-
Depreciation and impairments - other		(2,838)	(1,634)
Change in fair value of investment property	C2	61,106	123,191
Change in fair value of bearer plants	C3	2,475	(4,103)
Depreciation - bearer plants	C3	(9,583)	(5,533)
Impairment of intangible assets	C5	(247)	(1,059)
Impairment of property - owner occupied	C6	(3,202)	(912)
Change in fair value of biological assets - farming operations	F4	513	5,054
Change in fair value of interest rate swaps		8,930	51,852
Change in fair value of financial assets/liabilities		156	669
Net profit before income tax		94,171	210,463
Income tax credit/(expense)	D1	327	(1,327)
Net profit after income tax		94,498	209,136
Other comprehensive income:			
<i>Items that will not be reclassified to profit or loss</i>			
Revaluation increment - Bearer plants	C3	19,653	(1,343)
Revaluation increment - Property - owner occupied	C6	1,843	1,286
Income tax (expense)/benefit relating to these items	D1	(473)	1,127
Other comprehensive income for the year, net of tax		21,023	1,070
Total comprehensive income attributable to unitholders		115,521	210,206

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2023

	Note	2023 \$'000	2022 \$'000
Total net profit after income tax for the year attributable to unitholders arising from:			
Rural Funds Trust		111,953	206,812
RF Active (non-controlling interest)		(17,455)	2,324
Total		94,498	209,136
Total comprehensive income for the year attributable to unitholders arising from:			
Rural Funds Trust		132,976	207,882
RF Active (non-controlling interest)		(17,455)	2,324
Total		115,521	210,206
Earnings per unit			
Basic and diluted earnings per unit attributable to the unitholders:			
Per stapled unit (cents)	B4	24.62	55.29
Per unit of Rural Funds Trust (cents)	B4	29.17	54.68
Per unit of RF Active (cents)	B4	(4.55)	0.61

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Financial Position

As at 30 June 2023

	Note	2023 \$'000	2022 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	F1	5,753	4,961
Trade and other receivables	F2	10,553	6,742
Other current assets	F3	1,860	1,922
Assets held for sale	C8	-	715
Biological assets	F4	14,295	7,826
Inventories	F5	1,853	455
Income tax receivable	D2	259	1,038
Total current assets		34,573	23,659
Non-current assets			
Investment property	C2	923,405	786,981
Plant and equipment - bearer plants	C3	217,700	190,488
Financial assets	C4, E2	102,488	97,729
Intangible assets	C5	166,988	157,679
Property - owner occupied	C6	144,200	68,427
Plant and equipment - other	C7	27,045	16,530
Deposits	C9	-	18,504
Derivative financial assets	E3	42,040	33,698
Deferred tax assets	D2	918	-
Other assets	F3	11,652	10,134
Total non-current assets		1,636,436	1,380,170
Total assets		1,671,009	1,403,829
LIABILITIES			
Current liabilities			
Trade and other payables	F6	6,878	5,153
Unearned income	F7	975	657
Interest bearing liabilities	E1	33,150	2,723
Derivative financial liabilities	E3	-	589
Distributions payable	E8	11,942	11,756
Total current liabilities		52,945	20,878
Non-current liabilities			
Interest bearing liabilities	E1	607,463	455,100
Deferred tax liabilities	D2	8,334	7,634
Unearned income	F7	5,902	-
Other non-current liabilities	F8	3,206	3,206
Total non-current liabilities		624,905	465,940
Total liabilities (excluding net assets attributable to unitholders)		677,850	486,818
Net assets attributable to unitholders		993,159	917,011
Total liabilities		1,671,009	1,403,829

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

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Financial Position

As at 30 June 2023

	Note	2023 \$'000	2022 \$'000
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS			
Unitholders of Rural Funds Trust			
Issued units	E7	459,078	465,076
Asset revaluation reserve	F9	70,265	49,417
Retained earnings		468,034	385,183
Parent entity interest		997,377	899,676
Unitholders of RF Active			
Issued units	E7	6,834	6,721
Retained earnings		(11,052)	10,614
Non-controlling interest		(4,218)	17,335
Total net assets attributable to unitholders		993,159	917,011

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 2023

2023	Note	Issued units \$'000	Asset revaluation reserve \$'000	Retained earnings \$'000	Total \$'000	Non- controlling interest \$'000	Total \$'000
Balance at 1 July 2022		465,076	49,417	385,183	899,676	17,335	917,011
Other comprehensive income		-	21,023	-	21,023	-	21,023
Total other comprehensive income		-	21,023	-	21,023	-	21,023
Profit before income tax		-	-	113,465	113,465	(19,294)	94,171
Income tax credit/(expense)	D1	-	-	(1,512)	(1,512)	1,839	327
Total comprehensive income for the year		-	21,023	111,953	132,976	(17,455)	115,521
Transfer from property - owner occupied to investment property		-	(148)	148	-	-	-
Transfer on disposal of bearer plants to retained earnings		-	(27)	27	-	-	-
Issued units							
Units issued during the year		5,552	-	-	5,552	113	5,665
Total issued units	E7	5,552	-	-	5,552	113	5,665
Distributions to unitholders	B5,E7	(11,550)	-	(29,277)	(40,827)	(4,211)	(45,038)
Balance at 30 June 2023		459,078	70,265	468,034	997,377	(4,218)	993,159

2022	Note	Issued units \$'000	Asset revaluation reserve \$'000	Retained earnings \$'000	Total \$'000	Non- controlling interest \$'000	Total \$'000
Balance at 1 July 2021		380,440	48,347	206,767	635,554	12,990	648,544
Other comprehensive income		-	1,070	-	1,070	-	1,070
Total other comprehensive income		-	1,070	-	1,070	-	1,070
Profit before income tax		-	-	207,143	207,143	3,320	210,463
Income tax expense	D1	-	-	(331)	(331)	(996)	(1,327)
Total comprehensive income for the year		-	1,070	206,812	207,882	2,324	210,206
Issued units							
Units issued during the year		103,788	-	-	103,788	2,061	105,849
Issue costs		(2,770)	-	-	(2,770)	(40)	(2,810)
Total issued units	E7	101,018	-	-	101,018	2,021	103,039
Distributions to unitholders	B5,E7	(16,382)	-	(28,396)	(44,778)	-	(44,778)
Balance at 30 June 2022		465,076	49,417	385,183	899,676	17,335	917,011

The accompanying notes form part of these financial statements.

Rural Funds Group

Consolidated Statement of Cash Flows

For the year ended 30 June 2023

	Note	2023 \$'000	2022 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		89,183	71,961
Payments to suppliers (inclusive of GST)		(57,609)	(37,080)
Interest received		389	49
Finance income		14,118	14,671
Finance costs		(17,281)	(11,186)
Income tax received/(paid)	D2	415	(561)
Net cash inflow from operating activities	G5	29,215	37,854
Cash flows from investing activities			
Payments for investment property	C2	(80,266)	(60,623)
Payments for plant and equipment - bearer plants		(13,415)	(40,028)
Payments for financial assets - property related		(420)	(936)
Payments for intangible assets	C5	(9,556)	(46,093)
Payments for property - owner occupied	C6	(54,743)	(52,777)
Payments for plant and equipment	C7	(12,892)	(10,438)
Payments for deposits	C9	-	(18,504)
Payments for financial assets - other		-	(4,427)
Payments for other assets		(1,518)	(5,997)
Proceeds from sale of investment property		26	-
Proceeds from sale of financial assets - property related		893	-
Settlement of financial assets - property related		323	18,205
Proceeds from sale of intangible assets		-	581
Proceeds from sale of property - owner occupied		-	3,283
Proceeds from sale of plant and equipment		361	458
Proceeds from assets held for sale		530	1,621
Acquisition of new business	G3	(1,392)	-
Distributions received		40	65
Net cash outflow from investing activities		(172,029)	(215,610)
Cash flows from financing activities			
Proceeds from issue of units	E7	5,665	103,039
Proceeds from borrowings		303,107	378,220
Repayment of borrowings		(120,317)	(267,145)
Distributions paid		(44,849)	(43,044)
Net cash inflow from financing activities		143,606	171,070
Net increase in cash and cash equivalents held		792	(6,686)
Cash and cash equivalents at the beginning of the year		4,961	11,647
Cash and cash equivalents at the end of the year	F1	5,753	4,961

The accompanying notes form part of these financial statements.

Rural Funds Group

Notes to the Financial Statements

30 June 2023

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 24 August 2023 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 G4.

Basis of preparation

The Trusts have common business objectives and operate collectively as an economic entity known as Rural Funds Group. The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, and other authoritative pronouncements of the Australian Accounting Standards Board, the *Corporations Act 2001* and the Trusts' Constitution. The report has been prepared on a going concern basis.

The 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.

Rounding of amounts

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

Principles of consolidation

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

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

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

Controlled entities

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

Rural Funds Group

Notes to the Financial Statements

30 June 2023

Significant accounting judgements, estimates and assumptions

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

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

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

Valuation of property related assets

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

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

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

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

Estimation of useful lives of bearer plants

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

Working capital

The deficiency in working capital at 30 June 2023 is due to the timing of distributions and the classification of Wyseby debt as current as at balance date. Subsequent to the year end, the Wyseby debt facility was extended to 24 September 2024. 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 syndicated bank facility of \$95.4m as at 30 June 2023 subject to compliance with the Group's bank covenants.

Comparative amounts

Comparative amounts have not been restated unless otherwise noted.

Rural Funds Group

Notes to the Financial Statements

30 June 2023

B. RESULTS

B1 Segment information

The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Directors of the Responsible Entity. During the year ended 30 June 2023, the Group held property in agricultural sectors presented in five segments (2022: five segments) each holding and leasing agricultural property and equipment. Segment revenue includes rental income, finance income and interest income. Segment property assets include investment property, bearer plants, intangible assets, property – owner occupied, financial 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

2023	Almonds \$'000	Cattle \$'000	Vineyards \$'000	Cropping \$'000	Macadamias \$'000	Other* \$'000	Total \$'000
Rental revenue	29,364	17,931	4,809	3,446	9,585	2,584	67,719
Rental revenue - prepaid rent (TRG)	-	-	-	-	(6,050)	-	(6,050)
Lease incentive amortisation	-	-	-	-	(9)	-	(9)
Rental revenue - straight-lining	(6)	342	183	-	951	-	1,470
Revenue from farming operations	-	-	-	-	-	13,180	13,180
Interest received	-	262	-	-	-	127	389
Finance income	-	18,251	-	-	54	-	18,305
Total revenue	29,358	36,786	4,992	3,446	4,531	15,891	95,004
Other income	-	-	-	-	-	3,493	3,493
Gain/(loss) on disposal	(45)	52	707	8	80	-	802
Depreciation - bearer plants	(5,761)	-	(941)	-	(2,881)	-	(9,583)
Depreciation - property (owner occupied)	-	(25)	-	(294)	(183)	-	(502)
Change in fair value through profit or loss	20,908	26,086	967	4,148	12,977	(4,798)	60,288
Revaluation increment through other comprehensive income	10,246	-	1,578	-	9,672	-	21,496
Total revaluation	31,154	26,086	2,545	4,148	22,649	(4,798)	81,784
Revaluation of water entitlements per director's valuation	21,764	-	-	2,638	2,109	(1,313)	25,198
Total revaluation	52,918	26,086	2,545	6,786	24,758	(6,111)	106,982

*Other rental revenue relates to lease of water entitlements.

Rural Funds Group

Notes to the Financial Statements

30 June 2023

B1 Segment information (continued)

Segment revenue and revaluation movements (continued)

Revaluation for the cattle segment largely relates to the external valuations for the Cobungra, Rewan, Petro, High Hill, Willara, Mutton Hole and Oakland Park properties. The revaluation increments from the external valuations are mainly due to market movements which are supported by comparable sales transactions.

Revaluation for the macadamia segment largely relates to the external valuations for macadamia properties leased to The Rohatyn Group. The effective lease commencement date was in January 2023. The revaluation increment reflects the recognition of the lease and the ongoing development of the properties to a higher and better use. Other revaluation increments from external valuations for Beerwah and Bauple are mainly due to market movements which are supported by comparable sales transactions.

Revaluation for the almond segment relates to the external valuations for the Kerarbury, Yilgah and Tocabil properties. Revaluation increments are due to the indexation of rent and market movements supported by comparable sale transactions, offset by an increase to discount rates.

Revaluation for the cropping segment largely relates to Lynora Downs and Mayneland. The revaluation increments from the external valuations reflects the increased productivity on Mayneland from capital developments and market movements supported by comparable sales transactions.

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

2022	Almonds \$'000	Cattle \$'000	Vineyards \$'000	Cropping \$'000	Macadamias \$'000	Other \$'000	Total \$'000
Rental revenue	28,480	14,277	4,148	4,440	1,342	2,500	55,187
Rental revenue - straight-lining	(298)	(199)	(218)	-	(6)	(14)	(735)
Sale of agricultural produce - farming operations	-	-	-	-	-	7,909	7,909
Interest received	-	49	-	-	-	-	49
Finance income	-	19,406	-	-	49	-	19,455
Total revenue	28,182	33,533	3,930	4,440	1,385	10,395	81,865
Other income	-	-	-	-	-	3,475	3,475
Gain on disposal	-	-	-	248	72	-	320
Depreciation - bearer plants	(2,808)	-	(1,213)	-	(1,512)	-	(5,533)
Depreciation - property (owner occupied)	-	-	-	(93)	(85)	-	(178)
Change in fair value through profit or loss	13,535	101,434	(608)	3,706	(1,246)	965	117,786
Revaluation increment through other comprehensive income	1,813	-	(3,756)	1,286	600	-	(57)
Total revaluation	15,348	101,434	(4,364)	4,992	(646)	965	117,729
Revaluation of water entitlements per director's valuation	5,429	-	(64)	1,116	1,401	12,256	20,138
Total revaluation	20,777	101,434	(4,428)	6,108	755	13,221	137,867

Rural Funds Group

Notes to the Financial Statements

30 June 2023

B1 Segment information (continued)

Segment assets

2023	Almonds \$'000	Cattle \$'000	Vineyards \$'000	Cropping \$'000	Macadamias \$'000	Unallocated \$'000	Total \$'000
Investment property	163,663	503,945	35,442	83,440	136,915	-	923,405
Plant and equipment - bearer plants	129,121	-	19,172	-	69,407	-	217,700
Financial assets - property related	11,460	80,713	703	-	949	-	93,825
Intangible assets (water)	66,707	14,831	500	11,966	6,954	66,030	166,988
Property - owner occupied	-	62,220	-	50,830	31,150	-	144,200
Plant and equipment	214	4,389	-	6,205	16,237	-	27,045
Total property assets per statutory accounts	371,165	666,098	55,817	152,441	261,612	66,030	1,573,163
Revaluation of intangible assets per director's valuation	77,542	-	5,266	3,547	4,126	45,033	135,514
Total adjusted property assets at director's valuation	448,707	666,098	61,083	155,988	265,738	111,063	1,708,677
Other assets per statutory accounts	-	-	-	-	-	97,846	97,846
Total adjusted assets	448,707	666,098	61,083	155,988	265,738	208,909	1,806,523

2022	Almonds \$'000	Cattle \$'000	Vineyards \$'000	Cropping \$'000	Macadamias \$'000	Unallocated \$'000	Total \$'000
Investment property	141,080	433,090	35,727	88,931	88,153	-	786,981
Plant and equipment - bearer plants	124,948	-	17,260	-	48,280	-	190,488
Financial assets - property related	11,466	75,960	520	-	1,325	-	89,271
Intangible assets (water)	66,707	6,038	500	7,961	5,441	71,032	157,679
Property - owner occupied	-	-	-	46,567	21,860	-	68,427
Plant and equipment	-	1,133	-	3,949	11,448	-	16,530
Assets held for sale	-	-	715	-	-	-	715
Deposits	-	18,504	-	-	-	-	18,504
Total property assets per statutory accounts	344,201	534,725	54,722	147,408	176,507	71,032	1,328,595
Revaluation of intangible assets per director's valuation	55,780	-	5,266	1,116	1,808	46,346	110,316
Total adjusted property assets at director's valuation	399,981	534,725	59,988	148,524	178,315	117,378	1,438,911
Other assets per statutory accounts	-	-	-	-	-	75,234	75,234
Total adjusted assets	399,981	534,725	59,988	148,524	178,315	192,612	1,514,145

Rural Funds Group

Notes to the Financial Statements

30 June 2023

B1 Segment information (continued)

Net asset value adjusted for water rights

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

The book value of the water rights (including investments in BIL and CICL recognised as financial assets) at 30 June 2023 is \$178,972,000 (2022: \$169,663,000).

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 contain information with which judgement is applied in order to allocate values to investment property, bearer plants and water entitlements. The Directors have taken into account the most recent valuations on each property and consider that they remain a reasonable estimate and, on this basis, the fair value of water entitlements before deferred tax adjustments at 30 June 2023 was \$314,486,000 (2022: \$279,979,000) representing the value of the water rights of \$135,514,000 (2022: \$110,316,000) above cost.

The following is a reconciliation of the book value at 30 June 2023 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	34,573	-	34,573
Total non-current assets	1,636,436	135,514	1,771,950
Total assets	1,671,009	135,514	1,806,523
Liabilities			
Total current liabilities	52,945	-	52,945
Total non-current liabilities	624,905	-	624,905
Total liabilities (excluding net assets attributable to unitholders)	677,850	-	677,850
Net assets attributable to unitholders	993,159	135,514	1,128,673
Net asset value per unit (\$)	2.57	0.36	2.93

Rural Funds Group

Notes to the Financial Statements

30 June 2023

B1 Segment information (continued)

		30 June 23 Adjusted property value \$'000	30 June 22 Adjusted property value \$'000	Most Recent Independent Valuation Date \$'000	Encumbered Valuation \$'000
2023	Area ¹				
Almonds					
Yilgah (NSW)	935 ha	114,500	105,000	Jun 2023	114,500
Tocabil (NSW)	603 ha	61,500	52,851	Jun 2023	61,500
Kerarbury (NSW)	2,530 ha	272,500	242,130	Jun 2023	272,500
Cattle					
Rewan (QLD)	17,479 ha	72,500	62,400	Nov 2022	72,500
Mutton Hole (QLD)	140,300 ha	19,000	16,838	Jun 2023	19,000
Oakland Park (QLD)	85,500 ha	9,900	8,654	Jun 2023	9,900
Natal Aggregation (QLD)	390,600 ha	138,490	137,756	Apr 2022	137,250
Comanche (QLD)	7,600 ha	35,104	35,064	Apr 2022	35,000
Cerberus (QLD)	8,280 ha	24,784	24,318	Apr 2022	24,300
Dyamberin (NSW)	1,728 ha	21,015	21,000	Mar 2022	21,000
JBS Feedlots Finance Lease Receivable (NSW/QLD)	150,000 hd	62,989	58,802	N/A	N/A
Woodburn (NSW)	1,063 ha	11,461	11,250	Mar 2022	11,250
Cobungra (VIC)	6,497 ha	52,200	40,800	Dec 2022	52,200
Petro (WA)	2,942 ha	16,825	13,514	Jun 2023	16,825
High Hill (WA)	1,601 ha	8,780	6,404	Jun 2023	8,780
Willara (WA)	1,653 ha	8,260	5,861	Jun 2023	8,260
Yarra (QLD)	4,090 ha	24,788	23,822	Dec 2021	23,600
Homehill (QLD)	4,925 ha	20,156	19,476	Apr 2022	19,325
Coolibah aggregation (QLD) ²	724 ha	5,688	5,683	Apr 2022	5,625
Thirsty Creek (QLD)	503 ha	5,225	5,220	Apr 2022	5,220
Kaiuroo (QLD)	27,879 ha	71,000	-	Jun 2023	71,000
Wyseby (QLD)	14,071 ha	34,951	-	Jun 2023	34,951
Cropping					
Lynora Downs (QLD)	4,963 ha	45,400	41,709	Jun 2023	45,400
Mayneland (QLD)	2,942 ha	28,550	24,554	Jun 2023	28,550
Maryborough – Cropping (QLD)	2,537 ha	38,383	38,208	Apr 2022	37,832
Baamba Plains (QLD)	4,130 ha	37,450	30,673	Jun 2023	37,450
Macadamias					
Swan Ridge (QLD)	130 ha	7,164	7,188	Sep 2021	7,000
Moore Park (QLD)	104 ha	4,402	4,487	Sep 2021	4,550
Bonmac (QLD)	27 ha	3,061	3,141	Sep 2021	3,200
Swan Ridge South (QLD)	40 ha	1,980	1,619	Sep 2021	1,600
Cygnat (QLD) ³	37 ha	4,014	3,294	Oct 2022	3,850
Nursery Farm (QLD) ^{3, 4}	41 ha	5,458	6,193	Oct 2022	4,200
Riverton (QLD) ³	420 ha	36,081	18,447	Oct 2022	26,700
Maryborough – Macadamias (QLD) ³	743 ha	70,727	38,852	Oct 2022	57,850
Maryborough – Macadamias (QLD)	661 ha	23,778	20,789	Apr 2022	20,788
Rookwood Farms (QLD) ⁵	1,150 ha	33,886	17,356	Apr 2022	12,775
Beerwah(QLD)	340 ha	38,300	35,638	Jun 2023	38,300
Bauple (QLD)	135 ha	19,700	17,969	Jun 2023	19,700

Valuations are encumbered unless not applicable (for example where a property is not subject to lease or at acquisition)

¹ Unless otherwise denoted, the almond, vineyard and macadamia areas refer to planted and planned development areas. Wyseby held as tenant-in-common arrangement with a 57.25% interest.

² Coolibah aggregation comprises of the Coolibah and River Block properties.

³ Initial properties are subject to the lease with a company managed by The Rohatyn Group (TRG) from January 2023.

⁴ Nursery Farm at 30 June 2022 included the value of trees in the tree nursery. Since 30 June 2022 trees have been allocated to the respective macadamia orchards as plantings occur.

⁵ Rookwood Farms aggregation comprises of the Stoneleigh, Corrowah, Tongola, Greenfields and Brooklands properties.

⁶ Dohnt vineyard was disposed in November 2022.

⁷ Director's valuation of River water (NSW) and Ground water (NSW) at 30 June 2023 based on information from external independent valuations.

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Notes to the Financial Statements

30 June 2023

		30 June 23 Adjusted property value \$'000	30 June 22 Adjusted property value \$'000	Most Recent Independent Valuation	
2023				Date \$'000	Encumbered Valuation \$'000
Vineyards					
Kleinig (SA)	206 ha	21,800	21,100	Jun 2023	21,800
Geier (SA)	243 ha	25,900	25,373	Jun 2023	25,900
Dohnt (SA) ⁶	30 ha	-	715	Mar 2021	1,200
Hahn (SA)	50 ha	4,800	4,800	Jun 2023	4,800
Mundy and Murphy (SA)	55 ha	4,400	4,100	Jun 2023	4,400
Rosebank (VIC)	82 ha	4,000	3,900	Jun 2023	4,000
Water rights					
River water (NSW) ⁷	8,754 ML	76,597	77,910	Jun 2022	77,910
River water (QLD)	2,155 ML	1,113	1,113	Jun 2020	1,099
Ground water (NSW) ⁷	8,338 ML	33,353	38,355	Jul 2021	38,355
Total property and water assets		1,661,914	1,384,326		
Cattle finance leases and other assets		17,487	17,431		
Plant and equipment		27,045	16,530		
Other receivables and equipment leases		2,231	2,120		
Kaiuroo deposit		-	18,504		
Total adjusted property assets		1,708,677	1,438,911		

Revaluations from external valuations

The total uplift for the year ended 30 June 2023 has been largely due to the external valuer's assessment of the value of land and water. The uplift has largely been driven by continued strength in demand and market sentiment for almond, cropping, macadamia and cattle properties in the respective regions during the year. All of the Group's properties have been valued by an independent valuer within the last 24 months. Further information on the significant unobservable inputs adopted by the external valuer in the fair value measurement of the properties is described in note C1.

Macadamia valuations have been obtained for the properties leased out to The Rohatyn Group. The adopted valuation is on an encumbered (subject to lease) basis.

A number of properties acquired during the period were subject to independent valuations. Revaluation movements for these properties largely relate to transaction costs incurred that were written off in the independent valuations.

Adjusted property values movements after the most recent independent valuation

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

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

A director's valuation has been adopted for 8,754ML of River water (NSW) and 8,338 ML of Ground water (NSW) based on information obtained from external independent valuation reports.

B2 Adjusted funds from operations (AFFO)

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

Rural Funds Group

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30 June 2023

B2 Adjusted funds from operations (AFFO) (continued)

	2023	2022
	\$'000	\$'000
Revenue	81,824	73,956
Other income	3,493	3,475
Management fee	(8,558)	(6,850)
Asset management fee	(6,419)	(5,138)
Property expenses	(3,165)	(3,457)
Other expenses	(7,522)	(6,638)
Finance costs	(17,281)	(11,186)
Income tax payable (AWF)	(257)	-
Revenue adjustments		
Straight-lining of rental revenue	(1,470)	735
Rental revenue – prepaid rent (TRG)	6,050	-
Lease incentive amortisation (TRG)	9	-
Interest component of JBS feedlot finance lease	(4,187)	(3,187)
Farming operations		
Revenue from farming operations	13,180	7,909
Cost of goods sold - farming operations	(13,049)	(7,708)
Change in fair value of biological assets (realised from harvested crops and cattle)	2,018	3,235
Change in fair value of biological assets (prior year biological assets realised during the year)	1,819	814
Property and other expenses - farming operations	(5,408)	(1,745)
Adjusted Funds From Operations (AFFO)	41,077	44,215
Property related		
Change in fair value of investment property	61,106	123,191
Change in fair value of bearer plants	2,475	(4,103)
Impairment of property - owner occupied	(3,202)	(912)
Impairment of intangible assets	(247)	(1,059)
Depreciation - bearer plants	(9,583)	(5,533)
Depreciation and impairments - other	(2,838)	(1,634)
Gain on sale of assets	802	320
Farming operations		
Change in fair value of biological assets (unharvested crops not realised and unsold cattle)	(1,505)	1,819
Change in fair value of biological assets (prior year biological assets realised during the year)	(1,819)	(814)
Macgrove acquisition		
Impairment of goodwill - Macgrove acquisition	(195)	-
Loss on settlement of pre-existing relationship - Macgrove acquisition	(1,281)	-
Gain on bargain purchase - Macgrove acquisition	440	-
Revenue items		
Rental revenue – prepaid rent (TRG)	(6,050)	-
Lease incentive amortisation (TRG)	(9)	-
Straight-lining of rental revenue	1,470	(735)
Interest component of JBS feedlot finance lease	4,187	3,187
Other		
Change in fair value of financial assets/liabilities	156	669
Change in fair value of interest rate swaps	8,930	51,852
Income tax credit/(expense)	584	(1,327)
Net profit after income tax	94,498	209,136
AFFO cents per unit	10.7	11.7

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Notes to the Financial Statements

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B3 Revenue

	2023	2022
	\$'000	\$'000
Rental income	63,130	54,452
Sale of agricultural produce - farming operations	8,250	7,909
Sale of livestock and agistment income	4,930	-
Finance income	18,305	19,455
Interest received	389	49
Total	95,004	81,865

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

Rental income primarily arises from the leasing of property assets at commencement 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.

Sale of agricultural produce and livestock is recognised when the performance obligation of passing control of agricultural produce and livestock at an agreed upon delivery point to the customer has been satisfied.

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

Other Income

	2023	2022
	\$'000	\$'000
Sale of temporary water allocations	3,043	3,142
Other income	450	333
Total	3,493	3,475

Sale of temporary water allocations is recognised when the water allocations are received by the customer.

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.

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Notes to the Financial Statements

30 June 2023

B4 Earnings per unit

	2023	2022
Per stapled unit		
Net profit after income tax for the year (\$'000)	94,498	209,136
Weighted average number of units on issue during the year (thousands)	383,761	378,227
Basic and diluted earnings per unit (total) (cents)	24.62	55.29
Per unit of Rural Funds Trust		
Net profit after income tax for the year (\$'000)	111,953	206,812
Weighted average number of units on issue during the year (thousands)	383,761	378,227
Basic and diluted earnings per unit (total) (cents)	29.17	54.68
Per unit of RF Active		
Net (loss)/profit after income tax for the year (\$'000)	(17,455)	2,324
Weighted average number of units on issue during the year (thousands)	383,761	378,227
Basic and diluted earnings per unit (total) (cents)	(4.55)	0.61

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

B5 Distributions

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

	Cents per unit	Total \$
Distribution declared 1 June 2022, paid 29 July 2022	2.9331	11,219,540
Distribution declared 1 September 2022, paid 31 October 2022	2.9325	11,233,192
Distribution declared 1 December 2022, paid 31 January 2023	2.9325	11,250,718
Distribution declared 01 March 2023, paid 28 April 2023	2.9325	11,268,192
Distribution declared 01 June 2023, paid 31 July 2023	2.9325	11,285,919

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Notes to the Financial Statements

30 June 2023

C. PROPERTY ASSETS

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

C1 RFF property assets

		2023 \$'000	2022 \$'000
Investment property	C2	923,405	786,981
Plant and equipment - bearer plants	C3	217,700	190,488
Financial assets - property related	C4	93,825	89,271
Intangible assets	C5	166,988	157,679
Property - owner occupied	C6	144,200	68,427
Plant and equipment - other	C7	27,045	16,530
Asset held for sale	C8	-	715
Deposits	C9	-	18,504
Total		1,573,163	1,328,595

Leasing arrangements

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

	2023 \$'000	2022 \$'000
Within 1 year	64,874	53,804
Between 1 and 2 years	65,807	53,362
Between 2 and 3 years	68,414	53,942
Between 3 and 4 years	61,816	54,602
Between 4 and 5 years	57,748	47,478
Later than 5 years	743,692	274,282
Total	1,062,351	537,470

During the year, the Group entered into a 40 year lease with a company managed by The Rohatyn Group (TRG). The lease includes lessee termination rights under certain conditions including if the orchards fail to produce the equivalent of a mature yield of 3.6 tonnes per hectare over a rolling five-year period commencing in year 10.

Key changes to the property portfolio during the year:

- In July 2022, the Group acquired Brooklands, a 972ha property west of Rockhampton in Central Queensland for \$6.2m including transaction costs. The property will be incorporated as part of Rookwood Farms.
- In August 2022, the Group acquired Greenfields, a 229ha property west of Rockhampton in Central Queensland for \$3.1m including transaction costs. The property will be incorporated as part of Rookwood Farms.
- In September 2022, the Group entered into an agreement to lease up to 3,000ha of macadamia orchards to a company managed by The Rohatyn Group (TRG) on behalf of a joint venture between TRG and a global institutional investor. The lease commenced in January 2023.
- In November 2022, the Group completed the disposal of Dohnt, a 37ha vineyard located in Coonawarra, South Australia for \$0.6m.
- In April 2023, the Group acquired Kaiuroo, a 27,879ha property north-west of Rockhampton in Central Queensland for \$74.0m including transaction costs.
- In June 2023, the Group acquired Wyseby as a tenant-in-common in the interest of 57.25% for \$37.0m including transaction costs. The total property is 18,500ha located south-west of Rockhampton in Central Queensland adjoining Rewan.

Rural Funds Group

Notes to the Financial Statements

30 June 2023

C1 RFF property assets (continued)

Macadamia development

The Group is developing macadamia orchards across a number of properties located in Queensland, Australia. As part of the development, costs relating to the acquisition, construction and development of macadamia orchards will be capitalised to the respective asset class that the cost relates to. The asset classes identified are investment property, bearer plants and water entitlements.

Investment Property

This includes costs associated with the acquisition for land, buildings, orchard and irrigation infrastructure and any costs directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management.

Bearer Plants

This includes costs associated with the acquisition of macadamia trees, planting costs, growing costs incurred for the trees to reach maturity including fertiliser and watering costs and costs associated with establishing the macadamia trees in the orchard and bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management.

Water entitlements

This includes costs associated with the purchase of water entitlements. Water entitlements are deemed ready for use on acquisition.

Borrowing costs

Borrowing costs may be capitalised on qualifying assets up until the property is ready for use. Borrowing costs relating to the acquisition, construction and development of the macadamia orchards are capitalised to the respective asset classes up until the property is deemed ready for use. Properties could be deemed ready for use when the property has been leased or when the property is operating in a manner as intended by management, for example, a macadamia orchard may be deemed operational when the orchard is fully planted and the plantings have been established.

Valuations

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

The following existing properties had relevant independent valuations during the year ended 30 June 2023:

Almond properties	Kerarbury, Tocabil, Yilgah
Cattle properties	Rewan, Cobungra, Petro, High Hill, Willara, Oakland Park, Mutton Hole
Macadamia properties	Cygnat, Nursery Farm, Glendorf, Charleville, Dowlings, Marriots, Riverton, Beerwah, Bauple
Cropping properties	Baamba Plains, Lynora Downs, Mayneland

The following properties had relevant independent desktop valuations during the year ended 30 June 2023:

Vineyard properties	Geier, Kleinig, Hahn, Rosebank, Mundy and Murphy
---------------------	--

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

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

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Notes to the Financial Statements

30 June 2023

C1 RFF property assets (continued)

Valuations (continued)

Independent desktop valuations were obtained for a number of properties during the year. The Directors have considered these desktop valuations as part of the fair value assessment at 30 June 2023.

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

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

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

If this information is not available, the valuation report may provide additional information, such as the summation basis of the unencumbered (not subject to lease) value, which along with other sources, including the nature of capital expenditure on the property, is used to determine the encumbered allocation to components.

Judgement is applied as part of these allocations which vary from property to property given the individual circumstances of the leasing arrangements. The allocation technique may change to reflect the best estimate of fair value attributable to each component at reporting date.

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

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

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

Investment property, Bearer plants and Property – owner occupied

The main level 3 inputs used by the Group include discount rates, terminal capitalisation rates, rate per area of land, adult equivalent rates and carrying capacity estimated in the respective valuations based on comparable transactions and industry data.

At the end of each reporting period, the directors update their assessment of the fair value of each property. Changes in level 3 fair values are analysed at each reporting date and during discussions with the independent valuers.

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Notes to the Financial Statements

30 June 2023

C1 RFF property assets (continued)

Valuations (continued)

The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurement:

Description*	Fair value at		Primary valuation technique	Allocation technique	Unobservable inputs**	Range of inputs	
	2023 \$'000	2022 \$'000				2023 %	2022 %
Almond orchard property	292,784	266,028	Discounted Cash Flow	Rental base	Discount rate (%)	7.25 - 8.00	6.75 - 7.50
Cattle property and infrastructure	566,165	433,090	Summation assessment Productive unit Rent capitalisation	Component based	Terminal Capitalisation Rate (%)	7.75 - 10.20	8.25 - 13.32
				Component based	\$ per adult equivalent (AE) carrying capacity (Backgrounding properties)	\$5,792 - \$11,742	\$4,034 - \$12,148
Vineyard property and infrastructure	54,614	52,987	Discounted Cash Flow	Component based	\$ per adult equivalent (AE) carrying capacity (Breeder properties)	\$1,590 - \$3,051	\$1,496 - \$3,048
					Discount rate (%)	7.50 - 8.50	7.50 - 8.50
Cropping property and infrastructure	134,270	135,498	Summation assessment	Component based	Terminal Capitalisation rate (%)	8.50 - 9.00	8.25 - 9.00
					\$ per irrigated hectare per property	\$12,500 - \$16,314	\$13,021 - \$16,681
Macadamia orchard property	237,472	158,293	Discounted Cash Flow	Rental base/ Proportionate Component based	Average \$ per plantable hectare (Maryborough)	\$21,248	\$21,090
					Discount rate (%)	7.25 - 8.00	7.25
					Terminal Capitalisation rate (%)	6.50 - 8.00	8.00
					Average \$ per planted hectare (planted orchard)	\$118,888	\$97,236
Total	1,285,305	1,045,896			Average \$ per plantable hectare (development orchard)	\$51,087	\$33,563

*Fair values disclosed exclude water assets.

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

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Notes to the Financial Statements

30 June 2023

C1 RFF property assets (continued)

Valuations (continued)

Primary valuation technique

External valuations typically assess property values using different valuation techniques.

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

Allocation technique

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

The following allocation techniques have been applied:

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

Rural Funds Group

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C1 RFF property assets (continued)

Valuations (continued)

Unobservable inputs

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

Discount rate (%)	The higher the discount rate the lower the fair value
Terminal capitalisation rate (%)	The higher the terminal capitalisation rate the lower the fair value
\$ per irrigated/planted hectare	The higher the value per irrigated/planted hectare, the higher the fair value
Average \$ per plantable hectare	The higher the value per plantable hectare, the higher the fair value
\$ per adult equivalent carrying capacity	The higher the value per adult equivalent carrying capacity, the higher the fair value

C2 Investment property

2023	Almond property \$'000	Cattle property \$'000	Vineyard property \$'000	Cropping property \$'000	Macadamia property \$'000	Total \$'000
Opening net book amount	141,080	433,090	35,727	88,931	88,153	786,981
Acquisitions	-	36,993	-	-	9,563	46,556
Additions	1,202	5,112	-	76	23,511	29,901
Capitalisation of borrowing costs	-	436	-	84	3,289	3,809
Disposals	(71)	-	-	-	-	(71)
Transfer	-	-	-	(7,220)	7,220	-
Transfer to property - owner occupied	-	-	-	-	(5,445)	(5,445)
Transfer to bearer plants	-	-	(290)	-	-	(290)
Transfer from property - owner occupied	-	-	-	-	1,058	1,058
Amortisation of lease incentives	-	(200)	-	-	-	(200)
Fair value adjustment	21,452	28,514	5	1,569	9,566	61,106
Closing net book amount	163,663	503,945	35,442	83,440	136,915	923,405

2022	Almond property	Cattle property	Vineyard property	Cropping property	Macadamia property	Total
Opening net book amount	126,189	305,151	34,540	83,300	47,744	596,924
Acquisitions	-	21,958	-	-	-	21,958
Additions	1,356	4,417	924	4,012	27,710	38,419
Capitalisation of borrowing costs	-	-	-	-	246	246
Classified as held for sale or disposals	-	-	(542)	-	-	(542)
Transfer to intangible assets	-	-	-	(2,556)	-	(2,556)
Transfer from property - owner occupied	-	-	-	-	9,541	9,541
Amortisation of lease incentives	-	(200)	-	-	-	(200)
Fair value adjustment	13,535	101,764	805	4,175	2,912	123,191
Closing net book amount	141,080	433,090	35,727	88,931	88,153	786,981

Investment properties comprise land, buildings and integral infrastructure including shedding, irrigation and trellising.

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Notes to the Financial Statements

30 June 2023

C2 Investment property (continued)

Macadamia properties under development include Maryborough – Macadamias, Riverton, Rookwood Farms and Swan Ridge South. Development costs for these properties have been capitalised.

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 capitalised to the investment property and amortised on a straight-line basis over the term of the lease as a reduction of rental revenue.

C3 Plant and equipment – bearer plants

2023	Bearer Plants - Almonds \$'000	Bearer Plants - Vineyards \$'000	Bearer Plants - Macadamias \$'000	Total \$'000
Opening net book amount	124,948	17,260	48,280	190,488
Additions	232	24	12,166	12,422
Capitalisation of borrowing costs	-	-	262	262
Transfer from investment property	-	290	-	290
Lease incentive	-	-	1,702	1,702
Amortisation of lease incentive	-	-	(9)	(9)
Depreciation and impairment	(5,761)	(941)	(2,881)	(9,583)
Fair value adjustment - profit and loss	(544)	961	2,058	2,475
Fair value adjustment - other comprehensive income	10,246	1,578	7,829	19,653
Closing net book amount	129,121	19,172	69,407	217,700

2022	Bearer Plants - Almonds \$'000	Bearer Plants - Vineyards \$'000	Bearer Plants - Macadamias \$'000	Total \$'000
Opening net book amount	125,580	23,815	11,387	160,782
Acquisitions	-	-	35,480	35,480
Additions	363	-	5,001	5,364
Capitalisation of borrowing costs	-	-	14	14
Classified as held for sale or disposals	-	(173)	-	(173)
Depreciation and impairment	(2,808)	(1,213)	(1,512)	(5,533)
Fair value adjustment - profit and loss	-	(1,413)	(2,690)	(4,103)
Fair value adjustment - other comprehensive income	1,813	(3,756)	600	(1,343)
Closing net book amount	124,948	17,260	48,280	190,488

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

RFF initially measures and recognises bearer plants at cost, including planting costs and direct costs associated with establishing these plants to maturity. 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.

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Notes to the Financial Statements

30 June 2023

C3 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 net assets attributable to unitholders under asset revaluation reserve. Revaluation increases which reverse a decrease previously recognised in profit and loss are recognised in profit or loss. Revaluation decreases which offset previous increases are recognised in other comprehensive income in the asset revaluation reserve. Any other decreases are recognised in profit and loss.

Lease incentives relate to orchard establishment costs incurred by the Group subsequent to lease commencement. Lease incentives are capitalised to bearer plants and amortised on a straight-line basis over the term of the lease as a reduction of rental revenue.

Bearer plants are subject to depreciation over their respective useful lives calculated on a straight-line basis on the carrying amount. Depreciation commences when bearer plants are assumed ready for use which is considered when the trees reach maturity or on the commencement of lease. The useful lives and maturity assumptions 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 - 55 years

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

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

	2023	2022
	\$'000	\$'000
Cost	185,241	172,268
Accumulated depreciation	(24,557)	(15,330)
Accumulated impairment	(3,277)	(5,752)
Bearer plants at historical cost less accumulated impairment	157,407	151,186

C4 Financial assets – property related

	2023	2022
	\$'000	\$'000
Financial Assets - property related		
Investment - BIL	520	520
Investment - CICL	11,464	11,464
Finance Lease - Breeders	16,621	16,365
Finance Lease - Feedlots	62,989	58,802
Finance Lease - Equipment	164	1,522
Other receivables	2,067	598
Total	93,825	89,271

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.

Rural Funds Group

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30 June 2023

C4 Financial assets – property related (continued)

Finance Lease – Breeders is comprised of breeders owned by the Group which have been leased to Cattle JV, a wholly-owned subsidiary of Rural Funds Management Limited, for a term of ten years ending in 2026. As part of the arrangement, the lessee is required to maintain the breeder herd and maintain an active breeding program. The expected credit loss on the finance lease is assessed on the value of the breeder herd secured against the finance lease. This assessment involves the monitoring of the value of the breeder herd through a bi-annual mustering process conducted by the lessee, Cattle JV and an annual valuation process. There has been no expected credit loss recognised at 30 June 2023 (2022: nil).

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

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

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

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

Finance leases

Finance leases are measured at amortised cost. Each lease payment was allocated as a reduction to the finance lease receivable and as finance income. The finance income was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the receivable for each period. These represent leases of property 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.

Minimum lease payments receivable under non-cancellable finance leases of feedlots, breeders and equipment not recognised in the financial statements, are receivable as follows:

	2023	2022
	\$'000	\$'000
Within 1 year	6,055	6,027
Between 1 and 2 years	6,051	6,005
Between 2 and 3 years	6,026	5,960
Between 3 and 4 years	6,015	5,797
Between 4 and 5 years	22,456	21,888
Later than 5 years	57,334	61,360
Total	103,937	107,037

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C5 Intangible assets

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

2023	Almonds \$'000	Cattle \$'000	Vineyards \$'000	Cropping \$'000	Macadamias \$'000	Unallocated \$'000	Total \$'000
Non-current							
Opening net book amount	66,707	6,038	500	7,961	5,441	71,032	157,679
Additions	-	8,862	-	-	454	-	9,316
Capitalisation of borrowing costs	-	56	-	65	119	-	240
Transfers	-	-	-	(940)	940	-	-
(Impairment)/reversal of impairment	-	(125)	-	4,880	-	(5,002)	(247)
Closing net book amount	66,707	14,831	500	11,966	6,954	66,030	166,988
Cost	67,462	15,668	500	12,270	7,069	71,066	174,035
Accumulated impairment	(755)	(837)	-	(304)	(115)	(5,036)	(7,047)
Net book amount	66,707	14,831	500	11,966	6,954	66,030	166,988
2022							
Non-current							
Opening net book amount	66,707	1,848	500	4,236	4,464	32,663	110,418
Additions	-	4,190	-	3,500	-	38,403	46,093
Transfer from investment property	-	-	-	2,556	-	-	2,556
Transfers	-	-	-	(791)	791	-	-
Disposals	-	-	-	(329)	-	-	(329)
(Impairment)/reversal of impairment	-	-	-	(1,211)	186	(34)	(1,059)
Closing net book amount	66,707	6,038	500	7,961	5,441	71,032	157,679
Cost	67,462	6,750	500	13,100	5,601	71,066	164,479
Accumulated impairment	(755)	(712)	-	(5,139)	(160)	(34)	(6,800)
Net book amount	66,707	6,038	500	7,961	5,441	71,032	157,679

Rural Funds Group

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30 June 2023

C5 Intangible assets (continued)

Water rights

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

Impairment recognised during the year relating to the directors' valuation on Ground water (NSW). Offset by the reversal of impairment in the cropping segment largely relating to the Lynora Downs and Baamba Plains properties based on the 30 June 2023 independent valuation.

C6 Property – owner occupied

2023	Land	Building	Irrigation	Total
	\$'000	\$'000	\$'000	\$'000
Opening net book amount	61,796	6,035	596	68,427
Acquisitions	41,812	2,549	-	44,361
Additions	1,003	1,945	6,420	9,368
Capitalisation of borrowing costs	1,003	8	3	1,014
Transfer from deposit	18,504	-	-	18,504
Transfer from investment property	3,687	1,522	236	5,445
Transfer to investment property	(1,030)	(28)	-	(1,058)
Depreciation	-	(370)	(132)	(502)
Impairment	1,184	(579)	(3,807)	(3,202)
Fair value adjustment - other comprehensive income	1,771	72	-	1,843
Closing net book amount	129,730	11,154	3,316	144,200
2022	Land	Building	Irrigation	Total
	\$'000	\$'000	\$'000	\$'000
Opening net book amount	27,405	816	63	28,284
Acquisitions	45,563	5,753	-	51,316
Additions	482	433	546	1,461
Transfer to investment property	(9,002)	(529)	(9)	(9,540)
Disposals	(3,265)	(25)	-	(3,290)
Depreciation	-	(174)	(4)	(178)
Impairment	(659)	(253)	-	(912)
Fair value adjustment - other comprehensive income	1,272	14	-	1,286
Closing net book amount	61,796	6,035	596	68,427

Property – owner occupied relates to owner occupied property that is being used to conduct farming operations by the Group and accounted for under AASB 116 *Property, Plant and Equipment*. Property – owner occupied are held under the revaluation model. As at 30 June 2023, this included properties that were operated by the Group including the Maryborough properties (cropping), Baamba Plains (cropping), Beerwah, Bauple (macadamias) and Kaiuroo (cattle).

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

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30 June 2023

C6 Property – owner occupied (continued)

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

Fixed asset class:	Useful life:
Land	Not applicable
Buildings	20 years
Irrigation	40 years

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

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

2023	Land \$'000	Building \$'000	Irrigation \$'000	Total \$'000
Cost	127,813	12,446	7,259	147,518
Accumulated depreciation and impairment	(1,126)	(1,378)	(3,943)	(6,447)
Net book amount	126,687	11,068	3,316	141,071
2022	Land \$'000	Building \$'000	Irrigation \$'000	Total \$'000
Cost	62,834	6,450	600	69,884
Accumulated depreciation and impairment	(2,310)	(429)	(4)	(2,743)
Net book amount	60,524	6,021	596	67,141

C7 Plant and equipment – other

	2023 \$'000	2022 \$'000
Opening net book amount	16,530	8,716
Additions	12,892	10,438
Transfers from finance lease - equipment	1,151	44
Disposals	(221)	(382)
Depreciation	(2,336)	(1,456)
Decrement (depreciation capitalised to developments)	(971)	(830)
Closing net book amount	27,045	16,530
Cost	40,633	26,811
Accumulated depreciation	(12,266)	(8,959)
Accumulated impairment	(1,322)	(1,322)
Net book amount	27,045	16,530

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

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

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

Rural Funds Group

Notes to the Financial Statements

30 June 2023

C7 Plant and equipment – other (continued)

The useful lives and for each class of depreciable asset are shown below:

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

C8 Assets held for sale

	Note	2023 \$'000	2022 \$'000
Investment property	C2	-	542
Bearer plants	C3	-	173
Total		-	715

At 30 June 2022, investment property and bearer plants held for sale relates to the Dohnt vineyard sold during the year.

C9 Deposits

	2023 \$'000	2022 \$'000
Deposit for acquisition of Kaiuroo property	-	18,504
Total	-	18,504

The Kaiuroo deposit includes stamp duty calculated on the amount paid. The property was acquired in April 2023 and recognised as property - owner occupied.

C10 Capital commitments

Capital expenditure across all properties largely relates to macadamia developments, cattle property developments cropping property developments and almond property improvements. These commitments are contracted for but not recognised as liabilities. The decrease in commitments during the year largely relates to the settlement of the Kaiuroo property in April 2023.

	2023 \$'000	2022 \$'000
Investment property	95,862	142,709
Bearer plants	28,301	17,254
Intangible assets	24,766	34,263
Plant and equipment	1,508	570
Total	150,437	194,796

Rural Funds Group

Notes to the Financial Statements

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D. TAX

Since 1 July 2014, Rural Funds Trust (a subsidiary of Rural Funds Trust at the time) became a flow through trust 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. Rural Funds Trust considers itself an attribution managed investment trust (AMIT). 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 net assets attributable to unitholders, in which case the deferred tax is adjusted directly against net assets attributable to unitholders.

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:

	2023	2022
	\$'000	\$'000
Current tax	364	-
Deferred tax	(651)	1,327
Adjustments in respect of deferred income tax of previous years	(40)	-
Income tax expense reported in the Statement of Comprehensive Income	(327)	1,327

Income tax expense is attributable to:

Profit from continuing operations	(327)	1,327
Total	(327)	1,327

Deferred income tax expense included in income tax expense comprises:

Increase in deferred tax assets	918	-
Increase in deferred tax liabilities	(1,136)	184
Total	(218)	184

Amounts charged or credited directly to equity

Capitalised issue costs	-	(16)
Change in fair value taken through asset revaluation reserve	473	(1,127)
Total	473	(1,143)

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Notes to the Financial Statements

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D1 Income tax expense (continued)

Numerical reconciliation of income tax expense to prima facie tax payable

	2023	2022
	\$'000	\$'000
Net profit before income tax	94,171	210,463
At the statutory income tax rate of 30% (2022: 30%)	28,251	63,139
Tax effect of amounts that are not taxable in determining taxable income	(32,523)	(61,812)
Derecognition of tax losses	3,985	-
Adjustments in respect of tax of previous years	(40)	-
Total	(327)	1,327

The Group has derecognised deferred tax assets amounting to \$3,985,000 as at the end of the financial year relating to carried forward tax losses in RF Active that are available to be utilised.

Franking credits

At 30 June 2023 there were \$1,986,000 of franking credits available to apply to future income distributions (2022: \$3,755,000).

D2 Deferred tax and current tax payable

	2023	2022
	\$'000	\$'000
Deferred tax liabilities		
Bearer plants	3,408	2,947
Plant and equipment	1,390	1,447
Fair value investment property	5,151	4,895
Other assets	876	1,276
Gross deferred tax liabilities	10,825	10,565
Set off of deferred tax assets	(2,491)	(2,931)
Net deferred tax liabilities	8,334	7,634

Deferred tax assets		
Investments	216	47
Intangible assets	1,513	-
Other	64	61
Unused income tax losses	1,616	2,823
Gross deferred tax assets	3,409	2,931
Set off of deferred tax liabilities	(2,491)	(2,931)
Net deferred tax assets	918	-

Recognised tax assets and liabilities

	Current income tax		Deferred income tax	
	2023	2022	2023	2022
	\$'000	\$'000	\$'000	\$'000
Opening balance	1,038	477	(7,634)	(7,450)
Charged to income	(364)	-	691	(1,327)
Credited to equity	-	-	(473)	1,143
Tax payments	(415)	561	-	-
Closing balance	259	1,038	(7,416)	(7,634)
Tax expense in the Consolidated Statement of Comprehensive Income			(327)	1,327
Amounts recognised in the Consolidated Statement of Financial Position:				
Deferred tax asset			918	-
Deferred tax liability			(7,416)	(7,634)

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 ratio target range of 30-35% calculated as interest bearing liabilities as a proportion of 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

	2023 \$'000	2022 \$'000
Current		
Equipment loans (ANZ)	2,783	2,525
Borrowings (Rabobank)	24,455	-
TRG loan	5,714	-
J&F Guarantee - Borrowing loss provision	198	198
Total	33,150	2,723
Non-current		
Borrowings (ANZ)	281,393	220,864
Borrowings (Rabobank)	242,565	184,236
Borrowings (NAB)	50,648	50,000
TRG loan	32,857	-
Total	607,463	455,100

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 consolidated statement of comprehensive income over the entire period of the borrowings on an effective interest basis. Interest-bearing liabilities are classified as current liabilities unless the Group has an unconditional right to defer the settlement of the liability for at least twelve months from the balance sheet date.

J&F Guarantee

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

The J&F Guarantee is a \$132.0 million (2022: \$132.0 million) limited guarantee provided by the Group to J&F Australia Pty Ltd (J&F), a wholly owned subsidiary of Rural Funds Management Limited, for a period of ten years from August 2018. From the provision of this guarantee, the Group earns a guarantee fee classified as finance income as noted in B3, paid on a monthly basis. The guarantee is currently used to support \$132.0 million of J&F's debt facility which is used for cattle purchases, feed and other costs associated with finishing the cattle on the feedlots, enabling J&F to supply cattle to JBS Australia Pty Limited (JBS) for its grain fed business. Given J&F's primary source of income is from payments from JBS, a J&F default is only likely to occur in the event of a JBS default. In the event of a JBS default, J&F would cease buying cattle and commence selling cattle in the feedlots. As cattle are sold, J&F bank loans would be repaid. Given that lot-fed cattle can gain up to 2kgs per day, and are sold on a per kg basis, a material fall in the cattle price would be required for there to be a shortfall. The guarantee would be called to cover any shortfall between J&F borrowings and cattle sales but limited to \$132.0 million.

The guarantee fee received from J&F during the year was \$7,615,000 (2022: \$9,662,000). The return to the Group relating to the guarantee fee arrangement for the year was approximately 7.6% (2022: 10.8%) inclusive of interest offset savings. There was no event of default during the year, and as a result, the guarantee has not been called.

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30 June 2023

E1 Interest bearing liabilities (continued)

J&F Guarantee (continued)

The financial guarantee was recognised at fair value at inception, which was nil. Subsequently, it is carried at the value of the expected credit loss. The credit loss has been calculated considering the likelihood of the financial guarantee being triggered and its financial impact on the Group. In calculating the allowance, consideration is given to counterparty risk associated with the arrangement, with JBS being the ultimate counterparty. The credit risk of JBS was determined not to have increased significantly since initial recognition, therefore the loss allowance for the guarantee has been recognised at an amount equal to 12-month expected credit losses. Consideration is also given to the value of cattle in assessing any potential shortfall should the guarantee be called by the Group. The credit loss allowance is recognised at fair value through profit or loss. The additional credit loss provision recognised in the year was nil (2022: \$149,000).

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

Borrowings

At 30 June 2023 the core debt facility available to the Group was \$670,000,000 (2022: \$520,000,000), with a drawn balance of \$574,606,000 (2022: \$455,100,000). The facility is split into two tranches, with a \$410,000,000 tranche expiring in November 2024 and a \$260,000,000 tranche expiring in November 2025.

As at 30 June 2023 RFF had active interest rate swaps totalling 44.0% (2022: 40.2%) of the syndicated debt balance to manage interest rate risk. Hedging requirements under the terms of the borrowing facility may vary with bank consent.

As at 30 June 2023 the TRG loan balance was \$38,571,000. A \$40,000,000 loan was provided to the Group on commencement of the initial lease with an additional \$60,000,000 provided during the balance of the development. Debt is repaid with interest over 7 years.

As at 30 June 2023 a borrowing facility provided by Rabobank to the Group relating to the acquisition of Wyseby property was \$24,455,000. At balance date, the facility was due to terminate on 26 June 2024. Subsequent to the year end, this facility was extended to 26 September 2024.

Loan covenants

Under the terms of the updated borrowing facility, the Group was required to comply with the following financial covenants for the year ended 30 June 2023:

- maintain a maximum loan to value ratio of 55% (2022: 55%);
- maintain net tangible assets (including water entitlements) in excess of \$400,000,000; and
- an interest cover ratio for the Group not less than 2.00:1.00 with distributions permitted if the interest cover ratio is not less than 2.15:1.00.

The loan to value ratio calculation includes the J&F guarantee of \$132.0 million (2022: \$132.0 million).

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

In August 2023, the Group received approval from the banking syndicate to reduce the interest cover ratio financial covenant to 1.50:1.00 with distributions permitted if the interest cover ratio is not less than 1.65:1.00 from 1 July 2023 to 30 June 2025.

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

Borrowings with Australian and New Zealand Banking Group (ANZ), Cooperatieve Rabobank UA (Rabobank) and National Australia Bank (NAB) are secured by:

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

Rural Funds Group

Notes to the Financial Statements

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E1 Interest bearing liabilities (continued)

The following assets are pledged as security over the loans:

2023	Investment property	Water licences	Plant and equipment - Bearer Plants	Financial assets	Plant and equipment	Assets held for sale	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Mortgage: Leased Properties	923,406	100,959	217,700	74,974	-	-	1,317,039
Other assets	-	66,029	-	16,784	-	-	82,813
Equipment	-	-	-	-	27,045	-	27,045
Total	923,406	166,988	217,700	91,758	27,045	-	1,426,897

2022	Investment property	Water licences	Plant and equipment - Bearer Plants	Financial assets	Plant and equipment	Assets held for sale	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Mortgage: Leased Properties	786,981	86,647	190,488	70,786	-	715	1,135,617
Other assets	-	71,032	-	17,887	-	-	88,919
Equipment	-	-	-	-	16,530	-	16,530
Total	786,981	157,679	190,488	88,673	16,530	715	1,241,066

E2 Financial assets – other (non-property related)

	2023	2022
	\$'000	\$'000
Investment - Marquis Macadamias Limited	5,231	5,270
Investment - Almondco Australia Limited	3,432	3,188
Total	8,663	8,458

The Group's investments in Marquis Macadamias Limited and Almondco Australia Limited are held at fair value through profit and loss. Fair value has been assessed based on the latest financial information and management's assessment of net realisable value.

E3 Derivative financial instruments measured at fair value

	2023	2022
	\$'000	\$'000
Assets		
Non-current		
Interest rate swaps	42,040	33,698
Total other assets	42,040	33,698
Current		
Interest rate swaps	-	589
Total other liabilities	-	589

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

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Rural Funds Group

Notes to the Financial Statements

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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 financial assets and liabilities relating to interest rate swap derivatives are level 2.

At 30 June 2023, cattle biological assets are level 2, and all other non-financial assets are level 3.

RFF's unlisted equity investments, BIL, CICL, Marquis Macadamias Ltd 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 (2022: nil).

Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments via 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 C1.

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.

Rural Funds Group

Notes to the Financial Statements

30 June 2023

E5 Financial instruments (continued)

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, finance lease receivables and loans 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's derivatives, investments in Marquis Macadamias Ltd and Almondco are held 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 are measured at fair value through profit or loss include the Group's derivatives. All other financial liabilities are measured at amortised cost.

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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 Group to exchange variable to 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 42.2% (2022: 40.2%) of the Group's floating rate debt at 30 June 2023.

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

	Effective average interest rate payable		Balance	
	2023 %	2022 %	2023 \$'000	2022 \$'000
Maturity of notional amounts				
Settlement - between 0 to 3 years	3.37	3.42	143,000	13,000
Settlement - 3 to 5 years	2.81	3.06	33,000	93,000
Settlement - greater than 5 years	3.25	3.01	77,000	77,000
Total			253,000	183,000

Rural Funds Group

Notes to the Financial Statements

30 June 2023

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 2023 are:

	Effective average interest rate payable		Balance	
	2023	2022	2023	2022
	%	%	\$'000	\$'000
Maturity of notional amounts				
Settlement - between 0 to 3 years	2.66	-	20,000	-
Settlement - 3 to 5 years	3.26	3.59	155,000	40,000
Settlement - greater than 5 years	2.25	2.27	230,000	230,000
Total			405,000	270,000

The net gain recognised on the swap derivative instruments for the year ended 30 June 2023 was \$8,930,000 (2022: \$51,852,000).

At 30 June 2023 the Group had the following mix of financial assets and liabilities exposed to variable interest rates:

	2023	2022
	\$'000	\$'000
Cash	5,753	4,961
Interest bearing liabilities (current)	(24,454)	-
Interest bearing liabilities (non-current)	(574,606)	(455,100)
Total	(593,307)	(450,139)

At 30 June 2023, 6.46% (2022: 0.55%) of the Group's debt is fixed, excluding the impact of interest rate swaps.

c. Interest rate risk (sensitivity analysis)

At 30 June 2023, the effect on profit before tax and net assets attributable to unitholders as a result of changes in the interest rate, including the effect of interest rate swaps, finance income and revaluation of derivatives, with all other variables remaining constant, would be as follows:

	2023	2022
	\$'000	\$'000
Change in profit before income tax:		
Increase in interest rate by 1%	18,563	22,530
Decrease in interest rate by 1%	(20,341)	(25,135)
Change in equity:		
Increase in interest rate by 1%	18,563	22,530
Decrease in interest rate by 1%	(20,341)	(25,135)

Rural Funds Group

Notes to the Financial Statements

30 June 2023

E6 Financial risk management (continued)

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 favour of the group. Counterparty credit risk for finance leases and term loans have also been assessed and accounted for through the recognition of credit loss provisions.

All the entity's debt investments at amortised cost are considered to have low credit risk and the loss allowance recognised during the year was therefore limited to 12 months' expected losses. Management considers the credit risk to be low where the counterparty does not have material outstanding repayments and has capacity to meet its contractual debt obligations. Debt investments are secured against collateral which is monitored by management. In recognising any potential credit loss provisions, management also assesses the collateral held. Where the fair value of such collateral is greater than the debt investment, a lower loss allowance amount is recognised.

Rural Funds Group

Notes to the Financial Statements

30 June 2023

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 below reflects all contractually fixed repayments and interest resulting from recognised financial liabilities as at 30 June 2023. The amounts disclosed in the table are the contractual undiscounted cash flows which have been estimated using interest rates applicable at the reporting date. For interest rate swaps, the undiscounted cash flows have been estimated using forward interest rates applicable at the end of the reporting period.

	Less than 6 months		6 months to 1 year		1 to 3 years		3 to 5 years		Over 5 years		Total	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial liabilities												
Interest bearing liabilities	20,413	5,540	44,769	5,540	622,610	466,759	13,403	-	10,601	-	711,796	477,839
Trade and other payables	6,878	5,153	-	-	-	-	-	-	-	-	6,878	5,153
Equipment loans	430	350	584	435	1,252	1,275	798	464	-	-	3,064	2,524
Interest rate swaps	-	589	-	-	-	-	-	-	-	-	-	589
Total	27,721	11,632	45,353	5,975	623,862	468,034	14,201	464	10,601	-	721,738	486,105

Rural Funds Group

Notes to the Financial Statements

30 June 2023

E7 Issued units

	2023		2022	
	No.	\$'000	No.	\$'000
Units on issue at the beginning of the period	382,514,759	471,797	339,900,556	385,140
Units issued during the year	2,341,799	5,665	42,614,203	103,039
Distributions to unitholders	-	(11,550)	-	(16,382)
Units on issue	384,856,558	465,912	382,514,759	471,797

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.

Distributions totalling \$45,038,000 were declared during the year. Distributions are allocated to the components of equity which is comprised of issued units and retained earnings.

E8 Distributions payable

	2023	2022
	\$'000	\$'000
Distributions payable	11,942	11,756
Total	11,942	11,756

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Rural Funds Group

Notes to the Financial Statements

30 June 2023

F. OTHER ASSETS AND LIABILITIES

F1 Cash and cash equivalents

	2023	2022
	\$'000	\$'000
Cash at bank	5,753	4,961
Total	5,753	4,961

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:

	2023	2022
	\$'000	\$'000
Cash and cash equivalents	5,753	4,961

F2 Trade and other receivables

	2023	2022
	\$'000	\$'000
Current		
Trade receivables	8,550	6,239
Sundry receivables	1,146	154
Receivables from related parties	857	349
Total	10,553	6,742

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue with no significant overdue amounts.

F3 Other assets

	2023	2022
	\$'000	\$'000
Current		
Prepayments	1,860	1,922
Total	1,860	1,922
Non-current		
Deposits	11,649	10,005
Other	3	129
Total	11,652	10,134

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Notes to the Financial Statements

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F4 Biological assets

	Soy beans \$'000	Sugar \$'000	Macadamias \$'000	Cropping \$'000	Cattle \$'000	Total \$'000
2023						
Opening net book amount	-	2,437	1,925	534	2,930	7,826
Additions	32	2,693	3,328	3,405	10,523	19,981
Increases/(decrease) due to biological transformation	(11)	991	(2,258)	2,087	(296)	513
Decreases due to sales	(21)	(3,755)	(2,592)	(3,702)	(3,955)	(14,025)
Closing net book amount	-	2,366	403	2,324	9,202	14,295

	Soy beans \$'000	Sugar \$'000	Macadamias \$'000	Cropping \$'000	Cattle \$'000	Total \$'000
2022						
Opening net book amount	-	2,988	-	-	-	2,988
Additions	2	2,696	1,440	422	2,930	7,490
Increases/(decrease) due to biological transformation	(2)	2,102	2,834	120	-	5,054
Decreases due to sales	-	(5,349)	(2,349)	(8)	-	(7,706)
Closing net book amount	-	2,437	1,925	534	2,930	7,826

Biological assets relate to the Group's farming operations. In accordance with AASB 141 *Agriculture*. The Group's cropping biological assets have been recognised at fair value as determined based on the present value of expected net cash flows from the crops.

Cattle biological assets relates to livestock recognised at fair value as determined based on sales for similar cattle in active markets.

Fair value has been based on expected net cash flows from the crops discounted from the time of harvest. The main level 3 inputs used by the Group includes estimates based on production costs (including input and harvest costs) and the estimated time of harvest adjusted for the risks of the cash flows.

Significant estimates used in determining the expected net cash flows:

Sugar from cane planted (tonnes per ha)	The higher the sugar from cane planted, the higher the fair value
Yield	The higher the yield, the higher the fair value
Price (\$ per tonne)	The higher the net price, the higher the fair value

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

Judgements and estimates are made in determining the fair values of the biological assets 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 its biological assets into three levels prescribed under the accounting standards.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
2023				
Sugar	-	-	2,366	2,366
Macadamias	-	-	403	403
Cropping	-	-	2,324	2,324
Cattle	-	9,202	-	9,202
Total biological assets	-	9,202	5,093	14,295

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F4 Biological assets (continued)

	Level 1	Level 2	Level 3	Total
2022	\$'000	\$'000	\$'000	\$'000
Sugar	-	-	2,437	2,437
Macadamias	-	-	1,925	1,925
Cropping	-	-	534	534
Cattle	-	2,930	-	2,930
Total biological assets	-	2,930	4,896	7,826

Farming operations	Fair value at		Unobservable inputs	Range of inputs	
	2023 \$'000	2022 \$'000		2023	2022
Sugar	2,366	2,437	Sugar from cane planted (tonnes per ha)	2.5 - 7.2 tonnes per ha	4.2 - 6.8 tonnes per ha
			Net price (\$ per tonne) (+/- 10%)	\$547 - \$668 per tonne	\$479 - \$586 per tonne
Macadamias	403	1,925	Macadamia yield (tonnes) (+/- 10%)	718.9 - 878.6 tonnes	690.4 - 843.9 tonnes
			Farmgate NIS price (\$ per tonne) (+/-10%)	\$1,530 - \$1,870 per tonne	\$3,400 - \$4,200 per tonne
Cropping (mungbean)	95	184	Mungbean yield (tonnes per ha) (+/-10%)	0.28 - 0.23 tonnes per ha	0.90 - 1.10 tonnes per ha
			Mungbean price (\$ per tonne) (+/-10%)	\$900 - \$1,000 per tonne	\$861 - \$1,052 per tonne
Cropping (cotton)	971	-	Cotton yield (bale per ha) (+/-10%)	6.8 - 8.2 bales per ha	-
			Cotton lint price (\$ per bale) (+/-10%)	\$573 - \$700 per bale	-
Cropping (other crops)	1,258	350	Cost approximates fair value less costs to sell	-	-
Total	5,093	4,896			

F5 Inventories

	2023 \$'000	2022 \$'000
Current		
Agricultural produce - farming operations	929	8
Other	924	447
Total	1,853	455

F6 Trade and other payables

	2023 \$'000	2022 \$'000
Trade payables	3,935	2,142
Accruals	2,072	2,136
Sundry creditors	871	875
Total	6,878	5,153

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F7 Unearned income

	2023	2022
	\$'000	\$'000
Current		
Unearned lease income	975	657
Total	975	657
Non-current		
Unearned lease income	5,902	-
Total	5,902	-

Unearned lease income – non-current relates to rent received from TRG prior to lease commencement. Lease income is subsequently recognised on a straight-lined basis over the term of the lease.

F8 Other non-current liabilities

	2023	2022
	\$'000	\$'000
Lessee deposits	3,206	3,206
Total	3,206	3,206

F9 Asset revaluation reserve

	2023	2022
	\$'000	\$'000
Opening balance	49,417	48,347
Disposal of Plant and equipment - bearer plants	(27)	-
Transfer from Property - owner occupied to Investment property	(148)	-
Property - owner occupied - revaluation	1,843	1,286
Plant and equipment - bearer plants - revaluation	19,653	(1,343)
Total comprehensive income	21,321	(57)
Income tax applicable	(473)	1,127
Closing balance	70,265	49,417

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Rural Funds Group

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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 2023.

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
Andrea Lemmon

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 2023 are:

	Guy Paynter	David Bryant*	Michael Carroll	Julian Widdup	Andrea Lemmon
	Units	Units	Units	Units	Units
Balance at 30 June 2021	1,559,104	15,238,034	218,402	115,765	-
Additions	185,606	1,087,428	36,338	19,261	183,357
Balance at 30 June 2022	1,744,710	16,325,462	254,740	135,026	183,357
Additions	-	619,000	12,668	6,714	-
Balance at 30 June 2023	1,744,710	16,944,462	267,408	141,740	183,357

*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 (2022: 0.6%) of adjusted total assets; and,
- Asset management fee: 0.45% per annum (2022: 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

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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:

	2023	2022
	\$'000	\$'000
Management fee	8,558	6,850
Asset management fee	6,419	5,138
Total management fees	14,977	11,988
Expenses reimbursed to RFM	8,356	8,290
Expenses and capital expenditure reimbursed to RFM Macadamias	12,321	6,927
Expenses reimbursed to Cattle JV	273	383
Expenses reimbursed to RFM Farming	3,594	363
Dividends declared to the Responsible Entity	1,530	1,460
Total amount paid to RFM and related entities	41,051	29,411
Rental income received from RFM	22	20
Rental income received from RFM Farming	1,913	1,748
Rental income received from Cattle JV	1,378	2,001
Rental income received from Cotton JV	1,775	2,871
Rental income received from 2007 Macgrove Project	1,052	1,296
Finance income from Cattle JV	1,670	1,835
Finance income from J&F Australia	7,615	9,662
Expenses charged to RFM Macadamias	737	305
Expenses charged to RFM Farming	126	69
Expenses charged to Cattle JV	198	152
Total amounts received from RFM and related entities	16,486	19,959

The terms and nature of the historical transactions between the Group and related parties have not changed during the year ended 30 June 2023. Transactions entered between related parties during the year have been reviewed.

The key movements during the year:

Expenses reimbursed to RFM relates to expenses incurred or paid by RFM on behalf of the Group which are subsequently reimbursed by the Group. Examples of these expenses include corporate overheads, professional service fees such as legal, audit and tax matter costs, and regulatory fees and charges. During the year ended 30 June 2023, additional costs were incurred by RFM on behalf of the Group as a result of an increase in the Group's operations.

RFM Macadamias and RFM Farming perform management activities, including capital development and farm management on behalf of the Group. Expenses include service recharge cost recoveries, costs relating to farm management and capital development costs. These costs incurred by RFM Macadamias and RFM Farming are subsequently reimbursed by the Group. Additional costs were incurred by RFM Macadamias and RFM Farming on behalf of the Group as a result of the ongoing macadamia developments and the Group's farming operations.

In April 2023, the Group acquired 412 Macgroves in the 2007 Macgrove Project (M07) for \$1,144,000. In June 2023, the Group acquired the remaining 167 Macgroves in M07 for \$572,000. M07 was a fund managed by RFM and the transaction is considered a related party transaction. Further details are disclosed in note G3. M07 was subsequently wound up in July 2023. Following the wind up, the Group will operate the macadamia orchards on these properties.

Rental income from RFM Farming largely relates to rental income from the Mayneland property.

Rental income from Cattle JV largely relates to rental income from Mutton Hole and Oakland Park.

Rental income from Cotton JV relates to rental income from Lynora Downs.

Rural Funds Group

Notes to the Financial Statements

30 June 2023

G2 Related party transactions (continued)

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

Rental income from 2007 Macgrove Project (M07) largely relates to rental income from Swan Ridge and Moore Park prior to the Group's acquisition of Macgroves during the year.

Finance income from Cattle JV relates to breeder herds under finance.

Finance income from J&F Australia Pty Limited (J&F) relates to the \$132.0 million (2022: \$132.0 million) limited guarantee provided to J&F, a wholly owned subsidiary of Rural Funds Management Limited. From the provision of this guarantee, the Group earns a guarantee fee classified as finance income.

Expenses charged to RFM Macadamias, RFM Farming and Cattle JV relate to farm management operating costs and property rates that are incurred by the Group and subsequently reimbursed to the Group.

Debtors and finance lease receivables

	2023	2022
	\$'000	\$'000
RFM Farming Pty Limited	340	-
RFM Macadamias Pty Limited	171	1,639
Cattle JV Pty Limited	16,657	16,769
Total	17,168	18,408

Receivables are not secured and have terms of up to 30 days. Interest is charged on overdue amounts. Finance lease receivables are secured by the Group's ownership of the relevant assets. Outstanding balances are settled through payment.

Finance lease receivable from Cattle JV relates to the breeders and agricultural plant and equipment leased to Cattle JV. \$304,000 of additional breeders was funded during the year.

Creditors

	2023	2022
	\$'000	\$'000
Rural Funds Management Limited	814	884
RFM Farming Pty Limited	91	17
RFM Macadamias Pty Limited	130	30
Cattle JV Pty Limited	39	-
Total	1,074	931

Custodian fees

	2023	2022
	\$'000	\$'000
Australian Executor Trustees Limited	437	365
Total	437	365

Financial Guarantee

The Group provides a \$132.0 million (2022: \$132.0 million) guarantee to J&F Australia Pty Limited (J&F), a subsidiary of RFM. The guarantee is currently used to support \$132.0 million of J&F's debt facility which is used for cattle purchases, feed and other costs associated with finishing the cattle on the feedlots, enabling J&F to supply cattle to JBS Australia Pty Limited (JBS) for its grain fed business. The guarantee earns a return for RFF equivalent to an equity rate of return which is calculated on the amount of the guarantee during the year.

Entities with influence over the Group

	2023		2022	
	Units	%	Units	%
Rural Funds Management	13,157,659	3.42	12,538,659	3.28

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Rural Funds Group

Notes to the Financial Statements

30 June 2023

G2 Related party transactions (continued)

Other

David Bryant was appointed as a director of Marquis Macadamia Limited. Marquis during the year. Macadamia Limited provides processing and selling services for the Group's farming operations on the Beerwah, Bauple, Swan Ridge and Moore Park properties. The Group also holds shares in Marquis Macadamia Limited. Marquis Macadamia Limited is not a related party as defined by AASB 124 *Related Party Disclosure*. Procedures are in place to manage any potential conflicts of interest.

G3 Business Combination

In April 2023, the Group acquired 412 Macgroves in the 2007 Macgrove Project (M07), which was a fund managed by RFM. In June 2023, the Group acquired the remaining 167 Macgroves in the 2007 Macgrove Project. The 2007 Macgrove Project was in the business of growing, harvesting and marketing of macadamia nuts to be sold for processing and consumption in Australia and internationally. The 2007 Macgrove Project operated on the Group's Swan Ridge and Moore Park properties. The 2007 Macgrove Project was subsequently wound up in July 2023. Following the wind up, the Group will operate the macadamia orchards on these properties.

The following table shows the assets acquired, liabilities and the purchase consideration at the acquisition dates.

	412 groves \$'000	167 groves \$'000	Total \$'000
Purchase consideration:			
Cash paid	1,144	572	1,716
Capital contribution	(1,144)	-	(1,144)
Total purchase consideration	-	572	572
Effect of the settlement of pre-existing relationship	(419)	(372)	(791)
Fair value of consideration transferred	(419)	200	(219)
The fair value of identifiable assets and liabilities recognised as a result of the acquisition were as follows:			
Cash	276	48	324
Debtors	125	144	269
Biological assets	184	17	201
Prepayment	114	-	114
Loan from RFM	(434)	-	(434)
Creditors	(244)	(204)	(448)
Net identifiable assets acquired	21	5	26
Add: Goodwill	-	195	195
Less: Gain on bargain purchase	(440)	-	(440)
Net assets acquired	(419)	200	(219)

Pre-existing relationship

The settlement of pre-existing relationship relates to \$490,000 net receivables between the Group and M07 and \$1,281,000 settlement loss relating to the contract terms when compared to the market.

Revenue contribution

The acquired business contributed revenues of \$410,000 to the Group for the period from acquisition to 30 June 2023.

Rural Funds Group

Notes to the Financial Statements

30 June 2023

G4 Parent entity information

The Group was formed by the stapling of the units in two trusts, Rural Funds Trust and RF Active. In accordance with Accounting Standard AASB 3 *Business Combinations*, the stapling arrangement referred to above is regarded as a business combination and the Rural Funds Trust has been identified as the parent for preparing Consolidated Financial Reports. RFM Australian Wine Fund and Agricultural Income Trust Fund 1, holding the Group's vineyard assets, are wholly owned subsidiaries of Rural Funds Trust. 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:

	2023 \$'000	2022 \$'000
Statement of Financial Position		
ASSETS		
Current assets	16,475	29,321
Non-current assets	1,628,596	1,321,574
Total assets	1,645,071	1,350,895
LIABILITIES		
Current liabilities	15,089	16,746
Non-current liabilities	661,082	458,306
Total liabilities	676,171	475,052
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		
Issued units	459,078	465,075
Asset revaluation reserve	66,718	47,505
Retained earnings	443,104	363,263
Total equity	968,900	875,843
Statement of Comprehensive Income		
Net profit after income tax	110,257	207,328
Other comprehensive income for the year, net of tax	17,927	2,413
Total comprehensive income attributable to unitholders	128,184	209,741

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Rural Funds Group

Notes to the Financial Statements

30 June 2023

G5 Cash flow information

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

	2023	2022
	\$'000	\$'000
Net profit after income tax	94,498	209,136
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit		
Change in fair value of investment property	(61,106)	(123,191)
Change in fair value of bearer plants	(2,475)	5,533
Impairment of intangible assets	247	1,059
Impairment of property - owner occupied	3,202	912
Depreciation - bearer plants	9,583	4,103
Depreciation and amortisation/impairment - other	2,838	1,634
Gain on sale of assets	(802)	(320)
Amortisation of lease incentives	209	200
Interest component of JBS feedlot finance lease	(4,187)	(3,187)
Straight-lining of rental revenue	(1,470)	735
Change in fair value of financial assets/liabilities	(156)	(669)
Change in fair value of biological assets - farming operations	(513)	(5,054)
Change in fair value of interest rate swaps	(8,930)	(51,852)
Loss on settlement of pre-existing relationship - Macgrove acquisition	1,281	-
Gain on bargain purchase - Macgrove acquisition	(440)	-
Impairment of goodwill - Macgrove acquisition	195	-
Dividend income classified as investing cash flows	(40)	(65)
Changes in operating assets and liabilities		
Increase in trade and other receivables	(3,661)	(1,798)
Increase in inventories	(1,398)	(455)
(Increase)/decrease in biological assets	(5,755)	216
Decrease/(increase) in other current assets	62	(1,064)
Increase in trade and other payables	1,725	1,789
Increase in unearned income	6,220	657
Increase in net tax liabilities	88	750
Decrease in other liabilities	-	(1,215)
Net cash inflow from operating activities	29,215	37,854

Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

Reconciliation of net debt is presented below:

	2023	2022
	\$'000	\$'000
Cash and cash equivalents	5,753	4,961
Borrowings - repayable within one year	(27,238)	(2,525)
Borrowings - repayable after one year	(607,463)	(455,100)
Net debt	(628,948)	(452,664)
Cash and cash equivalents	5,753	4,961
Gross debt - fixed interest rates	(35,640)	(2,525)
Gross debt - variable interest rates	(599,061)	(455,100)
Net debt	(628,948)	(452,664)

Rural Funds Group

Notes to the Financial Statements

30 June 2023

G6 Remuneration of auditors

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

	2023	2022
	\$	\$
PricewaterhouseCoopers Australia:		
Audit and review of financial statements	558,153	494,639
Compliance audit	36,812	35,647
Total	594,965	530,286

G7 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 part of the property assets and amortised on a straight-line basis over the life of the lease term.

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Rural Funds Group

Notes to the Financial Statements

30 June 2023

G7 Other accounting policies (continued)

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.

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.

G8 Limited guarantee – Wyseby

During the year the Group acquired a property adjoining the Rewan Cattle Property, Wyseby, as a tenant-in-common arrangement (57.25%). A borrowing facility was provided by Cooperatieve Rabobank relating to the acquisition of the property. In addition, the Group has provided a limited guarantee to Rabobank Australia Limited in respect of the other purchasing party's debt obligations relating to their share of Wyseby. The parties will seek to subdivide the property, in their respective ownership portions, after which the guarantee will no longer be required.

G9 Events after the reporting date

As at 30 June 2023 a borrowing facility provided to the Group relating to the Wyseby property was \$24,455,000. At balance date, the facility was due to mature on 26 June 2024. Subsequent to the year end, this facility was extended to 26 September 2024.

During the year ended 30 June 2023, the Group acquired all 579 Macgroves in the 2007 Macgrove Project which was in the business of growing, harvesting and marketing of macadamia nuts to be sold for processing and consumption. The 2007 Macgrove Project operated on the Group's Swan Ridge and Moore Park properties. The 2007 Macgrove Project was subsequently wound up in July 2023. Following the wind up, the Group will operate the macadamia orchards on these properties.

In August 2023, the Group received approval from the banking syndicate to reduce the interest cover ratio financial covenant from 2.00:1.00 to 1.50:1.00 with distributions permitted if the interest cover ratio is not less than 1.65:1.00 from 1 July 2023 to 30 June 2025. At 30 June 2023, the Group was in compliance with its banking covenants.

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

G10 Contingent liabilities

In June 2023, a civil claim was filed in the Supreme Court of Queensland against the Rural Funds Group, RFM Farming Pty Ltd (RFMF) and an employee of RFMF relating to alleged spray drift from the Baamba Plains property in Queensland. RFM is defending this claim and based on the relevant facts and an indemnity provided by RFM Farming to the Rural Funds Group, there is no material exposure expected to the Group.

Other than what has been disclosed there are no contingent liabilities as at 30 June 2023.

Rural Funds Group

Directors' Declaration

30 June 2023

In the Directors of the Responsible Entity's opinion:

- 1 The financial statements and notes of Rural Funds Group set out on pages 34 to 87 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 2023 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

24 August 2023

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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 2023 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 2023
- 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 significant accounting policies and other explanatory information
- 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 & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Liability limited by a scheme approved under Professional Standards Legislation.

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 Group financial report reflects the consolidation of Rural Funds Trust and its controlled entities, including RF Active.



Materiality	Audit scope
- For the purpose of our audit we used overall Group materiality of \$2,053,850, which represents approximately 5% of the Group's Adjusted Funds from Operations. - 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 Adjusted Funds from Operations because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. - We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.	- 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 which included individuals with industry expertise, as well as property valuation experts, who assisted in our assessment of the reasonableness of some of these subjective judgements.

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 agricultural properties, which comprise: - Investment property \$923.4m- Bearer plants \$217.7m - Intangibles (water entitlements) \$166.9m - Property – owner occupied \$144.2m (Refer to note C2, C3, C5 and C6)

The Group holds agricultural properties for long-term leasing or for further development.

Each agricultural property held for leasing or development comprises one or more of the following three components:

- investment property (including land and infrastructure attached to land)
- bearer plants (including almond trees, macadamia trees and wine grape vines)
- water entitlements.

Agriculture properties on which cropping operations are currently conducted by the Group are classified as property–owner occupied.

For a selection of external valuations obtained by the Group, together with PwC real estate property valuation experts we performed the following procedures, amongst others:

- we assessed the competency, qualifications, experience and objectivity of the external valuers
- we read the external valuers' terms of engagement to 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 and on the rationale behind the chosen allocation techniques
- we compared a sample of inputs used in the valuation and allocation models, such as rental income and lease terms, to the relevant lease agreements and/or other supporting documents

External valuations provide an aggregate value for each agricultural property. Key variables and considerations in the valuations can include discount rates, terminal capitalisation rate, market rent, cattle carrying capacity. Factors such as associated lease agreements, comparable sales, prevailing market conditions, and the individual nature, condition and location of these properties impact these variables, and overall valuations.

The aggregate value of each agricultural property is allocated across the components of investment property (carried at fair value), bearer plants (carried under revaluation model), water entitlements (carried at cost less accumulated impairment), and property – owner occupied (carried under revaluation model).

The directors, or external valuers where appropriate, determined the suitable allocation technique to be applied to each agricultural property, considering the nature and characteristics of the property including any lease encumbrances.

This was a key audit matter because:

- agricultural properties are fundamental to the Group's business model. Investment properties, bearer plants and water entitlements, and property – owner occupied form the majority of the Group's assets in the consolidated statement of financial position
- the nature of agricultural property valuations is inherently subjective due to the use of assumptions and estimates in the valuation model
- the selection and application of allocation techniques are inherently subjective due to the unique characteristics of each property
- the valuations and allocation outcomes are sensitive to key inputs/assumptions in the model such as the discount rate and terminal capitalisation rates, the utilisation of comparable sales data and to allocation techniques.

- we assessed the appropriateness of certain inputs including, where applicable, comparable sales, market rents, discount rate, terminal capitalisation rate, \$ per irrigated or planted hectare, average \$ per plantable hectare, \$ per adult equivalent (AE) carrying capacity used in the valuation and allocation models, for a sample of properties based on benchmark market data.

- we inspected the final valuation reports and compared the fair value as per the valuation to the value recorded in the Group's accounting records.

For properties not subject to external valuations, we inquired with management and 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 the latest external valuation report, adding any capital expenditure made during the intervening period.

We conducted site inspections of all almond properties.

We assessed the reasonableness of the disclosures in Notes C1, C2, C3, C5 and C6 of investment property, bearer plants, water entitlements and property-owner occupied considering the requirements of Australian Accounting Standards.

Key audit matter

How our audit addressed the key audit matter

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 with these parties include:

- rental income from the lease of agricultural properties
- finance income from the lease of cattle
- management fees and asset management fees paid
- distributions from investments
- reimbursement of operating expenses and capital expenditure
- provision of a limited financial guarantee and receipt of associated finance income

Related party transactions were a key audit matter due to the significant impact of these transactions 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.

We performed the following procedures over related party transactions, amongst others:

Developed an understanding of the Group's relevant controls and processes for identifying related parties and related party transactions.

For significant contracts entered into during the year, we verified that the transactions were approved.

For a sample of lease income recorded during the year, we compared the lease income to the relevant supporting documents including the lease agreements.

For a sample of cropping expenses/macadamia development costs recharged, we obtained and agreed to relevant supporting documents including invoices.

For management fees and asset management fees, we compared the rates used to determine fees to the rates disclosed in the explanatory memorandum issued on formation of the Group.

We inquired with management to develop an understanding of the business rationale for the related party transactions.

In relation to the financial guarantee, we developed an understanding of the arrangement from reading the historic Explanatory memorandum, subsequent amendments and from discussions with management and others of the purpose, terms and conditions, and substance of the arrangement. For a sample of guarantee income recorded we agreed to relevant supporting documents including invoices.

We assessed the reasonableness of the disclosures in Note G2, of related party relationships and transactions considering the requirements of Australian Accounting Standards.



Other information

The directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2023, 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, Additional Information for Listed Public Entities and the 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 through our opinion on the financial report.

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 of the Responsible Entity and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors of the Responsible Entity for the financial report

The directors of the Responsible Entity 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 of the Responsible Entity 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 of the Responsible Entity 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 of the Responsible Entity either intend 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: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Rod Dring'.

Rod Dring
Partner

Sydney
24 August 2023

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Investor information and glossary

The RFM Investor Services team strives to provide Unitholders quality service with up-to-date information about their investment.

Distribution payments

Distribution payments are forecast to be made quarterly for the three-month periods to 30 September, 31 December, 31 March and 30 June each year. Distribution statements are available in print and electronic formats. Distributions are paid only by direct credit into nominated bank accounts. To update the method of receiving documents please visit the investor portal of our external registry, Boardroom Limited, at www.investorserve.com.au.

Unclaimed distribution income

If a distribution has been withheld due to an incorrect bank account or no bank account on file, repayment of this distribution will be made on or around the 22nd of the month in which the registry receives updated banking information.

If a distribution has an amount withheld due to no tax file number or Australian business number on file, this amount must be claimed via the Australian Taxation Office.

Reporting calendar

HY24 financial results reporting date	February 2024
FY24 financial results reporting date	August 2024

Forecast distribution calendar for financial year ending 30 June 2024:

Period end	30 September 2023	31 December 2023	31 March 2024	30 June 2024
Ex-distribution date	28 September 2023	28 December 2023	27 March 2024	27 June 2024
Record date	29 September 2023	29 December 2023	28 March 2024	28 June 2024
Payment date	31 October 2023	31 January 2024	30 April 2024	31 July 2024

AMMA statements

An Attribution Managed Investment Trust Member Annual (AMMA) statement is sent to Unitholders following the completion of the external audit, expected to occur in September each year.

The statement summarises distributions provided during the financial year and includes information required to complete a tax return. AMMA statements are also available online at www.investorserve.com.au.

Distribution Reinvestment Plan (DRP)

Participation in the DRP is optional. Investors electing to participate will automatically have their distribution applied to acquire additional units in accordance with the DRP rules, and without incurring brokerage or other transaction costs.

The number of units received is calculated based on a 1.5% discount to the weighted average market price of RFF units traded on the ASX during the 20 consecutive trading days before the Record Date. Full details are available on our website, www.ruralfunds.com.au.

Making contact

If Unitholders have questions regarding their holding or wish to update their details, they can phone RFM Investor Services on 1800 026 665, or the external registry, Boardroom Limited on 1300 737 760.

For speed and to reduce environmental impact, Unitholders can opt to receive all or some communications electronically. Communication preferences can be changed at any time by emailing investorservices@ruralfunds.com.au or logging in to www.investorserve.com.au.

LinkedIn

RFM regularly posts RFF updates on LinkedIn. Follow us at www.linkedin.com/company/rural-funds-management-limited.

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), **CPI** – Consumer Price Index, **cpu** – cents per unit, **Earnings** – calculated TCI/weighted average units, **Fair value** – Value of an asset as determined by an independent valuation, **FY** – Financial year, **FY22** – Full-year ended 30 June 2022, **FY23** – Full-year ended 30 June 2023, **FY24** – Full-year ended 30 June 2024, **Gearing** – Calculated as external borrowings/adjusted total assets, **ha** – Hectare(s), **HY24** – Half-year ended 31 December 2023, **m** – Million(s), **NAV** – Net asset value, calculated as assets minus the value of liabilities (does not recognise fair value of water entitlements), **REIT** – Real Estate Investment Trust, **RFF** – Rural Funds Group (ASX: RFF), **RFM** – Rural Funds Management Limited, manager and responsible entity for RFF, **TCFD** – Taskforce on Climate-related Financial Disclosure, **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, calculated as the FY24 forecast rent and the year of lease expiry (excludes J&F Australia guarantee fee, income from annual water allocation sales, operating income from owner occupied properties and other income).



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Brahman cross cattle at Cerberus, central Queensland, May 2023.

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Disclaimer and important information

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RFM is the Responsible Entity and Manager for Rural Funds Group (ASX: RFF). RFF is a stapled entity incorporating Rural Funds Trust ARSN 112 951 578 and RF Active ARSN 168 740 805. Certane CT Pty Limited is the custodian for the Rural Funds Group. To read more about their privacy principles, please visit [privacy-policy.pdf\(certane.com\)](http://privacy-policy.pdf(certane.com)).

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RFF

Managed by:

