APPENDIX 4D

APN Convenience Retail REIT
Half-Year Report
Half-year ended 31 December 2018

Note on Stapling Arrangements

The 'APN Convenience Retail REIT' stapled group ("Group") was established on 27 July 2017 by stapling the securities of the following entities:

- Convenience Retail REIT No.1 (previously APN Property Plus Portfolio) (ARSN 101 227 614);
- Convenience Retail REIT No.2 (previously APN Retail Property Fund) (ARSN 619 527 829); and
- Convenience Retail REIT No.3 (ARSN 619 527 856).

The following information is based on the consolidated financial statements of Convenience Retail REIT No.2 (APN Convenience Retail REIT) for the half-year ended 31 December 2018. Prior period comparative information represents the results of Convenience Retail REIT No.2 for the period 1 July 2017 to 26 July 2017 and the Group from 27 July 2017 to 31 December 2017 or 30 June 2018 as applicable.

Results for announcement to the market

	APN Convenience Retail REIT	
	$'000	
Revenues from ordinary activities	up 23.07% to 14,893	
Profit from ordinary activities after tax attributable to members	up 376.79% to 14,461	
Net profit for the period attributable to members	up 376.79% to 14,461	
Funds From Operations (FFO) [1]	8,461	
Net tangible assets per security	**31 Dec 2017** $2.95	**30 Jun 2018** $2.87

[1]: Funds from Operations (FFO) for the financial half-year has been calculated on the following page.

Funds From Operations (FFO)		
	31 Dec 2018 $'000	27 Jul to 31 Dec 2017 [2] $'000
Statutory net profit / (loss) for the period	14,461	2,603
Adjusted for:		
- Straight line lease revenue recognition	(2,340)	(2,223)
- Net (gain) / loss on change in fair value of:		
Investment properties	(4,452)	1,562
Derivatives	578	50
- IPO transaction costs expensed	-	4,017
- Amortisation of borrowing costs	208	372
- Amortisation of leasing costs and incentives	6	2
FFO	**8,461**	**6,383**
Key financial metrics		
Distribution declared ($'000)	8,247	6,416
Distributions per security (cents per security)	10.45	8.13
FFO payout ratio (%)	97.47%	100.49%

[2:] FFO for the prior corresponding half-year has been calculated based on the results for the period since the establishment of the stapled entity APN Convenience Retail REIT (i.e. 27 July 2017 to 31 December 2017). For a reconciliation of the pre and post establishment of APN Convenience Retail REIT's statutory result to FFO for the period ended 31 December 2017, please refer to the directors' report accompanying the condensed financials statements.

Other Information

Distributions	Amount per security (cents)	$'000
Quarter ended 30 Sep 2018 (78,920,051 units on issue)	5.225	4,123
Quarter ended 31 Dec 2018 (78,920,051 units on issue)	5.225	4,124
Total	**10.450**	**8,247**
Previous corresponding period [3]	8.130	6,416
Record date for determining entitlements to the distribution	31 December 2018	
Details of any distribution reinvestment plan in operation	N/A	
Last date for receipt of an election notice for participation in any distribution reinvestment plan	N/A	

Note: Franked amount per unit is not applicable

[3:] For better comparability of distributions paid by the stapled entity APN Convenience Retail REIT, the previous corresponding period balances exclude the pre-stapling distributions paid by Convenience Retail REIT No.2 to predecessor fund investors for the period 1 July 2017 to 26 July 2017.

For further details, please refer to the following documents:

- Directors' Report and Condensed Financial Statements (attached)
- Half-year Results Announcement (separate ASX release)
- Investor presentation (separate ASX release)

CChurchill

Chantal Churchill
Company Secretary

18 February 2019

‘APN Convenience Retail REIT’ being

Convenience Retail REIT No. 2 and its Controlled Entities

ARSN 619 527 829

Interim Financial Report for the half-year ended

31 December 2018

Stapling arrangement

The ‘APN Convenience Retail REIT’ stapled group (“Group”) was established on 27 July 2017 by stapling the securities of the following entities:

- Convenience Retail REIT No.1 (previously APN Property Plus Portfolio);
- Convenience Retail REIT No.2 (previously APN Retail Property Fund); and
- Convenience Retail REIT No.3.

These consolidated financial statements represent the consolidated results of APN Convenience Retail REIT for the half-year ended 31 December 2018. Prior period comparative information represents the results of Convenience Retail REIT No.2 for the period 1 July 2017 to 26 July 2017 and the Group from 27 July 2017 to 31 December 2017 or 30 June 2018 as applicable.

Contents

Directors' report

The directors of APN Funds Management Limited ("APN FM"), the Responsible Entity of Convenience Retail REIT No. 2 (previously APN Retail Property Fund) (the "Fund") present the interim financial report on the consolidated entity (the "Group"), being the Fund and its controlled entities, for the half-year ended 31 December 2018. The Fund is one of three entities that together comprise the stapled ASX listed entity, APN Convenience Retail REIT ("APN Convenience Retail REIT").

To comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

Information about the directors

The following persons were directors of the Responsible Entity during the half-year and up to the date of this report:

Geoff Brunsdon AM	(Chairman and Independent Director)
Howard Brenchley	(Independent Director)
Jennifer Horrigan	(Independent Director)
Michael Johnstone	(Independent Director)
Michael Groth	(Alternate Director for Howard Brenchley)

Principal activities

The principal activity of the Group is to own and manage a quality portfolio of convenience retail properties that offer relatively secure income streams and have the potential for capital growth. The parent entity of the Group is Convenience Retail REIT No. 2 (the "Fund").

There has been no significant change in the activities of the Group during the half year.

The Group did not have any employees during the period.

Review of operations

The results of the operations of the Group are disclosed in the condensed consolidated statement of profit or loss and other comprehensive income. A summary of APN Convenience Retail REIT's results for the half-year is as follows:

		Half-year ended 31 Dec 2017		
	Half-year ended 31 Dec 2018 $'000	**27 Jul 2017 to 31 Dec 2017 $'000**	**1 July 2017 to 26 Jul 2017 $'000**	**Total $'000**
Net property income	12,318	8,938	627	9,565
Straight line rental income	2,340	2,223	154	2,377
Interest income	14	39	3	42
Total revenue	**14,672**	**11,200**	**784**	**11,984**
Management fees	(1,143)	(828)	(60)	(888)
Corporate costs	(348)	(311)	8	(303)
Finance costs	(2,594)	(1,829)	(148)	(1,977)
Total expenses	**(4,085)**	**(2,968)**	**(200)**	**(3,168)**
Net profit [1]	**10,587**	**8,232**	**584**	**8,816**
Transaction costs on IPO and liquidity offer	-	(4,017)	-	(4,017)
Fair value loss on derivatives	(578)	(50)	-	(50)
Fair value gain / (loss) on investment properties	4,452	(1,562)	(154)	(1,716)
Statutory net profit / (loss)	**14,461**	**2,603**	**430**	**3,033**

[1] Net profit is presented before IPO and liquidity offer transaction costs and fair value adjustments associated with investment properties and other financial assets in accordance with the presentation format outlined in Convenience Retail REITs PDS dated 28 June 2017.

The Responsible Entity uses the Group's Funds from Operations ("FFO") as the key performance indicator and returns to securityholders.

FFO adjusts statutory net profit / (loss) for certain items that are non-cash, unrealised or capital in nature, in line with the guidelines established by the Property Council of Australia. Statutory net profit / (loss) is determined in accordance with Australian Accounting Standards and includes a number of non-cash items including fair value movements, straight line lease accounting adjustments and amortisation of borrowing and leasing costs and incentives.

A reconciliation of statutory net profit / (loss) to FFO is outlined as follows:

Funds from Operations

	Half-year ended 31 December 2018 $'000	**27 July 2017 to 31 December 2017 $'000**
Statutory net profit / (loss) for the period	**14,461**	**2,603**
Adjusted for:		
Straight line lease revenue recognition	(2,340)	(2,223)
Fair value (gain) / loss on investment properties	(4,452)	1,562
Fair value (gain) / loss on derivatives	578	50
IPO and liquidity offer transaction costs expensed	-	4,017
Amortisation of borrowing costs	208	372
Amortisation of leasing costs and rent-free adjustments	6	2
FFO	**8,461**	**6,383**

Key financial performance metrics:		
FFO per security – 'like-for-like' basis (cents) [2]	10.72 c	9.42 c
FFO per security (cents)	10.72 c	8.09 c
Distribution per security (cents)	10.45 c	8.13 c
Payout Ratio (Distribution per security / FFO per security)	97.47 %	100.49 %
Statutory earnings / (loss) per security (cents per security)	18.32 c	3.30 c
Weighted average securities on issue (thousands)	78,920	78,920
Securities on issue (thousands)	78,920	78,920
Distribution declared (thousands)	$8,247	$6,416

2: Extrapolates HY17 actual FFO per security on the basis of a full 6 month reporting period as opposed to the period 27 July 2017 to 31 December 2017.

Operating Result

The Group's total Funds from Operations increased by $2.08 million to $8.46 million in comparison to the corresponding half year. The key drivers of this result included:

- The corresponding half-year comprised a shorter period from 27 July 2017 to 31 December 2017 compared to a full six-month period for the current reporting period;
- acquisition of four additional properties post IPO;
- contractual annual rent increases; and
- net property income growth was partially offset by increases in management fees and finance costs as a result of portfolio revaluation uplift and property acquisitions.

Net tangible assets and asset valuations

All 70 properties were the subject of Directors' valuations as at 31 December 2018. Overall, the entire portfolio increased in valuation by $7.48 million due to annual rent increases that occurred in the six-month period to 31

December 2018. The portfolio's weighted average capitalisation rate is 7.03%, which is unchanged from 30 June 2018.

Market Overview

The market remains relatively buoyant for this asset class on both an individual and portfolio basis. There also remains a distinct correlation between the lease expiry, underlying land value and passing initial yield. The most prevalent investment transactions in the current market are recently-developed sites with new long-term leases of between 10 and 15 years.

Long leases, strong lease covenants, contracted annual rent increases and a transition into a broader convenience retail offering at service stations continues to ensure investors are attracted to the sector. The demand for this asset class has been largely driven by the private investor and self-managed super-fund markets, with the asset class offering the ability to secure investments with blue-chip lease covenants at an attainable price point.

Distributions

Distributions of $8,247,000 were declared by the Group during the half-year ended 31 December 2018 (31 December 2017: $6,841,000).

For full details of distributions paid and/or payable during the half-year, refer to note 6 of the condensed consolidated financial statements.

Auditor's independence declaration

A copy of the external auditor's independence declaration, as required under section 307C of the *Corporations Act 2001* is set out on page 4.

Matters subsequent to the end of the financial period

There has not been any matter or circumstance occurring subsequent to the end of the half-year that has significantly affected, or may significantly affect, the operations of the Group, the results of the Group, or the state of affairs of the Group in future financial years.

Rounding of amounts

The Group is an entity of the kind referred to in *ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the directors' report and the interim financial report have been rounded to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors of the Responsible Entity made pursuant to s.306(3) of the *Corporations Act 2001*.

On behalf of the directors

Geoff Brunsdon AM
Director

Melbourne, 18 February 2019

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18 February 2019

The Board of Directors
APN Funds Management Limited
101 Collins Street
MELBOURNE VIC 3000

Dear Board Members

Independence Declaration – Convenience Retail REIT

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of APN Funds Management Limited, the Responsible Entity, regarding the half-year financial report for Convenience Retail REIT.

As lead audit partner for the review of the financial statements of Convenience Retail REIT for the financial half-year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours faithfully

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation
Member of Deloitte Touche Tohmatsu Limited

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Independent Auditor's Review Report to the Stapled Unitholders of Convenience Retail REIT

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Convenience Retail REIT ("Fund"), which comprises the condensed consolidated statement of financial position as at 31 December 2018, the condensed consolidated statement of profit and loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Fund and the entities it controlled at the end of the half-year or from time to time during the half year as set out in pages 7 to 24.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Responsible Entity of the consolidated entity's ("the Directors") are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Fund ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors, would be in the same terms if given to the Directors as at the time of this auditor's review report.

Liability limited by a scheme approved under Professional Standards Legislation
Member of Deloitte Touche Tohmatsu Limited

Deloitte.

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants
Melbourne, 18 February 2019

Directors' declaration

The directors of APN Funds Management Limited, the Responsible Entity of Convenience Retail REIT No. 2 (the "Fund"), declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable;

(b) in the directors' opinion, the attached condensed consolidated financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Fund and the Group.

Signed in accordance with a resolution of the directors of the Responsible Entity made pursuant to s.303(5) of the *Corporations Act 2001*.

On behalf of the directors of the Responsible Entity, APN Funds Management Limited.

Geoff Brunsdon AM
Director

Melbourne, 18 February 2019

Condensed consolidated statement of profit or loss and other comprehensive income

for the half-year ended 31 December 2018

	Notes	Half-year ended 31 December 2018 $'000	Half-year ended 31 December 2017 $'000
Revenue			
Rental income		12,553	9,724
Straight line rental income recognition		2,340	2,377
Total revenue from continuing operations		**14,893**	**12,101**
Other income			
Interest income		14	42
Net fair value gain / (loss) on investment properties	4	4,452	(1,716)
Fair value (loss) / gain on derivatives		(578)	(50)
Total other income		**3,888**	**(1,724)**
Total income		**18,781**	**10,377**
Expenses			
Property costs		(235)	(159)
Management fees	10	(1,143)	(888)
Finance costs		(2,594)	(1,977)
Other expenses		(312)	(284)
Auditors' remuneration		(36)	(19)
Transaction costs on initial public offering and liquidity offer		-	(4,017)
Total expenses		**(4,320)**	**(7,344)**
Profit / (loss) for the period		**14,461**	**3,033**
Attributable to:			
Securityholders of Convenience Retail REIT No. 2		7,775	4,192
Securityholders of non-controlling interests[1]		6,686	(1,159)
		14,461	**3,033**
Other comprehensive income		-	-
Total comprehensive income for the period		**14,461**	**3,033**
Total comprehensive income is attributable to:			
Securityholders of Convenience Retail REIT No. 2		7,775	4,192
Securityholders of non-controlling interests[1]		6,686	(1,159)
		14,461	**3,033**
Earnings per security			
Basic and diluted (cents per security)	7	18.32	3.84

[1] *Represents the net profit and other comprehensive income attributable to the other stapled entities comprising the APN Convenience Retail REIT Group.*

Notes to the condensed consolidated financial statements have been included in the accompanying pages.

Condensed consolidated statement of financial position

as at 31 December 2018

	Notes	31 December 2018 $'000	30 June 2018 $'000
Current assets			
Cash and cash equivalents		1,025	2,797
Trade and other receivables		155	46
Other assets		213	138
Total current assets		**1,393**	**2,981**
Non-current assets			
Investment properties	4	355,223	340,429
Total non-current assets		**355,223**	**340,429**
Total assets		**356,616**	**343,410**
Current liabilities			
Trade and other payables		(3,365)	(3,262)
Distributions payable	6	(4,124)	(3,946)
Derivative financial instruments	8	(225)	(89)
Total current liabilities		**(7,714)**	**(7,297)**
Non-current liabilities			
Derivative financial instruments	8	(495)	(53)
Borrowings	8	(115,876)	(109,742)
Total non-current liabilities		**(116,371)**	**(109,795)**
Total liabilities		**(124,085)**	**(117,092)**
Net assets		**232,531**	**226,318**
Equity			
Securityholders of Convenience Retail REIT No. 2:			
Contributed equity	5	114,018	114,019
Retained earnings		(1,176)	(4,867)
Securityholders of non-controlling interests[1]			
Contributed equity	5	95,947	95,947
Retained earnings		23,742	21,219
Total equity		**232,531**	**226,318**
Net tangible assets (dollars per security)		2.95	2.87

[1] *Represents the net assets attributable to the other stapled entities comprising the APN Convenience Retail REIT Group.*

Notes to the condensed consolidated financial statements have been included in the accompanying pages.

Condensed consolidated statement of changes in equity

for the half-year ended 31 December 2018

	Notes	Contributed equity $'000	Retained earnings $'000	Total $'000	Non-controlling interests[1] $'000	Total equity $'000
Balance at 1 July 2017		**69,248**	**(7,544)**	**61,704**	**-**	**61,704**
Net profit / (loss) for the period		-	4,192	4,192	(1,159)	3,033
Other comprehensive income		-	-	-	-	-
Total comprehensive income for the period		**-**	**4,192**	**4,192**	**(1,159)**	**3,033**
Security consolidation for the formation of APN Convenience Retail REIT		-	-	-	43,397	43,397
Issue of contributed equity		46,660	-	46,660	77,231	123,891
Equity issuance costs		(1,840)	-	(1,840)	(1,862)	(3,702)
Distributions paid or payable	6	-	(2,564)	(2,564)	(4,277)	(6,841)
Balance at 31 December 2017		**114,068**	**(5,916)**	**108,152**	**113,330**	**221,482**
Balance at 1 July 2018		**114,019**	**(4,867)**	**109,152**	**117,166**	**226,318**
Net profit / (loss) for the period		-	7,775	7,775	6,686	14,461
Other comprehensive income		-	-	-	-	-
Total comprehensive income for the period		**-**	**7,775**	**7,775**	**6,686**	**14,461**
Issue of contributed equity	5	-	-	-	-	-
Equity issuance costs	5	(1)	-	(1)	-	(1)
Distributions paid or payable	6	-	(4,084)	(4,084)	(4,163)	(8,247)
Balance at 31 December 2018		**114,018**	**(1,176)**	**112,842**	**119,689**	**232,531**

[1] *Represent the equity attributable to the other stapled entities comprising the APN Convenience Retail REIT Group.*

Notes to the condensed consolidated financial statements have been included in the accompanying pages.

Condensed consolidated statement of cash flows

for the half-year ended 31 December 2018

	Notes	31 December 2018 $'000	31 December 2017 $'000
Cash flows from operating activities			
Net rental income received		12,147	10,845
Interest received		17	44
Other expenses paid		(1,424)	(635)
Finance costs paid		(2,530)	(2,131)
Net cash inflow / (outflow) from operating activities		**8,210**	**8,123**
Cash flows from investing activities			
Payments for acquisition of investment properties		(7,948)	(217,630)
Payments for capital expenditure on investment properties		(8)	(13)
Net cash inflow / (outflow) from investing activities		**(7,956)**	**(217,643)**
Cash flows from financing activities			
Net proceeds from borrowings		6,070	53,100
Net proceeds from issue of contributed equity		-	164,268
Equity issuance and liquidity offer costs paid		(26)	(6,165)
Distributions paid		(8,070)	(1,468)
Net cash inflow / (outflow) from financing activities		**(2,026)**	**209,735**
Net increase / (decrease) in cash and cash equivalents		(1,772)	215
Cash and cash equivalents at the beginning of the period		2,797	2,327
Cash and cash equivalents at the end of the period		**1,025**	**2,542**

Notes to the condensed consolidated financial statements have been included in the accompanying pages.

Notes to the condensed consolidated financial statements

Contents

ABOUT THIS REPORT

1. GENERAL INFORMATION

APN Convenience Retail REIT is a stapled entity listed on the Australian Securities Exchange (trading under the ASX ticker "AQR"), incorporated and operating in Australia. Convenience REIT comprises Convenience Retail REIT No. 2 (previously APN Retail Property Fund) and its controlled entities.

APN Funds Management Limited, a public company incorporated and operating in Australia, is the Responsible Entity of Convenience Retail REIT No. 2. The registered office and its principal place of business is Level 30, 101 Collins Street, Melbourne, VIC 3000.

2. STATEMENT OF COMPLIANCE

The interim financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting.* The interim financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual report.

The financial statements were authorised for issue by the directors on 18 February 2019.

2.1. Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of investment properties and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. All amounts are presented in Australian dollars, unless otherwise noted.

The Group is an entity of the kind referred to in *ASIC Corporations (Rounding in Financials / Directors' Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the interim financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The accounting policies and methods of computation adopted in the preparation of the interim financial report are consistent with those adopted and disclosed in the Group's annual financial report for the financial year ended 30 June 2018, except for the impact from adoption of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) described in note 12. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

PERFORMANCE

This section shows the results and performance of the Group and includes information in respect to the profitability of the Group and its reporting segments. It also provides information on the investment properties that underpins the Group's performance.

3. SEGMENT INFORMATION

The Group derives all income from investment in properties located in Australia. The Group is deemed to have only one operating segment and that is consistent with the reporting reviewed by the chief operating decision makers.

4. INVESTMENT PROPERTIES

Investment properties represent convenience retail properties held for deriving rental income. For all investment properties, the current use equates to the highest and best use.

4.1. Reconciliation of carrying amounts

	31 December 2018 $'000	**30 June 2018 $'000**
Carrying amount at beginning of the period	340,429	106,090
Purchase of investment properties	7,313	221,497
Acquisition costs associated with purchase of investment properties	635	6,425
Capital additions to existing investment properties	8	853
Straight line rental revenue recognition	2,340	4,766
Disposals of investment properties	-	-
Capitalised leasing incentives and fees	59	10
Amortisation of lease incentives and fees	(13)	(6)
Net gain / (loss) on fair value adjustments[1]	4,452	794
Carrying amount at end of the period	**355,223**	**340,429**

[1] The net gain in fair value adjustments is wholly unrealised and has been recognised as "net gain in fair value adjustments on investment properties" in the condensed consolidated statement of profit or loss and other comprehensive income.

Included within the investment property fair value is a deduction of $44,000 (30 June 2018: $47,000) representing lease incentive commitments the Group has provided under lease contracts.

4.2. Contractual obligations

Under some of the lease agreements applicable to the existing investment properties, the Group is responsible for capital and structural repairs to the premises (except to the extent required due to the tenant's act, omissions or particular use). This contractual obligation can include the requirement to replace underground tanks and/or LPG tanks if they become worn out, obsolete, inoperable or incapable of economic repair. As at the reporting date, three investment properties have been identified which require underground tank replacements. The current forecast capital expenditure required to replace these underground tanks is $1,850,000 (remains unchanged from 30 June 2018) which has been reflected as a reduction in the valuation of the applicable investment property as at 31 December 2018.

4.3. Individual valuation and carrying amounts

The investment portfolio consists of 70 properties located throughout Queensland, New South Wales, Western Australia and Victoria. As at 31 December 2018, all investment properties were subject to Directors' valuations performed by the Group's internal property team and have been reviewed and approved by the Board (30 June 2018: 18 properties were independently valued by Savills Valuations Pty Ltd). The carrying amounts of these investment properties have been determined based on Directors' valuations.

	Latest independent valuation		Carrying amounts		Capitalisation rate	
	Valuation date	$'000	31 December 2018 $'000	30 June 2018 $'000	31 December 2018 %	30 June 2018 %
397 Pacific Hwy, Belmont North, NSW	Jun-18	Jun-18	5,980	5,980	5,980	6.50%
Cnr Vardys Rd & Turbo Rd, Marayong, NSW	Jun-18	Jun-18	7,750	7,910	7,750	6.75%
511 Pacific Highway, South Kempsey, NSW	Dec-17	18,130	19,340	18,780	7.00%	7.00%
172 New England Highway, Rutherford, NSW	Dec-17	5,200	5,360	5,200	6.75%	6.75%
Cnr Northcote St & Main Rd, Heddon Greta, NSW	Dec-17	8,500	8,760	8,500	6.75%	6.75%
Cnr Weakleys & Glenwood Drives, Thornton, NSW	May-17	8,620	8,870	8,620	6.50%	6.50%
449 Victoria Street, Wetherill Park, NSW	May-17	7,690	7,920	7,690	6.50%	6.50%
1 Blueberry Road, Moree NSW	Feb-18	10,400	10,400	10,400	7.00%	7.00%
2948 Old Cleveland Rd, Capalaba, QLD	Jun-18	4,640	4,730	4,640	7.25%	7.25%
Cnr Anzac Ave & Josey Rd, Mango Hill, QLD	Jun-18	3,160	3,220	3,160	7.00%	7.00%
550 - 560 Samford Rd, Mitchelton, QLD	Jun-18	3,980	4,060	3,980	7.25%	7.25%
420 - 426 Mt Cotton Rd, Capalaba, QLD	Jun-18	3,890	3,960	3,890	7.25%	7.25%
1233 Wynnum Rd, Murrarie, QLD	Jun-18	5,240	5,350	5,240	7.25%	7.25%
17 - 25 Toombul Rd, Northgate, QLD	Jun-18	3,840	3,920	3,840	7.25%	7.25%
124 - 130 Paradise Rd, Slacks Creek, QLD	Jun-18	3,920	4,000	3,920	7.25%	7.25%
108 Compton Rd, Woodridge, QLD	Jun-18	5,340	5,580	5,340	6.25%	6.25%
708 Gympie Rd, Lawnton, QLD	Jun-18	4,170	4,170	4,170	7.25%	7.25%
353 Redbank Plains Rd, Redbank Plains, QLD	Jun-18	5,320	5,560	5,320	6.25%	6.25%
264 Browns Plains Rd, Browns Plains, QLD	Jun-18	5,640	5,670	5,640	6.25%	6.25%
Sovereign Avenue, Bray Park, QLD	Jun-18	4,000	4,190	4,000	6.25%	6.25%
21 Ingham Road, West End, QLD	May-17	5,380	5,550	5,380	6.50%	6.50%
921 Nambour Connection Rd, Nambour, QLD	May-17	1,290	1,330	1,290	7.75%	7.75%

Notes to the condensed consolidated financial statements (continued)

1380 Boundary Rd, Wacol, QLD	May-17	5,240	5,400	5,240	7.25%	7.25%
19038 Bruce Highway, Bowen, QLD	Dec-17	3,640	3,750	3,640	7.00%	7.00%
25 Bolam Street, Garbutt, QLD	Dec-17	2,290	2,360	2,290	7.50%	7.50%
4545 Flinders Highway,Reid River, QLD	Dec-17	2,630	2,710	2,630	8.50%	8.50%
71 Thompson Street, Charters Towers, QLD	Dec-17	5,760	5,930	5,760	8.00%	8.00%
77-79 Bowen Road, Rosslea, QLD	Dec-17	2,550	2,630	2,550	6.75%	6.75%
900 Ingham Road, Bohle, QLD	Dec-17	6,140	6,320	6,140	7.00%	7.00%
45 Range Road, Sarina, QLD	Dec-17	1,860	1,920	1,860	7.50%	7.50%
2 Mulgrave Street, Gin Gin, QLD	Dec-17	3,710	3,820	3,710	7.50%	7.50%
161 Thozet Road, Koongal, QLD	Dec-17	2,020	2,080	2,020	7.00%	7.00%
74 Connor Street, Zilzie, QLD	Dec-17	1,530	1,570	1,530	7.00%	7.00%
1 Flinders Street, Monto, QLD	Dec-17	1,250	1,280	1,250	7.25%	7.25%
102-104 Cook Street, Portsmith, QLD	Dec-17	5,500	5,670	5,500	7.25%	7.25%
28 Supply Road, Edmonton, QLD	Dec-17	5,860	6,040	5,860	6.50%	6.50%
45 Arnold Street, Aeroglen, QLD	Dec-17	3,560	3,670	3,560	7.00%	7.00%
49 Tolga Road, Atherton, QLD	Dec-17	1,810	1,860	1,810	7.25%	7.25%
656 Bruce Highway, Woree, QLD	Dec-17	1,430	1,470	1,430	7.00%	7.00%
2215 David Low Way, Peregian Beach, QLD	Dec-17	3,270	3,370	3,270	7.00%	7.00%
10 Takalvan Street, Bundaberg, QLD	Dec-17	1,720	1,780	1,720	7.00%	7.00%
60 Hawkins Crescent, Bundamba, QLD	Dec-17	17,200	17,720	17,200	6.75%	6.75%
1129 Morandah Access Road, Moranbah, QLD	Dec-17	5,840	6,020	5,840	7.00%	7.00%
273-279 Gympie Rd, Kedron, QLD	May-17	3,140	3,240	3,140	7.00%	7.00%
34-36 Cessna Drive, Caboolture, QLD	Apr-17	6,163	5,790	6,360	6.75%	6.75%
164-170 David Low Way, Diddilibah, QLD	May-17	3,200	3,300	3,200	7.50%	7.50%
282 Wardell Street, Enoggera, QLD	May-17	1,860	1,910	1,860	7.00%	7.00%
840 Steve Irwin Way Glasshouse, Mountains, QLD	May-17	4,830	4,970	4,830	7.25%	7.25%
1977 Anzac Avenue, Mango Hill, QLD	May-17	3,600	3,710	3,600	7.50%	7.50%
216 Preston Road, Manly West, QLD	May-17	2,140	2,200	2,140	7.25%	7.25%
72 Walker Street, Maryborough, QLD	May-17	2,060	2,130	2,060	7.75%	7.75%
127 Kingston Road, Woodridge, QLD	May-17	4,570	4,710	4,570	7.00%	7.00%
1965 D'Aguilar Highway, Villeneuve, QLD	May-17	1,820	1,870	1,820	8.25%	8.25%

983 Waterworks Road, The Gap, QLD	May-17	3,140	3,240	3,140	7.00%	7.00%
63 Raceview Street, Raceview, QLD	May-17	9,100	9,710	9,340	6.75%	6.75%
14 Rosemary Street, Durack, QLD	Aug-17	5,250	5,480	5,480	6.75%	6.75%
205 Old Gympie Road, Dakabin, QLD	Nov-17	4,379	4,460	4,379	6.75%	6.75%
Cnr Edith St and Bruce Hwy, Cluden, QLD	May-17	12,140	12,500	12,140	7.25%	7.25%
22 Nicholson Street, Banana, QLD	May-17	3,470	3,570	3,470	7.50%	7.50%
25 Kiernan Drive, Roseneath, QLD	May-17	6,800	7,000	6,800	7.50%	7.50%
53793 Bruce Hwy, Mount Larcom, QLD	Aug-18	7,313	7,313	-	6.75%	-
591 Dorset Rd, Bayswater North, VIC	Jun-18	4,300	4,330	4,300	6.50%	6.50%
Cnr Thompson Rd & Victoria St, Geelong North, VIC	Jun-18	4,230	4,390	4,230	6.75%	6.75%
753 North Lake Rd, Southlake, WA	Jun-18	6,200	6,200	6,200	7.75%	7.75%
Cnr Amherst & Nicholsons Rd, Canningvale, WA	Jun-18	6,600	6,080	6,600	7.50%	7.50%
1 Wishart Street, Gwelup, WA	May-17	3,570	3,680	3,570	7.00%	7.00%
224 Clontarf Road, Hamilton Hill, WA	May-17	4,490	4,620	4,490	7.00%	7.00%
1182 Chapman Road, Glenfield, WA	May-17	4,600	4,740	4,600	8.25%	8.25%
1 Kakadu Road, Yanchep, WA	May-17	5,380	5,540	5,380	7.25%	7.25%
Lot 401 Great Northern Highway, South Hedland, WA	May-17	5,190	5,340	5,190	8.00%	8.00%
Total investment properties			**355,223**	**340,429**		

The weighted average capitalisation rate for the period ended 31 December 2018 was 7.03% (30 June 2018: 7.03%).

CAPITAL STRUCTURE, FINANCING AND RISK MANAGEMENT

This section outlines how the Group manages its capital structure and related financing activities and presents the resultant returns delivered to securityholders via distributions and earnings per security.

5. CONTRIBUTED EQUITY

5.1. Carrying amount

	31 December 2018 $'000	31 December 2017 $'000
At the beginning of the period	226,318	61,704
Security consolidation for the formation of APN Convenience Retail REIT	-	43,397
Issue of new securities	-	123,891
Security issuance costs	(1)	(3,702)
Distributions paid	(8,247)	(6,841)
Total comprehensive income for the year	14,461	3,033
At the end of the period	**232,531**	**221,482**
Attributable to:		
Equity holders of Convenience Retail REIT No. 2	112,842	108,152
Equity holders of non-controlling interests	119,689	113,330
	232,531	**221,482**

5.2. Number of securities on issue

	31 December 2018 No.	31 December 2017 No.
At the beginning of the period	78,920,051	69,462,753
Security consolidation for the formation of APN Convenience Retail REIT	-	(22,284,425)
Issue of new securities	-	31,741,723
At the end of the period	**78,920,051**	**78,920,051**

6. DISTRIBUTIONS

	31 December 2018		31 December 2017	
	Cents per security	$'000	Cents per security	$'000
Distributions paid during the period:				
Pre-stapling distributions	-	-	0.612	425
Quarter ended 30 Sep	5.225	4,123	3.250	2,565
Distributions payable:				
Quarter ended 31 Dec	5.225	4,124	4.880	3,851
Total distributions paid / payable	**10.450**	**8,247**	**8.7420**	**6,841**

7. EARNINGS PER SECURITY

	31 December 2018	31 December 2017
Total comprehensive income for the period ($'000)	14,461	3,033
Weighted average number of securities outstanding (thousands)	78,920	78,920
Basic and diluted earnings (cents per security)	**18.32**	**3.84**

No dilutive securities were issued/on issue during the period (31 December 2017: nil).

8. BORROWINGS

	31 December 2018 $'000	30 June 2018 $'000
Non-current		
Bank loans – secured[1]	115,876	109,742
	115,876	**109,742**

[1] Includes deferred borrowing costs of $794,000 (30 June 2018: $858,000) that have been allocated against the total amount drawn at balance date.

8.1 Summary of borrowing arrangements

The Group has entered into a revolving credit facility agreement with three banks that is secured and cross collateralised over the Group's investment properties (via first registered real property mortgages) and other assets (via a first ranking general "all assets" security agreement).

	31 December 2018 $'000	30 June 2018 $'000
Loan facility limit	125,000	125,000
Amount drawn at balance date	(116,670)	(110,600)
Amount undrawn at balance date	**8,330**	**14,400**

As at 31 December 2018, the total revolving credit facility available of $125,000,000 has the following maturity dates:

- Tranche 1: $73,750,000 – repayable August 2020, and
- Tranche 2: $31,250,000 – repayable August 2022.
- Tranche 3: $20,000,000 – repayable November 2023.

Under the terms of this facility, each member of the Group is permitted to draw down or repay amounts subject to the overall requirement that the Group remains compliant with the facility's terms and conditions.

This facility agreement contains both financial and non-financial covenants and undertakings that are customary for secured debt facilities of this nature. The key financial covenants (with capitalised terms being defined terms in the agreement) that apply to the Group are as follows:

		31 December 2018
Loan to Value Ratio ("LVR")	At all times, LVR does not exceed 50%.	32.84%
Interest Cover Ratio ("ICR")	On 31 December and 30 June each year, ICR is not less than 2.0 times.	3.81 times

8.2 Derivatives – interest rate contracts

The Group has a debt facility subject to floating interest rates. The Group uses derivative financial instruments to manage its exposure to interest rates such as interest rate swaps (to lock in fixed interest rates) and/or interest rate caps (to limit exposure to rising floating interest rates).

All derivative financial instruments are entered into on terms that provide pari-passu security and cross collateralisation rights over the Group's investment properties (via first registered real property mortgages) and other assets (via a first ranking general "all assets" security agreement) in conjunction with the Group's revolving credit facility.

Generally, the interest rate swap contracts settle on a quarterly basis, generally coinciding with the dates on which interest is payable on the underlying debt. The floating rate incurred on the debt is Australian BBSY. The difference between the fixed and floating interest rate is settled on a net basis by the relevant counterparty. The interest rate contracts have not been identified as hedging instruments and any movements in the fair value are recognised immediately in the condensed consolidated statement of profit or loss and other comprehensive income.

	31 December 2018 $'000	30 June 2018 $'000
Current liabilities		
Interest rate contracts	(225)	(89)
Non-current liabilities		
Interest rate contracts	(495)	(53)

8.3 Fair value hierarchy

The following table provides an analysis of financial instruments that are measured at fair value at 31 December 2018, grouped into Levels 1 to 3 based on the degree to which the fair value inputs is observable:

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Fair value measurement as at 31 December 2018			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial liabilities at FVTPL				
Interest rate contracts	-	(720)	-	(720)

	Fair value measurement as at 30 June 2018			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial liabilities at FVTPL				
Interest rate contracts	-	(142)	-	(142)

There were no transfers between Levels during the half-year (30 June 2018: nil).

9. COMMITMENT AND CONTINGENCIES

There have been no changes to the contractual obligations disclosed in the Group's annual financial report for the financial year ended 30 June 2018, and there are no other commitments and contingencies in effect at 31 December 2018, other than those disclosed in Note 4.

OTHER NOTES

10. RELATED PARTY TRANSACTIONS

10.1 Transactions with key management personnel

The Group does not employ personnel in its own right. However, it is required to have a Responsible Entity to manage the activities of the Fund and its controlled entities. As such there are no staff costs (including fees paid to directors of the Responsible Entity) included in the condensed consolidated statement of profit or loss and other comprehensive income.

10.2 Transactions with the Responsible Entity and related bodies corporate

The Responsible Entity of Convenience Retail REIT No.2 is APN Funds Management Limited ("APN FM") (ACN 080 674 479). Convenience Retail Management Pty Limited has been appointed as the Fund Manager (the "Manager") to provide investment management services and property management services to APN Convenience Retail REIT. The Manager is a related body corporate of APN FM and a wholly owned subsidiary of APN Property Group Limited ("APN PG") (ACN 109 846 068).

Transactions with the Responsible Entity / Manager have taken place at arm's length and in the ordinary course of business. The transactions are as follows:

	31 December 2018		31 December 2017	
	Paid $'000	Payable $'000	Paid $'000	Payable $'000
Management fees[1]	950	193	781	179
Custody fees	59	7	31	3
Reimbursement of costs paid	14	3	141	-
	1,023	**203**	**953**	**182**

[1] *APN FM is entitled to a base management fee of 0.65% per annum of the Gross Asset Value of the Group (reducing to 0.60% p.a. of Gross Asset Value between $500m and $1,000m, 0.55% p.a. of Gross Asset Value between $1,000m and $1,500m and 0.50% of Gross Asset Value in excess of $1,500m). In addition, the Manager has been appointed, on a non-exclusive basis, to provide property management, financial management, leasing and rent review and project supervision services.*

10.3 Security holdings and associated transactions with related parties

The below table shows the number of APN Convenience Retail REIT securities held by related parties (including managed investment schemes for which a related party is the Responsible Entity or Investment Manager) and the distributions received or receivable.

	31 December 2018		31 December 2017	
	Number of securities	Distributions $	Number of securities	Distributions $
APN Property Group Limited	5,275,288	550,926	5,268,757	428,350
APN Funds Management Limited	4,355,717	455,172	4,355,717	354,120
APN AREIT Fund	2,029,639	212,097	2,029,639	165,010
APN Property for Income Fund	389,027	40,653	389,027	31,628
APN Property for Income Fund No.2	109,442	11,437	139,442	11,337
CFS AREIT Mandate	304,418	31,812	269,418	21,904
Howard Brenchley	39,075	4,083	39,075	3,177
Geoff Brundson AM	50,000	5,225	-	-
Tony Young	322,034	33,653	-	-
Chris Aylward	-	-	100,000	8,130
Total	**12,874,640**	**1,345,058**	**12,591,075**	**1,023,655**

16.31% (31 December 2017: 15.95%) of APN Convenience Retail REIT stapled securities are held by APN PG and its related parties.

11. SUBSEQUENT EVENTS

There has not been any matter or circumstance occurring subsequent to the end of the half-year that has significantly affected, or may significant affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

12. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

12.1 New and revised AASBs affecting amounts reported and/or disclosures in the financial statements

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current half-year. These include:

Standard/ Interpretation	Impact on financial statements
AASB 9 *Financial Instruments* (“AASB 9”)	The Group has applied AASB 9 using the modified retrospective approach and the related consequential amendments to other Accounting Standards for the first time. The requirements under AASB 9 that are applicable to the Fund and the impact of its application is disclosed below: *Classification and measurement of financial assets* The directors have reviewed and assessed the Group’s existing financial assets as at 1 July 2018 based on the facts and circumstances that existed at that date and have concluded that the application of AASB 9 has had no material impact on the classification or measurement of the Group’s financial assets. Financial assets that were measured at fair value through profit or loss (FVTPL) or

	amortised cost under AASB 139 continue to be measured at fair value or amortised cost under AASB 9. *Impairment of financial assets* The directors have reviewed and assessed the Group's existing financial assets and trade receivables for impairment using the AASB 9 expected credit loss model as opposed to the AASB 139 incurred credit loss model and have concluded that the application of AASB 9 has had no material impact on the Group's impairment allowance required for existing financial assets and trade receivables. With effect from 1 July 2018, the Group's new accounting policy in respect to impairment of financial assets is as follows: Financial assets, other than those at fair value through profit or loss, shall recognise a loss allowance for expected credit losses and changes in those expected credit losses at each reporting date to recognise the 12-month or lifetime expected credit losses determined by the significance of the change in credit risk since initial recognition of the financial asset.
AASB 15 *Revenue from Contracts with Customers* ("AASB 15")	The Group has applied AASB 15 for the first time in the current period. AASB 15 requires an entity to recognise revenue in a manner that represents the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled. The requirements under AASB 15 that are applicable to the Group and the impact of its application is disclosed below: *Recognition and measurement of revenue* The directors have reviewed and assessed the Group's recognition and measurement of revenue from 1 July 2018 based on the facts and circumstances that existed from this date and have concluded that the application of AASB 15 has had no material impact on the recognition or measurement of the revenue for the Group as the Group's primary revenue source is rental income from its investment property, where rental income is not within scope of AASB 15.

12.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Fund has not applied the following new and revised Australian Accounting Standards, Interpretations and amendments that have been issued but are not yet effective:

Standard/ Interpretation	Impact on financial statements
AASB 16 *Leases* ("AASB 16") (applying to annual periods beginning on or 1 January 2019)	AASB 16 *Leases*, apply to annual periods beginning on or 1 January 2019, introduces a comprehensive model for the identification, recognition and measurement of lease arrangements for lessors and lessees. For lessees, AASB 16 replaces the existing recognition and measurement requirements for operating leases (off balance sheet commitment and an expense, recognised on a straight-line basis over the lease term) with both a right-of-use ("ROU") asset and a corresponding liability in the statement of financial position for all qualifying leases. Under this new treatment, the initial measurement of both the asset and liability equates to the net present value ("NPV") of the unavoidable lease payments (inclusive of incentives and costs). Subsequently the asset value recognised is expensed as depreciation over the term of the lease and an interest expense is recognised as part of extinguishing the lease liability (reflecting the unwinding of the NPV of the unavoidable lease payments). As at 31 December 2018, the Group has not identified any contracts for which it is a lessee. The Group is a lessor by virtue of the lease arrangements associated

	with its investment properties. As AASB 16 does not significantly alter lessor accounting, the Group does not expect a significant impact resulting from the adoption of AASB 16.