APPENDIX 4D

APN Industria REIT
Half-Year Report
Half-year ended 31 December 2019

Note on Stapling Arrangements

APN Industria REIT is a stapled entity that comprises the following five entities:

- Industria Trust No. 1 (deemed parent) (ARSN 125 862 875);
- Industria Trust No. 2 (ARSN 125 862 491);
- Industria Trust No. 3 (ARSN 166 150 938);
- Industria Trust No. 4 (ARSN 166 163 186); and
- Industria Company No. 1 Ltd (ABN 61 010 794 957).

The following information is based on the consolidated financial statements of Industria Trust No. 1 (APN Industria REIT).

Results for announcement to the market

	APN Industria REIT	
	$'000	
Revenues from ordinary activities	up 11.90% to 30,394	
Profit from ordinary activities after tax attributable to members	up 169.33% to 39,271	
Net profit for the period attributable to members	up 169.33% to 39,271	
Funds from operations (FFO)[1]	up 21.95% to 18,658	
Net tangible assets per security	**31 Dec 2019** $2.83	**30 Jun 2019** $2.71

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

Funds From Operations (FFO)		
	31 Dec 2019 $'000	**31 Dec 2018 $'000**
Net profit attributable to securityholders	39,271	14,581
Adjusted for:		
- Amortisation of borrowing costs	123	200
- Amortisation of leasing costs and rent-free adjustments	2,161	1,866
- Straight line lease revenue recognition	(1,277)	(1,699)
- Net loss/(profit) on change in fair value of:		
Investment properties	(21,466)	(1,049)
Right of use asset	(202)	-
Derivatives	(175)	574
- Deferred tax expense	223	827
FFO	**18,658**	**15,300**
Key financial metrics		
Distributions declared ($'000)	16,563	13,842
Distributions per security (cents per security)	8.75	8.50
FFO payout ratio (%)	86.03%	90.47%

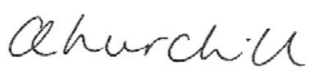
Other Information

Distributions	**Amount per security (cents)**	**$'000**
Quarter ended 30 Sep 2019 (181,153,430 units on issue)	4.3750	7,926
Quarter ended 31 Dec 2019 (197,426,019 units on issue)	4.3750	8,637
	8.7500	**16,563**
Previous corresponding period	8.5000	13,842
Record date for determining entitlements to the distribution	31 December 2019	
Details of any distribution reinvestment plan in operation	The Group has a distribution reinvestment plan (DRP) in place. The DRP is not currently open.	
Last date for receipt of an election notice for participation in any distribution reinvestment plan	Eligible securityholders may elect to participate in the plan in accordance with the DRP Rules.	

Note: Franked amount per unit is not applicable

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)



Chantal Churchill
Company Secretary

19 February 2020

‘APN Industria REIT’ being

Industria Trust No. 1 and its Controlled Entities

ARSN 125 862 875

Interim Financial Report for the half-year ended

31 December 2019

Stapling arrangement

APN Industria REIT was established in December 2013 by stapling the securities of the following entities:

- Industria Trust No. 1
- Industria Trust No. 2
- Industria Trust No. 3
- Industria Trust No. 4, and
- Industria Company No. 1 Ltd

These consolidated financial statements represent the consolidated results of APN Industria REIT for the half-year ended 31 December 2019.

Contents

Directors' report

The directors of APN Funds Management Limited ("APN FM"), the Responsible Entity of Industria Trust No. 1 (the "Trust"), present the interim financial report on the consolidated entity (the "Group"), being Industria Trust No. 1 and its controlled entities, for the half-year ended 31 December 2019. The Trust is one of five entities that together comprise the stapled entity APN Industria REIT which is listed on the Australian Securities Exchange ("ASX") (ASX Ticker: "ADI").

In order 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	Resigned as Alternate Director for Howard Brenchley effective 2 July 2019
Joseph De Rango	Appointed as Alternate Director for Howard Brenchley effective 1 September 2019

Principal activities

The Group is a registered managed investment scheme domiciled in Australia. The principal activity of the Group is investment in income producing business park properties and industrial warehouses within Australia.

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 Industria REIT's results for the financial period is as follows:

	Half-year ended 31 December 2019 $'000	**Half-year ended 31 December 2018 $'000**
Net rental income	24,346	21,487
Operating expenses	(2,552)	(2,343)
Net profit before interest, tax and other items	**21,794**	**19,144**
Net fair value gain / (loss) on investment properties	21,466	1,049
Net fair value gain / (loss) on investment properties - right-of-use ("ROU") assets	202	-
Fair value (loss) / gain on derivatives	175	(574)
Net interest expense	(4,143)	(4,211)
Net profit / (loss) before tax	**39,494**	**15,408**
Income tax expense – deferred	(223)	(827)
Statutory net profit / (loss)	**39,271**	**14,581**

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 2019 $'000	Half-year ended 31 December 2018 $'000
Statutory net profit / (loss) for the period	**39,271**	**14,581**
Adjusted for:		
Add back amortised borrowing costs	123	200
Add back amortised leasing costs and rent-free adjustments	2,161	1,866
Reversal of straight line lease revenue recognition	(1,277)	(1,699)
(Reversal) / add back of fair value (gain) / loss on investment properties	(21,466)	(1,049)
(Reversal) / add back of fair value (gain) / loss on investment properties - ROU assets	(202)	-
Reversal of fair value loss / (gain) on derivatives	(175)	574
Add back / (deduct) income tax expense / (benefit)	223	827
FFO	**18,658**	**15,300**
Key financial performance metrics:		
FFO per security (cents)	10.17 c	9.40 c
Distributions per security (cents)	8.75 c	8.50 c
Payout Ratio (Distribution per security / FFO per security)	86.03%	90.47%
Statutory earnings per security (cents per security)	21.41 c	8.95 c
Weighted average securities on issue (thousands)	183,433	162,840
Securities on issue (thousands)	197,426	162,840
Distributions declared (thousands)	$16,563	$13,842

The Statutory Net Profit for the period was $39.27 million, $24.69 million higher than the prior period; and total Funds from Operations was $18.66 million, an increase of $3.36 million. The key drivers of this result included:

- Organic growth from contracted leases with fixed growth;
- Additional rental revenue from properties recently acquired;
- A $25.5 million increase in property valuations over prior book values (this is the primary difference between statutory net profit and FFO).

Net tangible assets, asset valuations, and market outlook

The value of each asset in the property portfolio was reviewed by the Directors as at 31 December 2019. The Valuation Policy stipulates that independent valuations are required when the Board forms the view that there has been a material change in the value of the property, defined as a movement greater than a 5% differential to the book value. Independent valuations are also to be undertaken when the Board forms the view that there are specific underling risks or opportunities that require the expertise and independence of an external valuer to opine on value; and an independent valuation must be completed at least once every three years.

Independent valuations were undertaken for the following properties:

- Industrial: 1 – 3 Westrac Drive, Tomago
- Industrial: 140 Sharps Road, Tullamarine
- Industrial: 34 Australis Drive, Derrimut
- Industrial: 89 West Park Drive, Derrimut
- Industrial: 32 – 40 Garden Street, Kilsyth

- Industrial: 80 – 96 South Park Drive, Dandenong South
- Office: 1A Homebush Bay Drive, Rhodes ("Rhodes Building A")

Conditions in the major industrial markets have had an extended period of strength as yields have fallen (resulting in rising value), and rental growth being reported across most sub-markets. Demand for assets is unsurpassed as domestic and offshore investors seek to deploy vast amounts of capital into the industrial sector.

Values for the industrial assets in the portfolio rose from $302.5 million to $330.85 million, driven by rising rents and falling capitalisation rates – which reduced by an average of 26 basis points.

Metropolitan office markets have also continued to perform well. Infrastructure investment in road and rail connectivity will reduce travel times, congestion and provide better access to key employment nodes – and metropolitan markets such as Rhodes will be beneficiaries of this investment. Sales activity across the metropolitan office market has been robust as investors seek to capitalise in the current low interest rate environment, and this has resulted in cap rates falling further.

The Directors considered it prudent to independently value Rhodes Building A, largely due to the known departure of the major tenant (Link Market Services) at lease expiry in September 2021. The independent valuer made revised assumptions on capital expenditure at lease expiry, market rents and growth, incentives, and the capitalisation rate. The impact of the change in assumptions, and market conditions, was that the valuation fell from $110.5 million to $108.0 million.

The valuation outcomes, combined with other fair value adjustments associated with derivatives and acquisition costs (such as stamp duty), resulted in Net Tangible Assets per security increasing 12 cents to $2.83.

Leasing

29 leasing transactions over ~4,900 square metres were completed during the period. Given much of the portfolio is fully leased, the majority of the leasing activity was at Brisbane Technology Park (BTP). The on-site management team continued to engage with current and prospective tenants to deliver workspace solutions ranging from 10 to 710 square metres, underpinning the cash generation from the properties at BTP.

Distributions

Distributions of $16,563,000 were declared by the Group during the half-year ended 31 December 2019 (31 December 2018: $13,842,000).

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 5.

Matters subsequent to the end of the financial period

On 29 January 2020, an extension of an existing debt facility to June 2022 from an incumbent financier was approved, which included a $10 million increase in the facility limit.

There has not been any other 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 periods.

Directors’ report (continued)

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, 19 February 2020

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

Tel: +61 3 9671 7000
Fax: +61 3 9671 7001
www.deloitte.com.au

19 February 2020

The Board of Directors
APN Funds Management Limited
Level 30, 101 Collins Street
MELBOURNE VIC 3000

Dear Board Members

Independence Declaration – APN Industria 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 APN Industria REIT.

As lead audit partner for the review of the financial statements of APN Industria REIT for the financial half-year ended 31 December 2019, 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 sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Neil Brown
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

Tel: +61 3 9671 7000
Fax: +61 3 9671 7001
www.deloitte.com.au

Independent Auditor’s Review Report to the Stapled Securityholders of APN Industria REIT

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of APN Industria REIT, being Industria Trust No. 1 (the “Trust”) and its controlled entities (collectively, the “Group”), which comprises the condensed consolidated statement of financial position as at 31 December 2019, 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 Trust 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 8 to 24.

Directors’ Responsibility for the Half-Year Financial Report

The directors of the Responsible Entity of the Trust (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 2019 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 Group 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.

Deloitte.

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.

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 Group 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 2019 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

Neil Brown
Partner
Chartered Accountants

Melbourne, 19 February 2020

Directors' declaration

The directors of APN Funds Management Limited, the Responsible Entity of Industria Trust No. 1 (the "Trust"), declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Trust 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 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, 19 February 2020

Condensed consolidated statement of profit or loss and other comprehensive income

for the half-year ended 31 December 2019

	Notes	Half-year ended 31 December 2019 $'000	Half-year ended 31 December 2018 $'000
Revenue			
Rental income		29,117	25,463
Straight line rental income recognition		1,277	1,699
Total revenue from continuing operations		**30,394**	**27,162**
Other income			
Interest income		16	23
Net fair value gain / (loss) on investment properties	4	21,466	1,049
Net fair value gain / (loss) on investment properties - ROU	4	202	-
Fair value gain / (loss) on derivatives		175	(574)
Total other income		**21,859**	**498**
Total income		**52,253**	**27,660**
Expenses			
Property costs		(6,048)	(5,675)
Management fees	11	(2,129)	(1,908)
Finance costs	8	(4,159)	(4,234)
Other expenses		(423)	(435)
Total expenses		**(12,759)**	**(12,252)**
Net profit / (loss) before tax		**39,494**	**15,408**
Income tax expense		(223)	(827)
Profit / (loss) after tax		**39,271**	**14,581**
Attributable to:			
Securityholders of Industria Trust No. 1		37,193	12,010
Securityholders of non-controlling interests[1]		2,078	2,571
		39,271	**14,581**
Other comprehensive income		-	-
Profit / (loss) for the period		**39,271**	**14,581**
Profit / (loss) for the year is attributable to:			
Security holders of Industria Trust No. 1		37,193	12,010
Security holders of non-controlling interests[1]		2,078	2,571
		39,271	**14,581**
Earnings per security			
Basic and diluted (cents per security)	7	21.41	8.95

[1] Non-controlling interests represents the profit / (loss) for the period attributable to the other stapled entities comprising the APN Industria REIT Group.

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

Condensed consolidated statement of financial position

as at 31 December 2019

	Notes	31 December 2019 $'000	30 June 2019 $'000
Current assets			
Cash and cash equivalents		22,283	2,435
Trade and other receivables		1,136	1,007
Other assets		1,016	764
Total current assets		**24,435**	**4,206**
Non-current assets			
Investment properties	4	823,651	739,378
Investment properties - right-of-use ("ROU") assets	4	19,651	-
Total non-current assets		**843,302**	**739,378**
Total assets		**867,737**	**743,584**
Current liabilities			
Trade and other payables		(5,662)	(6,633)
Distributions payable	6	(8,637)	(7,698)
Lease liabilities	4	(83)	-
Derivative financial instruments	8	(1,832)	(1,631)
Borrowings	8	(36,010)	-
Total current liabilities		**(52,224)**	**(15,962)**
Non-current liabilities			
Payables		(1,006)	(614)
Lease liabilities	4	(19,335)	-
Derivative financial instruments	8	(4,199)	(4,575)
Borrowings	8	(223,711)	(224,251)
Deferred tax liability		(8,350)	(8,160)
Total non-current liabilities		**(256,601)**	**(237,600)**
Total liabilities		**(308,825)**	**(253,562)**
Net assets		**558,912**	**490,022**
Equity			
Securityholders of Industria Trust No. 1:			
Contributed equity	5	290,996	255,832
Retained earnings		120,135	96,112
Securityholders of non-controlling interests[1]:			
Contributed equity	5	107,264	96,246
Retained earnings		40,517	41,832
Total equity		**558,912**	**490,022**
Net tangible assets per security ($)		2.83	2.71

[1] *Non-controlling interests represents the net assets attributable to the other stapled entities comprising the APN Industria REIT Group.*

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

Condensed consolidated statement of changes in equity

for the half-year ended 31 December 2019

	Notes	Contributed equity $'000	Retained earnings $'000	Total $'000	Non-controlling interests[1] $'000	Total equity $'000
Balance at 1 July 2018		**220,152**	**98,552**	**318,704**	**121,250**	**439,954**
Net profit / (loss) for the period		-	12,010	12,010	2,571	14,581
Other comprehensive income		-	-	-	-	-
Profit / (loss) for the period		**-**	**12,010**	**12,010**	**2,571**	**14,581**
Distributions paid or payable	6	-	(10,686)	(10,686)	(3,156)	(13,842)
Balance at 31 December 2018		**220,152**	**99,876**	**320,028**	**120,665**	**440,693**
Balance at 1 July 2019		**255,832**	**96,112**	**351,944**	**138,078**	**490,022**
Net profit / (loss) for the period		-	37,193	37,193	2,078	39,271
Other comprehensive income		-	-	-	-	-
Profit / (loss) for the period		**-**	**37,193**	**37,193**	**2,078**	**39,271**
Issue of contributed equity	5	35,706	-	35,706	11,159	46,865
Security issuance costs (net of income tax benefit)	5	(542)	-	(542)	(141)	(683)
Distributions paid or payable	6	-	(13,170)	(13,170)	(3,393)	(16,563)
Balance at 31 December 2019		**290,996**	**120,135**	**411,131**	**147,781**	**558,912**

[1] *Non-controlling interests represent the equity attributable to the other stapled entities comprising the APN Industria REIT Group.*

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

Condensed consolidated statement of cash flows

for the half-year ended 31 December 2019

	Notes	31 December 2019 $'000	31 December 2018 $'000
Cash flows from operating activities			
Net rental income received		27,764	25,315
Payments to suppliers		(7,657)	(3,694)
Interest received		16	23
Finance costs paid		(3,788)	(4,089)
Net cash inflow / (outflow) from operating activities		**16,335**	**17,555**
Cash flows from investing activities			
Payments for acquisition of investment properties	4	(60,804)	(27,835)
Payments for capital expenditure on investment properties	4	(1,607)	(1,404)
Net cash inflow / (outflow) from investing activities		**(62,411)**	**(29,239)**
Cash flows from financing activities			
Net proceeds / (repayments) from borrowings		35,398	28,910
Net proceeds from issue of contributed equity	5	46,865	-
Equity issuance costs paid	5	(715)	-
Distributions paid		(15,624)	(13,760)
Net cash inflow / (outflow) from financing activities		**65,924**	**15,150**
Net increase / (decrease) in cash and cash equivalents		19,848	3,466
Cash and cash equivalents at the beginning of the period		2,435	1,659
Cash and cash equivalents at the end of the period		**22,283**	**5,125**

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

Notes to the condensed consolidated financial statements

Contents

ABOUT THIS REPORT

1. GENERAL INFORMATION

APN Industria REIT is a stapled entity listed on the Australian Securities Exchange (trading under the ASX ticker "ADI"), incorporated and operating in Australia. APN Industria REIT comprises Industria Trust No. 1 and its controlled entities.

APN Funds Management Limited, a public company incorporated and operating in Australia, is the Responsible Entity of Industria Trust No. 1. 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 19 February 2020.

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 2019, 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 13. Those 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 detailed information in respect to the profitability of the Group and each of its reporting segments. It also provides information on the investment properties that underpin 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 industrial and business park properties held for deriving rental income. For all investment properties, the current use equates to the highest and best use.

	31 December 2019 $'000	30 June 2019 $'000
Industrial and office properties	822,125	737,878
Land held for development	1,526	1,500
	823,651	**739,378**

4.1. Reconciliation of carrying amounts

	31 December 2019 $'000	30 June 2019 $'000
Carrying amount at beginning of the period	739,378	660,732
Purchase of investment properties	57,140	64,527
Acquisition costs associated with purchase of investment properties	3,664	3,769
Capital additions to investment properties	1,607	2,934
Movement in deferred lease incentives	(907)	(1,783)
Straight line revenue recognition	1,277	3,149
Net gain / (loss) on fair value adjustments[1]	21,466	5,934
Interest capitalised to land held for development[2]	26	116
Carrying amount at end of the period	**823,651**	**739,378**

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

[2] Interest was capitalised to land held for future development based on the weighted average cost of debt of 3.48% during the period (30 June 2019: 3.43%).

4.2. Individual valuation and carrying amounts

The investment property portfolio comprises 32 properties located throughout Victoria, New South Wales, Queensland and South Australia. As at 31 December 2019, nine properties were independently valued. The Group's external valuations are performed by independent professionally qualified valuers who hold a recognised relevant professional qualification and have specialised expertise in the investment properties being valued. Independent valuations were performed by Savills Australia Pty Ltd ("Savills"), M3 Property (Vic) Pty Ltd ("M3"), CIVAS (NSW) Pty Limited ("Colliers"), Jones Lang Lasalle Australia ("JLL") and CBRE Valuations Pty Ltd ("CBRE") in the current half-year (30 June 2019: CBRE, Urbis, JLL and M3).

The remaining 23 properties were subject to internal valuations performed by the Group's internal property team and have been reviewed and approved by the Board. Land held for development is held at the lower of cost and net realisable value.

			Latest independent valuation		Carrying amount		Capitalisation rate		Discount rate	
			Valuation date	$'000	31 Dec 2019 $'000	30 Jun 2019 $'000	31 Dec 2019 %	30 Jun 2019 %	31 Dec 2019 %	30 Jun 2019 %
Industrial properties										
1.	34 Australis Drive, Derrimut, VIC	Freehold	Dec 2019	31,700	31,700	29,257	6.25%	6.50%	6.75%	7.00%
2.	80-96 South Park Drive, Dandenong South, VIC	Freehold	Dec 2019	26,150	26,150	23,500	6.25%	6.75%	6.50%	7.00%
3.	89 West Park Drive, Derrimut, VIC	Freehold	Dec 2019	22,000	22,000	21,000	6.00%	6.00%	6.50%	6.75%
4.	32-40 Garden Street, Kilsyth, VIC	Freehold	Dec 2019	19,300	19,300	18,344	6.25%	6.50%	7.00%	7.00%
5.	5 Butler Boulevard, Adelaide Airport, SA (excluding the right-of-use asset) [(a)]	Sub-leasehold	Jun 2019	14,750	14,750	14,750	8.25%	8.25%	8.75%	8.75%
6.	1-3 Westrac Drive, Tomago, NSW	Freehold	Dec 2019	218,000	218,000	197,000	5.75%	6.00%	7.50%	8.00%
7.	140 Sharps Road, Tullamarine, VIC (excluding the right-of-use asset) [(a)]	Sub-leasehold	Dec 2019	13,700	13,700	13,500	8.00%	8.25%	6.50%	7.25%
8.	13 Ricky Way, Epping, VIC	Freehold	Jun 2019	8,000	8,000	8,000	6.25%	6.25%	6.75%	6.75%
9.	10 Jersey Drive, Epping, VIC	Freehold	Jun 2019	8,500	8,500	8,500	6.25%	6.25%	6.75%	6.75%
10.	1 West Park Drive, Derrimut, VIC	Freehold	Jun 2019	11,250	11,280	11,250	6.50%	6.50%	7.00%	7.00%
11.	147-153 Canterbury Road, Kilsyth, VIC	Freehold	April 2019	9,502	9,502	9,502	7.25%	7.25%	7.50%	7.75%
12.	3 Forbes Close, Knoxfield, VIC	Freehold	May 2019	9,000	9,002	9,000	5.75%	5.75%	6.25%	N/A
13.	4 Forbes Close, Knoxfield, VIC	Freehold	May 2019	10,650	10,650	10,650	5.75%	5.75%	6.25%	N/A
14.	81-83 Rushdale Street, Knoxfield, VIC	Freehold	May 2019	9,100	9,116	9,100	6.50%	6.50%	7.00%	N/A
15.	60 Grindle Road, Wacol, QLD [(b)]	Freehold	July 2019	18,340	18,340	N/A	7.75%	N/A	8.25%	N/A

16. 350 Cooper Street, Epping, VIC (b)	Freehold	Dec 2019	11,115	11,115	N/A	6.00%	N/A	7.00%	N/A
17. 356 Cooper Street, Epping, VIC (b)	Freehold	Dec 2019	17,985	17,985	N/A	6.00%	N/A	7.00%	N/A
Office properties									
18. 7 Clunies Ross Court and 17-19 McKechnie Drive, BTP, QLD	Freehold	Jun 2019	49,500	49,985	49,500	7.25%	7.25%	7.75%	7.75%
19. BTP Central, BTP, QLD #	Freehold	Jun 2019	39,500	39,609	39,500	7.50%	7.50%	8.00%	8.00%
20. 8 Clunies Ross Court and 9 McKechnie Drive, BTP, QLD	Freehold	Jun 2019	25,500	25,219	25,500	7.50%	7.50%	7.75%	7.75%
21. 37 Brandl St, BTP, QLD	Freehold	Jun 2019	15,250	15,292	15,250	7.50%	7.50%	8.00%	8.00%
22. 18 Brandl St, BTP, QLD	Freehold	Jun 2019	13,250	13,338	13,250	8.00%	8.00%	8.25%	8.25%
23. 88 Brandl St, BTP, QLD	Freehold	Jun 2019	15,000	15,538	15,000	7.75%	7.75%	8.00%	8.00%
24. 10 Brandl St, BTP, QLD (b)	Freehold	Sept 2019	10,000	10,000	-	8.25%	N/A	8.50%	N/A
25. Building A, 1 Homebush Bay Drive, Rhodes, NSW	Freehold	Dec 2019	108,000	108,000	110,510	5.88%	6.00%	7.00%	7.00%
26. Building C, 1 Homebush Bay Drive, Rhodes, NSW	Freehold	Dec 2018	86,000	86,054	86,015	6.00%	6.00%	7.00%	7.00%
Land held for development									
27. 45 & 45B McKechnie Drive, BTP, QLD	Freehold	N/A	N/A	1,526	1,500				
Total investment properties			**821,042**	**823,651**	**739,378**				

The BTP Central portfolio comprises five assets located within BTP.

The weighted average capitalisation rates per annum for the industrial and office properties, and the Group's overall investment properties portfolio (excluding land) are:

	31 December 2019	30 June 2019
Industrial properties	6.17%	6.33%
Office properties	6.68%	6.66%
Group's investment properties portfolio (excluding land)	**6.39%**	**6.49%**

(a) Sub-leasehold properties and ground rent obligations

The Group's investment properties at 140 Sharps Road, Tullamarine, VIC and 5 Butler Boulevard, Adelaide Airport, SA are each located on airport land. These are held as sub-leasehold interests with Australia Pacific Airports (Melbourne) Pty Ltd and Adelaide Airport Limited ("Airport Authority") respectively who hold head leases from the Commonwealth of Australia.

Impact and adoption of AASB 16 *Leases:*

The Group has adopted AASB 16 *Leases* ("AASB 16") from 1 July 2019 using the modified approach. For lessees, AASB 16 replaces the recognition and measurement requirements for operating leases (previously an 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 to be recognised in the consolidated statement of financial position for all qualifying leases.

On initial application date, 1 July 2019, the Group has recognised the ROU asset at an amount equal to the lease liability which are initially measured at the present value of the unavoidable lease payments (inclusive of incentives and costs), discounted using the Group's incremental borrowing rate of 3.36%.

The Group's ROU assets include the two ground leases which meet the definition of investment property under AASB 140 *Investment Property* ("AASB 140") and is measured at fair value and presented as investment property in the consolidated statement of financial position. Change in fair value of these ROU assets is presented separately from the interest expense recognised on the lease liability in the consolidated statement of profit or loss and comprehensive income.

The lease liability is subsequently increased by the interest expense on the lease liability (using the effective interest method) and reduced by lease payments made. Interest expense recognised on the lease liability are presented as a component of finance cost in the consolidated statement of profit or loss and other comprehensive income.

On 1 July 2019, the Group recognised $19,450,000 of investment property – ROU assets and $19,450,000 of lease liabilities in the consolidated statement of financial position. During the period ended 31 December 2019, the Group recognised $202,000 fair value gain on the investment property – ROU assets and $326,000 of interest expense on the lease liability in the consolidated statement of profit or loss and other comprehensive income.

(b) Acquisitions

During the half-year period, the Group acquired four industrial properties, being 60 Grindle Road, Wacol, QLD, 350 and 356 Cooper Street, Epping, VIC and an office property, being 10 Brandl St, BTP, QLD for a total of $57,140,000 (excluding transaction costs). These acquisitions were financed with debt drawn from the Group's existing revolving cash advance facility and capital raise (or equity raise).

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 2019 $'000	31 December 2018 $'000
At the beginning of the period	352,078	302,792
Issue of new securities	46,865	-
Equity issuance costs (net of income tax benefit)	(683)	-
At the end of the period	**398,260**	**302,792**
Attributable to:		
Securityholders of Industria Trust No.1	290,996	220,152
Securityholders of non-controlling interests	107,264	82,640
	398,260	**302,792**

5.2. Number of securities on issue

	31 December 2019 No.	31 December 2018 No.
At the beginning of the period	181,153,430	162,839,743
Issue of new securities	16,272,589	-
At the end of the period	**197,426,019**	**162,839,743**

6. DISTRIBUTIONS

	31 December 2019		31 December 2018	
	Cents per security	$'000	Cents per security	$'000
Distributions paid during the period:				
Period ended 30 Sep	4.3750	7,926	4.2500	6,921
Distributions payable:				
Period ended 31 Dec	4.3750	8,637	4.2500	6,921
Total distributions paid/payable	**8.7500**	**16,563**	**8.5000**	**13,842**

7. EARNINGS PER SECURITY

	31 December 2019	31 December 2018
Profit / (loss) after tax ($'000)	39,271	14,581
Weighted average number of securities outstanding (thousands)	183,433	162,840
Basic and diluted earnings (cents per security)	**21.41**	**8.95**

No dilutive securities were issued/on issue during the period (31 December 2019: nil).

8. BORROWINGS

	31 December 2019 $'000	30 June 2019 $'000
Current		
Bank loans drawn – secured	36,250	-
Capitalised borrowing cost	(240)	-
Non-current		
Bank loans drawn – secured	224,148	225,000
Capitalised borrowing cost	(437)	(749)
Total borrowings at balance date	**259,721**	**224,251**

8.1. Summary of borrowing arrangements

APN Industria REIT has a $270 million revolving cash advance facility with three major Australian banks.

	31 December 2019 $'000	30 June 2019 $'000
Loan facility limit	270,000	270,000
Facilities drawn at balance date	(260,398)	(225,000)
Facilities not drawn at balance date	**9,602**	**45,000**

As at 31 December 2019, the revolving cash advance facility has the following expiry profile:

- Tranche B1: $36,250,000 – repayable December 2020;
- Tranche B2: $86,250,000 – repayable September 2021;
- Tranche A3: $20,000,000 – repayable June 2022;
- Tranche A1: $56,250,000 – repayable June 2023;
- Tranche C1: $15,000,000 – repayable June 2023;
- Tranche D: $10,000,000 – repayable May 2024;
- Tranche A2: $36,250,000 – repayable September 2024; and
- Tranche C2: $10,000,000 – repayable September 2024.

The revolving cash advance facility is secured and cross collateralised over the Group's investment properties (by first registered real property mortgages) and other assets (via a first ranking general "all assets" security agreement).

On 29 January 2020, an extension of an existing debt facility to June 2022 from an incumbent financier was approved, which included a $10 million increase in the facility limit.

The debt facility 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 debt facility agreement) that apply to the Group are as follows:

		31 December 2019
Loan to Value Ratio ("LVR")	At all times, LVR does not exceed 55%.	31.66%
Gearing Ratio	At all times, gearing ratio does not exceed 55%.	33.43%
Net Rental Income to Interest Costs Ratio	At all times, the net rental income to interest costs ratio under the facility does not fall below 2.0 times.	6.75 times
Weighted Average Lease Length to Expiry ("WALE")	WALE for the portfolio will be greater than 2.5 years.	5.73 years

8.2. Finance costs

	31 December 2019 $'000	31 December 2018 $'000
Interest expense paid / payable [1]	3,710	4,034
Amortisation of borrowing costs	123	200
Interest expense on lease liability	326	-
	4,159	**4,234**

[1] *Interest expense also includes the interest income / expense upon settlement of the interest rate contracts that the Group has entered during the year. Generally, the interest rate contracts settle monthly and the difference between the fixed and floating interest rate is settled on a net basis by the relevant counterparty.*

8.3. Derivatives – interest rate contracts

The Group has exposure to a debt facility that is subject to floating interest rates. The Group uses derivative financial instruments on a portfolio basis 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) pursuant to the Group's revolving cash advance facility.

Generally, interest rate contracts settle on a monthly basis coinciding with the dates on which the 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 2019 $'000	30 June 2019 $'000
Current liabilities		
Interest rate contracts	(1,832)	(1,631)
Non-current liabilities		
Interest rate contracts	(4,199)	(4,575)

9. FAIR VALUE HIERARCHY

The following table provides an analysis of investment properties and financial instruments that are measured at fair value at 31 December 2019, grouped into Levels 1 to 3 based on the degree to which the fair value inputs is observable:

	Fair value measurement as at 31 December 2019			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Investment properties	-	-	823,651	823,651
Interest rate contracts	-	(6,031)	-	(6,031)
Total	**-**	**(6,031)**	**823,651**	**817,620**

	Fair value measurement as at 30 June 2019			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Investment properties	-	-	739,378	739,378
Interest rate contracts	-	(6,206)	-	(6,206)
Total	**-**	**(6,206)**	**739,378**	**733,172**

- 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). The adopted valuation for investment properties, including property under development which is substantially complete and has pre-committed leases, is the mid-point of the valuations determined using the discounted cash flow ("DCF") method and the income capitalisation method. The DCF and income capitalisation methods use unobservable inputs (i.e. key estimates and assumptions) in determining fair value, as per the table below:

Unobservable inputs	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Net passing rent	Increase	Decrease
Net market rent	Increase	Decrease
10-year average market rental growth	Increase	Decrease
Adopted capitalisation rate	Decrease	Increase
Adopted terminal yield	Decrease	Increase
Adopted discount rate	Decrease	Increase

There were no transfers between Levels during the half-year (30 June 2019: nil).

10. 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 2019, and there are no other commitments and contingencies in effect at 31 December 2019 other than as disclosed in note 4.

OTHER NOTES

11. RELATED PARTY TRANSACTIONS

11.1. 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 Trust and its controlled entities. As such there are no staff costs (including fees paid to directors of the Responsible Entity or Industria Company No.1 Limited) included in the condensed consolidated statement of profit or loss and other comprehensive income.

No fees have been paid to the directors of APN Funds Management Limited in their capacity as directors of the Responsible Entity of the Group.

11.2. Transactions with the Responsible Entity and related body corporates

The Responsible Entity of Industria Trust No. 1 is APN Funds Management Limited ("APN FM") (ACN 080 674 479). APN FM's immediate and ultimate parent entity is APN Property Group Limited (ACN 109 846 068). Accordingly transactions with entities related to APN Property Group Limited are disclosed below.

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

	31 December 2019		31 December 2018	
	Paid $'000	Payable $'000	Paid $'000	Payable $'000
Management fees[1]	1,036	1,093	946	962
Property management and leasing fees[2]	-	234	-	64
	1,036	**1,327**	**946**	**1,026**

[1] APN FM is entitled to a base management fee of 0.55% per annum of the gross asset value of APN Industria REIT as a whole (reducing to 0.50% p.a. of Gross Asset Value in excess of $750m and 0.45% p.a. of gross asset value in excess of $1,500m). Management fees are allocated to the entities comprising APN Industria REIT on a fair and reasonable basis and in accordance with each entities' Constitution.

[2] APN FM provides property management and leasing services to the Group. These services can be carried out by APN FM or sub-contracted to one or more third parties. In the event that APN FM provides property management or leasing services without engaging third parties, APN FM is entitled to charge a fee of up to 3% of annual gross income and leasing fees at market rates.

11.3. Security holdings and associated transactions with related parties

The below table shows the number of APN Industria REIT securities held by related parties (including managed investment schemes for which a related party is the Responsible Entity or Fund Manager) and the distributions received, or receivable are set out as follows:

	31 December 2019		31 December 2018	
	Number of securities	Distributions $	Number of securities	Distributions $
APN Property Group Limited	8,385	1,257,235	26,995,821	2,292,746
APD Trust	28,719,327	1,256,471		
APN AREIT Fund	5,045,730	430,711	4,799,094	407,923
APN CFS AREIT Fund	786,450	67,133	748,009	63,581
APN Property for Income Fund	420,562	40,275	500,005	42,500
APN Property for Income Fund 2	140,471	13,478	167,605	14,246
Geoff Brunsdon AM	66,463	5,816	62,500	5,313
Chris Aylward	120,000	10,500	-	6,375
Tim Slattery	7,629	668	3,666	312
Total	**35,315,017**	**3,082,287**	**33,276,700**	**2,832,996**

As at 31 December 2019, 17.89% (2018: 20.44%) of APN Industria REIT stapled securities were held by related parties.

12. SUBSEQUENT EVENTS

On 29 January 2020, an extension of an existing debt facility to June 2022 from an incumbent financier was approved, which included a $10 million increase in the facility limit.

There has not been any other 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.

13. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

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 their operations and effective for the current half-year. These include:

Standard/ Interpretation	Impact on financial statements
AASB 16 Leases (“AASB 16”)	The Group has applied AASB 16 *Leases* for the first time as disclosed in note 4(a).