APPENDIX 4D

APN Industria REIT
Half-Year Report
Half-year ended 31 December 2018

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 6.80% to 27,162	
Profit from ordinary activities after tax attributable to members	up 5.75% to 14,581	
Net profit for the period attributable to members	up 5.75% to 14,581	
Funds from operations (FFO)[1]	up 3.52% to 15,300	
Net tangible assets per security	**31 Dec 2018** $2.71	**30 Jun 2018** $2.70

[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	**31 Dec 2017 $'000**
Net profit attributable to securityholders	14,581	13,788
Adjusted for:		
- Amortisation of borrowing costs	200	168
- Amortisation of leasing costs and rent-free adjustments	1,866	1,525
- Straight line lease revenue recognition	(1,699)	(2,027)
- Net loss/(profit) on change in fair value of:		
Investment properties	(1,049)	1,357
Derivatives	574	(340)
- Deferred tax provision	827	309
FFO	**15,300**	**14,780**
Key financial metrics		
Distributions declared ($'000)	13,842	13,364
Distributions per security (cents per security)	8.50	8.20
FFO payout ratio (%)	90.47%	90.41%

Other Information

Distributions	**Amount per security (cents)**	**$'000**
Quarter ended 30 Sep 2018 (162,839,743 units on issue)	4.2500	6,921
Quarter ended 31 Dec 2018 (162,839,743 units on issue)	4.2500	6,921
	8.5000	**13,842**
Previous corresponding period	8.2000	13,364
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

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)

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Chantal Churchill
Company Secretary

19 February 2019

‘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 2018

Stapling arrangement

The ‘APN Industria REIT’ stapled group (‘Group’) was established on 5th 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
- Industria Company No. 1 Ltd

These consolidated financial statements represent the consolidated results of APN Industria REIT for the half-year ended 31 December 2018.

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 2018. The Trust is one of five entities that together comprise the stapled entity APN Industria REIT ("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	(Alternate Director for Howard Brenchley)

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 2018 $'000	Half-year ended 31 December 2017 $'000
Net rental income	21,487	20,735
Other income	-	1
Operating expenses	(2,343)	(2,134)
Net profit before interest, tax and other items	**19,144**	**18,602**
Net fair value gain / (loss) on investment properties	1,049	(1,357)
Fair value (loss) / gain on derivatives	(574)	340
Net interest expense	(4,211)	(3,488)
Net profit / (loss) before tax	**15,408**	**14,097**
Income tax expense – deferred[1]	(827)	(309)
Statutory net profit / (loss)	**14,581**	**13,788**

[1] An additional deferred tax expense of $541,000 has been recognised in the current period, reflecting the impact on deferred tax balances arising from a change in the corporate tax rate from 27.5% to 30%. This follows an amendment made on 31 August 2018 to retrospectively change the eligibility criteria for the reduced tax rate meaning that Industria Company No.1 Limited no longer qualified as a reduced tax rate entity.

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	Half-year ended 31 December 2017 $'000
Statutory net profit / (loss) for the period	**14,581**	**13,788**
Adjusted for:		
Add back amortised borrowing costs	200	168
Add back amortised leasing costs and rent-free adjustments	1,866	1,525
Reversal of straight line lease revenue recognition	(1,699)	(2,027)
(Reversal) / add back of fair value (gain) / loss on investment properties	(1,049)	1,357
Reversal of fair value loss / (gain) on derivatives	574	(340)
Add back / (deduct) income tax expense / (benefit)	827	309
FFO	**15,300**	**14,780**
Key financial performance metrics:		
FFO per security (cents)	9.40 c	9.07 c
Distributions per security (cents)	8.50 c	8.20 c
Payout Ratio (Distribution per security / FFO per security)	90.47%	90.52%
Statutory earnings per security (cents per security)	8.95 c	8.46 c
Weighted average securities on issue (thousands)	162,840	162,985
Securities on issue (thousands)	162,840	162,839
Distributions declared (thousands)	$13,842	$13,364

The Statutory Net Profit for the period was $0.79 million higher than the prior period and total Funds from Operations increased by $520,000 to $15,300,000. The key drivers of this result included:

- Organic growth from contracted leases with fixed growth;
- The lease-up of vacancy at Rhodes during the prior period delivering higher income;
- Additional income from the acquisition of industrial warehouses in Derrimut and Epping, both key industrial precincts in the suburbs of Melbourne.

Net tangible assets and asset valuations

The property portfolio was reviewed by the Directors as at 31 December 2018. Two assets, Rhodes Building A and Rhodes Building C, were independently revalued, with the remainder of the assets valued using Directors valuations. Valuation metrics used for the Directors valuations were consistent with prior periods.

Rhodes Building C increased in value by $3 million to $86 million. The increase was driven by a combination of cap rate compression (25 basis points to 6.00%) and rent growth proven up by the lease-up of vacant suites in the building in 2018.

Rhodes Building A increased in value by $100,000 to $110.50 million. The building is largely leased to Link Market Services, and has a 2.8 year weighted average lease expiry. The valuer has made conservative assumptions surrounding the lease expiry that nullified any potential increase from decreasing the cap rate from 6.25% to 6.00%.

Net Tangible Assets were also impacted by stamp duty incurred (associated with acquisitions) of $1.56 million, and a negative adjustment in the fair value of interest rate swap derivatives by $574,000.

Leasing

The management team have remained focused on generating superior business outcomes for tenants and prospective tenants. This has been an ongoing theme for a number of years and we are now starting to see the results in the occupancy numbers, particularly at Brisbane Technology Park. This approach ultimately underpins portfolio occupancy and the ability to continue to generate a sustainable and growing distribution.

Key leasing highlights during the period included:

- 15 deals at Brisbane Technology Park totalling almost 3,000 square metres. Seven of these transactions were with new clients and the remainder were with existing clients – many of whom required expansion space to cater for business growth;
- Finalising the fit out and switch of two tenants at Rhodes Building A, movements the management team facilitated to accommodate growth and contraction of our clients;
- Securing commitments to lease the remainder of 5 Butler Boulevard in Adelaide, in addition to removing all FY20 leasing risk at the property.

The above is clear evidence that our strategy of engaging with clients is underpinning the occupancy and relevance of our properties, their value, and the overall performance of APN Industria REIT.

Market Overview

Industrial property

Investor demand for industrial real estate continues to be strong, with global and domestic capital sources seeking out exposure across the risk spectrum – particularly in Sydney and Melbourne. Tenant demand is also firm, with large infrastructure and construction projects adding to demand from e-commerce providers.

Brisbane Technology Park, Eight Mile Plains

Brisbane continues to be a beneficiary of significant amounts of public and private investment with major projects including the Queens Wharf precinct ($3 bn); the regeneration of the Royal National Agricultural and Industrial Association of Queensland ($2.9 bn); Cross River Rail ($5.4 bn); and Brisbane Metro ($944 m) – which will provide services every 3 minutes in peak periods to and from Eight Mile Plains.

The Group’s exposure in Brisbane is solely at Brisbane Technology Park. Tenant expansion is evidence that businesses are confident and growing, and they’re seeking collaborative landlords that allow them to focus on running their own business. Metrics across the Brisbane fringe market support these observations, with prime effective rents up ~4% in 2018 supported by growth in engineering and IT.

Rhodes Corporate Park

Sydney’s suburban office markets are undergoing a period of transformation as the State government’s decentralisation policy comes into effect, and commercial space is withdrawn from smaller sub-markets such as Burwood, Ashfield and Hurstville. There has also been a spill-over from tenants seeking more affordable accommodation, such as KPMG who are taking ~4,000 square metres of space at Rhodes Corporate Park.

Parramatta continues to emerge as a market, although there is a significant rent disparity between Rhodes ($450 - $500 gross per square metre) and Parramatta ($600 - $675 gross per square metre). The affordability of the rents at Rhodes continue to underpin our confidence in the long-term prospects for the precinct, and our ability to generate growth over the long term.

Distributions

Distributions of $13,842,000 were declared by the Group during the half-year ended 31 December 2018 (31 December 2017: $13,364,000).

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

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 periods.

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 2019

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19 February 2019

The Board of Directors
APN Funds Management Limited
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 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 sincerely

DELOITTE TOUCHE TOHMATSU

Neil Brown
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
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Independent Auditor's Review Report to the Shareholders of APN Industria REIT

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of APN Industria 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 8 to 24.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Responsible Entity of the Group ("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.

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 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 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

DELOITTE TOUCHE TOHMATSU

Neil Brown
Partner
Chartered Accountants

Melbourne, 19 February 2019

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 Trust 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, 19 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		25,463	23,405
Straight line rental income recognition		1,699	2,027
Total revenue from continuing operations		**27,162**	**25,432**
Other income			
Interest income		23	18
Net fair value gain / (loss) on investment properties	4	1,049	(1,357)
Fair value (loss) / gain on derivatives		(574)	340
Total other income		**498**	**(999)**
Total income		**27,660**	**24,433**
Expenses			
Property costs		(5,675)	(4,696)
Management fees	10	(1,908)	(1,780)
Finance costs		(4,234)	(3,506)
Auditors' remunerations		(90)	(70)
Other expenses		(345)	(284)
Total expenses		**(12,252)**	**(10,336)**
Net profit / (loss) before tax		**15,408**	**14,097**
Income tax expense		(827)	(309)
Profit / (loss) after tax		**14,581**	**13,788**
Attributable to:			
Security holders of Industria Trust No. 1		12,010	10,044
Security holders of non-controlling interests[1]		2,571	3,744
		14,581	**13,788**
Other comprehensive income		-	-
Profit / (loss) for the period		**14,581**	**13,788**
Profit / (loss) for the year is attributable to:			
Security holders of Industria Trust No. 1		12,010	10,044
Security holders of non-controlling interests[1]		2,571	3,744
		14,581	**13,788**
Earnings per security			
Basic and diluted (cents per security)	7	8.95	8.46

[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 2018

	Notes	31 December 2018 $'000	30 June 2018 $'000
Current assets			
Cash and cash equivalents		5,125	1,659
Trade and other receivables		539	1,134
Other assets		447	462
Total current assets		**6,111**	**3,255**
Non-current assets			
Investment properties	4	691,759	660,732
Total non-current assets		**691,759**	**660,732**
Total assets		**697,870**	**663,987**
Current liabilities			
Trade and other payables		(6,361)	(3,904)
Derivative financial instruments	8	(637)	(418)
Distributions payable	6	(6,921)	(6,839)
Borrowings		(46,057)	-
Total current liabilities		**(59,976)**	**(11,161)**
Non-current liabilities			
Payables		(481)	(390)
Derivative financial instruments	8	(1,622)	(1,267)
Borrowings	8	(188,927)	(205,871)
Deferred tax liability		(6,171)	(5,344)
Total non-current liabilities		**(197,201)**	**(212,872)**
Total liabilities		**(257,177)**	**(224,033)**
Net assets		**440,693**	**439,954**
Equity			
Securityholders of Industria Trust No. 1:			
Contributed equity	5	220,152	220,152
Retained earnings		99,876	98,552
Securityholders of non-controlling interests[1]:			
Contributed equity	5	82,640	82,640
Retained earnings		38,025	38,610
Total equity		**440,693**	**439,954**
Net tangible assets per security ($)		2.71	2.70

[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 2018

	Notes	Contributed equity $'000	Retained earnings $'000	Total $'000	Non-controlling interests[1] $'000	Total equity $'000
Balance at 1 July 2017		**220,635**	**75,565**	**296,200**	**123,160**	**419,360**
Net profit / (loss) for the period		-	10,044	10,044	3,744	13,788
Other comprehensive income		-	-	-	-	-
Profit / (loss) for the period		**-**	**10,044**	**10,044**	**3,744**	**13,788**
Securities buy-back	5	(481)	-	(481)	(200)	(681)
Distributions paid or payable	6	-	(7,000)	(7,000)	(6,364)	(13,364)
Balance at 31 December 2017		**220,154**	**78,609**	**298,763**	**120,340**	**419,103**
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**
Securities buy-back	5	-	-	-	-	-
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**

[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 2018

	Notes	31 December 2018 $'000	31 December 2017 $'000
Cash flows from operating activities			
Net rental income received		25,315	21,878
Payments to suppliers		(3,694)	(5,780)
Interest received		23	18
Finance costs paid		(4,089)	(3,338)
Net cash inflow / (outflow) from operating activities		**17,555**	**12,778**
Cash flows from investing activities			
Payments for acquisition of investment properties		(27,835)	-
Payments for capital expenditure on investment properties		(1,404)	(2,099)
Net cash inflow / (outflow) from investing activities		**(29,239)**	**(2,099)**
Cash flows from financing activities			
Net proceeds from borrowings		28,910	11,787
Payment for securities buy-back		-	(681)
Distributions paid		(13,760)	(19,737)
Net cash inflow / (outflow) from financing activities		**15,150**	**(8,631)**
Net increase / (decrease) in cash and cash equivalents		3,466	2,048
Cash and cash equivalents at the beginning of the period		1,659	435
Cash and cash equivalents at the end of the period		**5,125**	**2,483**

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 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. 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 2018 $'000	30 June 2018 $'000
Industrial and office properties	688,374	657,405
Land held for development	3,385	3,327
	691,759	**660,732**

4.1. Reconciliation of carrying amounts

	31 December 2018 $'000	30 June 2018 $'000
Carrying amount at beginning of the period	660,732	638,000
Purchase of investment properties	27,835	-
Capital additions to investment properties	1,404	2,907
Movement in deferred lease incentives	(1,018)	(1,536)
Straight line revenue recognition	1,699	3,906
Net gain / (loss) on fair value adjustments[1]	1,049	17,341
Interest capitalised to land held for development[2]	58	114
Carrying amount at end of the period	**691,759**	**660,732**

[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 3.64% during the period (30 June 2018: 3.43%).*

Included within the investment property fair value is a deduction of $3,510,000 representing lease incentive commitments the Group will need to provide under the lease contracts (30 June 2018: $2,526,000).

4.2. Individual valuation and carrying amounts

The investment property portfolio comprises 24 properties located throughout Victoria, New South Wales, Queensland and South Australia. As at 31 December 2018, two 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 CBRE Valuations Pty Ltd ("CBRE") in the current half-year (30 June 2018: CBRE and M3 Property (Vic) Pty Ltd).

The remaining 22 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 2018 $'000	30 Jun 2018 $'000	31 Dec 2018 %	30 Jun 2018 %	31 Dec 2018 %	30 Jun 2018 %
Industrial properties									
34 Australis Drive, Derrimut, VIC	Freehold	Jun 2018	29,250	29,250	29,250	6.50%	6.50%	7.00%	7.00%
80-96 South Park Drive, Dandenong South, VIC	Freehold	Jun 2018	23,500	23,500	23,500	6.75%	6.75%	7.00%	7.00%
89 West Park Drive, Derrimut, VIC	Freehold	Jun 2018	21,000	21,000	21,000	6.00%	6.00%	6.75%	6.75%
32-40 Garden Street, Kilsyth, VIC	Freehold	Jun 2018	18,250	18,250	18,250	6.50%	6.50%	7.00%	7.00%
5 Butler Boulevard, Adelaide Airport, SA (a)	Sub-leasehold	Jun 2018	14,000	14,000	14,000	8.61%	8.61%	9.25%	9.25%
1-3 Westrac Drive, Tomago, NSW	Freehold	Jun 2018	197,000	197,000	197,000	6.00%	6.00%	8.00%	8.00%
140 Sharps Road, Tullamarine, VIC (a)	Sub-leasehold	Jun 2018	13,500	13,500	13,500	8.25%	8.25%	7.25%	7.25%
13 Ricky Way, Epping, VIC (b)	Freehold	Jul 2018	7,600	7,600	-	6.50%	-	7.25%	-
10 Jersey Drive, Epping, VIC (b)	Freehold	Jul 2018	8,100	8,100	-	6.50%	-	7.25%	-
1 West Park Drive, Derrimut, VIC (b)	Freehold	Sep 2018	10,575	10,575	-	6.75%	-	7.25%	-
Office properties									
7 Clunies Ross Court and 17-19 McKechnie Drive, BTP, QLD	Freehold	Jun 2017	44,000	44,471	44,145	7.50%	7.50%	8.25%	8.25%
BTP Central, BTP, QLD #	Freehold	Jun 2017	37,788	38,270	38,090	7.50%	7.50%	8.25%	8.25%
8 Clunies Ross Court and 9 McKechnie Drive, BTP, QLD	Freehold	Jun 2017	23,000	23,400	23,420	8.00%	8.00%	8.50%	8.50%
37 Brandl St, BTP, QLD	Freehold	Jun 2017	14,700	14,999	14,999	7.38%	7.38%	8.00%	8.00%
18 Brandl St, BTP, QLD	Freehold	Jun 2017	12,600	12,843	12,709	8.00%	8.00%	8.25%	8.25%
88 Brandl St, BTP, QLD	Freehold	Jun 2017	14,500	15,116	14,939	7.75%	7.75%	8.25%	8.25%
Building A, 1 Homebush Bay Drive, Rhodes, NSW	Freehold	Dec 2018	110,500	110,500	110,008	6.00%	6.25%	7.00%	7.25%
Building C, 1 Homebush Bay Drive, Rhodes, NSW	Freehold	Dec 2018	86,000	86,000	82,595	6.00%	6.00%	7.00%	7.25%
Land held for development									

45 and 45B McKechnie Drive, BTP, QLD [(c)]	Freehold	N/A	N/A	3,385	3,327
Total investment properties			**685,863**	**691,759**	**660,732**

[#] *The BTP Central portfolio comprises five assets located within BTP. Each asset was individually valued by the Group's internal property team and have been reviewed and approved by the Board as at 31 December 2018 (30 June 2018: internal valuation reviewed and approved by the Board).*

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 2018	30 June 2018
Industrial properties	6.36%	6.34%
Office properties	6.71%	6.79%
Group's investment properties portfolio (excluding land)	**6.53%**	**6.58%**

(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"), whom hold head leases from the Commonwealth of Australia.

Based on management's analysis, the impact of AASB 16 will be limited to the recognition and measurement of the Group's existing ground rental obligations to the relevant Airport Authority. The undiscounted minimum lease payments under the non-cancellable ground leases not recognised in the condensed consolidated financial statements as at 31 December 2018 totaled $33,225,000.

The net present value of the right-of-use ("ROU") asset and corresponding lease liability to be recognised in the consolidated statement of financial position upon initial application of AASB 16 at 1 July 2019 is estimated to be $17 million. The estimated impact on the Group's financial performance for the financial year ending 30 June 2020 is a reduction in statutory profit of approximately $620,000, arising from expense recognition on depreciation of the ROU asset and unwinding of the NPV of the lease liability, offset by non-recognition of operating lease expense that would have been recognised prior to the application of AASB 16.

Management's estimates and assumptions are based on known facts and are reasonable under existing circumstances at the date the condensed consolidated financial statements were authorised for issue. The actual impact upon initial application of AASB 16 may differ from management's current estimates as fact and circumstances may change.

(b) Acquisitions

During the half-year period, the Group acquired three industrial properties, being 13 Ricky Way and 10 Jersey Drive, Epping, VIC and 1 West Park Drive, Derrimut, VIC for a total of $26,275,000 (excluding transaction costs). These acquisitions were financed with debt drawn from the Group's existing revolving cash advance facility.

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 security holders 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	302,792	303,476
Securities buy-back	-	(681)
At the end of the period	**302,792**	**302,795**
Attributable to:		
Securityholders of Industria Trust No.1	220,152	220,154
Securityholders of non-controlling interests	82,640	82,641
	302,792	**302,795**

5.2. Number of securities on issue

	31 December 2018 No.	31 December 2017 No.
At the beginning of the period	162,839,743	163,113,881
Securities bought-back	-	(274,138)
At the end of the period	**162,839,743**	**162,839,743**

6. DISTRIBUTIONS

	31 December 2018		31 December 2017	
	Cents per security	$'000	Cents per security	$'000
Distributions paid during the period:				
Period ended 30 Sep	4.2500	6,921	4.1000	6,688
Distributions payable:				
Period ended 31 Dec	4.2500	6,921	4.1000	6,676
Total distributions paid/payable	**8.5000**	**13,842**	**8.2000**	**13,364**

7. EARNINGS PER SECURITY

	31 December 2018	31 December 2017
Profit / (loss) after tax ($'000)	14,581	13,788
Weighted average number of securities outstanding (thousands)	162,840	162,985
Basic and diluted earnings (cents per security)	**8.95**	**8.46**

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

8. BORROWINGS

	31 December 2018 $'000	30 June 2018 $'000
Current bank loans – secured [1]	46,057	-
Non-current bank loans – secured [2]	188,927	205,871
	234,984	**205,871**

[1] Includes current unamortised borrowing costs of $193,000 (30 June 2018: $nil) that have been allocated against the total amount draw at balance date.

[2] Includes non-current unamortised borrowing costs of $626,000 (30 June 2018: $829,000) that have been allocated against the total amount drawn at balance date.

8.1. Summary of borrowing arrangements

APN Industria REIT has a $240 million revolving cash advance facility (drawn to $236 million at the reporting date) with two major Australian banks.

	31 December 2018 $'000	30 June 2018 $'000
Loan facility limit	240,000	240,000
Facilities drawn at balance date	235,610	206,700
Facilities not drawn at balance date	**4,390**	**33,300**

As at 31 December 2018, the revolving cash advance facility has the following expiry profile:

- Tranche A2: $36,250,000 – repayable September 2019;
- Tranche C2: $10,000,000 – repayable September 2019;
- Tranche B1: $36,250,000 – repayable December 2020;
- Tranche B2: $86,250,000 – repayable September 2021;
- Tranche A1: $56,250,000 – repayable June 2023; and
- Tranche C1: $15,000,000 – repayable June 2023.

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). Preliminary discussions have commenced with financiers to extend the term of the two tranches totalling $46,250,000 that will be maturing in September 2019.

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 2018
Loan to Value Ratio ("LVR")	At all times, LVR does not exceed 55%.	34.23%
Gearing Ratio	At all times, gearing ratio does not exceed 55%.	36.45%
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.	4.92 times
Weighted Average Lease Length to Expiry ("WALE")	WALE for the portfolio will be greater than 2.5 years.	6.48 years

8.2. 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 2018 $'000	30 June 2018 $'000
Current liabilities		
Interest rate contracts	637	418
Non-current liabilities		
Interest rate contracts	1,622	1,267

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	-	(2,259)	-	(2,259)
Total	**-**	**(2,259)**	**-**	**(2,259)**

	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	-	(1,685)	-	(1,685)
Total	**-**	**(1,685)**	**-**	**(1,685)**

There were no transfers between Levels during the half-year.

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 as 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 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.

10.2. 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 2018		31 December 2017	
	Paid $'000	Payable $'000	Paid $'000	Payable $'000
Management fees[1]	946	962	886	894
Property management and leasing fees[2]	-	64	125	-
Reimbursement of costs paid	36	3	25	3
	982	**1,029**	**1,036**	**897**

[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.*

10.3. 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 2018		31 December 2017	
	Number of securities	Distributions $	Number of securities	Distributions $
APN Property Group Limited	26,995,821	2,292,746	26,816,913	2,200,299
APN AREIT Fund	4,799,094	407,923	6,499,094	532,925
APN CFS AREIT Fund	748,009	63,581	883,009	67,216
APN Property for Income Fund	500,005	42,500	823,005	76,889
APN Property for Income Fund 2	167,605	14,246	287,605	28,053
Geoff Brunsdon AM	62,500	5,313	62,500	5,125
Chris Aylward	-	6,375	148,569	12,183
Tim Slattery	3,666	312	25,666	2,105
Total	**33,276,700**	**2,832,996**	**35,546,361**	**2,924,795**

As at 31 December 2018, 20.44% (2017: 21.83%) of APN Industria REIT stapled securities were held by 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 significantly affect, the operations of the Group, the results of the Group, 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 their 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")	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 Group's primary revenue source is rental income from its investment in business park properties. Rental income is not within scope of AASB 15. The Group's other revenue balances are immaterial and consist of interest income, fair value gains from investment properties and derivatives. All of these are outside the scope of AASB 15 and therefore the Group has not revised its existing accounting policies upon adoption of the new revenue recognition rules.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 Trust 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 introduces a comprehensive model for the identification, recognition and measurement of lease arrangements for lessors and lessees. The recognition and measure of lease arrangements for lessors remain substantially unchanged. 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"), whom hold head leases from the Commonwealth of Australia. Based on management's analysis, the impact of AASB 16 will be limited to the recognition and measurement of the Group's existing ground rental obligations to the relevant Airport Authority. The undiscounted minimum lease payments under the non-cancellable ground leases not recognised in the condensed consolidated financial statements as at 31 December 2018 totaled $33,225,000. The net present value of the ROU asset and corresponding lease liability to be recognised in the consolidated statement of financial position upon initial application of AASB 16 at 1 July 2019 is estimated to be $17 million. The estimated impact on the Group's financial performance for the financial year ending 30 June 2020 is a reduction in statutory profit of approximately $620,000, arising from expense recognition on depreciation of the ROU asset and unwinding of the NPV of the lease liability, offset by non-recognition of operating lease expense that would have been recognised prior to the application of AASB 16. Management's estimates and assumptions are based on known facts and are reasonable under existing circumstances at the date the condensed consolidated financial statements were authorised for issue. The actual impact upon initial application of AASB 16 may differ from management's current estimates as fact and circumstances may change.