

APPENDIX 4D

APN Industria REIT

Half-Year Report

Half-year ended 31 December 2020

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 4.52% to 31,768 | |
| Profit from ordinary activities after tax attributable to members | down 18.90% to 31,850 | |
| Net profit for the period attributable to members | down 18.90% to 31,850 | |
| Funds from operations (FFO) ¹ | up 8.18% to 19,788 | |
| Net tangible assets per security | 31 Dec 2020 \$2.88 | 30 Jun 2020 \$2.82 |

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

| Funds From Operations (FFO) | | |
|---|--------------------|--------------------|
| | 31 Dec 2020 | 31 Dec 2019 |
| | \$'000 | \$'000 |
| Net profit attributable to securityholders | 31,850 | 39,271 |
| Adjusted for: | | |
| - Straight line lease revenue recognition | (904) | (1,277) |
| - Net loss / (profit) on change in fair value of: | | |
| Investment properties | (13,779) | (21,466) |
| Right of use asset | 62 | (202) |
| Derivatives | (719) | (175) |
| - Reversal of movement in lease liabilities | (48) | (34) |
| - Amortisation of leasing costs and rent-free adjustments | 2,415 | 2,161 |
| - Deferred tax expense | 1,590 | 223 |
| - Other one-off items | (679) | (210) |
| FFO | 19,788 | 18,291 |
| Key financial metrics | | |
| Distributions declared (\$'000) | 17,513 | 16,563 |
| Distributions per security (cents per security) | 8.60 | 8.75 |
| FFO payout ratio (%) | 86.31% | 87.75% |

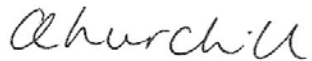
Other Information

| Distributions | Amount per security (cents) | \$'000 |
|---|---|---------------|
| Quarter ended 30 Sep 2020 (197,525,519 units on issue) | 4.3000 | 8,493 |
| Quarter ended 31 Dec 2020 (209,763,282 units on issue) | 4.3000 | 9,020 |
| | 8.6000 | 17,513 |
| Previous corresponding period | 8.7500 | 16,563 |
| Record date for determining entitlements to the distribution | 31 December 2020 | |
| 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

17 February 2021

'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 2020

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 2020.

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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 2020. 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 |
| Joseph De Rango | 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.

The Group did not have any employees during the period.

Significant changes in state of affairs

During the period, the Group raised \$35 million from the institutional placement ("Placement") announced on the ASX on 10 December 2020. All new stapled securities issued ranks equally with the Group's existing securities and were fully entitled to the distribution for the quarter ended 31 December 2020.

There were no other significant changes in the state of affairs of the Group during the half-year.

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 2020 \$'000 | Half-year ended 31 December 2019 \$'000 |
|---|---|---|
| Net rental income | 25,988 | 24,346 |
| Operating expenses | (2,822) | (2,552) |
| Net profit before interest, tax and other items | 23,166 | 21,794 |
| Net fair value gain on investment properties | 13,779 | 21,466 |
| Net fair value (loss) / gain on investment properties - right-of-use ("ROU") assets | (62) | 202 |
| Fair value gain on derivatives | 719 | 175 |
| Net interest expense | (4,162) | (4,143) |
| Net profit before tax | 33,440 | 39,494 |
| Income tax expense – deferred | (1,590) | (223) |
| Profit after tax | 31,850 | 39,271 |

Directors' report (continued)

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 non-cash items including fair value movements, straight-line lease accounting adjustments and amortisation of leasing costs and incentives.

A reconciliation of statutory net profit to FFO is outlined as follows:

Funds from Operations

| | Half-year ended 31 December 2020 \$'000 | Half-year ended 31 December 2019 \$'000 |
|--|---|---|
| Statutory net profit after tax for the period | 31,850 | 39,271 |
| <i>Adjusted for:</i> | | |
| Reversal of straight-line lease revenue recognition | (904) | (1,277) |
| Reversal of fair value (gain) on investment properties | (13,779) | (21,466) |
| Reversal of fair value loss / (gain) on investment properties - ROU assets | 62 | (202) |
| Reversal of fair value (gain) on derivatives | (719) | (175) |
| Reversal of movement in lease liabilities | (48) | (34) |
| Add back amortised leasing costs and rent-free adjustments | 2,415 | 2,161 |
| Add back income tax expense | 1,590 | 223 |
| Other one-off items ¹ | (679) | (210) |
| FFO | 19,788 | 18,291 |
| Key financial performance metrics: | | |
| FFO per security (cents) | 9.96 c | 9.97 c |
| Distributions per security (cents) | 8.60 c | 8.75 c |
| Payout Ratio (Distribution per security / FFO per security) | 86.31% | 87.75% |
| Statutory earnings per security (cents per security) | 16.04 c | 21.41 c |
| Weighted average securities on issue (thousands) ² | 198,590 | 183,433 |
| Securities on issue (thousands) | 209,763 | 197,426 |
| Distributions declared (thousands) | \$17,513 | \$16,563 |

¹ Rental and income support received subsequent to the acquisition of 10 Brandl St, Eight Mile Plains, QLD have been excluded in the Group's FFO calculation due to its temporary nature (consistent with the ASX disclosure dated 15 October 2019).

² Assuming no change to the number of securities on issue post allotment of the new stapled securities under the Security Purchase Plan on 29 January 2021, the anticipated weighted average number of securities on issue for the financial year ending 30 June 2021 will be 207,106,350.

Statutory net profit after tax for the period was \$31.85 million, \$7.42 million lower than the prior period and total Funds From Operations increased by \$1.50 million to \$19.79 million. The key drivers of a higher FFO in the current period resulted from:

- Organic growth from contracted leases with fixed growth; and
- Higher rental revenue arising from newly acquired investment properties.

Directors' report (continued)

Net tangible assets, asset valuations, and market outlook

The investment properties portfolio (excluding the ROU assets) increased by a total of \$97.17 million, driven by two acquisitions totalling \$74.95 million and revaluation gains of \$13.78 million.

Revaluation highlights include:

- \$6.0 million (12%) uplift at 7 Clunies Ross Court, Brisbane Technology Park, which was largely the result the successful execution of the small suite leasing strategy proving up rent profiles and generating additional cash flow, resulting in the cap rate reducing 75 basis points to 6.5%;
- \$5.3 million (29%) uplift at 60 Grindle Road, Wacol, as the valuer increased the market rent in-line with passing rent and compressed the cap rate by 75 basis points to 7.0%. This property benefits from a weighted average lease expiry (WALE) of 8.0 years;
- \$3.7 million (19%) uplift at 32 – 40 Garden St, Kilsyth, following the early-renewal of the lease to June 2030, an increase of 5 years. Securing the cash flow for an additional 5-year term reduced the risk profile of the property and resulted in the valuer compressing the cap rate by 75 basis points to 5.5%.

Leasing

Leasing is a key driver of outcomes across the portfolio and is always a focus for the management team and Board. Approximately 25,100 square metres of leasing was completed, and the highlights included:

- 1,750 square metres leased at Brisbane Technology Park (BTP), across 18 deals, with the majority of the leases for tenants taking areas less than 200 square metres, which remains a relatively resilient and active part of the market;
- 22,625 square metres leased across three industrial properties:
 - 10,641 square metres at 32 – 40 Garden St, Kilsyth, as outlined above
 - 10,242 square metres at 80 – 96 South Park Drive, Dandenong South, following the completion of a new 7-year lease

Impacts relating to COVID-19

The revenue concessions associated with COVID-19 was limited to \$33,000, which equates to 0.1% of total gross rent. Concessions were provided in the form of rental abatements provided to three tenants that met the criteria outlined by the Queensland and New South Wales State Governments.

The strong rent collection performance demonstrates the resilience of the tenants that underpin the cash flow performance and reflect the focus of the APN management team that have remained diligent and collaborative when working with the tenants across the portfolio.

Distributions

Distributions of \$17,513,000 were declared by the Group during the half-year ended 31 December 2020 (31 December 2019: \$16,563,000).

For full details of distributions paid and/or payable during the half-year, refer to note 8 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

Other than those disclosed in note 14, 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 section 306(3) of the *Corporations Act 2001*.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'G. Brunsdon', with a long horizontal line extending to the right.

Geoff Brunsdon AM
Director

Melbourne, 17 February 2021

17 February 2021

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

Dear Board Members

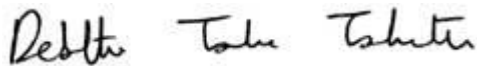
Auditor's Independence Declaration - APN Industria REIT

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the board of directors of APN Funds Management Limited, in its capacity as the Responsible Entity of APN Industria REIT.

As lead audit partner for the review of the financial report of APN Industria REIT for the half-year ended 31 December 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Neil Brown
Partner
Chartered Accountants

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

Conclusion

We have reviewed the half-year financial report of APN Industria REIT, being Industria Trust No.1 (the "Trust") and its controlled entities (together, the "Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2020, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out in pages 8 to 28.

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 Group's financial position as at 31 December 2020 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*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Fund and Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Responsible Entity of the Fund and Group (the "Directors"), would be in the same terms if given to the Directors as at the time of this auditor's review report.

Directors' Responsibility for the Half-Year Financial Report

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 Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether 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 Groups's financial position as at 31 December 2020 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*.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Asia Pacific Limited and the Deloitte organisation.

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 TOUCHE TOHMATSU



Neil Brown
Partner
Chartered Accountants

Melbourne, 17 February 2021

Directors' declaration

The directors of APN Funds Management Limited, the Responsible Entity of Industria Trust No. 1, 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; and
- (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 give 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 section 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, 17 February 2021

Condensed consolidated statement of profit or loss and other comprehensive income

for the half-year ended 31 December 2020

| | Notes | Half-year ended 31 December 2020 \$'000 | Half-year ended 31 December 2019 \$'000 |
|---|-------|---|---|
| Revenue | 5 | 30,864 | 29,117 |
| Straight-line rental income recognition | | 904 | 1,277 |
| Total revenue from continuing operations | | 31,768 | 30,394 |
| Other income | | | |
| Interest income | | 11 | 16 |
| Net fair value gain on investment properties | | 13,779 | 21,466 |
| Net fair value (loss) / gain on investment properties – right-of-use (“ROU”) assets | | (62) | 202 |
| Fair value gain on derivatives | | 719 | 175 |
| Total other income | | 14,447 | 21,859 |
| Total income | | 46,215 | 52,253 |
| Expenses | | | |
| Property costs | | (5,780) | (6,048) |
| Management fees | 13 | (2,319) | (2,129) |
| Finance costs | 10 | (4,173) | (4,159) |
| Other expenses | | (503) | (423) |
| Total expenses | | (12,775) | (12,759) |
| Net profit / (loss) before tax | | 33,440 | 39,494 |
| Income tax expense | 4 | (1,590) | (223) |
| Profit / (loss) after tax | | 31,850 | 39,271 |
| Attributable to: | | | |
| Securityholders of Industria Trust No. 1 | | 25,080 | 37,193 |
| Securityholders of non-controlling interests ¹ | | 6,770 | 2,078 |
| | | 31,850 | 39,271 |
| Other comprehensive income | | - | - |
| Total comprehensive income for the period | | 31,850 | 39,271 |
| Total comprehensive income for the period is attributable to: | | | |
| Securityholders of Industria Trust No. 1 | | 25,080 | 37,193 |
| Securityholders of non-controlling interests ¹ | | 6,770 | 2,078 |
| | | 31,850 | 39,271 |
| Earnings per security | | | |
| Basic and diluted (cents per security) | 9 | 16.04 | 21.41 |

¹ Non-controlling interests represents the profit / (loss) for the period attributable to Industria Trust No. 2, Industria Trust No. 3, Industria Trust No. 4 and Industria Company No. 1 Limited.

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

Condensed consolidated statement of financial position

as at 31 December 2020

| | Notes | 31 December 2020 \$'000 | 30 June 2020 \$'000 |
|--|-------|----------------------------|------------------------|
| Current assets | | | |
| Cash and cash equivalents | | 4,988 | 4,928 |
| Trade and other receivables | | 609 | 377 |
| Other assets | | 2,322 | 733 |
| Total current assets | | 7,919 | 6,038 |
| Non-current assets | | | |
| Investment properties | 6 | 923,648 | 826,481 |
| Investment properties – ROU assets | 6 | 20,097 | 20,159 |
| Total non-current assets | | 943,745 | 846,640 |
| Total assets | | 951,664 | 852,678 |
| Current liabilities | | | |
| Trade and other payables | | (6,033) | (7,735) |
| Distributions payable | | (9,020) | (8,199) |
| Derivative financial instruments | 10 | (2,496) | (2,671) |
| Lease liabilities | 6 | (115) | (101) |
| Borrowings | 10 | (85,797) | - |
| Total current liabilities | | (103,461) | (18,706) |
| Non-current liabilities | | | |
| Payables | | (1,030) | (1,003) |
| Derivative financial instruments | 10 | (5,175) | (5,719) |
| Borrowings | 10 | (206,605) | (242,014) |
| Lease liabilities | 6 | (19,082) | (19,144) |
| Deferred tax liability | | (9,707) | (8,150) |
| Total non-current liabilities | | (241,599) | (276,030) |
| Total liabilities | | (345,060) | (294,736) |
| Net assets | | 606,604 | 557,942 |
| Equity | | | |
| <i>Securityholders of Industria Trust No. 1:</i> | | | |
| Contributed equity | 7 | 317,182 | 291,216 |
| Retained earnings | | 132,255 | 121,053 |
| <i>Securityholders of non-controlling interests¹:</i> | | | |
| Contributed equity | 7 | 115,714 | 107,354 |
| Retained earnings | | 41,453 | 38,319 |
| Total equity | | 606,604 | 557,942 |
| Net tangible assets per security (\$) | | 2.88 | 2.82 |

¹ Non-controlling interests represents the net assets attributable to Industria Trust No. 2, Industria Trust No. 3, Industria Trust No. 4 and Industria Company No. 1 Limited.

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 2020

| | Notes | Contributed equity \$'000 | Retained earnings \$'000 | Total \$'000 | Non-controlling interests ¹ \$'000 | Total equity \$'000 |
|---|-------|------------------------------|-----------------------------|-----------------|--|------------------------|
| Balance at 1 July 2019 | | 255,832 | 96,112 | 351,944 | 138,078 | 490,022 |
| Profit after tax for the period | | - | 37,193 | 37,193 | 2,078 | 39,271 |
| Other comprehensive income | | - | - | - | - | - |
| Total comprehensive income for the period | | - | 37,193 | 37,193 | 2,078 | 39,271 |
| Issue of new securities | 7 | 35,706 | - | 35,706 | 11,159 | 46,865 |
| Security issuance costs (net of income tax benefit) | 7 | (542) | - | (542) | (141) | (683) |
| Distributions paid or payable | 8 | - | (13,170) | (13,170) | (3,393) | (16,563) |
| Balance at 31 December 2019 | | 290,996 | 120,135 | 411,131 | 147,781 | 558,912 |
| Balance at 1 July 2020 | | 291,216 | 121,053 | 412,269 | 145,673 | 557,942 |
| Profit after tax for the period | | - | 25,080 | 25,080 | 6,770 | 31,850 |
| Other comprehensive income | | - | - | - | - | - |
| Total comprehensive income for the period | | - | 25,080 | 25,080 | 6,770 | 31,850 |
| Issue of new securities | 7 | 26,502 | - | 26,502 | 8,498 | 35,000 |
| Security issuance costs (net of income tax benefit) | 7 | (536) | - | (536) | (139) | (675) |
| Distributions paid or payable | 8 | - | (13,878) | (13,878) | (3,635) | (17,513) |
| Balance at 31 December 2020 | | 317,182 | 132,255 | 449,437 | 157,167 | 606,604 |

¹ Non-controlling interests represent the equity attributable to Industria Trust No. 2, Industria Trust No. 3, Industria Trust No. 4 and Industria Company No. 1 Limited.

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 2020

| | Notes | 31 December 2020 \$'000 | 31 December 2019 \$'000 |
|---|-------|----------------------------|----------------------------|
| Cash flows from operating activities | | | |
| Net rental income received | | 28,576 | 27,764 |
| Other expenses paid | | (7,138) | (7,657) |
| Interest received | | 10 | 16 |
| Finance costs paid | | (3,918) | (3,788) |
| Net cash inflow from operating activities | | 17,530 | 16,335 |
| Cash flows from investing activities | | | |
| Payments for acquisition of investment properties | | (81,166) | (60,804) |
| Payments for capital expenditure on investment properties | | (3,967) | (1,607) |
| Net cash (outflow) from investing activities | | (85,133) | (62,411) |
| Cash flows from financing activities | | | |
| Net proceeds from borrowings | | 50,435 | 35,398 |
| Net proceeds from issue of new securities | 7 | 35,000 | 46,865 |
| Equity issuance costs paid | | (708) | (715) |
| Payments for ground rent | | (372) | - |
| Distributions paid | | (16,692) | (15,624) |
| Net cash inflow from financing activities | | 67,663 | 65,924 |
| Net increase in cash and cash equivalents | | 60 | 19,848 |
| Cash and cash equivalents at the beginning of the period | | 4,928 | 2,435 |
| Cash and cash equivalents at the end of the period | | 4,988 | 22,283 |

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

Notes to the condensed consolidated financial statements

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ABOUT THIS REPORT

1. GENERAL INFORMATION

APN Industria REIT is a stapled entity listed on the Australian Securities Exchange, 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 17 February 2021.

2.1. Going concern and COVID-19 pandemic

The Group has assessed its ability to continue as a going concern taking into account of all information available for a period of 12 months from the date of issuing the condensed consolidated financial statements. Whilst the situation is still evolving, the directors of the Responsible Entity remain confident that the Group will be able to continue trading and realise assets and discharge liabilities in its ordinary course of business despite the net current liabilities position presented in the condensed consolidated statement of financial position. In reaching this position, the following factors have been considered:

- the Group has adequate levels of liquidity through its operating cash flows and has available debt lines to be drawn if required. Preliminary discussions have commenced with financiers to extend the term of the \$86,250,000 debt facility maturing in September 2021 which is presented as a current liability in the condensed consolidated statement of financial position. The Group's total undrawn debt facility as at the date of issuing the condensed consolidated financial statements is \$100.66 million;
- the Group does not have any significant credit risk exposure to any single tenant counterparty or counterparties and holds \$1.22 million of security or other collateral from its tenants;
- the Group has adequate levels of headroom with respect to its financial and non-financial covenants and the Group does not expect any covenants to be breached; and
- the Group's debt is hedged to a level of 50%.

Given consideration to the above, the Directors of the Responsible Entity believe that the Group will be able to meet its debts as and when they fall due for at least a period of 12 months from the date of the interim financial statements. Therefore, the condensed consolidated financial statements have been prepared on a going concern basis.

2.2. 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.

Notes to the condensed consolidated financial statements (continued)

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 2020, 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 15. 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. INCOME TAXES

4.1. Income tax recognised in the condensed consolidated statement of profit or loss and other comprehensive income

| | 31 December 2020 \$'000 | 31 December 2019 \$'000 |
|--|----------------------------|----------------------------|
| <i>Tax expense comprises:</i> | | |
| Deferred tax expense relating to the origination and reversal of temporary differences | 1,590 | 223 |

The expense for the half-year can be reconciled to the accounting profit as follows:

| | 31 December 2020 \$'000 | 31 December 2019 \$'000 |
|---|----------------------------|----------------------------|
| Net profit from continuing operations | 33,440 | 39,494 |
| Less: profit relating to the Group's non-taxable Trusts | (28,107) | (38,931) |
| Taxable profit of the Group | 5,333 | 563 |
| Prima facie tax payable @ 30% (2019: 30%) | (1,600) | (169) |
| <i>Add / (subtract) the tax effect of:</i> | | |
| Differences in accounting and tax asset values | 10 | - |
| Under provision from previous years | - | 54 |
| Total tax expense | (1,590) | (223) |

Notes to the condensed consolidated financial statements (continued)

4.2. Deferred tax balances

| 31 December 2020 | Opening balance | Recognised in profit or loss | Recognised in equity | Closing balance |
|--|----------------------------|---|---------------------------------|----------------------------|
| Temporary differences | \$'000 | \$'000 | \$'000 | \$'000 |
| Provisions and accruals | 10 | (1) | - | 9 |
| Investment properties | (9,434) | (1,363) | - | (10,797) |
| Impairment of receivables | 90 | (90) | - | - |
| Capital raising costs recognised in equity | 65 | (20) | 33 | 78 |
| Fair value adjustments on derivatives | 271 | (66) | - | 205 |
| Tax losses carried forward | 848 | (50) | - | 798 |
| Net deferred tax liabilities | (8,150) | (1,590) | 33 | (9,707) |

| 31 December 2019 | Opening balance | Recognised in profit or loss | Recognised in equity | Closing balance |
|--|----------------------------|---|---------------------------------|----------------------------|
| Temporary differences | \$'000 | \$'000 | \$'000 | \$'000 |
| Provisions and accruals | 9 | (1) | - | 8 |
| Investment properties | (9,365) | (114) | - | (9,479) |
| Capital raising costs recognised in equity | 68 | (24) | 33 | 77 |
| Fair value adjustments on derivatives | 234 | (41) | - | 193 |
| Tax losses carried forward | 894 | (43) | - | 851 |
| Net deferred tax liabilities | (8,160) | (223) | 33 | (8,350) |

For the half year ended 31 December 2020, there were no unrecognised carried forward capital losses (31 December 2019: \$nil).

5. REVENUE

Revenue from investment property comprises lease components (including base rent, recoveries of property tax and property insurance) and non-lease components that primarily costs of property outgoing recoveries.

| | 31 December 2020 \$'000 | 31 December 2019 \$'000 |
|----------------------|------------------------------------|------------------------------------|
| Rental income | 27,023 | 25,074 |
| Outgoing recoveries | 3,841 | 4,043 |
| Total revenue | 30,864 | 29,117 |

Notes to the condensed consolidated financial statements (continued)

6. 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 2020 | 30 June 2020 |
|----------------------------------|-------------------------|---------------------|
| | \$'000 | \$'000 |
| Industrial and office properties | 921,248 | 824,928 |
| Land held for development | 2,400 | 1,553 |
| | 923,648 | 826,481 |

6.1. Reconciliation of carrying amounts

| | 31 December 2020 | 30 June 2020 |
|---|-------------------------|---------------------|
| | \$'000 | \$'000 |
| Carrying amount at beginning of the period | 826,481 | 739,378 |
| Purchase of investment properties | 74,948 | 57,140 |
| Acquisition costs associated with purchase of investment properties | 4,739 | 3,737 |
| Capital additions to investment properties | 2,988 | 5,451 |
| Movement in deferred lease incentives | (191) | (2,198) |
| Straight line revenue recognition | 904 | 2,323 |
| Net gain on fair value adjustments ¹ | 13,779 | 20,650 |
| Carrying amount at end of the period | 923,648 | 826,481 |

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

6.2. Individual valuation and carrying amounts

The investment property portfolio comprises 32 properties and one land held for development located throughout Victoria, New South Wales, Queensland and South Australia. As at 31 December 2020, 26 properties were independently valued and the properties acquired during the period were externally valued at acquisition date. 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 M3 Property (Vic) Pty Ltd ("M3"), CIVAS (NSW) Pty Limited ("Colliers"), Urbis Valuations Pty Ltd ("Urbis") and Jones Lang Lasalle Australia ("JLL") (30 June 2020: JLL, Colliers and Savills).

The remaining five properties were subject to internal valuations performed by the Group's internal property team and have been reviewed and approved by the Board.

Notes to the condensed consolidated financial statements (continued)

| | | | Latest independent valuation | | Carrying amount | | Capitalisation rate | | Discount rate | |
|------------------------------|---|---------------|------------------------------|---------------------|--------------------|--------------------|---------------------|---------------|---------------|---------------|
| | | | Valuation date | \$'000 | 31 Dec 2020 \$'000 | 30 Jun 2020 \$'000 | 31 Dec 2020 % | 30 Jun 2020 % | 31 Dec 2020 % | 30 Jun 2020 % |
| Industrial properties | | | | | | | | | | |
| 1. | 34 Australis Drive, Derrimut, VIC | Freehold | Dec 2020 | 32,700 | 32,700 | 31,765 | 5.50% | 6.25% | 6.50% | 6.75% |
| 2. | 80-96 South Park Drive, Dandenong South, VIC | Freehold | Jun 2020 | 25,900 | 25,900 | 25,900 | 6.00% | 6.00% | 6.25% | 6.25% |
| 3. | 89 West Park Drive, Derrimut, VIC | Freehold | Dec 2020 | 22,000 | 22,000 | 22,000 | 5.50% | 6.00% | 6.50% | 6.50% |
| 4. | 32-40 Garden Street, Kilsyth, VIC | Freehold | Dec 2020 | 23,000 | 23,000 | 19,300 | 5.50% | 6.25% | 6.75% | 7.00% |
| 5. | 5 Butler Boulevard, Adelaide Airport, SA (excluding the right-of-use asset) | Sub-leasehold | Dec 2020 | 15,150 | 15,150 | 14,750 | 8.06% | 8.25% | 8.81% | 8.75% |
| 6. | 1-3 Westrac Drive, Tomago, NSW | Freehold | Jun 2020 | 222,000 | 222,150 | 222,000 | 5.75% | 5.75% | 7.25% | 7.25% |
| 7. | 140 Sharps Road, Tullamarine, VIC (excluding the right-of-use asset) | Sub-leasehold | Dec 2020 | 13,400 | 13,400 | 13,700 | 7.75% | 8.00% | 6.50% | 6.50% |
| 8. | 13 Ricky Way, Epping, VIC | Freehold | Jun 2020 | 9,000 | 9,017 | 9,000 | 5.75% | 5.75% | 7.00% | 7.00% |
| 9. | 10 Jersey Drive, Epping, VIC | Freehold | Jun 2020 | 9,500 | 9,500 | 9,500 | 5.75% | 5.75% | 7.00% | 7.00% |
| 10. | 1 West Park Drive, Derrimut, VIC | Freehold | Dec 2020 | 13,100 | 13,100 | 11,280 | 5.50% | 6.50% | 6.75% | 7.00% |
| 11. | 147-153 Canterbury Road, Kilsyth, VIC | Freehold | Dec 2020 | 10,200 | 10,200 | 9,502 | 6.50% | 7.25% | 6.75% | 7.50% |
| 12. | 3 Forbes Close, Knoxfield, VIC | Freehold | Dec 2020 | 9,200 | 9,200 | 8,901 | 5.50% | 5.75% | 6.00% | 5.75% |
| 13. | 4 Forbes Close, Knoxfield, VIC | Freehold | Dec 2020 | 11,000 | 11,000 | 10,486 | 5.50% | 5.75% | 6.00% | 5.75% |
| 14. | 81-83 Rushdale Street, Knoxfield, VIC | Freehold | Dec 2020 | 11,100 | 11,100 | 9,942 | 6.00% | 6.50% | 6.50% | 6.50% |
| 15. | 60 Grindle Road, Wacol, QLD | Freehold | Dec 2020 | 23,600 | 23,600 | 18,340 | 7.00% | 7.75% | 7.50% | 8.25% |
| 16. | 350 Cooper Street, Epping, VIC | Freehold | Dec 2020 | 11,200 | 11,200 | 11,115 | 5.75% | 6.00% | 6.50% | 7.00% |
| 17. | 356 Cooper Street, Epping, VIC | Freehold | Dec 2020 | 19,300 | 19,300 | 17,985 | 5.75% | 6.00% | 6.50% | 7.00% |
| 18. | 78 Henderson Road, Rowville, VIC | Freehold | Sep 2020 | 16,200 | 16,200 | - | 5.75% | - | 6.50% | - |
| 19. | 16-28 Quarry Road, Stapylton, QLD | Freehold | Dec 2020 | 62,500 ² | 58,948 | - | 5.75% | - | 6.50% | - |
| Office properties | | | | | | | | | | |
| 20. | 7 Clunies Ross Court and 17-19 McKechnie Drive, BTP, QLD | Freehold | Dec 2020 | 55,500 | 55,500 | 49,921 | 6.50% | 7.25% | 7.50% | 7.75% |

Notes to the condensed consolidated financial statements (continued)

| | | | | | | | | | |
|--|----------|----------|---------|----------------|----------------|-------|-------|-------|-------|
| 21. BTP Central, BTP, QLD ¹ | Freehold | Dec 2020 | 41,550 | 41,550 | 41,288 | 7.12% | 7.50% | 8.00% | 8.00% |
| 22. 8 Clunies Ross Court and 9 McKechnie Drive, BTP, QLD | Freehold | Dec 2020 | 22,500 | 22,500 | 24,699 | 7.50% | 7.50% | 7.75% | 7.75% |
| 23. 37 Brandl St, BTP, QLD | Freehold | Dec 2020 | 15,750 | 15,750 | 15,689 | 7.00% | 7.50% | 7.50% | 8.00% |
| 24. 18 Brandl St, BTP, QLD | Freehold | Dec 2020 | 13,700 | 13,700 | 13,346 | 7.25% | 8.00% | 7.75% | 8.25% |
| 25. 88 Brandl St, BTP, QLD | Freehold | Dec 2020 | 16,500 | 16,500 | 15,451 | 7.25% | 7.75% | 7.50% | 8.00% |
| 26. 10 Brandl St, BTP, QLD | Freehold | Dec 2020 | 10,000 | 10,000 | 10,011 | 7.50% | 8.25% | 8.00% | 8.50% |
| 27. Building A, 1 Homebush Bay Drive, Rhodes, NSW | Freehold | Jun 2020 | 103,000 | 103,083 | 103,000 | 5.88% | 5.88% | 7.00% | 7.00% |
| 28. Building C, 1 Homebush Bay Drive, Rhodes, NSW | Freehold | Dec 2020 | 86,000 | 86,000 | 86,057 | 5.75% | 6.00% | 6.50% | 7.00% |
| Land held for development | | | | | | | | | |
| 29. 45 & 45B McKechnie Drive, BTP, QLD | Freehold | Dec 2020 | 2,400 | 2,400 | 1,553 | N/A | N/A | N/A | N/A |
| Total investment properties | | | | 923,648 | 826,481 | | | | |

¹ The BTP Central portfolio comprises five assets located within BTP.

² The external valuation for 16-28 Quarry Road, Stapyhton, QLD was performed by CBRE Valuation & Advisory Services ("CBRE") at acquisition date. The basis of valuation was subject to existing occupancy arrangements and assuming outstanding incentives are paid out. On settlement date, the remaining outstanding incentives totalled to \$3.57 million which has been adjusted through the carrying amount of the investment property as at 31 December 2020.

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 2020 | 30 June 2020 |
|---|------------------|--------------|
| Industrial properties | 5.89% | 6.14% |
| Office properties | 6.39% | 6.46% |
| Group's investment properties portfolio (excluding land) | 6.09% | 6.28% |

Notes to the condensed consolidated financial statements (continued)

6.3. 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. For these two investment properties, the Group is the lessee of the associated lease arrangements.

(a) Investment properties - right-of-use ("ROU") assets

| | 31 December 2020 \$'000 | 30 June 2020 \$'000 |
|---|----------------------------|------------------------|
| Investment properties - ROU assets at the beginning of the period | 20,159 | 19,450 |
| Net fair value gain / (loss) on investment properties – ROU recognised in the condensed consolidated statement of profit or loss and other comprehensive income | (62) | 709 |
| Investment properties – ROU assets at balance date | 20,097 | 20,159 |

(b) Lease liabilities

| | 31 December 2020 \$'000 | 30 June 2020 \$'000 |
|--|----------------------------|------------------------|
| Lease liabilities at the beginning of the period | 19,245 | 19,450 |
| Current | | |
| Repayment of lease liabilities | 758 | 746 |
| Interest expense on lease liabilities | (643) | (645) |
| Total current lease liabilities | 115 | 101 |
| Non-current | | |
| Repayment of lease liabilities | 30,222 | 30,605 |
| Interest expense on lease liabilities | (11,140) | (11,461) |
| Total non-current lease liabilities | 19,082 | 19,144 |
| Total lease liabilities at balance date | 19,197 | 19,245 |

6.4. Acquisitions

During the period, the Group completed the acquisitions of 78 Henderson Road, Rowville, VIC, and 16-28 Quarry Road, Stapylton, QLD for a total of \$74,947,000 (excluding transaction costs). These acquisitions were financed with debt drawn from the Group's existing revolving cash advance facility and net proceeds received from the institutional placement.

Notes to the condensed consolidated financial statements (continued)

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.

7. CONTRIBUTED EQUITY

7.1. Carrying amount

| | 31 December 2020 \$'000 | 31 December 2019 \$'000 |
|---|----------------------------|----------------------------|
| At the beginning of the period | 398,571 | 352,078 |
| Issue of new securities | 35,000 | 46,865 |
| Equity issuance costs (net of income tax benefit) | (675) | (683) |
| At the end of the period | 432,896 | 398,260 |
| Attributable to: | | |
| Securityholders of Industria Trust No. 1 | 317,182 | 290,996 |
| Securityholders of non-controlling interests | 115,714 | 107,264 |
| | 432,896 | 398,260 |

7.2. Number of securities on issue

| | 31 December 2020 No. | 31 December 2019 No. |
|---------------------------------|-------------------------|-------------------------|
| At the beginning of the period | 197,525,519 | 181,153,430 |
| Issue of new securities | 12,237,763 | 16,272,589 |
| At the end of the period | 209,763,282 | 197,426,019 |

8. DISTRIBUTIONS

| | 31 December 2020 | | 31 December 2019 | |
|---|--------------------|---------------|--------------------|---------------|
| | Cents per security | \$'000 | Cents per security | \$'000 |
| Distributions paid during the period: | | | | |
| Period ended 30 Sep | 4.3000 | 8,493 | 4.3750 | 7,926 |
| Distributions payable: | | | | |
| Period ended 31 Dec | 4.3000 | 9,020 | 4.3750 | 8,637 |
| Total distributions paid and payable | 8.6000 | 17,513 | 8.7500 | 16,563 |

Notes to the condensed consolidated financial statements (continued)

9. EARNINGS PER SECURITY

| | 31 December 2020 | 31 December 2019 |
|---|------------------|------------------|
| Profit after tax (\$'000) | 31,850 | 39,271 |
| Weighted average number of securities outstanding (thousands) | 198,590 | 183,433 |
| Basic and diluted earnings (cents per security) | 16.04 | 21.41 |

No dilutive securities were issued/on issue during the period (31 December 2020: nil).

10. BORROWINGS

| | 31 December 2020 \$'000 | 30 June 2020 \$'000 |
|---|----------------------------|------------------------|
| Current | | |
| Bank loans drawn – secured | 86,250 | - |
| Capitalised borrowing cost | (453) | - |
| Total current borrowings | 85,797 | - |
| Non-current | | |
| Bank loans drawn – secured | 207,130 | 242,944 |
| Capitalised borrowing cost | (525) | (930) |
| Total non-current borrowings | 206,605 | 242,014 |
| Total borrowings at balance date | 292,402 | 242,014 |

10.1. Summary of borrowing arrangements

APN Industria REIT has a \$380 million revolving cash advance facility with three major Australian banks.

| | 31 December 2020 \$'000 | 30 June 2020 \$'000 |
|---|----------------------------|------------------------|
| Loan facility limit | 380,000 | 290,000 |
| Facilities drawn at balance date | (293,380) | (242,944) |
| Facilities not drawn at balance date | 86,620 | 47,056 |

As at 31 December 2020, the revolving cash advance facility has the following expiry profile:

- 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 B3: \$10,000,000 – repayable January 2023;
- Tranche C1: \$15,000,000 – repayable June 2023;
- Tranche C3: \$30,000,000 – repayable November 2023;
- Tranche D2: \$10,000,000 – repayable May 2024;
- Tranche D1: \$30,000,000 – repayable November 2024;
- Tranche A2: \$36,250,000 – repayable September 2024;
- Tranche C2: \$10,000,000 – repayable September 2024;
- Tranche B1: \$46,250,000 – repayable March 2025; and
- Tranche E1: \$30,000,000 – repayable November 2025.

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 \$86,250,000 tranche that will be maturing in September 2021.

Notes to the condensed consolidated financial statements (continued)

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 2020 |
|--|---|------------------|
| Loan to Value Ratio ("LVR") | At all times, LVR does not exceed 55%. | 31.77% |
| Gearing Ratio | At all times, gearing ratio does not exceed 55%. | 34.17% |
| 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. | 7.03 times |
| Weighted Average Lease Length to Expiry ("WALE") | WALE for the portfolio will be greater than 2.5 years. | 5.03 years |

10.2. Finance costs

| | 31 December 2020 \$'000 | 31 December 2019 \$'000 |
|--|----------------------------|----------------------------|
| Interest expense paid / payable ¹ | 3,635 | 3,710 |
| Amortisation of borrowing costs | 214 | 123 |
| Interest expense on lease liability | 324 | 326 |
| | 4,173 | 4,159 |

¹ Interest expense also includes the interest income / expense upon settlement of the interest rate contracts.

10.3. 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 2020 \$'000 | 30 June 2020 \$'000 |
|--------------------------------|----------------------------|------------------------|
| Current liabilities | | |
| Interest rate contracts | (2,496) | (2,671) |
| Non-current liabilities | | |
| Interest rate contracts | (5,175) | (5,719) |

Notes to the condensed consolidated financial statements (continued)

11. FAIR VALUE HIERARCHY

The following table provides an analysis of investment properties and financial instruments that are measured at fair value at 31 December 2020, 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 2020 | | | | |
|---|-------------------|-------------------|-------------------|-----------------|
| | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
| Investment properties | - | - | 923,648 | 923,648 |
| Investment properties – ROU assets | - | - | 20,097 | 20,097 |
| Interest rate contracts | - | (7,671) | - | (7,671) |
| Total | - | (7,671) | 943,745 | 936,074 |

| Fair value measurement as at 30 June 2020 | | | | |
|---|-------------------|-------------------|-------------------|-----------------|
| | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
| Investment properties | - | - | 826,481 | 826,481 |
| Investment properties – ROU assets | - | - | 20,159 | 20,159 |
| Interest rate contracts | - | (8,390) | - | (8,390) |
| Total | - | (8,390) | 846,640 | 835,250 |

- 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 income capitalisation method and the discounted cash flow (“DCF”) method.

When calculating fair value using the income capitalisation approach, the net market rent has a strong interrelationship with the adopted capitalisation rate given the methodology involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value. In theory, an increase in the net market rent and an increase (softening) in the adopted capitalisation rate could potentially offset the impact to the fair value. The same can be said for a decrease in the net market rent and a decrease (tightening) in the adopted capitalisation rate. A directionally opposite change in the net market rent and the adopted capitalisation rate could potentially magnify the impact to the fair value.

When calculating fair value using the discounted cash flow approach, the adopted discount rate and adopted terminal yield have a strong interrelationship in deriving a fair value given the discount rate will determine the rate in which the terminal value is discounted to its present value. In theory, an increase (softening) in the adopted discount rate and a decrease (tightening) in the adopted terminal yield could potentially offset the impact to the fair value. The same can be said for a decrease (tightening) in the discount rate and an increase (softening) in the adopted terminal yield. A directionally similar change in the adopted discount rate and the adopted terminal yield could potentially magnify the impact to the fair value.

Due to the uncertainty of the impact that the COVID-19 pandemic has on valuations of investment properties and land held for development, sensitivity analysis has been performed on the fair value adopted at 31 December 2020 based on a range of potential movements on the capitalisation rates and discount rates adopted at 31 December 2020. Capitalisation rates and discount rates are considered to be key unobservable inputs that would have a material impact on the fair value adopted if they moved.

Notes to the condensed consolidated financial statements (continued)

Outcomes of the sensitivity analysis are set out below:

| | Impact to profit for the period | | | |
|---|---------------------------------|--------------------------|--------------------------|--------------------------|
| | Capitalisation rate | | Discount rate | |
| | 0.25% increase \$'000 | 0.25% decrease \$'000 | 0.25% increase \$'000 | 0.25% decrease \$'000 |
| Investment properties (including land held for development) | (40,286) | 42,843 | (18,776) | 19,450 |

The results of the sensitivity analysis above demonstrate that in the event of a softening in capitalisation rates, the Group's financial position would not be materially impacted to the extent that its going concern assumption would need to be reconsidered.

There were no transfers between Levels during the half-year (30 June 2020: nil).

12. COMMITMENT AND CONTINGENCIES

During the half-year, the Group entered into sales agreements to acquire three properties located at Butler Boulevard, Adelaide Airport where a total deposit of \$1.48 million was paid. At the date of issuing the condensed consolidated financial statements, settlement of these properties remains outstanding.

Other than the above, there have been no changes to the contractual obligations disclosed in the Group's annual financial report for the financial year ended 30 June 2020, and there are no other commitments and contingencies in effect at 31 December 2020.

OTHER NOTES

13. RELATED PARTY TRANSACTIONS

13.1. 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.

Notes to the condensed consolidated financial statements (continued)

13.2. Transactions with the Responsible Entity and related body corporates

The Responsible Entity of Industria Trust No. 1 is APN FM. 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:

| | 31 December 2020 | | 31 December 2019 | |
|---|------------------|-------------------|------------------|-------------------|
| | Paid \$'000 | Payable \$'000 | Paid \$'000 | Payable \$'000 |
| Management fees ¹ | 1,147 | 1,172 | 1,036 | 1,093 |
| Property management and leasing fees ² | 431 | - | - | 234 |
| | 1,578 | 1,172 | 1,036 | 1,327 |

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.

13.3. Security holdings and associated transactions with related parties

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

| | 31 December 2020 | | 31 December 2019 | |
|---|-------------------------|---------------------|-------------------------|---------------------|
| | Number of securities | Distributions \$ | Number of securities | Distributions \$ |
| APN Property Group Limited | - | 361 | 8,385 | 1,257,235 |
| APD Trust | 28,719,327 | 2,469,862 | 28,719,327 | 1,256,471 |
| APN AREIT Fund | 5,365,956 | 448,042 | 5,045,730 | 430,711 |
| APN CFS AREIT Fund | 790,329 | 67,869 | 786,450 | 67,133 |
| APN Property for Income Fund | 446,617 | 37,289 | 420,562 | 40,275 |
| APN Property for Income Fund 2 | 149,173 | 12,455 | 140,471 | 13,478 |
| Geoff Brunsdon AM | 90,426 | 6,746 | 66,463 | 5,816 |
| Chris Aylward (Non-Executive Chairman) | - | - | 120,000 | 10,500 |
| Tim Slattery (CEO) | 8,599 | 740 | 7,629 | 668 |
| Joseph De Rango (CFO) | 7,700 | 662 | - | - |
| Total | 35,578,127 | 3,044,026 | 35,315,017 | 3,082,287 |

As at 31 December 2020, 16.96% (2019: 17.89%) of APN Industria REIT stapled securities were held by related parties.

Notes to the condensed consolidated financial statements (continued)

14. SUBSEQUENT EVENTS

14.1. Security Purchase Plan

On 22 January 2021, the Group successfully completed its security purchase plan (“SPP”) announced on 18 December 2020. A total of \$20 million was raised under the SPP and 7.10 million new stapled securities (“New Securities”) were issued under the SPP and allotted on 29 January 2021. The New Securities issued under the SPP ranks equally with existing securities and will carry the same voting rights and entitlements to receive distributions.

14.2. Derivatives – interest rate contracts

In February 2021, the Group entered into interest rate caps for a notional value of \$40 million that are in effect until July 2022.

14.3. COVID-19 pandemic

The COVID-19 pandemic had created unprecedented uncertainty. Whilst Australia’s strong economic response / recovery along with its successful management of COVID has increased landlord income certainty resulting in distributions being reinstated, albeit some at reduced levels, uncertainty remains due to the roll-out timeline and efficacy of the COVID vaccine. At the date of issuing the condensed consolidated financial statements, an estimate of future impact on the Group’s investments cannot be made as this will depend on resurgent infection rates around the world and potential for domestic outbreaks. Actual economic events and conditions in the future may materially differ from those estimated by the Group at the reporting date.

At the date of signing these condensed financial statements, no additional rent relief has been granted by the Group since the reporting date and there are no outstanding tenant discussions.

Other than the above, there has not been any matter or circumstance occurring subsequent to the end of the period 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.

Notes to the condensed consolidated financial statements (continued)

15. 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 AASB that are relevant to their operations and effective for the current half-year. These include:

| Standard/ Interpretation | Impact on financial statements |
|---|---|
| AASB 2020-4 <i>Amendments to Australian Accounting Standards – Covid-19 Related Rent Concessions</i> | The amendment provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. At the reporting date, no rental concession agreements were in place in relation to the Group's two sub-leasehold properties disclosed in note 6.3, therefore this amendment does not have any impact to the Group. |
| AASB 2018-7 <i>Amendments to Australian Accounting Standards – Definition of Material</i> | <p>This Standard amends AASB 101 <i>Presentation of Financial Statements</i> ("AASB 101") and AASB 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>, and makes consequential amendments to several other pronouncements and publications. The Group has adopted these amendments for the first time in the current half-year and it did not have any impact to the Group.</p> <p>The amendments make the definition of material in AASB 101 easier to understand and are not intended to alter the underlying concept of materiality in Australian Accounting Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.</p> |
| AASB 2019-1 <i>Amendments to Australian Accounting Standards – References to the Conceptual Framework</i> | <p>The Group has adopted the amendments included in AASB 2019-1 for the first time in the current half-year. The amendments include consequential amendments to affected Australian Accounting Standards, Interpretations and other pronouncements to reflect the issuance of the Conceptual Framework for Financial Reporting (Conceptual Framework) by the AASB.</p> <p>This amendment did not have any impact to the Group.</p> |
| AASB 2019-5 <i>Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia</i> | This Standard makes amendments to AASB 1054 <i>Additional Australian Disclosures</i> by adding a disclosure requirement for an entity intending to comply with IFRS Standards to disclose the information specified in paragraphs 30 and 31 of AASB 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> on the potential effect of an IFRS Standard that has not yet been issued by the AASB. The Group has adopted these amendments for the first time in the current half-year and it did not have any impact to the Group. |