APN | Property Group

APN Property Group Limited and its controlled entities ("APD")
Appendix 4D – Half Year Financial Report for the period ended 31 December 2018

Results for announcement to the market

	Half year ended 31 Dec 2018 $'000	Half year ended 31 Dec 2017 $'000	%
Revenues from ordinary activities	13,502	13,619*	(1%)
Profit from ordinary activities after tax attributable to members	6,024	9,536	(37%)
Profit/(Loss) from discontinued operations after tax attributable to members	(14)	20	(170%)
Net profit for the period attributable to members	6,010	9,556	(37%)
Net tangible assets per share	38.6 cents	37.5 cents	

* Prior period comparatives have been restated to classify costs of sales totalling $976,000 as a reduction in Revenues from ordinary activities. There has been no overall impact to Net Revenue or Net Profit for the period attributable to members.

Dividends

	Half year ended 31 Dec 2018	Half year ended 31 Dec 2017
Interim (cents per share); 100% franked amount	1.25	1.25

Record date for determining entitlement	28 February 2019
Payment date	15 March 2019

The further information required by the listing rules is included in the accompanying Half Year Financial Report. Refer to the Directors' Report for an explanation of the operational and financial results of the Group.

CChurchill

Chantal Churchill
Company Secretary
21 February 2019

APN Property Group Limited

ABN 30 109 846 068

Financial report for the six months ended 31 December 2018

Directors' report

The directors of APN Property Group Limited ('APN' or 'the Group') present herewith their report for the six months ended 31 December 2018.

The names of the directors of the company during or since the end of the period are:

Christopher Aylward – Non-Executive Chairman
Timothy Slattery – Chief Executive Officer and Managing Director
Howard Brenchley – Independent Director
Clive Appleton – Independent Director
Anthony (Tony) Young – Independent Director

Review of Results and Operations

Summary

Operating Earnings were $4.8 million or 1.55 cents per share (cps) for the 6 months ended 31 December 2018, marginally down on the prior period comparative (pcp) result of $5.1 million or 1.67 cps. Statutory profit was $6.0 million, representing diluted earnings of 1.94 cps versus $9.6 million and 3.13 cps in the pcp.

Total Funds under Management (FuM) from continuing operations remained flat at $2.8 billion compared to the position at 30 June 2018 and 31 December 2017. Average FuM for the period increased by $98 million and $142 million as compared to June 2018 and December 2017 respectively.

Management initiatives to strengthen the financial position, and therefore the flexibility, of the Group continued during the period with cash on hand increasing $14.3 million to $29.3 million as at 31 December. The Group's net assets increased to $123.0 million, including co-investment stakes valued at $106.8 million and the associated limited recourse borrowings of $6.0 million. Net Tangible Assets (NTA) per share was 38.6 cents, up from 37.7 cents as at 30 June.

Details of the Group's Operating Earnings after tax for the period are as follows:

	Half year ended Dec-2018 $'000	Half year ended Dec-2017 $'000
Fund management fees	7,616	7,098
Performance and transaction fees	322	866
Asset and project management fees	139	60
Registry and other fees	1,151	1,109
Total net funds management income	**9,228**	**9,133**
Co-investment income	3,593	3,550
Rental and other property related income	637	832
Total net income	**13,458**	**13,515**
Employment costs	(4,932)	(5,270)
Occupancy costs	(345)	(288)
Sales & Marketing costs	(229)	(336)
Other costs	(1,030)	(971)
Depreciation & amortisation	(69)	(113)
Finance income / (expense)	(129)	(209)
Operating earnings before tax	**6,724**	**6,328**
Income tax expense	(1,899)	(1,193)
Operating Earnings after tax[1]	**4,825**	**5,135**
Non-operating items, including income tax	1,199	4,401
Profit / (loss) from discontinued operations after tax	(14)	20
Statutory profit after tax	**6,010**	**9,556**

1: Operating Earnings is an unaudited performance metric used by the Group as the key measurement of it's underlying performance. It adjusts statutory profit for certain non-operating items recorded in the income statement including discontinued operations (Europe and Healthcare), business development expenses and realised / unrealised fair value movements on the Group's co-investments and investment properties.

Total net funds management income increased by $0.1 million to $9.2 million. Recurring fee income grew by $0.6 million or 8% to $8.9 million compared to pcp following an increased average FuM balance and the effect of changes in the composition of FuM between different products and strategies. Income from performance and transaction fees were lower by $0.5m to $0.3m, reflecting the establishment of the smaller APN Nowra Property Fund in the current period versus APN Convenience Retail REIT in the prior comparative period.

Co-investment income was stable at $3.6m compared to the pcp, while rental and other property related income fell by $0.2m following the effective disposal of APN's Nowra property in November 2018 via the successfully establishment the wholesale APN Nowra Property Fund.

Operating costs reduced 5% to $6.6m in the current period, primarily driven by a decrease in staff incentive allowances recognised and increased efforts to better target sales and marketing spend in the changing funds management landscape. APN's resourcing remains prudent, balancing the requirements for existing operations, while continuing our commitment to invest in capability to pursue emerging and attractive growth opportunities over the medium term that will leverage the profitability of the APN's management platform.

The Group's average tax rate normalised to 28% in the current period, up from 19% in the pcp which benefited from the one-off recognition of previously unrecognised capital loss deductions following the liquidation of a subsidiary.

Non-operating items (net of tax) totalled $1.2m for the period following favourable mark-to-market adjustments on APN's co-investment in APN Industria REIT and APN Convenience Retail REIT, partially offset by a $1.4m loss on disposal of APN's Nowra property (to establish the APN Nowra Property Fund) and $0.3m of business development costs associated with aborted projects and APN's stapling proposal.

Real Estate Securities (RES)

Highlights

- FuM of $1.6 billion, down 4%
- Average net inflows across the APN AREIT Fund and APN Asian REIT Fund strategies of $0.5 million per month
- APN Asian REIT Fund added to BT platforms

FuM fell by $74 million over the 6 months to $1,594 million, primarily driven by unfavourable mark-to-market valuation losses of $64 million.

The sector headwinds experienced in the later part of FY2018 have continued into the current half and RES has not been immune. Net outflows of $9 million were recorded across all strategies. Weak residential property sentiment continues to spill over to investors views toward commercial property investment, which together with the fallout from the Hayne Royal Commission means that conditions are likely to be challenging for some investor channels for some time.

Despite this backdrop, the APN Asian REIT Fund continues to find favour with investors, with the product recently being added to the BT Wrap and BT Panorama platforms. Net inflows of $5 million for the half were received and as at December 2018 FuM now stands at $31 million, up 29% from six months ago. While still small, this fund represents an important longer-term growth option that leverages the team's investment skills and approach. APN's recent focus on the New Zealand market through its product distribution agreement was also a highlight in the current half as investors supported the local APN AREIT PIE Fund and increased investment directly into the APN AREIT and APN Asian REIT Funds.

The recent yield rally in REIT stocks following the RBA's move to a neutral interest rate outlook provides the potential for improved second half funds flow. Importantly, as an independent, non-financial institution aligned fund manager that is focused on delivering true to label 'property for income' with lower risk investment performance we are ideally positioned to enhance existing, and establish new, distribution relationships with Independent Financial Advisors and investment platforms / wraps.

APN Industria REIT (ADI)

Highlights

- FuM up $34 million to $698 million
- ~ 6,600 sqm in new leasing completed
- $26 million of accretive property acquired
- Rebrand to APN Industria REIT completed

Funds under Management increased $34 million or 5% to $698 million as at 31 December, predominately due to the settlement of three Victorian industrial properties valued at $26 million during the period.

APN Industria REIT reported solid set of results for the period. Funds from Operations (FFO) grew 3.3% and NTA per security was $2.71 at the end of the period. Occupancy improved 1% to 96%, while the portfolio weight average lease expiry was 6.4 years.

APN's active property management approach delivered further results for ADI during the period. New leasing transactions of ~6,600sqm were secured, leveraging a tenant outcome focused partnership approach that seeks to deliver innovative and simple solutions for their needs. Additional investments in Solar PV were made which will further assist in reducing tenancy occupancy costs, a continuation of ADI's focus on outcomes for tenants.

ADI's strong balance sheet position, with gearing at a conservative 33.3%, and an attractive cash distribution yield of 5.8%[2] continues to attract investors seeking high quality risk adjusted income and capital investment returns. An improved cost of capital means that ADI is well placed to pursue high conviction acquisition opportunities that add value to the Fund should they be available.

2: As at 18 February 2019

APN Convenience Retail REIT (AQR)

Highlights

- $357 million of FuM
- Product Disclosure Statement (PDS) forecasts met or exceeded
- Rebrand to APN Convenience Retail REIT completed

APN Convenience Retail REIT's FuM increased by $14 million to $357 million as at 31 December following the acquisition of one additional property and property valuation gains of $7.5 million.

FFO per security totalled 10.72 cents, 4% ahead of PDS forecasts. Distributions of 10.45 cents per security for the half year have been paid, also up on PDS forecasts by 0.30 cents. NTA increased by 8 cents to $2.95 per security. Occupancy remains at 100%, which together with a weighted average lease expiry of 12.1 years to quality recognisable national tenants, provides stable and growing income for investors to deliver on AQR's 'property for income' objectives.

Operationally, a new highway service centre at Mount Larcom QLD was acquired for $7.3 million during the period, taking the portfolio to 70 properties. Active property management has also delivered results for investors as Woolworths Limited will continue to guarantee the performance of all existing leases following the completion of the announced sale of its fuel operations to EG Group.

Looking ahead, AQR will continue to focus on active capital and portfolio management. Accretive high conviction acquisition opportunities will be pursued, as will active capital management initiatives such as security buybacks, where long term sustainable value can be delivered for investors.

Direct Funds (Direct)

Highlights

- FuM of $157 million, up $30 million
- 5 of 6 Steller projects now completed
- APN Nowra Property Fund established

Funds under Management increased 23% for the period, to $157 million. The $25 million APN Nowra Property Fund, designed for sophisticated investors, was successfully closed, bringing the total number of direct property funds managed by the Group to five.

The APN Steller Development Fund successfully delivered its 5th project and is well on the way to completing its 6th and final project, with projected investor returns currently on track to meet Information Memorandum forecasts.

On 4 February 2019, following the completion of two major leasing transactions and further progress on a $2.4 million asset enhancement program, the APN Regional Property Fund launched its liquidity offer to provide all investors an opportunity to exit at or around NTA. In conjunction with this offer, existing and new retail and wholesale investors can invest up to $36 million via a rights issue and public offer, to access a forecast initial distribution yield of 7.0% over a targeted investment period of approximately 5 years.

The direct property team remains an active participant in the commercial property market, seeking the right property opportunity that will deliver appropriate risk adjusted returns for APN's extensive retail, sophisticated and wholesale investor base.

Earnings and Dividend Guidance

Operating Earnings[1] guidance, on a statutory 'like-for-like' capital structure basis, is confirmed at 2.40 to 2.90 cps. In accordance with our approach to providing earnings guidance, only transactions which have been completed or are sufficiently certain are reflected in this guidance and it remains subject to a continuation of the current market conditions.

Dividend Guidance is confirmed at 2.25 cps for the full year, comprising the 1.25 cps fully franked interim dividend declared today and a forecast fully franked final dividend of 1.00 cps.

Subsequent events

Dividend

Since the balance date, the directors have declared a fully franked interim dividend of 1.25 cents per share for the period ended 31 December 2018, to be paid on 15 March 2019 to all shareholders registered on 28 February 2019.

Stapling proposal update

Following shareholder approval in November 2018, ASIC has now advised, subject to customary conditions being satisfied, that they are minded to grant APN RE Limited an AFS license. Discussions with the ATO in respect to the requested class ruling are on-going and, depending on their outcome, may result in refinement of the stapling proposal (within the parameters approved by shareholders). The indicative pro-forma stapled entity financial information issued in August 2018 remains subject to the assumptions provided at the time. The eventual financial impact of the stapling transaction (on implementation) will depend on the relevant factors at the time. APN expects the stapling proposal will be implemented by 30 June 2019.

APN Regional Property Fund

On 4 February 2019, APN Regional Property Fund announced a capital raising and withdrawal offer to provide existing investors with an opportunity to redeem, maintain or increase their investment in the APN Regional Property Fund and for new investors, an opportunity to gain exposure to two A grade commercial office buildings located in Newcastle, Australia's 7th largest city. A total of up to $36.0 million is being sought via a rights issue to existing investors and a public offer to new investors.

Other than disclosed above, the directors have not become aware of any other significant matter or circumstances that has arisen since 31 December 2018, that has affected or may affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent years, which has not been covered in this report.

Auditor's independence declaration

The auditor's independence declaration is included on page 5 of the half-year report.

Rounding off of amounts

The Company is a company 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 financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

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

On behalf of the Directors

Christopher Aylward
Chairman
Melbourne, 21 February 2019

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

DX 111
Tel: +61 (0) 3 9671 7000
Fax: +61 (0) 3 9671 7001
www.deloitte.com.au

21 February 2019

The Board of Directors
APN Property Group Limited
101 Collins Street
MELBOURNE VIC 3000

Dear Board Members,

Independence declaration – APN Property Group Limited

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 Property Group Limited.

As lead audit partner for the review of the financial statements of APN Property Group Limited for the 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 review; and

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

Yours faithfully

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

DX 111
Tel: +61 (0) 3 9671 7000
Fax: +61 (0) 3 9671 7001
www.deloitte.com.au

Independent Auditor's Review Report to the Members of APN Property Group Limited

We have reviewed the accompanying half-year financial report of APN Property Group Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2018, and the condensed consolidated statement of profit or 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 company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 8 to 27.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company 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 APN Property Group Limited, 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 of APN Property Group Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

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

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

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

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants
Melbourne, 21 February 2019

Directors' declaration

The directors declare that:

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

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

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

On behalf of the Directors

Christopher Aylward
Chairman
Melbourne, 21 February 2019

Condensed consolidated statement of profit or loss and other comprehensive income

for the half-year ended 31 December 2018

	Note	Half-year ended 31 Dec 2018 $'000	Half-year ended 31 Dec 2017 $'000
Continuing operations			
Revenue	3	13,502	13,619
Cost of sales		(44)	(104)
Net revenue		13,458	13,515
Finance income		208	142
Administration expenses		(6,605)	(6,978)
Fair value adjustments, business development and other costs	4	1,635	6,618
Finance costs		(337)	(351)
Profit before tax		8,359	12,946
Income tax expense	5	(2,335)	(3,410)
Profit for the period from continuing operations		**6,024**	**9,536**
Discontinued operation			
(Loss) / profit for the period from discontinued operations		(14)	20
Profit for the period		**6,010**	**9,556**
Total comprehensive income for the period		**6,010**	**9,556**
Profit / (loss) / Total comprehensive income for the period attributable to:			
Equity holders of the parent		**6,010**	**9,556**
Earnings per share:			
From continuing and discontinued operations			
Basic (cents per share)	10	1.98	3.20
Diluted (cents per share)	10	1.94	3.13
From continuing operations			
Basic (cents per share)	10	1.98	3.19
Diluted (cents per share)	10	1.94	3.12

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

Condensed consolidated statement of financial position

as at 31 December 2018

	Note	31 Dec 2018 $'000	30 Jun 2018 $'000
Current assets			
Cash and cash equivalents		29,316	14,986
Trade and other receivables		5,175	6,177
Financial assets – held for sale	6	2,338	–
Investment property – held for sale	8	–	24,200
Total current assets		36,829	45,363
Non-current assets			
Financial assets	6	104,495	102,201
Property, plant and equipment		440	490
Intangible assets	7	1,732	1,742
Total non-current assets		106,667	104,433
Total assets		143,496	149,796
Current liabilities			
Trade and other payables		2,912	2,928
Current tax liabilities		618	782
Provisions		3,132	2,560
Borrowings associated with Investment property – held for sale	11	–	10,491
Total current liabilities		6,662	16,761
Non-current liabilities			
Borrowings	11	6,004	6,004
Provisions		1,054	1,769
Deferred tax liabilities		6,811	5,390
Total non-current liabilities		13,869	13,163
Total liabilities		20,531	29,924
Net assets		122,965	119,872
Equity			
Issued capital	12	102,884	102,882
Reserves		5,028	4,810
Retained earnings		15,053	12,180
Total equity attributable to equity holders of the parent		122,965	119,872

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

Condensed consolidated statement of changes in equity

for the half-year ended 31 December 2018

	Share capital $'000	Retained earnings $'000	Equity-settled employee benefits reserve $'000	Total Attributable to equity holders of the parent $'000
Balance at 1 Jul 2017	102,879	4,890	4,089	111,858
Profit for the period	–	9,556	–	9,556
Payment of dividends (note 9)	–	(2,353)	–	(2,353)
Share options exercised by employees	1	–	–	1
Recognition of share-based payments expense	–	–	366	366
Balance at 31 Dec 2017	102,880	12,093	4,455	119,428
Balance at 1 Jul 2018	102,882	12,180	4,810	119,872
Profit for the period	–	6,010	–	6,010
Payment of dividends (note 9)	–	(3,137)	–	(3,137)
Share options exercised by employees	2	–	–	2
Recognition of share-based payments expense	–	–	218	218
Balance at 31 Dec 2018	102,884	15,053	5,028	122,965

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

Condensed consolidated statement of cash flows

for the half-year ended 31 December 2018

	Note	Half-year Ended 31 Dec 2018 $'000	31 Dec 2017 $'000
Cash flows from operating activities			
Receipts from customers		11,925	9,935
Payments to suppliers and employees		(7,844)	(7,385)
Interest received		191	146
Distributions received		3,536	4,325
Interest and other costs of finance paid		(316)	(351)
Income tax paid		(1,078)	(691)
Net cash provided by operating activities		6,414	5,979
Cash flows from investing activities			
Payments for investments		(3,865)	(17,238)
Proceeds on sale / return of capital from investments		2,740	950
Payments for property, plant and equipment		(9)	(337)
Refund of deposit paid for investment properties		–	3,146
Net cash flow on disposal of subsidiary		12,185	–
Net cash provided by / (used in) investing activities		11,051	(13,479)
Cash flows from financing activities			
Proceeds from borrowings		–	6,004
Proceeds from issue of equity securities		2	–
Dividends paid		(3,137)	(2,353)
Net cash (used in) / provided by financing activities		(3,135)	3,651
Net increase / (decrease) in cash and cash equivalents		14,330	(3,849)
Cash and cash equivalents at the beginning of the period		14,986	18,640
Cash and cash equivalents at the end of the period		29,316	14,791

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

Contents

About This Report

1. Statement of Compliance

The half-year financial report is a general purpose financial report 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 half-year report does not include notes of the type normally included in an annual financial report and therefore this report should be read in conjunction with the Company's most recent annual financial report, with exception to the new accounting standards that became effective for the current reporting period as mentioned in below.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets 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 company is a company of the kind referred 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 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 half-year financial report are consistent with those adopted and disclosed in the Company's 2018 annual financial report, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

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 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 reporting period. New and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant to the Group include:

- AASB 9 Financial Instruments and related amending Standards
- AASB 15 Revenue from Contracts with Customers and related amending Standards
- AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions
- AASB 2017-1 Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments

Other than as described below, the application of these standards and amendments is not expected to have any material impact on the disclosures or the amounts recognised in the Group's condensed consolidated financial statements.

Impact of the application of AASB 9

The Group has applied AASB 9 Financial Instruments (as revised) and the related consequential amendments to other Accounting Standards for the first time. The requirements under AASB 9 that are applicable to the Group and the impact of its application is disclosed below:

<u>Classification and measurement of financial assets</u>

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) under AASB 139 continue to be measured at fair value under AASB 9.

1. Statement of Compliance (cont'd)

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 policies in respect to the impairment of financial assets are 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.

Impact of the application of AASB 15

The Group has applied AASB 15 Revenue from Contracts with Customers (as amended) for the first time in the current period. AASB 15 requires the Group 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 Group expects to be entitled. The requirements under AASB 15 that are applicable to the Group and the impact of their application is disclosed below:

Recognition and measurement of revenue:

The directors have reviewed and assessed the Group's recognition and measurement of revenue from 1 July 2018 based on the facts and circumstances that existed from this date and have concluded that the application of AASB 15 has had no material impact on the recognition or measurement of the revenue for the Group. With effect from 1 July 2018, the Group's new accounting policies in respect to the recognition and measurement of revenue are as follows:

Revenue is recognised on an accruals basis, as a service is transferred to a customer or a performance obligation is satisfied (if it is highly probable that a significant reversal is unlikely to occur), at the fair value of the consideration specified in the contract. Amounts collected on behalf of third parties are excluded from revenue recognised.

Distribution income from investments is recognised when the right to receive payment has been established, provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Standards and Interpretations in issue not yet adopted

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

- AASB 16 Leases, applying to annual period beginning on or after 1 January 2019, introduces a comprehensive model for the identification, recognition and measurement of lease arrangements for lessors and lessees. The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments.

  Based on a preliminary analysis of the Group's existing non-cancellable operating leases commitments as at 31 December 2018, the application of AASB 16 will require the recognition, as at 1 July 2019, of a right-of-use asset of approximately \$2,550,000 with a corresponding lease liability of approximately \$2,550,000 in the Group's statement of financial position. Straight-line lease liabilities and unamortised rent incentives, adjusted for deferred tax, as at 1 July 2019 totalling approximately \$478,000 will also be adjusted to opening retained earnings at this date.

Performance

2. Segment Information

The reportable segments are aligned to the categories of product managed by the Group and are as follows:

Reportable segments	Product type	Fund
Continuing operations		
• Real Estate Securities funds	• Property securities funds and investment mandates	• APN AREIT Fund • APN Property for Income Fund • APN Property for Income Fund No. 2 • APN Asian REIT Fund • APN AREIT NZ PIE Fund • Property Securities Investment Mandates
• Industrial Real Estate fund	• Listed real estate investment trust (REIT)	• APN Industria REIT (ADI)
• Convenience Retail Property fund	• Listed real estate investment trust (REIT)	• APN Convenience Retail REIT (AQR)
• Direct Real Estate funds	• Fixed term Australian property funds • Wholesale property funds	• APN Regional Property Fund • APN Coburg North Retail Fund • APN Steller Development Fund • APN Nowra Property Fund(i) • APN Development Fund No.2
• Investment revenue	• Investment and rental income received or receivable from investments	
Discontinued operations		
• European Real Estate funds • Healthcare Operations	• De-listed real estate investment trust (REIT) and fixed term European property funds	• APN Champion Retail Fund • APN European Retail Property Group

(i) The APN Nowra Property Fund which owns commercial property (as disclosed Note 8) was successfully syndicated on 8 November 2018. Prior to 8 November 2018, the contributions associated with this commercial property have been recorded in the Investment revenue segment.

Information regarding these reportable segments is presented below. The accounting policies of the reportable segments are the same as the Group's accounting policies. Where applicable, the corresponding segment information in the prior period has been restated to reflect the newly reportable and amended segments in accordance with the Accounting Standards.

2. Segment Information (cont'd)

The following is an analysis of the Group's revenue and results by reportable operating segment for the periods under review:

	Segment revenue		Segment net revenue(i)		Segment profit	
	Half-year ended		Half-year ended		Half-year ended	
	31 Dec 2018 $'000	31 Dec 2017 $'000	31 Dec 2018 $'000	31 Dec 2017 $'000	31 Dec 2018 $'000	31 Dec 2017 $'000
Continuing operations						
Real estate securities funds	4,945	4,862	4,909	4,801	2,107	1,785
Industrial real estate fund	1,966	1,853	1,966	1,853	1,058	987
Convenience retail property fund	1,214	963	1,214	963	784	564
Direct real estate funds	1,139	650	1,139	650	489	(124)
Investment revenue	4,238	4,425	4,230	4,382	4,230	4,382
	13,502	12,753	13,458	12,649	8,668	7,594
Unallocated revenue and expenses						
Other income	–	866	–	866	–	866
Finance income					208	142
Central administration					(1,746)	(1,810)
Depreciation					(69)	(113)
Finance costs					(337)	(351)
					6,724	**6,328**
Income tax expense					(1,899)	(1,193)
Net operating earnings after tax & Non-controlling interests (NCI)	**13,502**	**13,619**	**13,458**	**13,515**	**4,825**	**5,135**
Pre-tax fair value adjustments / business acquisition costs					3,062	6,618
Loss on disposal of subsidiary (note 13)					(1,427)	–
Income tax expense					(436)	(2,217)
					1,199	**4,401**
Total from continuing operations	**13,502**	**13,619**	**13,458**	**13,515**	**6,024**	**9,536**
Discontinued operations						
European real estate funds	–	–	–	–	(14)	(6)
Healthcare real estate fund	–	19	–	19	–	26
					(14)	**20**
Total	**13,502**	**13,638**	**13,458**	**13,534**	**6,010**	**9,556**

(i) Segment net revenue is segment revenue less direct costs.

There were no intersegment sales during the half-year.

Segment assets and liabilities

Information on assets and liabilities for each reportable segment is not required to be disclosed as such information is not regularly provided to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

3. Revenue

An analysis of the Group's revenue from continuing operations for the year is outlined below.

Half-year ended	31 Dec 2018 $'000	31 Dec 2017 $'000
Continuing operations		
Fund management fees	7,652	7,159
Performance and transaction fees	322	866
Asset and project management fees	139	60
Rental income from investment property	645	875
Registry and other income	1,151	1,109
	9,909	10,069
Distribution income	3,593	3,550
	13,502	13,619

Prior period comparatives have been restated to classify costs of sales totalling $976,000 as a reduction in Revenue to align to current period presentation. There has been no overall impact to net revenue or the net profit for the period.

4. Results for the period

Half-year ended	31 Dec 2018 $'000	31 Dec 2017 $'000
(a) Profit/(loss) for the period has been arrived after charging / crediting the following gains and losses and other expenses:		
Share based payments expense	(218)	(366)
(b) Profit/(loss) for the period includes the following impairment, fair value adjustments and business development and other costs:		
Change in fair value of financial assets designated as at fair value through profit or loss	3,443	6,593
Aborted business development / acquisition costs	(97)	22
Group restructuring expenses	(284)	–
Gain on disposal of investment	–	3
Loss on disposal of subsidiaries (Note 13)	(1,427)	–
	1,635	6,618

5. Income taxes

Half-year ended	**31 Dec 2018 $'000**	**31 Dec 2017 $'000**
Tax (expense)/income comprises:		
Current tax (expense)/income	(1,146)	(1,276)
Adjustments recognised in the current year in relation to prior years	232	1,131
Deferred tax (expense)/income relating to the origination and reversal of temporary differences	(1,151)	(3,265)
Adjustments to deferred tax attributable to changes in tax rates and laws	(270)	–
Total tax expense for continuing operations	(2,335)	(3,410)
The expense for the year can be reconciled to the accounting profit as follows:		
Profit from operations	8,345	12,966
Income tax expense calculated at 27.5% (2017: 30%)	(2,295)	(3,890)
Effect of expenses that are not deductible in determining taxable profit	(2)	(651)
Effect on deferred tax balances due to the change in income tax rate from 30% to 27.5% (effective 1 July 2018)	(270)	–
	(2,567)	(4,541)
Adjustments recognised in the current year in relation to the current tax of prior years	232	1,131
	(2,335)	(3,410)

For the year ended 30 June 2019, the tax-consolidated group is expected to be a base rate entity and have turnover less than $50.0 million. Accordingly, the corporate tax rate applicable to the tax-consolidated group is reduced from 30% to 27.5% with effect from 1 July 2018 and is used in the above reconciliation. Deferred tax balances have also been remeasured as at balance date by making an assessment of when temporary differences are likely to reverse and applying the appropriate tax rate. The effect of this change in tax rate on deferred taxes has been disclosed above.

Capital Investments

6. Financial Assets

Financial assets carried at fair value through profit and loss -	31 Dec 2018 $'000	30 Jun 2018 $'000
Current assets – Financial assets held for sale	2,338	–
Non-current assets – Financial assets	104,495	102,201
	106,833	102,201

a) Co-investments in related parties with carrying amount of $64,065,000 (2017: $58,759,000) have been pledged to secure borrowings of the Group (note 11).

b) The directors consider that the carrying amount of financial assets and financial liabilities that are not measured at fair value in the financial statements approximate their fair value.

c) Fair value measurements recognised in the statement of financial position:

Financial assets at fair value through profit or loss	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2018				
Co-investments	102,492	–	4,341	106,833
30 June 2018				
Co-investments	98,438	–	3,763	102,201

During the prior period co-investments previously classified at Level 3 were transferred to Level 1 as the fair value measurement for these investments is now derived from quoted prices in an active market.

d) Reconciliation of Level 3 fair value measurements:

Fair value through profit or loss	31 Dec 2018 $'000	30 Jun 2018 $'000
Opening balance	3,763	15,603
- Unrealised profit/(loss) recognised	47	440
Return of capital	(1,980)	(770)
Purchases	3,261	–
Disposals	(750)	–
Transfer out of Level 3	–	(11,510)
Closing balance	4,341	3,763

The Group uses the following method to categorise the financial instruments that are measured and carried at fair value:

- Level 1: the fair value is calculated from quoted prices (unadjusted) in active markets for identical assets or liabilities and includes listed property securities traded on the Australian Securities Exchange (ASX).
- Level 2: the fair value is estimated from inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: the fair value is estimated from unobservable inputs and assumptions that may not necessarily be supported by prices from observable current market transactions. For the Group this includes investments in unlisted funds whose primary assets are direct property assets.

7. Intangible Assets

Half-year ended	Management rights $'000	Software $'000	Total $'000
Gross carrying amount			
Balance at 1 July 2017	1,700	459	2,159
Additions	–	33	33
Write-off	–	(19)	(19)
Balance at 30 June 2018 / 31 December 2018	1,700	473	2,173
Accumulated amortisation / impairment losses			
Balance at 1 July 2017	–	(401)	(401)
Depreciation expense	–	(39)	(39)
Write-off	–	9	9
Balance at 30 June 2018	–	(431)	(431)
Depreciation expense	–	(10)	(10)
Balance at 31 December 2018	–	(441)	(441)
Net book value			
At 30 June 2018	1,700	42	1,742
At 31 December 2018	1,700	32	1,732

8. Investment Properties – held for sale

a) Reconciliation of carrying amount

Investment Properties[(b)]	31 Dec 2018 $'000	30 Jun 2018 $'000
Opening balance (i)	24,200	24,200
Disposals (i)	(24,200)	–
Closing balance	–	24,200

(i) On 8 November 2018, the Group lost control of the APN Nowra Property Fund (previously known as APN Convenience Retail Property Fund) following the successful completion of the fund establishment and capital raising offer announced in late June 2018. APN Nowra Property Fund was the entity established to hold the commercial investment property owned by the Group that was held for the purpose of deriving rental income and/or capital appreciation.

b) Individual valuation and carrying amounts

		Latest external valuation		Carrying amount		Capitalisation rate		Discount rate	
Commercial property	**Ownership interest**	**Date**	**Valuation $'000**	**Dec 2018 $'000**	**Jun 2018 $'000**	**Dec 2018 %**	**Jun 2018 %**	**Dec 2018 %**	**Jun 2018 %**
Lot 2, 190-198 Princes Highway, South Nowra, NSW (ii)	–	N/A	N/A	–	24,200	–	7.00%	–	8.50%

(ii) Prior to (i) above, the commercial investment property was pledged (first ranking mortgage) to secure borrowings of the APN Nowra Property Fund, at the time a wholly owned subsidiary of the Group (note 11).

Capital Structure, Financing and Risk Management

9. Dividends

Half-year ended	**31 Dec 2018**		**31 Dec 2017**	
Fully paid ordinary shares	**Cents per share**	**Total $'000**	**Cents per share**	**Total $'000**
Recognised amounts:				
Final dividend	1.00	3,137	0.75	2,353
Unrecognised amounts:				
Interim dividend	1.25	3,922	1.25	3,922

Directors have declared a fully franked interim dividend of 1.25 cents per share for the period ended 31 December 2018 (2017: 1.25 cents per share, fully franked) to be paid on 15 March 2019 to all shareholders registered on 28 February 2019.

10. Earnings per Share

	31 Dec 2018	**31 Dec 2017**
Basic earnings per share (cents per share)		
From continuing operations	1.98	3.19
From discontinued operations	–	0.01
	1.98	3.20
Diluted earnings per share (cents per share)		
From continuing operations	1.94	3.12
From discontinued operations	–	0.01
	1.94	3.13

10.1 Basic earnings per share

	31 Dec 2018 $'000	**31 Dec 2017 $'000**
The earnings used in the calculation of basic earnings per share is as follows:		
Profit for the year attributable to equity holders of the parent	6,010	9,556
Profit for the year from discontinued operations used in the calculation of basic earnings per share from discontinued operations	14	(20)
Adjustments to exclude treasury share dividends paid where the dividends are paid in cash and the employee can retain the dividends irrespective of whether the option vests		
- Ordinary dividends paid	(199)	(149)
Basic EPS earnings - continuing operations	5,825	9,387

10.2 Diluted earnings per share

	31 Dec 2018 $'000	**31 Dec 2017 $'000**
The earnings used in the calculation of diluted earnings per share is as follows:		
Earnings used in the calculation of basic EPS	5,825	9,387
Adjustments to exclude treasury share dividends paid that are dilutive where the dividends are paid in cash and the employee can retain the dividends irrespective of whether the option vests	74	52
Diluted EPS earnings - continuing operations	5,899	9,439

10. Earnings per Share (cont'd)

10.3 Weighted average number of shares (Basic and Diluted earnings per share)

	31 Dec 2018 '000	31 Dec 2017 '000
Basic EPS - Weighted average number of ordinary shares used in the calculation	**293,891**	**293,891**
Shares deemed to be issued for no consideration in respect of employee options[(i)]	10,329	8,546
Diluted EPS - Weighted average number of ordinary shares used in the calculation	**304,220**	**302,437**
The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share:		
Share options	12,412	12,938

(i) All potentially dilutive ordinary shares have been included in the Diluted EPS calculation at 31 December 2018.

11. Borrowings

	31 Dec 2018 $'000	30 Jun 2018 $'000
Secured - at amortised cost		
Secured bank loans (a)	–	10,530
Unamortised borrowing costs	–	(39)
Secured bank loans (b)	6,004	6,004
	6,004	16,495
Disclosed in the financial statements as:		
Current financial liabilities – Borrowings associated with Investment property – held for sale	–	10,491
Non-current financial liabilities – Borrowings	6,004	6,004
	6,004	16,495
Total facilities available:		
Secured bank loans	8,000	18,530
Business card facility	200	200
Bank guarantee	500	500
	8,700	19,230
Facilities utilised at balance date:		
Secured bank loans	6,004	16,534
Business card facility	149	149
Bank guarantee	500	500
	6,653	17,183
Facilities not utilised at balance date:		
Secured bank loans	1,996	1,996
Business card facility	51	51
Bank guarantee	–	–
	2,047	2,047

11. Borrowings (cont'd)

During the period, the Group's loans were:-

a) The $10,530,000 bill acceptance/discount facility was de-recognised on the 8 November 2018 as a result of the Group losing control of the APN Nowra Property Fund following the successful completion of its establishment and capital raising offer. Prior to this date the borrowings were secured via a first ranking mortgage against Lot 2, 190-198 Princess Highway, South Nowra, NSW, the commercial investment property owned by the APN Nowra Property Fund (refer Note 8).

	31 Dec 2018	30 Jun 2018
▪ Loan to value ratio will not exceed 50%	–	43.5%
▪ Interest cover ratio will not fall below 2.0 times	–	4.69 times

b) This $8,000,000 bank loan facility is repayable in March 2020 and is secured by other financial assets with carrying amount of $64,065,000 (note 6). As at balance date, this facility is drawn to $6,003,500 with a weighted average effective interest rate of 6.81% per annum (2018: 6.42%), and is subject to the following financial covenants:

	31 Dec 2018	30 Jun 2018
▪ Loan to value ratio will be less than 35% of the market value of other financial assets pledged as security	9.4%	9.7%
▪ Distribution cover ratio will not fall below 2.0 times	10.97 times	11.98 times

12. Issued Capital

	No of shares '000	$'000
Balance at 1 July 2017	313,743	102,879
Share options exercised by employees	–	1
Balance at 31 December 2017	313,743	102,880

	No of shares '000	$'000
Balance at 1 July 2018	313,743	102,882
Share options exercised by employees	–	2
Balance at 31 December 2018	313,743	102,884

At 31 December 2018, included in issued fully paid ordinary shares of 313,743,000 (2017: 313,743,000) are 19,776,000 (2017: 19,779,000) treasury shares relating to employee share option plans.

Other Notes

13. Disposal of Subsidiaries

On 8 November 2018, the Group lost control of APN Nowra Property Fund (previously known as APN Convenience Retail Property Fund) upon the successful completion of capital raising offer announced in late June 2018.

13.1 Consideration received

	31 Dec 2018 $'000
Gross consideration received	
Repayment of intercompany loan after divestment	9,311
Payment for net assets	3,070
	12,381

13.2 Analysis of assets and liabilities over which control was lost

	31 Dec 2018 $'000
Cash and cash equivalents	169
Trade receivables and other receivables	40
Investment Properties – held for sale (note 8)	24,200
Borrowings associated with Investment property – held for sale (Note 11)	(10,511)
Other payables	(117)
	13,781

13.3 Loss on disposal

	31 Dec 2018 $'000
Consideration received	12,381
Net assets divested	(13,781)
Net transaction costs incurred	(27)
Loss on disposal (Note 4)	(1,427)

13.4 Net cash flow

	31 Dec 2018 $'000
Consideration received (net of transaction costs incurred)	12,354
Less: cash and cash equivalents divested	(169)
	12,185

Included in the net profit for the period up to the loss of control on 8 November 2018 is $645,000 revenue and net profit after tax of $692,000.

14. Subsidiaries

During the period, the following entities became a subsidiary of the Group:

Name of entity	Country of incorporation	31 Dec 2018 $'000	30 Jun 2018 $'000
Subsidiaries			
APN RE Limited (i)	Australia	100%	–
APD Trust (ii)	Australia	100%	–

(i) A newly incorporated company

(ii) A newly registered managed investment scheme

15. Related party transactions

Transactions between the transactions between the Group and its other related parties are set out below:

	Parent		Subsidiaries		Total	
	31 Dec 2018 $	31 Dec 2017 $	31 Dec 2018 $	31 Dec 2017 $	31 Dec 2018 $	31 Dec 2017 $
Other related parties from continuing operations						
Fund management fees	–	–	7,332,975	6,900,747	7,332,975	6,900,747
Performance and transaction fees	–	670,000	322,174	196,000	322,174	866,000
Asset and project management fees	–	–	138,582	60,000	138,582	60,000
Registry and other income	–	–	1,151,254	1,109,288	1,151,254	1,109,288
Distribution income	3,138,571	3,193,799	453,877	354,137	3,592,448	3,547,936
Other related parties from discontinued operations						
Management fees	–	–	–	13,746	–	13,746
Registry and other income	–	5,000	–	–	–	5,000

Investments

At the end of the reporting period the Group held investments in the following Schemes:

	31 Dec 2018			31 Dec 2017		
	Units No.	Fair value $	Distribution received/ receivable $	Units No.	Fair value $	Distribution received/ receivable $
APN AREIT Fund	17,194	27,862	297	–	–	258
APN Asian REIT Fund	832,289	1,400,743	42,393	729,222	1,139,190	39,186
APN AREIT PIE Fund	–	–	198	10,422	9,614	280
APN Asia Pacific REIT Fund	9,161	100	–	9,161	100	–
Industria REIT	26,995,821	73,698,591	2,292,746	26,816,913	67,578,621	2,200,299
Convenience Retail REIT	9,631,005	27,352,054	1,005,757	9,624,474	28,488,443	782,470
Convenience Retail REIT No.2*	–	–	–	–	–	60,850
APN Property Plus Portfolio*	–	–	–	–	–	465,888
APN Coburg North Retail Fund	479	479	17	479	479	17
APN Steller Development Fund	2,750,000	667,700	220,000	2,750,000	2,400,750	–
APN Development Fund No. 2	2,553,988	1,334,714	–	2,380,952	1,074,286	–
APN Nowra Property Fund	2,338,000	2,338,000	31,040	–	–	–
APN European Retail Property Group	46,366	–	–	46,366	–	–

16. Subsequent Events

Dividend

Since the balance date, the directors have declared a fully franked interim dividend of 1.25 cents per share for the period ended 31 December 2018, to be paid on 15 March 2019 to all shareholders registered on 28 February 2019.

Stapling proposal update

Following shareholder approval in November 2018, ASIC has now advised, subject to customary conditions being satisfied, that they are minded to grant APN RE Limited an AFS license. Discussions with the ATO in respect to the requested class ruling are on-going and, depending on their outcome, may result in refinement of the stapling proposal (within the parameters approved by shareholders). The indicative pro-forma stapled entity financial information issued in August 2018 remains subject to the assumptions provided at the time. The eventual financial impact of the stapling transaction (on implementation) will depend on the relevant factors at the time. APN expects the stapling proposal will be implemented by 30 June 2019.

APN Regional Property Fund

On 4 February 2019, APN Regional Property Fund announced a capital raising and withdrawal offer to provide existing investors with an opportunity to redeem, maintain or increase their investment in the APN Regional Property Fund and for new investors, an opportunity to gain exposure to two A grade commercial office buildings located in Newcastle, Australia's 7th largest city. A total of up to $36.0 million is being sought via a rights issue to existing investors and a public offer to new investors.

Other than disclosed above, the directors have not become aware of any other significant matter or circumstances that has arisen since 31 December 2018, that has affected or may affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent years, which has not been covered in this report.