Dexus Industria REIT (ASX: DXI) Appendix 4D

Results for announcement to the market

Dexus Industria REIT

ARSN 125 862 875

Financial reporting for the half year ended 31 December 2022

Dexus Industria REIT[1]			
	31 Dec 2022	**31 Dec 2021**	**%**
	$'000	**$'000**	**Change**
Revenue from ordinary activities	38,622	36,355	6.2%
Net profit attributable to security holders after tax	1,439	113,697	-98.7%
Funds from operations (FFO)[2]	27,107	24,829	9.2%
Distribution to security holders	26,016	23,196	12.2%
	CPS	**CPS**	
FFO per security[2]	8.54	9.46	-9.7%
Distribution per security for the period ending:			
30 September	4.100	4.325	-5.2%
31 December	4.100	4.325	-5.2%
Total distributions	8.200	8.650	-5.2%
Payout ratio (distribution per security as a % of FFO per security)	96.0%	91.4%	4.6%
Basic earnings per security	0.45	43.33	-99%
Diluted earnings per security	0.45	43.33	-99%
Franked distribution amount per security	-	-	-
	$'000	**$'000**	
Total assets	1,569,521	1,686,474	-6.9%
Total borrowings	349,106	468,033	-25.4%
Security holders equity	1,128,954	1,131,522	-0.2%
Market capitalisation	920,083	1,120,261	-17.9%
	$ per security	**$ per security**	
Net tangible assets[3]	3.52	3.53	-0.3%
Securities price	2.90	3.51	-17.4%
Securities on issue	317,270,012	319,162,561	
Record date	30 Dec 2022	31 Dec 2021	
Payment date	23 Feb 2023	4 Feb 2022	

Distribution Reinvestment Plan (DRP)

The Group has a DRP in place. The DRP is not currently open.

Name of entity	Ownership interest 31 Dec 2022 %	31 Dec 2021 %	Carrying Value 31 Dec 2022 $'000	31 Dec 2021 $'000
Jandakot City Holdings Trust (JCH)	33.3	33.3	285,300	269,708
Jandakot Airport Holdings Trust (JAH)	68.0	68.0	49,002	35,301
Dexus Moorebank Trust	50.0	50.0	22,708	23,973
Dexus Mamre Road Trust	50.0	-	1,033	-
Total assets – investments accounted for using the equity method			**358,043**	328,982

1 For the purposes of statutory reporting, the stapled entity, known as DXI, must be accounted for as a consolidated group. Accordingly, one of the stapled entities must be the "deemed acquirer" of all other entities in the Group. Industria Trust No. 1 (Dexus Industria REIT) has been chosen as the deemed acquirer of the balance of the DXI stapled entities, comprising Industria Trust No. 2, Industria Trust No. 3, Industria Trust No. 4 and Industria Company No. 1 Ltd.

2 The Directors consider the Property Council of Australia's (PCA) definition of FFO to be a measure that reflects the underlying performance of the Group. FFO comprises net profit/loss after tax attributable to stapled security holders, calculated in accordance with Australian Accounting Standards and adjusted for: property revaluations, impairments, derivative and foreign exchange mark-to-market impacts, fair value movements of interest bearing liabilities, amortisation of tenant incentives, gain/loss on sale of certain assets, straight line rent adjustments, non-FFO tax expenses, certain transaction costs, one-off significant items, movements in right-of-use assets and lease liabilities, rental guarantees and coupon income.

3 Calculated as total net assets less goodwill on a look through basis, divided by total securities on issue.

Authorised by the Boards of Dexus Asset Management Limited and Industria Company No. 1 Limited

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About Dexus Industria REIT

Dexus Industria REIT (ASX code: DXI) is a listed Australian real estate investment trust which owns, manages and develops high-quality industrial warehouses and business parks, and is invested in the operations of Jandakot Airport industrial precinct. At 31 December 2022, the fund's portfolio is valued at $1.56 billion and is located across the major Australian cities, providing sustainable income and capital growth prospects for security holders over the long term. The fund has a target gearing band of 30 – 40%. Dexus Industria REIT is governed by a majority Independent Board and managed by Dexus (ASX code: DXS), one of Australia's leading fully integrated real estate groups, with over 35 years of expertise in property investment, funds management, asset management and development. www.dexus.com

Dexus Asset Management Limited (ACN 080 674 479, AFSL No. 237500) (the "Responsible Entity") is the responsible entity and issuer of the financial products in respect of Industria Trust No. 1 (ARSN 125 862 875), Industria Trust No. 2 (ARSN 125 862 491), Industria Trust No. 3 (ARSN 166 150 938) and Industria Trust No. 4 (ARSN 166 163 186), and Industria Company No 1 Limited (ACN 010 794 957), collectively the Dexus Industria REIT (ASX code: DXI) stapled group. The Responsible Entity is a wholly owned subsidiary of Dexus (ASX code: DXS).

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Dexus Industria REIT
Interim Report
31 December 2022

ARSN: 125 862 875

Contents

Dexus Industria REIT consists of five stapled entities, Industria Trust No. 1, Industria Trust No. 2, Industria Trust No. 3, Industria Trust No. 4 and Industria Company No. 1 Limited, collectively referred to as DXI or the Group. Dexus Asset Management Limited (DXAM) is the Responsible Entity of the four trusts. DXAM oversees the management and strategic direction of the Group. Dexus Industria REIT stapled securities are listed on the Australian Securities Exchange under the "DXI" code.

The registered office of the Responsible Entity of the Group is Level 25, Australia Square, 264-278 George Street, Sydney, NSW 2000 and its principal place of business is Level 5, 80 Collins Street (South Tower), Melbourne, VIC 3000.

HY23 Operating and Financial Review

Strategy

The experienced management team that drive the performance of Dexus Industria REIT (DXI) continue to focus on progressing the core strategic initiatives. DXI's vision is to be the first choice for investors seeking listed industrial real estate exposure in Australia by generating superior risk-adjusted returns. In executing this, DXI's strategy is to leverage the superior asset management, transactional, development and ESG capabilities of the Dexus platform to deliver spaces that inspire and engage customers.

The foundations of the portfolio include high-quality industrial assets that have demonstrated income resilience and capital growth. DXI's aligned manager, Dexus, and a majority independent Board underpin strong governance. Customer insights from the Dexus platform are leveraged to actively manage and reposition assets, enhance long-term returns through development exposure, access unique opportunities to deploy capital, and progressively manage ESG risks and opportunities over time.

DXI's portfolio is valued at $1.6 billion and is predominantly weighted to industrial assets which continues to benefit from vacancy of less than 1% across the major markets driving high rental growth. DXI remains committed to adding value through actively managing existing assets and focusing on activating development projects that improve portfolio quality and have regard to return hurdles.

Review of operations

The results of DXI's operations are disclosed in the Consolidated Statement of Comprehensive Income. A summary of results for the six months to 31 December 2022 is as follows:

Key financial performance metrics	**31 December 2022**	**31 December 2021**	**Change**
Net profit after tax ($'000)	1,439	113,697	(98.7)%
Funds From Operations (FFO) ($'000)	27,107	24,829	9.2%
FFO per security (cents)	8.5	9.5	(9.7)%
Distribution per security (cents)	8.2	8.7	(5.2)%
	31 December 2022	**30 June 2022**	**Change**
Net tangible asset backing per security ($)	3.52	3.60	(2.2)%
Balance sheet gearing (%)	23.3	28.9	(5.6)ppt
Gearing (%)	29.5	34.2	(4.7)ppt

Profit & loss	**31 December 2022 $'000**	**31 December 2021 $'000**	**Change**
Property revenue including straight-line rent	38,622	36,355	6.2%
Operating expenses	(11,611)	(10,114)	14.8%
Profit before interest, tax and other items	**27,011**	**26,241**	**2.9%**
Net fair value gain/(loss) on investment properties	(34,047)	86,673	n.a.
Net fair value gain/(loss) on right-of-use assets	(178)	(146)	21.9%
Net fair value gain/(loss) on derivatives	(186)	3,718	n.a.
Share of equity accounted profit/(loss)	18,795	1,883	898.1%
Impairment from equity accounted investments	(1,208)	-	n.a.
Net interest expense	(8,770)	(2,177)	302.8%
Profit before tax	**1,417**	**116,192**	**(98.8)%**
Income tax (expense)/benefit	22	(2,495)	n.a.
Profit after tax	**1,439**	**113,697**	**(98.7)%**

The Responsible Entity uses Funds From Operations (FFO) as its key performance indicator. The Directors consider the Property Council of Australia's (PCA) definition of FFO to be a measure that reflects the underlying performance of the Group. FFO comprises profit after tax attributable to stapled security holders, calculated in accordance with Australian Accounting Standards and adjusted for: property revaluations, derivative mark-to-market impacts, amortisation of leasing costs and incentives, straight-line rent adjustments, non-FFO tax expenses, certain transaction costs, one-off significant items, movements in right-of-use assets and lease liabilities, rental guarantees and coupon income.

A reconciliation of profit after tax to FFO is outlined as follows:

FFO reconciliation[a]	31 December 2022 $'000	31 December 2021 $'000
Profit after tax for the period	**1,439**	**113,697**
Net fair value (gain)/loss on investment properties	26,719	(86,673)
Net fair value (gain)/loss on investment properties – ROU assets	(5,681)	146
Net fair value (gain)/loss on derivatives	(197)	(3,718)
Incentive amortisation and rent straight line	1,448	1,885
Non-FFO tax expense	1,463	2,495
Debt modification (gain)/expense	339	(2,869)
Transaction costs and one-off significant items	1,208	-
Rental guarantees, coupon income and other	369	(134)
FFO	**27,107**	**24,829**

a) Includes the financial results of the equity accounted investments acquired during the year on a look-through basis.

FFO composition[a]	31 December 2022 $'000	31 December 2021 $'000	Change
Property FFO	42,543	33,336	27.6%
Management fees	(4,411)	(3,415)	29.2%
Net finance costs	(9,508)	(4,765)	99.5%
Other net expenses	(1,517)	(327)	363.9%
FFO	**27,107**	**24,829**	**9.2%**

a) Includes the financial results of the equity accounted investments acquired during the year on a look-through basis.

Financial result

DXI continued to execute on its strategy in a challenging environment. DXI achieved record leasing volumes and double-digit re-leasing spreads. The balance sheet is resilient, with gearing below the target range, $139 million of liquidity and no near-term debt maturities.

Statutory net profit after tax was $1.4 million, down from $113.7 million in the prior corresponding half, predominantly as a result of $34.0 million net fair value losses on investment properties compared to the $86.7 million net fair value gain recorded in HY22.

FFO increased 9.2% to $27.1 million, driven by a full period contribution from Jandakot Airport industrial precinct and contracted rental increases, partially offset by higher finance costs and divested assets.

Tax loss carryforwards in Industria Company No. 1 (IC1) were fully utilised during the half, with IC1 now in a tax-paying position.

FFO per security was 8.5 cents, down 9.7% due to the impact of higher average securities on issue following the $350 million equity raising in October 2021.

Net tangible assets and asset valuations

All investment properties were independently valued in the six months to 31 December 2022. The external independent valuations resulted in a like-for-like revaluation uplift of $4.5 million, representing a 0.3% increase on prior book values. Net Tangible Assets per security decreased eight cents, or 2.2%, to $3.52[1] impacted by the divested assets, with an associated $31.2 million fair value loss compared to 30 June 2022 book value.

On a look-through basis, additions to investment properties in the form of capital expenditure totalled $18.6 million, with $11.9 million of development capital expenditure, $0.5 million of tenancy works, $1.0 million of maintenance capital expenditure and cash based tenant incentives of approximately $3.5 million.

[1] Calculated as total net assets less goodwill on a look-through basis, divided by total securities on issue.

Property portfolio and asset management

DXI's property portfolio comprises of interests in 93 properties valued at $1.6 billion.

Property FFO increased $9.2 million, or 27.6%, supported by contracted rental growth, including CPI increases that averaged 5.7% during the period, and 45% of the portfolio is linked to CPI. The portfolio achieved like-for-like growth of 2.7%. A record 67,700 square metres were successfully leased during the period.

The weighted average capitalisation rate for the portfolio is 5.13% and the weighted average lease expiry by income is 6.3 years. Total occupancy by income remained strong at 97.4%.

DXI's portfolio is carbon netural[2], after being one of the first REITs to achieve this certification in August 2021. Across eligible assets, DXI holds a 4.9 average NABERS Energy and NABERS Water rating.

Industrial portfolio performance

$1.4bn Book value	**4.93%** Capitalisation rate
100% Occupancy (by income)	**6.9 year** WALE (by income)
2.4% Like-for-like growth	**61,700sqm** Leased

DXI's industrial portfolio was valued at $1.4 billion at 31 December 2022 at a weighted average cap rate of 4.93%. Industrial occupancy was 100% (by income), and the weighted average lease expiry was 6.9 years (by income). Favourable contracted rental uplifts and strong market conditions supported industrial like-for-like net operating income growth of 2.4%.

During the year, DXI leased 61,700 square metres, including 25,200 square metres at 34 Australis Drive, Derrimut VIC and 10,100 square metres at 1 West Park Drive, Derrimut VIC. Re-leasing spreads for the half were +11.1%.

Brisbane Technology Park performance

$177m Book value	**6.66%** Capitalisation rate
84.3% Occupancy (by income)	**3.3 year** WALE (by income)
4.0% Like-for-like growth	**6,000sqm** Leased

Brisbane Technology Park was valued at $177 million at 31 December 2022 at a weighted average cap rate of 6.66%. Occupancy was 84.3% (by income).

During the year, 6,000 square metres was leased supported by continued interest from small users. Technology and life sciences tenants account for 32% of income at Brisbane Technology Park.

Developments

DXI's total development pipeline is $369 million and equates to interests in 411,100 square metres in Sydney and Perth, providing an opportunity to capture strong market rental growth. The committed pipeline is $119 million with $94 million of spend remaining.

At Jandakot Airport industrial precinct, the development of two facilities across 34,300 square metres fully leased to Amazon and Tyremax were completed during the half, and there is 53,600 square metres of total development product pre-leased.

Across the pipeline, there have been slight delays experienced across several committed projects associated with planning approvals and weather events.

[2] DXI's portfolio was certified carbon neutral in August 2021. FY22 period subject to final Climate Active certification.

Transactions

DXI settled on the sale of 1A and 1C Homebush Bay Drive, Rhodes, NSW on 30 November 2022. The sale realised gross proceeds of $160.5 million, excluding transaction costs. The sale of these assets amidst a challenging transaction demonstrates Dexus's commitment to executing DXI's strategy whilst enhancing portfolio quality, reducing income risk and strengthening the balance sheet.

Financial position

DXI's net assets reduced by $25 million primarily due to fair value losses associated with the divestment of Rhodes.

Balance sheet	**31 December 2022**	**30 June 2022**
Cash and cash equivalents ($'000)	5,696	5,583
Investment properties ($'000)	1,132,425	1,319,450
Equity accounted investments ($'000)	358,043	317,486
Other assets ($'000)	73,357	73,235
Total assets ($'000)	**1,569,521**	**1,715,754**
Borrowings ($'000)	(349,106)	(475,929)
Distributions payable ($'000)	(13,008)	(13,722)
Other liabilities ($'000)	(78,453)	(72,572)
Total liabilities ($'000)	**(440,567)**	**(562,223)**
Net assets ($'000)	**1,128,954**	**1,153,531**
Stapled securities on issue ('000)	317,270	317,270
NTA per security ($)[a]	**3.52**	**3.60**

a) Calculated as total net assets less goodwill on a look-through basis, divided by total securities on issue.

Capital management

Gearing was 23.3%, or 29.5% on a look-through basis, below the target range of 30 – 40%. The weighted average cost of debt increased 110 basis points to 3.4% compared to HY22, primarily driven by higher average floating interest rates. Following the cancellation of $125 million of surplus facilities, the nearest debt maturity is $60 million in FY25 and the weighted average debt maturity is 3.8 years.

Key metrics[a]	**31 December 2022**	**30 June 2022**
Balance sheet gearing	23.3%	28.9%
Gearing[b]	29.5%	34.2%
Cost of debt[c]	3.4%	2.4%
Average maturity of debt[d]	3.8 years	3.6 years
Hedged debt[e]	61%	71%
Average maturity of hedges	2.6 years	2.4 years
Balance sheet headroom[f]	$139m	$61m
Balance sheet interest cover (covenant)	4.2x	6.1x

a) All metrics are look-through unless stated otherwise.
b) Adjusted for cash and debt in equity accounted investments.
c) Weighted average for the period, inclusive of fees and margins on a drawn basis.
d) Weighted average maturity of drawn debt. 30 Jun 2022 has been restated and was previously reported as 3.5 years based on a weighted average maturity of total facility limit.
e) Average for the period.
f) Undrawn facilities plus cash.

Market outlook

Industrial

The industrial sector is well positioned for rent growth in the year ahead despite the prospect of an economic slowdown. Vacancy is tight, supply is constrained and supply chain investment will continue to push up on space requirements. Rent growth is expected to continue to mitigate the effect of rising cap rates on valuations in the year ahead.

Population growth looks to assist consumption in the year ahead despite other economic indicators suggesting a slowdown. While a lower spend per person is possible, a return of population growth will somewhat support inventory levels.

Development costs will continue to put upward pressure on asking rents and land values appear to have topped out across key industrial markets and may see downward pressure.

Summary and guidance

While the macroeconomic environment is uncertain, tenant demand remains solid across the industrial market with low vacancy. DXI's well-located portfolio is set to benefit from market strength, while continuing to provide a reliable income stream over the long term, with 55% of the portfolio generating fixed rental growth of 3.0 – 3.5% per annum, underpinned by a weighted average lease expiry of 6.3 years.

DXI retains a disciplined approach to capital allocation, including exploring capital recycling initiatives to further reduce debt and fund the development pipeline.

DXI reiterates its FY23 guidance for FFO of 16.7 – 17.5 cents per security and distributions of 16.4 cents per security, based on current interest rate expectations and barring unforeseen circumstances (assumes average floating interest rates of circa 3.25% (90-day BBSW) and no further transactional activity).

Key risks

Risk	Potential impacts	Mitigants
Health, safety and wellbeing Providing an environment that ensures the safety and wellbeing of customers, contractors and the public at DXI properties and responding to events that have the potential to disrupt business continuity	– Death or injury at DXI properties – Reputational damage – Loss of broader community confidence – Inability to sustainably perform or deliver objectives – Costs or sanctions associated with regulatory response – Costs associated with criminal or civil proceedings – Costs associated with remediation and/or restoration – Business disruption	– Dexus implements an ISO45001 accredited WHS Management system to communicate and manage WHS risks, including: - Contractor management procedures to facilitating safe systems of work - WHS risk management program to identify and assess risks associated with DXI owned assets and operations, and to monitor controls are effectively implemented – We maintain a business continuity management framework to mitigate safety threats, including the adoption of plans relating to crisis management, business continuity and emergency management
Strategic and financial performance Ability to deliver sustainable income and capital growth prospects and achieve strategic objectives, generate value and deliver superior performance	– Reduced investor sentiment (equity and debt) – Reduced credit ratings and availability of debt financing – Sustained inflation and recessionary pressures on the economy – Inability to meet earnings expectations – Decline in asset valuations	– Processes in place to monitor and manage performance and risks that may impact on performance – DXI's strategy and risk appetite are approved annually by the Board and reviewed throughout the year by management – Investments, divestments and developments must be approved by the Investment Committee, and the Dexus Asset Management Limited (DXAM) and Industria Company No. 1 Limited (1C1) Boards, in accordance with the terms of reference and operating limits – Due diligence is undertaken for all investment and divestment proposals, developments and major capital expenditure before approval or endorsement of each investment decision
Capital management Positioning the capital structure of the business to withstand unexpected changes in equity and debt markets	– Constrained capacity to execute strategy – Increased cost of funding (equity and debt) – Fluctuations in interest rates which could impact the cost of debt – Fluctuations in foreign exchange rates which could impact profitability – Reduced investor sentiment – Reduced availability of debt financing	– Prudent management of capital, including regular sensitivity analysis and periodic independent reviews of the Treasury Policy, assists in positioning DXI's balance sheet in relation to unexpected changes in capital markets – Ongoing monitoring of capital management is undertaken to ensure metrics are within risk appetite thresholds benchmarks and/or limits outlined within the Treasury Policy

Risk	Potential impacts	Mitigants
Key investor Ability to deliver on strategic objectives to meet investor expectations	– Reputational damage – Loss of confidence in governance structure and service delivery – Financial loss	– Strong governance regime including identification and management of conflicts of interest (including asset acquisitions and leasing) – Development of key talent – Monitoring opportunities to accelerate growth and capability
Cyber and data security Ability to access, protect and maintain systems and respond to major incidents including data loss, cyber security threats or breaches to information systems	– Reputational damage – Inability to sustainably perform or deliver objectives – Lack of resilience in DXI's response to cyber security threats – Impact to DXO stakeholders – Loss of broader community confidence – Business disruption – Data integrity compromised – Loss or damage to systems or assets	– Enhancing cyber and information security risk controls – Engagement with key service providers to ensure risk of data breaches is minimised – Comprehensive Business Continuity and Disaster Recovery plans in place – Educating and training DXI people on how to best protect data
Compliance and regulatory Maintaining market leading governance and compliance practices	– Reputational damage – Conflicts of interest resulting in loss or reduced performance – Sanctions impacting on business operations – Reduced investor sentiment (equity and debt) – Loss of broader community confidence – Increased compliance costs	– DXI's compliance monitoring program supports its comprehensive compliance policies and procedures that are regularly updated to ensure the business operates in accordance with regulatory expectations – Dexus employees and DXI service providers receive training on their compliance obligations and are encouraged to raise concerns where appropriate – Maintain grievance, complaints and whistleblower mechanisms for Dexus employees and DXI stakeholders to raise concerns safely, confidentially and anonymously – Independent industry experts are appointed to undertake reviews where appropriate
Environmental and social sustainability Ability to meet societal and investor expectations of corporate and social responsibilities	– Increased costs associated with global and domestic energy crisis – Increased costs associated with physical risks (e.g. asset damage from extreme weather) – Increased costs associated with transition risks (e.g. carbon regulation, requirements for building efficiency) – Inability to maintain access to capital due to reputational damage – Increased reputational risk for not supporting the community and social causes – Increased difficulties in leasing assets due to heightened risk of climate change impact	– DXI are committed to ensuring its operations provide quality jobs with the right conditions and collaborate with its suppliers to understand how it can contribute to upholding human rights across the supply chain, including addressing modern slavery
Development Achieving strategic development objectives that provides the opportunity to grow DXI's portfolio and enhance future returns	– Reputational damage – Leasing outcomes impacting on completion valuations – Fluctuations in construction costs and project delays, including due to liquidation of third-party contractors, resulting in sub-optimal returns – Financial loss	– Leverage Dexus's strong development capability with a proven track record of delivering projects with a focus on quality, sustainability and returns that satisfy the evolving needs of customers – Investments, divestments and developments must be approved by the Investment Committee, and the DXAM and IC1 Boards, in accordance with the terms of reference and operating limits – Due diligence is undertaken for all developments before approval or endorsement of each investment decision

Directors’ Report

The Directors of Dexus Asset Management Limited (DXAM) as Responsible Entity of Industria Trust No.1 (the Trust and deemed parent entity) and its controlled entities (together, DXI or the Group) present their Directors’ Report together with the Interim Consolidated Financial Statements for the half year ended 31 December 2022.

Directors

The following persons were Directors of DXAM at all times during the half year and to the date of this Directors’ Report, unless otherwise stated:

Directors	Appointed
Howard Brenchley, BEc[1]	16 March 1998
Danielle Carter, BA/BCom, GradDipAppFin, CA, GAICD[2]	17 October 2022
Deborah Coakley, BBus, GAICD	19 August 2021
Jennifer Horrigan, BBus, GradDipMgt, GradDipAppFin, MAICD	30 April 2012
Michael Johnstone, BTRP, LS, AMP (Harvard)[3]	25 November 2009
Emily Smith, BCom, GAICD	19 April 2022
Jonathan Sweeney, BCom, LLB, CFA, GAICD[4]	17 October 2022
Brett Cameron, LLB/BA, GAICD, FGIA – Alternate Director for Deborah Coakley	1 March 2022

[1] Mr Brenchley resigned from the DXAM Board effective 17 October 2022
[2] Ms Carter was appointed as a Non-Executive Director on 17 October 2022
[3] Mr Johnstone resigned from the DXAM Board effective 17 October 2022
[4] Mr Sweeney was appointed as a Non-Executive Director on 17 October 2022

Operating and financial review

Information on the operations and financial position of the Group and its business strategies and prospects is set out on pages 2 to 7 of the Interim Report and forms part of this Directors’ Report.

Significant changes in the state of affairs

During the half year, DXI had no significant changes in its state of affairs.

Auditor's Independence Declaration

A copy of the Auditor’s Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 10 and forms part of this Directors’ Report.

Rounding of amounts and currency

As the Group is an entity of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors’ Reports) Instrument 2016/191*, the Directors have chosen to round amounts in this Directors’ Report and the accompanying Financial Report to the nearest thousand dollars, unless otherwise indicated. All figures in this Directors’ Report and the Interim Consolidated Financial Statements, except where otherwise stated, are expressed in Australian dollars.

Directors' authorisation

The Directors' Report is made in accordance with a resolution of the Directors. The Interim Consolidated Financial Statements were authorised for issue by the Directors on 8 February 2023.

Jennifer Horrigan

Chair

8 February 2023

Auditor's Independence Declaration

As lead auditor for the review of Industria Trust No. 1 for the half-year ended 31 December 2022, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Industria Trust No. 1 and the entities it controlled during the period.

Samantha Johnson

Samantha Johnson
Partner
PricewaterhouseCoopers

Sydney
8 February 2023

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Consolidated Statement of Comprehensive Income

For the half year ended 31 December 2022

	Note	31 Dec 2022 $'000	31 Dec 2021 $'000
Revenue from ordinary activities			
Property revenue	2	**38,622**	36,355
Total revenue from ordinary activities		**38,622**	36,355
Other income			
Interest income		**64**	27
Net fair value gain of investment properties		**-**	86,673
Share of net profit of investments accounted for using the equity method		**18,795**	1,883
Net fair value gain of derivatives		**-**	3,718
Total other income		**18,859**	92,301
Total income		**57,481**	128,656
Expenses			
Property expenses		**(7,491)**	(6,372)
Management fee expense		**(3,476)**	(3,159)
Finance costs	3	**(8,834)**	(2,204)
Net fair value loss of investment properties	6	**(34,047)**	-
Net fair value loss of right-of-use assets	7	**(178)**	(146)
Impairment of investments accounted for using the equity method		**(1,208)**	-
Net fair value loss of derivatives	11	**(186)**	-
Other expenses		**(644)**	(583)
Total expenses		**(56,064)**	(12,464)
Profit before tax		**1,417**	116,192
Income tax benefit/(expense)	4	**22**	(2,495)
Profit for the period		**1,439**	113,697
Profit/(loss) for the period attributable to:			
Security holders of the parent entity		**(2,934)**	103,166
Security holders of other stapled entities (non-controlling interests)[1]		**4,373**	10,531
Profit/(loss) for the period		**1,439**	113,697
Total comprehensive income/(loss) for the period		**1,439**	113,697
Total comprehensive income/(loss) for the period attributable to:			
Security holders of the parent entity		**(2,934)**	103,166
Security holders of other stapled entities (non-controlling interests)[1]		**4,373**	10,531
Total comprehensive income/(loss) for the period		**1,439**	113,697
		Cents	**Cents**
Earnings per unit on profit/(loss) attributable to security holders of the Trust (parent entity)			
Basic earnings per unit		**(0.92)**	**39.31**
Diluted earnings per unit		**(0.92)**	**39.31**
Earnings per stapled security on profit/(loss) attributable to other stapled security holders			
Basic earnings per security		**1.37**	**4.01**
Diluted earnings per security		**1.37**	**4.01**

1. Non-controlling interests represents the profit and total comprehensive income for the period attributable to Industria Trust No. 2, Industria Trust No. 3, Industria Trust No. 4 and Industria Company No. 1 Limited.

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 31 December 2022

	Note	31 Dec 2022 $'000	30 Jun 2022 $'000
Current assets			
Cash and cash equivalents		**5,696**	5,583
Receivables		**14,161**	15,152
Derivative financial instruments	11	**2,365**	35
Other current assets		**7,517**	6,957
Total current assets		**29,739**	27,727
Non-current assets			
Investment properties	6	**1,132,425**	1,319,450
Right-of-use assets	7	**38,891**	39,069
Investments accounted for using the equity method	8	**358,043**	317,486
Derivative financial instruments	11	**10,423**	12,022
Total non-current assets		**1,539,782**	1,688,027
Total assets		**1,569,521**	1,715,754
Current liabilities			
Payables		**24,436**	19,960
Current tax liabilities		**316**	-
Provisions		**14,313**	14,432
Derivative financial instruments	11	**-**	160
Lease liabilties	9	**373**	344
Total current liabilities		**39,438**	34,896
Non-current liabilities			
Payables		**996**	-
Derivative financial instruments	11	**161**	-
Lease liabilities	9	**37,637**	37,831
Interest bearing liabilities	10	**349,106**	475,929
Deferred tax liabilities		**13,229**	13,567
Total non-current liabilities		**401,129**	527,327
Total liabilities		**440,567**	562,223
Net assets		**1,128,954**	1,153,531
Equity			
Equity attributable to security holders of the Trust (parent entity)			
Contributed equity	13	**594,296**	594,296
Retained profits		**276,706**	303,300
Parent entity security holders' interest		**871,002**	897,596
Equity attributable to security holders of other stapled entities (non-controlling interests)[1]			
Contributed equity	13	**198,402**	198,402
Retained profits		**59,550**	57,533
Other stapled security holders' interest		**257,952**	255,935
Total equity		**1,128,954**	1,153,531

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

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the half year ended 31 December 2022

		Attributable to security holders of the Trust (parent entity)			Attributable to security holders of other stapled entities[1]			
	Note	Contributed equity $'000	Retained profits $'000	Total $'000	Contributed equity $'000	Retained profits $'000	Total $'000	Total equity $'000
Opening balance as at 1 July 2021		332,545	197,157	529,702	120,693	45,026	165,719	695,421
Net profit for the period		-	103,166	103,166	-	10,531	10,531	113,697
Other comprehensive income/(loss) for the period		-	-	-	-	-	-	-
Total comprehensive income for the period		-	103,166	103,166	-	10,531	10,531	113,697
Transactions with owners in their capacity as owners:								
Issue of contributed equity	13	269,795	-	269,795	80,205	-	80,205	350,000
Securities issued under distribution reinvestment plan (DRP)	13	2,153	-	2,153	247	-	247	2,400
Equity issuance costs	13	(5,430)	-	(5,430)	(1,370)	-	(1,370)	(6,800)
Distributions paid or payable	5	-	(21,354)	(21,354)	-	(1,842)	(1,842)	(23,196)
Total transactions with owners in their capacity as owners		266,518	(21,354)	245,164	79,082	(1,842)	77,240	322,404
Balance as at 31 December 2021		599,063	278,969	878,032	199,775	53,715	253,490	1,131,522
Opening balance as at 1 July 2022		**594,296**	**303,300**	**897,596**	**198,402**	**57,533**	**255,935**	**1,153,531**
Net profit/(loss) for the period		**-**	**(2,934)**	**(2,934)**	**-**	**4,373**	**4,373**	**1,439**
Other comprehensive income/(loss) for the period		**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income/(loss) for the period		**-**	**(2,934)**	**(2,934)**	**-**	**4,373**	**4,373**	**1,439**
Transactions with owners in their capacity as owners:								
Distributions paid or payable	5	**-**	**(23,660)**	**(23,660)**	**-**	**(2,356)**	**(2,356)**	**(26,016)**
Total transactions with owners in their capacity as owners		**-**	**(23,660)**	**(23,660)**	**-**	**(2,356)**	**(2,356)**	**(26,016)**
Balance as at 31 December 2022		**594,296**	**276,706**	**871,002**	**198,402**	**59,550**	**257,952**	**1,128,954**

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.

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the half year ended 31 December 2022

	31 Dec 2022 $'000	31 Dec 2021 $'000
Cash flows from operating activities		
Receipts in the course of operations (inclusive of GST)	**43,936**	38,911
Payments in the course of operations (inclusive of GST)	**(15,410)**	(12,190)
Interest received	**64**	27
Finance costs paid	**(8,107)**	(6,475)
Distributions received from investments accounted for using the equity method	**8,376**	-
Net cash inflow/(outflow) from operating activities	**28,859**	20,273
Cash flows from investing activities		
Proceeds from sale of investment properties	**158,700**	12,550
Payments for acquisition of investment properties	**-**	(160,584)
Payments for capital expenditure on investment properties	**(3,882)**	(4,386)
Payments for investments accounted for using the equity method	**(29,018)**	(324,283)
Net cash inflow/(outflow) from investing activities	**125,800**	(476,703)
Cash flows from financing activities		
Proceeds from borrowings	**1,105,250**	385,985
Repayment of borrowings	**(1,232,500)**	(256,700)
Additional borrowing costs paid	**(401)**	-
Payment of lease liabilities	**(165)**	(134)
Proceeds from issue of contributed equity	**-**	350,000
Equity issuance and buy-back costs paid	**-**	(7,045)
Distributions paid to security holders	**(26,730)**	(16,431)
Net cash inflow/(outflow) from financing activities	**(154,546)**	455,675
Net increase/(decrease) in cash and cash equivalents	**113**	(755)
Cash and cash equivalents at the beginning of the period	**5,583**	5,762
Cash and cash equivalents at the end of the period	**5,696**	5,007

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

In this section

This section sets out the basis upon which the Group's Interim Consolidated Financial Statements are prepared.

Basis of preparation

These Interim Consolidated Financial Statements have been prepared in accordance with the requirements of the Constitutions of the entities within the Group, the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting* issued by the Australian Accounting Standards Board.

These Interim Consolidated Financial Statements do not include notes of the type normally included in an annual financial report. Accordingly, these Interim Consolidated Financial Statements should be read in conjunction with the annual Consolidated Financial Statements for the year ended 30 June 2022 and any public pronouncements made by the Group during the half year in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

Unless otherwise stated, the Interim Consolidated Financial Statements have been prepared using consistent accounting policies in line with those of the previous financial year and corresponding interim reporting period. Where required, comparative information has been restated for consistency with the current year's presentation.

The Interim Consolidated Financial Statements are presented in Australian dollars, with all values rounded to the nearest thousand dollars in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, unless otherwise stated.

The Interim Consolidated Financial Statements have been prepared on a going concern basis using historical cost conventions, except for investment properties, investment properties within equity accounted investments and derivative financial instruments which are stated at their fair value.

Net current asset deficiency

As at 31 December 2022, the Group had a net current asset deficiency $9,699,000 (30 June 2022: deficiency of $7,169,000). This is primarily due to distributions payable to stapled security holders of $13,008,000 (30 June 2022: $13,722,000). The Group has in place external funding arrangements to support the cash flow requirements of the Group, including undrawn facilities of $133,000,000 (30 June 2022: $55,750,000). In determining the basis of preparation of the Interim Financial Report, the Directors of the Responsible Entity have taken into consideration the unutilised facilities available to the Group. As such the Group is a going concern and the Interim Consolidated Financial Statements have been prepared on that basis.

Critical accounting estimates

The preparation of the Interim Consolidated Financial Statements requires the use of certain critical accounting estimates and management to exercise its judgement in the process of applying the Group's accounting policies.

In the process of applying the Group's accounting policies, management has considered the current economic environment including the impacts of inflation and rising interest rates.

Other than the inflationary and interest rate impacts and the estimates and assumptions used for the measurement of items held at fair value such as certain financial instruments and investment properties (including those held within investments accounted for using the equity method), no key assumptions concerning the future or other estimation of uncertainty at the end of each reporting period are expected to have a significant risk of causing material adjustments to the Interim Consolidated Financial Statements.

Basis of preparation (continued)

The Notes to the Interim Consolidated Financial Statements are organised into the following sections:

Group performance	Property portfolio assets	Capital management	Other disclosures
1. Operating segments	6. Investment properties	9. Lease liabilities	14. Related parties
2. Property revenue	7. Right-of-use assets	10. Interest bearing liabilities	15. Subsequent events
3. Finance costs	8. Investments accounted for using the equity method	11. Fair value measurement	
4. Taxation		12. Commitments and contingencies	
5. Distributions paid and payable		13. Contributed equity	

Group performance

In this section

This section explains the results and performance of the Group.

It provides additional information about those individual line items in the Interim Consolidated Financial Statements that the Directors consider most relevant in the context of the operations of the Group, including results by operating segment, property revenue, finance costs, taxation and distributions paid and payable.

Note 1 Operating segment

The Group derives its income from investment in properties located in Australia and is deemed to have only one operating segment which is consistent with the reporting reviewed by the chief operating decision makers. The Directors consider the Property Council of Australia's (PCA) definition of FFO to be a measure that reflects the underlying performance of the Group. A reconciliation of the Group's FFO (including the Group's share of equity accounted investments) to net profit for the period is tabled below:

	31 Dec 2022 $'000	31 Dec 2021 $'000
Segment performance measures		
Property revenue	**52,275**	39,526
Property expenses	**(10,531)**	(7,281)
Management fee and other expenses	**(5,116)**	(3,251)
Interest income	**133**	13
Finance costs	**(9,641)**	(4,778)
Incentive amortisation and rent straight-line	**1,448**	1,885
FFO tax expense	**(812)**	(491)
Rental guarantees, coupon income and other	**(649)**	(794)
Funds From Operations (FFO)	**27,107**	24,829
Net fair value gain/(loss) of investment properties	**(26,719)**	86,673
Net fair value gain/(loss) of right-of-use assets	**5,681**	(146)
Net fair value gain/(loss) of derivatives	**197**	3,718
Impairment of investments accounted for using the equity method	**(1,208)**	-
Incentive amortisation and rent straight-line	**(1,448)**	(1,885)
Non-FFO tax (expense)/benefit	**(1,463)**	(2,495)
Debt modification expense/(gain)	**(339)**	2,869
Rental guarantees, coupon income and other	**(369)**	134
Profit for the period	**1,439**	113,697

Note 2 Property revenue

The Group's main revenue stream is property rental revenue and is derived from holding properties as investment properties and earning rental yields over time. Rental revenue is recognised on a straight-line basis over the lease term for leases with fixed rent review clauses.

Prospective tenants may be offered incentives as an inducement to enter into operating leases. The costs of incentives are recognised as a reduction of rental revenue on a straight-line basis from the lease commencement date to the end of the lease term. The carrying amount of the lease incentives is reflected in the fair value of investment properties.

Within its lease arrangements, the Group provides certain services to tenants (such as utilities, cleaning, maintenance and certain parking arrangements) which are accounted for within AASB 15 *Revenue from Contracts with Customers.*

	31 Dec 2022 $'000	31 Dec 2021 $'000
Rental income	**35,272**	34,422
Services revenue	**2,207**	1,649
Outgoing and direct recoveries	**3,529**	2,690
Embedded network income[1]	**126**	193
Incentive amortisation	**(2,512)**	(2,599)
Total property revenue	**38,622**	36,355

1. Embedded network income represents the net of $0.3 million (31 Dec 2021: $0.7 million) of direct recoveries income and $0.2 million (31 Dec 2021: $0.5 million) of electricity expenses.

Note 3 Finance costs

	31 Dec 2022 $'000	31 Dec 2021 $'000
Interest expense paid/payable	**8,644**	3,005
Amortisation of borrowing costs	**489**	264
Debt modification expense/(gain)	**339**	(2,869)
Interest expense on lease liability	**663**	668
Realised (gain)/loss of interest rate derivatives	**(1,301)**	1,136
Total finance costs	**8,834**	2,204

Note 4 Taxation

Income tax on the profit or loss for the period comprises current and deferred tax for Industria Company No.1 Limited, one of five stapled entities that comprise DXI. All other Trusts within the DXI stapled group have made an election to be attribution managed investment trusts (AMITs) for the year ended 30 June 2017 and subsequent periods.

	31 Dec 2022 $'000	31 Dec 2021 $'000
Current income tax (expense)/ benefit	**(316)**	-
Deferred income tax benefit/(expense)	**338**	(2,495)
Total income tax benefit/(expense)	**22**	(2,495)

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

	31 Dec 2022 $'000	31 Dec 2021 $'000
Profit before income tax	**1,417**	116,192
Less: non-assessable income	**-**	(372)
Less: profit attributed to entities not subject to tax	**(1,450)**	(107,470)
(Loss)/profit subject to income tax	**(33)**	8,350
Prima facie tax (expense)/benefit at the Australian tax rate of 30% (2021: 30%)	**10**	(2,505)
Add/(subtract) the tax effect of:		
Differences in accounting and tax asset values	**12**	10
Income tax benefit/(expense)	**22**	(2,495)

Note 5 Distributions paid and payable

Distributions are recognised when declared.

a) Distribution to security holders

	31 Dec 2022 $'000	31 Dec 2021 $'000
30 September (paid 5 November 2022)	**13,008**	9,392
31 December (payable 23 February 2023)	**13,008**	13,804
Total distribution to security holders	**26,016**	23,196

b) Distribution rate

	2022 Cents per security	2021 Cents per security
30 September (paid 5 November 2022)	**4.100**	4.325
31 December (payable 23 February 2023)	**4.100**	4.325
Total distribution rate	**8.200**	8.650

Property portfolio assets

In this section

The following table summarises the property portfolio assets of the Group detailed in this section.

31 December 2022	Note	Leased assets $'000	Land held for development $'000	Industrial and office $'000	Total $'000
Investment properties	6	-	2,850	1,129,575	**1,132,425**
Right-of-use assets	7	38,891	-	-	**38,891**
Investments accounted for using the equity method	8	56,305	102,157	329,600	**488,062**
Total		**95,196**	**105,007**	**1,459,175**	**1,659,378**

Property portfolio assets are used to generate the Group's performance and are considered to be the most relevant to the understanding of the operating performance of the Group. The assets are detailed in the following notes:

- *Investment properties*: relates to investment properties, both stabilised and under development.
- *Right-of-use assets:* relates to ground leases on which some of the Group's investment properties are located.
- *Investments accounted for using the equity method*: provides summarised financial information on the joint ventures and investments with significant influence. The Group's interests in its joint venture property portfolio assets are held through investments in trusts.

Note 6 Investment properties

The Group's investment properties consist of properties held for long-term rental yields and/or capital appreciation and property that is being constructed or developed for future use as investment property. Investment properties are initially recognised at cost including transaction costs. Investment properties are subsequently recognised at fair value.

a) Reconciliation of carrying amounts

	For the 6 months to 31 Dec 2022 $'000	For the 12 months to 30 Jun 2022 $'000
Opening balance at the beginning of the period	**1,319,450**	1,051,008
Additions	**1,251**	10,672
Acquisitions	**-**	160,599
Lease incentives	**5,201**	8,121
Amortisation of lease incentives	**(2,778)**	(5,684)
Rent straightlining	**1,192**	2,199
Disposals	**(157,844)**	(22,248)
Net (loss)/gain on fair value adjustments	**(34,047)**	114,783
Carrying amount at the end of period	**1,132,425**	1,319,450

Disposals

On 30 November 2022, settlement occurred for the disposal of 1A and 1C Homebush Bay Drive, Rhodes NSW for $160.5 million excluding transaction costs.

b) Fair Value measurement and valuation inputs

The following table represents the level of the fair value hierarchy and the associated unobservable inputs utilised in the fair value measurement for each class of investment property, including investment property held within investments accounted for using the equity method.

Note 6 Investment properties (continued)

b) Fair value measurement and valuation inputs (continued)

Class of property	Fair value hierarchy	Inputs used to measure fair value	Range of unobservable inputs 31 Dec 2022	30 Jun 2022
Industrial and office properties	Level 3	Adopted capitalisation rate	**4.25% - 7.75%**	4.00% - 7.75%
		Adopted discount rate	**5.50% - 7.75%**	5.25% - 7.50%
		Adopted terminal yield	**4.38% - 7.50%**	4.13% - 7.50%
		Net market rent (per sqm p.a)	**$81 - $802**	$80 - $537
Land held for development	Level 3	Sales price per sqm	**$260 - $1,272**	$265 - $1,239
Leased assets	Level 3	Adopted discount rate	**3.08% - 6.40%**	3.08% - 6.40%

Key assumptions: inputs used to measure fair value of investment properties

Judgement is required in determining the following key assumptions:

- **Adopted capitalisation rate:** The rate at which net market rental revenue is capitalised to determine the value of a property. The rate is determined with regard to market evidence and the prior external valuation.
- **Adopted discount rate:** The rate of return used to convert cash flows, payable or receivable in the future, into present value. For industrial and office properties, it reflects the opportunity cost of capital, that is, the rate of return the cash can earn if put to other uses having similar risk. The rate is determined with regard to market evidence and the prior external valuation. For leased assets, the discount rate is determined with reference to the Group’s incremental borrowing rate.
- **Adopted terminal yield:** The capitalisation rate used to convert the future net market rental revenue into an indication of the anticipated value of the property at the end of the holding period when carrying out a discounted cash flow calculation. The rate is determined with regard to market evidence and the prior external valuation.
- **Net market rental (per sqm):** The net market rent is the estimated amount for which a property should lease between a lessor and a lessee on appropriate lease terms in an arm’s length transaction.

c) Sensitivity information

Significant movement in any one of the valuation inputs above may result in a change in the fair value of the Group’s investment properties, including investment properties within investments accounted for using the equity method, as shown below.

The estimated impact of a change in certain significant unobservable inputs would result in a change in the fair value as follows:

	31 Dec 2022 $'000	30 Jun 2022 $'000
A decrease of 25 basis points in the adopted capitalisation rate	**80,124**	90,345
An increase of 25 basis points in the adopted capitalisation rate	**(72,679)**	(81,810)
A decrease of 25 basis points in the adopted discount rate	**65,181**	74,793
An increase of 25 basis points in the adopted discount rate	**(60,166)**	(68,845)
A decrease of 5% in the net market rental (per sqm)	**(78,209)**	(86,574)
A increase of 5% in the net market rental (per sqm)	**78,209**	86,574

Generally, a change in the assumption made for the adopted capitalisation rate is often accompanied by a directionally similar change in the adopted terminal yield. The adopted capitalisation rate forms part of the capitalisation approach while the adopted terminal yield forms part of the discounted cash flow approach.

Note 6 Investment properties (continued)

c) Sensitivity information (continued)

Under the capitalisation approach, the net market rental has a strong interrelationship with the adopted capitalisation rate as the fair value of the investment property is derived by capitalising, in perpetuity, the net market rent receivable. An increase (softening) in the adopted capitalisation rate may offset the impact to fair value of an increase in the net market rent. A decrease (tightening) in the adopted capitalisation rate may also offset the impact to fair value of a decrease in the net market rent. A directionally opposite change in the net market rent and the adopted capitalisation rate may increase the impact to fair value.

The discounted cash flow (DCF) is primarily made up of the discounted cash flow of net income over the cash flow period used in the DCF (generally no less than 5 years) and the discounted terminal value (which is largely based upon market rents grown at forecast market rental growth rates capitalised at an adopted terminal yield). An increase (softening) in the adopted discount rate may offset the impact to fair value of a decrease (tightening) in the adopted terminal yield. A decrease (tightening) in the discount rate may offset the impact to fair value of an increase (softening) in the adopted terminal yield. A directionally similar change in the adopted discount rate and the adopted terminal yield may increase the impact to fair value.

A decrease (softening) in the forecast rental growth rate may result in a negative impact on the discounted cash flow approach value while a strengthening may have a positive impact on the value under the same approach.

Note 7 Right-of-use assets

a) Sub-leasehold properties and ground rent obligations

Five of DXI's investment properties at 140 Sharps Road, Tullamarine VIC and 5, 5B, 18-20, 20-22 Butler Boulevard, Adelaide Airport SA are 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. Therefore, the Group is the lessee of the associated lease arrangements for these investment properties which are subject to the recognition and measurement requirements of AASB 16 *Leases* for operating leases. For all other lease contracts associated with the Group's other investment properties, the Group is a lessor by virtue.

b) Reconciliation of right-of-use ("ROU") assets

	31 Dec 2022 $'000	30 Jun 2022 $'000
ROU assets recognised at the beginning of the period	**39,069**	39,380
Net fair value loss on ROU assets recognised in the Consolidated Statement	**(178)**	(311)
ROU assets at balance date	**38,891**	39,069

Note 8 Investments accounted for using the equity method

The following investments are accounted for using the equity method of accounting in the Interim Consolidated Financial Statements. Information relating to these entities is set out below.

	Ownership interest			
Name of entity	**31 Dec 2022 %**	30 Jun 2022 %	**31 Dec 2022 $'000**	30 Jun 2022 $'000
Jandakot City Holdings Trust (JCH)[1]	**33.3**	33.3	**285,300**	250,162
Jandakot Airport Holdings Trust (JAH)[1]	**68.0**	68.0	**49,002**	44,725
Dexus Moorebank Trust	**50.0**	50.0	**22,708**	22,599
Dexus Mamre Road Trust[2]	**50.0**	-	**1,033**	-
Total assets - investments accounted for using the equity method[3]			**358,043**	**317,486**

1. These entities were formed in Australia and their principal activity is property investment and airport operations and related infrastructure within Australia.
2. Dexus Mamre Road was formed in Australia and its principal activity is investment in real estate assets within Australia.
3. The Group's share of investment properties in the investments accounted for using the equity method was $431.8 million (30 June 2022: $412.1 million) and right-of-use assets of $56.3 million (30 June 2022: $50.5 million). These investments are accounted for using the equity method as a result of contractual arrangements requiring unanimous decisions on all relevant matters.

Capital management

In this section

The Board of the Responsible Entity determines the appropriate capital structure of the Group, how much is borrowed from financial institutions and capital markets (debt), and how much is raised from stapled security holders (equity) in order to finance the Group's activities both now and in the future. This capital structure is detailed in the following notes:

- Debt: *Lease liabilities* in note 9, *Interest bearing liabilities* in note 10, *Fair value measurement* in note 11 and *Commitments and contingencies* in note 12;
- Equity: *Contributed equity* in note 13.

Note 9 Lease liabilities

The lease liabilities include ground leases at 140 Sharps Road, Tullamarine VIC and 5, 5B, 18-20, 20-22 Butler Boulevard, Adelaide Airport SA. Refer to note 7 *Right-of-use assets* for information and disclosures relating to the corresponding leased asset.

Lease liabilities	**31 Dec 2022 $'000**	30 Jun 2022 $'000
Lease liabilities at the beginning of the period	**(38,175)**	(38,455)
Lease payments	**828**	1,615
Interest expense on lease liabilities	**(663)**	(1,335)
Lease liabilities at the end of the period	**(38,010)**	(38,175)
Attributable to:		
Current lease liabilities	**(373)**	(344)
Non-current lease liabilities	**(37,637)**	(37,831)
Total lease liabilities at balance date	**(38,010)**	(38,175)

Note 10 Interest bearing liabilities

	31 Dec 2022 $'000	30 Jun 2022 $'000
Non-current		
Secured		
Bank loans (net of debt modification)	**(351,003)**	(477,914)
Capitalised borrowing cost	**1,897**	1,985
Total secured	**(349,106)**	(475,929)
Total non-current liabilities - interest bearing liabilities	**(349,106)**	(475,929)
Total interest bearing liabilities	**(349,106)**	(475,929)

Financing arrangements

The Group has $486,250,000 of revolving cash advance facilities with four banks.

Summary of borrowing arrangements

	31 Dec 2022 $'000	30 Jun 2022 $'000
Loan facility limit	**486,250**	536,250
Amount drawn at balance date	**(353,250)**	(480,500)
Amount undrawn at balance date	**133,000**	55,750

As at 31 December 2022, the following table summarises the maturity profile of the Group's financing arrangements:

Type of facility	Maturity date	Utilised $'000	Facility limit $'000
Tranche 1 Series	Sep-24	-	36,250
Tranche 2 Series	Sep-24	-	10,000
Tranche 3 Series	Jul-26	34,500	35,000
Tranche 4 Series	Jul-25	30,000	30,000
Tranche 5 Series	Nov-26	12,500	12,500
Tranche 6 Series	Dec-26	20,000	20,000
Tranche 7 Series	Jul-24	60,000	60,000
Tranche 8 Series	Nov-26	37,500	37,500
Tranche 9 Series	Nov-26	56,250	56,250
Tranche 10 Series	Nov-25	26,000	26,250
Tranche 11 Series	Nov-26	15,000	15,000
Tranche 12 Series	Nov-25	30,000	30,000
Tranche 13 Series	Nov-26	20,000	20,000
Tranche 14 Series	Dec-26	11,500	22,500
Tranche 15 Series	Nov-27	-	75,000

The revolving cash advance facilities are 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). During the half year period, the Group renegotiated the pricing and term of some existing tranches as well as introduced new tranches to its cash advance facilities, resulting in an overall facility limit decrease of $50 million.

Note 10 Interest bearing liabilities (continued)

The debt facilities contain both financial and non-financial covenants and undertakings that are customary for secured debt facilities of this nature. The key financial covenants that apply to the Group are as follows:

		31 Dec 2022	30 Jun 2022
Loan to Value Ratio ("LVR")	At all times, LVR does not exceed 55%.	**30.7%**	36.4%
Gearing Ratio	At all times, gearing ratio does not exceed 55%.	**23.3%**	28.9%
Net Rental Income to Interest Costs Ratio	At all times, the net rental income to interest costs ratio under the facility does not fall below 2.0 times.	**4.2 times**	6.1 times
Weighted Average Lease Length to Expiry ("WALE")	WALE for the portfolio will be greater than 2.5 years.	**5.3 years**	5.6 years

Note 11 Fair value measurement

The Group uses the following methods in the determination and disclosure of the fair value of financial instruments:

Level 1: the fair value is calculated using quoted prices in active markets.

Level 2: the fair value is determined using 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 using inputs for the asset or liability that are not based on observable data.

All derivative financial instruments were measured at Level 2 for the periods present in this report.

All investment properties including those within investments accounted for using the equity method, were measured at Level 3 for the periods presented in this report.

During the half year, there were no transfers between Level 1, 2 and 3 fair value measurements.

Note 12 Commitments and contingencies

a) Commitments

Capital commitments

The following amounts represent capital expenditure on investment properties as well as committed fitout or cash incentives contracted at the end of each reporting period but not recognised as liabilities payable:

	31 Dec 2022 $'000	30 Jun 2022 $'000
Investment properties	**464**	2,714
Investments accounted for using the equity method	**9,398**	22,426
Total capital commitments	**9,862**	25,140

b) Contingencies

The Directors of the Responsible Entity are not aware of any contingent liabilities in relation to the Group, other than those disclosed in the Interim Consolidated Financial Statements, which should be brought to the attention of security holders as at the date of completion of this report.

Outgoings are excluded from contingencies as they are expensed when incurred.

Note 13 Contributed equity

Carrying amount	**For the 6 months to 31 Dec 2022 $'000**	For the 12 months to 30 Jun 2022 $'000
At the beginning of the period	**792,698**	453,238
Issue of contributed equity	**-**	350,000
Securities issued under distribution reinvestment plan	**-**	2,400
Buy-back of contributed equity	**-**	(5,909)
Equity issuance and buy-back costs	**-**	(7,031)
At the end of the period	**792,698**	792,698
Attributable to:		
Security holders of the parent entity	**594,296**	594,296
Security holders of other stapled entities	**198,402**	198,402
At the end of the period	**792,698**	792,698

Number of securities on issue	**For the 6 months to 31 Dec 2022 No.**	For the 12 months to 30 Jun 2022 No.
At the beginning of the period	**317,270,012**	217,001,053
Issue of contributed equity	**-**	101,449,276
Securities issued under distribution reinvestment plan	**-**	712,232
Buy-back of contributed equity	**-**	(1,892,549)
At the end of the period	**317,270,012**	317,270,012

Other disclosures

In this section

This section includes other information that must be disclosed to comply with the Accounting Standards, the *Corporations Act 2001* or the Corporations Regulations.

Note 14 Related parties

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) included in the Consolidated Statement of Comprehensive Income.

Transactions with the Responsible Entity and related body corporates

The Responsible Entity and Manager of the stapled entities that form DXI is DXAM. Dexus PG Limited (DXPG) (ACN 109 846 068), the ultimate and immediate parent entity of DXAM and its controlled entities are wholly owned subsidiaries of Dexus.

Accordingly, transactions with entities related to DXPG are disclosed below:

	31 Dec 2022		31 Dec 2021	
	Paid $'000	**Payable $'000**	Paid $'000	Payable $'000
Management fees[1]	**(2,265)**	**(1,211)**	(1,482)	(1,677)
Property management and leasing fees[2]	**-**	**(1,638)**	(175)	-
Total	**(2,265)**	**(2,849)**	(1,657)	(1,677)

1. DXAM is entitled to a base management fee of 0.55% per annum of the Gross Asset Value of the Group (reducing to 0.50% p.a. of Gross Asset Value in excess of $750 million and 0.45% p.a. of Gross Asset Value in excess of $1,500 million). Management fees are allocated to the entities comprising DXI on a fair and reasonable basis and in accordance with each entities' Constitution.
2. APN Asset Services Pty Ltd, a related party of DXAM provides property management and leasing services to the Group. These services can be carried out by DXAM or sub-contracted to one or more third parties. In the event that DXAM provides property management or leasing services without engaging third parties, DXAM is entitled to charge a fee of up to 3% of annual gross income and leasing fees at market rates.

Security holdings and associated transactions with related parties

The below table shows the number of DXI securities held by related parties (including other managed investment schemes for which DXAM is the Responsible Entity or Investment Manager) and the associated distributions paid, or payable to the related parties are set out as follows:

	31 Dec 2022		31 Dec 2021	
	Number of securities	**Distributions $**	Number of securities	Distributions $
Dexus Diversified Fund	**11,382,460**	**933,362**	11,382,460	563,870
APD Trust	**44,261,005**	**3,629,402**	44,261,005	3,350,005
Dexus AREIT Fund (formerly APN AREIT Fund)	**3,567,216**	**299,892**	3,419,874	248,723
CFS Dexus AREIT Fund (formerly CFS AREIT Fund)	**521,693**	**85,743**	471,693	34,306
Dexus Property for Income Fund (formerly APN Property for Income Fund)	**292,869**	**24,015**	292,869	21,300
Dexus Property for Income Fund No.2 (formerly APN Property for Income Fund No.2)	**92,684**	**7,600**	92,684	6,741
Geoff Brunsdon AM[1]	**-**	**-**	140,771	10,655
Joseph De Rango[2]	**-**	**-**	7,814	676
Jennifer Horrigan	**36,859**	**1,511**	-	-
Total	**60,154,786**	**4,981,525**	60,069,170	4,236,276

1. Mr Brunsdon resigned as a Director of DXAM on 28 February 2022.
2. Mr De Rango resigned as an Alternative Director of DXAM for Mr Brenchley effective 1 March 2022.

As at 31 December 2022, 18.96% (31 December 2021: 18.82%) of DXI stapled securities were held by related parties.

Note 15 Subsequent events

Since the end of the period the Directors are not aware of any matter or circumstance not otherwise dealt with in their Directors' Report or the Interim Consolidated Financial Statements that has significantly or may significantly affect the operations of the Group, the results of those operations, or state of the Group's affairs in future financial periods.

Directors' Declaration

In the Directors' opinion:

a) The Interim Consolidated Financial Statements and Notes set out on pages 11 to 28 are in accordance with the *Corporations Act 2001,* including:

   (i) complying with Australian Accounting Standards, the *Corporations Act 2001* and other mandatory professional reporting requirements; and

   (ii) giving a true and fair view of the Group's consolidated financial position as at 31 December 2022 and of its performance for the half year ended on that date; and

b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

Jennifer Horrigan

Chair

8 February 2023

Independent auditor's review report to the stapled security holders of Industria Trust No. 1

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Industria Trust No. 1 (the Trust) and the entities it controlled during the half-year (together the Group, or Dexus Industria REIT), which comprises the Consolidated Statement of Financial Position as at 31 December 2022, the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the half-year ended on that date, significant accounting policies and explanatory notes and the Directors' Declaration of Dexus Asset Management Limited (the Responsible Entity).

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

1. giving a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the half-year ended on that date

2. 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* (ASRE 2410). 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 Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the Directors of the Responsible Entity for the half-year financial report

The Directors of the Responsible Entity (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.

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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 Group's financial position as at 31 December 2022 and of 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*.

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.

PricewaterhouseCoopers

PricewaterhouseCoopers

Samantha Johnson

Samantha Johnson
Partner

Sydney
8 February 2023