ANNUAL REPORT 2018

INDUSTRIAREIT

Industria Trust No. 1 ARSN 125 862 875
Industria Trust No. 2 ARSN 125 862 491
Industria Trust No. 3 ARSN 166 150 938
Industria Trust No. 4 ARSN 166 163 186
Industria Company No. 1 Ltd ACN 010 794 957

CONTENTS

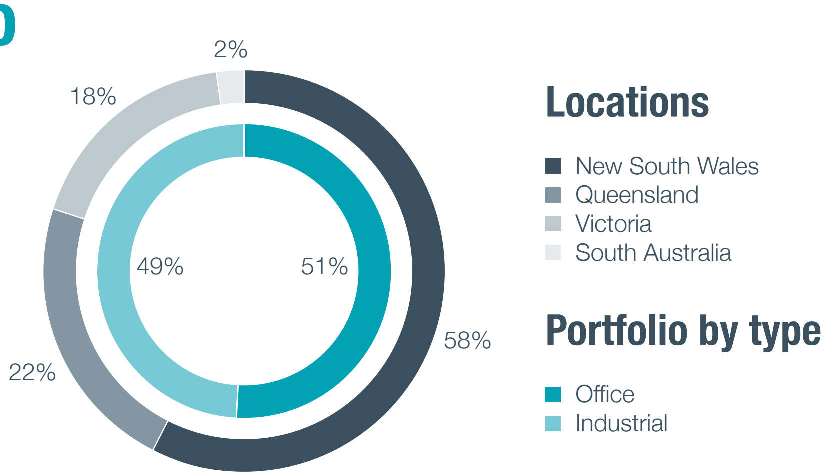
Strategy to grow through investing in office and industrial assets

Providing businesses with attractively priced and well located workspaces

Proactively approaching innovation and alternative initiatives that deliver improved tenant satisfaction and retention

Producing sustainable income and capital growth returns

Our Portfolio



$676m	23	95%	6.9yr	3%
PORTFOLIO VALUATION	PROPERTIES	OCCUPIED	WEIGHTED AVERAGE LEASE EXPIRY	AVERAGE ANNUAL FIXED UPLIFTS

LETTER FROM THE FUND MANAGER

Dear Investor,

I am pleased to report that our continued focus on operational excellence and maintaining high levels of financial discipline has underpinned another solid result for the shareholders of Industria REIT.

Statutory Net Profit was $48.2 million, largely attributable to revenue from contracted leases with fixed rent reviews being boosted by $20.2 million of valuation uplifts. This result is down on FY17 by $53.4 million, largely due to valuation gains being lower than the prior year when the entire portfolio was independently valued.

Funds From Operations, the Board's preferred measure of performance, increased to $30.1 million, up $2.2 million on FY17. After taking into consideration the higher securities on issue throughout the period, FFO per security rose 0.4 cents (2.2%) to 18.5 cents per security.

The distribution paid was $26.9 million, up $0.8 million, or 16.5 cents per security, up 0.5 cents per security. In FY18 we also implemented the payment of quarterly distributions, which reinforced our 'property for income' approach to management, whilst also acknowledging Industria's investors are highly focused on income generation through the cycle.

Key drivers of FY18 performance included:

- Successful execution of our suite strategy to create workspaces that cater for smaller businesses resulted in our properties at Rhodes being 100% leased at rents ahead of our expectations;
- Continuing momentum at Brisbane Technology Park, leasing up 6,800 square metres, with terms agreed on a further 900 square metres;
- Leasing 4,300 square metres at Butler Boulevard, Adelaide, including extending our relationship with Toyota to provide them with capacity to expand into the adjoining unit and extend the lease over their existing premises; and
- Installation of 700 Kilowatts of solar PV at Brisbane Technology Park, delivering a 15% return on cost.

I am pleased to report that the asset management strategies are being delivered as our team is consistently engaging with prospective and current tenants to ensure that the product that is being offered is relevant and valued. Overlaying this management approach with properties that are high quality and conveniently located ensures that we are best positioned to outperform over the long term.

During the financial year seven properties were independently revalued. The valuations resulted in a $20.2 million increase in the portfolio value to $661.0 million. Highlights from the independent valuations included:

- 1-3 Westrac Drive $197.0 million; increase of $13.0 million (+7%) – driven by increased rent and lower cap rates, as new pricing benchmarks provided evidence that high quality properties with strong cash flows remain aggressively bid by investors; and
- 5 Butler Boulevard $14.0 million; increase of $1.7 million (+14%) – with lease up of vacancy during the period providing greater cash flow certainty.

Other valuation outcomes included: 80-96 South Park Drive $23.5 million (increase of $1.5 million (+7%)); 89 West Park Drive $21.0 million (increase of $1.5 million (+8%)); 32-40 Garden Street $18.3 million (increase of $1.3 million (+7%)); 34 Australis Drive $29.3 million (increase of $1.2 million (+4%)); and 140 Sharps Rd $13.5 million (consistent with prior book value)

Valuation uplifts across the Melbourne properties follow a strong period of growth. We have been anticipating valuation uplifts as population growth has capped future industrial land supply in adjacent markets for some years, including areas such as Tarniet Plains and Mt Atkinson in Melbourne's west – an area previously earmarked as industrial land that has been rezoned residential. We expect the scarcity of land will result in rents rising significantly over the medium term, and that Industria REIT's properties will be beneficiaries of this growth into the future.

As I have touched on in my previous messages, Industria REIT is managed by APN Property Group (APN) who have a $71 million co-investment stake in Industria, underpinning the alignment the manager has with security holders. The benefits of being managed by APN extends to having access to an experienced CFO and finance team, with deep networks across the lending banks. During the period the team devoted a significant amount of time and resource to restructure Industria's syndicated financing arrangement to a club structure with a Common Terms Deed and bi-lateral Facility Agreements. What this means is that the fund now benefits from improved terms and conditions, including the ability to bring in new financiers to support Industria REIT under a consistent framework pre-agreed to by all lenders.

The financing restructure also increased the term and available limits. A December 2018 maturity of $46.25 million was extended to June 2023, and an additional $25 million (for the same term) was secured to support future growth.

During the period we reviewed over $700 million of acquisition opportunities. In the majority of cases our pricing – which considers future risks and rewards; portfolio construction; and how the property may meet the needs of our clients, which will ultimately underpin a sustainable distribution yield – was not as attractive as other purchasers.

With our capital discipline, acquisition activity was limited to the post balance date acquisition of 13 Ricky Way and 10 Jersey Drive, located in Epping, a suburb in the north of Melbourne. From an occupiers' perspective, Epping is attractive because it is in close proximity to Melbourne Markets, Melbourne Airport, and key motorways including the Western Ring Road and the Hume Highway. Epping is also conducive to companies moving goods between Sydney and Melbourne, as the journey time for solo truck drivers is within the parameters outlined by the National Heavy Vehicle Regulator. The properties were acquired on an initial yield of 7.45%, growing at ~3.25% per annum, and have the benefit of a weighted average lease term of 6.3 years. The occupier is Edlyn Foods, a long-standing food manufacturing business with a history dating back almost 100 years. I'm confident this has been another well-considered acquisition that will perform over the long term.

Our focus moving into FY19 will remain consistent: proactively managing the portfolio by being present and engaging with the market, and collaborating with our clients to create solutions that drive value. This approach will ensure Industria REIT maintains a consistently high occupancy rate, good organic growth of 3% or more across the majority of leases, and high levels of income visibility.

FFO guidance for FY19 is 18.95 – 19.15 cents per security, reflecting 2.5 – 3.5% growth. Distributions will continue to be paid quarterly and guidance is 17.0 cents per security (3% growth). Guidance is subject to current market conditions continuing and no unforeseen events.

If you would like to discuss your investment in Industria REIT please feel free to contact me. Thank you again for your continuing support and I look forward to sharing further success in FY19.

Yours sincerely,

Alex Abell
Fund Manager,
Industria REIT

RESULT IN-LINE WITH GUIDANCE – FFO 18.5 CENTS PER SECURITY, 2.2% GROWTH ON FY17

NTA ▲ 5% BALANCE SHEET WELL-POSITIONED FOLLOWING $71 MILLION REFINANCE

~13,600 SQUARE METRES OF LEASING – ACTIVE ASSET MANAGEMENT GENERATING OUTCOMES

ONLY 2% OF INCOME EXPIRING IN FY19 - AND GUIDANCE OF 3% GROWTH IN THE DIVIDEND TO 17.0 CENTS PER SECURITY

ABOUT THE MANAGER

The Responsible Entity and Manager of Industria REIT is APN Funds Management Limited (APN FM). APN FM is a wholly owned subsidiary of APN Property Group Limited (APN).

Established in 1996, APN is listed on the ASX and manages $2.8 billion (as at 30 June 2018) of real estate and real estate securities. APN trades on the ASX under the code “APD”.

APN Property Group - aligned and experienced manager

Strong investor alignment

- APN is strongly aligned to delivering investor returns – owning a $71 million co-investment stake
- Simple and transparent sliding fee structure – no additional transactional or performance fees

Focused and dedicated management team

- Dedicated Fund Manager and management team
- Leveraging 18 average years of experience in real estate

Governance overseen by majority independent Board

- Majority independent Board, ensuring robust governance framework
- 30 years average experience and Director roles on Boards including Sims Metal, MetLife, QV Equities, Folkestone, and the Chairman was a member of the Takeovers Panel for nine years

Manager with long track record and deep relationships across capital and investment markets

- Relationships generate leasing, investment opportunities and access to multiple capital sources
- Founded in 1996 and grown to $2.8 billion under management – including direct and listed real estate mandates

SENIOR MANAGEMENT

Alex Abell
Fund Manager

Alex has been part of APN Property Group as the Fund Manager of Industria REIT since April 2016. Alex has more than 16 years of experience across all the key areas of real estate funds management, including asset management, leasing, capital transactions, corporate finance and investor relations.

Alex's previous roles have been across multiple property sectors at Investa Office, Stockland and Halladale (United Kingdom). His achievements range from delivering Investa Office Fund's strategy of selling offshore assets and reinvesting proceeds into the domestic market to establish a high quality portfolio of Australian CBD Office assets generating attractive risk-adjusted returns, to managing a suite of funds in the UK from 2006 to 2010, a period of rapid change in real estate markets.

He holds a Bachelor of Commerce from the University of Newcastle and an Advanced Diploma of Financial Services.

David Avery
Senior Portfolio Manager

David has over 25 years' experience in the property industry, having held senior positions comprising property and investment management. A Licensed Estate Agent, David has experience across commercial and industrial assets, and has been involved with many facets of investment management incorporating acquisition, development, strategic management, leasing and divestment.

David holds an Associate Diploma in Valuations, a Graduate Diploma in Property, a Diploma in Property Investment and Finance and is a Licensed Estate Agent. He is a member of the Australian Property Institute.

Jessie Chen
Head of Accounting - Managed Funds

Jessie has extensive experience across financial reporting, internal controls and external audit, and leads a team that is responsible for accounting, taxation and treasury across all managed funds at APN Property Group.

Prior to joining APN, Jessie's professional career includes over eight years at Deloitte where she provided assurance and advisory services to a range of ASX listed, multinational and boutique wealth management companies reporting under international accounting standards.

She holds a Bachelor of Commerce/Media & Communications from the University of Melbourne, and is a member of Chartered Accountants Australia and New Zealand.

Gordon Korkie
Senior Analyst

Gordon has over nine years' experience in the property industry across retail, office and industrial sectors, working across funds management, corporate advisory, investment management and investor relations. Gordon joined APN funds management in August 2016 with previous roles at Federation Centres (now Vicinity Centres) and within equity research at Credit Suisse.

Gordon holds a Bachelor of Management Studies (1st Class Honours) from the University of Waikato and a Master of Commerce from the University of New South Wales.

FINANCIAL YEAR 2018 RESULTS

Key performance metrics

STATUTORY NET PROFIT ($m)	FFO ($m)	FFO (cps)
$48.2m	$30.1m	18.5c
2017: $101.6m (Down 52.6%) ▼	2017: $27.9m (Up 7.9%) ▲	2017: 18.1c (Up 2.2%) ▲

DISTRIBUTION DECLARED ($m)	DISTRIBUTION DECLARED (cps)	FFO PAYOUT RATIO (%)
$26.9m	16.5c	89%
2017: $26.1m (Up 3.1%) ▲	2017: 16.0c (Up 3.1%) ▲	2017: 89%

Financial strength

NET ASSETS ($m)	DEBT ($m)	GEARING (%)	NTA ($)
$440m	$206.7m	31%	$2.70

DIVERSIFIED PORTFOLIO

WesTrac Newcastle	Melbourne and Adelaide logistics and warehouses	Rhodes Corporate Park	Brisbane Technology Park
29%	20%	29%	22%
Industrial		Office	

WesTrac Newcastle

Located adjacent to M1 motorway

~$197 million invested

16.2 year WALE

Melbourne and Adelaide logistics and warehouses

Key industrial precincts

~$135 million invested

8 buildings

4.9 year WALE

Rhodes Corporate Park

Inner west Sydney

~$193 million invested

2 buildings

3.8 year WALE

Brisbane Technology Park

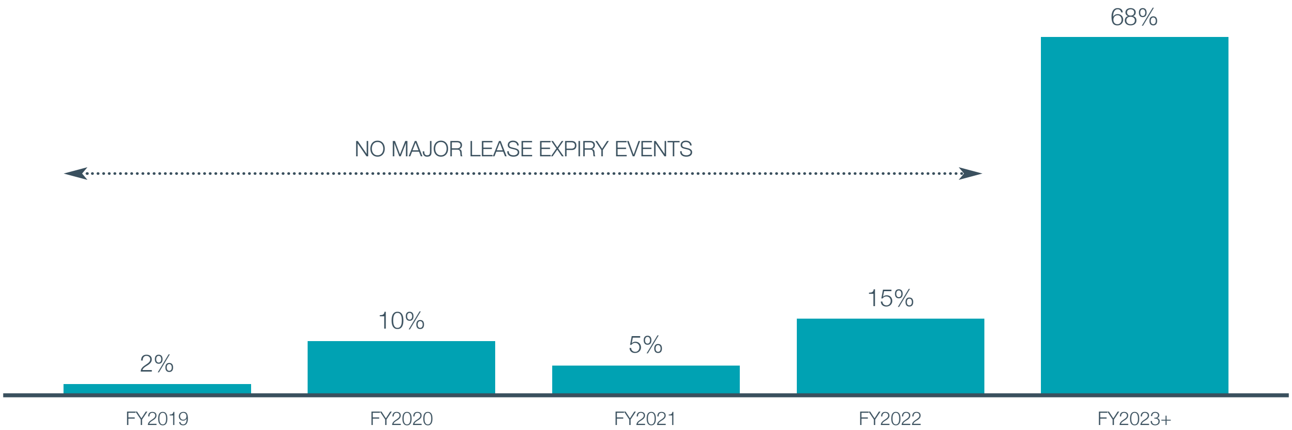
15 minutes south of CBD

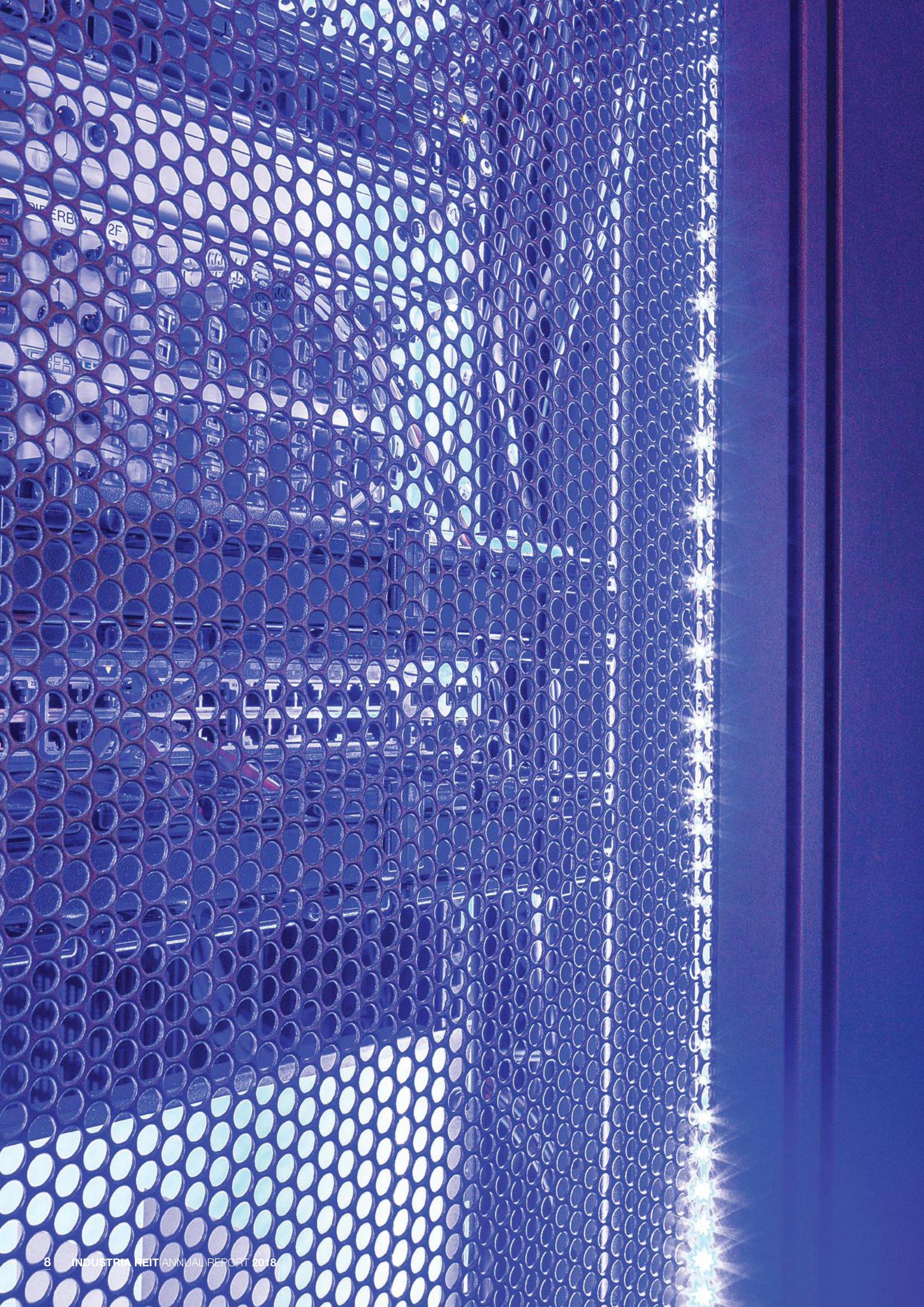
~$152 million invested

12 buildings

2.9 year WALE

Lease expiry profile (by income)
Strong income visibility





BALANCE SHEET DE-RISKED AFTER RECENT REFINANCING

Conservative balance sheet

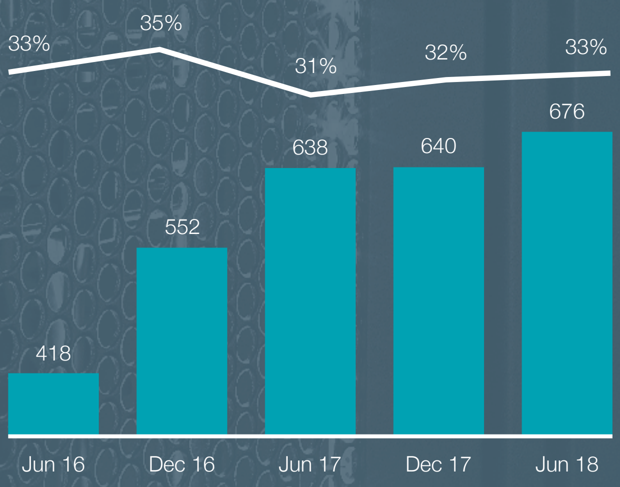
Refinanced to club structure with a Common Terms Deed and bi-lateral Facility Agreements:

- Weighted average debt maturity increases to 3.3 years
- Improved terms and conditions
- More flexibility, including being able to introduce new lenders
- Nearest debt maturity ~$46 million in Sept 2019

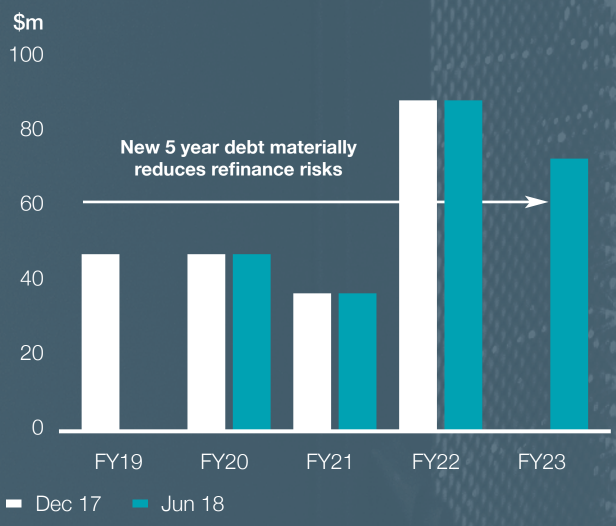
High interest cover

- ICR 5.8x; weighted average all-in cost of debt 3.4%
- 56% of debt hedged at 30 June 2018 at average hedge rate of 2.8% for FY19

Consistent portfolio growth whilst maintaining gearing towards the bottom of the target band



Staggered and extended debt maturity profile



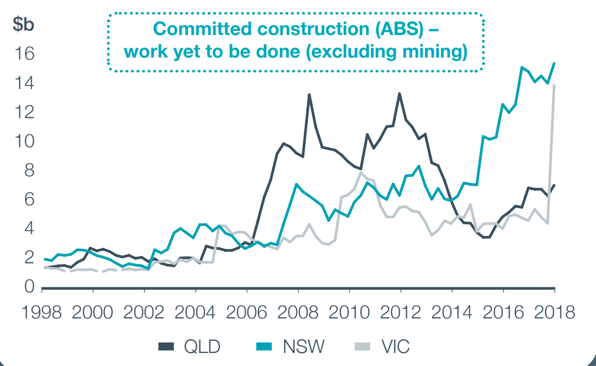
STRUCTURAL CHANGES FAVOUR PORTFOLIO POSITIONING

Queensland and Victoria set to benefit from infrastructure investment growth

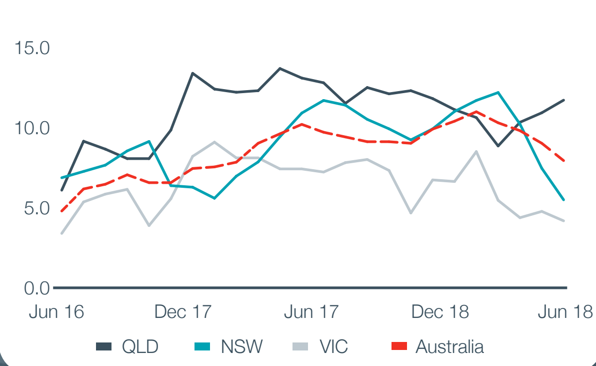
- Infrastructure pipeline growing – particularly in Melbourne:
  - West Gate Tunnel - $5.5bn
  - Metro Trains Project - $2.3bn
- NSW has a long investment pipeline that will benefit Industria's largest tenant - WesTrac
- Investment in Brisbane to increase rapidly – with Cross River Rail and Metro to add $6.3bn – double the current projects underway

- Business conditions and confidence building in Queensland:
  - Commodity prices have risen and productivity has improved with greater built capacity
  - Infrastructure pipeline boosting employment growth as the private sector gears up to bid for work and undertake construction
- Brisbane Technology Park is a knowledge hub for engineering and is positioned to benefit strongly

Investment improving across the economy



NAB Business confidence by state (net balance)[1]



1 NAB Monthly Business Survey, June 2018

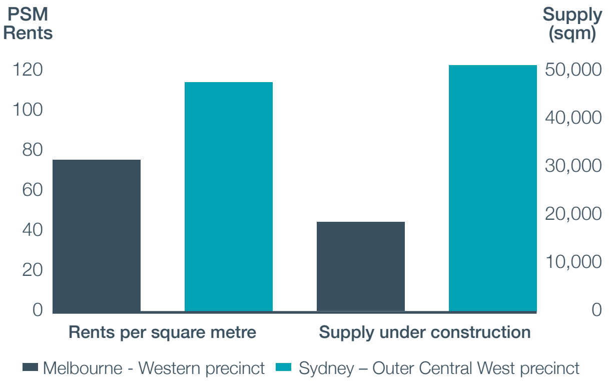
STRUCTURAL CHANGES FAVOUR PORTFOLIO POSITIONING

Melbourne industrial - positioned for long-term growth

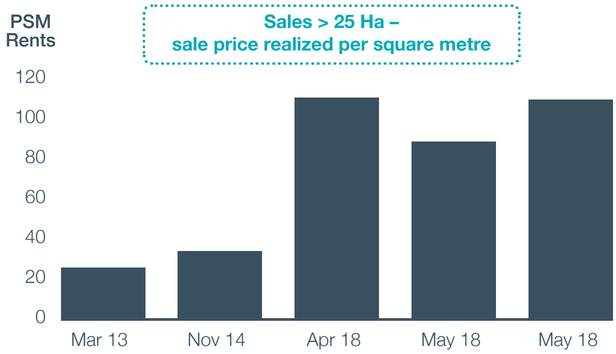
- Melbourne industrial underpinned by strong fundamentals and is supported by:
  - Results 36% lower than Sydney
  - Committed supply pipeline 65% lower than Sydney
  - Population forecast to exceed Sydney
- Rents have significant scope for growth from a low base of $70 - $80 psm
- Industria REIT is well positioned with $121.2 million invested in Melbourne

- Land values in the west of Melbourne have increased more than three-fold in five years – and over this period:
  - Land supply has reduced by ~500 hectares – and there is ~500 hectares remaining
  - Take-up has averaged ~250,000 sqm per annum
- Considerable drivers of rental growth are building:
  - New supply will carry meaningfully higher cost bases for land and construction
  - Demand is underpinned by Victorian population growth – driving ~500k sqm of annual demand, compounding structural trends such as e-commerce

Rent and supply spreads for Sydney and Melbourne[1]



Englobo land transactions in Melbourne's west[1]



1 JLL, Q2 2018. Land values based on net developable area

INDUSTRIAL ASSETS

Industria's industrial properties, located in Melbourne and Adelaide, are primarily warehouse facilities that are well located close to major transport and logistics infrastructure. These modern buildings have an average age of 10 years and fixed annual reviews of 3% per annum.

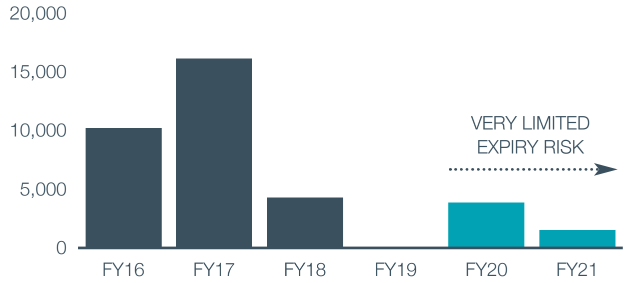
13 Ricky Way and 10 Jersey Drive, Epping

INDUSTRIAL ASSETS

Well positioned and capturing value

- Leasing at Adelaide Airport continued, driving a 14% uplift in the valuation ($1.7 million)
- Proven location and quality of product at Adelaide Airport continues to be in good demand - with 4,300sqm of leasing completed
- One vacancy (1,400 sqm) across entire portfolio
- Engagement with our tenants has directly resulted in 100 kilowatts of solar being installed and a further 1 megawatt under consideration:
  - Initiatives reduce gross occupancy costs and demonstrate our ability to work collaboratively for win-win outcomes

Leasing completed and forthcoming expiries



89 West Park Drive, Derrimut - solar generation

WESTRAC NEWCASTLE

The property is a best-in-class and purpose-built distribution, training and maintenance facility for WesTrac, Australia's largest authorised dealer of Caterpillar equipment. Completed in 2012, the property encompasses 12 interconnected facilities and ancillary buildings totalling 45,474 square metres, in addition to over 100,000 square metres of hardstand. The site spans 42.9 hectares, which includes 17.5 hectares of future expansion land for WesTrac.

The property is used by WesTrac to service an extensive area across NSW and the ACT. Underlying industries include a significant component of infrastructure and general construction, highway truck servicing as well as coal and base metals mining.

WESTRAC NEWCASTLE

World leading infrastructure asset

- Valuation increased $13.0 million (+7%) to $197.0 million - driven by increased rents and lower cap rates, as new pricing benchmarks provided evidence that high quality properties with strong cash flows remian aggressively bid by investors
- Leased to WesTrac until 2034 with annual 3% fixed rental uplifts
- Property completed in 2012 – and is regarded as best-in-class by Caterpillar dealers globally:
  - Very high quality facility catering for all aspects of WesTrac business – although focused on maintenance
  - Major competitive advantage is capability to rebuild engines with the benefit of a Caterpillar factory warranty
  - Distributes over 1 million parts annually from 24 hour distribution centre
- Strong underlying business with maintenance revenue providing counter-cyclical cash flow
- Leveraged to growth in infrastructure investment
- Long term partner of Caterpillar – relationship extends back to 1929

Component Rebuild Centre


Parts and Distribution Warehouse


WesTrac Newcastle, aerial view

RHODES CORPORATE PARK - BUILDINGS A and C

Rhodes Corporate Park is located in the inner west of Sydney on Homebush Bay Drive. The location is particularly favourable for businesses with clients and employees based in the greater Sydney area, and benefits from a train station, generous car parking ratios, and a major sub-regional shopping centre adjacent to the office precinct.

Industria's two properties provide high quality accommodation at an affordable rent profile, and are occupied by major companies including Link Market Services, Frasers Property Group, NAB and DHL.

Building C, 1 Homebush Bay Drive, Rhodes

RHODES CORPORATE PARK

Fully leased

- Fully leased following implementation of spec suite strategy – with demand from smaller businesses being ahead of expectations
- Deals completed during period:
  - Rhodes C – leased 1,660 sqm of vacancy
  - Rhodes A – 725 sqm of renewals
- Installing 180 kilowatts of solar to future-proof our assets and improve net rents

Leasing deals

Building	Total area (sqm)
Rhodes C	780
Rhodes C	245
Rhodes C	200
Rhodes A	400
Rhodes A	325

Building A, 1 Homebush Bay Drive, Rhodes

Plug'n'play fitted out suites (Rhodes C)

Solar installation (Building A, Rhodes)

BRISBANE TECHNOLOGY PARK ASSETS

BTP is one of Brisbane's leading suburban business parks – and Industria has a dominant position owning a ~1/3 of the market (by area).

Most tenants are relatively small – requiring high levels of asset management focus to generate outperformance.

Engagement with business driving leasing

- Leasing activity continues with 21 deals completed over 6,800 sqm
- Variety of product appealing to broad range of occupiers:
  - Terms agreed over 900 sqm since June
  - Ongoing discussions with multiple new occupiers seeking to be at BTP – a knowledge hub for growth areas including healthcare, IT and engineering

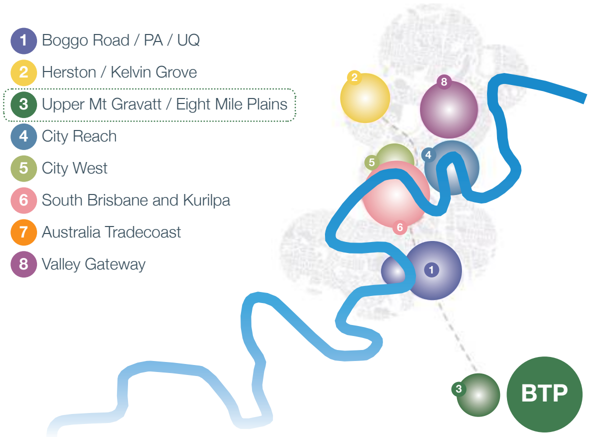
Strong backing by government for growth

- Most significant business park outside Brisbane CBD and top 3 priority precinct – as identified by Brisbane City Council
  - Playing an active role with government to drive performance over the long term
- Meaningful public support to create a globally significant precinct that leverages from improved public transport connections – including metro departing every 3 minutes to CBD
- Location, affordable rent profile, and potential for increased density will underpin long term value creation for investors

Leasing deals

Building	Total area (sqm)
8 Clunies Ross Court	1,600
37 Brandl Street	1,200
18 Brandl Street	1,100
33 McKechnie Drive	1,000
88 Brandl Street	900

Brisbane City Council Priority precincts



BRISBANE TECHNOLOGY PARK (BTP)

Acting swiftly to capitalise on opportunities to add value

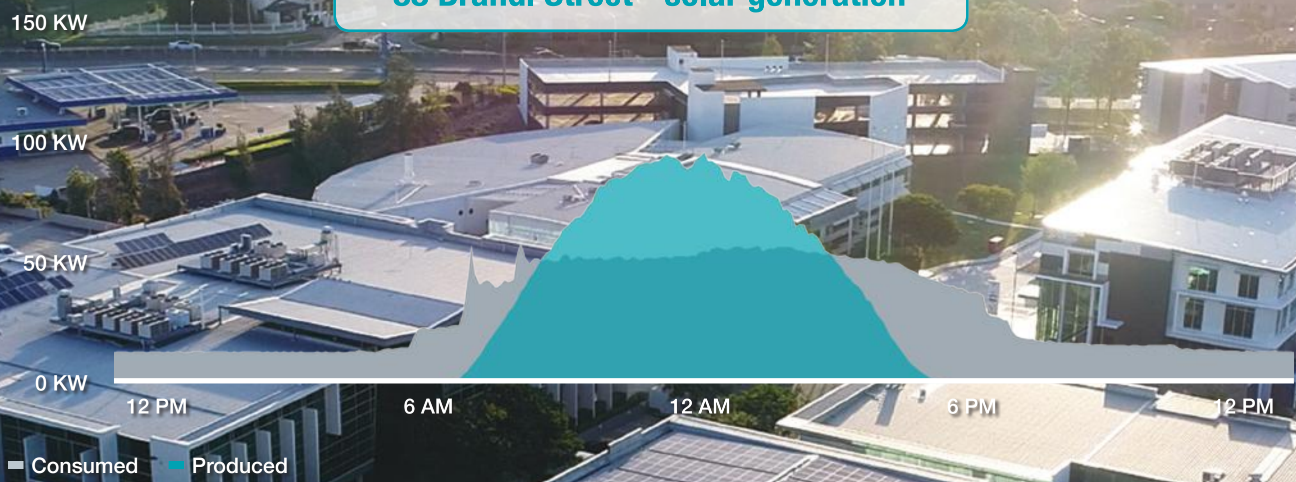
43% energy met by solar PV

$1.0m investment delivering 15% return on cost

Lowers volatility of energy costs for Industria's tenants

Equivalent of planting 1,600 trees p.a.

88 Brandl Street - solar generation



FINANCIAL REPORT

‘Industria REIT’

being Industria Trust No. 1
and its Controlled Entities
ARSN 125 862 875

Stapling arrangement

The ‘Industria REIT’ stapled group was established on 5th December 2013 by stapling the securities of the following entities:

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

These consolidated financial statements represent the consolidated results of Industria REIT for the full financial year.

FINANCIAL REPORT

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WesTrac
CAT

DIRECTORS' REPORT

The directors of APN Funds Management Limited ("APN FM"), the Responsible Entity of Industria Trust No. 1 (the "Trust"), present the financial report on the consolidated entity (the "Group"), being Industria Trust No. 1 and its controlled entities, for the financial year ended 30 June 2018. The Trust is one of five entities that together comprise the stapled entity Industria REIT ("Industria REIT") which is listed on the Australian Securities Exchange ("ASX") (ASX Ticker: "IDR").

In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

Information about the directors

DIRECTORS' REPORT

The names and particulars of the Directors of the Company during or since the end of the financial year are:

Geoff Brunsdon

B.Com, FCA, F Fin, FAICD

Independent Chairman

- Director since 2009.
- Chairman since 2012.

Member of the Audit, Risk & Compliance Committee and member of the Nomination & Remuneration Committee.

Geoff has had a career in investment banking spanning more than 30 years. He is currently Chairman of Sims Metal Management Ltd, MetLife Insurance Ltd and IPE Ltd. He is a Director of The Wentworth Group of Concerned Scientists and Purves Environmental Custodians.

Geoff was previously Managing Director and Head of Investment Banking of Merrill Lynch International (Australia) Limited until 2009. Geoff was a member of the Listing Committee of the Australian Stock Exchange between 1993 and 1997, a member of the Takeovers Panel between 2007 and 2016 and Chairman of Redkite (supporting families who have children with cancer) until 2015 and is now a Patron. He is a Fellow of FINSIA, a Fellow of the Institute of Company Directors and a Fellow of Chartered Accountants Australia & New Zealand.

Jennifer Horrigan

BBus, GradDipMgt, GradDipAppFin, MAICD

Independent Director

- Director since 2012.

Chairman of the Audit, Risk & Compliance Committee and member of the Nomination & Remuneration Committee.

Jennifer brings 25 years' experience across investment banking, financial communications and investor relations. She was formerly the Chief Operating Officer in Australia of the independent investment bank Greenhill & Co. She has extensive experience in enterprise management, including the supervision and management of compliance, HR and financial management.

Jennifer is also a director of QV Equities (ASX: QVE) and is Chairman of Redkite (national cancer charity supporting children and young people with cancer and their families) and a Director of Breast Cancer Trials (leading independent clinical trials body in Australia & NZ).

Michael Johnstone

BTRP, LS, AMP (Harvard)

Independent Director

- Director since 2009.

Chairman of the Nomination & Remuneration Committee and member of the Audit, Risk & Compliance Committee.

Michael has 40 years of global business experience in chief executive and general management roles and more recently in non-executive directorships. He has lived and worked in overseas locations including the USA, has been involved in a range of industries and has specialised in corporate and property finance and investment, property development and funds management. His career has included lengthy periods in corporate roles including 10 years as one of the Global General Managers of the National Australia Bank Group. He has extensive experience in mergers and acquisitions, capital raising and corporate structuring.

Michael is a non-executive director of the responsible entity of the listed Folkestone Education Trust. He is also a non-executive director of a number of unlisted companies and has had considerable involvement in the not for profit sector.

DIRECTORS' REPORT

Howard Brenchley

BEc

Independent Director

- Director since 1998.
- Independent Director since March 2018.

Howard has a long history in the Australian property investment industry with over 30 years' experience analysing and investing in the sector. Howard joined APN FM in 1998 and was responsible for establishing the APN FM business. In this capacity he developed a suite of new property securities and direct property funds, including the flagship APN AREIT Fund and the APN Property for Income Fund, both market leading property securities funds in Australia.

Prior to joining APN FM, Howard was co-founder and research director of Property Investment Research Pty Limited, one of Australia's leading independent research companies, specialising in the property fund sector.

Howard is also a director of APN PG (since 1998) and National Storage Holdings Limited (since 2014) and National Storage Financial Services Limited (since 2015), both listed as National Storage REIT (ASX Code: NSR).

Michael Groth

BCom, BSc, DipIFR, CA

Alternate Director for Howard Brenchley

- Alternate Director since March 2014.

Michael's professional career includes over seven years with KPMG Melbourne, where he worked closely with a number of major listed companies and stockbrokers before moving to the United Kingdom to work in the financial services industry and for a government regulatory body.

Since joining APN in 2006, Michael has had broad exposure across all areas of the group, and was appointed Chief Financial Officer in June 2014. Michael is responsible for accounting, taxation and treasury across the business and is a key contributor to setting APN's direction and strategy.

Chantal Churchill

BSc(Psych), DipHRM

Company Secretary

- Company Secretary since December 2016.

Chantal is the Company Secretary for the APN Group and is responsible for the company secretarial, corporate governance, risk management and compliance functions.

Chantal has over 15 years' experience in corporate governance, risk management and compliance across the financial services industry. Prior to joining APN in 2015, Chantal held compliance and risk roles at Arena Investment Management, Tabcorp and Invesco Australia.

Chantal is a member of the Governance Institute of Australia.

Meetings of Directors

The following tables set out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member).

APN Funds Management Limited

	Board		Audit, Risk and Compliance Committee		Nomination and Remuneration Committee	
Directors	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Geoff Brunsdon	13	12	10	10	2	2
Jennifer Horrigan	13	13	10	10	2	2
Michael Johnstone	13	12	10	9	2	2
Howard Brenchley	13	11	N/A	N/A	N/A	N/A
Michael Groth[(i)]	13	13	N/A	N/A	N/A	N/A

(i) Alternate for Howard Brenchley.

Industria Company No.1 Limited

	Board		Audit and Risk Committee		Nomination and Remuneration Committee	
Directors	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Geoff Brunsdon	13	12	4	4	2	2
Jennifer Horrigan	13	13	4	4	2	2
Michael Johnstone	13	12	4	4	2	2
Howard Brenchley	13	11	N/A	N/A	N/A	N/A
Michael Groth	13	13	N/A	N/A	N/A	N/A

Principal activities

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

No significant change in the nature of these activities occurred during the financial year.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial year.

Review of operations

The results of the operations of the Group are disclosed in the consolidated statement of profit or loss and other comprehensive income. The Group's net profit after tax was $48,158,000 for the financial year ended 30 June 2018 (30 June 2017: $101,643,000). The movement is driven primarily by lower unrealised fair value gains on investment properties compared to 2017.

A summary of Industria REIT's results for the financial year is as follows:

	2018 $'000	2017 $'000
Net rental income	41,758	38,038
Operating expenses	(4,252)	(3,747)
Net profit before interest, tax and other items	**37,506**	**34,291**
Net gain in fair value adjustments on investment properties	17,341	75,194
Fair value gain on derivatives	395	2,229
Net interest expense	(7,037)	(6,737)
Net profit / (loss) before tax	**48,205**	**104,977**
Income tax expense – deferred	(47)	(3,334)
Profit / (loss) for the year	**48,158**	**101,643**

The Responsible Entity uses the Group's Funds from Operations ('FFO') as an additional performance indicator. FFO adjusts the total comprehensive income for certain non-cash and other items as outlined as follows:

Funds from Operations

	2018 $'000	2017 $'000
Profit / (loss) for the year	**48,158**	**101,643**
Adjusted for:		
Add back amortised borrowing costs	334	324
Add back amortised leasing costs and rent free adjustments[1]	3,202	3,212
Reversal of straight line lease revenue recognition	(3,906)	(3,221)
Reversal of fair value gain on investment properties	(17,341)	(75,194)
Reversal of fair value gain on derivatives	(395)	(2,229)
Add back / (deduct) income tax expense / (benefit)	47	3,334
FFO	**30,099**	**27,869**
Key financial performance metrics:		
FFO per security (cents)	18.48 c	18.06 c
Distributions per security (cents)	16.51 c	16.00 c
Payout Ratio (Distribution per security / FFO per security)	89.34%	88.59%
Statutory earnings per security (cents per security)	29.56 c	65.87 c
Weighted average securities on issue (thousands)	162,913	154,320
Securities on issue (thousands)	162,840	163,114
Distributions declared (thousands)	$26,880	$26,098

1 Prior year balance Includes one-off lease incentive amortisation expense of $0.4 million arising from the early exercise of a tenant lease break option (NAB) and re-lease of this space to DHL at Rhodes Corporate Park Building C. This amount is one-off in nature, reducing comprehensive income and therefore increasing the amortised leasing incentives and costs adjustment when calculating FFO for the year.

DIRECTORS' REPORT

Net tangible assets and asset valuations

Total investment property assets increased to $661.0 million, an increase of $22.7 million. The increase in the investment property balance was driven by:

- 1-3 Westrac Drive valuation of $197.0 million; increase of $13.0 million (+7%) – drivers to the increase in value were the increased rent and a cap rate 25 basis points lower than the prior year, as new pricing benchmarks provided evidence that high quality properties with strong cash flows remain aggressively bid by investors;
- 5 Butler Boulevard valuation of $14.0 million; increase of $1.7 million (+14%) – with lease up of vacancy during the year providing greater cash flow certainty;
- Other valuation outcomes included: 80-96 South Park Drive valuation $23.5 million (increase of $1.5 million (+7%)); 89 West Park Drive valuation $21.0 million (increase of $1.5 million (+8%)); 32-40 Garden Street valuation $18.3 million (increase of $1.3 million (+7%)); 34 Australis Drive valuation $29.3 million (increase of $1.2 million (+4%)); and 140 Sharps Rd valuation $13.5 million (consistent with prior book value).

Combining the above valuation uplifts with other minor balance sheet movements, Net Tangible Assets (NTA) increased from $2.57 ($419.4 million) to $2.70 per security ($440.0 million) as at 30 June 2018.

Leasing

Leasing is a key risk and opportunity for the Board and management team as we seek to continue to generate a sustainable and growing income return over the long term. Key leasing activities during the year included:

- Successful execution of the suite strategy to create workspaces that cater for smaller businesses. This resulted in our properties at Rhodes being 100% leased at rents ahead of our expectations;
- Continuing the momentum at Brisbane Technology Park by leasing 6,800 square metres. Activity has carried over to financial year 2019, with over 900 square metres agreed with new clients;
- Leasing 4,300 square metres of vacancy at Butler Boulevard, Adelaide, including extending our relationship with Toyota to provide them with capacity to expand into the adjoining unit and extend the lease over their existing premises.

Tenant engagement is a constant focus for the management team, and this approach underpins the relevance of our properties, their value, and the overall performance of Industria REIT.

Powering up Brisbane Technology Park

During Financial Year 2018 over 700 Kilowatts of solar PV was installed across five buildings at Brisbane Technology Park. The objective of this initiative was to:

- Harness the energy from the sun to improve energy efficiency across our properties;
- Provide energy savings to our clients whilst generating a return on cost of 15%; and
- Create a point of difference from our competitors and reduce greenhouse gas emissions.

Across the five buildings an average of 43% of energy consumed is now generated by solar. This will result in savings of up to 6% for our clients, and is the equivalent of planting 1,600 trees and reducing 510 tons CO2 emissions per annum. .

An additional 210 KiloWatt system is currently earmarked and awaiting approval by Energex, the electricity distribution network for South East Queensland, prior to installation which we anticipate in early 2019.

The learnings and experience gained at Brisbane Technology Park have been shared with the tenants across the Industria portfolio. Progression elsewhere includes a 180-KiloWatt system at Rhodes scheduled for completion in September 2018, and a further 1 MegaWatt under consideration by tenants across our industrial assets.

Acquisition of 13 Ricky Way and 10 Jersey Drive, Epping

Post balance date, on 11 July 2018, Industria acquired 13 Ricky Way and 10 Jersey Drive, Epping, Victoria for $15.7 million. The purchase price reflected an initial yield of 7.45% growing at 3.25% per annum, and is underpinned by a 6.3 year weighted average lease expiry to Edlyn Foods. Edlyn Foods is a nationally recognised supplier in the food service industry established in the 1920's and has a customer base ranging from quick service restaurants to hospitals and aged care facilities.

The facilities comprise of two adjoining, separately titled, and modern warehouse and office facilities constructed in 2008 and 2015. Both properties have street frontages, are in the north of Melbourne and are within close proximity to Melbourne Markets.

This acquisition is almost 2 years since the purchase of WesTrac Newcastle in September 2016. The team at APN have been patient and selective when pursuing acquisitions that are attractively priced, whilst also meeting the strategic filters of being well located, functional and affordable for Industria's clients.

Finance Facility Amendments and Extension

During the period Industria's syndicated financing arrangement was restructured to a club structure (Common Terms Deed with bi-lateral Facility Agreements). The amendments provide more flexible terms and conditions and have been completed with the Group's existing finance partners.

In conjunction with the restructure, an additional 5-year $25.0 million facility was secured to support future growth initiatives including the financing of 13 Ricky Way and 10 Jersey Drive, Epping. The debt facilities scheduled to expire in December 2018 were also been extended until June 2023, resulting in the nearest refinancing event being $46.25 million in September 2019.

Market Overview

Industrial property

Demand for industrial real estate is being supported by growth in construction – largely from the infrastructure sector. When this demand is combined with take-up from e-commerce providers and the rebound in manufacturing, the outlook for industrial real estate remains positive.

National transactional activity to August 2018 totals $2.2 billion, compared to over $5 billion annually for the previous 4 years. Lower transactional volumes reflect the lack of sites available for sale, with the only portfolio sale of significance in 2018 being nine assets sold for $177.6 million to Cache Logistics Trust. The price achieved was ahead of market expectations and reflects the depth of capital seeking investments in industrial real estate of scale. New pricing benchmarks have continued to be reached post balance date, with the sale of the Kmart Distribution Centre in Truganina (Melbourne's west) for $119 million, reflecting an initial yield of 5.45% and cap rate of approximately 5.2%.

Brisbane Technology Park, Eight Mile Plains

The Brisbane economy continued to improve throughout the period, boosted by interstate migration and population growth above the national average, rising exports (up 17%), and increasing business investment (up 12%). Brisbane also has a significant infrastructure construction pipeline that includes: Queens Wharf ($3 bn); the regeneration of the Royal National Agricultural and Industrial Association of Queensland ($2.9 bn); Cross River Rail ($5.4 bn); and Brisbane Metro ($944 m) – which will provide services every 3 minutes in peak periods to and from Eight Mile Plains.

The announcement of Federal Government budget support for the Brisbane Metro has ensured that project will proceed. Globally, investments in high frequency public transport drive activity in direct proximity to transit nodes, and we anticipate this will play out at Eight Mile Plains and Brisbane Technology Park (BTP) over the coming years.

This upgraded public transport service will enhance the attractiveness of BTP as a place to do business and will build on the advantages that exist today – being attractive rent profiles, outstanding access to two key arterial roads, and superior car parking options.

Investor demand for commercial real estate in fringe and suburban Brisbane continues to remain strong, with activity from both domestic and international sources of capital seeking investment opportunities. Fringe sales activity reported yields broadly in the 6 – 7% range, with lower yields largely reflecting longer lease expiry profiles and cash flow certainty.

Rhodes Corporate Park

Rhodes as a location continues to benefit from its proximity to arterial roads, including the recently upgraded M4 motorway, and public transport. Demand for smaller suites exceeded expectations, as businesses displaced by infrastructure projects and seeking upgraded premises took up space, as well as new businesses spawning in the area.

The Sydney CBD remains in the midst of a supply drought, with withdrawals outstripping new stock and ensuring the vacancy rate remains below 5%. Effective rental growth has exceeded 10% across prime and secondary stock, and we anticipate this growth will filter out to the suburban markets including Rhodes.

Capital flows are well supported by domestic and global players, with prime assets in Sydney regularly trading at pricing reflecting yields below 5%. Sales in suburban Sydney have reflected yields ranging from 5.25% to 7%, broadly in-line with the cap rates of the properties owned by Industria REIT at Rhodes.

Future Prospects

There is increasing global optimism that a global recovery will continue, with the core theme being strength in the US economy. Major equity indexes are closer to all-time highs, and analysts are upbeat about earnings expectations. However, there are concerns about a number of issues:

- Sustainability of US growth given capacity pressures that could result in upside surprises for inflation, and thus interest rates;
- Uncertainty surrounding trade wars and disruption of global investment;
- Geopolitical uncertainty ranging from Brexit to populist pressures in Europe, to US tensions with Iran and possible disappointments with North Korea;
- Overhang of high debt levels in several major economies that could become a major problem in the next downturn.

DIRECTORS' REPORT

Domestically, the Reserve Bank of Australia ("RBA") continues to anticipate growth of 3% in 2018 and 2019. Inflation has been muted and remains at the bottom of the RBA's 2 – 3% medium term target, with headline inflation 2.1% for the year to June 2018. The calendar year forecast for 2018 is 1.75%, with lower energy and child care pricing likely to temper inflation in the second half of 2018.

The economy has generally been moving in a positive direction, with recent declines in house prices resulting from credit standards tightening and investor demand falling. This has reduced the build-up of risk in the economy at a point in time where there is growth and unemployment has been trending lower. Given this outlook it is likely interest rates will move higher over the coming periods, but the timing is highly dependent on inflation returning to the midpoint of the RBA target on sustained basis.

The Directors are confident Industria REIT is well positioned for the future. The portfolio features properties that are well-located and occupied by successful businesses that pay rents that are affordable for their businesses. The balance sheet is in good shape, with gearing towards the bottom end of the target 30 – 40% range, and the nearest debt maturity being September 2019. Most importantly, the management team at APN is aligned, disciplined and driven to achieving optimal outcomes for securityholders over the long term.

Distributions

Distributions of $26,880,000 were declared by the Group during the financial year ended 30 June 2018 (2017: $26,098,000).

For full details of distributions paid and/or payable during the financial year, refer to note 9 of the consolidated financial statements.

Brisbane Technology Park (BTP) Co-operation Agreement

As outlined in the Product Disclosure Statement and Prospectus dated 28 October 2013, a Co-operation Agreement existed for five years between Industria and Graystone Pty Ltd (Graystone). Under this Co-operation Agreement, Graystone had an option to acquire certain undeveloped land at the expiry of three years from the date the Co-operation Agreement commenced. The option expired in December 2016.

Graystone has a continuing right to put development proposals and identify opportunities for Industria REIT over components (to be sub-divided) of 45 and 45B McKechnie Drive. Any proposal needs to be at arms-length on reasonable market terms, be consistent with the standard of the existing buildings and, if applicable, tenants at BTP, and be put forward acting in the best interests of Industria REIT.

This Co-operation Agreement expires in December 2018.

Remuneration of key management personnel

No fees have been paid to the directors and/or key management personnel of Industria Company No.1 Limited or APN Funds Management Limited in their capacity as directors and/or key management personnel of the Group.

No loans have been provided to directors and/or key management personnel in the current financial year.

Non-audit services

During the year, the auditor of the Group performed certain other services in addition to their statutory duties.

The directors of the Responsible Entity have considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Responsible Entity and have been reviewed by the Board to ensure they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Group, acting as advocate for the Group or jointly sharing economic risks and rewards.

Non-audit services relate to audit of compliance plan and other approved advisory services, which amounted to $8,000 (2017: $8,000) for the year ended 30 June 2018.

Auditor's independence declaration

A copy of the external auditor's independence declaration, as required under section 307C of the *Corporations Act 2001* is set out on page 35.

Matters subsequent to the end of the financial year

As outlined on page 30, the Group acquired 13 Ricky Way and 10 Jersey Drive, Epping, Victoria, on 11 July 2018. The acquisition was financed with new debt drawn from the Group's existing debt finance partners.

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of the Group, or the state of affairs of the Group in future financial years.

Options granted

As the Group is an externally managed vehicle, no options were:

- granted over unissued securities in the Group during or since the end of the financial year; or
- granted to the Responsible Entity.

No unissued securities in the Group were under option as at the date on which this report is made.

No securities were issued in the Group during or since the end of the financial year as a result of the exercise of an option over unissued securities in the Group.

Indemnification of officers of the Responsible Entity and auditors

The Responsible Entity has agreed to indemnify the directors and officers of the Responsible Entity and its related bodies corporate, both past and present, against all liabilities to another person (other than the Responsible Entity or a related body corporate) that may arise from their position as directors and officers of the Responsible Entity and its controlled entities, except where the liability arises out of unlawful conduct.

The Responsible Entity will meet the full amount of any such liabilities, including costs and expenses. The Responsible Entity may also indemnify any employee by resolution of the directors. In addition, the Responsible Entity has paid a premium in respect of a contract insuring against a liability incurred by an officer of the Responsible Entity. The Responsible Entity has not indemnified or made a relevant agreement to indemnify the auditor of the Fund or of any related body (corporate) against a liability incurred by the auditor.

Trust information in the Directors' report

Fees paid to the Responsible Entity during the financial year are disclosed in note 18 to the consolidated financial statements. The Responsible Entity and its associates' security holdings in the Group are disclosed in note 18 to the consolidated financial statements.

The number of securities in the Group issued, bought back and cancelled during the financial year, and the number of securities on issue at the end of the financial year is disclosed in note 7 to the consolidated financial statements.

The value of the Group's assets as at the end of the financial year is disclosed in the consolidated statement of financial position as "Total Assets" and the basis of valuation is disclosed throughout the notes to the consolidated financial statements.

Geoff Brunsdon, an independent director of the Responsible Entity holds 62,500 securities in the Group as at 30 June 2018 (2017: 62,500). No other directors own securities, or rights or options over securities in the Group.

Rounding of amounts

The Group is an entity of the kind referred to in *ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the directors' report and the financial report have been rounded to the nearest thousand dollars, unless otherwise stated.

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

On behalf of the directors

Geoff Brunsdon
Director
Melbourne, 22 August 2018

CORPORATE GOVERNANCE STATEMENT

Industria REIT (**Fund**) is comprised of the following four trusts and one company (including their various subsidiary trusts and companies);

- Industria REIT No. 1;
- Industria REIT No. 2;
- Industria REIT No. 3;
- Industria REIT No. 4; and
- Industria Company No. 1 Limited.

Securityholders in the Fund hold a unit or share of each of the above entities that are stapled together, such that an individual unit or share in one of the above entities may not be transferred or dealt with without the others. The Fund is listed on the Australian Securities Exchange (**ASX**) under code IDR.

APN Funds Management Limited is the Responsible Entity (**APN FM or Responsible Entity**) of each of the four trusts. APN FM is a wholly owned subsidiary of APN Property Group Limited (**APN PG**), a company listed on the ASX. APN PG and its subsidiaries together are referred to as the "**APN Group**" in this Statement. APN FM oversees the management and strategic direction of APN's listed and unlisted managed investment schemes and mandates (**APN Funds**) in its role as responsible entity, trustee and/or manager.

The board of APN FM (**Board**) comprises four Independent Directors (including the Chairman), one of whom is also an APN PG Director.

The board of Industria Company No. 1 Limited (**Industria Co**) comprises five Directors, four of whom are Independent Directors (including the Chairman) and one whom is an Executive Director.

Importantly, the boards of both APN FM and Industria Co are comprised of a majority of Independent Directors, each of whom has a legal obligation to put the interests of investors in the Fund ahead of their own and, in the case of APN FM, APN FM's sole shareholder, APN PG.

The boards of APN FM and Industria Co co-operate to ensure that the interests of the Fund are aligned and therefore have adopted the same practices and processes. For simplicity in the Corporate Governance Statement, all reference to APN FM, Responsible Entity, Board or Fund should be read as including and referring also to Industria Co and its board of directors and governance practices, wherever the context permits and unless otherwise stated.

The Responsible Entity is committed to achieving and demonstrating the highest standards of governance. The Fund's Corporate Governance Statement (**Statement**) has been prepared in accordance with the principles and recommendations set by the ASX Corporate Governance Council (Corporate Governance Principles and Recommendations 3rd Edition) (**Recommendations**), and any departure from these Recommendations are stated within.

The Responsible Entity's governance framework, as summarised in the Statement has been designed to ensure that the Fund meets its ongoing statutory obligations, discharges its responsibilities to all stakeholders and acts with compliance and integrity.

The Statement outlines the main corporate governance practices in place throughout the financial year ended 30 June 2018 (**Reporting Period**) and incorporates the requirements of market regulators, adopted codes and charters, documented policies and procedures and guidance from industry best practice. These policies and practices remain under regular review as the corporate governance environment and good practices evolve.

The full corporate governance statement is available on the Fund website at: http://www.industriareit.com.au/about/corporate-governance/.

As APN FM and Industria Co do not employ staff directly the necessary management and resources for the operation of the Fund are provided by APN PG. For this reason, staff are governed by APN Group policies. The policies, charters and codes referred to in the Statement are available on the Fund's website at https://industriareit.com.au/about-us/corporate-governance/.

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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22 August 2018

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

Dear Board Members

Independence Declaration – Industria REIT

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of APN Funds Management Limited, the Responsible Entity, regarding the annual financial report for Industria REIT.

As lead audit partner for the audit of the financial statements of Industria REIT for the financial year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

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

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Independent Auditor's Report to the Stapled Security Holders of Industria REIT

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Industria REIT (the "Trust") and its controlled entities (collectively, the "Group") which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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 and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Valuation of investment properties held at fair value As at 30 June 2018 the Group's investment properties represent the largest category of assets with a carrying value of $661m, including a $17.3m revaluation gain recognised in the consolidated statement of profit or loss as disclosed in Note 6. The investment properties are measured under the fair value model. The determination of fair value requires significant judgement due to the degree of subjectivity used by management, together with their internal and external valuation specialists (the "valuers"), in estimating the inputs used in the determination of the fair value of the investment properties including; net market rentals, 10 year average market rental growth rates, capitalisation rates, terminal yields and discount rates.	In conjunction with our valuation specialists, our procedures included, but were not limited to: – evaluating the independence, competence and objectivity of the valuers; – assessing the scope of the valuers' work; – assessing the currency of the valuation date; – challenging the appropriateness of the valuation techniques and the inputs used by the valuers, including; the net market rentals, capitalisation rates, actual tenancy schedules and assessing overall values selected with reference to industry practice and external industry economic data; – testing on a sample basis, the passing rental balances by agreeing them back to signed lease agreements; and – recalculating the mathematical accuracy of a sample of the valuation models. We have also assessed the appropriateness of the related disclosures in Note 6 to the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Deloitte.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter A. Caldwell
Partner
Chartered Accountants
Melbourne, 22 August 2018

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DIRECTORS' DECLARATION

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

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

(b) in the directors' opinion, the attached consolidated financial statements are in compliance with International Financial Reporting Standards, as stated in note 2 to the consolidated financial statements;

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

(d) The directors have been given the declarations required by s.295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the directors of the Responsible Entity made pursuant to s.295 (5) of the *Corporations Act 2001*.

On behalf of the directors of the Responsible Entity, APN Funds Management Limited.

Geoff Brunsdon
Director
Melbourne, 22 August 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Notes	2018 $'000	2017 $'000
Revenue			
Rental income		47,771	45,262
Straight line rental income recognition		3,906	3,221
Total revenue from continuing operations		**51,677**	**48,483**
Other income			
Interest income		42	56
Net fair value gain / (loss) on investment properties	6	17,341	75,194
Fair value gain / (loss) on derivatives		395	2,229
Total other income		**17,778**	**77,479**
Total income		**69,455**	**125,962**
Expenses			
Property costs		(9,919)	(10,445)
Management fees	18	(3,542)	(2,875)
Finance costs	11	(7,079)	(6,793)
Auditors' remunerations		(138)	(141)
Other expenses		(572)	(731)
Total expenses		**(21,250)**	**(20,985)**
Net profit / (loss) before tax		**48,205**	**104,977**
Income tax expense	5	(47)	(3,334)
Profit / (loss) after tax		**48,158**	**101,643**
Attributable to:			
Securityholders of Industria Trust No. 1		40,326	78,643
Securityholders of non-controlling interests[1]		7,832	23,000
		48,158	**101,643**
Other comprehensive income		-	-
Profit / (loss) for the year		**48,158**	**101,643**
Profit / (loss) for the year is attributable to:			
Securityholders of Industria Trust No. 1		40,326	78,643
Securityholders of non-controlling interests[1]		7,832	23,000
		48,158	**101,643**
Earnings per security			
Basic and diluted (cents per security)	10	29.56	65.87

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	2018 $'000	2017 $'000
Current assets			
Cash and cash equivalents	15	1,659	435
Trade and other receivables	16	1,134	1,112
Other assets		462	389
Total current assets		**3,255**	**1,936**
Non-current assets			
Investment properties	6	660,732	638,000
Total non-current assets		**660,732**	**638,000**
Total assets		**663,987**	**639,936**
Current liabilities			
Trade and other payables	17	(3,904)	(3,562)
Derivative financial instruments	11	(418)	(916)
Distributions payable	9	(6,839)	(13,049)
Total current liabilities		**(11,161)**	**(17,527)**
Non-current liabilities			
Payables	17	(390)	(257)
Derivative financial instruments	11	(1,267)	(1,163)
Borrowings	11	(205,871)	(196,332)
Deferred tax liability	5	(5,344)	(5,297)
Total non-current liabilities		**(212,872)**	**(203,049)**
Total liabilities		**(224,033)**	**(220,576)**
Net assets		**439,954**	**419,360**
Equity			
Securityholders of Industria Trust No. 1:			
Contributed equity	7	220,152	220,635
Retained earnings		98,552	75,565
Securityholders of non-controlling interests[1]:			
Contributed equity	8	82,640	82,841
Retained earnings	8	38,610	40,319
Total equity		**439,954**	**419,360**
Net tangible assets per security ($)		2.70	2.57

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

	Notes	Contributed equity $'000	Retained earnings $'000	Total $'000	Non-controlling interests[1] $'000	Total equity $'000
Balance at 1 July 2016		**165,096**	**10,922**	**176,018**	**85,139**	**261,157**
Net profit / (loss)		-	78,643	78,643	23,000	101,643
Other comprehensive income		-	-	-	-	-
Profit / (loss) for the year		**-**	**78,643**	**78,643**	**23,000**	**101,643**
Issue of securities	7	57,186	-	57,186	27,814	85,000
Security issuance costs (net of income tax benefit)	7	(1,647)	-	(1,647)	(695)	(2,342)
Distributions paid or payable	9	-	(14,000)	(14,000)	(12,098)	(26,098)
Balance as at 30 June 2017		**220,635**	**75,565**	**296,200**	**123,160**	**419,360**
Net profit / (loss)		-	40,326	40,326	7,832	48,158
Other comprehensive income		-	-	-	-	-
Profit / (loss) for the year		**-**	**40,326**	**40,326**	**7,832**	**48,158**
Securities buy-back	7	(481)	-	(481)	(200)	(681)
Security issuance costs (net of income tax benefit)	7	(2)	-	(2)	(1)	(3)
Distributions paid or payable	9	-	(17,339)	(17,339)	(9,541)	(26,880)
Balance as at 30 June 2018		**220,152**	**98,552**	**318,704**	**121,250**	**439,954**

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Net rental income received		49,304	45,555
Payments to suppliers		(13,786)	(12,972)
Interest received		41	56
Finance costs paid		(6,745)	(6,622)
Net cash inflow / (outflow) from operating activities	15	**28,814**	**26,017**
Cash flows from investing activities			
Payments for acquisition of investment properties		-	(167,402)
Payments for capital expenditure on investment properties		(3,021)	(6,360)
Proceeds from sale of investment properties		-	30,015
Net cash inflow / (outflow) from investing activities		**(3,021)**	**(143,747)**
Cash flows from financing activities			
Net proceeds from borrowings	15	9,205	56,897
Proceeds from security issuance		-	85,000
Equity issuance costs paid		(3)	(2448)
Payment for securities buy-back		(681)	-
Distributions paid		(33,090)	(22,891)
Net cash inflow / (outflow) from financing activities		**(24,569)**	**116,558**
Net increase / (decrease) in cash and cash equivalents		1,224	(1,172)
Cash and cash equivalents at the beginning of the financial year		435	1,607
Cash and cash equivalents at the end of the financial year	15	**1,659**	**435**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

About this report

1. General information

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

APN Funds Management Limited, a public company incorporated and operating in Australia, is the Responsible Entity of Industria Trust No. 1. The registered office and its principal place of business is Level 30, 101 Collins Street, Melbourne, VIC 3000.

The principal activity of the Industria REIT is to invest in income producing industrial and business park properties within Australia.

2. Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations, and complies with other requirements of the law. Compliance with Australian Accounting Standards ensures that the consolidated financial statements and notes of the Trust and the Group comply with International Financial Reporting Standards ("IFRS").

For the purposes of preparing these consolidated financial statements, the Group is a for-profit entity.

The financial statements were authorised for issue by the directors on 22 August 2018.

2.1. Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of investment properties and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. All amounts are presented in Australia dollars, unless otherwise noted.

The Group is an entity of the kind referred to in *ASIC Corporations (Rounding in Financials / Directors' Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

2.2. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Trust and its controlled entities (the "Group") – Refer to note 19 for a list of controlled entities as at reporting date.

Control is achieved where the Trust:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Responsible Entity of the Trust reassesses whether or not the Trust controls an investee if the facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Trust obtains control over the subsidiary and ceases when the Trust loses that control. Income and expenses of a subsidiary are included in the consolidated financial statements of the Group for the period it is consolidated. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.3. Other accounting policies

Significant accounting policies that summarise the measurement basis used and are relevant to an understanding of the consolidated financial statements are provided throughout the notes to the consolidated financial statements.

2.4. The notes to the consolidated financial statements

The notes to these consolidated financial statements include information required to understand the consolidated financial statements that is relevant and material to the operations, financial position and performance of the Group. The notes have been collated into sections to help users find and understand inter-related information. Information is considered material and relevant if, for example:

- the amount in question is significant by virtue of its size or nature;
- it is important to understand the results of the Group;
- it helps explain the impact of significant changes in the Group's business; or
- it relates to an aspect of the Group's operations that is important to its future performance.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the directors have made judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The judgements, estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, however actual results may differ from these estimates. The judgements, estimates and assumptions made in the current period are contained in the following notes:

Note	Description
Note 6 – Investment properties	Fair value measurement and valuation processes

Performance

This section shows the results and performance of the Group and includes detailed information in respect to the revenues, expenses and the profitability of the Group and each of its reporting segments. It also provides information on the investment properties that underpin the Group's performance.

4. Segment information

The Group derives all income from investment in properties located in Australia. The Group is deemed to have only one operating segment and that is consistent with the reporting reviewed by the chief operating decision makers.

5. Income taxes

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

	2018 $'000	2017 $'000
Tax expense / (income) comprises:		
Deferred tax expense / (income) relating to the origination and reversal of temporary differences	47	3,336
Under / (over) provision from prior years	-	(2)
Total tax expense / (income)	**47**	**3,334**

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

	2018 $'000	2017 $'000
Profit / (loss) from continuing operations	48,205	104,977
Less: profit / (loss) of the group relating to non-taxable Trust entities	(45,942)	(91,130)
Taxable profit of the Group	**2,263**	**13,847**
Prima facie tax payable @ 27.5% (2017: 30%)	622	4,154
Add / (subtract) the tax effect of:		
Changes in tax bases not affecting current tax expense	(110)	(818)
Change in tax rate	(465)	-
Over provision from prior years	-	(2)
Total tax expense / income	**47**	**3,334**

5.2. Deferred tax balances

2018 Temporary differences	Opening balance $000	Recognised in profit or loss $000	Recognised in equity $000	Closing balance $000
Provisions and accruals	10	(3)	-	**7**
Allowance for doubtful debts	17	(17)	-	**-**
Investment properties	(5,782)	(355)	-	**(6,137)**
Fair value adjustments on derivatives	106	(31)	-	**75**
Tax losses carried forward	352	359	-	**711**
Net deferred tax liabilities	**(5,297)**	**(47)**	**-**	**(5,344)**

2017 Temporary differences	Opening balance $000	Recognised in profit or loss $000	Recognised in equity $000	Closing balance $000
Provisions and accruals	(330)	340	-	**10**
Allowance for doubtful debts	-	17	-	**17**
Investment properties	(2,725)	(3,163)	106	**(5,782)**
Fair value adjustments on derivatives	486	(380)	-	**106**
Tax losses carried forward	500	(148)	-	**352**
Net deferred tax liabilities	**(2,069)**	**(3,334)**	**106**	**(5,297)**

Recognition and measurement

Industria Company No.1 Limited

Income tax on the profit or loss for the financial year comprises current and deferred tax for Industria Company No.1 Limited, a controlled entity of Industria REIT. Income tax is recognised in the consolidated statement of profit or loss and other comprehensive income.

Current tax is the expected tax payable on the taxable income for the financial year, using tax rates enacted or substantively enacted at balance date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for taxation purposes.

The following temporary differences are not provided for: goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of the deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount or assets and liabilities, using tax rates enacted or substantively enacted at balance date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current and deferred tax is recognised as an expense or income in the consolidated statement of profit or loss and other comprehensive income.

Industria Trusts

All Trusts that comprise Industria REIT are "flow-through" entities for Australian income tax purposes ('AMIT Trusts') and have elected into the Attribution Managed Investment Trusts rules from the 2017 income year, such that the determined trust components of each AMIT Trust will be taxable in the hands of the beneficiaries (the securityholders) on an attribution basis.

Accordingly, deferred taxes associated with these AMIT Trusts have not been recognised in the financial statements in relation to differences between the carrying amounts of assets and liabilities and their respective tax bases, including taxes on capital gains/losses which could arise in the event of a sale of investments for the amount at which they are stated in the financial statements.

Realised capital losses are not attributed to securityholders but instead are retained within the AMIT Trusts to be offset against realised capital gains. The benefit of any carried forward capital losses are also not recognised in the financial statements. If in any period realised capital gains exceed realised capital losses, including those carried forward from earlier periods and eligible for offset, the excess is included in taxable income attributed to securityholders as noted above.

6. Investment properties

Investment properties represent industrial and business park properties held for deriving rental income. For all investment properties, the current use equates to the highest and best use.

	2018 $'000	2017 $'000
Industrial and office properties	657,405	634,788
Land held for development	3,327	3,212
	660,732	**638,000**

6.1. Individual valuation and carrying amounts

	2018 $'000	2017 $'000
Carrying amount at beginning of the financial year	638,000	386,139
Purchase of investment properties	-	167,402
Capital additions to investment properties	2,907	6,235
Movement in deferred lease incentives	(1,536)	(316)
Straight line revenue recognition	3,906	3,221
Net gain / (loss) on fair value adjustments[1]	17,341	75,194
Interest capitalised to land held for development[2]	114	125
Carrying amount at end of the financial year	**660,732**	**638,000**

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

2 Interest was capitalised to land held for future development based on the weighted average cost of debt of 3.43% during the year (2017: 3.96%).

Included within the investment property fair value is a deduction of $2,526,000 representing lease incentive commitments the Group will need to pay under the lease contracts (2017: $2,059,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.2. Leasing arrangements

The majority of the investment properties are leased to tenants under long term operating leases. Rentals are receivable from tenants monthly. Revenue from top three tenants represent $19,555,000 (2017: $13,703,000) of the Group's total revenue.

Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the consolidated financial statements as receivable are as follows:

	2018 $'000	2017 $'000
Within one year	43,087	35,931
More than one year but not more than five years	112,117	126,164
More than five years	220,076	223,938
	375,280	**386,033**

6.3. Individual valuation and carrying amounts

The investment property portfolio comprises 21 properties located throughout Victoria, New South Wales, Queensland and South Australia. In the current financial year, seven properties were independently valued at 30 June 2018. The Group's external valuations are performed by independent professionally qualified valuers who hold a recognised relevant professional qualification and have specialised expertise in the investment properties being valued. Independent valuations were performed by CBRE Valuations Pty Ltd ("CBRE") and M3 Property (Vic) Pty Ltd in the current financial year (2017: CBRE and Urbis Valuations Pty Ltd).

As at 30 June 2018, the remaining 14 properties were subject to internal valuations performed by the Group's internal property team and have been reviewed and approved by the Board. Land held for development is held at the lower of cost and net realisable value.

		Latest independent valuation		Carrying amount		Capitalisation rate		Discount rate	
		Valuation date	$'000	2018 $'000	2017 $'000	2018 %	2017 %	2018 %	2017 %
Industrial properties									
34 Australis Drive, Derrimut, VIC	Freehold	Jun 2018	29,250	29,250	28,000	6.50%	6.50%	7.00%	7.25%
80-96 South Park Drive, Dandenong South, VIC	Freehold	Jun 2018	23,500	23,500	22,000	6.75%	7.00%	7.00%	7.25%
89 West Park Drive, Derrimut, VIC	Freehold	Jun 2018	21,000	21,000	19,500	6.00%	6.50%	6.75%	7.25%
32-40 Garden Street, Kilsyth, VIC	Freehold	Jun 2018	18,250	18,250	17,000	6.50%	7.00%	7.00%	7.75%
5 Butler Boulevard, Adelaide Airport, SA (a)	Sub-leasehold	Jun 2018	14,000	14,000	12,200	8.61%	8.84%	9.25%	9.25%
1-3 Westrac Drive, Tomago, NSW	Freehold	Jun 2018	197,000	197,000	184,000	6.00%	6.25%	8.00%	8.25%
140 Sharps Road, Tullamarine, VIC (a)	Sub-leasehold	Jun 2018	13,500	13,500	13,500	8.25%	8.25%	7.25%	7.50%
Office properties									
7 Clunies Ross Court and 17-19 McKechnie Drive, BTP, QLD	Freehold	Jun 2017	44,000	44,145	44,000	7.50%	7.50%	8.25%	8.25%
BTP Central, BTP, QLD#	Freehold	Jun 2017	37,788	38,090	37,788	7.50%	7.50%	8.25%	8.25%
8 Clunies Ross Court and 9 McKechnie Drive, BTP, QLD	Freehold	Jun 2017	23,000	23,420	23,000	8.00%	8.00%	8.50%	8.50%
37 Brandl St, BTP, QLD	Freehold	Jun 2017	14,700	14,999	14,700	7.38%	7.38%	8.00%	8.00%
18 Brandl St, BTP, QLD	Freehold	Jun 2017	12,600	12,709	12,600	8.00%	8.00%	8.25%	8.25%
88 Brandl St, BTP, QLD	Freehold	Jun 2017	14,500	14,939	14,500	7.75%	7.75%	8.25%	8.25%
Building A, 1 Homebush Bay Drive, Rhodes, NSW	Freehold	Jun 2017	110,000	110,008	110,000	6.25%	6.00%	7.25%	7.25%
Building C, 1 Homebush Bay Drive, Rhodes, NSW	Freehold	Jun 2017	82,000	82,595	82,000	6.00%	6.25%	7.25%	7.25%
Land held for development									
45 and 45B McKechnie Drive, BTP, QLD (b)	Freehold	N/A	N/A	3,327	3,212				
Total investment properties			**655,088**	**660,732**	**638,000**				

The BTP Central portfolio comprises five assets located within BTP. Each asset was individually valued by the Group's internal property team and have been reviewed and approved by the Board as at 30 June 2018 (2017: independent valuations performed by Urbis Valuations Pty Ltd).

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

	2018	2017
Industrial properties	6.26%	6.51%
Office properties	6.85%	6.82%
Group's investment properties portfolio (excluding land)	**6.58%**	**6.68%**

(a) Sub-leasehold properties and ground rent obligations

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

The Group has obligations to pay ground rental to the relevant Airport Authority as follows:

	2018 $'000	2017 $'000
Ground rental obligations	691	675

AASB 16 *Leases*, applying to annual periods beginning on or 1 January 2019, introduces a comprehensive model for the identification, recognition and measurement of lease arrangements for lessors and lessees. For lessees, AASB 16 replaces the existing recognition and measurement requirements for operating leases (off balance sheet commitment and an expense, on a straight-line basis over the lease term) with both a right-of-use asset and a corresponding liability in the statement of financial position for all qualifying leases. Under this new treatment, the initial measurement of both the asset and liability equates to the present value of the unavoidable lease payments. Subsequently the asset value recognised is expensed as interest and depreciation over the term of the lease.

Based on a preliminary analysis of the Group's existing ground rent obligations, a right-of-use asset and a corresponding liability will be recognised in the consolidated statement of financial position (effectively 'grossing-up' the balance sheet). As at 30 June 2018, undiscounted unavoidable ground rental payments totalled $691,000. Further information on the impact of AASB 16 on the financial position and performance of the Group will be provided on finalisation of the analysis of non-cancellable operating lease commitments.

Minimum lease payments under the non-cancellable ground leases not recognised in the consolidated financial statements as payable are as follows:

	2018 $'000	2017 $'000
Within one year	722	691
More than one year but not more than five years	3,946	3,825
More than five years	31,555	32,398
	36,223	**36,914**

(b) BTP Co-operation Agreement

As outlined in the Product Disclosure Statement and Prospectus dated 28 October 2013, a Co-operation Agreement existed for five years between Industria and Graystone Pty Ltd (Graystone). Under this Co-operation Agreement, Graystone had an option to acquire certain undeveloped land at the expiry of three years from the date the Co-operation Agreement commenced. The option expired unexercised in December 2016.

Graystone has a continuing right to put development proposals and identify opportunities for Industria REIT over components (to be sub-divided) of 45 and 45B McKechnie Drive. Any proposal needs to be at arms-length on reasonable market terms, be consistent with the standard of the existing buildings and tenants at BTP (if applicable) and be put forward acting in the best interests of Industria REIT.

During the current financial year and up to the date of this report, no development proposals have been put forward by Graystone.

This Co-operation Agreement expires in December 2018.

Recognition and measurement

Rental income

Rental income is recognised at the fair value of consideration receivable (exclusive of GST) on a straight-line basis over the term of the lease for the period where the rental income is fixed and determinable. For leases where the rental income is determined based on unknown future variables such as inflation, market reviews or other variables, rental income is recognised on an accruals basis in accordance with the terms of the lease.

Rental income not received at reporting date, is reflected in the consolidated statement of financial position as a receivable or if paid in advance, as rent in advance.

AASB 15 *Revenue from Contracts with Customers*, applying to annual periods beginning on or after 1 January 2018, requires an entity to recognise revenue in a manner that represents the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled. Rental income is not within scope of AASB 15 and the impact on the Group's other revenue balances is immaterial because services are billed as they are provided on a cost recovery basis.

Lease incentives, commissions and other costs

Lease incentives provided to tenants, such as fit-outs or rent-free periods and leasing commissions and other costs incurred in entering into a lease, are recognised as a reduction of rental income on a straight-line basis over the non-cancellable term of the lease.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including land held for development and property under construction for such purposes) and are measured initially at cost, including transaction costs.

Subsequent to initial recognition, investment properties are measured at fair value (inclusive of adjustments for straight line rental revenue recognition and unamortised lease incentives and costs), with gains and losses arising from changes in the fair value of investment properties included in the consolidated statement of profit or loss and other comprehensive income in the period in which they arise.

Land held for development and property under construction are subsequently measured at lower of cost and net realisable value. Net realisable value refers to the net amount that the Group expects to realise from the sale of the land and/or property held for development. Net realisable value may not equal fair value less costs to sell as the Group's intention is to develop the land for future use.

Valuation process

The purpose of the valuation process is to ensure that assets are held at fair value (or in the case of land held for development, measured at the lower of cost and net realisable value) and all applicable regulations (*Corporations Act 2001* and ASIC regulations) and the relevant Accounting Standards are complied with.

External valuations are performed by independent professionally qualified valuers who hold a recognised relevant professional qualification and have specialised expertise in the class of investment properties being valued and are performed for each investment property on at least a 3-year rotational basis. Internal valuations are performed by the Group's internal property team in the intervening periods and are reviewed and approved by the Board.

If external valuations are not obtained on the reporting date, internal valuations are performed by utilising the information from a combination of asset plans and forecasting tools prepared by the asset management teams. Appropriate capitalisation rates, terminal yields and discount rates based on comparable market evidence and recent external valuation parameters are used to produce a capitalisation and discounted cash flow valuations.

The adopted fair value is generally the mid-point of the valuations determined using the income capitalisation and discounted cash flow methods where the key valuation inputs are net passing rent, net market rent and capitalisation rates based on comparable market evidence.

Derecognition

An investment property is derecognised upon disposal or when no future economic benefits are expected from use. The gain or loss arising on derecognition of the property, measured as the difference between the net proceeds from disposal and its carrying amount at disposal date are recognised in the consolidated statement of profit or loss and other comprehensive income in the period in which the property is derecognised.

Key estimates and assumptions – fair value measurements and valuation process

The Group had investment properties and land held for development with a net carrying amount of $660,732,000 (2017: $638,000,000), representing estimated fair value and cost respectively. In determining the appropriate classes of investment property, management has considered the nature, characteristics and risks of its investment properties as well as the level of fair value hierarchy within which the fair value measurements are categorised.

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

Fair Value Hierarchy	Fair value 30 June 2018 $'000	Valuation Technique	Inputs used to measure fair value	Range of unobservable inputs
Level 3 (Industrial and office properties)	657,405	DCF and income capitalisation method	Net passing rent (per sqm p.a.) Net market rent (per sqm p.a.) 10-year average market rental growth Adopted capitalisation rate Adopted terminal yield Adopted discount rate	$53 - $709 $68 - $452 0% - 4% 6.00% - 8.61% 6.25% - 10.00% 6.75% - 9.25%
Level 3 (Land held for development)	3,327	Direct comparison method	Sales price per sqm	$500

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A definition is provided below for each of the inputs used to measure fair value:

Discounted cash flow method (DCF)	Under the DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. The DCF method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish the present value of the income stream associated with the real property.
Income capitalisation method	This method involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value, with allowances for capital expenditure reversions.
Direct comparison approach	Under the direct comparison method, sales of similar land holdings with development potential are analysed at a rate per sqm of site area. This is then compared to the subject having regard to the value influencing factors such as location, site conditions, approvals, proposed development and relativity of the market conditions at the time of sale.
Net passing rent	Net passing rent is the contracted amount for which a property or space within a property is leased. In the calculation of net rent, the owner recovers outgoings from the tenant on a pro-rata basis (where applicable).
Net market rent	A net market rent is the estimated amount for which a property or space within a property should lease between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and wherein the parties have each acted knowledgeably, prudently and without compulsion. In the calculation of net rent, the owner recovers outgoings from the tenant on a pro-rata basis (where applicable).
10-year average market rental growth	An average of a 10-year period of forecast annual percentage growth rates.
Adopted capitalisation rate	The rate at which net market income is capitalised to determine the value of a property. The rate is determined with regards to market evidence and the prior external valuation.
Adopted terminal yield	The capitalisation rate used to convert income 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 regards to market evidence and the prior external valuation.
Adopted discount rate	The rate of return used to convert a monetary sum, payable or receivable in the future, into present value. Theoretically it should reflect the opportunity cost of capital, that is, the rate of return the capital can earn if put to other uses having similar risk. The rate is determined with regards to market evidence and the prior external valuation.

6.4. Sensitivity information

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

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

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

Capital structure, financing and risk management

This section outlines how the Group manages its capital structure and related financing activities and presents the resultant returns delivered to securityholders via distributions and earnings per security.

7. Contributed equity

7.1. Carrying amount

	2018 $'000	2017 $'000
At the beginning of the financial year	303,476	220,818
Securities buy-back	(681)	-
Issue of securities	-	85,000
Equity issuance costs (net of income tax benefit)	(3)	(2,342)
At the end of the financial year	**302,792**	**303,476**

	2018 $'000	2017 $'000
Attributable to:		
Securityholders of Industria Trust No.1	220,152	220,635
Securityholders of non-controlling interests	82,640	82,841
	302,792	**303,476**

7.2. Number of securities on issue

	2018 $'000	2017 $'000
At the beginning of the financial year	163,113,881	123,019,191
Securities buy-back	(274,138)	-
Issue of securities	-	40,094,690
At the end of the financial year	**162,839,743**	**163,113,881**

Recognition and measurement

Issued securities are recognised at the fair value of the consideration received by the Group, net of directly incurred transaction costs.

The securities of Industria REIT (the "Stapled Security") comprise the stapled securities of Industria Trust No. 2, Industria Trust No. 3, Industria Trust No. 4, Industria Company No. 1 Ltd and this Trust. Whilst these entities remain stapled, their securities must only be issued, dealt with or disposed of as a Stapled Security.

8. Non-controlling interests

	2018 $'000	2017 $'000
Interest in contributed equity	82,640	82,841
Interest in retained earnings	38,610	40,319
	121,250	**123,160**

Non-controlling interests represents Industria Trust No. 2, Industria Trust No. 3, Industria Trust No. 4 and Industria Company No. 1 Ltd.

9. Distributions

	2018[1]		2017	
Consolidated	**Cents per security**	**$'000**	**Cents per security**	**$'000**
Distributions paid during the year:				
Period ended 30 Sep	4.10	6,688	-	-
Period ended 31 Dec	4.10	6,677	8.00	13,049
Period ended 31 Mar	4.10	6,676	-	-
Distributions payable:				
Period ended 30 Jun	4.20	6,839	8.00	13,049
	16.50	**26,880**	**16.00**	**26,098**

1 During the financial year ended 30 June 2018, the Group changed its distribution frequency to quarterly (2017: half-yearly).

Recognition and measurement

A liability for any distribution declared on or before the end of the reporting period is recognised in the consolidated statement of financial position in the reporting period to which the distribution pertains.

10. Earnings per security

	2018	2017
Profit / (loss) after tax ($'000)	48,158	101,643
Weighted average number of securities outstanding (thousands)	162,913	154,320
Basic and diluted earnings (cents per security)	**29.56**	**65.87**

Recognition and measurement

Basic earnings per security

Basic earnings per security is calculated as net profit / (loss) for the year divided by the weighted average number of ordinary securities outstanding during the year, adjusted for bonus elements in ordinary securities issued during the year.

Diluted earnings per security

Diluted earnings per security adjusts the figures used in the determination of basic earnings per security to take into account amounts unpaid on securities and the effect of all dilutive potential ordinary securities.

No dilutive securities were issued/on issue during the current year (2017: nil).

11. Borrowings

	2018 $'000	2017 $'000
Non-current		
Bank loans – secured[1]	205,871	196,332
	205,871	**196,332**

1 Includes unamortised borrowing costs of $829,000 (2017: $675,000) that have been allocated against the total amount drawn at balance date.

	2018 $'000	2017 $'000
The Group has access to the following lines of credit:		
Loan facility limit	240,000	215,000
Facilities drawn at balance date	206,700	197,007
Facilities not drawn at balance date	**33,300**	**17,993**

Recognition and measurement

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of profit and loss and other comprehensive income in the period in which they arise.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer the settlement of the facility for at least 12 months after the reporting date.

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11.1. Summary of borrowing arrangements

Industria Trust No.3, as the internal financier of Industria REIT has a $240.0 million revolving cash advance facility (drawn to $206.7 million at the reporting date) with two major Australian banks that it utilises to provide inter-entity finance to each entity in Industria REIT, including the Trust. The revolving cash advance facility has the following expiry profile:

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

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

The debt facility contains both financial and non-financial covenants and undertakings that are customary for secured debt facilities of this nature. The key financial covenants (with capitalised terms being defined terms in the debt facility agreement) that apply to the Group are as follows:

		2018
Loan to Value Ratio ("LVR")	At all times, LVR does not exceed 55%.	31.65%
Gearing Ratio	At all times, gearing ratio does not exceed 55%.	33.49%
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.	5.81 times
Weighted Average Lease Length to Expiry ("WALE")	WALE for the portfolio will be greater than 2.5 years.	6.88 years

The weighted average 'all-in' interest rate (including bank margin, amortisation of borrowing costs and undrawn line fees) at reporting date was 3.43% (2017: 3.57%).

11.2. Finance costs

	2018 $'000	2017 $'000
Interest expense paid / payable[1]	6,745	6,469
Amortisation of borrowing costs	334	324
	7,079	**6,793**

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

Recognition and measurement

Interest expense is recognised in the statement of profit or loss and other comprehensive income using the effective interest rate method except where it is incurred for the construction of any qualifying asset, where it is capitalised during the period of time that is required to hold, complete and/or prepare the asset for its intended use.

The effective interest rate method calculates the amount to be recognised over the relevant period at the rate that exactly discounts estimated future cash receipts (including all fees that form an integral part of the financial instrument, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

11.3. Derivatives – interest rate contracts

The Group has exposure to a debt facility that is subject to floating interest rates. The Group uses derivative financial instruments on a portfolio basis to manage its exposure to interest rates such as interest rate swaps (to lock in fixed interest rates) and/or interest rate caps (to limit exposure to rising floating interest rates).

All derivative financial instruments are entered into on terms that provide pari-passu security and cross collateralisation rights over the Group's investment properties (via first registered real property mortgages) and other assets (via a first ranking general "all assets" security agreement) pursuant to the Group's revolving cash advance facility.

Generally interest rate contracts settle on a monthly basis coinciding with the dates on which the interest is payable on the underlying debt. The floating rate incurred on the debt is Australian BBSY. The difference between the fixed and floating interest rate is settled on a net basis by the relevant counterparty. The interest rate contracts have not been identified as hedging instruments and any movements in the fair value are recognised immediately in the statement of profit or loss and other comprehensive income.

	2018 $'000	2017 $'000
Current liabilities		
Interest rate contracts	418	916
Non-current liabilities		
Interest rate contracts	1,267	1,163

During the year, the Group recognised a fair value gain of $395,000 (2017: $2,229,000) on interest rate contracts.

Interest rate contracts in effect at reporting date covered 56% (2017: 53%) of the principle drawn under the debt facility and the contract details are as follows:

Counterparty	Notional Value $'000	Swap Effective Date	Fixed Rate
2018: Interest rate swaps and caps			
NAB			
Swap 1	5,000	6 Apr 2018	
Swap 2	5,000	6 Apr 2018	
Swap 3	10,000	6 Jan 2016	
Swap 4	10,000	7 Mar 2016	
Swap 5	15,000	7 Mar 2016	
ANZ			
Swap 6	5,000	6 Feb 2014	
Swap 7	5,000	6 Jun 2015	
Swap 8	10,000	6 Feb 2014	
Swap 9	10,000	6 Jan 2016	
Swap 10	15,000	6 Jan 2014	
Interest rate cap	25,000	6 Sep 2017	
Total / Weighted average	**115,000**		**2.52%**

	Notional Value $'000	Swap Effective Date	Fixed Rate
2017: Interest rate swaps and caps			
NAB			
Swap 11	5,000	6 Feb 2014	
Swap 12	5,000	9 Jun 2015	
Swap 13	10,000	6 Feb 2014	
Swap 14	10,000	6 Jan 2016	
Swap 15	15,000	7 Mar 2016	
ANZ			
Swap 16	5,000	6 Feb 2014	
Swap 17	5,000	9 Jun 2015	
Swap 18	10,000	6 Feb 2014	
Swap 19	10,000	6 Jan 2016	
Swap 20	15,000	6 Jan 2014	
Interest rate cap	15,000	7 Nov 2016	
Total / Weighted average	**105,000**		**2.69%**

Recognition and measurement

Derivatives are categorised as held for trading and are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date based on counterparty bank valuations. Counterparty bank valuations are tested for reasonableness by discounting the estimated future cashflows and using market interest rates for a substitute instrument at the measurement date.

The resulting gain or loss is recognised immediately in the consolidated statement of profit and loss and other comprehensive income as hedge accounting has not been applied.

11.4. Fair value hierarchy

The following table provides an analysis of financial instruments that are measured at fair value at 30 June 2018, grouped into Levels 1 to 3 based on the degree to which the fair value inputs is observable:

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Fair value measurement as at 30 June 2018			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Level 4 $'000
Financial liabilities at FVTPL				
Interest rate contracts	-	(1,685)	-	(1,685)
Total	**-**	**(1,685)**	**-**	**(1,685)**

	Fair value measurement as at 30 June 2017			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Level 4 $'000
Financial liabilities at FVTPL				
Interest rate contracts	-	(2,079)	-	(2,079)
Total	**-**	**(2,079)**	**-**	**(2,079)**

There were no transfers between Levels during the financial year.

12. Capital risk management

The Responsible Entity's objectives when managing the capital of Industria REIT and the Trust is to safeguard its ability to continue as a going concern, so that Industria REIT and the Trust can continue to provide returns for securityholders in accordance with the Trust's and Industria REIT's (the "Group") investment strategy, and to optimise the capital structure and therefore maintain the Group's cost of capital on a risk adjusted basis.

The capital of the Group is maintained or adjusted through various methods including by adjusting the quantum of distributions paid, raising or repaying debt, issuing new or buying back securities or selling assets.

The Group's capital position is primarily monitored through its ratio of net debt to total assets (excluding cash) ("Gearing Ratio"), where a target range of between 30% to 40% has been established. As at 30 June 2018, the Group's gearing ratio was 30.96% (2017: 30.74%).

	2018 $'000	2017 $'000
Total borrowings	206,700	197,007
Less: cash and cash equivalents	(1,659)	(435)
Net debt	**205,041**	**196,572**
Total assets (excluding cash and cash equivalents)	662,328	639,501
Gearing ratio	**30.96%**	**30.74%**

13. Financial and risk management

The Responsible Entity is responsible for ensuring a prudent risk management culture is established for the Group. This is reflected in the adoption of a Risk Management Framework that clearly defines risk appetite and risk tolerance limits which are consistent with Industria REIT's investment mandate.

The Group's dedicated fund manager is responsible for overseeing the establishment and implementation of appropriate systems, controls and policies to manage the Group's risk. The focus is on ensuring compliance with the approved Risk Management Framework whilst seeking to maximise securityholder returns.

The effective design and operation of the risk management systems, controls and policies is overseen by the Responsible Entity and its Audit, Risk and Compliance Committee.

Risk management in respect to financial instruments is achieved via written policies that establish risk appetite and tolerance limits in respect to exposure to interest rate risk, credit risk, the use of derivative financial instruments and non-derivative financial instruments and the investment of excess liquidity. Compliance with these policies and exposure limits is reviewed by the Responsible Entity on a continuous basis.

13.1 Financial instruments

The Group undertakes transactions in a range of financial instruments including:

- cash and cash equivalents;
- receivables;
- payables;
- borrowings; and
- derivative financial instruments.

Transactions in these instruments expose the Group to a variety of financial risks including market risk (which includes interest rate risk and other price risks), credit risk and liquidity risk. The Group does not enter into or trade financial instruments, including derivatives, for speculative purposes.

13.2 Market risk (including interest rate risk)

The Group is subject to market risk (the risk that borrowings or derivatives are repriced to different interest rate margins on refinance or renewal arising from changes in the debt markets) and interest rate risk (the risk of a change in interest rates) that may impact the Group's profitability, cashflows and/or financial position predominately through its borrowings, derivatives and cash exposures.

The interest rates applicable to each category of financial instrument are disclosed in the applicable note to the financial statements.

Market risk sensitivity

The Group's sensitivity to an assumed 100 basis point change in interest rates or interest rate margins as at the reporting date, on the basis that the change occurred at the beginning of the reporting period, is outlined in the table below and includes both increases / decreases in interest payable / receivable and fair value gains or losses on revaluation of derivatives.

	Net Profit	
	100bp increase $'000	100bp decrease $'000
30 June 2018		
Variable rate instruments	(1,163)	1,163
Derivative financial instruments	2,798	(2,795)
	1,635	**1,632**
30 June 2017		
Variable rate instruments	(889)	889
Derivative financial instruments	2,561	(2,557)
	1,672	**(1,668)**

13.3 Credit risk

The Group is subject to credit risk (the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group) predominately through its trade and other receivables, derivatives and cash exposures. The maximum exposure to credit risk at a reporting date is the carrying value of each financial asset as disclosed in the applicable note to the financial statements.

Credit risk is managed by ensuring that at the time of entering into a contractual arrangement or acquiring a property, counterparties or tenants are of appropriate credit worthiness, provide appropriate security or other collateral and/or do not show a history of default. Industria REIT's treasury policy also requires that derivatives and cash transactions are limited to financial institutions that meet minimum credit rating criteria.

13.4 Liquidity risk

The Group is subject to liquidity risk (the risk that the Group will not be able to meet its contractual or other operating obligations).

Liquidity risk is managed by continuously monitoring forecast and actual cash flows, maintaining appropriate head room under debt facilities and matching the maturity profiles of financial assets and liabilities. To help reduce liquidity risks the Group:

- has a liquidity policy which targets a minimum and average level of cash and cash equivalents to be maintained;
- has readily accessible standby facilities and other funding arrangements in place;
- has a debt maturity policy which targets a maximum percentage of total debt maturing in any one 12-month period; and
- has a loan covenant target to ensure that the Group can withstand downward movement in valuations, a reduction in income and/or an increase in interest rates without breaching loan facility covenants.

The Group's liquidity risk profile, based on the contractual maturities of key obligations recognised in the statement of financial position, but before consideration of operating cashflows available, is outlined in the following table.

	Within 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total contractual cash flows $'000	Carrying amounts $'000
2018					
Liabilities					
Lease incentives payable	1,059	542	925	2,526	2,526
Payables	3,904	147	243	4,294	4,294
Distribution payable	6,839	-	-	6,839	6,839
Interest-bearing liabilities	6,694	52,944	192,804	252,442	205,871
Interest rate contracts	529	541	1,060	2,130	1,685
	19,025	**54,714**	**195,032**	**268,231**	**221,215**
2017					
Liabilities					
Lease incentives payable	922	611	526	2,059	2,059
Payables	3,562	68	189	3,819	3,819
Distribution payable	13,049	-	-	13,049	13,049
Interest-bearing liabilities	6,571	52,884	164,572	224,027	196,332
Interest rate contracts	915	820	344	2,079	2,079
	25,019	**54,383**	**165,631**	**245,033**	**217,338**

13.5 Net fair values

The carrying values of the Group's financial instruments as disclosed in the consolidated statement of financial position approximate their fair values. Refer to the applicable notes to the financial statements for the recognition and measurement principles applied to each type of financial instrument.

14. Commitment and contingencies

14.1 Property management and leasing services

APN Fund Management Limited ("APN FM") provides property management and leasing services to the Group. These services can be performed by APN FM or sub-contracted to one or more third parties. In the event that APN FM provides property management or leasing services without engaging third parties, APN FM is entitled to charge a fee of up to 3% of annual gross income and a leasing fee at market rates.

Prior to 1 January 2016, APN FM was entitled to fees of $517,000 (2017: $517,000) in respect of leasing services provided, based on market rates. These fees have not been charged and will not be charged whilst APN FM remains as the Responsible Entity of the Group.

14.2 Lease incentives

Included as a deduction from the fair value of investment properties (refer note 6) are commitments relating to lease incentives totalling $2,526,000 (2017: $2,059,000).

14.3 Capital expenditure

In the prior year, the Group entered into an agreement to install a 1 MW solar PV system across six buildings at Brisbane Technology Park (BTP). Installation for five of the buildings have been completed during the year with one installation in progress at reporting date. The capital expenditure associated with the remaining installation is forecast to be $265,000, of which all remained outstanding as at 30 June 2018.

During the year, the Group has also entered into an agreement to install 180 kW of solar across Buildings A and C, 1 Homebush Bay Drive, NSW. Total capital expenditure is forecast to be approximately $200,000 which remained outstanding as at 30 June 2018.

14.4 Property acquisition

On 29 June 2018, Industria REIT entered into agreed terms to acquire 13 Ricky Way and 10 Jersey Drive, Epping, Victoria for a total purchase price of $15,700,000. As at 30 June 2018, the Group had not made any payments and the full amount remained outstanding.

The Group has no other commitments and contingent assets as at 30 June 2018.

Efficiency of operation

This section presents the Group's working capital position and the efficiency in which it converts operating profits into cash available for securityholders / the reinvestment back into the operations of the Group.

15. Cash and cash equivalents

15.1 Reconciliation of profit for the period to net cash provided by operating activities

For the purpose of the consolidated statement of cash flows, cash and cash equivalents includes cash on hand and bank and short-term deposits at call.

	2018 $'000	2017 $'000
Reconciliation of cash and cash equivalent		
Cash and cash equivalents	1,659	435
Reconciliation of profit after tax to net cash flows from operating activities		
Net profit after tax	48,158	101,643
Add / (loss) non-cash items:		
Straight line lease revenue recognition	(3,906)	(3,221)
Amortisation of borrowing costs	334	324
Movement in deferred lease incentives	1,536	316
Movement in allowance for doubtful debts	(70)	70
Fair value gain on derivatives	(395)	(2,229)
Fair value gain on investment properties	(17,341)	(75,194)
	28,316	**21,709**
Changes in assets / liabilities:		
Increase / (decrease) in receivables	51	409
(Decrease) / increase in payables	400	565
(Decrease) / increase in deferred tax	47	3,334
Net cash inflows / (outflows) from operating activities	**28,814**	**26,017**

Recognition and measurement

Cash and cash equivalents comprise cash on hand and cash in banks or other short term highly liquid investments, net of outstanding bank overdrafts.

Cash flows are included in the consolidated statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

15.2 Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Notes	2018 $'000
Borrowings at the beginning of the year	11	196,332
Net cash inflow from financing activities		9,205
Non-cash changes:		
Amortisation of borrowing costs		334
Borrowings at the end of the year	11	**205,871**

16. Trade and other receivables

	2018 $'000	2017 $'000
Current		
Rent receivable	1,134	1,182
Allowance for doubtful debts	-	(70)
	1,134	**1,112**

16.1 Ageing analysis of receivables past due but not impaired

	2018 $'000	2017 $'000
0-30 days	938	1,057
31-90 days	177	12
91+ days	19	43
	1,134	**1,112**

An allowance for a doubtful debt is recognised when there is objective evidence that an individual receivable is impaired. As at 30 June 2018, no rent receivable amounts were impaired (2017: $70,000). The Group does not hold any security or other collateral (2017: $nil) nor does the Group have any significant credit risk exposure to any single counterparty or counterparties having similar characteristics in respect of rent receivables past due but not impaired.

There are no significant financial assets that have had renegotiated terms that would otherwise have been past due or impaired.

Recognition and measurement

Rent receivables

Rent receivables are recorded initially at fair value (including GST) and subsequently at amortised cost using the effective interest method, less an allowance for impairment. Rent receivables are non-interest bearing and are generally on 0-30-day terms.

An impairment allowance is made when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of the receivables. Objective evidence includes the Group's past experience of collecting payments, an increase in the number of delayed payments and observable changes in national or local economic conditions that correlate with default on balances outstanding.

The impairment allowance recognised is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. Balances known to be uncollectible are written off when identified.

The Group has determined the impact of the expected loss model under AASB 9 *Financial Instruments*, effective 1 July 2018, to be immaterial based on the Group's past experience of collecting rental payments and that the counterparties are experienced and sustainable operators.

17. Trade and other payables

	2018 $'000	2017 $'000
Current		
Trade payables	412	197
Accruals and other creditors	3,062	3,180
Rental bond received from tenants	93	151
GST payable	337	34
	3,904	**3,562**
Non-Current		
Rental bond received from tenants	390	257
	390	**257**

Recognition and measurement

Trade payables and other amounts payable are initially recorded at fair value (including GST) and subsequently amortised cost. The average credit term on purchases is 30 days and they are non-interest bearing. The Group has management policies in place to ensure that all amounts are paid within the applicable credit terms.

Other notes

18. Related party transactions

18.1. Transactions with key management personnel

The Group does not employ personnel in its own right. However, it is required to have a Responsible Entity to manage the activities of the Trust and its controlled entities. As such there are no staff costs (including fees paid to directors of the Responsible Entity or Industria Company No.1 Limited) included in the consolidated statement of profit or loss and other comprehensive income.

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

18.2. Transactions with the Responsible Entity and related body corporates

The Responsible Entity of Industria Trust No. 1 is APN Funds Management Limited ("APN FM"). Transactions with the Responsible Entity have taken place at arm's length and in the ordinary course of business. These transactions are as follows:

	2018 $'000	2017 $'000
Management fees[1]	3,542	2,875
Property management and leasing fees[2]	123	187
	3,665	**3,062**

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

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

18.3. Security holdings and associated transactions with related parties

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

	2018		2017	
	Number of securities	**Distributions $**	**Number of securities**	**Distributions $**
APN Property Group Limited	26,838,913	4,425,715	23,115,140	3,427,749
APN Funds Management Limited	-	1,312	3,500,000	560,000
APN AREIT Fund	4,799,094	1,000,951	6,499,094	1,039,855
APN CFS AREIT Fund	748,009	140,371	577,409	70,602
APN Property for Income Fund	500,005	127,532	1,052,338	168,374
APN Property for Income Fund 2	167,605	45,449	396,605	63,457
Geoff Brunsdon	62,500	10,313	62,500	10,000
Chris Aylward	150,000	24,633	148,569	11,886
Tim Slattery	3,666	3,311	25,666	4,107
Total	**33,269,792**	**5,779,587**	**35,377,321**	**5,356,030**

20.43% (2017: 21.69%) of Industria REIT stapled securities are held by related parties.

19. Controlled entities

		Percentage owned (%)	
	Country of incorporation	2018	2017
Parent entity			
Industria Trust No. 1	Australia		
Controlled entities of Industria Trust No. 1			
South Park Investment Trust	Australia	100	100
West Park Investment Trust	Australia	100	100
Tullamarine Investment Trust	Australia	100	100
Kilsyth Investment Trust	Australia	100	100
West Park Investment Trust No. 2	Australia	100	100
Burbridge Investment Trust	Australia	100	100
Rhodes Investment Trust	Australia	100	100
Tomago Investment Trust	Australia	100	100
Non-controlling Interests			
Industria Trust No. 2	Australia	-	-
Industria Trust No. 3	Australia	-	-
APN Robinson Road Industrial Property Fund	Australia	-	-
APN Technology and Business Park Property Fund	Australia	-	-
Industria Finance Trust	Australia	-	-
APN Technology and Business Park Property Fund No. 1	Australia	-	-
Industria Trust No. 4	Australia	-	-
Industria Company No. 1 Ltd	Australia	-	-
APN DF1 SPV1 (Qld) Pty Ltd	Australia	-	-
APN DF1 SPV2 (Qld) Pty Ltd	Australia	-	-
APN DF1 SPV3 (Qld) Pty Ltd	Australia	-	-
McKechnie Drive Pty Ltd	Australia	-	-
BTP Central Pty Ltd	Australia	-	-

Industria Trust No. 2, Industria Trust No. 3 (and its controlled entities), Industria Trust No. 4 and Industria Company No. 1 Ltd (and its controlled entities) were acquired through a stapling arrangement, and thus no ownership has been obtained. The financial results and financial position attributable to these entities are disclosed as 'non-controlling interests' in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. Remuneration of auditors

	2018 $	2017 $
Audit and review of financial statements	129,753	132,753
Compliance plan and other audit services	8,000	8,000
	137,753	**140,753**

The auditor of the Group is Deloitte Touche Tohmatsu.

21. Parent entity financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2018 $'000	2017 $'000
Statement of financial position		
Current assets	1,200	2,370
Non-current assets	473,467	452,566
Total assets	**474,667**	**454,936**
Current liabilities	(154,993)	(157,809)
Non-current liabilities	(970)	(927)
Total liabilities	**(155,963)**	**(158,736)**
Net assets	**318,704**	**296,200**
Equity		
Issued capital	220,152	220,635
Retained earnings	98,552	75,565
Total equity	**318,704**	**296,200**
Profit for the financial year	40,326	78,643
Other comprehensive income	-	-
Total comprehensive income	**40,326**	**78,643**

At 30 June 2018, the parent entity had not provided guarantees (2017: $nil), has no contingent liabilities (2017: $nil) and no contractual commitments (2017: $nil).

22. Subsequent events

As outlined in the Directors' Report, the Group acquired 13 Ricky Way and 10 Jersey Drive, Epping, Victoria, on 11 July 2018. The acquisition was financed with new debt drawn from the Group's existing debt finance partners.

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of the Group, or the state of affairs of the Group in future financial years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. Adoption of new and revised accounting standards

23.1. New and revised AASBs affecting amounts reported and/or disclosures in the financial statements

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for an accounting period that begins on or after 1 July 2017.

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

- AASB 1048 *Interpretation of Standards*
- AASB 2016-1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses*
- AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*
- AASB 2017-1 *Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments*
- AASB 2017-2 *Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016*

23.2. Standards and Interpretations in issue not yet adopted

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

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 *Financial Instruments*, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010), AASB 2014-1 Amendments to Australian Accounting Standards (Part E – Financial Instruments], AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)	1 January 2018	30 June 2019
AASB 15 *Revenue from Contracts with Customers*, AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15, AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15, and AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15	1 January 2018	30 June 2019
AASB 16 *Leases*	1 January 2019	30 June 2020
Interpretation 23 *Uncertainty over Income Tax Treatments*, AASB 2017-4 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments	1 January 2019	30 June 2020

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

Standard / Interpretation	Effective for annual reporting periods beginning on or after
None noted.	

SUMMARY OF SECURITYHOLDERS

Twenty largest holders of quoted equity securities as at 31 July 2018

Rank	Name	31 July 2018	%IC
1	GROWTHPOINT PROPERTIES AUSTRALIA LIMITED	29,621,555	18.19
2	APN PROPERTY GROUP LTD	23,316,913	14.32
3	J P MORGAN NOMINEES AUSTRALIA LIMITED	11,603,695	7.13
4	NATIONAL NOMINEES LIMITED	11,109,406	6.82
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	9,919,318	6.09
6	CITICORP NOMINEES PTY LIMITED	7,467,069	4.59
7	APN PROPERTY GROUP LTD	3,522,000	2.16
8	AUSTRALIAN EXECUTOR TRUSTEES LIMITED	1,320,520	0.81
9	ONE MANAGED INVESTMENT FUNDS LIMITED FOLKESTONE MAXIM A-REIT SECURITIES A/C	1,250,000	0.77
10	THE CASS FOUNDATION LIMITED	1,165,100	0.72
11	J REISINGER SUPERANNUATION PTY LIMITED	1,125,000	0.69
12	BNP PARIBAS NOMS PTY LTD	1,054,366	0.65
13	ECAPITAL NOMINEES PTY LIMITED	839,794	0.52
14	JOHN E GILL TRADING PTY LTD	814,450	0.50
15	UBS NOMINEES PTY LTD	607,026	0.37
16	TOLANI ESTATE PTY LTD	500,000	0.31
17	BNP PARIBAS NOMINEES PTY LTD	475,313	0.29
18	UBS NOMINEES PTY LTD	371,150	0.23
19	GREGORY MACKINNON PTY LTD	349,407	0.21
20	TDA SECURITIES PTY LTD	275,000	0.17
Total		**106,707,082**	**66**

Distribution of holders of equity securities as at 31 July 2018

Range	Securities	No. of holders	%
100,001 and Over	112,447,915	56	69.05
10,001 to 100,000	34,285,213	1,384	21.05
5,001 to 10,000	7,447,768	948	4.57
1,001 to 5,000	7,580,495	2,721	4.66
1 to 1,000	1,078,352	1,950	0.66
Total	**162,839,743**	**7,059**	**100.00**
Unmarketable Parcels	2,192	155	0.00

SUMMARY OF SECURITYHOLDERS

Substantial Holder Notices

The table below gives details of the last notice for each substantial unitholder lodged with the Australian Securities Exchange to 31 July 2018:

Effective date	Name	Number of securities	%
7 April 2017	APN Property Group and Holus Nominees Pty Limited and Lauren Investments Pty Limited and related entities	34,882,696	21.39
11 July 2017	Growthpoint Properties Australia Ltd and Growthpoint Properties Limited of South Africa and related entities	29,621,555	18.16

On-market buy back

There was an on-market buy-back of 274,138 securities during the period.

CORPORATE DIRECTORY

Industria REIT

Industria Trust No. 1 ARSN 125 862 875
Industria Trust No. 2 ARSN 125 862 491
Industria Trust No. 3 ARSN 166 150 938
Industria Trust No. 4 ARSN 166 163 186
Industria Company No. 1 Ltd ACN 010 794 957

Responsible Entity

APN Funds Management Limited
ACN 080 674 479
AFS Licence No: 237500

Directors

Geoff Brunsdon, Independent Chairman
Jennifer Horrigan, Independent Director
Michael Johnstone, Independent Director
Howard Brenchley, Independent Director
Michael Groth, Alternate Director for Howard Brenchley

Company Secretary

Chantal Churchill

Manager

Industria REIT
PO Box 18011
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Registered Office

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W linkmarketservices.com.au
E registrars@linkmarketservices.com.au

Stock Exchange Listing

Industria REIT stapled securities are listed
on the Australian Securities Exchange (ASX:IDR)

Responsible Entity
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ACN 080 674 479 AFSL No 237500

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INDUSTRIAREIT