

# APN | 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



ANNUAL REPORT  
**2019**



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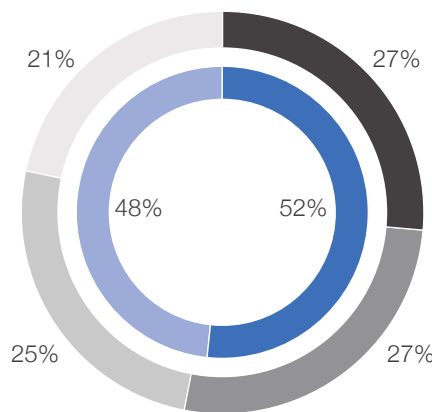
# Strategy to grow through investing in office and industrial assets

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



### Locations

- Industrial - WesTrac
- Rhodes Corporate Park
- Brisbane Technology Park
- Industrial Melbourne & Adelaide

### Portfolio by type

- Office
- Industrial

**\$739m**

PORTFOLIO VALUATION

**28**

PROPERTIES

**97%**

OCCUPIED

**6.1yr**

WEIGHTED AVERAGE LEASE EXPIRY

**3%**

AVERAGE ANNUAL FIXED UPLIFTS

# LETTER FROM THE FUND MANAGER



Dear Investor,

I am pleased to report another year of progress and success for APN Industria REIT.

Statutory Net Profit was \$29.2 million, with the main drivers being higher revenue from fixed rent reviews and new acquisitions (\$3.6 million higher) offset by operational costs, and non-cash accounting related fair value and tax expense adjustments. Income tax was \$2.7 million higher than the prior corresponding period, and is largely attributable to an unrealised fair value gain of \$7.4 million, which triggered a deferred tax expense of \$2.2 million.

Funds From Operations (FFO), the Board's preferred measure of performance, increased \$1.5 million to \$31.7 million. After taking into consideration the additional securities on issue for two months of the year, FFO per security rose 0.7 cents (3.8%) to 19.2 cents per security. This is significantly ahead of our initial guidance statement of 2 – 3%, and follows a number of outcomes that were ahead of our expectations during the period.

The distribution was \$28.5 million, up \$1.6 million; or 17.0 cents per security, up 0.5 cents per security. Distributions continue to be paid quarterly, consistent with our 'property for income' approach and recognising our investors are highly focused on income generation from real estate investment. Key drivers of the FY19 performance included:

- Full year impact of our properties at Rhodes being 100% occupied;

- Continuing leasing momentum at Brisbane Technology Park ("BTP"), with 6,800 square metres completed;
- Leasing up 5 Butler Boulevard, Adelaide, to 100% occupancy; and
- Doubling the installed capacity of solar across our portfolio, with over 1.8 Megawatts now generating power for our clients, and returns to our security holders exceeding a 15% return on cost.

Our team continues to focus on enhancing tenant experiences, and adding value beyond the workspace itself. By way of example, during the year at BTP we created a new gym, we worked with an existing tenant to upgrade the food and beverage offering, and invested in a market-leading end of trip facility. The end of trip facility is unique to our property at BTP, appeals to a broad segment of the workforce, and also provides further evidence to our clients that we are proactively investing in our properties to enhance the well-being of their employees. We believe these initiatives will underpin high levels of retention and improved rents through the business cycle.

We added to our ownership of well located, functional and affordable accommodation during the year, acquiring seven warehouses for \$64.5 million. The properties were acquired on an average yield of 6.6% and are underpinned by a weighted average lease expiry of 4.9 years. Funding was procured by a combination of debt and equity, and I would like to thank those investors who participated in the \$50 million equity raise. We were pleased to be able to



## LETTER FROM THE FUND MANAGER

**19.2 cents  
per security;  
3.8% FFO growth**

**Acquired  
~\$65 million of  
property and reduced  
gearing to 30%**

**~13,700 square metres  
of leasing - strong  
occupancy of 97%**

**Affordable rents to a  
diverse pool of tenants  
driving growth of  
2 - 3% per annum**

provide the ability for retail investors to participate on the same terms and conditions as the institutions by utilising the Share Purchase Plan. We needed to scale back both the institutional and retail equity support due to the unforeseen demand. We hope to provide you with additional opportunities to support our growth in the near future.

During the financial year 52% of our properties were independently revalued, increasing in value from prior valuations by \$16.4 million. When combined with the acquisitions, the portfolio increased in value to \$739.4 million. Highlights from the independent valuations included:

- Brisbane Technology Park: increased by \$9.7 million (6.5%) from the previous independent valuation. The overall increase can be largely attributed to the improved cash flow profile and visibility generated through leasing outcomes, and there is opportunity to drive further valuation growth by delivering consistent tenant retention and occupancy outcomes;
- 10 Jersey Drive and 13 Ricky Way, Epping; and 1 West Park Drive, Derrimut, were revalued, resulting in an increase of \$1.1 million (5.6%) as cap rates compressed 25 basis points;
- 5 Butler Boulevard: increased \$0.7 million (5.4%) following the leasing success at that property; and
- Rhodes Corporate Park: \$3 million (2.0%) increase being reported, largely due to higher market rents following the successful execution of the 2018 leasing strategy.

Around the time of the acquisitions, we also refinanced \$46.3 million of debt, entered into new facilities for \$30 million, and introduced a third lender into our banking syndicate. The debt was secured on three and five year terms. This was a great outcome that further diversified our sources of funding and increased our debt maturity profile.

The balance sheet is in strong shape with gearing at 30%, (the bottom of the 30 – 40% target band), interest cover is 5.4x, and our next debt maturity isn't until December 2020.

APN Industria REIT is managed by APN Property Group (APN), which has an \$83 million co-investment stake, underpinning the alignment the manager has with security holders. Being part of a larger group enables us to leverage a wider network of stakeholders, tenants and new opportunities, and undoubtedly adds value to APN Industria REIT shareholders. I am confident we will continue to harvest the benefits from this relationship in the coming years.

During the year we reviewed almost \$900 million of acquisition opportunities, bid for over \$500 million, and were successful with 13% of those bids. We don't expect to be the highest bidder in the majority of cases – and remain

committed to only those opportunities that balance future risks and rewards; how it will fit into our portfolio; and how the property may meet the needs of our tenants, which will ultimately underpin a sustainable distribution yield.

Moving into the next financial year, I believe there are areas where we can improve our offering to drive performance. Our tenant focus has come a long way, but we won't stand still; we will continue to adapt and invest to improve the value proposition we provide to our tenants beyond just the physical workspace.

We have a strong backbone of growing income from existing assets and new acquisitions. FFO guidance growth is 2.5 – 3.0% (19.7 – 19.8 cents per security) and distribution growth of 3% (17.5 cents per security). Opportunities exist to outperform the guidance throughout the year, and we will be working hard to outperform. Guidance is subject to current market conditions continuing and no unforeseen events.

If you would like to discuss your investment in APN Industria REIT please feel free to contact me. Thank you again for your continuing support.

Yours sincerely,



**Alex Abell**  
Fund Manager,  
APN Industria REIT

# ABOUT THE MANAGER

The Responsible Entity and Manager of APN 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 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 \$83 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 21 average years of experience in real estate



### Governance overseen by independent Board

- 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 APN 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.



**Linh Dang**  
Portfolio Manager

Linh has over 13 years' experience in the property industry. Prior to joining APN in February 2019, Linh worked in property funds management with ISPT and Australian Unity and portfolio management with Vision Australia. Her extensive real estate experience covered various senior roles including Asset Manager, Investment Manager and Head of Property. Managing portfolios in excess of \$400m in retail, industrial and commercial sectors across Australia, Linh also managed the valuations process for \$9b of assets for ISPT and transactions totalling \$800m.

Linh holds a Bachelor of Business (Property) from RMIT and holds an Agents Representative Licence.



**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 2019 RESULTS

## Key performance metrics

STATUTORY  
NET PROFIT

**\$29.2m**

2018: \$48.2m  
▼ 39.4%

FFO (\$m)

**\$31.6m**

2018: \$30.1m  
▲ 5.0%

FFO (cps)

**19.2c**

2018: 18.5c  
▲ 3.8%

DISTRIBUTION  
DECLARED

**\$28.5m**

2018: \$26.9m  
▲ 5.9%

DISTRIBUTION  
DECLARED

**17.0c**

2018: 16.5c  
▲ 3.0%

FFO PAYOUT  
RATIO

**88%**

2018: 89%

## Balance sheet strength

PORTFOLIO  
VALUATION

**\$739m**

MARKET  
CAPITALISATION

**\$527m**

GEARING

**30%**

NTA

**\$2.71**



# DIVERSIFIED PORTFOLIO

WesTrac Newcastle	Industrial Melbourne and Adelaide	Rhodes Corporate Park	Brisbane Technology Park
<b>27%</b>	<b>21%</b>	<b>27%</b>	<b>25%</b>
Industrial		Office	



### WesTrac Newcastle

Located adjacent to M1 motorway  
~\$197 million invested  
15.2 year WALE



### Industrial Melbourne and Adelaide

Key industrial precincts  
~\$186 million invested  
13 buildings; 4.1 year WALE



### Rhodes Corporate Park

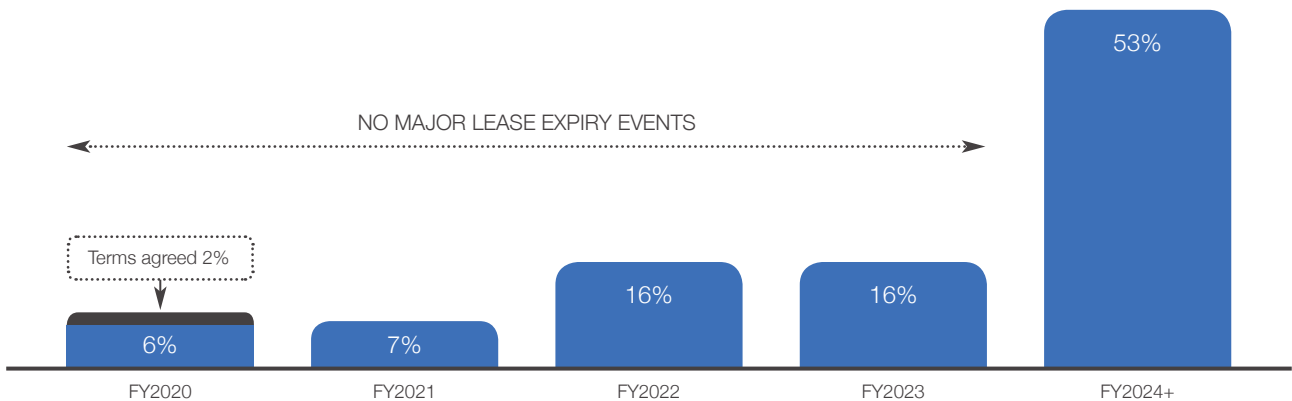
Inner west Sydney,  
~\$197 million invested  
2 buildings; 2.9 year WALE



### Brisbane Technology Park

15 minutes south of CBD  
~\$160 million invested  
12 buildings; 2.7 year WALE

## Strong income visibility - Lease expiry profile (by income)



# BALANCE SHEET

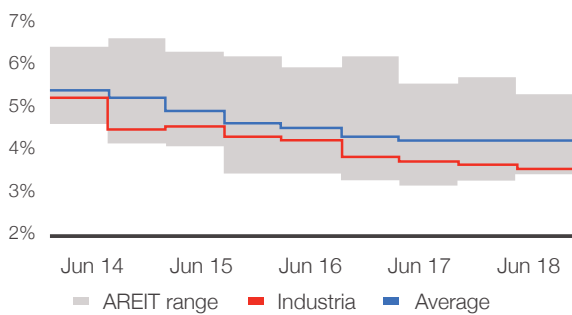
## Strong balance sheet

- Continuing to execute on strategy of maintaining a staggered debt maturity profile, reducing concentration risk over any given period:
  - Refinanced \$46 million and increased debt facilities by \$30 million including introducing a new lender to diversify funding sources
  - New 3 and 5 year debt tenors
  - Weighted average debt maturity 3.2 years
- Weighted average interest rate of 3.5% and 5.4x interest cover

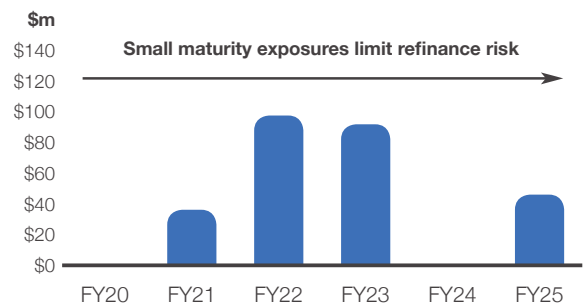
## Consistently outperforming peers

- Consistently outperforming the A-REIT average cost of debt:
  - Credit viewed positively by lenders due to portfolio quality, passive earnings, and proactive and experienced management team
  - Leverage broader banking relationships and track record of APN Property Group to achieve optimal outcomes for ADI shareholders
  - Remained disciplined with use of capital – no hedges have been broken

## APN Industria REIT cost of debt compared to A-REIT sector<sup>1</sup>



## Debt maturity profile Limited refinance risk



<sup>1</sup> Source: Company information and IRESS

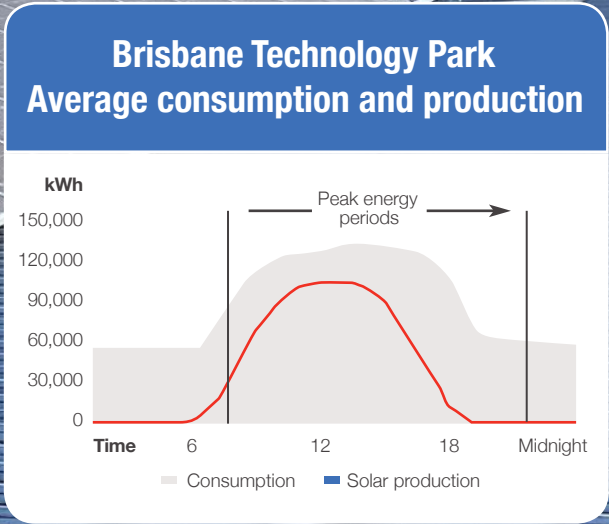
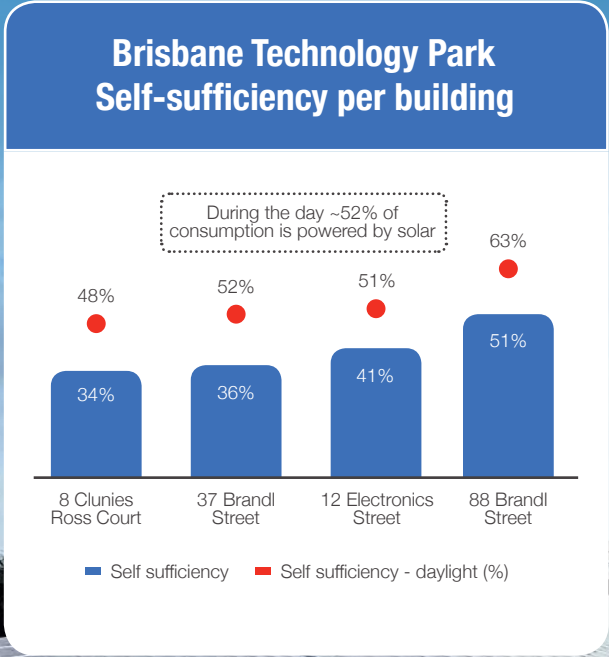




# PORTFOLIO PERFORMANCE

## Sustainability and managing for the long term

- Leveraging the built environment by enhancing existing asset performance and driving efficiencies:
  - Delivering >15% yield on cost and reducing reliance on the grid:
  - Over 1 Megawatt of solar PV installed at BTP; and 850 Kilowatts elsewhere across the portfolio.
  - Rolling program of lighting upgrades – typically 2 – 4 year payback periods
  - Modernising air conditioning units that rely on environmentally damaging refrigerant gases reducing risk of obsolescence and improving tenant comfort
- Our investments have been geared towards actions that are within our control and make an immediate impact







32-40 Garden Street, Kilsyth, VIC



# ACQUISITIONS

## Active year of acquisitions to improve portfolio diversity and scale

- Improved portfolio diversity and exposure to properties that offer high quality and well-located workspaces for tenants:
  - \$65 million of acquisitions
  - Average WALE 4.9 and yield 6.6%
- Strong direct engagement with tenants, with multiple efficiency initiatives completed including 265KW of solar installed
- Pursuing additional bolt-on acquisitions of similar sized assets – given the depth of opportunity is <25,000sqm warehouses, which in Melbourne account for 98.8% of stock<sup>1</sup>



### 1 West Park Drive, Derrimut, VIC

Valuation: \$10.6m  
Initial yield: 6.6%  
WALE: 4.6 years



### 13 Ricky Way and 10 Jersey Dr, Epping, VIC

Valuation: \$15.7m  
Initial yield: 7.45%  
WALE: 6.3 years



### 81 Rushdale St Knoxfield, VIC

Valuation: \$9.10m  
Initial yield: 8.28%  
WALE: 1.6 years



### 3 Forbes Close Knoxfield, VIC

Valuation: \$9.00m  
Initial yield: 4.76%  
WALE: 6.6 years



### 4 Forbes Close Knoxfield, VIC

Valuation: \$10.65m  
Initial yield: 5.04%  
WALE: 6.6 years



### 147-153 Canterbury Rd Kilsyth, VIC

Valuation: \$9.50m  
Initial yield: 7.37%  
WALE: 2.6 years

<sup>1</sup> Urban Development Program – Metropolitan Melbourne Industrial 2017.



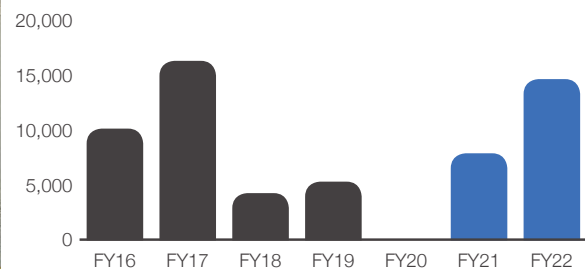
# INDUSTRIAL ASSETS

Industria's industrial properties, located in Melbourne and Adelaide, are primarily warehouse facilities that are well located close to major transport and logistics infrastructure.

## Continued discipline and active management across industrial assets

- Fully leased across the portfolio, after new leasing at Butler Boulevard, Adelaide Airport:
  - Leased ~1,200 square metres and renewed 4,200sqm (FY20 expiries)
- Industrial warehouse portfolio (excluding WesTrac) has a 4.1 year WALE and is carried at an average cap rate of 6.7%
- Valuations completed across 3 assets:
  - Butler Bv, Adelaide Airport up 5.2% following leasing outcomes
  - 1 West Park Drive and 13 Ricky Way/10 Jersey Dr increased in value by 5.6%, with cap rates tightening 25 bps

## Leasing completed and forthcoming expiries (by area)





# 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.**

## World leading real estate

- Leased to WesTrac until 2034 with annual 3% fixed rental uplifts
- The facility is running near or at capacity, driven by record part and support volumes
- 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, parts and support
  - Major competitive advantage is capability to entirely rebuild machines – potentially saving clients >50% on new products
  - Distributes over 1 million parts annually from 24 hour distribution centre
- Strong underlying business with maintenance revenue providing counter-cyclical cash flow
- Long term partner of Caterpillar – relationship extends back to 1929



WesTrac Newcastle, aerial view



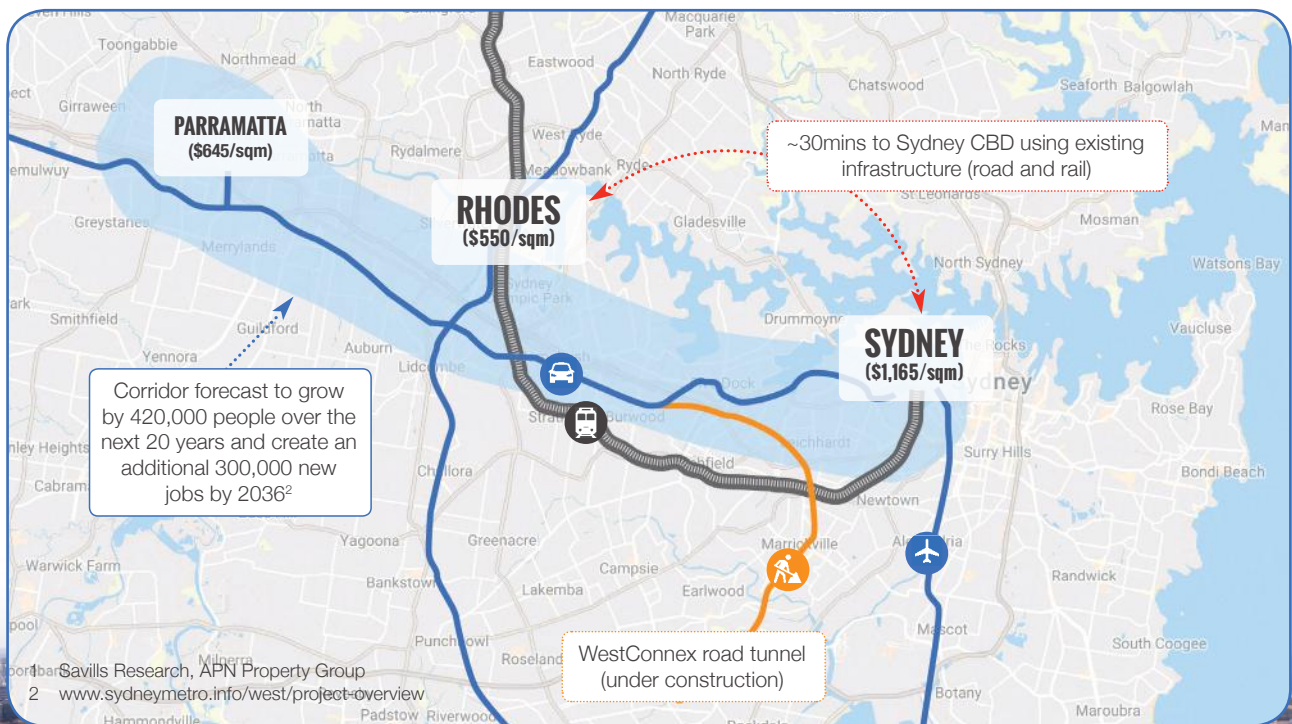


# RHODES CORPORATE PARK

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.

**Rhodes offers outstanding transport linkages in all directions, close proximity to growing population, and affordable rent profiles<sup>1</sup>**



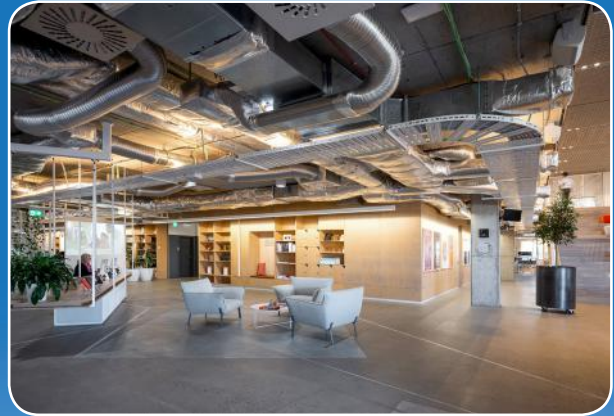


## Fully leased

- Agreed terms to renew 3 leases and maintained 100% occupancy, with 8% growth on passing rents and average 12% incentives
- September 2021 expiry of Link Market Services provides an opportunity to drive rents:
  - Leasing campaign has >2 year lead-time
  - Existing fit-out is well presented and carries value for future users
- New occupiers to the area have moved from across Sydney – attracted to the high quality offering with excellent access to public transport and arterial roads at an affordable price
- Companies relocating to Rhodes: Bunnings; Super Retail Group; KPMG; Manpower



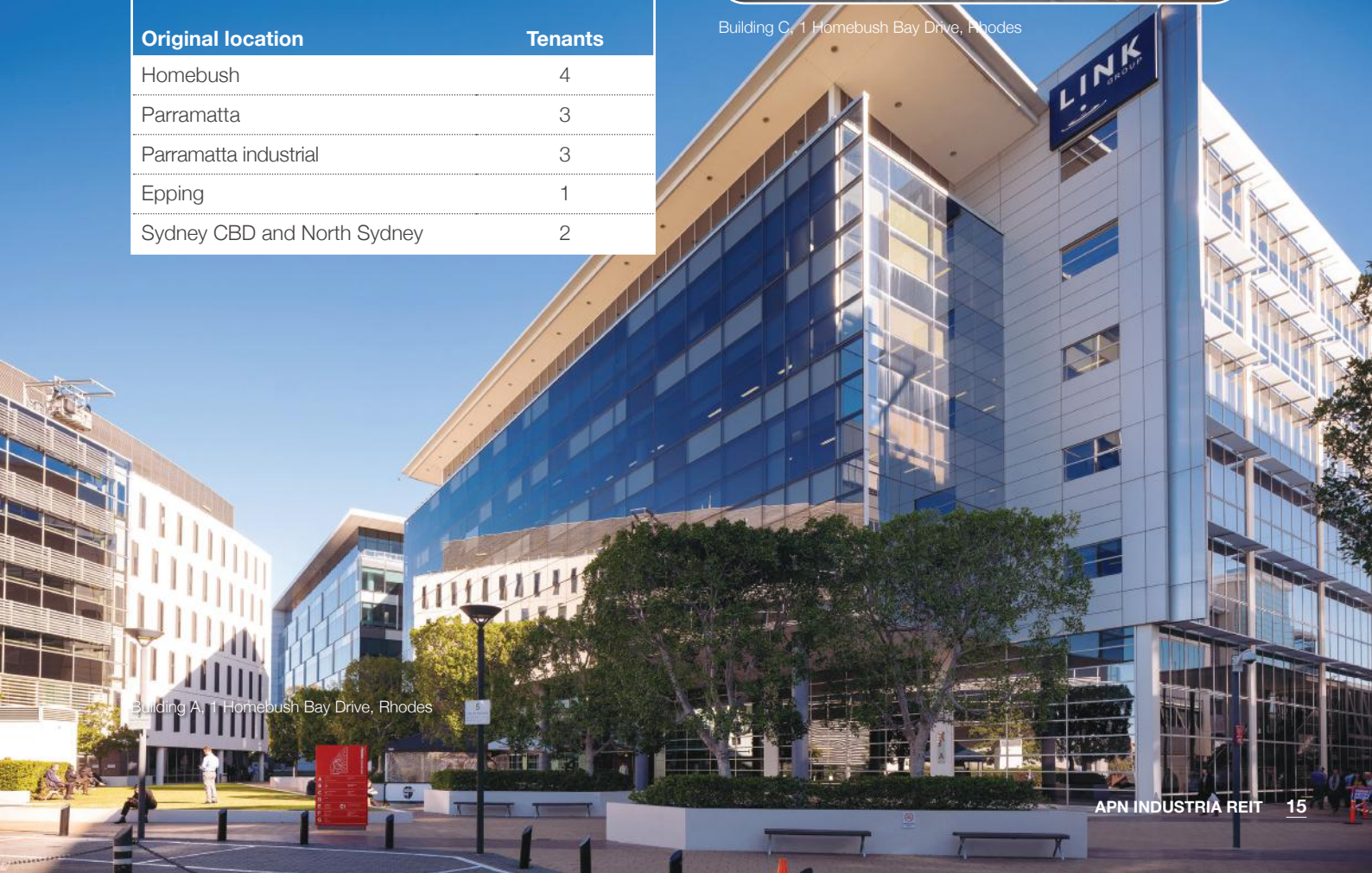
Building A, 1 Homebush Bay Drive, Rhodes



Building C, 1 Homebush Bay Drive, Rhodes

## Number of recent relocations to Rhodes

Original location	Tenants
Homebush	4
Parramatta	3
Parramatta industrial	3
Epping	1
Sydney CBD and North Sydney	2



Building A, 1 Homebush Bay Drive, Rhodes



# BRISBANE TECHNOLOGY PARK (BTP)

BTP is one of Brisbane's leading suburban business parks – and APN Industria REIT 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.

- Another very active period:
  - 47 deals completed across 6,800sqm
  - Agreed terms over 1,400 square metres of FY20 renewals
  - 87% retention
- On-site management team have established relationships, enhanced tenant amenity and driven considerable improvements in tenant engagement
- Delivering on our strategy to drive occupancy and cash-on-cash yield by being the preferred workspace provider for small business:
  - Key competitive advantage is the ability to offer flexibility across our 12 properties
  - 38 leases less than 200 square metres
- Typical lease is 6 – 36 months over private office suites – our clients value a workspace that does not create distractions, and provides a secure and peaceful environment

## Supporting growing businesses

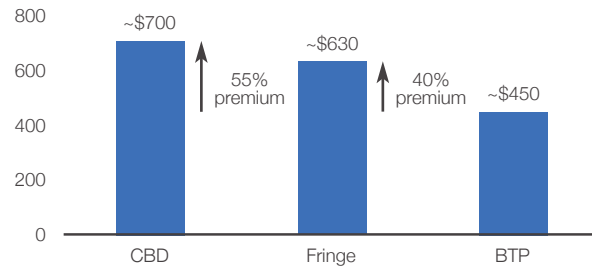
Building	2017	2019
Client A	202	791
Client C	166	2,312
Client C	509	1,309
Client D	70	305



## BRISBANE TECHNOLOGY PARK (BTP)

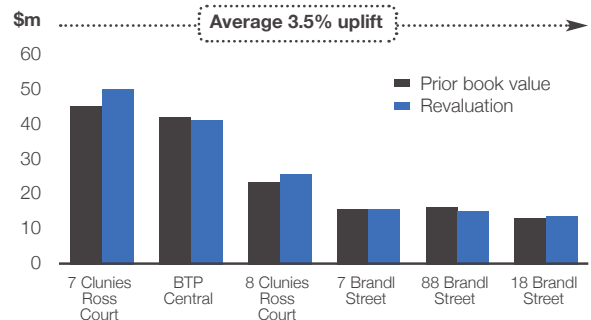
- BTP remains an attractive occupancy proposition:
  - CBD rents 55% and fringe rents 40% higher than BTP
  - Highly accessible – 15 minutes from CBD; 20 minutes from airport; 8 minute walk from public transport
  - Solid and improving amenity – variety of food and beverage options; Anytime Fitness gym; end of trip facilities
  - >1,100 businesses in the immediate precinct – largely from medical, education, technology and engineering sectors

### Brisbane Gross Rent comparisons<sup>1</sup>



- Valuation across the precinct up by \$9.7 million, or \$5.4m above prior book value
  - Average cap rate 7.5%
  - Occupancy improvement to 82%<sup>2</sup>
- Opportunity to drive valuation growth in future periods by continuing to deliver high retention and maintaining consistent occupancy:
  - Strategy of catering to small business to drive cash-on-cash yield and occupancy has held back WALE – which has remained ~3 years

### Valuation update



<sup>1</sup> Savills Research, APN Property Group  
<sup>2</sup> Includes Heads of Terms



7 Clunies Ross Court, BTP



# Financial report

## 'APN Industria REIT'

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

### Stapling arrangement

The 'APN 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; and
- Industria Company No. 1 Ltd.

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





# FINANCIAL REPORT

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# DIRECTORS' REPORT



The directors of APN Funds Management Limited (“APN FM”), the Responsible Entity of Industria Trust No. 1 (the “Trust”), present the financial report on the consolidated entity (the “Group”), being Industria Trust No. 1 and its controlled entities, for the financial year ended 30 June 2019.

To comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

## Information about the directors

The following persons were directors of the Responsible Entity during the financial year and up to the date of this report:

## DIRECTORS' REPORT



### Geoff Brunsdon AM

B.Com, CA, 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 and MetLife Insurance 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 Horigan

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), Yarra Funds Management Limited 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 Charter Hall 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, GIA(Cert)

#### Company Secretary and Head of Risk and Compliance

- Company Secretary since December 2016.

Chantal is the Company Secretary and Head of Risk and Compliance for the APN Group. Chantal is responsible for the company secretarial, governance, risk management and compliance functions.

Chantal has over 15 years' professional experience in governance, risk and compliance. Prior to joining APN in 2015, Chantal held various risk and compliance roles predominately in financial services including seven years at Arena Investment Management.

Chantal is a member of the Governance Institute of Australia.

# DIRECTORS' REPORT

## Meetings of Directors

The following tables set out the number of directors' meetings (including meetings of committees of directors for APN FM), 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

Directors	Board		Audit, Risk and Compliance Committee		Nomination and Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
Geoff Brunsdon AM	11	11	7	7	1	1
Jennifer Horrigan	11	11	7	7	1	1
Michael Johnstone	11	11	7	7	1	1
Howard Brenchley	11	11	N/A	N/A	N/A	N/A

### Industria Company No.1 Limited

Directors	Board		Audit and Risk Committee		Nomination and Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
Geoff Brunsdon AM	11	11	2	2	1	1
Jennifer Horrigan	11	11	2	2	1	1
Michael Johnstone	11	11	2	2	1	1
Howard Brenchley	11	11	N/A	N/A	N/A	N/A
Michael Groth	11	10	N/A	N/A	N/A	N/A

## Principal activities

The principal activity of the Group is investment in income producing business park properties and industrial warehouses within Australia. The parent entity of the Group is Industria Trust No.1.

The Group is a registered managed investment scheme domiciled in Australia and forms part of APN Industria REIT which is listed on the Australian Securities Exchange ("ASX") (ASX Ticker: "ADI").

No significant change in the nature of these activities occurred during the financial year. The Group did not have any employees during the period.

## Significant changes in the state of affairs

On 15 February 2019, the Group changed its name from Industria REIT (ASX Ticker: "IDR") to APN Industria REIT (ASX Ticker: "ADI").

On 13 May 2019, APN Industria REIT announced an institutional placement of stapled securities each comprising one unit in each of the Trusts and one share in Industria Company No. 1 Limited (together, New Securities) ("Placement"), and a security purchase plan ("SPP") to eligible securityholders in Australia and New Zealand.

On 17 May 2019, 10,989,011 units of New Securities were issued to institutional investors pursuant to the Placement. On 18 June 2019, 7,324,676 units were issued under the SPP.

There were no other 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 \$29,243,000 for the financial year ended 30 June 2019 (30 June 2018: \$48,158,000).

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

	2019 \$'000	2018 \$'000
Net rental income	43,602	41,758
Operating expenses	(4,704)	(4,252)
<b>Net profit before interest, tax and other items</b>	<b>38,898</b>	<b>37,506</b>
Net gain in fair value adjustments on investment properties	5,934	17,341
Fair value gain / (loss) on derivatives	(4,521)	395
Net interest expense	(8,221)	(7,037)
<b>Net profit / (loss) before tax</b>	<b>32,090</b>	<b>48,205</b>
Income tax expense – deferred	(2,847)	(47)
<b>Statutory net profit / (loss)</b>	<b>29,243</b>	<b>48,158</b>

The Responsible Entity uses the Group's Funds from Operations ("FFO") as an additional performance indicator. FFO adjusts statutory net profit / (loss) for certain non-cash items including fair value movements, straight line lease accounting adjustments and amortisation of borrowing and leasing costs and incentives.

A reconciliation of statutory net profit / (loss) to FFO is outlined as follows:

	2019 \$'000	2018 \$'000
<b>Statutory net profit / (loss)</b>	<b>29,243</b>	<b>48,158</b>
<b>Adjusted for:</b>		
Reversal of straight line lease revenue recognition	(3,149)	(3,906)
Reversal of fair value (gain) / loss on investment properties	(5,934)	(17,341)
Reversal of fair value (gain) / loss on derivatives	4,521	(395)
Add back amortised borrowing costs	306	334
Add back amortised leasing costs and rent free adjustments	3,751	3,202
Add back / (deduct) income tax expense / (benefit)	2,847	47
<b>FFO</b>	<b>31,585</b>	<b>30,099</b>
<b>Key financial performance metrics:</b>		
FFO per security (cents)	19.21 c	18.48 c
Distributions per security (cents)	17.00 c	16.50 c
Payout Ratio (Distribution per security / FFO per security)	88.48%	89.31%
Statutory earnings / (loss) per security (cents per security)	17.79 c	29.56 c
Weighted average securities on issue (thousands)	164,405	162,913
Securities on issue (thousands)	181,153	162,840
Distributions declared (thousands)	\$28,461	\$26,880

# DIRECTORS' REPORT

## Net tangible assets and asset valuations

Total investment property assets increased to \$739.4 million, an increase of \$78.6 million. The increase in the investment property balance was driven by:

- Acquisitions totalling \$64.5 million: 10 Jersey Way and 13 Ricky Way, Epping; 1 West Park, Derrimut; 71 Rushdale St, Knoxfield; 3 and 4 Forbes Close, Knoxfield; and 147 – 153 Canterbury Road, Kilsyth;
- Increase in value of the Group's properties at Brisbane Technology Park of \$9.7 million. The increase in value can be attributed to improved cash flow visibility following leasing activity, driving cap rates down and values up, and capital expenditure incurred to improve the long term performance of the properties (such as solar and end of trip facilities);
- Valuations at Rhodes increasing by \$3.4 million following lease up to 100% occupancy and cap rate compression; and
- Four industrial warehouses being revalued, increasing in value by \$2.2 million.

## Leasing

The Board and management have continued to be focused on tenant engagement to drive leasing. The outcome for the year, totalling 13,700 square metres leased, is an excellent result with the highlights being:

- 6,800 square metres of vacancy leased at Brisbane Technology Park, driving occupancy to 79%
- Strong tenant retention – with 91% of tenants resigning
- Lease up of 1,365 square metres of vacancy at Adelaide Airport to improve occupancy to 100%, and the renewal of two tenants over 4,200 square metres

Leasing is a key driver of income and value for APN Industrial REIT, and accordingly there will be ongoing focus into financial year 2020.

## Energy and operational efficiencies adding value

Seeking out continuous improvement and best practice across the portfolio is a constant for the management team. Examples of improved operational efficiencies of existing assets included:

- Over one megawatt of solar installed at Brisbane Technology Park, reducing reliance on the grid, carbon emissions, and generating an economic return greater than 15% on capital invested

- Rolling program of lighting upgrades, which typically generates 2 – 4 payback periods
- Modernising or replacing air conditioning units that rely on environmentally damaging refrigerant gases – reducing risk of obsolescence and improving tenant comfort

The Board strongly supports these practical and economic actions that enhance asset quality, improve the attraction of the assets to prospective tenants, and reduce the overall risk profile of the portfolio.

The Board is considering other Environmental, social and governance ("ESG") related initiatives to ensure APN Industria REIT remains a market leader when it comes to actioning initiatives that reduce risk, carbon emissions, and generate a financial return.

## Acquisitions and equity raising

APN Industria REIT acquired \$64.5 million of industrial warehouses during the period. These properties provide well located, functional and affordable accommodation to our clients – and form the key strategic criteria management use to filter opportunities. The properties were acquired on an average yield of 6.6% and were underpinned by a weighted average lease expiry of 4.9 years as at time of acquisitions.

The acquisitions were funded by a combination of debt and equity. The equity was raised in May 2019 at a price consistent with the net tangible assets ("NTA") per security of \$2.71. An institutional placement raised \$30 million of equity, a process that heavily over-subscribed by existing and new investors. This provided the Board with an opportunity to diversify the equity base by introducing investors that were looking for an opportunity to acquire a material stake that they could not acquire on-market, largely due to thin trading volumes. The second component of the equity raise was a Shareholder Purchase Plan (SPP), providing the opportunity for retail investors to acquire equity at the same price as institutional investors. Retail investor demand for the SPP significantly exceeded our expectations, and as a result the initial cap of \$5 million was lifted to \$20 million, resulting in limited scale back. The scale back, from \$26.5 million, was less than that was applied to the institutional investors. Treating shareholders equally is a key responsibility for the Board, and the Directors are grateful for the support received from all our investors.

Debt refinanced during the period included \$46.3 million expiring in September 2019, which was extended a further five years to September 2024. Following the restructure of the debt documentation in financial year 2018 – which allowed the introduction of new lenders - a third financier was also brought into the lending syndicate this year. This improved the diversity of funders and provides the best prospects of competitive tension for the Group's debt into the future. At the balance date the Group had considerable undrawn funding capacity, totalling \$45 million.



## Market Overview

### Industrial property

The growth of e-commerce, combined with ongoing investment in infrastructure and a rebound in manufacturing, continues to support the growth of industrial real estate. The resultant supply and demand outlook, in addition to pressures in other sub-sectors of real estate such as retail, has resulted in significant investor demand for industrial real estate. As investors have accepted lower yields for the same level of risk, values have increased, and we anticipate this to continue in the coming periods.

Population growth provides another layer of demand in addition to the factors outlined above. The average floorspace per capita in Australia is 4.5 square metres. Using this benchmark, additional industrial warehouse supply required in Melbourne between 2019 and 2021 is 1.6 million square metres; and in Sydney 1.37 million square metres. This is a considerable amount of development that will largely utilise land further from road and rail infrastructure, and support values of well-located and affordable existing warehouses.

### Brisbane Technology Park, Eight Mile Plains

The Queensland economy is set to outpace growth in Victoria and NSW over the next 5 years, boosted by export sectors than benefit from a lower AUD. These sectors include mining and energy, and education – sectors that have a growing presence at Brisbane Technology Park.

With regards to recent activity across the Brisbane fringe, more than half of tenant demand has been from engineering, IT and construction/property sectors. This has followed the announcement of the Cross River Rail project, and the Brisbane Metro – two major infrastructure projects that will improve connectivity across Brisbane.

Calendar year to date, there has been over \$1 billion of office sale transactions in the Brisbane fringe. This includes 100 Skyring Terrace, purchased for \$250 million, and a number of other sales in Fortitude Valley. Yields have continued to firm, although this has largely been for investments with long and secure income streams.

The Group's strategy at Brisbane Technology Park is to leverage scale and the variety of our offering to drive occupancy, improving cash on cash returns and over time drive higher rents and secure income longer-term streams. Our focus on occupancy, rather than limiting ourselves to leases with long terms, has improved cash returns – and we expect higher valuations will follow in subsequent periods.

### Rhodes Corporate Park

Rhodes continues to benefit from the ongoing densification and infrastructure investment boom taking place across Sydney. The M4 – M5 link will improve the road connectivity to the airport, and strengthens the existing public infrastructure that already exists – being a direct train line to the Sydney CBD, and connections to the airport and more broadly across Sydney.

By 2036, it is anticipated more than 300,000 new jobs will be created in the corridor between Sydney CBD and Parramatta. This will include an increased population of 460,000 people. Rhodes Corporate Park is a unique offering, providing a secure environment with no flow-through traffic, and providing ample open space and amenity that includes childcare and a gym on-site. These are features all valued by tenants, and are the drivers behind new businesses entering the precinct including Manpower, Super Retail Group, and Pickles.

Investor demand remains very strong across all commercial segments in Sydney. Yields range from 4.25% in Sydney CBD, to 7% in suburban Sydney. A key differentiator between Sydney CBD and the suburbs is the rent profile – Sydney CBD is ~\$1,200 net per square metre compared to ~\$450 net per square metre in Rhodes. This is a historically high rental spread and bodes well for sustainable income growth at Rhodes over the long term.

### Likely developments

Despite equity markets being at very high levels relative to the past, economies across the world continue to struggle to generate sustainable levels of growth. There are significant geopolitical events unfolding, including (but certainly not limited to) Brexit, the trade war between the US and China, and military tensions and aggression across parts of Asia and the Middle East.

A decade after the financial crisis monetary policy remains highly accommodative and the thirst for yield is unabated. Central banks, economists and governments across the globe are grappling with these factors, in addition to technology and social changes that can unfold rapidly and unpredictably.

The above factors are all outside the control of the Directors, and the Board of APN Industria REIT focuses on key risks and opportunities that are within their control. Principally these are:

- Owning a diversified portfolio of properties that are fit for purpose by businesses seeking quality and affordable office and industrial warehouse workspaces;
- Maintaining a capital structure that is conservatively geared and debt expiry profile that is staggered and reduces material bullet repayment risks;
- Operating in an environment where there is alignment of interest between management and shareholders through meaningful co-ownership; and

## DIRECTORS' REPORT

- Ensuring the Manager, APN Property Group, has the right people in their business that can ensure the appropriate compliance systems and processes in place; and fosters a corporate culture consistent with investor and community expectations surrounding accountability, ownership, and a strong degree of honesty and integrity that puts customers first.

The Board believes APN Industria REIT is well-placed with regard to the above risks and opportunities, and accordingly will continue to deliver a sustainable and growing income yield over the long term.

### Distributions

Distributions of \$28,461,000 were declared by the Group during the financial year ended 30 June 2019 (2018: \$26,880,000).

For full details of distributions paid and/or payable during the financial year, refer to note 8 to the consolidated financial statements.

### 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.

### Matters subsequent to the end of the financial year

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.

### Non-audit services

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

The Audit, Risk and Compliance Committee of the Responsible Entity have considered the non-audit services provided during the year by the auditor and 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 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 for the year ended 30 June 2019 (2018: \$8,000).

### 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 31.

### 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

APN Funds Management Limited ("APN FM") in its capacity as the Responsible Entity of the Group has agreed to indemnify the directors and officers of APN FM and its related body's corporate, both past and present, against all liabilities to another person (other than APN FM or a related body corporate) that may arise from their position as directors and officers of APN FM and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. APN FM will meet the full amount of any such liabilities, including costs and expenses. In addition, APN FM has paid a premium in respect of a contract insuring against a liability incurred by an officer of the Group. Under the contract of insurance, disclosure of the



## DIRECTORS' REPORT

nature of the insured liabilities and the amount of premium paid is prohibited. APN FM has not indemnified or made a relevant agreement to indemnify the auditor of the Group 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 and the number of securities in the Group held by the Responsible Entity, its associates and directors are disclosed in note 17 to the consolidated financial statements. Other than directors included in note 17, no other directors own securities, or rights or options over securities in the Group.

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.

### 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 AM**

Director

Melbourne, 21 August 2019

# CORPORATE GOVERNANCE STATEMENT

APN Industria REIT (**Fund**) is comprising 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 the code ADI.

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 2019 (**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: <https://apngroup.com.au/fund/apn-industria-reit/about-us/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://apngroup.com.au/fund/apn-industria-reit/about-us/corporate-governance/>.



# AUDITOR'S INDEPENDENCE DECLARATION

**Deloitte.**

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21 August 2019

The Board of Directors  
APN Funds Management Limited  
Level 30, 101 Collins Street  
MELBOURNE VIC 3000

Dear Board Members

## **Independence Declaration –APN Industria REIT**

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

As lead audit partner for the audit of the financial report of APN Industria REIT for the financial year ended 30 June 2019, 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 sincerely



DELOITTE TOUCHE TOHMATSU



Neil Brown  
Partner  
Chartered Accountants

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Member of Deloitte Asia Pacific Limited and the Deloitte Network.

# INDEPENDENT AUDITOR'S REPORT



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

### Report on the Audit of the Financial Report

#### *Opinion*

We have audited the financial report of APN Industria REIT, being Industria Trust No. 1 and its controlled entities (collectively, the "Group") which comprises the consolidated statement of financial position as at 30 June 2019, 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 2019 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
<p><b>Valuation of investment properties held at fair value</b></p> <p>As at 30 June 2019 the Group's investment properties represent the largest category of assets with a carrying value of \$739m, including a \$5.9m revaluation gain recognised in the consolidated statement of profit or loss as disclosed in Note 6.</p> <p>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 passing rentals, net market rentals, 10 year average market rental growth rates, capitalisation rates, terminal yields, and discount rates.</p>	<p>In conjunction with our valuation specialists, our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>- evaluating the independence, competence and objectivity of the valuers;</li> <li>- assessing the scope of the valuers' work;</li> <li>- assessing the currency of the valuation date;</li> <li>- 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;</li> <li>- testing on a sample basis, the passing rental balances by agreeing them back to tenancy schedules and signed lease agreements; and</li> <li>- recalculating the mathematical accuracy of a sample of the valuation models.</li> </ul> <p>We have also assessed the appropriateness of the disclosures in Note 6 to the financial statements.</p>

*Other Information*

The directors of the Responsible Entity (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 2019, 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.

# INDEPENDENT AUDITOR'S REPORT

## Deloitte.

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.

### *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



Neil Brown  
Partner  
Chartered Accountants

Melbourne, 21 August 2019

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## DIRECTORS' DECLARATION

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

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

Director

Melbourne, 21 August 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2019

	Notes	2019 \$'000	2018 \$'000
<b>Revenue</b>			
Rental income		52,153	47,771
Straight line rental income recognition		3,149	3,906
<b>Total revenue from continuing operations</b>		<b>55,302</b>	<b>51,677</b>
<b>Other income</b>			
Interest income		50	42
Net fair value gain / (loss) on investment properties	6	5,934	17,341
Fair value gain / (loss) on derivatives		(4,521)	395
<b>Total other income</b>		<b>1,463</b>	<b>17,778</b>
<b>Total income</b>		<b>56,765</b>	<b>69,455</b>
<b>Expenses</b>			
Property costs		(11,700)	(9,919)
Management fees	17	(3,837)	(3,542)
Finance costs	10	(8,271)	(7,079)
Other expenses		(867)	(710)
<b>Total expenses</b>		<b>(24,675)</b>	<b>(21,250)</b>
<b>Net profit / (loss) before tax</b>		<b>32,090</b>	<b>48,205</b>
Income tax expense	5	(2,847)	(47)
<b>Profit / (loss) after tax</b>		<b>29,243</b>	<b>48,158</b>
<b>Attributable to:</b>			
Securityholders of Industria Trust No. 1		20,417	40,326
Securityholders of non-controlling interests <sup>1</sup>		8,826	7,832
		<b>29,243</b>	<b>48,158</b>
Other comprehensive income		-	-
<b>Profit / (loss) for the year</b>		<b>29,243</b>	<b>48,158</b>
<b>Profit / (loss) for the year is attributable to:</b>			
Securityholders of Industria Trust No. 1		20,417	40,326
Securityholders of non-controlling interests <sup>1</sup>		8,826	7,832
		<b>29,243</b>	<b>48,158</b>
<b>Earnings per security</b>			
Basic and diluted (cents per security)	9	17.79	29.56

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

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



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	2019 \$'000	2018 \$'000
<b>Current assets</b>			
Cash and cash equivalents	14	2,435	1,659
Trade and other receivables	15	1,007	1,134
Other assets		764	462
<b>Total current assets</b>		<b>4,206</b>	<b>3,255</b>
<b>Non-current assets</b>			
Investment properties	6	739,378	660,732
<b>Total non-current assets</b>		<b>739,378</b>	<b>660,732</b>
<b>Total assets</b>		<b>743,584</b>	<b>663,987</b>
<b>Current liabilities</b>			
Trade and other payables	16	(6,633)	(3,904)
Derivative financial instruments	10	(1,631)	(418)
Distributions payable	8	(7,698)	(6,839)
<b>Total current liabilities</b>		<b>(15,962)</b>	<b>(11,161)</b>
<b>Non-current liabilities</b>			
Payables	16	(614)	(390)
Derivative financial instruments	10	(4,575)	(1,267)
Borrowings	10	(224,251)	(205,871)
Deferred tax liability	5	(8,160)	(5,344)
<b>Total non-current liabilities</b>		<b>(237,600)</b>	<b>(212,872)</b>
<b>Total liabilities</b>		<b>(253,562)</b>	<b>(224,033)</b>
<b>Net assets</b>		<b>490,022</b>	<b>439,954</b>
<b>Equity</b>			
<i>Securityholders of Industria Trust No. 1:</i>			
Contributed equity	7	255,832	220,152
Retained earnings		96,112	98,552
<i>Securityholders of non-controlling interests<sup>1</sup>:</i>			
Contributed equity		96,246	82,640
Retained earnings		41,832	38,610
<b>Total equity</b>		<b>490,022</b>	<b>439,954</b>
Net tangible assets (\$ per security)		2.71	2.70

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

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019

	Notes	Contributed equity \$'000	Retained earnings \$'000	Total \$'000	Non-controlling interests <sup>1</sup> \$'000	Total equity \$'000
<b>Balance at 1 July 2017</b>		<b>220,635</b>	<b>75,565</b>	<b>296,200</b>	<b>123,160</b>	<b>419,360</b>
Net profit / (loss)		-	40,326	40,326	7,832	48,158
Other comprehensive income		-	-	-	-	-
<b>Profit / (loss) for the year</b>		<b>-</b>	<b>40,326</b>	<b>40,326</b>	<b>7,832</b>	<b>48,158</b>
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	8	-	(17,339)	(17,339)	(9,541)	(26,880)
<b>Balance as at 30 June 2018</b>		<b>220,152</b>	<b>98,552</b>	<b>318,704</b>	<b>121,250</b>	<b>439,954</b>
Net profit / (loss)		-	20,417	20,417	8,826	29,243
Other comprehensive income		-	-	-	-	-
<b>Profit / (loss) for the year</b>		<b>-</b>	<b>20,417</b>	<b>20,417</b>	<b>8,826</b>	<b>29,243</b>
Issue of contributed equity	7	36,217	-	36,217	13,779	49,996
Security issuance costs (net of income tax benefit)	7	(537)	-	(537)	(173)	(710)
Distributions paid or payable	8	-	(22,857)	(22,857)	(5,604)	(28,461)
<b>Balance as at 30 June 2019</b>		<b>255,832</b>	<b>96,112</b>	<b>351,944</b>	<b>138,078</b>	<b>490,022</b>

<sup>1</sup> 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 2019

	Notes	2019 \$'000	2018 \$'000
<b>Cash flows from operating activities</b>			
Net rental income received		54,000	49,304
Interest received		50	41
Other expenses paid		(13,690)	(13,786)
Finance costs paid		(7,965)	(6,745)
<b>Net cash inflow / (outflow) from operating activities</b>	14	<b>32,395</b>	<b>28,814</b>
<b>Cash flows from investing activities</b>			
Payments for acquisition of investment properties		(68,296)	-
Payments for capital expenditure on investment properties		(3,050)	(3,021)
<b>Net cash inflow / (outflow) from investing activities</b>		<b>(71,346)</b>	<b>(3,021)</b>
<b>Cash flows from financing activities</b>			
Net proceeds from borrowings	14	18,074	9,205
Net proceeds from issue of contributed equity		49,996	-
Equity issuance costs paid		(741)	(3)
Payment for securities buy-back		-	(681)
Distributions paid		(27,602)	(33,090)
<b>Net cash inflow / (outflow) from financing activities</b>		<b>39,727</b>	<b>(24,569)</b>
Net increase / (decrease) in cash and cash equivalents		776	1,224
Cash and cash equivalents at the beginning of the financial year		1,659	435
<b>Cash and cash equivalents at the end of the financial year</b>	14	<b>2,435</b>	<b>1,659</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

## About this report

### 1. General information

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

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

### 2. Statement of compliance

The 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").

The financial statements comprise the consolidated financial statements of the Group. 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 21 August 2019.

#### 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 value 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 18 for a list of controlled entities as at year end. 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

	2019 \$'000	2018 \$'000
<b>Tax expense / (income) comprises:</b>		
Deferred tax expense / (income) relating to the origination and reversal of temporary differences	2,847	47

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

	2019 \$'000	2018 \$'000
Profit / (loss) from continuing operations	32,090	48,205
Less: profit / (loss) relating to the Group's non-taxable Trusts	(24,015)	(45,942)
<b>Taxable profit of the Group</b>	<b>8,075</b>	<b>2,263</b>
Prima facie tax payable @ 30% (2018: 27.5%)	2,423	622
Add / (subtract) the tax effect of:		
Changes in tax bases not affecting current tax expense	(62)	(110)
Change in tax rate	486	(465)
<b>Total tax expense / (income)</b>	<b>2,847</b>	<b>47</b>



# NOTES TO THE FINANCIAL STATEMENTS

## 5.2 Deferred tax balances

	Opening balance \$000	Recognised in profit or loss \$000	Recognised in equity \$000	Closing balance \$000
<b>2019 Temporary differences</b>				
Provisions and accruals	7	2	-	9
Investment properties	(6,137)	(3,191)	-	(9,328)
Capital raising costs recognised directly in equity	-	-	31	31
Fair value adjustments on derivatives	75	159	-	234
Tax losses carried forward	711	183	-	894
<b>Net deferred tax liabilities</b>	<b>(5,344)</b>	<b>(2,847)</b>	<b>31</b>	<b>(8,160)</b>

	Opening balance \$000	Recognised in profit or loss \$000	Recognised in equity \$000	Closing balance \$000
<b>2018 Temporary differences</b>				
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
<b>Net deferred tax liabilities</b>	<b>(5,297)</b>	<b>(47)</b>	<b>-</b>	<b>(5,344)</b>

### 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 (the "Company"), a controlled entity of APN 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.

Income taxes relating to items recognised directly in other comprehensive income or equity are recognised in other comprehensive income or equity and not in the consolidated statement of profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS

### *Industria Company No.1 Limited – tax consolidation*

The Company and its controlled entities are a tax-consolidated group and are therefore taxed as a single entity. The head entity within the tax-consolidated group is Industria Company No. 1 Limited. The members of the tax-consolidated group are identified in note 17.

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, Industria Company No. 1 Limited and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or if an entity should leave the tax-consolidated group. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax-consolidated group is limited to the amount payable to the head entity under the tax funding agreement.

### *APN Industria Trusts*

All Trusts that comprise APN 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 consolidated 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 consolidated 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.

	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Industrial and office properties	737,878	657,405
Land held for development	1,500	3,327
	<b>739,378</b>	<b>660,732</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 6.1. Individual valuation and carrying amounts

	2019 \$'000	2018 \$'000
Carrying amount at beginning of the financial year	660,732	638,000
Purchase of investment properties	64,527	-
Acquisition costs associated with purchase of investment properties	3,769	-
Capital additions to investment properties	2,934	2,907
Movement in deferred lease incentives	(1,783)	(1,536)
Straight line revenue recognition	3,149	3,906
Net gain / (loss) on fair value adjustments <sup>1</sup>	5,934	17,341
Interest capitalised to land held for development <sup>2</sup>	116	114
<b>Carrying amount at end of the financial year</b>	<b>739,378</b>	<b>660,732</b>

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. Included in this balance is a net gain of \$9,703,000 (2018: \$17,341,000) representing the fair value gain on investment properties and a loss of \$3,769,000 (2018: \$nil) representing the written off capitalised acquisition costs of investment properties purchased which were capitalised on the consolidated statement of financial position at initial recognition.

2 Interest was capitalised to land held for future development based on the weighted average cost of debt of 3.43% during the year (2018: 3.43%).

Included within the investment property fair value is a deduction of \$2,790,000 representing lease incentive commitments the Group will need to pay under the lease contracts (2018: \$2,526,000).

## 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 the top three tenants represents \$20,318,000 (2018: \$19,555,000) of the Group's total revenue.

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

	2019 \$'000	2018 \$'000
Within one year	56,273	43,087
More than one year but not more than five years	130,788	112,117
More than five years	163,277	220,076
	<b>350,338</b>	<b>375,280</b>

## 6.3 Individual valuation and carrying amounts

The investment property portfolio comprises 28 properties and land held for development located throughout Victoria, New South Wales, Queensland and South Australia. In the current financial year, 16 properties were independently valued at reporting date. The Group's external valuations are performed by independent professionally qualified valuers who hold a recognised relevant professional qualification and have specialised expertise in the investment properties being valued. Independent valuations were performed by CBRE Valuations Pty Ltd ("CBRE"), Urbis Valuations Pty Ltd ("Urbis"), Jones Lang Lasalle Australia ("JLL") and M3 Property (Vic) Pty Ltd ("M3") in the current financial year (2018: CBRE and M3).

As at 30 June 2019, the remaining 12 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.



NOTES TO THE FINANCIAL STATEMENTS

	Latest independent valuation	Carrying amount			Capitalisation rate		Discount rate		
		Valuation date	\$'000	2019	2018	2019	2018	2019	2018
				\$'000	\$'000	%	%	%	%
<b>Industrial properties</b>									
34 Australis Drive, Derimut, VIC	Freehold	Jun 2018	29,250	29,257	29,250	6.50%	6.50%	7.00%	7.00%
80-96 South Park Drive, Dandenong South, VIC	Freehold	Jun 2018	23,500	23,500	23,500	6.75%	6.75%	7.00%	7.00%
89 West Park Drive, Derimut, VIC	Freehold	Jun 2018	21,000	21,000	21,000	6.00%	6.00%	6.75%	6.75%
32-40 Garden Street, Kilsyth, VIC	Freehold	Jun 2018	18,250	18,344	18,250	6.50%	6.50%	7.00%	7.00%
5 Butler Boulevard, Adelaide Airport, SA	Sub-leasehold	Jun 2019	14,750	14,750	14,000	8.25%	8.61%	8.75%	9.25%
1-3 Westrac Drive, Tomago, NSW	Freehold	Jun 2018	197,000	197,000	197,000	6.00%	6.00%	8.00%	8.00%
140 Sharps Road, Tullamarine, VIC	Sub-leasehold	Jun 2018	13,500	13,500	13,500	8.25%	8.25%	7.25%	7.25%
13 Ricky Way, Epping, VIC <sup>1</sup>	Freehold	Jun 2019	8,000	8,000	-	6.25%	-	6.75%	-
10 Jersey Drive, Epping, VIC <sup>1</sup>	Freehold	Jun 2019	8,500	8,500	-	6.25%	-	6.75%	-
1 Westpark Dr, Derrimut, VIC <sup>1</sup>	Freehold	Jun 2019	11,250	11,250	-	6.50%	-	7.00%	-
147-153 Canterbury Road, Kilsyth, VIC <sup>1</sup>	Freehold	April 2019	9,502	9,502	-	7.25%	-	7.75%	-
3 Forbes Close, Knoxfield, VIC <sup>1</sup>	Freehold	May 2019	9,000	9,000	-	5.75%	-	N/A	-
4 Forbes Close, Knoxfield, VIC <sup>1</sup>	Freehold	May 2019	10,650	10,650	-	5.75%	-	N/A	-
81 - 83 Rushdale Street, Knoxfield, VIC <sup>1</sup>	Freehold	May 2019	9,100	9,100	-	6.50%	-	N/A	-
<b>Office properties</b>									
7 Clunies Ross Court and 17-19 McKechnie Drive, BTP, QLD	Freehold	Jun 2019	49,500	49,500	44,145	7.25%	7.50%	7.75%	8.25%
BTP Central, BTP, QLD <sup>2</sup>	Freehold	Jun 2019	39,500	39,500	38,090	7.50%	7.50%	8.00%	8.25%
8 Clunies Ross Court and 9 McKechnie Drive, BTP, QLD	Freehold	Jun 2019	25,500	25,500	23,420	7.50%	8.00%	7.75%	8.50%
37 Brandl St, BTP, QLD	Freehold	Jun 2019	15,250	15,250	14,999	7.50%	7.38%	8.00%	8.00%
18 Brandl St, BTP, QLD	Freehold	Jun 2019	13,250	13,250	12,709	8.00%	8.00%	8.25%	8.25%
88 Brandl St, BTP, QLD	Freehold	Jun 2019	15,000	15,000	14,939	7.75%	7.75%	8.00%	8.25%
Building A, 1 Homebush Bay Drive, Rhodes, NSW	Freehold	Dec 2018	110,500	110,510	110,008	6.00%	6.25%	7.00%	7.25%
Building C, 1 Homebush Bay Drive, Rhodes, NSW	Freehold	Dec 2018	86,000	86,015	82,595	6.00%	6.00%	7.00%	7.25%
<b>Land held for development</b>									
45 and 45B McKechnie Drive, BTP, QLD	Freehold	N/A	N/A	1,500	3,327				
<b>Total investment properties</b>			<b>737,752</b>	<b>739,378</b>	<b>660,732</b>				

<sup>1</sup> New properties acquired during the financial year.

<sup>2</sup> The BTP Central portfolio comprises five assets located within BTP.

## NOTES TO THE FINANCIAL STATEMENTS

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

	2019	2018
Industrial properties	6.33%	6.34%
Office properties	6.66%	6.79%
<b>Group's investment properties portfolio (excluding land)</b>	<b>6.49%</b>	<b>6.58%</b>

### 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.

Minimum lease payments under the non-cancellable ground rental operating leases to relevant Airport Authority not recognised in the consolidated financial statements as payable are as follows:

	2019 \$'000	2018 \$'000
Within one year	738	723
More than one year but not more than five years	3,210	3,106
More than five years	28,915	29,757
	<b>32,863</b>	<b>33,586</b>

### Impact of AASB 16 Leases ("AASB 16")

Based on management's analysis, the impact of AASB 16 will be limited to the recognition and measurement of the Group's existing ground rental obligations to the relevant Airport Authority. The undiscounted minimum lease payments under the non-cancellable ground leases not recognised in the consolidated financial statements as at 30 June 2019 is approximately \$32,863,000.

The net present value of the right-of-use ("ROU") asset and corresponding lease liability to be recognised in the consolidated statement of financial position upon initial application of AASB 16 at 1 July 2019 is estimated to be \$23,956,000. The estimated impact on the Group's financial performance for the financial year ending 30 June 2020 is a reduction in statutory profit of approximately \$591,000, arising from replace with fair value decrement on the ROU asset and unwinding of the NPV of the lease liability, offset by non-recognition of operating lease expense that would have been recognised prior to the application of AASB 16.

Management's estimates and assumptions are based on known facts and are reasonable under existing circumstances at the date the consolidated financial statements were authorised for issue. Management does not expect any significant change to facts and circumstances upon initial application of AASB 16. The actual impact of AASB 16 approximate the current estimates disclosed above.

### Recognition and measurement

#### Rental income

Rental income from investment properties comprise of lease components (including base rent, recoveries of property tax and property insurance) and non-lease components that primarily consists of property outgoing recoveries. Rental income is recognised at the fair value of consideration receivable (exclusive of GST).

Rental income relating to lease components are recognised 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 accrual basis in accordance with the terms of the lease.

Rental income from property outgoing recoveries are recognised as the costs are incurred, which is typically when the services are provided. For the year ended 30 June 2019, total property outgoings recovered was \$7,109,000 (2018: \$6,281,000).

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.

## NOTES TO THE FINANCIAL STATEMENTS

### 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.

### 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 is measured as the difference between the net proceeds from disposal and the carrying amount at disposal date and 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 \$739,378,000 (2018: \$660,732,000), representing estimated fair value and net realisable value 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 2019 \$'000	Valuation Technique	Inputs used to measure fair value	Range of unobservable inputs
Level 3 (Industrial and office properties)	737,878	DCF and / or 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	\$59 - \$1,260 \$59 - \$938 0% - 4% 6.00% - 8.25% 5.75% - 10.00% 6.75% - 8.75%
Level 3 (Land held for development)	1,500	Direct comparison method	Sales price per sqm	\$472



## NOTES TO THE FINANCIAL STATEMENTS

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

When calculating 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 its present value. In theory, an increase (softening) in the adopted discount rate and a decrease (tightening) in the adopted terminal yield could potentially offset the impact to the fair value. The same can be said for a decrease (tightening) in the discount rate and an increase (softening) in the adopted terminal yield. A directionally similar change in the adopted discount rate and the adopted terminal yield could potentially magnify the impact to the fair value.

# NOTES TO THE FINANCIAL STATEMENTS

## 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

	2019 \$'000	2018 \$'000
<i>At the beginning of the financial year</i>	302,792	303,476
Securities buy-back	-	(681)
Issue of securities	49,996	-
Equity issuance costs (net of income tax benefit)	(710)	(3)
<b>At the end of the financial year</b>	<b>352,078</b>	<b>302,792</b>
<i>Attributable to:</i>		
Securityholders of Industria Trust No.1	255,832	220,152
Securityholders of non-controlling interests	96,246	82,640
	<b>352,078</b>	<b>302,792</b>

#### 7.2 Number of securities on issue

	2019 No.	2018 No.
At the beginning of the financial year	162,839,743	163,113,881
Securities buy-back	-	(274,138)
Issue of new securities	18,313,687	-
<b>At the end of the financial year</b>	<b>181,153,430</b>	<b>162,839,743</b>

#### Recognition and measurement

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

The securities of APN 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 Limited and this Group. Whilst these entities remain stapled, their securities must only be issued, dealt with or disposed of as a Stapled Security.



## 8. Distributions

	2019		2018	
	Cents per security	\$'000	Cents per security	\$'000
<b>Distributions paid during the year:</b>				
Period ended 30 Sep	4.25	6,921	4.10	6,688
Period ended 31 Dec	4.25	6,921	4.10	6,677
Period ended 31 Mar	4.25	6,921	4.10	6,676
<b>Distributions payable:</b>				
Period ended 30 Jun	4.25	7,698	4.20	6,839
	<b>17.00</b>	<b>28,461</b>	<b>16.50</b>	<b>26,880</b>

### 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.

## 9. Earnings per security

	2019	2018
Profit / (loss) after tax (\$'000)	29,243	48,158
Weighted average number of securities outstanding (thousands)	164,405	162,913
<b>Basic and diluted earnings (cents per security)</b>	<b>17.79</b>	<b>29.56</b>

### 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 (2018: nil).

# NOTES TO THE FINANCIAL STATEMENTS

## 10. Borrowings

	2019 \$'000	2018 \$'000
Bank loans – secured <sup>1</sup>	224,251	205,871

<sup>1</sup> Includes unamortised borrowing costs of \$749,000 (2018: \$829,000) that have been allocated against the total amount drawn at balance date.

### 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.

### 10.1 Summary of borrowing arrangements

Industria Trust No.3, as the internal financier of APN Industria REIT has a \$270,000,000 revolving cash advance facility with three banks that it utilises to provide inter-entity finance to each entity in APN Industria REIT, including the Trust. The revolving cash advance facility has the following expiry profile:

- Tranche B1: \$36,250,000 – repayable December 2020;
- Tranche B2: \$86,250,000 – repayable September 2021;
- Tranche A3: \$20,000,000 – repayable July 2022;
- Tranche A1: \$56,250,000 – repayable June 2023;
- Tranche C1: \$15,000,000 – repayable June 2023;
- Tranche D: \$10,000,000 – repayable May 2024;
- Tranche A2: \$36,250,000 – repayable September 2024; and
- Tranche C2: \$10,000,000 – repayable September 2024.

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).

	2019	2018
<b>The Group has access to the following lines of credit:</b>		
Loan facility limit	270,000	240,000
Facilities drawn at balance date	(225,000)	(206,700)
<b>Facilities not drawn at balance date</b>	<b>45,000</b>	<b>33,300</b>

## NOTES TO THE FINANCIAL STATEMENTS

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:

		<b>2019</b>
Loan to Value Ratio ("LVR")	At all times, LVR does not exceed 55%.	30.44%
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.	5.37 times
Weighted Average Lease Length to Expiry ("WALE")	WALE for the portfolio will be greater than 2.5 years.	6.05 years

### 10.2 Finance costs

	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Interest expense paid / payable <sup>1</sup>	7,965	6,745
Amortisation of borrowing costs	306	334
	<b>8,271</b>	<b>7,079</b>

<sup>1</sup> 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

The weighted average 'all-in' interest rate (including bank margin, amortisation of borrowing costs and undrawn line fees) at reporting date was 3.48% (2018: 3.43%).

#### Recognition and measurement

Interest expense is recognised in the consolidated statement of profit or loss and other comprehensive income using the effective interest rate method except where it is incurred in relation to any qualifying assets, 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.



## NOTES TO THE FINANCIAL STATEMENTS

### 10.3 Derivatives – interest rate contracts

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

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

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

	2019 \$'000	2018 \$'000
<b>Current liabilities</b>		
Interest rate contracts	(1,631)	(418)
<b>Non-current liabilities</b>		
Interest rate contracts	(4,575)	(1,267)

During the year, the Group recognised a fair value loss of \$4,521,000 (2018: fair value gain of \$395,000) on interest rate contracts.

APN Industria REIT's interest rate contracts in effect at reporting date covered 75.56% (2018: 55.64%) of the principle drawn under the debt facility and the contract details are as follows:

	Notional Value \$'000	Swap Effective \$'000	Swap Expiry Date	Fixed Rate
<b>2019: Interest rate swaps and caps</b>				
Swap 1	5,000	6 Feb 2014	7 April 2025	
Swap 2	5,000	9 Jun 2015	7 April 2025	
Swap 3	10,000	6 Jan 2016	6 Jan 2023	
Swap 4	10,000	6 Feb 2014	6 Jun 2024	
Swap 5	15,000	7 Jan 2019	6 Jan 2021	
Swap 6	15,000	6 Jan 2014	6 Jun 2024	
Swap 7	20,000	6 Jun 2019	6 Jun 2022	
Swap 8	5,000	6 Feb 2014	7 April 2025	
Swap 9	5,000	9 Jun 2015	7 April 2025	
Swap 10	10,000	6 Jan 2016	6 Jan 2023	
Swap 11	10,000	6 Feb 2014	6 Jun 2024	
Swap 12	15,000	6 Jan 2014	6 Jun 2024	
Swap 13	20,000	6 Jun 2019	6 Jun 2022	
Interest rate cap	25,000	8 Oct 2018	8 Oct 2019	
<b>Total / Weighted average</b>	<b>170,000</b>			<b>2.10%</b>

## NOTES TO THE FINANCIAL STATEMENTS

	Notional Value \$'000	Swap Effective \$'000	Swap Expiry Date	Fixed Rate
<b>2018: Interest rate swaps and caps</b>				
Swap 14	5,000	6 Apr 2019	7 Apr 2025	
Swap 15	5,000	6 Apr 2019	7 Apr 2025	
Swap 16	10,000	6 Jan 2016	6 Jan 2020	
Swap 17	10,000	7 Mar 2016	8 Feb 2021	
Swap 18	15,000	7 Mar 2016	8 Feb 2021	
Swap 19	5,000	6 Feb 2014	7 Apr 2025	
Swap 20	5,000	9 Jun 2015	7 Apr 2025	
Swap 21	10,000	6 Feb 2014	8 Feb 2021	
Swap 22	10,000	6 Jan 2016	6 Jan 2020	
Swap 23	15,000	6 Jan 2014	8 Feb 2021	
Interest rate cap	25,000	6 Sep 2017	6 Sep 2018	
<b>Total / Weighted average</b>	<b>115,000</b>			<b>2.52%</b>

### Recognition and measurement

Derivatives are categorised as financial instruments at fair value through profit or loss 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.

### 10.4 Fair value hierarchy

The following table provides an analysis of financial instruments that are measured at fair value at reporting date, 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 2019				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Level 4 \$'000
<b>Financial liabilities at FVTPL</b>				
Interest rate contracts	-	(6,206)	-	(6,206)
<b>Total</b>	<b>-</b>	<b>(6,206)</b>	<b>-</b>	<b>(6,206)</b>

## NOTES TO THE FINANCIAL STATEMENTS

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

There were no transfers between Levels during the financial year.

### 11. Capital risk management

The Responsible Entity's objectives when managing the capital of APN Industria REIT and the Trust is to safeguard its ability to continue as a going concern, so that APN 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 2019, the Group's gearing ratio was 30.03% (2018: 30.96%).

	2019 \$'000	2018 \$'000
Total borrowings	225,000	206,700
Less: cash and cash equivalents	(2,435)	(1,659)
<b>Net debt</b>	<b>222,565</b>	<b>205,041</b>
Total assets (excluding cash and cash equivalents)	741,149	662,328
<b>Gearing ratio</b>	<b>30.03%</b>	<b>30.96%</b>

### 12. 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 APN 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.



## NOTES TO THE FINANCIAL STATEMENTS

### 12.1 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.

### 12.2 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 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
<b>30 June 2019</b>		
Variable rate instruments	(2,250)	2,250
Derivative financial instruments	6,984	(7,028)
	<b>4,734</b>	<b>4,778</b>
<b>30 June 2018</b>		
Variable rate instruments	(1,163)	1,163
Derivative financial instruments	2,798	(2,795)
	<b>1,635</b>	<b>(1,632)</b>

### 12.3 Credit risk

The Group is subject to credit risk (the risk that a 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. APN Industria REIT's treasury policy also requires that derivatives and cash transactions are limited to financial institutions that meet minimum credit rating criteria.

## NOTES TO THE FINANCIAL STATEMENTS

### 12.4 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 movements 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
<b>2019</b>					
<b>Liabilities</b>					
Lease incentives payable	(1,305)	(428)	(1,057)	(2,790)	(2,790)
Payables	(6,633)	(169)	(445)	(7,247)	(7,247)
Distribution payable	(7,698)	-	-	(7,698)	(7,698)
Interest-bearing liabilities	(6,268)	(42,518)	(212,778)	(261,564)	(224,251)
Interest rate contracts	(3,217)	(2,904)	(6,656)	(12,777)	(6,206)
	<b>(25,121)</b>	<b>(46,019)</b>	<b>(220,936)</b>	<b>(292,076)</b>	<b>(248,192)</b>
<b>2018</b>					
<b>Liabilities</b>					
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)
	<b>(19,025)</b>	<b>(54,714)</b>	<b>(195,032)</b>	<b>(268,771)</b>	<b>(221,215)</b>

### 12.5 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.

## 13. Commitment and contingencies

### 13.1 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 (2018: \$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.

### 13.2 Lease incentives

Included as a deduction from the fair value of investment properties (refer note 6) are commitments relating to lease incentives totalling \$2,790,000 (2018: \$2,526,000).

### 13.3 Capital expenditure

In Q4 2019 the Group entered into an agreement to extend the solar PV investment at Brisbane Technology Park with the installation of another 310 Kilowatts. The Group also continued to invest in other energy efficiency initiatives including LED light upgrades. The installations were in progress as at 30 June 2019, and the capital expenditure remaining is forecast to be \$413,000.

The Group has no other commitments and contingent assets as at 30 June 2019 (2018: \$nil).



# NOTES TO THE FINANCIAL STATEMENTS

## 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.

### 14. Cash and cash equivalents

#### 14.1 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.

	2019 \$'000	2018 \$'000
<b>Reconciliation of cash and cash equivalent</b>		
Cash and cash equivalents	2,435	1,659
<b>Reconciliation of profit after tax to net cash flows from operating activities</b>		
Net profit / (loss) after tax	29,243	48,158
Add / (loss) non-cash items:		
Straight line lease revenue recognition	(3,149)	(3,906)
Amortisation of borrowing costs	306	334
Movement in deferred lease incentives	1,783	1,536
Movement in allowance for doubtful debts	-	(70)
Fair value (gain) / loss on derivatives	4,521	(395)
Fair value (gain) / loss on investment properties	(5,934)	(17,341)
Changes in assets / liabilities:		
Increase / (decrease) in receivables	65	51
(Decrease) / increase in payables	2,713	400
(Decrease) / increase in deferred tax	2,847	47
<b>Net cash inflows / (outflows) from operating activities</b>	<b>32,395</b>	<b>28,814</b>

#### 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 14.2 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	2019 \$'000	2018 \$'000
Borrowings as at 1 July	10	205,871	196,332
Net cash inflow / (outflow) from financing activities:			
Proceeds from borrowings		57,081	33,090
Repayments of borrowings		(38,781)	(23,397)
Additional capitalised borrowing costs paid		(226)	(488)
Non-cash changes:			
Amortisation of borrowing costs		306	334
<b>Borrowings as at 30 June</b>	10	<b>224,251</b>	<b>205,871</b>

## 15. Trade and other receivables

	2019 \$'000	2018 \$'000
Rent receivable	1,007	1,134

### 15.1 Ageing analysis of receivables past due but not impaired

	2019 \$'000	2018 \$'000
0-30 days	894	938
31-90 days	61	177
91+ days	52	19
	<b>1,007</b>	<b>1,134</b>

As at 30 June 2019, rent receivable of \$46,000 was impaired (2018: \$nil) and expensed in the consolidated statement of profit or loss and other comprehensive income. The Group does not 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 in accordance with AASB 9 *Financial Instruments* ("AASB 9").

##### Impairment of financial assets and rent receivables

With effect from 1 July 2018, the impairment allowance for rental receivable and other financial assets (other than those measured at fair value through profit and loss) is measured using the simplified approach based on its lifetime expected credit loss.

## NOTES TO THE FINANCIAL STATEMENTS

### 16. Trade and other payables

	2019 \$'000	2018 \$'000
<b>Current</b>		
Trade payables	445	412
Accruals and other creditors	4,676	2,818
Prepaid rent	1,096	244
Rental bond received from tenants	109	93
GST payable	307	337
	<b>6,633</b>	<b>3,904</b>
<b>Non-Current</b>		
Rental bond received from tenants	614	390
	<b>614</b>	<b>390</b>

#### 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

### 17. Related party transactions

#### 17.1 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.

#### 17.2. 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:

	2019 \$'000	2018 \$'000
Management fees <sup>1</sup>	3,837	3,542
Property management and leasing fees <sup>2</sup>	202	123
	<b>4,039</b>	<b>3,665</b>

- 1 APN FM is entitled to a base management fee of 0.55% per annum of the gross asset value of APN Industria REIT as a whole (reducing to 0.50% p.a. of Gross Asset Value in excess of \$750m and 0.45% p.a. of gross asset value in excess of \$1,500m). Management fees are allocated to the entities comprising APN Industria REIT on a fair and reasonable basis and in accordance with each entities constitution.
- 2 APN FM provides property management and leasing services to the Group. These services can be carried out by APN FM or sub-contracted to one or more third parties. In the event that APN FM provides property management or leasing services without engaging third parties, APN FM is entitled to charge a fee of up to 3% of annual gross income and leasing fees at market rates.

#### 17.3 Security holdings and associated transactions with related parties

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

	2019		2018	
	Number of securities	Distributions \$	Number of securities	Distributions \$
APN Property Group Limited	28,726,235	4,651,197	26,838,913	4,425,715
APN Funds Management Limited	-	-	-	1,312
APN AREIT Fund	4,799,094	815,846	4,799,094	1,000,951
APN CFS AREIT Fund	748,009	127,162	748,009	140,371
APN Property for Income Fund	500,005	85,001	500,005	127,532
APN Property for Income Fund 2	167,605	28,493	167,605	45,449
Geoff Brunsdon AM	66,463	10,793	62,500	10,313
Chris Aylward	120,000	10,200	150,000	24,633
Tim Slattery	7,629	792	3,666	3,311
<b>Total</b>	<b>35,135,040</b>	<b>5,729,484</b>	<b>33,269,792</b>	<b>5,779,587</b>

19.40% (2018: 21.69%) of APN Industria REIT stapled securities are held by related parties.

# NOTES TO THE FINANCIAL STATEMENTS

## 18. Controlled entities

	Country of incorporation	Percentage owned (%)	
		2019	2018
<b>Parent entity</b>			
Industria Trust No. 1	Australia		
<b>Controlled entities of Industria Trust No. 1</b>			
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
Kilsyth Investment Trust No. 2	Australia	100	-
Knoxfield Investment Trust	Australia	100	-
Knoxfield Investment Trust No. 2	Australia	100	-
Knoxfield Investment Trust No. 3	Australia	100	-
<b>Non-controlling Interests</b>			
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 Limited (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.

## 19. Remuneration of auditors

	2019 \$	2018 \$
Audit and review of financial statements	129,753	129,753
Compliance plan and other audit services	8,000	8,000
<b>Total</b>	<b>137,753</b>	<b>137,753</b>

The auditor of the Group is Deloitte Touche Tohmatsu.

## 20. Parent entity financial information

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

	2019 \$'000	2018 \$'000
<b>Statement of financial position</b>		
Current assets	1,183	1,200
Non-current assets	544,079	473,467
<b>Total assets</b>	<b>545,262</b>	<b>474,667</b>
Current liabilities	(14,516)	(9,326)
Non-current liabilities	(178,802)	(146,637)
<b>Total liabilities</b>	<b>(193,318)</b>	<b>(155,963)</b>
<b>Net assets</b>	<b>351,944</b>	<b>318,704</b>
<b>Equity</b>		
Issued capital	255,832	220,152
Retained earnings	96,112	98,552
<b>Total equity</b>	<b>351,944</b>	<b>318,704</b>
<b>Financial performance</b>		
Profit for the financial year	20,417	40,326
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>20,417</b>	<b>40,326</b>

At 30 June 2019, the parent entity had not provided guarantees (2018: \$nil), has no contingent liabilities (2018: \$nil) and no contractual commitments (2018: \$nil).

## 21. Subsequent events

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 FINANCIAL STATEMENTS

## 22. Adoption of new and revised accounting standards

### 22.1 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 the current year. These include:

Standard / Interpretation	Effective for annual reporting periods beginning on or after
AASB 9 <i>Financial Instruments</i> ("AASB 9")	<p>The Group has applied AASB 9 using the modified retrospective approach and the related consequential amendments to other Accounting Standards for the first time. The requirements under AASB 9 that are applicable to the Group and the impact of its application is disclosed below:</p> <p>(a) <i>Classification and measurement of existing financial assets as at 1 July 2018 ("existing financial assets")</i></p> <p>The directors have reviewed and assessed the Group's existing financial assets as at 1 July 2018 based on the facts and circumstances that existed at that date and have concluded that the application of AASB 9 has had no material impact on the classification or measurement of the Group's financial assets. Financial assets that were measured at fair value through profit or loss (FVTPL) or amortised cost under AASB 139 continue to be measured at fair value or amortised cost under AASB 9.</p> <p>(b) <i>Impairment of existing financial assets and rent receivables</i></p> <p>The directors have reviewed and assessed the Group's existing financial assets and trade receivables for impairment using the AASB 9 expected credit loss model as opposed to the AASB 139 incurred credit loss model and have concluded that the application of AASB 9 has had no material impact on the Group's impairment allowance required for existing financial assets and trade receivables.</p>
AASB 15 <i>Revenue from Contracts with Customers</i> ("AASB 15")	<p>The Group has applied AASB 15 for the first time in the current year. AASB 15 requires an entity to recognise revenue in a manner that represents the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled.</p> <p>The directors have reviewed and assessed the Group's recognition and measurement of revenue from 1 July 2018 based on the facts and circumstances that existed from this date and have concluded that the application of AASB 15 has had no impact as rental income is not within scope of AASB 15.</p>



## NOTES TO THE FINANCIAL STATEMENTS

### 22.2 Standards and Interpretations in issue not yet adopted

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

Standard / Interpretation	Impact on financial statements
AASB 16 <i>Leases</i> ("AASB 16") (applying to annual periods beginning on or 1 January 2019)	<p>AASB 16, applying to annual periods beginning on or after 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, recognised on a straight-line basis over the lease term) with both a right-of-use ("ROU") 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 net present value ("NPV") of the unavoidable lease payments (inclusive of incentives and costs). Subsequently the asset value recognised will be measured at fair value and an interest expense is recognised as part of extinguishing the lease liability (reflecting the unwinding of the NPV of the unavoidable lease payments).</p> <p>For the year ended 30 June 2019, other than the contracts identified in Note 6.2 the Group has not identified any other contracts for which it is a lessee. The Group is a lessor by virtue of the lease arrangements associated with its investment properties. As AASB 16 does not significantly alter lessor accounting, the Group does not expect a significant impact resulting from the adoption of AASB 16.</p>

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
AASB Interpretation 23 <i>Uncertainty over Income Tax Treatments</i> clarifies the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates ("tax amounts"), when there is uncertainty over income tax treatments under AASB 112 <i>Income Taxes</i> . The Group does not have uncertainty around its income tax treatment under AASB 112 and as such it is not considered that the new interpretation would have a material impact on the Group.	1 January 2019

## SUMMARY OF SECURITYHOLDERS

### Twenty largest holders of quoted equity securities as at 31 July 2019

Rank	Name	31 July 2018	%IC
1	GROWTHPOINT PROPERTIES AUSTRALIA LIMITED	29,621,555	16.35
2	APN PROPERTY GROUP LTD	25,189,401	13.91
3	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	16,359,273	9.03
4	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	14,641,059	8.08
5	NATIONAL NOMINEES LIMITED	10,072,222	5.56
6	CITICORP NOMINEES PTY LIMITED	9,702,566	5.36
7	APN PROPERTY GROUP LTD	3,525,963	1.95
8	ONE MANAGED INVESTMENT FUNDS LIMITED	1,367,441	0.75
9	AUSTRALIAN EXECUTOR TRUSTEES LIMITED	1,195,492	0.66
10	BNP PARIBAS NOMS PTY LTD	1,191,892	0.66
11	THE CASS FOUNDATION LIMITED	1,165,100	0.64
12	J REISINGER SUPERANNUATION PTY LIMITED	1,125,000	0.62
13	JOHN E GILL TRADING PTY LTD	808,413	0.45
14	BNP PARIBAS NOMINEES PTY LTD	475,313	0.26
15	GREGORY MACKINNON PTY LTD	378,718	0.21
16	NEWECONOMY COM AU NOMINEES PTY LIMITED	351,591	0.19
17	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	349,934	0.19
18	NETWEALTH INVESTMENTS LIMITED	335,022	0.18
19	SARGON CT PTY LTD	321,669	0.18
20	JAWP PTY LTD	290,000	0.16
<b>Total</b>		<b>118,467,624</b>	<b>65.40</b>

### Distribution of holders of equity securities as at 31 July 2019

Range	Securities	No. of holders	%
100,001 and Over	125,263,293	69.15	63
10,001 to 100,000	40,707,307	22.47	1,737
5,001 to 10,000	8,752,955	4.83	1,148
1,001 to 5,000	5,839,290	3.22	1,981
1 to 1,000	590,585	0.33	1,195
<b>Total</b>	<b>181,153,430</b>	<b>100.00</b>	<b>6,124</b>
Unmarketable Parcels	2,063	0.00	195

## 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 2019:

Effective date	Name	Number of securities	%
20 May 2019	APN Property Group and Holus Nominees Pty Limited and Lauren Investments Pty Limited and related entities	33,330,534	19.17
27 May 2019	Leg Mason Asset Management Limited and related entities	9,253,923	5.32
29 May 2019	Growthpoint Properties Australai Ltd and Growthpoint Properties Limited of South Africa and related entities	29,621,555	17.04

### On-market buy back

There were no on-market buy-backs during the year.

# CORPORATE DIRECTORY

## APN 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 AM, 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

### APN Industria REIT

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Collins Street East  
Melbourne VIC 8003

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**F** +61 3 8656 1010  
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## Registered Office

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Melbourne VIC 3000

**T** +61 3 8656 1000  
**F** +61 3 8656 1010  
**W** [www.industriareit.com.au](http://www.industriareit.com.au)  
**E** [investor@industriareit.com.au](mailto:investor@industriareit.com.au)

## Share Registry

### Link Market Services Limited

Locked Bag A14  
Sydney South NSW 1235

**T** 1300 554 474  
**F** +61 2 9287 0303  
**W** [linkmarketservices.com.au](http://linkmarketservices.com.au)  
**E** [registrars@linkmarketservices.com.au](mailto:registrars@linkmarketservices.com.au)

## Stock Exchange Listing

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





BTP Workspaces

[btpworkspaces.com.au](http://btpworkspaces.com.au)

[btpworkspaces.com.au](http://btpworkspaces.com.au)

[btpworkspaces.com.au](http://btpworkspaces.com.au)

VEGEMIT





#### Responsible Entity

**APN Funds Management Limited**

ACN 080 674 479 AFSL No 237500

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Melbourne Victoria 3000 Australia

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**APN** | Industria REIT

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