

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
2020

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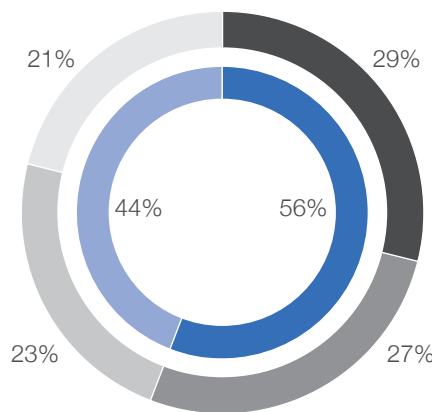
Strategy to grow through investing in office and industrial assets

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

Portfolio by type

- Industrial
- Office

\$826m

PORTFOLIO VALUATION

32

PROPERTIES

96%*

OCCUPIED

5.7yr

WEIGHTED AVERAGE LEASE EXPIRY

3%

AVERAGE ANNUAL FIXED UPLIFTS

*Includes Heads of Terms agreed post balance date

LETTER FROM THE FUND MANAGER



Dear Investor,

In a period compromised by exceptional challenges stemming from a global pandemic, it is my pleasure to report another year of growth and success for APN Industria REIT.

Statutory net profit increased 88% to \$54.8 million, a substantially higher result than the prior corresponding period (pcp), driven by \$24.4 million of revaluation gains, as well as increased revenues from leases with fixed annual increases and additional income from acquisitions.

Funds From Operations (FFO), the Board's preferred measure of performance, increased 17.8% (\$5.6 million) to \$36.8 million, or 1.6% per security to 19.3 cents. Whilst this is lower than the initial guidance statement of 2.5 – 3% (which was withdrawn following the onset of COVID-19), the FFO growth that has been achieved in this uncertain economic environment demonstrates the resilience of the portfolio.

The distribution was \$33.4 million, up \$4.9 million; or 17.3 cents per security, an increase of 0.3 cents per security. Key drivers of the FY20 performance included:

- Strong cash flow with 98% cash collections
- 28.8% gearing, below the target band of 30-40%
- Record leasing volumes with 28,900 square metres of leasing completed, including over 11,100 square metres at Brisbane Technology Park

We recognise our investors are highly focused on income generation from real estate investment, and are pleased to report that net property income was up 15.1% to \$46.6 million. Rent collections were strong, with 98% cash collections for the financial year, and debtors as at 30 June 2020 were less than 1% of total annual gross rent.

Gearing was 28.8%, consistent with 31 December 2019 and below the target band of 30 – 40%; and the balance sheet remains well positioned to support growth in the near term, with \$47 million of equity being raised in November 2019. I would like to thank those investors who participated in the equity raise, and was pleased to have once again provided retail investors with the opportunity to participate on the same terms and conditions as institutional investors.

The weighted average cost of debt was 2.9% and interest cover 6.9x, one of the highest ratios in the REIT sector, a function of our low gearing and cost of debt. The conservatively leveraged balance sheet provides scope to pursue over \$70 million in growth opportunities, and we are confident of continuing to secure attractive investments that complement the portfolio risk and return metrics.

The strong financial position also enabled a security buyback to be initiated, in May 2019, to take advantage of the APN Industria REIT balance sheet capacity to acquire securities at an average discount to Net Tangible Assets of 16% - an outcome that is significantly accretive to value and FFO.

Net Tangible Assets increased 11 cents per security to \$2.82. This was driven by \$24.4 million of fair value adjustments, primarily relating to re-valuations completed throughout the financial year.

Across our portfolio of 32 assets – 56% of which are industrial warehouses and 44% business park properties (by value) – we achieved record leasing volumes, with 28,900 square metres of leasing completed. Occupancy as at 30 June 2020 was 94%; post balance date, leasing transactions have been agreed that will increase occupancy to 96%.

Our team continues to focus on enhancing tenant experiences. By way of example, during the year an agreement with Westrac was reached to fund a \$5.5 million expansion to enhance Westrac's engineering capabilities at 1 Westrac Drive, Tomago. Work is scheduled to start in September 2020, and Westrac will be making a material investment towards the fit-out, demonstrating their commitment to the site.

Leasing across the industrial portfolio totalled 17,300 square metres, including an early renewal of Edlyn Foods at 13 Ricky Way/10 Jersey Drive, Epping, extending the weighted average lease expiry from 4.8 to 8.2 years; and a renewal to Australian Glass Group over 6,100 square metres at 81 Rushdale St, Knoxfield. Both outcomes were ahead of the acquisition business plans, and underpin long term income profiles that reflect an average yield on cost of 7.1%.

Leasing at our business park properties, located at Rhodes and Brisbane Technology Park, totalled 11,600 square metres, as our on-the-ground presence and active management continued to deliver results that de-risked the income profile.

We have continued to successfully target the small business market, with 40 leases being completed to tenants taking less than 200 square metres during the period, and this strategy has increased occupancy from 50% to 95% at 88 Brandl Street; and from 40% to 80% at 7 Clunies Ross Court, which offers serviced suites on level one. We see this segment of the market growing further, with the disruptions caused by COVID-19 driving faster take up of remote working and forcing organisations to adapt and seek out cost savings. It is anticipated this will result in decentralisation across major markets, and the APN Industria REIT portfolio is well positioned to benefit from this.

LETTER FROM THE FUND MANAGER

Our team continues to be focused on improving building performance, reducing carbon emissions, and enhancing the energy efficiency of our properties. We have been delivering outcomes in these areas since 2017, largely through investments in solar PV and LED lighting, and during the financial year installed a 632kW solar PV system at Rushdale Street, Knoxfield, which will prevent 766,600kg of CO2 from entering the atmosphere annually.

Across the portfolio, approximately 2.5MW of solar has now been installed, and total CO2 emission reductions for FY21 are anticipated to be approximately 3,800 tonnes. At Brisbane Technology Park, where seven properties have been fitted with rooftop solar PV installations, energy self-sufficiency has increased to an average of 53% during daylight hours, reducing the reliance on the energy grid and delivering a yield on cost in excess of 15%.

In the next financial year, we anticipate becoming the first Australian real estate investment trust to achieve carbon neutrality in accordance with the Climate Active Organisations standard, an Australian Government framework recognised by the European Union Commission and the World Bank. This will be a unique achievement that reinforces our commitment to considering all portfolio risks, and ensuring our actions are geared towards reducing the impact of climate change whilst also being financially responsible.

Whilst the current economic environment remains uncertain, we are well-positioned for the future. Our high-quality portfolio generates resilient income from a tenant base underpinned by government, listed, national and multi-national companies, which make up 95% of the rent roll. This position has provided the Board with sufficient confidence to provide guidance for 2021, which is for FFO and dividend per security growth to be broadly in line with FY20. This guidance statement is subject to tenants continuing to trade solvently and no significant deterioration in the current economic environment.

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



FFO 19.3 cents per security; 1.6% growth



**Strong balance sheet
-28.8% gearing; capacity to deploy and unlock further growth**



Record leasing volume with ~28,900 square metres completed



Committing to carbon neutrality from FY21

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).

APN is a specialist real estate investment manager established in 1996. 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 \$70 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 25 average years of experience in real estate



Governance overseen by independent Board

- Independent Board, ensuring robust governance framework
- More than 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
- A specialist real estate investment manager since 1996 - 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 17 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.



Simone Wallis
Portfolio Manager

Simone has been in the property industry for over 20 years, and her experience ranges from roles in agency as well as National Property Manager for Frasers, and as the General Manager Property Management for Australia and New Zealand at Toll Transport.

Simone has experience across sub-sectors including industrial, commercial, airports and ports, incorporating both management, development and asset disposals. She has developed strong, well rounded skills running large teams and delivering outcomes.

Simone is currently on the Victorian Property Council Infrastructure, Industrial and Logistics committee.



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
Business Manager –
Direct Real Estate

Gordon has over 14 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 2020 RESULTS

Key performance metrics

STATUTORY
NET PROFIT

\$54.8m

2019: \$29.2m
▲ 87.7%

FFO (\$m)

\$36.8m

2019: \$31.3m
▲ 17.6%

FFO (cps)

19.3c

2019: 19.0c
▲ 1.6%

DISTRIBUTION
DECLARED

\$33.4m

2019: \$28.5m
▲ 17.2%

DISTRIBUTIONS
(cps)

17.3c

2019: 17.0c
▲ 1.8%

FFO PAYOUT
RATIO

89.3%

2019: 89.4%

Balance sheet strength

PORTFOLIO
VALUATION

\$826m

MARKET
CAPITALISATION

\$482m*

GEARING

29%

NTA

\$2.82

*As at 18 August 2020

DIVERSIFIED PORTFOLIO

| Industrial Melbourne and Adelaide | WesTrac Newcastle | Rhodes Corporate Park | Brisbane Technology Park |
|-----------------------------------|-------------------|-----------------------|--------------------------|
| 29% | 27% | 23% | 21% |
| Industrial | | Office | |



WesTrac Newcastle

Located adjacent to M1 motorway
~\$222 million valuation
14.2 year WALE



Industrial Melbourne and Adelaide

Key industrial precincts
~\$243 million valuation
16 buildings
4.7 year WALE



Rhodes Corporate Park

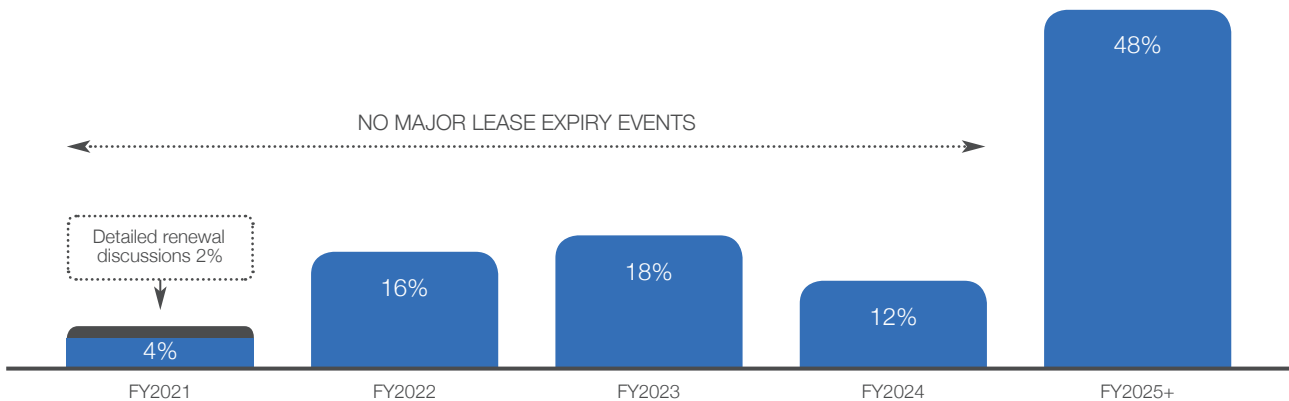
Inner west Sydney
~\$189 million valuation
2 buildings
2.0 year WALE



Brisbane Technology Park

15 minutes south of CBD
~\$172 million valuation
13 buildings
2.7 year WALE

Strong income visibility - Lease expiry profile (by income)



BALANCE SHEET

Strong balance sheet

Maintaining a staggered debt maturity profile, reducing concentration risk over any given period:

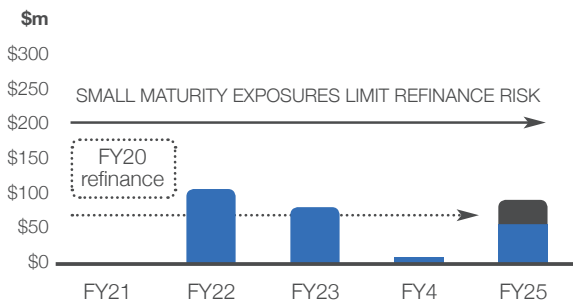
- Three financiers with no more than ~50% exposure to a single bank
- Refinanced \$36 million of debt, extending facility by 5 years
- \$47 million of undrawn facilities – and over \$70 million of capacity to take gearing to middle of 35 – 40% target band
- Weighted average debt maturity 2.9 years

Consistently outperforming peers

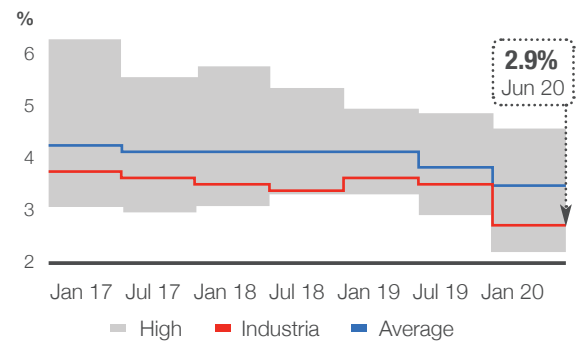
Weighted average interest rate 2.9% and 6.9x interest cover:

- Retained disciplined approach to capital management – capital was not deployed to pay-down hedges
- Demonstrated that portfolio and income quality is high – attributes valued by credit providers whom have continued appetite to lend
- Broader banking relationships and track record of APN Property Group continues to be leveraged to achieve optimal outcomes for ADI shareholders

Debt maturity profile Limited refinance risk



APN Industria REIT cost of debt compared to A-REIT sector¹



¹ Source: Company information and IRESS



PORTFOLIO PERFORMANCE

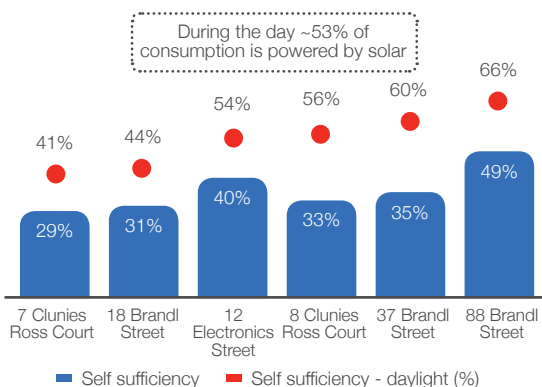
Committing to carbon neutrality in FY21

In FY21, APN Industria REIT is anticipated to be the first A-REIT to be carbon neutral, in accordance with the Climate Active Standard, across the portfolio and operations

- Certification to be in accordance with the Climate Active Organisations standard, an Australian Government framework that has been recognised by the European Union Commission and the World Bank as a mature and effective model to incentivise emission reductions
- This initiative is part of a prudent risk mitigation strategy that reinforces the importance of efficiency across the business, enhances asset value, and extends our point of difference for tenants and investors:
 - Installed 1 Megawatt of solar at BTP; 0.2 Megawatts at Rhodes; 1.3 Megawatts across industrial assets

- Asset reviews consider changes in circumstances for ADI assets, tenant usage, and technology advancements to ensure opportunities are captured:
 - Engaged with Griffith University to develop a smart grid that would utilise solar, coupled with storage and smart distribution technology
 - Working with Brisbane City Council to access grant funding for our tenants progressing growth through sustainability initiatives

Brisbane Technology Park Self-sufficiency per building



Efficiency achievements and carbon neutral timeline

Rooftop solar PV installations



INVESTMENT IN SOLAR AND PLANT AND EQUIPMENT IS ACTIVELY REDUCING OUR EMISSIONS

ANTICIPATED CARBON EMISSION REDUCTIONS FOR FY21 ARE 3,800 TONNES



3 Forbes Close, Knoxfield, VIC

ACQUISITIONS

Growth pipeline and diligence

- APN has been highly selective when acquiring assets – largely focusing on opportunities in the warehousing and logistics sector:
 - Assessed over \$1.4 billion on and off-market opportunities
 - Submitted offers on ~\$380 million
- Long weighted average lease expiry opportunities tenanted by businesses exposed to highly cyclical industries were not pursued
- Key acquisition criteria:
 - Location of underlying asset, and ability to re-lease to other occupiers and add-value
 - Value of underlying land and replacement cost
 - Assessment of tenant – years in business, alignment of Board and management team, likely conditions in their industry over the long term
 - Seek to leverage management experience, expertise, and network to build strong engagement with the tenants



60 Grindle Rd, Wacol, Queensland

9.4years
WALE

7.75%
CAP RATE



350-356 Cooper St, Epping, Victoria

7.6years
WALE

6.00%
CAP RATE



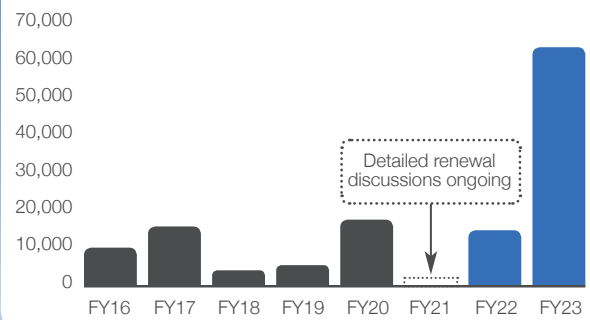
INDUSTRIAL ASSETS

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

- Industrial warehouse portfolio (excluding Westrac) 94% leased with 4.7 year WALE, average cap rate of 6.5%
- 5 year renewal of tenant at 81 Rushdale St, Knoxfield (May 2019 acquisition) – delivering 7.0% yield on cost
- Early renewal of 13 Ricky Way/10 Jersey Dr tenant – increasing WALE from 4.8 to 8.2 years. Yield on cost 7.2%; 12.1% valuation increase
- Average 7.4% valuation growth – driven by combination of leasing activity, income growth and cap rate compression
- Tenant administration – 10,000sqm at South Park Drive, Dandenong South. 6 month rent security claimed, property re-leased post balance date

Leasing completed and forthcoming expiries (by area)



632kw solar system - 81 Rushdale St, Knoxfield, Victoria

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

- Increased in value by \$25 million to \$222 million – driven by rising rents and cap rate compression (25bps to 5.75%):
 - ~\$5.5 million expansion starting Sept; 6.75% yield on cost
- Leased to WesTrac until 2034, with the higher of CPI or 3% annual rent reviews
- 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
- The facility is running near or at capacity, driven by record level of mining production and export volumes
- Long term partner of Caterpillar dating back to 1929



WesTrac Newcastle, aerial view

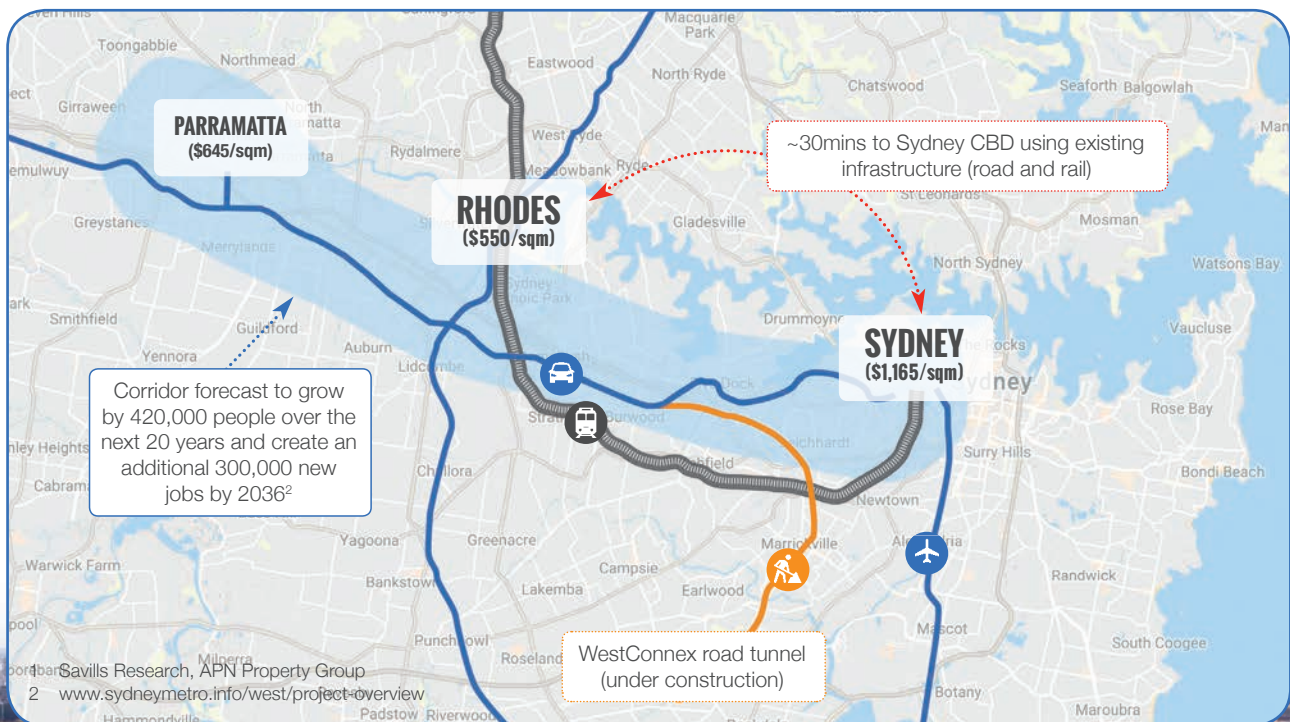


RHODES CORPORATE PARK

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 profiles¹

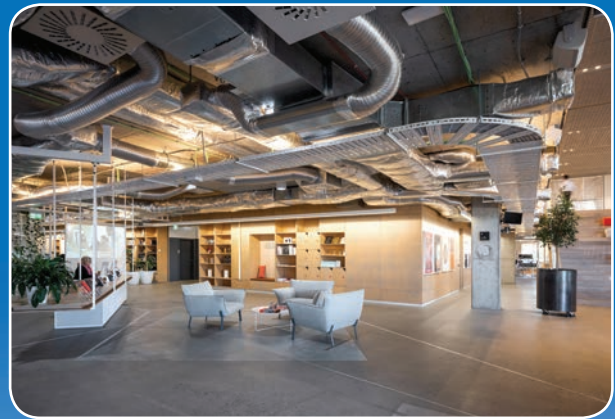


RHODES CORPORATE PARK

- Focus remains on September 2021 expiry of Link Market Services:
 - 6 floors, 1800 – 2,250sqm floor plates with quality fit-out; central core provides opportunities to split floors efficiently
 - Upgrade of End of Trip underway; existing on-site complimentary gym and 25 metre lap pool
 - Drive by corporates and government to decentralise, in low-density precincts, positive impact on leasing up prospects
- Two leases agreed since 30 June 2020; vacancy limited to one suite. We have been active in the small user market since 2018, with strong rents, low incentives and limited downtime
- 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
- Rhodes Building A was independently re-valued at \$103 million. The valuer assumed greater downtime and incentives, largely due to the uncertainties associated with the COVID-19 impact on the economy and broader market



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

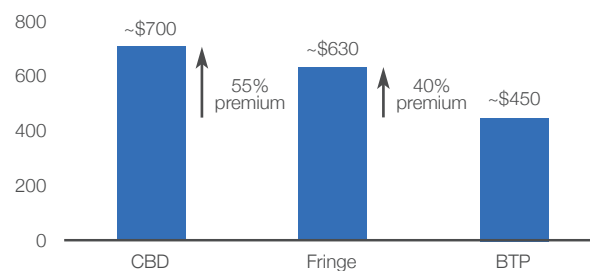
BRISBANE TECHNOLOGY PARK (BTP)

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.

- Activity continues:
 - 49 leases across ~11,100sqm (including 14 since March 2020); retention very strong at 85%; average incentive 17%
 - New ~2,500sqm childcare completed – fit out underway, scheduled to open January 2021 (delayed 6 months due to COVID-19). Forecast ~8% yield on cost
- Current occupancy of 82% delivered yield of ~6%¹ – potential for meaningful upside from leasing
- Held at conservative valuations – average cap rate 7.5%
- COVID-19 impact: 14 tenants provided abatements, education provider withdrawn from 2,094sqm at 9 McKechnie Dr (reduces growth by ~0.5 cps in FY21)
- 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
 - Variety of food and beverage; and amenity including Anytime Fitness gym, end of trip facilities, and new childcare to open January 2021
 - >1,100 businesses in the precinct – largely from medical, education, technology and engineering sectors

Brisbane Gross Rent comparisons*

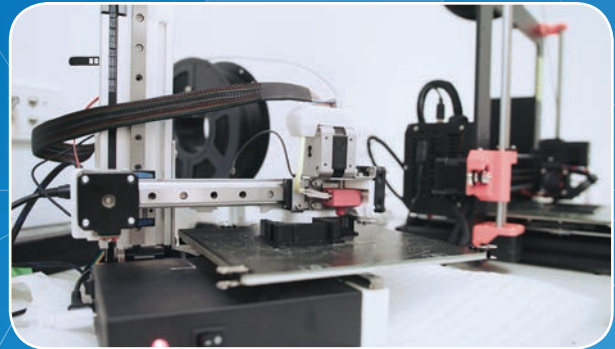


*Savills Research, APN Property Group

¹ Excludes 10 Brand Street; income of ~\$960k excluded from FFO due to temporary nature of revenue

Innovation at Brisbane Technology Park

- APN's on-site management platform is providing unique opportunities to:
 - Engage with genuine innovators such as Lyro Robotics – who are commercialising world-leading picking and packing technology for deployment in supply chains
 - Build relationships with universities and education providers to provide work-placement opportunities that add value to our tenants businesses and our buildings
 - End of trip mural completed in partnership with Griffith University
- Key competitive advantage is the ability to offer flexibility across our 13 properties:
 - 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
 - Since targeting this market in 2017, occupancy has increased from 50% to 95% at 88 Brandl Street; and 40% to 89% at 7 Clunies Ross Court (level one)
 - 40 leases under 200 sqm were completed throughout FY20



LYRO is creating the brain, the eyes, and the hands for the next generation of intelligent robots. It was developed by a research team at the Australian Centre for Robotic Vision (ACRV), won the 2017 Amazon Robotics Challenge, and is now being commercialised at BTP



STETHEE is the world's first artificially intelligent enabled stethoscope system, drawing on partnerships with UQ, QUT, MIT and Korea Telecom. The device connects to mobile devices to instantly record heart, lung or other body sounds, capturing data and unlocking patterns of disease

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 2020.

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

Information about the directors

The names and particulars of the directors of the Responsible Entity during the financial year and up to the date of this report are:



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.



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 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, 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 2004), National Storage Holdings Limited (since 2014) and National Storage Financial Services Limited (since 2015), both listed as National Storage REIT (ASX Code: NSR).



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 45 years of global experience in Chief Executive and General Management Roles and more recently in company directorships. His two principal corporate executive engagements have been with Jennings Industries Ltd and the National Australia Banking Group. At Jennings, he was successively General Manager of AVJennings Homes, General Manager Commercial Property, CEO of Jennings Properties Limited (Centro etc.) and President Jennings USA. Within NAB, he was Global Manager Real Estate responsible for commercial property lending and corporate property investment. He has extensive experience in mergers and acquisitions, capital raising, property investment and funds management. In the not for profit sector, he has chaired the Cairnmillar Institute and been a board member of the Salvation Army and Yarra Community Housing.

Michael is also a non-executive director of Charter Hall Social Infrastructure REIT (CQE) and in the private sector, a non-executive director of Dennis Family Holdings and Chairman of Dennis Family Homes.

DIRECTORS' REPORT



Jennifer Horrigan

BBus, GradDipMgt, GradDipAppFin, MAICD
Independent Director

- Director since 2012

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

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

Jennifer is also a director of QV Equities (ASX: QVE), Yarra Funds Management Limited and is Chairman of Redkite (national cancer charity supporting children and young people with cancer and their families).



Joseph De Rango

BCom, BBIS (IBL)

Alternate Director for Howard Brechley

- Chief Financial Officer, APN Property Group since September 2019
- Alternate Director for Howard Brechley since September 2019
- Director of Industria Company No. 1 Limited since September 2019

Joseph was appointed as Chief Financial Officer of APN Property Group Limited on 1 September 2019. He has over 13 years' experience in real estate, corporate advisory and investment banking.

Joseph has had broad exposure across all areas of the APN Property Group and is a member of APN's executive leadership team. He has led and been responsible for a number of significant corporate finance transactions including real estate acquisitions, equity raisings and bank financings, as well as being integrally involved with the successful IPOs of APN Convenience Retail REIT (ASX: AQR) and APN Industria REIT (ASX: ADI) in 2017 and 2013 respectively. Prior to joining APN, Joseph held leadership roles and worked on a broad range of transactions at National Australia Bank and PricewaterhouseCoopers.



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

Chantal has over 15 years' professional experience in company administration, corporate governance, risk and compliance having been involved with several listed and unlisted public companies. Prior to joining APN in 2015, Chantal held various risk and compliance roles predominately in financial services and funds management including seven years at Arena Investment Management.

Chantal is a member of the Governance Institute of Australia.

RESIGNED DURING THE YEAR

Michael Groth

BCom, BSc, DipIFR, CA

Alternate Director for Howard Brechley

- Alternate Director since March 2014
- Resigned as CFO, Alternate Director for Howard Brechley, and Director of Industria Company No. 1 Limited in September 2019

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 | APN FM Board | | Audit, Risk and Compliance Committee | | Nomination and Remuneration Committee | |
|------------------------------|-------------------|----------|--------------------------------------|----------|---------------------------------------|----------|
| | Held ¹ | Attended | Held ¹ | Attended | Held ¹ | Attended |
| Geoff Brunsdon AM | 14 | 14 | 6 | 6 | 1 | 1 |
| Jennifer Horrigan | 14 | 14 | 6 | 6 | 1 | 1 |
| Michael Johnstone | 14 | 14 | 6 | 6 | 1 | 1 |
| Howard Brenchley | 14 | 13 | N/A | N/A | N/A | N/A |
| Michael Groth ² | 2 | - | N/A | N/A | N/A | N/A |
| Joseph De Rango ³ | 12 | - | N/A | N/A | N/A | N/A |

Industria Company No.1 Limited

| Directors | APN FM Board | | Audit and Risk Committee | | Nomination and Remuneration Committee | |
|------------------------------|-------------------|----------|--------------------------|----------|---------------------------------------|----------|
| | Held ¹ | Attended | Held ¹ | Attended | Held ¹ | Attended |
| Geoff Brunsdon AM | 13 | 13 | 2 | 2 | 1 | 1 |
| Jennifer Horrigan | 13 | 13 | 2 | 2 | 1 | 1 |
| Michael Johnstone | 13 | 13 | 2 | 2 | 1 | 1 |
| Howard Brenchley | 13 | 13 | N/A | N/A | N/A | N/A |
| Michael Groth ² | 2 | 2 | N/A | N/A | N/A | N/A |
| Joseph De Rango ³ | 11 | 11 | N/A | N/A | N/A | N/A |

¹ Number of meetings held during the time the director held office or was a member of the committee during the year.

² Michael Groth resigned as Director of Industria Company No.1 Limited and as Alternate Director for Howard Brenchley of APN Funds Management Limited on 2 September 2019. Mr Groth attended each Board Meeting held in his capacity as CFO.

³ Joseph De Rango was appointed as Director of Industria Company No.1 Limited and as Alternate Director for Howard Brenchley of APN Funds Management Limited on 2 September 2019. Mr De Rango attended each Board Meeting held in his capacity as CFO.

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 25 November 2019, 9,375,000 units of New Securities were issued to institutional investors pursuant to the institutional placement ("Placement") and security purchase plan ("SPP") announced on 20 November 2019 to eligible securityholders in Australia and New Zealand. On 19 December 2019, 6,689,175 units were issued under the SPP. Collectively, the Group raised \$46.3 million during the year from the Placement and the SPP.

Following the market update and buyback of the Group's stapled securities on 20 May 2020, 105,055 units were bought back during the year-ended 30 June 2020.

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 \$54,836,000 for the financial year ended 30 June 2020 (30 June 2019: \$29,243,000).

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

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Net rental income | 48,956 | 43,602 |
| Operating expenses | (5,277) | (4,704) |
| Net profit before interest, tax and other items | 43,679 | 38,898 |
| Net gain in fair value adjustments on investment properties | 20,650 | 5,934 |
| Net fair value gain / (loss) on investment properties - right-of-use ("ROU") assets | 709 | - |
| Fair value gain / (loss) on derivatives | (2,184) | (4,521) |
| Net interest expense | (7,994) | (8,221) |
| Profit / (loss) before tax | 54,860 | 32,090 |
| Income tax expense – deferred | (24) | (2,847) |
| Statutory profit / (loss) after tax | 54,836 | 29,243 |

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 leasing costs and incentives.

DIRECTORS' REPORT

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

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Statutory net profit / (loss) | 54,836 | 29,243 |
| <i>Adjusted for:</i> | | |
| Reversal of straight-line lease revenue recognition | (2,323) | (3,149) |
| (Reversal) / add back of fair value (gain) / loss on investment properties | (20,650) | (5,934) |
| (Reversal) / add back of fair value (gain) / loss on investment properties - ROU assets | (709) | - |
| Reversal of fair value loss / (gain) on derivatives | 2,184 | 4,521 |
| Reversal of movement in lease liabilities | (205) | - |
| Add back amortised leasing costs and rent-free adjustments ¹ | 4,648 | 3,751 |
| Add back / (deduct) income tax expense / (benefit) | 24 | 2,847 |
| Other one-off items ² | (960) | - |
| FFO | 36,845 | 31,279 |
| Key financial performance metrics: | | |
| FFO per security (cents) | 19.34 c | 19.03 c |
| Distributions per security (cents) | 17.275 c | 17.000 c |
| Payout Ratio (Distribution per security / FFO per security) | 89.32% | 89.35% |
| Statutory earnings / (loss) per security (cents per security) | 28.79 c | 17.79 c |
| Weighted average securities on issue (thousands) | 190,465 | 164,405 |
| Securities on issue (thousands) | 197,526 | 181,153 |
| Distributions declared (thousands) | \$33,408 | \$28,461 |

¹ Amortisation of leasing costs increased by \$560,000 due to the write-off of unamortised incentive resulting from tenant failure.

² Rental and income support received subsequent to the acquisition of 10 Brandl St, Eight Mile Plains, QLD have been excluded in the Group's FFO calculation due to its temporary nature (consistent with the ASX disclosure dated 15 October 2019).

Net tangible assets and asset valuations

Investment property assets were \$826.5 million, an increase of \$87.1 million. The increase was largely a result of \$57.1 million of acquisitions (350-356 Cooper Street, 60 Grindle Road and 10 Brandl Street), as well as revaluation gains of \$24.4 million, with 58% of the portfolio revalued in the current year. Additions to investment properties in the form of capital expenditure totalled to \$5.4 million, comprised of \$1.3 million of maintenance capex, \$2.4 million of development capex, \$1.4 million relating to sustainability initiatives and \$300,000 for fit out incentives.

Revaluation highlights include:

- \$25.0 million (13%) uplift reported for 1 Westrac Dr, Tomago. The value of this property is \$222 million, reflecting a 5.75% cap rate, with the increase value reflecting rising rents and additional income associated with a ~\$5.5 million expansion;
- \$2.4 million (8%) uplift reported for 34 Australis Drive, Derrimut, resulting from the cap rate compressing 25 basis points and income growth;
- \$2.0 million (12%) uplift for 13 Ricky Way and 10 Jersey Drive, Epping, following the early renewal of the tenant that secured 8 years of cash flow, and removed potential downtime in 2024 and 2026. The property is now valued at \$18.5 million;
- \$2.4 million (10%) increase in the valuation of 80 – 96 South Park Drive. The increase is largely attributable to the independent valuer adopting a cap rate of 6.00%, a 75-basis point reduction when compared to 30 June 2019; and
- \$7.6 million (7%) reduction in the value of Rhodes A, which is now valued at \$103.0 million. The reduction in value is associated with the upcoming lease expiry of the major tenant, Link Market Services, whom occupies 13,900 square metres (95%) of the building. The reduction in value was largely associated with higher lease-up costs (downtime and incentives) being assumed, which is appropriate given the change in economic conditions and uncertain leasing environment.

Leasing

Leasing is a key driver of outcomes across the portfolio, and the Board are pleased to report a record result over the financial year, with 28,900 square metres of leases completed. These outcomes demonstrate the ongoing focus on tenant engagement is adding value and underpinning the portfolio's income yield. The highlights include:

- 11,100 square metres leased at Brisbane Technology Park (BTP), with 49 deals being agreed during the period. Occupiers taking less than 200 square metres made up 40 of lease deals, and remain a key part of the market that generate attractive cash on cash returns with limited lead times;

- 6,635 square metres of renewals completed at BTP, reflecting 85% tenant retention;
- 6,106 square metres renewal at 81 Rushdale St, Knoxfield, completed. This was a key business plan initiative identified in May 2019, when the property was acquired. The 5-year renewal included a contribution by the Group to construct a 632 Kilowatt solar installation. This installation adds value to the property through a new income stream, whilst also reducing energy costs (and as a result, the total cost of occupancy) for the tenant; and
- Early renewal of Edlyn Foods, the occupier at 10 Jersey Way and 13 Ricky Way, Epping, over 11,200 square metres. This removes a medium-term leasing risk, with the new lease expiry August 2028.

The focus on tenant engagement and cash flow risk has escalated further given the challenges being faced by our tenants as a result of COVID-19. Wherever possible the management team are seeking out win-win outcomes for our tenants and APN Industria REIT securityholders; and one of the ways this is being addressed is by restructuring leases that result in higher cash flow certainty over the medium-to-long term. However, this requires goodwill on behalf of both parties and a balanced negotiation approach, which the Board believe continues to be struck, consistent with the approach of managing for the long term. The lease extension for Edlyn Foods is an example of this approach, and additional agreements have been secured in July and August 2020.

Energy and operational efficiencies adding value

Our approach regarding continuous improvement and best practice across the portfolio has not changed, with examples during the period including:

- Across the portfolio, approximately 2.5MW of solar has been installed, reducing emissions by 2,885 tons of CO₂ per annum. At Brisbane Technology Park, where 7 of the fund's 13 properties have been fitted with rooftop solar PV installations, energy self-sufficiency has increased to an average of 53% during daylight hours, reducing tenants' reliance on the energy grid and delivering 15% yield on cost;
- Completed the installation of 630-Kilowatt system at 81 Rushdale St, Knoxfield. This system was activated in July 2020, so whilst limited data is available at this stage, the solar energy generated is sufficient to power the tenant activities, addressing a major cost impediment for their business whilst also reducing carbon emissions by a forecast of 770 tonnes per annum;
- Lighting upgrades continued in 2020 with eight buildings at BTP being fitted out with solar, achieving savings in lighting costs in excess of 55%. Across the portfolio, LED upgrades are expected to reduce emissions by 919 tons of CO₂ per annum;

DIRECTORS' REPORT

- Modernising or replacing air conditioning units that rely on environmentally damaging refrigerant gases – reducing risk of obsolescence and improving tenant comfort.

Environmental, Social and Governance (ESG) commitments will extend further in 2020:

- APN Industria REIT is preparing to release a sustainability report later this year. The Board welcomes investor feedback on the ESG Report as we continue on this journey; and
- Commitment to be carbon neutral for Financial Year 2021. The carbon neutral commitment will be in accordance with the Climate Active Organisations Standard, an Australian Government framework that has been recognised by the European Union Commission and the World Bank as a mature and effective model to incentivise emission reduction. It is anticipated APN Industria REIT will be the first AREIT to achieve this milestone across the portfolio and operations within the fund.

The ESG initiatives pursued and progressed are a prudent risk management strategy that reinforces the importance of efficiency across the Group, enhances asset value, and extends our point of difference for tenants and investors. The Board will continue to contemplate a variety of ESG related initiatives, ensuring 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

Three properties were acquired during the period. Two industrial properties were acquired – 60 Grindle Road, Wacol (Queensland) for \$18.3 million and 350 – 356 Cooper St, Epping (Victoria) for \$28.8 million. The average passing yield was 6.2% and weighted average lease expiry 8.3 years. These properties add to the growing backbone of income that underpins the portfolio.

10 Brandl St, Eight Mile Plains, an office building adjacent to 18 Brandl St (an existing asset within the portfolio) was also acquired during the period. The purchase price of \$10.0 million reflected an 8.25% cap rate, and the vendor provided a rent guarantee equivalent to 15 months of income – valued at approximately \$1.25 million. A rent guarantee is a form of income provided by a vendor to provide a purchaser with short-term income. As the rent guarantee, and other ancillary income from the property, was temporary in nature, this has been excluded from Funds Operations in Financial Year 2020. The purchase price, net of the \$1.25 million of rent guarantee, reflected a rate per square metre of Net Lettable Area of approximately ~\$2,840, which we considered to be an attractive price and opportunity to leverage our on-site management presence at Brisbane Technology Park to re-lease the property, and potentially create capital value upside.

Whilst the REIT had funding support to acquire all the properties with 100% debt, the Board determined that it would be prudent to raise equity capital to ensure the balance sheet remained conservatively positioned. In November 2019, an equity raise was launched with a \$27 million institutional placement, which was well supported by existing and new investors. To ensure smaller securityholders were provided with an equal opportunity to participate, a Securityholder Purchase Plan (SPP) was offered with an initial cap of \$5 million, which was lifted to \$19.3 million following strong demand. This capital raising approach is consistent with Financial Year 2019, and demonstrates the Board's commitment to treating all shareholders equitably.

Debt refinanced during the period included \$36.25 million expiring in December 2020, which was increased by \$10.0 million and extended for a further five years to March 2025. This follows a further \$10.0 million increase in November 2019, taking the aggregate total debt facilities to \$290 million. At the balance date the Group had considerable undrawn funding capacity, totalling \$47.1 million.

Impacts relating to COVID-19

The portfolio held up reasonably well to the disruption caused by COVID-19. The defensive nature of the assets across the portfolio, combined with low balance sheet gearing, gave the Board confidence it was not necessary to undertake a potentially highly dilutive equity raising. The Board also sought to proactively update the market during this period of uncertainty, providing clarity on tenant composition, and stress-testing against bank debt covenants. Key excerpts from the disclosures include:

- *The portfolio comprises 17 industrial properties (56% by value), and 15 low-rise business park properties (44% by value) leased to cost-conscious occupiers. The weighted average cap rates are 6.1% and 6.7% respectively. The properties are leased to a diverse pool of tenants exceeding 120 in number. The top 10 tenants make up 64% of total portfolio income, and have all been in business for at least 20 years;*
- *Interest cover at 30 June 2020 was 6.9 times; and revenue could fall by more than 50% without triggering a breach of the ICR covenant (2.0x);*
- *Gearing is low at 28.8% as at 30 June 2020, below the target range of 30% - 40%. Value declines in excess of 45% could be sustained before the gearing covenant would be breached (55%);*
- *There are no 'active earnings' across the portfolio, such as funds management or development fees, that could cause significant volatility of income.*

Rental collections averaged 96% during April to June 2020 period, and 98% for the financial year. There was \$266,000 of rent abatements and \$783,000 of bad debt recognised, which reduced FFO by approximately 0.55 cents per security. Looking to the next financial year, the tenant that had committed to expand into 9 McKechnie Drive, BTP has suffered a major business downturn as their education

DIRECTORS' REPORT

business has been impacted by the closure of the Australian border. As a result, they will no longer expand into the 2,094 square metre building. This will impact the growth of FFO per security by approximately 0.5 cents for Financial Year 2021.

Cash generated from rents underpin the sustainability of the distribution, and consistent with the Board's prudent approach to financial management, the final quarterly distribution for 2020 was reduced by 5% to 4.15 cents. The distribution for the full financial year was 17.275 cents per security, 1.3% lower than the initial stated guidance of 17.5 cents per security.

Post balance date, stress testing was also completed on operating cash flows assuming the COVID-19 pandemic continues for the next three, six and 12 months.

Stapled security buyback

In May 2020, the Board announced a stapled security buyback of up to 5% of securities on issue. The Board believed the share price did not reflect the underlying value of the APN Industria REIT portfolio, nor the strength of the balance sheet. Acquiring securities reflected an attractive capital management initiative that could enhance value without compromising the financial strength of the entity.

Between 22 May 2020 and 30 June 2020, 105,055 securities were purchased at an average price of \$2.38. No additional securities were acquired after 30 June 2020, up until the date of this report, as the Board's Securities Trading Policy prohibits trading activities between the end of the financial year until 24 hours after the release of the annual results announcement.

Market Overview

Up until the onset of COVID-19, investor demand for office and industrial assets was strong, especially for assets with favourable leasing profiles. This was being driven by relatively stable economic conditions and continued appetite from investors for secure income streams that provided the prospects of capital growth.

However, the arrival of COVID-19 has had a profound impact on the broader economy. Unemployment has risen from 5.2% to 7.5% (Australian Bureau of Statistics on 13 August 2020), and business failures are increasing, particularly for those exposed to the tourism, education and retail sectors. The extent of how long the pandemic will go on for is unknown, as is the economic damage, with the situation continuously evolving.

Implications for the real estate market are clearer in some sub-sectors more than others; discretionary retail has been dramatically impacted by the closure of shopping centres, central business district office buildings (typically where workplace densities are the highest), have been largely vacated since March 2020 – although activity in the suburban markets has held up better; and industrial properties have predominantly functioned as normal as they benefit from workspaces that are less impacted by

social distancing measures due to the lack of density in the workplace.

In terms of market participants, the current limitations on travel may limit the flow of offshore capital into Australia, as well as the lowering of thresholds for purchasing freehold land by the Foreign Investment Review Board. There is also likely to be lower transaction volumes as the general uncertainties associated with the performance of tenants, and their ability to meet their financial obligations under leases – which may result in a mismatch between vendor and purchase price expectations.

Despite the challenges for the underlying occupiers of property, investment demand remains relatively good, as investors seek to generate a premium yield to the cash rate, which now stands at 0.25%, in what is likely to be an extended period of low growth across the world.

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 downward pressures on rents and capital values in other sub-sectors of real estate, such as retail, have resulted in increasing capital allocations into industrial real estate and additional allocations are likely. As a result, 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.

Whilst there are strong tail winds for industrial property, it is not without risk. New supply is increasing, and when this is combined with a weakening of the broader economy, it is likely there will be less upward pressure on rents and the risk of rising vacancy. The Board is mindful of these risks and continues to monitor the performance of the local markets where the Group has exposure, as well as seeking to understand the markets that provide growth opportunities.

Business and Technology Parks

Commercial office offerings in metropolitan markets, including Brisbane Technology Park and Rhodes Corporate Park, are relatively well placed given the challenging outlook. Rent profiles that range from ~\$400 to ~\$500 per square metre gross provide meaningful discount to CBD's, and the ability to easily drive and park at these locations is attractive for current and prospective occupiers. There is minimal new development activity, and there is a possibility yields could fall, largely as a consequence of lower risk-free rates reducing the cost of capital.

A trend we believe will continue to evolve is the prevalence of small businesses in these precincts. During the period the Group closed 41 new leases for tenants occupying less than 200 square metres, whilst also completing 6,635 renewals and retaining 85% of tenants. Despite COVID-19, demand from these small users has continued, and vacancy across our portfolio is limited at 9 tenancies for areas under 200 square metres.

DIRECTORS' REPORT

Opportunities also exist in the suburban markets to cater for corporate and government tenants seeking to cater for a distributed workforce model. The all-team, full-time remote work format has been a forced change for most companies since the onset of COVID-19, and for organisations with optimised IT infrastructure, there has been little disruption to daily operations. However limiting factors for working at home include: distractions from family or other members of the household; limited private workspaces; sharing knowledge through osmosis is challenging, as is mentoring young talent; and developing (or preserving) a corporate culture, and the desire of humans to interact with others and share ideas. There is demand from large occupiers for serviced offices and co-working environments (subject to acceptable distancing protocols), and there is an opportunity to expand our offering at BTP and also create a product at Rhodes that can seek to resolve the described challenges and cater to a growing market.

Offsetting the above opportunities is a weak economy and the risk of a major rent re-pricing event as a result of high vacancy in the CBD's, reducing the attractiveness of the rental savings, and possibly eroding rents at BTP and Rhodes. We see this as a risk, however whilst social distancing protocols remain a necessity, the prospects of a competitive advantage of having a distributed and low-density workforce will remain more attractive than return to high-rise buildings on mass.

Outlook

The world is facing unprecedented economic and health challenges, as well as considerable geopolitical risks. Central banks and governments are stimulating economies at record levels, and the desire for investors to generate a return above an extremely low risk-free rate is likely to see yields fall further in certain real estate sectors, especially when income profiles are underpinned by organisations with strong balance sheet credentials.

These factors are all outside the control of the Directors, who are focused on the key risks and opportunities that are within their control. Principally these are:

- Owning a diversified portfolio of properties that are fit for purpose for 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
- 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 to continue to manage through these risks and opportunities.

Distributions

Distributions of \$33,408,000 were declared by the Group during the financial year ended 30 June 2020 (2019: \$28,461,000).

For full details of distributions paid and/or payable during the financial year, refer to note 10 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

Other than those disclosed in note 23, 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 has 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.

DIRECTORS' REPORT

Details of the amounts paid to the auditor, which includes the amounts paid for non-audit services relating to audit of compliance plan and other approved advisory services, are set out in note 21 to the consolidated financial statements.

Auditor's independence declaration

A copy of the external auditor's independence declaration, as required under section 307C of the *Corporations Act 2001* is set out on page 33.

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 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 19 to the consolidated financial statements. Other than directors included in note 19, 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 9 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 section 306(3) of the *Corporations Act 2001*.

On behalf of the directors



Geoff Brunsdon AM

Director

Melbourne, 19 August 2020

CORPORATE GOVERNANCE STATEMENT

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

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

Securityholders in the Fund hold a unit or share of each of the above entities that are stapled together, such that an individual unit or share in one of the above entities may not be transferred or dealt with without the others. The Fund is listed on the Australian Securities Exchange (**ASX**) under code 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**). APN Property Group (**APN**) comprises the staple of APN PG and APD Trust and trades on the ASX under the code APD. APN 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 4th 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 2020 (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.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

477 Collins Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

Tel: +61 3 9671 7000
Fax: +61 3 9671 7001
www.deloitte.com.au

19 August 2020

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

Dear Board Members

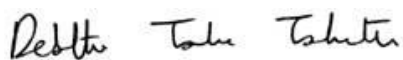
Independence Declaration – APN Industria REIT

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 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) The auditor independence requirements of the Corporations Act 2001 in relation to the 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 organisation.

INDEPENDENT AUDITOR'S REPORT



Deloitte Touche Tohmatsu
ABN 74 490 121 060

477 Collins Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

Tel: +61 3 9671 7000
Fax: +61 3 9671 7001
www.deloitte.com.au

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 2020, 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 2020 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 (including Independence Standards)* (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>Valuation of investment properties held at fair value</p> <p>As at 30 June 2020 the Group's investment properties represent the largest category of assets with a carrying value of \$826,481k, including a \$20,650k revaluation gain recognised in the consolidated statement of profit or loss and other comprehensive income as disclosed in note 7.</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, but not limited to:</p> <ul style="list-style-type: none"> • net passing rentals; • net market rentals; • average market rental growth rates; • terminal yields; • discount rates; and, • capitalisation rates. | <p>In conjunction with our valuation specialists, our procedures relating to the valuation of the investment properties included, but were not limited to:</p> <ul style="list-style-type: none"> - evaluating the independence, competence and objectivity of the valuers by understanding their credentials, their experiences, their remuneration basis and the extent of their relationship to APN; - assessing the scope of the valuers' work; - assessing the timeliness of the valuation and the date at which it was given, in relation to the financial year end; - challenging the appropriateness of the valuation techniques against industry practice and approach, and assessing the reasonableness of the approaches adopted in light of COVID-19; - on a sample basis, challenging the appropriateness of the net market rentals, the average market rental growth rates, the terminal yields, the discount rates and the capitalisation rates with reference to external industry and market economic data; - testing on a sample basis, the passing rental balances by agreeing them back to tenancy schedules and signed lease agreements, and considering the impact of any rent deferrals or rent reductions thereon; - reviewed tenancy schedules in light of COVID-19 to understand the composition of the tenants, including their location, their industry and for material clients, any publicly available information on the underlying performance of those tenants; and - recalculating the mathematical accuracy of a sample of the valuation models. <p>We have also assessed the appropriateness of the disclosures in note 7 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 2020, but does not include the financial report and our auditor's report thereon.

INDEPENDENT AUDITOR'S REPORT

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

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

Responsibilities of the Directors for the Financial Report

The directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

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.

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- 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, actions taken to eliminate threats or safeguards applied.

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, 19 August 2020

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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 section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the directors of the Responsible Entity made pursuant to section 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, 19 August 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2020

| | Notes | 2020 \$'000 | 2019 \$'000 |
|--|-------|-----------------|-----------------|
| Revenue | 6 | 59,554 | 52,153 |
| Straight-line rental income recognition | | 2,323 | 3,149 |
| Total revenue from continuing operations | | 61,877 | 55,302 |
| Other income | | | |
| Interest income | | 27 | 50 |
| Net fair value gain / (loss) on investment properties | 7 | 20,650 | 5,934 |
| Net fair value gain / (loss) on investment properties - ROU | 8 | 709 | - |
| Fair value gain / (loss) on derivatives | | (2,184) | (4,521) |
| Total other income | | 19,202 | 1,463 |
| Total income | | 81,079 | 56,765 |
| Expenses | | | |
| Property costs | | (12,921) | (11,700) |
| Management fees | 19 | (4,387) | (3,837) |
| Finance costs | 12 | (8,021) | (8,271) |
| Other expenses | | (890) | (867) |
| Total expenses | | (26,219) | (24,675) |
| Net profit / (loss) before tax | | 54,860 | 32,090 |
| Income tax expense | 5 | (24) | (2,847) |
| Profit / (loss) after tax | | 54,836 | 29,243 |
| Attributable to: | | | |
| Securityholders of Industria Trust No. 1 | | 51,450 | 20,417 |
| Securityholders of non-controlling interests ¹ | | 3,386 | 8,826 |
| | | 54,836 | 29,243 |
| Other comprehensive income | | - | - |
| Total comprehensive income for the year | | 54,836 | 29,243 |
| Total comprehensive income for the year is attributable to: | | | |
| Securityholders of Industria Trust No. 1 | | 51,450 | 20,417 |
| Securityholders of non-controlling interests ¹ | | 3,386 | 8,826 |
| | | 54,836 | 29,243 |
| Earnings per security | | | |
| Basic and diluted (cents per security) | 11 | 28.79 | 17.79 |

¹ 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 2020

| | Notes | 2020 \$'000 | 2019 \$'000 |
|--|-------|------------------|------------------|
| Current assets | | | |
| Cash and cash equivalents | 16 | 4,928 | 2,435 |
| Trade and other receivables | 17 | 377 | 1,007 |
| Other assets | | 733 | 764 |
| Total current assets | | 6,038 | 4,206 |
| Non-current assets | | | |
| Investment properties | 7 | 826,481 | 739,378 |
| Investment properties - right-of-use ("ROU") assets | 8 | 20,159 | - |
| Total non-current assets | | 846,640 | 739,378 |
| Total assets | | 852,678 | 743,584 |
| Current liabilities | | | |
| Trade and other payables | 18 | (7,735) | (6,633) |
| Derivative financial instruments | 12 | (2,671) | (1,631) |
| Lease liabilities | 8 | (101) | - |
| Distributions payable | 10 | (8,199) | (7,698) |
| Total current liabilities | | (18,706) | (15,962) |
| Non-current liabilities | | | |
| Trade and other payables | 18 | (1,003) | (614) |
| Derivative financial instruments | 12 | (5,719) | (4,575) |
| Lease liabilities | 8 | (19,144) | - |
| Borrowings | 12 | (242,014) | (224,251) |
| Deferred tax liability | 5 | (8,150) | (8,160) |
| Total non-current liabilities | | (276,030) | (237,600) |
| Total liabilities | | (294,736) | (253,562) |
| Net assets | | 557,942 | 490,022 |
| Equity | | | |
| <i>Securityholders of Industria Trust No. 1:</i> | | | |
| Contributed equity | 9 | 291,216 | 255,832 |
| Retained earnings | | 121,053 | 96,112 |
| <i>Securityholders of non-controlling interests¹:</i> | | | |
| Contributed equity | 9 | 107,354 | 96,246 |
| Retained earnings | | 38,319 | 41,832 |
| Total equity | | 557,942 | 490,022 |
| Net tangible assets (\$ per security) | | 2.82 | 2.71 |

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

| | Notes | Contributed equity \$'000 | Retained earnings \$'000 | Total \$'000 | Non-controlling interests ¹ \$'000 | Total equity \$'000 |
|---|-------|------------------------------|-----------------------------|-----------------|--|------------------------|
| Balance at 1 July 2018 | | 220,152 | 98,552 | 318,704 | 121,250 | 439,954 |
| Net profit / (loss) | | - | 20,417 | 20,417 | 8,826 | 29,243 |
| Other comprehensive income | | - | - | - | - | - |
| Profit / (loss) for the year | | - | 20,417 | 20,417 | 8,826 | 29,243 |
| Issue of contributed equity | 9 | 36,217 | - | 36,217 | 13,779 | 49,996 |
| Security issuance costs (net of income tax benefit) | 9 | (537) | - | (537) | (173) | (710) |
| Distributions paid or payable | 10 | - | (22,857) | (22,857) | (5,604) | (28,461) |
| Balance as at 30 June 2019 | | 255,832 | 96,112 | 351,944 | 138,078 | 490,022 |
| Net profit / (loss) | | - | 51,450 | 51,450 | 3,386 | 54,836 |
| Other comprehensive income | | - | - | - | - | - |
| Profit / (loss) for the year | | - | 51,450 | 51,450 | 3,386 | 54,836 |
| Issue of contributed equity | 9 | 36,133 | - | 36,133 | 11,321 | 47,454 |
| Security issuance costs (net of income tax benefit) | 9 | (565) | - | (565) | (147) | (712) |
| Securities buy-back | 9 | (184) | - | (184) | (66) | (250) |
| Distributions paid or payable | 10 | - | (26,509) | (26,509) | (6,899) | (33,408) |
| Balance as at 30 June 2020 | | 291,216 | 121,053 | 412,269 | 145,673 | 557,942 |

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

| | Notes | 2020 \$'000 | 2019 \$'000 |
|---|-------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Net rental income received | | 62,818 | 54,000 |
| Interest received | | 27 | 50 |
| Other expenses paid | | (17,112) | (13,690) |
| Finance costs paid | | (7,236) | (7,965) |
| Net cash inflow / (outflow) from operating activities | 16 | 38,497 | 32,395 |
| Cash flows from investing activities | | | |
| Payments for acquisition of investment properties | | (60,877) | (68,296) |
| Payments for capital expenditure on investment properties | | (5,451) | (3,050) |
| Net cash inflow / (outflow) from investing activities | | (66,328) | (71,346) |
| Cash flows from financing activities | | | |
| Net proceeds from borrowings | 16 | 17,494 | 18,074 |
| Net proceeds from issue of contributed equity | | 47,454 | 49,996 |
| Equity issuance costs paid | | (746) | (741) |
| Payment for securities buy-back | | (250) | - |
| Payments for ground rent | | (721) | - |
| Distributions paid | | (32,907) | (27,602) |
| Net cash inflow / (outflow) from financing activities | | 30,324 | 39,727 |
| Net increase / (decrease) in cash and cash equivalents | | 2,493 | 776 |
| Cash and cash equivalents at the beginning of the financial year | | 2,435 | 1,659 |
| Cash and cash equivalents at the end of the financial year | 16 | 4,928 | 2,435 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

About this report

1. General information

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 19 August 2020.

2.1 Going concern

The Group has assessed its ability to continue as a going concern taking into account of all information available for a period of 12 months from the date of issuing the consolidated financial statements. The impact of the COVID-19 pandemic has resulted in a small number of the Group's tenants requesting forms of rent relief prescribed by the Australian government. Whilst the situation is still evolving, the directors of the Responsible Entity remains confident that the Group will be able to continue trading and realise assets and discharge liabilities in its ordinary course of business. In reaching this position, the following factors have been considered:

- the Group has adequate levels of liquidity through its operating cash flows and has available debt lines to be drawn if required. Total undrawn debt facility as at the date of issuing the consolidated financial statements is \$47 million;
- the Group does not have any significant credit risk exposure to any single tenant counterparty or counterparties and holds \$7 million of security or other collateral from its tenants;

- the Group has adequate levels of headroom with respect to its financial and non-financial covenants as disclosed in note 12.1 and the Group does not expect any covenants to be breached; and
- the Group's debt is hedged to a level of 59.68%.

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

2.2 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 Australian 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.

2.3. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Trust and its controlled entities (the "Group") – refer to note 20 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.4 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.

2.5. 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 7 – 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

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Tax expense / (income) comprises: | | |
| Deferred tax expense / (income) relating to the origination and reversal of temporary differences | 24 | 2,847 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Profit / (loss) from continuing operations | 54,860 | 32,090 |
| Less: profit / (loss) relating to the Group's non-taxable Trusts | (55,011) | (24,015) |
| Taxable profit / (loss) of the Group | (151) | 8,075 |
| Prima facie tax payable @ 30% (2019: 30%) | (45) | 2,423 |
| <i>Add / (subtract) the tax effect of:</i> | | |
| Changes in tax bases not affecting current tax expense | - | (62) |
| Change in tax rate | - | 486 |
| Effect of unused tax losses now recognised as deferred tax assets | 16 | - |
| Under provision from previous years | 53 | - |
| Total tax expense / (income) | 24 | 2,847 |

5.2 Deferred tax balances

| | Opening balance \$000 | Recognised in profit or loss \$000 | Recognised in equity \$000 | Closing balance \$000 |
|---|-----------------------------|--|----------------------------------|-----------------------------|
| 2020 Temporary differences | | | | |
| Provisions and accruals | 9 | 1 | - | 10 |
| Investment properties | (9,328) | (106) | - | (9,434) |
| Impairment of receivables | - | 90 | - | 90 |
| Capital raising costs recognised directly in equity | 31 | - | 34 | 65 |
| Fair value adjustments on derivatives | 234 | 37 | - | 271 |
| Tax losses carried forward | 894 | (46) | - | 848 |
| Net deferred tax liabilities | (8,160) | (24) | 34 | (8,150) |

| | Opening balance \$000 | Recognised in profit or loss \$000 | Recognised in equity \$000 | Closing balance \$000 |
|---|-----------------------------|--|----------------------------------|-----------------------------|
| 2019 Temporary differences | | | | |
| 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 |
| Net deferred tax liabilities | (5,344) | (2,847) | 31 | (8,160) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

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 20.

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 is 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. For the year-ended 30 June 2020, there were no unrecognised carried forward capital losses (2019: \$nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. Revenue

Revenue 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.

| | 2020 \$'000 | 2019 \$'000 |
|----------------------|----------------|----------------|
| Rental income | 51,974 | 45,044 |
| Outgoing recoveries | 7,580 | 7,109 |
| Total revenue | 59,554 | 52,153 |

Recognition and measurement

Rental income

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 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.

Outgoing recoveries

Income from property outgoing recoveries are recognised as the costs are incurred, which is typically when the services are provided. Outgoing recoveries not received at reporting date is reflected in the consolidated statement of financial position as a receivable.

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.

Rent concessions

Rent concessions provided to tenants that have been impacted by the COVID-19 pandemic comprised short term waivers related to future occupancy and are treated as lease modifications. Such modifications are recognised on a straight-line basis over the non-cancellable term of the modified lease. As at balance date, all waivers provided were on a short-term basis and in aggregate were insignificant to the Group's total rental income.

7. Investment properties

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

| | 2020 \$'000 | 2019 \$'000 |
|----------------------------------|----------------|----------------|
| Industrial and office properties | 824,928 | 737,878 |
| Land held for development | 1,553 | 1,500 |
| | 826,481 | 739,378 |

7.1. Reconciliation of carrying amounts

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Carrying amount at beginning of the financial year | 739,378 | 660,732 |
| Purchase of investment properties | 57,140 | 64,527 |
| Acquisition costs associated with purchase of investment properties | 3,737 | 3,769 |
| Capital additions to investment properties | 5,451 | 3,050 |
| Movement in deferred lease incentives | (2,198) | (1,783) |
| Straight-line revenue recognition | 2,323 | 3,149 |
| Net gain / (loss) on fair value adjustments ¹ | 20,650 | 5,934 |
| Carrying amount at end of the financial year | 826,481 | 739,378 |

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 \$24,387,000 (2019: \$9,703,000) representing the fair value gain on investment properties and a loss of \$3,737,000 (2019: \$3,769,000) representing the written off capitalised acquisition costs of investment properties purchased which were capitalised on the consolidated statement of financial position at initial recognition.

Included within the investment property fair value is a deduction of \$2,793,000 representing lease incentive commitments the Group will need to pay under the lease contracts (2019: \$2,790,000).

7.2. Individual valuation and carrying amounts

The investment property portfolio comprises 31 properties and land held for development located throughout Victoria, New South Wales, Queensland and South Australia.

In the current financial year, five 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 Jones Lang Lasalle Australia ("JLL"), Colliers International Valuation and Advisory Services ("Colliers") and Savills Valuations Pty Ltd ("Savills") in the current financial year (2019: CBRE Valuations Pty Ltd ("CBRE"), Urbis Valuations Pty Ltd ("Urbis"), JLL and M3 Property (Vic) Pty Ltd ("M3")).

The remaining 26 properties were subject to internal valuations performed by the Group's internal property team and have been reviewed and approved by the Board.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| | | Latest independent valuation | | Carrying amount | | Capitalisation rate | | Discount rate | |
|---|---------------|------------------------------|---------|-----------------|-------------|---------------------|--------|---------------|--------|
| | | Valuation date | \$'000 | 2020 \$'000 | 2019 \$'000 | 2020 % | 2019 % | 2020 % | 2019 % |
| Industrial properties | | | | | | | | | |
| 34 Australis Drive, Derrimut, VIC | Freehold | Dec 2019 | 31,700 | 31,765 | 29,257 | 6.25% | 6.50% | 6.75% | 7.00% |
| 80-96 South Park Drive, Dandenong South, VIC | Freehold | Jun 2020 | 25,900 | 25,900 | 23,500 | 6.00% | 6.75% | 6.25% | 7.00% |
| 89 West Park Drive, Derrimut, VIC | Freehold | Dec 2019 | 22,000 | 22,000 | 21,000 | 6.00% | 6.00% | 6.50% | 6.75% |
| 32-40 Garden Street, Kilsyth, VIC | Freehold | Dec 2019 | 19,300 | 19,300 | 18,344 | 6.25% | 6.50% | 7.00% | 7.00% |
| 5 Butler Boulevard, Adelaide Airport, SA (excluding the right-of-use asset) | Sub-leasehold | Jun 2019 | 14,750 | 14,750 | 14,750 | 8.25% | 8.25% | 8.75% | 8.75% |
| 1-3 Westrac Drive, Tomago, NSW | Freehold | Jun 2020 | 222,000 | 222,000 | 197,000 | 5.75% | 6.00% | 7.25% | 8.00% |
| 140 Sharps Road, Tullamarine, VIC (excluding the right-of-use asset) | Sub-leasehold | Dec 2019 | 13,700 | 13,700 | 13,500 | 8.00% | 8.25% | 6.50% | 7.25% |
| 13 Ricky Way, Epping, VIC | Freehold | Jun 2020 | 9,000 | 9,000 | 8,000 | 5.75% | 6.25% | 7.00% | 6.75% |
| 10 Jersey Drive, Epping, VIC | Freehold | Jun 2020 | 9,500 | 9,500 | 8,500 | 5.75% | 6.25% | 7.00% | 6.75% |
| 1 West Park Drive, Derrimut, VIC | Freehold | Jun 2019 | 11,250 | 11,280 | 11,250 | 6.50% | 6.50% | 7.00% | 7.00% |
| 147-153 Canterbury Road, Kilsyth, VIC | Freehold | Apr 2019 | 9,502 | 9,502 | 9,502 | 7.25% | 7.25% | 7.50% | 7.75% |
| 3 Forbes Close, Knoxfield, VIC | Freehold | May 2019 | 9,000 | 8,901 | 9,000 | 5.75% | 5.75% | N/A | N/A |
| 4 Forbes Close, Knoxfield, VIC | Freehold | May 2019 | 10,650 | 10,486 | 10,650 | 5.75% | 5.75% | N/A | N/A |
| 81-83 Rushdale Street, Knoxfield, VIC | Freehold | May 2019 | 9,100 | 9,942 | 9,100 | 6.50% | 6.50% | N/A | N/A |
| 60 Grindle Road, Wacol, QLD ^(a) | Freehold | July 2019 | 18,340 | 18,340 | N/A | 7.75% | N/A | 8.25% | N/A |
| 350 Cooper Street, Epping, VIC ^(a) | Freehold | Dec 2019 | 11,115 | 11,115 | N/A | 6.00% | N/A | 7.00% | N/A |
| 356 Cooper Street, Epping, VIC ^(a) | Freehold | Dec 2019 | 17,985 | 17,985 | N/A | 6.00% | N/A | 7.00% | N/A |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| | | Latest independent valuation | | Carrying amount | | Capitalisation rate | | Discount rate | |
|--|----------|------------------------------|----------------|-----------------|----------------|---------------------|--------|---------------|--------|
| | | Valuation date | \$'000 | 2020 \$'000 | 2019 \$'000 | 2020 % | 2019 % | 2020 % | 2019 % |
| Office properties | | | | | | | | | |
| 7 Clunies Ross Court and 17-19 McKechnie Drive, BTP, QLD | Freehold | Jun 2019 | 49,500 | 49,921 | 49,500 | 7.25% | 7.25% | 7.75% | 7.75% |
| BTP Central, BTP, QLD [#] | Freehold | Jun 2019 | 39,500 | 41,288 | 39,500 | 7.50% | 7.50% | 8.00% | 8.00% |
| 8 Clunies Ross Court and 9 McKechnie Drive, BTP, QLD | Freehold | Jun 2019 | 25,500 | 24,699 | 25,500 | 7.50% | 7.50% | 7.75% | 7.75% |
| 37 Brandl St, BTP, QLD | Freehold | Jun 2019 | 15,250 | 15,689 | 15,250 | 7.50% | 7.50% | 8.00% | 8.00% |
| 18 Brandl St, BTP, QLD | Freehold | Jun 2019 | 13,250 | 13,346 | 13,250 | 8.00% | 8.00% | 8.25% | 8.25% |
| 88 Brandl St, BTP, QLD | Freehold | Jun 2019 | 15,000 | 15,451 | 15,000 | 7.75% | 7.75% | 8.00% | 8.00% |
| 10 Brandl St, Eight Mile Plains, QLD ^(a) | Freehold | Sep 2019 | 10,000 | 10,011 | N/A | 8.25% | N/A | 8.50% | N/A |
| Building A, 1 Homebush Bay Drive, Rhodes, NSW | Freehold | Jun 2020 | 103,000 | 103,000 | 110,510 | 5.88% | 6.00% | 7.00% | 7.00% |
| Building C, 1 Homebush Bay Drive, Rhodes, NSW | Freehold | Dec 2018 | 86,000 | 86,057 | 86,015 | 6.00% | 6.00% | 7.00% | 7.00% |
| Land held for development | | | | | | | | | |
| 45 & 45B McKechnie Drive, BTP, QLD | Freehold | N/A | N/A | 1,553 | 1,500 | | | | |
| Total investment properties | | | 821,792 | 826,481 | 739,378 | | | | |

[#]The BTP Central portfolio comprises five assets located within BTP.

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:

| | 2020 | 2019 |
|---|--------------|--------------|
| Industrial properties | 6.14% | 6.33% |
| Office properties | 6.46% | 6.66% |
| Group's investment properties portfolio (excluding land) | 6.28% | 6.49% |

(a) Acquisitions

During the year, the Group acquired the following industrial and office properties, totalling \$57,140,000 (excluding transaction costs).

- 60 Grindle Road, Wacol, QLD,
- 350 and 356 Cooper Street, Epping, VIC, and
- 10 Brandl St, Eight Mile Plains, QLD.

These acquisitions were financed with debt drawn from the Group's existing revolving cash advance facility and proceeds from the institutional placement and security purchase plan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Recognition and measurement

Valuation process

The purpose of the valuation process is to ensure that assets are held at fair 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 three-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 it is withdrawn from use, and 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 \$826,481,000 (2019: \$739,378,000), representing the estimated fair values.

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 fair 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 2020 \$'000 | Valuation Technique | Inputs used to measure fair value | Range of unobservable inputs |
|--|--------------------------------|---|---|--|
| Level 3 (Industrial and office properties) | 824,928 | 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 | \$61 - \$1,304 \$59 - \$938 0% - 4% 5.75% - 8.25% 6.00% - 9.50% 6.25% - 8.75% |
| Level 3 (Land held for development) | 1,553 | Direct comparison method | Sales price per sqm | \$472 |

NOTES TO THE CONSOLIDATED 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. |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7.3. Sensitivity information

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.

Due to the impact that the COVID-19 pandemic could have on valuations of investment properties, sensitivity analysis has been performed on the fair values adopted at 30 June 2020, based on a range of potential capitalisation rate and discount rate movements on the Group's investment properties portfolio as compared to the capitalisation rates and discount rates adopted at 30 June 2020. Capitalisation rates and discount rates are considered to be key unobservable inputs that would have a material impact on the fair values adopted if they moved.

Outcomes of the sensitivity analysis are set out below:

| | Impact to net profit | | | |
|-----------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| | Capitalisation rate | | Discount rate | |
| | 0.25% increase \$000 | 0.25% decrease \$000 | 0.25% increase \$000 | 0.25% decrease \$000 |
| Investment properties | (18,691) | 19,726 | (14,750) | 15,184 |

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

8. Leases

8.1. 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 \$21,142,000 (2019: \$20,318,000) of the Group's total revenue from continuing operations.

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:

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Within one year | 58,719 | 56,273 |
| More than one year but not more than five years | 129,218 | 130,788 |
| More than five years | 171,153 | 163,277 |
| | 359,090 | 350,338 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8.2. Sub-leasehold properties and ground rent obligations

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

The Group has adopted AASB 16 Leases ("AASB 16") from 1 July 2019 using the modified approach. For lessees, AASB 16 replaces the recognition and measurement requirements for operating leases (previously an 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 to be recognised in the consolidated statement of financial position for all qualifying leases.

For all other lease contracts associated with the Group's other investment properties, the Group is a lessor by virtue. As AASB 16 does not significantly alter lessor accounting, it did not impact the Group for these leases.

The following have been reflected in the Group's consolidated financial statements:

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

| | 2020 \$'000 |
|---|----------------|
| Investment properties - ROU assets recognised on initial application date | 19,450 |
| Net fair value gain / (loss) on investment properties – ROU recognised in the consolidated statement of profit or loss and other comprehensive income | 709 |
| Investment properties – ROU assets at end of the financial year | 20,159 |

(b) Lease liabilities

| | 2020 \$'000 |
|--|----------------|
| Lease liabilities recognised on initial application date | 19,450 |
| Current | |
| Repayment of lease liabilities | 746 |
| Interest expense on lease liabilities | (645) |
| Current lease liabilities | 101 |
| Non-current | |
| Repayment of lease liabilities | 30,605 |
| Interest expense on lease liabilities | (11,461) |
| Non-current lease liabilities | 19,144 |
| Lease liabilities at end of the financial year | 19,245 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Recognition and measurement

The Group has adopted AASB 16 Leases ("AASB 16") from 1 July 2019 using the modified approach. For lessees, AASB 16 replaces the recognition and measurement requirements for operating leases (previously an 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 to be recognised in the consolidated statement of financial position for all qualifying leases.

On initial application date, 1 July 2019, the Group has recognised the ROU asset at an amount equal to the lease liability which are initially measured at the present value of the unavoidable lease payments (inclusive of incentives and costs), discounted using the Group's incremental borrowing rate of 3.36%.

The Group's ROU assets include the two ground leases which meet the definition of investment property under AASB 140 *Investment Property* ("AASB 140") and is measured at fair value and presented as investment property in the consolidated statement of financial position. Change in fair value of these ROU assets is presented separately from the interest expense recognised on the lease liability in the consolidated statement of profit or loss and comprehensive income.

The lease liability is subsequently increased by the interest expense on the lease liability (using the effective interest method) and reduced by lease payments made. Interest expense recognised on the lease liability are presented as a component of finance cost in the consolidated statement of profit or loss and other comprehensive income.

(c) Key unobservable inputs and sensitivity information on fair value of ROU assets

| Fair Value Hierarchy | Fair value 30 June 2020 \$'000 | Valuation Technique | Inputs used to measure fair value | Range of unobservable inputs |
|----------------------|--------------------------------|---------------------|--|--------------------------------|
| Level 3 | 20,159 | DCF | Net market rent (per p.a. \$'000) Adopted discount rate | \$344 - \$648 3.08% - 3.36% |

A definition is provided in note 7 for each of the inputs used to measure fair value of the ROU assets.

The Group's adopted discount rate is considered to be a key unobservable input that would have a material impact on the fair value of the ROU assets adopted if moved. A sensitivity analysis has been performed on the fair values adopted at 30 June 2020, based on a range of potential discount rate movements as compared to the discount rates adopted at 30 June 2020.

Outcomes of the sensitivity analysis are set out below:

| | Impact to net profit | |
|------------------------------------|-----------------------|-----------------------|
| | 0.25% increase \$'000 | 0.25% decrease \$'000 |
| Investment properties – ROU assets | (653) | 685 |

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.

9. Contributed equity

9.1 Carrying amount

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| At the beginning of the financial year | 352,078 | 302,792 |
| Issue of new securities | 46,263 | 49,996 |
| Distribution reinvestment | 1,191 | - |
| Security issuance costs (net of income tax benefit) | (712) | (710) |
| Securities buy-back | (250) | - |
| At the end of the financial year | 398,570 | 352,078 |
| <i>Attributable to:</i> | | |
| Securityholders of Industria Trust No.1 | 291,216 | 255,832 |
| Securityholders of non-controlling interests | 107,354 | 96,246 |
| | 398,570 | 352,078 |

9.2 Number of securities on issue

| | 2020 No. | 2019 No. |
|---|--------------------|--------------------|
| At the beginning of the financial year | 181,153,430 | 162,839,743 |
| Issue of new securities | 16,064,175 | 18,313,687 |
| Distribution reinvestment | 412,969 | - |
| Securities buy-back | (105,055) | - |
| At the end of the financial year | 197,525,519 | 181,153,430 |

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. Distributions

| | 2020 | | 2019 | |
|--|--------------------|---------------|--------------------|---------------|
| | Cents per security | \$'000 | Cents per security | \$'000 |
| Distributions declared during the year: | | | | |
| Period ended 30 Sep | 4.375 | 7,926 | 4.250 | 6,921 |
| Period ended 31 Dec | 4.375 | 8,637 | 4.250 | 6,921 |
| Period ended 31 Mar | 4.375 | 8,646 | 4.250 | 6,921 |
| Distributions payable: | | | | |
| Period ended 30 Jun | 4.150 | 8,199 | 4.250 | 7,698 |
| | 17.275 | 33,408 | 17.000 | 28,461 |

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.

11. Earnings per security

| | 2020 | 2019 |
|---|--------------|--------------|
| Profit / (loss) after tax (\$'000) | 54,836 | 29,243 |
| Weighted average number of securities outstanding (thousands) | 190,465 | 164,405 |
| Basic and diluted earnings (cents per security) | 28.79 | 17.79 |

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 (2019: nil).

12. Borrowings

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Non-current | | |
| Bank loans drawn – secured | 242,944 | 225,000 |
| Capitalised borrowing cost | (930) | (749) |
| Total borrowings at balance date | 242,014 | 224,251 |

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.

12.1 Summary of borrowing arrangements

Industria Trust No.3, as the internal financier of APN Industria REIT has a \$290,000,000 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 B2: \$86,250,000 – repayable September 2021;
- Tranche A3: \$20,000,000 – repayable Jun 2022;
- Tranche B3: \$10,000,000 – repayable January 2023
- 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
- Tranche C2: \$10,000,000 – repayable September 2024; and
- Tranche B1: \$46,250,000 – repayable March 2025.

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

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| The Group has access to the following lines of credit: | | |
| Loan facility limit | 290,000 | 270,000 |
| Facilities drawn at balance date | (242,944) | (225,000) |
| Facilities not drawn at balance date | 47,056 | 45,000 |

NOTES TO THE CONSOLIDATED 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:

| | | 2020 |
|--|---|------------|
| Loan to Value Ratio ("LVR") | At all times, LVR does not exceed 55%. | 30.49% |
| Gearing Ratio | At all times, Gearing Ratio does not exceed 55%. | 32.23% |
| 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. | 6.92 times |
| Weighted Average Lease Length to Expiry ("WALE") | WALE for the portfolio will be greater than 2.5 years. | 5.74 years |

12.2 Finance costs

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Interest expense paid / payable ¹ | 7,505 | 8,271 |
| Interest expense on lease liability | 516 | - |
| | 8,021 | 8,271 |

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

The weighted average 'all-in' interest rate (including bank margin, amortisation of borrowing costs and line fees) at reporting date was 2.89% (2019: 3.48%).

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 CONSOLIDATED FINANCIAL STATEMENTS

12.3 Derivatives – interest rate contracts

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

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

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

| | 2020 \$'000 | 2019 \$'000 |
|--------------------------------|----------------|----------------|
| Current liabilities | | |
| Interest rate contracts | (2,671) | (1,631) |
| Non-current liabilities | | |
| Interest rate contracts | (5,719) | (4,575) |

APN Industria REIT's interest rate contracts in effect at reporting date covered 59.68% (2019: 75.56%) 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 |
|---|--------------------------|--------------------------|---------------------|--------------|
| 2020: Interest rate swaps and caps | | | | |
| 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 2020 | 6 Jan 2021 | |
| Swap 6 | 15,000 | 6 Jan 2014 | 6 Jun 2024 | |
| Swap 7 | 20,000 | 6 Jun 2020 | 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 2020 | 6 Jun 2022 | |
| Total / Weighted average | 145,000 | | | 2.10% |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| | Notional Value \$'000 | Swap Effective \$'000 | Swap Expiry Date | Fixed Rate |
|---|--------------------------|--------------------------|---------------------|--------------|
| 2019: Interest rate swaps and caps | | | | |
| 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 2020 | 6 Jan 2021 | |
| Swap 6 | 15,000 | 6 Jan 2014 | 6 Jun 2024 | |
| Swap 7 | 20,000 | 6 Jun 2020 | 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 2020 | 6 Jun 2022 | |
| Interest rate cap | 25,000 | 8 Oct 2019 | 8 Oct 2020 | |
| Total / Weighted average | 170,000 | | | 2.10% |

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.

12.4 Fair value hierarchy

The following table provides an analysis of investment properties and 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 2020 | | | | |
|---|-------------------|-------------------|-------------------|-------------------|
| | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Level 4 \$'000 |
| Investment properties | - | - | 826,481 | 826,481 |
| Investment properties – ROU assets | - | - | 20,159 | 20,159 |
| Interest rate contracts | - | (8,390) | - | (8,390) |
| Total | - | (8,390) | 846,640 | 838,250 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| Fair value measurement as at 30 June 2019 | | | | |
|---|-------------------|-------------------|-------------------|-------------------|
| | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Level 4 \$'000 |
| Investment properties | - | - | 739,378 | 739,378 |
| Interest rate contracts | - | (6,206) | - | (6,206) |
| Total | - | (6,206) | 739,378 | 733,172 |

There were no transfers between Levels during the financial year.

13. 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 2020, the Group's gearing ratio was 28.08% (2019: 30.03%) which is a result of the funds raised under the Group's institutional placement and SPP, further strengthening the Group's balance sheet position to support future acquisitions and managing any downward risks in valuations of investment properties.

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Total borrowings | 242,944 | 225,000 |
| Less: cash and cash equivalents | (4,928) | (2,435) |
| Net debt | 238,016 | 222,565 |
| Total assets (excluding cash and cash equivalents) | 847,750 | 741,149 |
| Gearing ratio | 28.08% | 30.03% |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. 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.

14.1 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.

14.2 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 |
| 30 June 2020 | | |
| Variable rate instruments | (2,429) | 2,429 |
| Derivative financial instruments | 5,680 | (5,718) |
| | 3,251 | (3,289) |
| 30 June 2019 | | |
| Variable rate instruments | (2,250) | 2,250 |
| Derivative financial instruments | 6,984 | (7,028) |
| | 4,734 | 4,778 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14.3 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 consolidated 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.

14.4 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 |
|------------------------------|-------------------------|------------------------------------|---------------------------|--|-------------------------------|
| 2020 | | | | | |
| Liabilities | | | | | |
| Lease incentives payable | (1,822) | (374) | (597) | (2,793) | (2,793) |
| Payables | (7,735) | (476) | (527) | (8,738) | (8,738) |
| Distribution payable | (8,199) | - | - | (8,199) | (8,199) |
| Interest-bearing liabilities | (4,008) | (110,258) | (145,713) | (259,979) | (242,014) |
| Interest rate contracts | (2,904) | (2,715) | (3,941) | (9,560) | (8,390) |
| | (24,668) | (113,823) | (150,778) | (289,269) | (270,134) |
| 2019 | | | | | |
| Liabilities | | | | | |
| 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) |
| | (25,121) | (46,019) | (220,936) | (292,076) | (248,192) |

14.5 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. Commitment and contingencies

15.1 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 (2019: \$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.

15.2 Capital expenditure

During the year, the Group entered into agreements to undertake capital works in various properties, which are in progress at reporting date. The capital expenditure associated with the remaining capital works are forecasted to be \$6,432,000, of which all remained outstanding as at 30 June 2020 (2019: \$413,000).

Other than the above, the Group has no other commitments and contingent assets as at 30 June 2020.

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.

16. Cash and cash equivalents

16.1 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.

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Reconciliation of cash and cash equivalent | | |
| Cash and cash equivalents | 4,928 | 2,435 |
| Reconciliation of profit after tax to net cash flows from operating activities | | |
| Net profit / (loss) after tax | 54,836 | 29,243 |
| <i>Add / (loss) non-cash items:</i> | | |
| Straight-line lease revenue recognition | (2,323) | (3,149) |
| Amortisation of borrowing costs | 269 | 306 |
| Movement in deferred lease incentives | 2,198 | 1,783 |
| Movement in allowance for doubtful debts | 255 | 46 |
| Fair value (gain) / loss on derivatives | 2,184 | 4,521 |
| Fair value (gain) / loss on investment properties | (20,650) | (5,934) |
| Net fair value gain / (loss) on investment properties - ROU | (709) | - |
| Payments for ground leases | 721 | - |
| <i>Changes in assets / liabilities:</i> | | |
| Increase / (decrease) in receivables | 406 | 19 |
| (Decrease) / increase in payables | 1,491 | 2,713 |
| (Decrease) / increase in lease liabilities | (205) | - |
| (Decrease) / increase in deferred tax | 24 | 2,847 |
| Net cash inflows / (outflows) from operating activities | 38,497 | 32,395 |

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 CONSOLIDATED FINANCIAL STATEMENTS

16.2 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.

| (a) Borrowings | Notes | 2020 \$'000 | 2019 \$'000 |
|--|--------------|------------------------|------------------------|
| Borrowings at the beginning of the financial year | 12 | 224,251 | 205,871 |
| <i>Net cash inflow / (outflow) from financing activities</i> | | | |
| Proceeds from borrowings | | 96,494 | 57,081 |
| Repayments of borrowings | | (78,550) | (38,781) |
| Additional capitalised borrowing costs paid | | (450) | (226) |
| <i>Non-cash changes:</i> | | | |
| Amortisation of borrowing costs | | 269 | 306 |
| Borrowings at the end of the financial year | 12 | 242,014 | 224,251 |

| (b) Lease liabilities | Notes | 2020 \$'000 | 2019 \$'000 |
|---|--------------|------------------------|------------------------|
| Lease liabilities at the beginning of the financial year | | 19,450 | - |
| <i>Net cash inflow / (outflow) from financing activities:</i> | | | |
| Payments for ground rent | | (721) | - |
| <i>Non-cash changes:</i> | | | |
| Interest expense on lease liabilities | | 516 | - |
| Lease liabilities at the end of the financial year | | 19,245 | - |

17. Trade and other receivables

| | 2020 \$'000 | 2019 \$'000 |
|--|------------------------|------------------------|
| Rent receivable (net of impairment allowances) | 377 | 1,007 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17.1 Ageing analysis of receivables past due but not impaired

| | 2020 \$'000 | 2019 \$'000 |
|------------|----------------|----------------|
| 0-30 days | 195 | 894 |
| 31-90 days | 169 | 61 |
| 91+ days | 13 | 52 |
| | 377 | 1,007 |

As at 30 June 2020, rent receivable of \$783,000 relating to two tenants were impaired (2019: \$46,000) and expensed in the consolidated statement of profit or loss and other comprehensive income. Leasing arrangements with one of the tenants was terminated due to a material breach. The Group holds \$7,138,000 security deposit and/or other collateral and 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, less any impairment allowances under the expected credit loss ("ECL") model.

Impairment allowances for rent receivable and other financial assets (other than those measured at fair value through profit and loss) is assessed at each reporting period and is measured using the simplified approach based on its lifetime ECL. Credit losses are measured as the difference between cash flows due to the Group in accordance with the contract and the cash flows the Group expects to receive.

The Group analyses the age of outstanding receivable balances and debts that are known to be uncollectable are written off when identified.

18. Trade and other payables

| | 2020 \$'000 | 2019 \$'000 |
|-----------------------------------|----------------|----------------|
| Current | | |
| Trade payables | 515 | 445 |
| Accruals and other creditors | 4,173 | 4,676 |
| Prepaid rent | 2,644 | 1,096 |
| Rental bond received from tenants | 125 | 109 |
| GST payable | 278 | 307 |
| | 7,735 | 6,633 |
| Non-Current | | |
| Rental bond received from tenants | 1,003 | 614 |
| | 1,003 | 614 |

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Other notes

19. Related party transactions

19.1 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.

19.2. 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 follow:

| | 2020 | | 2019 | |
|---|----------------|-------------------|----------------|-------------------|
| | Paid \$'000 | Payable \$'000 | Paid \$'000 | Payable \$'000 |
| Management fees ¹ | 3,260 | 1,127 | 2,858 | 979 |
| Property management and leasing fees ² | 375 | 280 | 58 | 144 |
| | 3,635 | 1,407 | 2,916 | 1,123 |

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 entity's 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.

19.3 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:

| | 2020 | | 2019 | |
|--------------------------------|-------------------------|---------------------|-------------------------|---------------------|
| | Number of securities | Distributions \$ | Number of securities | Distributions \$ |
| APN Property Group Limited | 8,385 | 1,257,968 | 28,726,235 | 4,651,197 |
| APD Trust | 28,719,327 | 3,704,793 | - | - |
| APN AREIT Fund | 5,053,617 | 861,187 | 4,799,094 | 815,846 |
| APN CFS AREIT Fund | 788,027 | 134,243 | 748,009 | 127,162 |
| APN Property for Income Fund | 420,562 | 76,128 | 500,005 | 85,001 |
| APN Property for Income Fund 2 | 140,471 | 25,453 | 167,605 | 28,493 |
| Geoff Brunsdon AM | 66,463 | 11,481 | 66,463 | 10,793 |
| Chris Aylward | - | 25,797 | 120,000 | 10,200 |
| Tim Slattery | 8,599 | 1,358 | 7,629 | 792 |
| Joseph De Rango | 7,700 | 320 | - | - |
| Total | 35,213,151 | 6,098,728 | 35,135,040 | 5,729,484 |

17.83% (2019: 19.40%) of APN Industria REIT stapled securities are held by related parties.

20. Controlled entities

| | Country of incorporation | Percentage owned (%) | |
|--|--------------------------|----------------------|------|
| | | 2020 | 2019 |
| Parent entity | | | |
| Industria Trust No. 1 | Australia | | |
| Controlled entities of Industria Trust No. 1 | | | |
| South Park Investment Trust | Australia | 100 | 100 |
| West Park Investment Trust | Australia | 100 | 100 |
| Tullamarine Investment Trust | Australia | 100 | 100 |
| Kilsyth Investment Trust | Australia | 100 | 100 |
| West Park Investment Trust No. 2 | Australia | 100 | 100 |
| Burbridge Investment Trust | Australia | 100 | 100 |
| Rhodes Investment Trust | Australia | 100 | 100 |
| Tomago Investment Trust | Australia | 100 | 100 |
| 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 | - |
| Cooper Investment Trust No. 1 | Australia | 100 | - |
| Cooper Investment Trust No. 2 | Australia | 100 | - |
| Non-controlling Interests | | | |
| Industria Trust No. 2 | Australia | - | - |
| Industria Trust No. 3 | Australia | - | - |
| APN Robinson Road Industrial Property Fund | Australia | - | - |
| APN Technology and Business Park Property Fund | Australia | - | - |
| Industria Finance Trust | Australia | - | - |
| APN Technology and Business Park Property Fund No. 1 | Australia | - | - |
| Industria Trust No. 4 | Australia | - | - |
| Industria Company No.1 Limited | 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. Remuneration of auditors

| | 2020 \$ | 2019 \$ |
|--|----------------|----------------|
| Deloitte and related network firms* | | |
| Audit or review of financial reports: | | |
| Group | 58,753 | 56,753 |
| Controlled entities | 73,000 | 73,000 |
| | 131,753 | 129,753 |
| Statutory assurance services required by legislation to be provided by the auditor | 13,600 | 8,000 |
| Total | 145,353 | 137,753 |

*The auditor of the APN Industria REIT is Deloitte Touche Tohmatsu.

22. Parent entity financial information

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

| | 2020 \$'000 | 2019 \$'000 |
|--|------------------|------------------|
| Statement of financial position | | |
| Current assets | 2,936 | 1,183 |
| Non-current assets | 641,316 | 544,079 |
| Total assets | 644,252 | 545,262 |
| Current liabilities | (208,939) | (14,516) |
| Non-current liabilities | (23,046) | (178,802) |
| Total liabilities | (231,985) | (193,318) |
| Net assets | 412,267 | 351,944 |
| Equity | | |
| Issued capital | 291,215 | 255,832 |
| Retained earnings | 121,052 | 96,112 |
| Total equity | 412,267 | 351,944 |
| Financial performance | | |
| Profit for the financial year | 51,450 | 20,417 |
| Other comprehensive income | - | - |
| Total comprehensive income | 51,450 | 20,417 |

At 30 June 2020, the parent entity had not provided guarantees (2019: \$nil), has no contingent liabilities (2019: \$nil) and no contractual commitments (2019: \$nil).

23. Subsequent events

The COVID-19 pandemic has created unprecedented uncertainty, in particular the continued lack of market transactions which are ordinarily a strong source of evidence for valuations of investment properties. Actual economic events and conditions in the future may be materially different from those estimated by the Group at the reporting date. In the event that COVID-19 impacts are more severe or prolonged than anticipated, the fair value of the Group's investment properties may be adversely impacted. At the date of issuing the consolidated financial statements, an estimate of the future impact of COVID-19 on the Group's investment properties cannot be made as this will depend on the magnitude and duration of the economic downturn, where the full range of possible effects are currently unknown.

Subsequent to the reporting date, the Group had granted one rent relief request with the overall impact of these modifications being insignificant in the context of the total remaining rental income. At the date of signing of these financial statements, there are no outstanding tenant discussions.

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

24. Adoption of new and revised accounting standards

24.1 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 | Impact on financial statements |
|---|--|
| AASB 16 Leases ("AASB 16") | The Group has applied AASB 16 <i>Leases</i> for the first time as disclosed in note 8. |
| Interpretation 23 ("Interpretation 23") <i>Uncertainty over Income Tax Treatments</i> | <p>The Group has adopted Interpretation 23 for the first time in the current year. Interpretation 23 is 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>.</p> <p>The Group does not have uncertainty around its income tax treatment under AASB 112 and as such it did not have any impact on the Group.</p> |

24.2 Standards and Interpretations on issue but not yet effective

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also on 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 2019-5 <i>Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia</i> | 1 January 2020 |
| <p>The Amending Standard requires entities that intend to be compliant with IFRS standards to disclose information required by AASB 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> for the potential effect of each IFRS pronouncement that has not yet been issued by the AASB.</p> | |

SUMMARY OF SECURITYHOLDERS

Twenty largest holders of quoted equity securities as at 1 September 2020

| Rank | Name | No. of fully paid ordinary shares | %IC |
|--------------|---|-----------------------------------|--------------|
| 1 | GROWTHPOINT PROPERTIES AUSTRALIA LIMITED | 29,621,555 | 15.00 |
| 2 | PERPETUAL CORPORATE TRUST LTD | 25,189,401 | 12.75 |
| 3 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 20,482,353 | 10.37 |
| 4 | J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 18,424,875 | 9.33 |
| 5 | CITICORP NOMINEES PTY LIMITED | 10,977,185 | 5.56 |
| 6 | NATIONAL NOMINEES LIMITED | 8,144,123 | 4.12 |
| 7 | PERPETUAL CORPORATE TRUST LTD | 3,529,926 | 1.79 |
| 8 | AUSTRALIAN EXECUTOR TRUSTEES LIMITED | 2,460,751 | 1.25 |
| 9 | NEWECONOMY COM AU NOMINEES PTY LIMITED | 1,925,705 | 0.97 |
| 10 | THE CASS FOUNDATION LIMITED | 1,165,100 | 0.59 |
| 11 | J REISINGER SUPERANNUATION P/L | 1,125,000 | 0.57 |
| 12 | BNP PARIBAS NOMS PTY LTD | 1,036,257 | 0.52 |
| 13 | BNP PARIBAS NOMS(NZ) LTD | 885,387 | 0.45 |
| 14 | JOHN E GILL TRADING PTY LTD | 815,074 | 0.41 |
| 15 | SARGON CT PTY LTD | 522,169 | 0.26 |
| 16 | BNP PARIBAS NOMINEES PTY LTD | 515,855 | 0.26 |
| 17 | STANBOX NO 2 PTY LTD | 480,000 | 0.24 |
| 18 | BNP PARIBAS NOMINEES PTY LTD | 454,937 | 0.23 |
| 19 | SANDHURST TRUSTEES LTD | 450,038 | 0.23 |
| 20 | NETWEALTH INVESTMENTS LIMITED | 370,720 | 0.19 |
| Total | | 128,576,411 | 65.09 |

Distribution of holders of equity securities as at 1 September 2020

| Range | Securities | No. of holders | % |
|----------------------|--------------------|----------------|---------------|
| 100,001 and Over | 134,585,207 | 56 | 68.14 |
| 10,001 to 100,000 | 47,102,814 | 1,966 | 23.85 |
| 5,001 to 10,000 | 9,255,911 | 1,218 | 4.69 |
| 1,001 to 5,000 | 6,010,668 | 2,059 | 3.04 |
| 1 to 1,000 | 570,919 | 1,270 | 0.29 |
| Total | 197,525,519 | 6,569 | 100.00 |
| Unmarketable Parcels | 16,282 | 345 | 0.01 |

Substantial Holder Notices as at 1 September 2020

| Name | Date of Notice (ASX) | Number of securities | % |
|--|----------------------|----------------------|-------|
| APN Property Group and Holus Nominees Pty Limited and Lauren Investments Pty Limited and related entities | 16 Dec 2019 | 35,240,925 | 18.48 |
| Growthpoint Properties Australia Ltd and Growthpoint Properties Limited of South Africa and related entities | 14 Aug 2020 | 29,621,555 | 15.00 |
| Franklin Resources Inc and affiliates | 5 Aug 2020 | 11,678,503 | 5.91 |

On-market buy back

ADI completed an on-market buy-back of 105,055 securities during the reporting period.

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 of the Trusts

APN Funds Management Limited

ACN 080 674 479
AFS Licence No: 237500

Directors of APN Funds Management Limited

Geoff Brunsdon AM, Independent Chairman
Howard Brenchley, Independent Director
Michael Johnstone, Independent Director
Jennifer Horrigan, Independent Director
Michael Groth, Alternate Director for Howard Brenchley
(Resigned in September 2019)
Joseph De Rango, Alternate Director for Howard Brenchley

Company Secretary

Chantal Churchill

Manager

APN Funds Management Limited

PO Box 18011
Collins Street East
Melbourne VIC 8003

T +61 3 8656 1000
F +61 3 8656 1010
W apngroup.com.au

Registered Office

Level 30, 101 Collins Street
Melbourne VIC 3000

T +61 3 8656 1000
F +61 3 8656 1010
W www.industriareit.com.au
E 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
E registrars@linkmarketservices.com.au

Stock Exchange Listing

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





Responsible Entity

APN Funds Management Limited

ACN 080 674 479 AFSL No 237500

Level 30, 101 Collins Street
Melbourne Victoria 3000 Australia

T +61 (3) 8656 1000

F +61 (3) 8656 1010

W apngroup.com.au

APN | Industria REIT

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