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 2021

APN | Property Group

APN Funds Management Limited
ACN 080 674 479 AFSL No 237500

Contents

Strategy to grow through investing in office and industrial assets

Providing businesses with attractively priced and well located workspaces

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

Producing sustainable income and capital growth returns

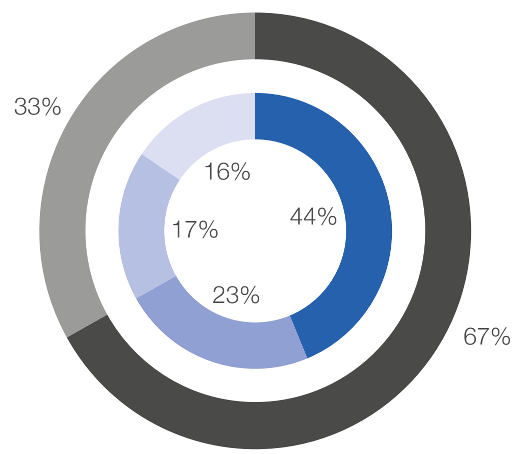
Our Portfolio

Asset types

- Industrial
- Business Parks

Locations

- Industrial (ex-Westrac)
- Industrial (Westrac)
- Rhodes Corporate Park
- Brisbane Technology Park



$1.1bn	39	98%*	5.4yr	3%
PORTFOLIO VALUATION	PROPERTIES	OCCUPIED	WEIGHTED AVERAGE LEASE EXPIRY	AVERAGE ANNUAL FIXED UPLIFTS

LETTER FROM THE FUND MANAGER

Dear Investor,

Financial Year 2021 has been interrupted by lockdowns due to the COVID-19 pandemic, along with global economic and political unrest. Despite this, Australia's economic activity has been resilient, supported by aggressive fiscal stimulus, historically low interest rates, new highs for the stock market and the rollout of a vaccine.

I am pleased to report that during this period of extreme instability, APN Industria REIT continued to deliver on its strategic objective of providing income and capital growth to investors through our portfolio of industrial and business park properties.

Statutory net profit was $119.2 million for the year to 30 June 2021, representing a substantial increase of 117.5% to the prior period. This result was driven by a revaluation uplift of $85.2 million (10%) on prior book values, income growth from fixed rent reviews and additional revenue from newly acquired assets.

Funds From Operations (FFO) increased 12.0% ($4.4 million) to $41.2 million, or 3.1% per security to 19.9 cents. This outcome is above top of the 2 – 3% guidance range, which was upgraded in December 2020 from broadly the same as FY20.

Distributions for the year increased 9.0% ($3.0 million) to $36.4 million, or 17.3 cents per security, which was consistent with FY20. This reflected an FFO payout ratio of 86.9%. Key drivers of the FY21 performance included:

- Strong cash flow with 99.9% of contracted gross rent collected
- Net Property Income was up 10.9% ($4.9 million) to $49.9 million, or 2.1% on a like for like basis. Brisbane Technology Park outperformed, with 8.7% growth
- Record leasing volumes with approximately 42,100 square metres of deals completed, driving total portfolio occupancy to 98% at 30 June 2021, up from 96%
- $182 million of accretive acquisitions, increasing the portfolio's industrial weighting to 67%, up from 56% at 30 June 2020

The fund remained active and acquired $182 million of new assets, and this combined with the revaluation uplift resulted in the value of the portfolio increasing to $1.1 billion. This was achieved while maintaining a strong balance sheet. Gearing of 31.6% remained at the bottom of the 30-40% target, following a $55.4 million equity issuance. The raising included a $35 million institutional placement, $20 million Share Purchase Plan, and approximately $400,000 of Distribution Reinvestment Plan proceeds. The composition of these raisings continued our track record of ensuring all investors have an equal opportunity to participate.

During the year, we refinanced and secured over $300 million in loan facilities, with an average term of 3.9 years. The weighted average cost of debt was 2.65% p.a. and interest cover (the ratio of our interest cost versus our income) was 7.2x, which is amongst the highest ratios within the A-REIT sector.

Net Tangible Assets increased 13.5% (or 38 cents) to $3.20 per security. This growth was largely driven by revaluation uplifts across the portfolio, following the delivery of asset management initiatives to reduce leasing risk and drive property performance. We also contracted to sell 10 Brandl St, which was purchased in October 2019, taking advantage of strong owner occupier demand uncovered during our re-leasing campaign. The sale of the property will result in an annualised return to investors of 16.8%, and contributed to the capital growth reported for FY21.

In July 2021, APN Industria REIT became one of the first A-REIT's to be certified carbon neutral across its portfolio and operations, in accordance with the Climate Active Standard. Climate Active's carbon neutral certification is awarded to businesses and organisations that are determined to have achieved net zero emissions (carbon neutrality). I am immensely proud of our team, who have been instrumental in delivering this outcome for the Fund, especially as the investment community, our customers, and society, increase their expectations when it comes to the organisations taking account of their actions and their impact on the environment.

With regards to avoiding emissions and self sufficiency, the energy generated from APN Industria REIT's direct investments in solar, which have been installed over the past four years, saved approximately 2.4 million kilograms of carbon dioxide emissions from being released into the atmosphere, and exceeded the emissions attributable to the portfolio under operational control. The energy generated from ADI's investments is anticipated to improve further in FY22, with further solar installations planned.

Moving into Financial Year 2022, you will see a number of changes to the branding to APN Industria REIT following the acquisition of APN Property Group (the manager) by Dexus. Dexus is a Top 50 entity on the ASX, with a market capitalisation of $11.5 billion at 30 June 2021, with investments across the real estate sub-sectors including office, industrial, retail, and healthcare. Dexus has a like-minded investment philosophy to APN, as well as an integrated real estate management platform that has established expertise in investment and development,

with an extensive track record of value creation. ADI's security holders will also gain access to a deeper pool of growth opportunities, across all markets, given Dexus' reach across its $42.5 billion portfolio.

From a governance perspective, the existing APN arrangements will remain, including the continuation of the independent Responsible Entity Board that has overseen the delivery of the strategy since IPO in 2013.

After growing the Fund from approximately $400 million to $1.1 billion of assets and generating a total shareholder return of 94% over the past five years, the APN team and I are looking forward to the future with Dexus, and leveraging the scale and expertise of the platform to continue to deliver performance for our securityholders.

As I write this letter the major Australian capital cities on the east coast are in various forms of lockdown, as a result of COVID-19 Delta strain outbreaks, which is creating challenges for society and the organisations within it. Business is significantly disrupted, and there is downside risk to the economy.

APN Industria REIT's high-quality portfolio generates resilient income from a customer base underpinned by Government, ASX listed, national and multi-national companies, which make up 87% of the income. In FY21 we collected 99.9% of gross rent, demonstrating our customers operate resilient businesses.

However, our key challenge in generating growth in FY22 is leasing the 13,900 sqm tenancy at Rhodes Corporate Park, NSW, which Link Market Services will vacate in September 2021. We are currently in exclusive negotiations to lease approximately 5,000 square metres of this space, although we anticipate current market conditions may slow leasing activity.

As a result, the Board has adopted a cautious approach and guided to FY22 FFO of 19.3 cents per security, whilst maintaining a dividend of 17.3 cent per security, which is consistent with FY21, as the Board recognises the importance of income to investors. This guidance statement is subject to a continuation of current market condition and no unforeseen circumstances. The Board will continue to monitor APN Industria REIT's performance and notes that further additional leasing success may provide an opportunity to increase market guidance.

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

$41.2m FFO up 12.0% on pcp; 99.9% gross rent collected

$85m valuation growth (+10%), $182m of acquisitions, 31.6% gearing

~42,100 square metres of leasing completed, active across office & industrial sectors

Being accountable: One of the first A-REIT's certified carbon neutral for FY21

Dexus - one of Australia's leading fully integrated real estate groups

The Responsible Entity and Manager of APN Industria REIT (ASX:ADI) is together APN Funds Management Limited (APN FM) for the trusts and Industria Company No. 1 Limited (IDR Co 1). The ultimate and immediate parent entity of APN FM, APN Property Group (ASX:APD), was acquired by Dexus Nominee Pty Ltd an entity controlled by Dexus on 13 August 2021.

The ADI management team has been retained and Dexus maintains a 15.3% stake in the Fund, demonstrating continued alignment.

Securityholders will benefit from a like-minded investment philosophy, as well as a fully integrated real estate management platform:

- Access to established expertise in property investment and development, with an extensive track record of value creation
- Access to a deeper pool of acquisition opportunities

Existing governance arrangements will remain, including the independent Responsible Entity Board.

Strong investor alignment

- Dexus is strongly aligned to delivering investor returns – owning a co-investment stake in ADI
- Dexus provides potential capacity to make significant co-investments as a Top 50 entity on the ASX

Specialist leading manager of Australian real estate

- $42.5 billion of funds under management
- Full-service platform with a track record of delivering out-performance
- Vision to be recognised as Australia's leading real estate company

Leading ESG credentials

- Delivering long-term value by focusing on issues that matter to stakeholders
- Best practice corporate governance trusted by leading global investors
- Recognised global leader in sustainability

Leveraging platform scale

- Broad Australian real estate expertise spanning office, industrial, retail and healthcare sectors
- Platform scale providing unparalleled access to leasing and acquisition deal-flow and market intelligence
- Unique customer propositions driving tenant attraction and retention translating to investment performance

Dexus have committed to maintaining the existing management team of APN Industria REIT.

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 2021 RESULTS

Key performance metrics

STATUTORY NET PROFIT	FFO ($m)[1]	FFO (cps)[1]
$119.2m	$41.2m	19.9c
2020: $54.8m ▲ 117.5%	2020: $36.8m ▲ 12.0%	2020: 19.3c ▲ 3.1%

DISTRIBUTION DECLARED	DISTRIBUTIONS (cps)	FFO PAYOUT RATIO
$36.4m	17.3c	86.9%
2020: $33.4m ▲ 9.0%	2020: 17.3c ▲ 0.0%	2020: 89.3% ▼ 2.4%

Balance sheet strength

PORTFOLIO VALUATION	MARKET CAPITALISATION[2]	GEARING	NTA
$1.1bn	$725m	31.6%	$3.20

1 Rental guarantees and the impact of AASB16 (ground lease rent) have been removed to reflect the underlying performance of the portfolio, consistent with prior periods

2 As at 16 August 2021

DIVERSIFIED PORTFOLIO

Melbourne, Adelaide and Brisbane	WesTrac Newcastle	Rhodes Corporate Park	Brisbane Technology Park
44%	23%	17%	16%
Industrial		Business Parks	

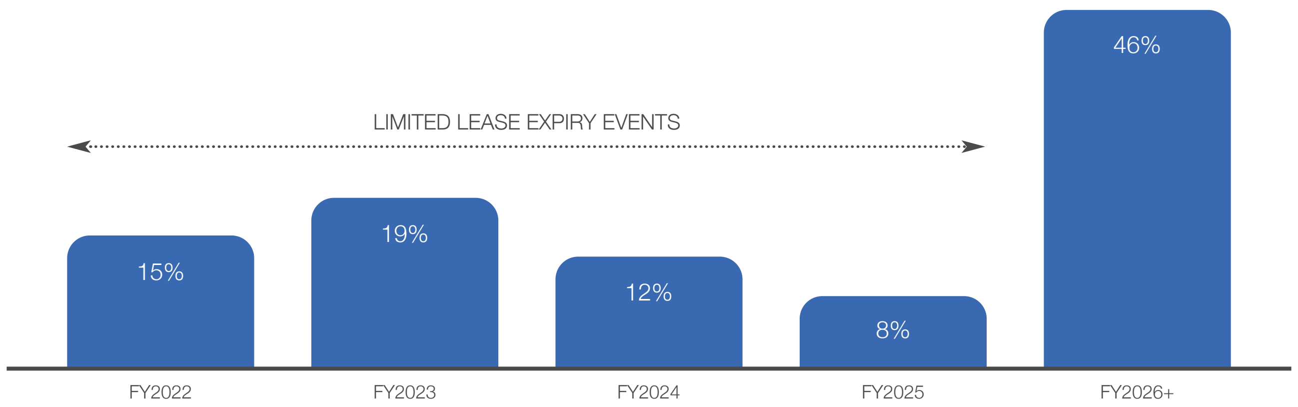
Melbourne, Adelaide and Brisbane
Key industrial precincts
~$476 million valuation
24 buildings
5.2 year WALE

WesTrac Newcastle
Located adjacent to M1 motorway
~$252 million valuation
13.2 year WALE

Rhodes Corporate Park
Inner west Sydney
~$191 million valuation
2 buildings
1.3 year WALE

Brisbane Technology Park
15 minutes south of CBD
~$170 million valuation
12 buildings
2.5 year WALE

Income visibility - Lease expiry profile (by income)



BALANCE SHEET

Strong balance sheet, consistently outperforming peers

Negotiated ~$300 million of new debt facilities with average maturity of 3.9 years, adding $134 million of new lines of credit

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

- Weighted average debt maturity 2.9 years
- Three financiers with no more than ~42% exposure to a single bank

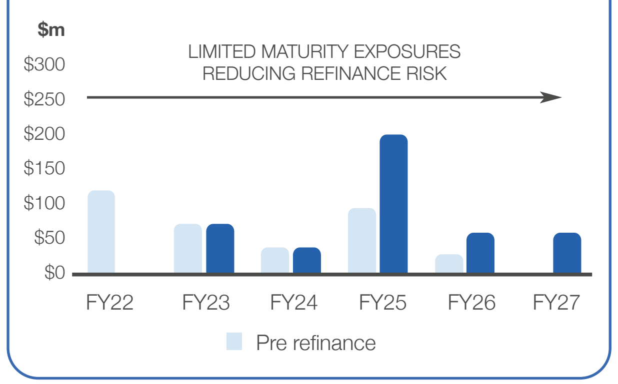
Weighted average interest rate 2.65% and 7.2x interest cover:

- 77% of debt hedged at average rate of 0.93% for FY22

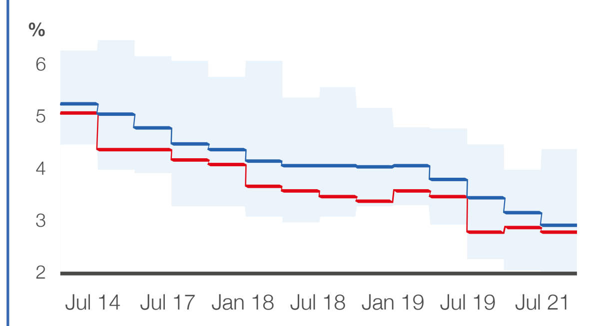
Balance sheet continues to provide considerable:

- Value declines in excess of 35% could be sustained before the gearing covenant would be breached (55%)
- Revenue could fall by more than 70% without triggering a breach of the ICR covenant (2.0x)

Debt maturity profile Limited refinance risk



APN Industria REIT cost of debt compared to A-REIT sector[1]



1 Source: Company information and IRESS

PORTFOLIO PERFORMANCE

Carbon neutral certified portfolio and operations

ADI is the first A-REIT to be certified carbon neutral where our emissions boundary was assessed based on both our property portfolio and associated corporate operations, in accordance with the Climate Active Standard:

- ADI's activities have no net negative impact on the climate
- Based off an assessment of 2020 emissions

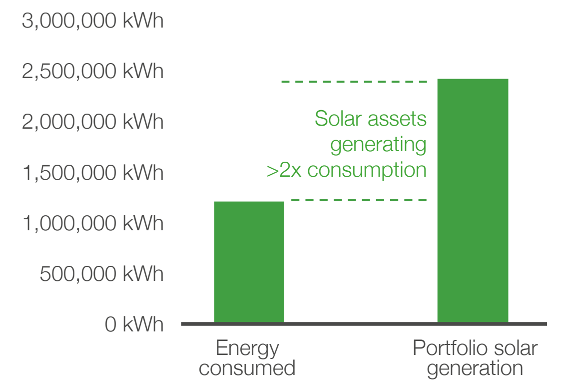
Continue to assess existing portfolio and all growth initiatives for ESG risks to preserve and enhance value

Solar PV production exceeded 2.4m kWh, more than double the organisation's electricity footprint as defined by our carbon neutral certification:

- 2.5 Megawatts installed across portfolio
- Seeking to install a further 1.35 Megawatts in FY22
- 49% self-sufficiency of buildings at Brisbane Technology Park during daylight hours

Member of Griffith University Net Zero Emissions Advisory Board, providing thought leadership and collaborating on best practice and innovation

Brisbane Technology Park energy consumption & generation[2]



Voluntarily reducing emissions and taking accountability

Rooftop solar PV installations

Climate Active Carbon Neutral

Climate Active is the Australian Government's carbon neutral certification and is awarded to businesses and organisations that have credibly reached a state of achieving net zero emissions (carbon neutrality). This means that the activities associated with running a business or producing a particular product have no net negative impact on the climate.[1]

1 https://www.climateactive.org.au/what-climate-active/how-it-worksupdate

2. Energy consumed as certified by Climate Active; Portfolio solar generation attributable to ADI's direct investments in rooftop PV solar, and excludes tenant installations

ACQUISITIONS

Track record of disciplined growth and delivering securityholder value

IRR 15.0%
Sep 16

1 Westrac Dr, Tomago ($158.6m, 7.25% initial yield)

$48m placement
$36.8m REO at $2.12

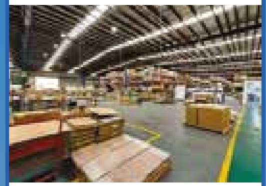
IRR 17.6%
Jul 18

13 Ricky Way and 10 Jersey Drive ($15.7m, 7.5% initial yield)

Sep 18

1 Westpark Drive, Derrimut ($10.6m, 6.6% initial yield)
IRR 14.2%

Sep/Oct 2018
Share buyback at $2.48
(~4% discount to NTA)

IRR 11.5%
May 19

Knoxfield and Kilsyth portfolio ($38.3m, 6.3% initial yield)

$30m placement
$20m SPP at $2.73

Sep 19

60 Grindle Road, Wacol ($18.3m, 8.0% initial yield)
IRR 24.4%

Oct 19

10 Brandl St, BTP ($10.0m, 9.0% initial yield)
IRR 16.8%

IRR 9.4%
Dec 19

350-356 Cooper St, Epping ($28.8m, 5.1% initial yield)

$27m placement
$19m SPP at $2.88

April 2020
Share buyback at $2.38
(~16% discount to NTA)

Dec 20

78 Henderson Rd, Rowville ($16.0m, 5.1% initial yield)
IRR 19.6%

Dec 20

16-28 Quarry Rd, Stapylton ($62.5m, 5.9% initial yield)
IRR 13.9%

Recent Acquisition
Mar 21

Butler Blvd, Adelaide Airport ($29.6m, 9.8% initial yield)

$35m placement at $2.86
$20m SPP at $2.82

Recent Acquisition
Apr 21

45 – 55 O'Briens Rd, Corio ($36.0m, 5.5% initial yield)

Recent Acquisition
Jul 21

57 Mark Anthony Dr, Dandenong Sth ($13.5m, 5.0% initial yield)

Jul 21

137 Fitzgerald Rd, Laverton North ($24.1m, 5.1% initial yield)
Recent Acquisition

5 years to 30 June 2021: $462 million of acquisitions | average WALE 11.25 years | average cap rate 6.6% | TSR[1]: 14.2% p.a.

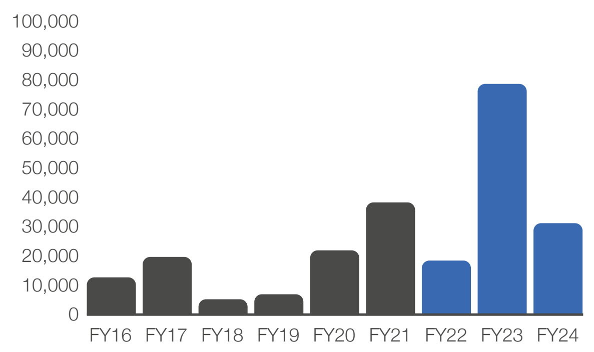
1 For the period from 30 June 2016 to 30 June 2021, excludes June 2016 quarter distribution. Based on security price performance plus distributions paid, not accounting for any reinvestment.

INDUSTRIAL ASSETS

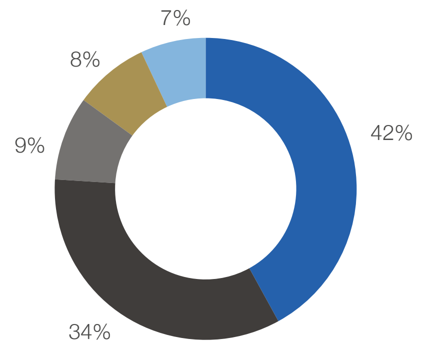
Industria's industrial properties, located in Melbourne, Brisbane, Adelaide, and Newcastle, are primarily warehouse facilities that are well located close to major transport and logistics infrastructure.

- $728 million valuation, 100% leased, 7.6 year WALE
- Average cap rate 5.50%
- Asset management capability and de-risking cash flow through leasing continues to be a key driver of valuation growth:
  - 37,500 square metres leased – all ahead of prior valuation assumptions, ~3% rental spreads
  - Continue to deliver on business plan initiatives from FY20 and FY21 acquisitions, creating additional value
  - Occupancy up from 95% to 100%
- Executing on key leasing opportunities that also reduce FY22 income risks:
  - ~11,900 square metres to B & D Doors at Canterbury Rd, Kilsyth (December 2021 expiry)
  - ~3,000 square metres to Australia Post at Butler Bv, Adelaide Airport (September 2021 expiry). ~8,300 square metres of expiry remaining in this supply constrained market throughout FY22
- FY23 expiries are concentrated in the strong markets of Melbourne's west – providing additional value add opportunities

Leasing completed and forthcoming expiries (by area)



Tenant composition by industry (industrial assets)



Solar system - 13 Ricky Way, Epping, 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

- Completed $5.5 million expansion July 2021 – generating 6.75% yield on cost
- Valuation increased $25.6 million to $252.0 million, reflecting a 5.25% cap rate
- 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 focused on parts supply, component rebuilds, parts exchange and autonomous mining
  - Major competitive advantage is capability to entirely rebuild machines – potentially saving clients >50% on new products
  - Distributes over 1 million parts annually from 24 hour distribution centre
- Strong underlying business with maintenance revenue providing counter-cyclical cash flow
- Long term partner of Caterpillar dating back to 1929

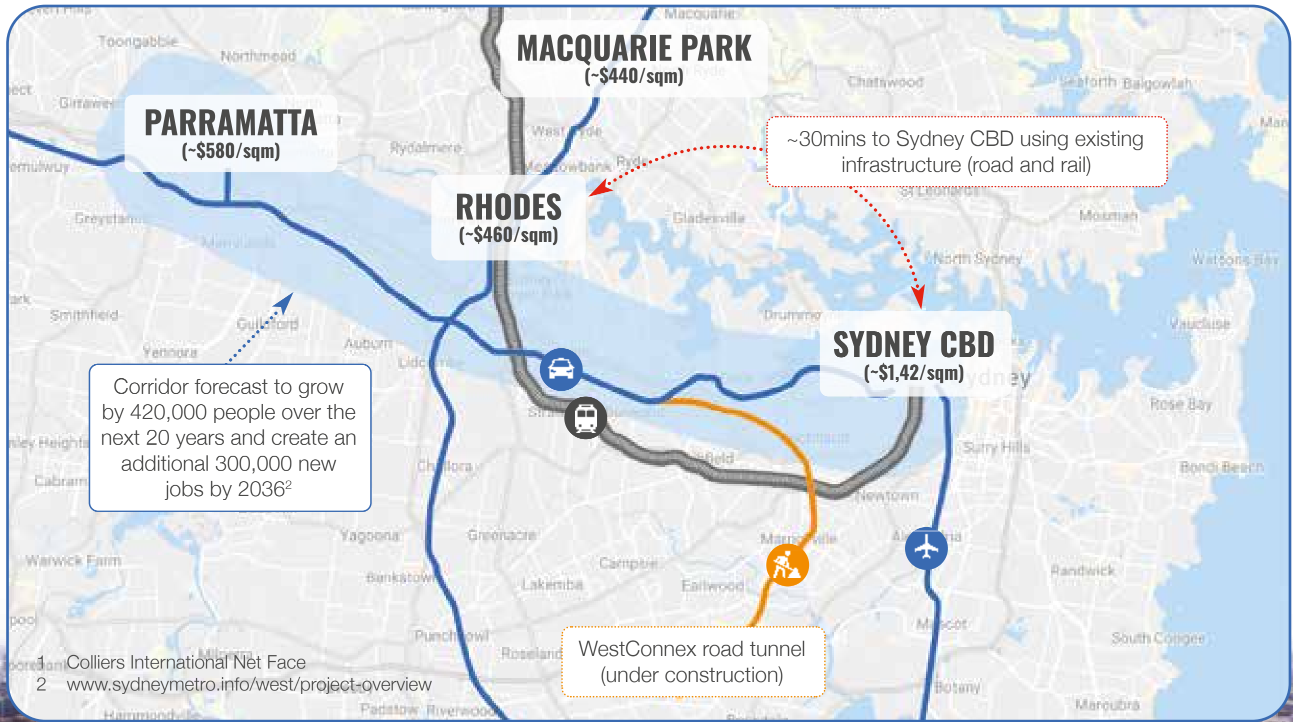
WesTrac Newcastle, aerial view

RHODES CORPORATE PARK

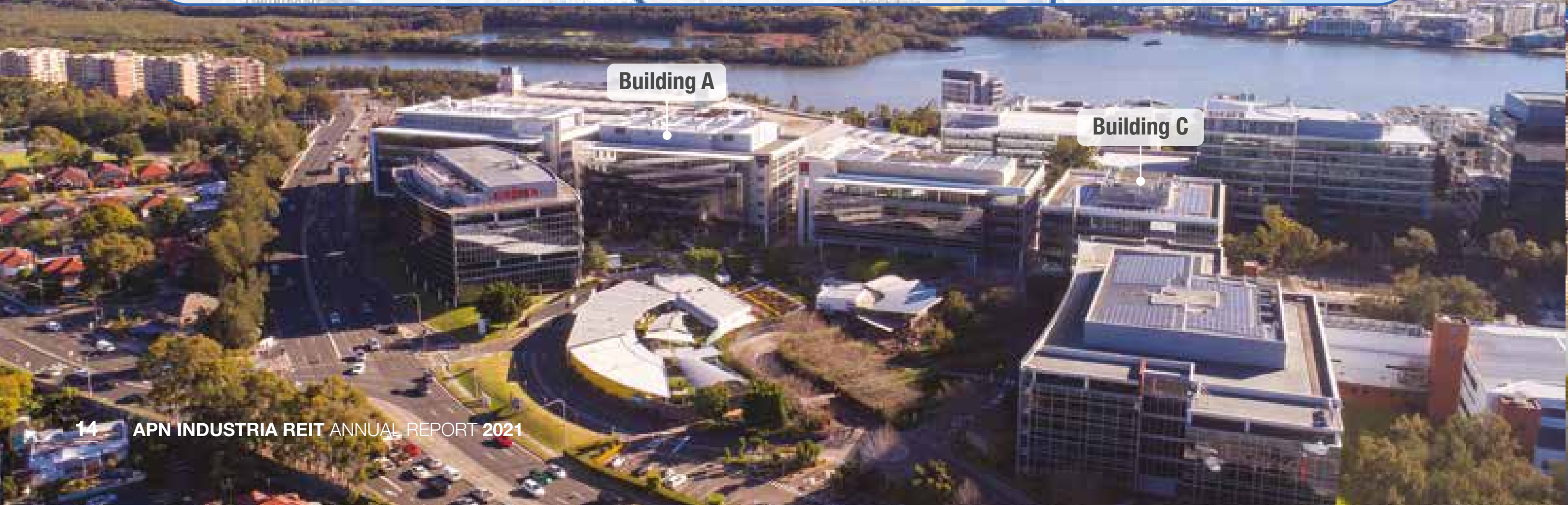
Rhodes Corporate Park is located in the inner west of Sydney on Homebush Bay Drive. The location is particularly favourable for businesses with clients and employees based in the greater Sydney area, and benefits from a train station, generous car parking ratios, and a major sub-regional shopping centre 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 profiles[1]



1 Colliers International Net Face
2 www.sydneymetro.info/west/project-overview



Building A

- Good progress on de-risking September 2021 13,900 square metre lease expiry:
  - Negotiations highly progressed for ~5,000 square metres across multiple deals
  - 4 floors remaining – ~2,250 square meter floor plates with quality fit-out and central core
  - Anticipate leasing outcomes to generate rents ahead of passing
  - Drive by corporates and government to decentralise, in low-density precincts
- Each floor of vacancy represents ~$1.2 million (0.6 cps) of FFO per annum

Building C

- FY21 leasing opportunities have been limited to small suites – ~1,300 square metres leased, with ~6% rental spreads to prior passing rents

Building A, 1 Homebush Bay Drive, Rhodes

Building C, 1 Homebush Bay Drive, Rhodes

Metro office transactions[3]

Original location	Date	Sale price	Cap rate	Rate per sqm
11 Murray Rose Ave, Sydney Olympic Park	May 21	$53.5m	5.4%	$9,412
68 Waterloo Rd, Macquarie Park	Apr 21	$106.5m	4.9%	$7,897
37 Epping Rd, Macquarie Park	May 21	$55.0m	5.45%	$6,817
Rhodes Building A			**5.875%**	**$7,100**
Rhodes Building C			**5.75%**	**$8,400**

3 Colliers International - Valuation & Advisory Services

Building A, 1 Homebush Bay Drive, Rhodes

BRISBANE TECHNOLOGY PARK (BTP)

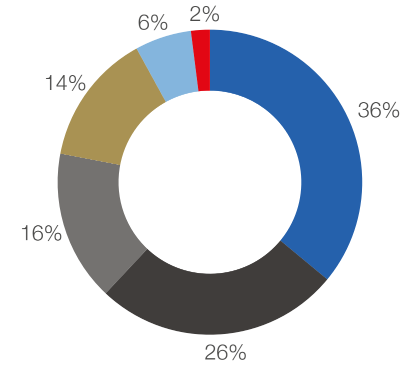
BTP is one of Brisbane's leading suburban business parks – and APN Industria REIT has a dominant position owning a ~1/3 of the market (by area).

The precinct is home to world-leading technology and life science occupiers including Cook Medical, Johnson & Johnson, AnteoTech and IDEXX Laboratories.

- 47 leases across ~3,300 sqm; ~5% rental spreads; 13% average incentive; 71% retention
- 80% occupancy[1]; generating ~6% yield at current occupancy, with meaningful scope for upside
- Limited COVID-19 impact: ~$33k of abatement provided, no concessions provided since September 2020
- 8.7% like for like Net Property Income growth, driven by the strategy targeting sub-200 sqm:
  - Higher rents with <10% incentives – supporting attractive cash yields
  - New serviced office concept created over ~1,400 square metres – 52% leased within 4 months of opening
  - Leveraging on-the-ground platform and extending competitive advantage – which is flexibility across ADI's 12 properties
- Technology and life sciences contribute 36% of income – both resilient and growing sectors
- Held at conservative valuations – average cap rate 7.0% and average WALE 2.5 years

1 Excludes 10 Brandl Street – contracted for sale

Presence of Tech and MedTech occupier remains high



- Technology and Lifesciences
- Infrastructure
- Health and wellness
- Financial and Professional Services
- Education
- Other

Precinct overview and asset management expertise

- Precinct continues to attract technology and life science occupiers – including AnteoTech – manufacturers of COVID-19 Rapid Antigen Diagnostic Testing kits used globally
- APN's on-site management platform is providing unique opportunities to:
  - Grow and diversify the income base – number of tenants has increased from 44 in 2017 to 108 in 2021
  - Build relationships with universities and education providers to unlock research partnerships with occupiers at BTP
  - Griffith University continues to extend its presence at BTP through collaborations with APN
- BTP is the home to >1,100 businesses drawn to:
  - Rents ~50% lower than CBD
  - Highly accessible with an abundance of car parking
  - 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 childcare

Lifesciences at BTP

COOK, AnteoTech, IDEXX Laboratories, Johnson & Johnson, PROVET, LYRO, ZIMMER BIOMET, BAYER, Symbio Laboratories Proudly AUSTRALIAN

7 Clunies Ross Court, BTP

Financial report

'APN Industria REIT'

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

Stapling arrangement

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

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

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

FINANCIAL REPORT

Contents

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 of the consolidated entity (the "Group"), being Industria Trust No. 1 and its controlled entities, for the financial year ended 30 June 2021.

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.

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), A2B Limited (ASX: A2B), Yarra Funds Management Limited, Nikko Asset Management Australia and Redkite (national cancer charity supporting children with cancer and their families).

Joseph De Rango

BCom, BBIS (IBL), MAICD

CFO and Alternate Director for Howard Brenchley

- Alternate Director for Howard Brenchley since September 2019
- Executive Director for Industria Company No. 1 Limited since 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.

Joseph is a member of the Australian Institute of Company Directors.

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.

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

	APN FM Board		Audit, Risk and Compliance Committee		Nomination and Remuneration Committee	
Directors	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Geoff Brunsdon AM	13	13	6	6	1	1
Jennifer Horrigan	13	13	6	6	1	1
Michael Johnstone	13	12	6	6	1	1
Howard Brenchley	13	12	N/A	N/A	N/A	N/A
Joseph De Rango[1]	13	12	6	6	N/A	N/A

Industria Company No.1 Limited

	Board		Audit and Risk Committee		Nomination and Remuneration Committee	
Directors	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Geoff Brunsdon AM	12	12	2	2	1	1
Jennifer Horrigan	12	12	2	2	1	1
Michael Johnstone	12	12	2	2	1	1
Howard Brenchley	12	12	N/A	N/A	N/A	N/A
Joseph De Rango	12	11	N/A	N/A	N/A	N/A

Principal activities

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

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.

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

During the year, the Group raised $35 million from the institutional placement ("Placement") announced on the ASX on 11 December 2020 and $20 million from the security purchase plan ("SPP") announced on 27 January 2021. A total of 19.3 million new stapled securities ("New Securities") were issued under the placement and SPP which ranks equally with existing securities and will carry the same voting rights and entitlements to receive distributions.

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

1 Mr De Rango attended each Board Meeting and Audit, Risk and Compliance Meeting held in his capacity as CFO.

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 total comprehensive income was $119,197,000 for the financial year ended 30 June 2021 (2020: $54,836,000).

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

	2021 $'000	2020 $'000
Net rental income	54,373	48,956
Operating expenses	(6,060)	(5,277)
Net profit before interest, tax and other items	**48,313**	**43,679**
Net gain in fair value adjustments on investment properties	78,340	20,650
Net fair value gain / (loss) on investment properties - right-of-use ("ROU") assets	(123)	709
Fair value gain / (loss) on derivatives	3,438	(2,184)
Net interest expense	(8,786)	(7,994)
Profit / (loss) before tax	**121,182**	**54,860**
Income tax expense – deferred	(1,985)	(24)
Statutory profit / (loss) after tax	**119,197**	**54,836**

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.

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

	2021 $'000	2020 $'000
Statutory net profit / (loss)	**119,197**	**54,836**
Adjusted for:		
Reversal of straight-line lease revenue recognition	(2,880)	(2,323)
(Reversal) / add back of fair value (gain) / loss on investment properties	(78,340)	(20,650)
(Reversal) / add back of fair value (gain) / loss on investment properties - ROU assets	123	(709)
Reversal of fair value loss / (gain) on derivatives	(3,438)	2,184
Reversal of movement in lease liabilities	(135)	(205)
Add back amortised leasing costs and rent-free adjustments	5,392	4,648
Add back / (deduct) income tax expense / (benefit)	1,985	24
Other one-off items[1]	(679)	(960)
FFO	**41,225**	**36,845**
Key financial performance metrics:		
FFO per security (cents)	19.90 c	19.34 c
Distributions per security (cents)	17.300 c	17.275 c
Payout Ratio (Distribution per security / FFO per security)	86.92%	89.32%
Statutory earnings / (loss) per security (cents per security)	57.55 c	28.79 c
Weighted average securities on issue (thousands)	207,127	190,465
Securities on issue (thousands)	217,001	197,526
Distributions declared (thousands)	36,386	$33,408

1 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). On 30 June 2021, the Group accepted an unconditional offer and executed the sale contract to sell this property for $12.55 million. Settlement is scheduled for completion in early September 2021.

Net tangible assets and asset valuations

Investment property assets increased by $224.5 million to $1.1 billion. The increase in assets was largely driven by $177.4 million of acquisitions and reported increased investment property valuations totalling $66.2 million. Additions to investment properties in the form of capital expenditure totalled $10.9 million, comprised of $6.7 million of development capex, $3.5 million of tenancy works and $0.7 million of maintenance capex, and fit out incentives totalled approximately $50,000.

Material movements in valuations include:

- $25.6 million (11.3%) uplift reported for 1 Westrac Dr, Tomago. Since being acquired in September 2016 for $158.6 million, the value of this property has grown by $93.4 million to $252 million, which reflects a 5.25% cap rate;
- $9.6 million (37.1%) uplift reported for increase in the valuation of 80 – 96 South Park Drive. The increase is largely attributable to leasing outcomes de-risking the cash flow, and rising capital values. As a result, the independent valuer adopted a cap rate of 4.75%, a 125-basis point reduction when compared to 30 June 2020;
- $7.0 million (37.9%) increase in the value of 60 Grindle Road, Wacol, reflecting a cap rate of 6.50%, down 1.25% on the cap rate at the time of purchase;
- $6.5 million increase (11.1%) in 16 – 28 Quarry Road, Stapylton, as evidence of rising rents and lower cap rates resulted in the valuation increasing from $58.9 million at acquisition to $65.5 million; and
- $5.7 million (29.3%) increase in value of 32 – 40 Garden St, Kilsyth, after the lease was extended to June 2030 and the cap rate compressed 1.25% to 5.00%.

Leasing

Understanding the markets and maintaining engagement with our tenants is core to our operating model, and continues to drive leasing success across the portfolio. The highlights from the period include:

- 3,290 square metres leased at Brisbane Technology Park (BTP), with 47 deals being agreed during the period. The strategy of targeting small occupiers by providing 'turnkey' solutions contributed to the majority of the leasing outcomes, with 43 deals to occupiers taking less than 200 square metres;
- 10,242 square metre leased at 80 – 96 South Park Drive, Dandenong South, which improved the quality of the cash flow and contributed to the $9.6 million valuation uplift;
- A 10-year lease extension to Radio Frequency Systems at 32 – 40 Garden St, Kilsyth, which removed the risk of downtime throughout the medium term and contributed to a valuation uplift of $5.7 million;
- 3,035 square metre renewal to Australia Post at Adelaide Airport, for 10 years. This was a key business plan initiative identified in our underwriting assessment of the property, and will provide clean cash flow from a strong covenant over the long term;
- 11,882 square metres to B & D Doors at 147-153 Canterbury Road, Kilsyth, de-risking a 31 December 2021 expiry.

Certified carbon neutral portfolio and operations

In August 2021, Climate Active, the Australian Government's carbon neutral certification, was provided to APN Industria REIT for the portfolio and operations. This certification is awarded to businesses and organisations that have credibly reached a state of achieving net zero emissions (carbon neutrality). This means that the activities associated with running a business or producing a particular product have no net negative impact on the climate. This methodology has been recognised by the European Union Commission and the World Bank as a mature and effective model to incentivise emission reductions

APN Industria REIT is one of the first REITs in Australia to be certified by Climate Active for both the portfolio and operations, which we consider to be a prudent risk mitigation strategy that holds the group accountable for emissions and efficiency across the business, which we believe ultimately enhances asset value, and extends our point of difference for tenants and investors.

Additional detail is provided on this certification and the ESG achievements of the Fund in the APN Industria REIT Sustainability Report.

Acquisitions and disposals

Six industrial warehouses were acquired for $144.1 million during the period. The acquisitions were all consistent with the funds strategy of owning providing businesses with attractively priced and well-located workspaces. The salient information pertaining to the acquisitions is outlined below:

- 78 Henderson Road, Rowville – this property was acquired for $16.0 million with the benefit of a 3 year lease, at a rent that we believe is under-market, and reflects an initial yield of 5.10%. This dynamic improves the prospects of capital value growth over the near-term, despite the vacancy risk, as the ability to capture a higher rent at lease expiry increases;

- 16 – 28 Quarry Road, Stapylton – this property was acquired for $62.5 million and comprises of two ~20,000 warehouses, which can be split into smaller units to cater for a deeper pool of tenants, should vacancy risks arise. In the meantime, the income profile, which reflects an initial yield of 5.9%, is underpinned by Woolworths, AMES, and Gilders Transport;
- 5B, 18 – 20 and 20 - 22 Butler Boulevard, Adelaide Airport – acquired for $29.6 million, these properties add to ADI's existing ownership at Adelaide Airport, at 5A Butler Boulevard, and provide a variety of tenants with high quality and well-located space, adjacent to the airport and within close proximity to the CBD;
- 45 – 55 O'Briens Road, Corio – the $36.0 million price paid for this property reflected a 5.5% initial yield. The property comprises of 3 warehouses leased for 20 years to Thornton Engineering, an advanced manufacturer and industry leader in the steel industry. The business was established in 1975 and has over 175 employees, and leverages market-leading automation in one of the most advanced workshops across the southern hemisphere to engineer and fabricate products for major infrastructure, defence, and resource projects.

Contracts were exchanged on two properties on 30 June 2021, at 57 – 67 Mark Anthony Drive, Dandenong South, and 137 – 147 Fitzgerald Road, Laverton North. Both properties benefit from 10-year triple-net leases and settled in mid-July 2021 for a total consideration of $37.585 million.

Contracts to sell 10 Brandl St, Eight Mile Plains, were also exchanged on 30 June 2021. This property was acquired in October 2019 with limited short-term income, and a business plan to leverage the low-site coverage, on-site warehouse, and APN's management team at Brisbane Technology Park (BTP), to re-lease and benefit from higher income over the long term. During the leasing campaign an enquiry was received from a company in the life sciences industry to acquire the property, which would progress APN's strategy of continuing to improve the profile of BTP to the medical and life science industries, whilst also providing a capital return significantly ahead of what could be achieved by leasing the property. As a result, the property has been contracted to sell at $12.55 million, which reflected a 24.4% premium to the book value and will result in a total annualised return over the ownership period of 14.5%.

Equity raising and distribution reinvestment plan

In December 2020, an equity raise of $40 million was launched to provide funding to acquire the properties at Staplyton and Adelaide Airport. The structure of the raising was $35 million by way of an institutional placement, which was strongly supported by new and existing institutional investors, and a $5 million Share Purchase Plan (SPP) for retail investors – with the Board preserving the right to upsize the offer. Demand for the SPP was $28 million, and to satisfy this demand the Board upsized the $5 million offer to $20 million, demonstrating the ongoing commitment to treating all shareholders equitably .

Impacts relating to COVID-19

Detrimental impacts to rental collections in financial year 2021 were limited to $32,600. These amounts were largely concessions granted to retail tenants that provide amenity in ADI's buildings at BTP.

Whilst the risks pertaining to COVID-19 are not behind us, the performance of the portfolio throughout this turbulent period has been strong, and reflects the management and Board's decisions pertaining to acquisitions, disposals, and leasing, since APN Industria REIT was listed in December 2013. As a result of these actions, 87% of the portfolio is leased to government, national and multi-national (listed and privately held) tenants, which has proven to be a resilient combination of tenants through a one in a hundred-year pandemic event, and has provided the cash flow necessary to support the distribution and position the vehicle positively into the future.

Market overview - Industrial Property

The Industrial sector continues to undergo a period of significant activity, primarily driven by e-commerce tailwinds

that are supporting occupier expansion across the country. Strong occupier demand and take-up has resulted in

capitalisation rates compressing further, increasing asset values, and the sector is now in the process of adjusting to lower yield and return expectations compared to historic benchmarks.

The growth drivers for the Australian industrial market include the continued expansion in e-commerce and an increasing desire for companies to improve and secure their supply chain whilst also increasing inventory levels.

Market overview - Business and Technology Parks

Australia's response to the ongoing COVID-19 pandemic and the commencement of the national vaccine rollout has increased business confidence across the country. The tangible evidence of this recovery can be seen in ADI's portfolio through the leasing activity to small businesses at BTP and Rhodes, particularly for fitted spaces.

Overall, the outlook for office demand appears positive in the long term as employment growth looks promising in a post-pandemic environment. However various challenges for office occupiers present themselves, including determining how they manage a hybrid working model whilst improving engagement, innovation and productivity, and also satisfying the desire for greater flexibility.

Tenants in the technology, medical and life sciences industries in particular have demonstrated resilience since the onset of COVID-19, and we anticipate this to continue. Given these occupiers are typically located in metro locations, we believe the Fund's assets at Brisbane Technology Park and Rhodes Corporate Park are reasonably well positioned to benefit from tail winds in these sectors.

Whilst the above factors will create and provide opportunities into the future, the impacts of prolonged lockdowns and changing behaviours of tenants have the potential to have a detrimental impact on rental values, and meaningfully inflate tenant inducements (incentives). These factors could result in extended downtime, higher capital costs of ownership, and ultimately lower valuations, and the management team and Board remain focused on minimising the exposure of ADI's assets to these risks.

Outlook

Although economies across the globe have largely stabilised following widespread fiscal and monetary stimulus, and in some cases the successful rollout of vaccination programs, there are still significant economic, health and geopolitical risks that need to be navigated over the short-to-medium term. In the meantime, there is strong capital support for assets that generate resilient cash flows, in particular industrial real estate.

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 $36,386,000 were declared by the Group during the financial year ended 30 June 2021 (2020: $33,408,000).

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.

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 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 298(2) of the *Corporations Act 2001*.

On behalf of the directors

Geoff Brunsdon AM
Director
Melbourne, 18 August 2021

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 oversees the management and strategic direction of the Fund in its role as Responsible Entity.

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.

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 corporate governance practices in place throughout the financial year from 1 July 2020 to 30 June 2021 (**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 for the Reporting Period were provided by APN Property Group Limited (**APN Group**). For this reason, staff are governed by APN Group policies. To assist stakeholders in accessing key documents outlining our approach to corporate governance, the policies, charters and codes referred to in this Statement are available on the Fund's website at https://apngroup.com.au/fund/apn-industria-reit/about-us/corporate-governance/. This information is updated throughout the year, as policies and procedures are reviewed.

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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18 August 2021

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 2021, 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

DELOITTE TOUCHE TOHMATSU

Neil Brown
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Independent Auditor's Report to the Stapled Security Holders of 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 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and 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:

- Giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year then ended; and
- 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 & 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.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Valuation of investment properties held at fair value As at 30 June 2021 the Group's investment properties represent the largest category of assets with a carrying value of $1,051,008k, including a $78,340k revaluation gain recognised in the consolidated statement of profit or loss and other comprehensive income as disclosed in note 7. 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: • net passing rentals; • net market rentals; • average market rental growth rates; • terminal yields; • discount rates; and, • capitalisation rates.	In conjunction with our valuation specialists, our procedures relating to the valuation of the investment properties included, but were not limited to: - 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. We have also assessed the appropriateness of the disclosures in note 7 to the financial statements.

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 2021, but does not include the financial report and our auditor's report thereon.

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

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

INDEPENDENT AUDITOR'S REPORT

Deloitte.

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.
- 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.

Deloitte.

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Neil Brown
Partner
Chartered Accountants

Melbourne, 18 August 2021

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DIRECTORS' DECLARATION

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

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

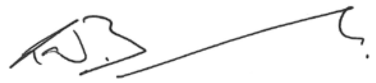
(b) in the directors' opinion, the attached consolidated financial statements are in compliance with International Financial Reporting Standards, as stated in note 2 to the consolidated financial statements;

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

(d) the directors have been given the declarations required by 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, 18 August 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2021

	Notes	2021 $'000	2020 $'000
Revenue	6	64,514	59,554
Straight-line rental income recognition		2,880	2,323
Total revenue from continuing operations		**67,394**	**61,877**
Other income			
Interest income		22	27
Net fair value gain / (loss) on investment properties	7	78,340	20,650
Net fair value gain / (loss) on investment properties - ROU	8	(123)	709
Fair value gain / (loss) on derivatives		3,438	(2,184)
Total other income		**81,677**	**19,202**
Total income		**149,071**	**81,079**
Expenses			
Property costs		(13,021)	(12,921)
Management fees	19	(4,897)	(4,387)
Finance costs	12	(8,808)	(8,021)
Other expenses		(1,163)	(890)
Total expenses		**(27,889)**	**(26,219)**
Net profit / (loss) before tax		**121,182**	**54,860**
Income tax expense	5	(1,985)	(24)
Profit / (loss) after tax		**119,197**	**54,836**
Attributable to:			
Securityholders of Industria Trust No. 1		106,210	51,450
Securityholders of non-controlling interests[1]		12,987	3,386
		119,197	**54,836**
Other comprehensive income		-	-
Total comprehensive income for the year		**119,197**	**54,836**
Total comprehensive income for the year is attributable to:			
Securityholders of Industria Trust No. 1		106,210	51,450
Securityholders of non-controlling interests[1]		12,987	3,386
		119,197	**54,836**
Earnings per security			
Basic and diluted (cents per security)	11	57.55	28.79

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 2021

	Notes	2021 $'000	2020 $'000
Current assets			
Cash and cash equivalents	16	7,053	4,928
Trade and other receivables	17	764	377
Investment property held for sale	7	12,550	-
Other assets		2,799	733
Total current assets		**23,166**	**6,038**
Non-current assets			
Investment properties	7	1,051,008	826,481
Investment properties - right-of-use ("ROU") assets	8	39,380	20,159
Other assets		5	-
Total non-current assets		**1,090,393**	**846,640**
Total assets		**1,113,559**	**852,678**
Current liabilities			
Trade and other payables	18	(11,211)	(7,735)
Derivative financial instruments	12	(2,087)	(2,671)
Lease liabilities	8	(280)	(101)
Borrowings	12	(105,921)	-
Distributions payable	10	(9,440)	(8,199)
Total current liabilities		**(128,939)**	**(18,706)**
Non-current liabilities			
Trade and other payables	18	(978)	(1,003)
Derivative financial instruments	12	(2,865)	(5,719)
Lease liabilities	8	(38,175)	(19,144)
Borrowings	12	(237,082)	(242,014)
Deferred tax liability	5	(10,099)	(8,150)
Total non-current liabilities		**(289,199)**	**(276,030)**
Total liabilities		**(418,138)**	**(294,736)**
Net assets		**695,421**	**557,942**
Equity			
Securityholders of Industria Trust No. 1:			
Contributed equity	9	332,545	291,216
Retained earnings		197,157	121,053
Securityholders of non-controlling interests[1]:			
Contributed equity	9	120,693	107,354
Retained earnings		45,026	38,319
Total equity		**695,421**	**557,942**
Net tangible assets ($ per security)		3.20	2.82

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 2021

	Notes	Contributed equity $'000	Retained earnings $'000	Total $'000	Non-controlling interests[1] $'000	Total equity $'000
Balance at 1 July 2019		**255,832**	**96,112**	**351,944**	**138,078**	**490,022**
Profit after tax		-	51,450	51,450	3,386	54,836
Other comprehensive income		-	-	-	-	-
Total comprehensive income for the year		**-**	**51,450**	**51,450**	**3,386**	**54,836**
Issue of new securities	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**
Profit after tax		-	106,210	106,210	12,987	119,197
Other comprehensive income		-	-	-	-	-
Total comprehensive income for the year		**-**	**106,210**	**106,210**	**12,987**	**119,197**
Issue of new securities	9	41,915	-	41,915	13,488	55,403
Security issuance costs (net of income tax benefit)	9	(586)	-	(586)	(149)	(735)
Distributions paid or payable	10	-	(30,106)	(30,106)	(6,280)	(36,386)
Balance as at 30 June 2021		**332,545**	**197,157**	**529,702**	**165,719**	**695,421**

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 2021

	Notes	2021 $'000	2020 $'000
Cash flows from operating activities			
Net rental income received		67,457	62,818
Interest received		22	27
Other expenses paid		(14,135)	(17,112)
Finance costs paid		(7,507)	(7,236)
Net cash inflow / (outflow) from operating activities	16	**45,837**	**38,497**
Cash flows from investing activities			
Payments for acquisition of investment properties		(151,802)	(60,877)
Payments for capital expenditure on investment properties		(10,950)	(5,451)
Net cash inflow / (outflow) from investing activities		**(162,752)**	**(66,328)**
Cash flows from financing activities			
Net proceeds from borrowings	16	100,521	17,494
Net proceeds from issue of contributed equity		54,998	47,454
Equity issuance costs paid		(771)	(746)
Payment for securities buy-back		-	(250)
Payments for ground rent		(968)	(721)
Distributions paid		(34,740)	(32,907)
Net cash inflow / (outflow) from financing activities		**119,040**	**30,324**
Net increase / (decrease) in cash and cash equivalents		2,125	2,493
Cash and cash equivalents at the beginning of the financial year		4,928	2,435
Cash and cash equivalents at the end of the financial year	16	**7,053**	**4,928**

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

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 18 August 2021.

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 directors of the Responsible Entity remain confident that the Group will be able to continue trading and realise assets and discharge liabilities in its ordinary course of business despite the net current liabilities position presented in the consolidated statement of financial position. 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. APN Industria REIT's total undrawn debt facility as at the date of issuing the consolidated financial statements is $37.02 million;
- the Group does not have any significant credit risk exposure to any single tenant counterparty or counterparties and holds $12.39 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 77.05% of total cash advance facility drawn at reporting date.

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 financial statements. Therefore, the financial statements of this Trust 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.

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

	2021 $'000	2020 $'000
Tax (expense) / income comprises:		
Deferred tax (expense) / income relating to the origination and reversal of temporary differences	(1,985)	(24)

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

	2021 $'000	2020 $'000
Profit / (loss) from continuing operations	119,197	54,860
Less: profit / (loss) relating to the Group's non-taxable Trusts	112,426	55,011
Taxable profit / (loss) of the Group	**6,771**	**(151)**
Prima facie tax payable @ 30% (2020: 30%)	(2,031)	45
Add / (subtract) the tax effect of:		
Differences in accounting and tax asset values	43	-
Effect of unused tax losses now recognised as deferred tax assets	-	(16)
Under provision from previous years	3	(53)
Total tax (expense) / benefit	**(1,985)**	**(24)**

5.2 Deferred tax balances

2021 Temporary differences	Opening balance $000	Recognised in profit or loss $000	Recognised in equity $000	Closing balance $000
Provisions and accruals	10	1	-	**11**
Investment properties	(8,876)	(1,456)	-	**(10,332)**
Impairment of receivables	90	(90)	-	**-**
Capital raising costs	65	(40)	36	**61**
Joint venture	(558)	(208)	-	**(766)**
Fair value adjustments on derivatives	271	(153)	-	**118**
Tax losses carried forward	848	(39)	-	**809**
Net deferred tax assets / (liabilities)	**(8,150)**	**(1,985)**	**36**	**(10,099)**

2020 Temporary differences	Opening balance $000	Recognised in profit or loss $000	Recognised in equity $000	Closing balance $000
Provisions and accruals	8	2	-	**10**
Investment properties	(8,811)	(65)	-	**(8,876)**
Impairment of receivables	-	90	-	**90**
Capital raising costs	31	-	34	**65**
Joint venture	(516)	(42)	-	**(558)**
Fair value adjustments on derivatives	234	37	-	**271**
Tax losses carried forward	894	(46)	-	**848**
Net deferred tax assets / (liabilities)	**(8,160)**	**(24)**	**34**	**(8,150)**

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 are retained within the AMIT Trusts to be offset against realised capital gains. The benefit of any carried forward capital losses is 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 2021, there were no unrecognised carried forward capital losses (2020: $nil).

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.

	2021 $'000	2020 $'000
Rental income	56,330	51,974
Outgoing recoveries	8,184	7,580
Total revenue	**64,514**	**59,554**

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 prepaid rent.

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 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.

	2021 $'000	2020 $'000
Current		
Office property held for sale	12,550	-
Non-current		
Industrial and office properties	1,048,585	824,928
Land held for development	2,423	1,553
Total investment properties	**1,063,558**	**826,481**

7.1. Reconciliation of carrying amounts

	2021 $'000	2020 $'000
Carrying amount at beginning of the financial year	826,481	739,378
Purchase of investment properties	144,120	57,140
Acquisition costs associated with purchase of investment properties	6,034	3,737
Capital additions to investment properties	10,951	5,451
Movement in deferred lease incentives	(5,248)	(2,198)
Straight-line revenue recognition	2,880	2,323
Net gain / (loss) on fair value adjustments[1]	78,340	20,650
Carrying amount at end of the financial year	**1,063,558**	**826,481**

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 $86,261,000 (2020: $24,387,000) representing the fair value gain on investment properties and a loss of $7,921,000 (2020: $3,737,000) representing the written off capitalised acquisition and disposal costs that were capitalised on the consolidated statement of financial position.

Included within the investment property fair value is a deduction of $8,065,000 representing lease incentive commitments the Group will need to pay under the lease contracts (2020: $2,793,000).

7.2. Individual valuation and carrying amounts

The investment property portfolio comprises 36 properties and one land held for development located throughout Victoria, New South Wales, Queensland and South Australia.

As at 30 June 2021, 18 properties were independently valued and the properties acquired during the year were all externally valued at acquisition 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"), CBRE Valuations Pty Ltd ("CBRE"), Urbis Valuations Pty Ltd ("Urbis"), and M3 Property (Vic) Pty Ltd ("M3") (2020: JLL, Colliers International Valuation and Advisory Services and Savills Valuations Pty Ltd).

The remaining 18 properties and land held for development were subject to internal valuations performed by the Group's internal property team and have been reviewed and approved by the Board.

		Latest independent valuation		Carrying amount		Capitalisation rate		Discount rate	
		Valuation date	$'000	2021 $'000	2020 $'000	2021 %	2020 %	2021 %	2020 %
Industrial properties									
34 Australis Drive, Derrimut, VIC	Freehold	Jun 2021	35,500	35,500	31,765	5.00%	6.25%	6.00%	6.75%
80-96 South Park Drive, Dandenong South, VIC	Freehold	Jun 2021	35,500	35,500	25,900	4.75%	6.00%	5.75%	6.25%
89 West Park Drive, Derrimut, VIC	Freehold	Jun 2021	24,000	24,000	22,000	5.00%	6.00%	6.00%	6.50%
32-40 Garden Street, Kilsyth, VIC	Freehold	Jun 2021	25,000	25,000	19,300	5.00%	6.25%	6.00%	7.00%
5 Butler Boulevard, Adelaide Airport, SA[1]	Sub-lease-hold	Dec 2020	15,150	15,150	14,750	8.06%	8.25%	8.81%	8.75%
1-3 Westrac Drive, Tomago, NSW	Freehold	Jun 2021	252,000	252,000	222,000	5.25%	5.75%	6.75%	7.25%
140 Sharps Road, Tullamarine, VIC[1]	Sub-lease-hold	Jun 2021	13,300	13,300	13,700	7.50%	8.00%	6.25%	6.50%
13 Ricky Way, Epping, VIC	Freehold	Jun 2021	11,000	11,000	9,000	4.75%	5.75%	5.75%	7.00%
10 Jersey Drive, Epping, VIC	Freehold	Jun 2021	12,000	12,000	9,500	4.75%	5.75%	5.75%	7.00%
1 West Park Drive, Derrimut, VIC	Freehold	Jun 2021	13,750	13,750	11,280	5.25%	6.50%	6.25%	7.00%
147-153 Canterbury Road, Kilsyth, VIC	Freehold	Jun 2021	13,400	13,400	9,502	5.75%	7.25%	6.50%	7.50%
3 Forbes Close, Knoxfield, VIC	Freehold	Jun 2021	9,900	9,900	8,901	5.25%	5.75%	6.00%	N/A
4 Forbes Close, Knoxfield, VIC	Freehold	Jun 2021	11,700	11,700	10,486	5.25%	5.75%	6.00%	N/A
81-83 Rushdale Street, Knoxfield, VIC	Freehold	Jun 2021	11,400	11,400	9,942	5.50%	6.50%	6.25%	N/A
60 Grindle Road, Wacol, QLD	Freehold	Jun 2021	25,300	25,300	18,340	6.50%	7.75%	7.00%	8.25%
350 Cooper Street, Epping, VIC	Freehold	Jun 2021	11,895	11,895	11,115	5.50%	6.00%	6.25%	7.00%
356 Cooper Street, Epping, VIC	Freehold	Jun 2021	20,605	20,605	17,985	5.50%	6.00%	6.25%	7.00%
78 Henderson Road, Rowville, VIC	Freehold	Jun 2021	18,000	18,000	N/A	5.00%	N/A	6.00%	N/A
16-28 Quarry Road, Stapylton, QLD	Freehold	Jun 2021	65,500	65,500	N/A	5.50%	N/A	5.75%	N/A
Stage 2, 5 Butler Boulevard, Adelaide Airport, SA[1]	Sub-lease-hold	Nov 2020	9,200	9,200	N/A	8.55%	N/A	9.30%	N/A
18-20 Butler Boulevard, Adelaide Airport, SA[1]	Sub-lease-hold	Nov 2020	7,900	7,900	N/A	8.55%	N/A	9.30%	N/A
20-22 Butler Boulevard, Adelaide Airport, SA[1]	Sub-lease-hold	Nov 2020	12,500	12,500	N/A	8.55%	N/A	9.30%	N/A
45-55 O'Briens Road, Corio, VIC	Freehold	Mar 2021	36,000	36,000	N/A	5.50%	N/A	6.50%	N/A

		Latest independent valuation		Carrying amount		Capitalisation rate		Discount rate	
			$'000	2021 $'000	2020 $'000	2021 %	2020 %	2021 %	2020 %
Office property held for sale									
10 Brandl St, Eight Mile Plains, QLD[2]	Freehold	Dec 2020	10,000	12,550	10,011	7.50%	8.25%	8.00%	8.50%
Office properties									
7 Clunies Ross Court and 17-19 McKechnie Drive, BTP, QLD	Freehold	Dec 2020	55,500	55,501	49,921	6.50%	7.25%	6.75%	7.75%
BTP Central, BTP, QLD[3]	Freehold	Dec 2020	41,550	41,679	41,288	7.11%	7.50%	7.70%	8.00%
8 Clunies Ross Court and 9 McKechnie Drive, BTP, QLD	Freehold	Dec 2020	22,500	24,080	24,699	7.50%	7.50%	7.75%	7.75%
37 Brandl St, BTP, QLD	Freehold	Dec 2020	15,750	15,755	15,689	7.00%	7.50%	7.50%	8.00%
18 Brandl St, BTP, QLD	Freehold	Dec 2020	13,700	13,700	13,346	7.25%	8.00%	7.75%	8.25%
88 Brandl St, BTP, QLD	Freehold	Dec 2020	16,500	16,600	15,451	7.25%	7.75%	7.50%	8.00%
Building A, 1 Homebush Bay Drive, Rhodes, NSW	Freehold	Jun 2020	103,000	103,374	103,000	5.88%	5.88%	7.00%	7.00%
Building C, 1 Homebush Bay Drive, Rhodes, NSW	Freehold	Dec 2020	86,000	87,396	86,057	5.75%	6.00%	6.50%	7.00%
Land held for development									
45 & 45B McKechnie Drive, BTP, QLD	Freehold	Dec 2020	2,400	2,423	1,553	N/A	N/A	N/A	N/A
Total investment properties				**1,063,558**	**826,481**				

1 Carrying amounts of the sub-leasehold properties exclude the value of their associated right-of-use asset.
2 On 30 June 2021, the Trust accepted an unconditional offer and executed the sale contract to sell 10 Brandl St, BTP, QLD for $12.55 million of which a 5% non-refundable deposit has been paid by the purchaser and is held in trust as at the balance date. Settlement is scheduled for completion in early September 2021.
3 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:

	2021	2020
Industrial properties	5.53%	6.14%
Office properties	6.40%	6.46%
Group's investment properties portfolio (excluding land)	**5.83%**	**6.28%**

(a) Acquisitions

During the year, the Group acquired the following industrial properties totalling $144,111,000 (excluding transaction costs).

- 78 Henderson Road, Rowville, VIC,
- 16-28 Quarry Road, Stapylton, QLD,
- 45-55 O'Briens Road, Corio, VIC,
- Stage 2, 5 Butler Boulevard, Adelaide Airport, SA,
- 18-20, Butler Boulevard, Adelaide Airport, SA, and
- 20-22, Butler Boulevard, Adelaide Airport, SA.

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.

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 most 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 $1,063,558,000 (2020: $826,481,000), 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 2021 $'000	Valuation Technique	Inputs used to measure fair value	Range of unobservable inputs
Level 3 (Industrial and office properties)	1,048,585	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	$63 - $1,290 $63 - $1,290 (0.4)% - 4.1% 4.75% - 8.55% 5.00% - 10.25% 5.75% - 9.30%
Level 3 (Office property held for sale)	12,550	Sale price	N/A	N/A
Level 3 (Land held for development)	2,423	Direct comparison method	Sales price per sqm	$725 - $775

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.

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.

The COVID-19 pandemic has created unprecedented uncertainty, actual economic events and conditions in the future may be materially different from those estimated by the Group at the reporting date. Due to the uncertainty of the impact that the COVID-19 pandemic has on valuations of investment properties, sensitivity analysis has been performed on the fair value adopted at 30 June 2021, based on a range of potential capitalisation rate and discount rate movements on the Trust's investment property as compared to the capitalisation rates and discount rates adopted at 30 June 2021. Capitalisation rates and discount rates are considered to be key unobservable inputs that would have a material impact on the fair value adopted if they moved.

Sensitivity analysis has been performed on the fair values adopted at 30 June 2021, 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 2021. 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 (including land held for development)	(46,818)	51,331	(22,273)	22,248

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 and key financial covenants required by its borrowing arrangements 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 $19,840,000 (2020: $21,142,000) 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:

	2021 $'000	2020 $'000
Within one year	65,183	58,719
More than one year but not more than five years	137,901	129,218
More than five years	177,633	171,153
	380,717	**359,090**

8.2. Sub-leasehold properties and ground rent obligations

The Group's following investment properties are each located on airport land.

- 140 Sharps Road, Tullamarine, VIC,
- 5 Butler Boulevard, Adelaide Airport, SA,
- Stage 2, 5 Butler Boulevard, Adelaide Airport, SA,
- 18-20 Butler Boulevard, Adelaide Airport, SA, and
- 20-22 Butler Boulevard, Adelaide Airport, SA.

These are held as sub-leasehold interests with Australia Pacific Airports (Melbourne) Pty Ltd and Adelaide Airport Limited ("Airport Authority") who hold head leases from the Commonwealth of Australia. Therefore, the Group is the lessee of the associated lease arrangements for these investment properties which are subject to the recognition and measurement requirements of AASB 16 Leases ("AASB 16") for operating 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.

Recognition and measurement

The Group adopted AASB 16 on 1 July 2019 using the modified approach for the sub-leasehold investment properties held as at 1 July 2019. For sub-leasehold investment properties acquired on or after 1 July 2019, AASB 16 is applied on acquisition settlement date ("settlement date").

Upon initial adoption of AASB 16 or on settlement date, the Group recognises the right-of-use ("ROU") assets at an amount equal to the lease liabilities in the consolidated statement of financial position for all qualifying leases, measured at the present value of the unavoidable lease payments (inclusive of incentives and costs) on the date of adoption, discounted using the Group's incremental borrowing rate.

Subsequent measurements

The Group's ROU assets 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 liabilities are subsequently increased by the interest expense on the lease liabilities (using the effective inter est method) and reduced by lease payments made. Interest expenses recognised on the lease liabilities are presented as a component of finance cost in the consolidated statement of profit or loss and other comprehensive income.

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

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

	2021 $'000	2020 $'000
Investment properties (ROU) assets recognised at the beginning of the financial year	20,159	19,450
Investment properties (ROU) assets recognised on new investment properties acquired during the year	19,344	-
Net fair value gain / (loss) on investment properties – ROU assets recognised in the consolidated statement of profit or loss and other comprehensive income	(123)	709
Investment properties – ROU assets at end of the financial year	**39,380**	**20,159**

(b) Lease liabilitiess

	2021 $'000	2020 $'000
Lease liabilities at beginning of the financial year	(19,245)	(19,450)
Lease liabilities recognised on new investment properties acquired during the year	(19,344)	-
Repayment of lease liabilities	968	721
Interest expense on lease liabilities	(834)	(516)
Lease liabilities at the end of the financial year	**(38,455)**	**(19,245)**
Attributable to:		
Current lease liabilities	(280)	(101)
Non-current lease liabilities	(38,175)	(19,144)
Total lease liabilities	**(38,455)**	**(19,245)**

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

Fair Value Hierarchy	Fair value 30 June 2021 $'000	Valuation Technique	Inputs used to measure fair value	Range of unobservable inputs
Level 3	39,380	DCF	Net market rent (per p.a. $'000)	$219 - $391
			Adopted discount rate	3.08% - 3.60%

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 2021, based on a range of potential discount rate movements as compared to the discount rates adopted at 30 June 2021.

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	(1,234)	1,290

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

	2021 $'000	2020 $'000
At the beginning of the financial year	398,570	352,078
Issue of new securities	54,998	46,263
Distribution reinvestment	405	1,191
Security issuance costs (net of income tax benefit)	(735)	(712)
Securities buy-back	-	(250)
At the end of the financial year	**453,238**	**398,570**
Attributable to:		
Securityholders of Industria Trust No.1	332,545	291,216
Securityholders of non-controlling interests	120,693	107,354
	453,238	**398,570**

9.2 Number of securities on issue

	2021 No.	2020 No.
At the beginning of the financial year	197,525,519	181,153,430
Issue of new securities	19,336,874	16,064,175
Distribution reinvestment	138,660	412,969
Securities buy-back	-	(105,055)
At the end of the financial year	**217,001,053**	**197,525,519**

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.

10. Distributions

	2021		2020	
	Cents per security	$'000	Cents per security	$'000
Distributions paid during the year:				
Quarter ended 30 Sep	4.300	(8,493)	4.375	(7,926)
Quarter ended 31 Dec	4.300	(9,020)	4.375	(8,637)
Quarter ended 31 Mar	4.350	(9,433)	4.375	(8,646)
Distributions payable:				
Period ended 30 Jun	4.350	(9,440)	4.150	(8,199)
	17.300	**(36,386)**	**17.275**	**(33,408)**

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

	2021	2020
Profit / (loss) after tax ($'000)	119,197	54,836
Weighted average number of securities outstanding (thousands)	207,127	190,465
Basic and diluted earnings (cents per security)	**57.55**	**28.79**

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 (2020: nil).

12. Borrowings

	2021 $'000	2020 $'000
Current		
Bank loans drawn – secured	(106,250)	-
Capitalised borrowing cost	329	-
Total current borrowings	**(105,921)**	**-**
Non-current		
Bank loans drawn – secured	(237,687)	(242,944)
Capitalised borrowing cost	605	930
Total non-current borrowings	**(237,082)**	**(242,014)**
Total borrowings at balance date	**(343,003)**	**(242,014)**

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 $360,000,000 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 June 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 C3: $30,000,000 – repayable November 2023;
- Tranche D2: $10,000,000 – repayable May 2024;
- Tranche A2: $36,250,000 – repayable September 2024;
- Tranche C2: $10,000,000 – repayable September 2024;
- Tranche D1: $30,000,000 – repayable November 2024;
- Tranche B1: $46,250,000 – repayable March 2025; and
- Tranche E1: $30,000,000 – repayable November 2025.

On 20 July 2021, the Group cancelled its Tranche B2 and B3 facilities and extended the term of some existing tranches as well as introducing two new tranches to its cash advance facility, resulting in an overall increase in its cash advance facility limit by $63,750,000 to $423,750,000.

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) of all entities comprising APN Industria REIT.

	2021 $'000	2020 $'000
The Group has access to the following lines of credit:		
Loan facility limit	360,000	290,000
Facilities drawn at balance date	(343,937)	(242,944)
Facilities not drawn at balance date	**16,063**	**47,056**

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:

		2021
Loan to Value Ratio ("LVR")	At all times, LVR does not exceed 55%.	32.45%
Gearing Ratio	At all times, Gearing Ratio does not exceed 55%.	35.00%
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.	7.22 times
Weighted Average Lease Length to Expiry ("WALE")	WALE for the portfolio will be greater than 2.5 years.	5.30 years#

\# WALE excludes the lease profile of 10 Brandl St, Eight Mile Plains, QLD that the Group had executed the sale contract to sell the property on 30 June 2021 with settlement scheduled for completion in early September 2021.

12.2 Finance costs

	2021 $'000	2020 $'000
Interest expense paid / payable[1]	(7,975)	(7,505)
Interest expense on lease liability	(833)	(516)
	(8,808)	**(8,021)**

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 2.65% (2020: 2.89%).

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.

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.

	2021 $'000	2020 $'000
Current liabilities		
Interest rate contracts	(2,087)	(2,671)
Non-current liabilities		
Interest rate contracts	(2,865)	(5,719)

APN Industria REIT's interest rate contracts in effect at reporting date covered 77.05% (2020: 59.68%) of the principle drawn under the debt facility and the contract details are as follows:

	Notional Value $'000	Effective Date	Expiry Date	Weighted average fixed Rate
2021				
Swap 1	30,000	23 Jun 2021	23 Jun 2022	
Swap 2	30,000	24 Jun 2021	24 Jun 2022	
Swap 3	10,000	6 Jun 2019	6 Jun 2024	
Swap 4	15,000	6 Jun 2019	6 Jun 2024	
Swap 5	10,000	6 Feb 2014	6 Jun 2024	
Swap 6	15,000	6 Jan 2014	6 Jun 2024	
Swap 7	35,000	23 Jun 2021	23 Jun 2024	
Swap 8	5,000	6 Feb 2014	6 Apr 2025	
Swap 9	5,000	9 Jun 2015	6 Apr 2025	
Swap 10	5,000	6 Apr 2018	7 Apr 2025	
Swap 11	5,000	6 Apr 2018	7 Apr 2025	
Swap 12	20,000	6 Oct 2020	6 Jun 2025	
Swap 13	10,000	6 Oct 2020	6 Jun 2025	
Swap 14	20,000	6 Jun 2019	6 Jun 2025	
Swap 15	10,000	6 Jan 2016	6 Jun 2025	
Interest rate cap	40,000	9 Feb 2021	6 Jul 2022	
Total / Weighted average	**265,000**			**0.95%**

	Notional Value $'000	Effective Date	Expiry Date	Weighted average fixed Rate
2020				
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%**

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 2021			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Investment properties	-	-	1,063,558	1,063,558
Investment properties – ROU assets	-	-	39,380	39,380
Interest rate contracts	-	(4,952)	-	(4,952)
Total	**-**	**(4,952)**	**1,102,938**	**1,097,986**

	Fair value measurement as at 30 June 2020			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'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**

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 2021, the Group's gearing ratio was 30.45% (2020: 28.08%).

	2021 $'000	2020 $'000
Total borrowings	343,937	242,944
Less: cash and cash equivalents	(7,053)	(4,928)
Net debt	**336,884**	**238,016**
Total assets (excluding cash and cash equivalents)	1,106,505	847,750
Gearing ratio	**30.45%**	**28.08%**

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 consolidated 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 2021		
Variable rate instruments	(3,439)	3,439
Derivative financial instruments	8,148	(8,788)
	4,709	**(5,349)**
30 June 2020		
Variable rate instruments	(2,429)	2,429
Derivative financial instruments	5,680	(5,718)
	3,251	**(3,289)**

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
2021					
Liabilities					
Lease incentives payable	(3,710)	(2,221)	(2,134)	(8,065)	(8,065)
Payables	(11,211)	(468)	(510)	(12,189)	(12,189)
Distribution payable	(9,440)	-	-	(9,440)	(9,440)
Interest-bearing liabilities	(110,796)	(85,143)	(160,289)	(356,228)	(343,003)
Interest rate contracts	(2,242)	(2,192)	(3,023)	(7,457)	(4,952)
	(137,399)	**(90,024)**	**(165,956)**	**(393,379)**	**(377,469)**
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)**

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.

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 (2020: $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 $11,602,000, of which all remained outstanding as at 30 June 2021 (2020: $6,432,000).

Other than the above, the Group has no other commitments and contingent assets as at 30 June 2021.

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.

	2021 $'000	2020 $'000
Reconciliation of cash and cash equivalent		
Cash and cash equivalents	7,053	4,928
Reconciliation of profit after tax to net cash flows from operating activities		
Net profit / (loss) after tax	119,197	54,836
Add / (loss) non-cash items:		
Straight-line lease revenue recognition	(2,880)	(2,323)
Amortisation of borrowing costs	468	269
Movement in deferred lease incentives	5,392	2,198
Movement in allowance for doubtful debts	(11)	255
Fair value (gain) / loss on derivatives	(3,438)	2,184
Fair value (gain) / loss on investment properties	(78,340)	(20,650)
Net fair value gain / (loss) on investment properties - ROU	123	(709)
Interest expense on finance leases	833	-
Payments for ground leases	968	721
Changes in assets / liabilities:		
Increase / (decrease) in receivables	(954)	406
(Decrease) / increase in payables	3,451	1,491
(Decrease) / increase in lease liabilities	(20,178)	(205)
(Decrease) / increase in deferred tax	1,985	24
Increase / (decrease) in investment properties - ROU assets	19,221	-
Net cash inflows / (outflows) from operating activities	**45,837**	**38,497**

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.

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	2021 $'000	2020 $'000
Borrowings at the beginning of the financial year		(242,014)	(224,251)
Net cash inflow / (outflow) from financing activities			
Proceeds from borrowings		(159,236)	(96,494)
Repayments of borrowings		58,243	78,550
Additional capitalised borrowing costs paid		472	450
Non-cash changes:			
Amortisation of borrowing costs		(468)	(269)
Borrowings at the end of the financial year	12	**(343,003)**	**(242,014)**

(b) Lease liabilities	Notes	2021 $'000	2020 $'000
Lease liabilities at the beginning of the financial year		(19,245)	(19,450)
Lease liabilities recognised during the year		(19,345)	-
Net cash inflow / (outflow) from financing activities:			
Payments for ground rent		968	721
Non-cash changes:			
Interest expense on lease liabilities		(833)	(516)
Lease liabilities at the end of the financial year	8.2	**(38,455)**	**(19,245)**

17. Trade and other receivables

	2021 $'000	2020 $'000
Rent receivable (net of impairment allowances)	130	377
Other receivables	634	-
Total	**764**	**377**

17.1 Ageing analysis of receivables past due but not impaired

	2021 $'000	2020 $'000
0-30 days	123	195
31-90 days	-	169
91+ days	7	13
	130	**377**

As at 30 June 2021, rent receivable of $9,000 relating to one tenant was impaired (2020: $783,000) and expensed in the consolidated statement of profit or loss and other comprehensive income. The Group holds $12,386,000 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

	2021 $'000	2020 $'000
Current		
Trade payables	(1,043)	(515)
Accruals and other creditors	(6,099)	(4,173)
Prepaid rent	(3,423)	(2,644)
Security deposits received from tenants	(349)	(125)
GST payable	(297)	(278)
	(11,211)	**(7,735)**
Non-Current		
Security deposits received from tenants	(978)	(1,003)
	(978)	**(1,003)**

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.

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 are as follows:

	2021		2020	
	Paid $'000	Payable $'000	Paid $'000	Payable $'000
Management fees[1]	(3,567)	(1,330)	(3,260)	(1,127)
Property management and leasing fees[2]	(732)	(14)	(375)	(280)
	(4,299)	**(1,344)**	**(3,635)**	**(1,407)**

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 $750 million and 0.45% p.a. of gross asset value in excess of $1,500 million). Management fees are allocated to the entities comprising 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 the related parties have received or receivable:

	2021		2020	
	Number of securities	Distributions $	Number of securities	Distributions $
APN Property Group Limited	-	361	8,385	1,257,968
APD Trust	33,195,754	5,163,168	28,719,327	3,704,793
APN AREIT Fund	2,330,956	782,857	5,053,617	861,187
APN CFS AREIT Fund	199,617	61,093	788,027	134,243
APN Property for Income Fund	63,173	20,039	420,562	76,128
APN Property for Income Fund 2	321,502	115,415	140,471	25,453
Geoff Brunsdon AM	105,578	15,932	66,463	11,481
Chris Aylward	-	-	-	25,797
Tim Slattery	970	824	8,599	1,358
Joseph De Rango	7,814	1,337	7,700	320
Total	**36,225,364**	**6,161,026**	**35,213,151**	**6,098,728**

16.69% (2020: 17.83%) of APN Industria REIT stapled securities are held by related parties.

20. Controlled entities

	Country of incorporation	Percentage owned (%) 2021	2020
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
West Park Investment Trust No. 3	Australia	100	100
Tomago Investment Trust	Australia	100	100
Kilsyth Investment Trust No. 2	Australia	100	100
Knoxfield Investment Trust	Australia	100	100
Knoxfield Investment Trust No. 2	Australia	100	100
Knoxfield Investment Trust No. 3	Australia	100	100
Cooper Investment Trust No. 1	Australia	100	100
Cooper Investment Trust No. 2	Australia	100	100
Rowville Investment Trust	Australia	100	-
Corio Investment Trust	Australia	100	-
ADI Victoria Trust No. 1	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	-	-
Connect Office Services 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.

21. Remuneration of auditors

	2021 $	2020 $
Deloitte and related network firms*		
Audit or review of financial reports:		
Group	65,928	58,753
Controlled entities	75,912	73,000
	141,840	**131,753**
Statutory assurance services required by legislation to be provided by the auditor	13,600	13,600
Total	**155,440**	**145,353**

*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:

	2021 $'000	2020 $'000
Statement of financial position		
Current assets	6,538	2,936
Non-current assets	887,164	641,316
Total assets	**893,702**	**644,252**
Current liabilities	(323,599)	(208,939)
Non-current liabilities	(40,401)	(23,046)
Total liabilities	**(364,000)**	**(231,985)**
Net assets	**529,702**	**412,267**
Equity		
Issued capital	332,545	291,215
Retained earnings	197,157	121,052
Total equity	**529,702**	**412,267**
Financial performance		
Profit for the financial year	106,210	51,450
Other comprehensive income	-	-
Total comprehensive income	**106,210**	**51,450**

At 30 June 2021, the parent entity had not provided guarantees (2020: $nil), has no contingent liabilities (2020: $nil) and no contractual commitments (2020: $nil).

23. Subsequent events

23.1. Extension of current cash advance facility

On 20 July 2021, the Group cancelled its Tranche B2 and B3 facilities and extended the term of some existing tranches as well as introducing two new tranches to its cash advance facility, resulting in an overall increase in its cash advance facility limit by $63,750,000 to $423,750,000 at the date of issuing the consolidated financial statements.

23.2. Acquisition of investment properties

Subsequent to 30 June 2021, the Group completed the acquisitions of 57 – 67 Mark Anthony Drive, Dandenong South, VIC and 137 – 143 Fitzgerald Road, Laverton North, VIC for a total purchase price of $37,585,000 (excluding transaction costs). These acquisitions where funded from the Group's extended cash advance facility.

23.3. COVID-19 related rent concessions

Subsequent to the reporting date, the Group had not received or granted any relief requests and at the date of signing the consolidated financial statements, the are no outstanding tenant discussions.

23.4. Acquisition of APN Property Group

On 27 July 2021, securityholders in APN Property Group (ASX: APD), the ultimate and immediate parent entity of APN Funds Management Limited, passed resolutions to approve the acquisition of APD by Dexus Nominee Pty Limited (an entity controlled by Dexus, ASX: DXS). Subsequently, on 4 August 2021 the Supreme Court of Victoria approved the scheme of arrangement and trust scheme. As a result, the transaction was implemented on 13 August 2021. Further, on 12 August 2021, the directors of APN Funds Management Limited approved the rebranding of the stapled group to Dexus Industria REIT effective 1 October 2021.

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 2020-4 Amendments to Australian Accounting Standards – Covid-19 Related Rent Concessions	The amendment provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. At the reporting date, no rental concession agreements were in place in relation to the Group's five sub-leasehold properties disclosed in note 8, therefore this amendment does not have any impact to the Group.
AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material	This Standard amends AASB 101 Presentation of Financial Statements ("AASB 101") and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors, and makes consequential amendments to several other pronouncements and publications. The Group has adopted these amendments for the first time in the current year and it did not have any impact to the Group. The amendments make the definition of material in AASB 101 easier to understand and are not intended to alter the underlying concept of materiality in Aus tralian Accounting Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

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 2020-4 Amendments to Australian Accounting Standards – Covid-19 Related Rent Concessions	The amendment provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. At the reporting date, no rental concession agreements were in place in relation to the Group's five sub-leasehold properties disclosed in note 8, therefore this amendment does not have any impact to the Group.
AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material	This Standard amends AASB 101 Presentation of Financial Statements ("AASB 101") and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors, and makes consequential amendments to several other pronouncements and publications. The Group has adopted these amendments for the first time in the current year and it did not have any impact to the Group. The amendments make the definition of material in AASB 101 easier to understand and are not intended to alter the underlying concept of materiality in Aus tralian Accounting Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.
AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework	The Group has adopted the amendments included in AASB 2019-1 for the first time in the current year. The amendments include consequential amendments to affected Australian Accounting Standards, Interpretations and other pronouncements to reflect the issuance of the Conceptual Framework for Financial Reporting (Conceptual Framework) by the AASB. This amendment did not have any impact to the Group.
AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia	This Standard makes amendments to AASB 1054 Additional Australian Disclosures by adding a disclosure requirement for an entity intending to comply with IFRS Standards to disclose the information specified in paragraphs 30 and 31 of AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors on the potential effect of an IFRS Standard that has not yet been issued by the AASB. The Group has adopted these amendments for the first time in the current year and it did not have any impact to the Group.

24.2 Standards and Interpretations on issue but not yet effective

At the date of authorisation of the consolidated 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 2021-3 Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions beyond 30 June 2021 The practical expedient permits lessees not to assess whether rent concessions that occur as a direct consequence of the COVID-19 pandemic and meet specified conditions are lease modifications and, instead, to account for those rent concessions as if they were not lease modifications. This Standard extends the practical expedient to rent concessions that reduce only lease payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.	1 April 2021

SUMMARY OF SECURITYHOLDERS

Twenty largest holders of quoted equity securities as at 30 July 2021

Rank	Name	No. of fully paid ordinary shares	%IC
1	PERPETUAL CORPORATE TRUST LTD	33,195,754	15.30
2	GROWTHPOINT PROPERTIES AUSTRALIA LIMITED	31,561,204	14.54
3	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	24,838,620	11.45
4	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	17,827,264	8.22
5	CITICORP NOMINEES PTY LIMITED	12,594,402	5.80
6	NATIONAL NOMINEES LIMITED	4,306,901	1.98
7	AUSTRALIAN EXECUTOR TRUSTEES LIMITED	3,797,385	1.75
8	DEXUS FUNDS MANAGEMENT LIMITED	1,654,994	0.76
9	BNP PARIBAS NOMS(NZ) LTD	1,191,634	0.55
10	THE CASS FOUNDATION LIMITED	1,165,100	0.54
11	J REISINGER SUPERANNUATION P/L	1,125,000	0.52
12	CHARTER HALL WSALE MNGT LTD	977,159	0.45
13	JOHN E GILL TRADING PTY LTD	811,350	0.37
14	NEWECONOMY COM AU NOMINEES PTY LIMITED	794,239	0.37
15	SANDHURST TRUSTEES LTD	649,523	0.30
16	CERTANE CT PTY LTD	643,169	0.30
17	BRISPOT NOMINEES PTY LTD	552,534	0.25
18	BNP PARIBAS NOMINEES PTY LTD	515,830	0.24
19	BNP PARIBAS NOMINEES PTY LTD	454,795	0.21
20	BNP PARIBAS NOMS PTY LTD	428,397	0.20
Total		**139,085,254**	**64.09**

Distribution of holders of equity securities as at 30 July 2021

Range	Securities	%	No. of holders
100,001 and Over	148,807,957	68.57	75
10,001 to 100,000	52,391,430	24.14	2,138
5,001 to 10,000	9,356,035	4.31	1,248
1,001 to 5,000	5,913,574	2.73	2,038
1 to 1,000	532,057	0.25	1,238
Total	**217,001,053**	**100.00**	**6,737**
Unmarketable Parcels	2,059	0.00	295

Substantial Securityholders as at 30 July 2021

Name	Date of Notice (ASX)	Number of securities	%
APN Property Group and Holus Nominees Pty Limited and Lauren Investments Pty Limited and related entities	18-Dec-20	35,517,667	16.93%
Dexus Nominees Pty Limited and Dexus Funds Management Ltd as responisible entity for Dexus Diversified Trust	11-May-21	35,517,667	16.37%
Growthpoint Properties Australia Limited in its own capacity and as responsible entity for Growthpoint Properties Australia Trust, Growthpoint Properties Limited of South Africa and related entities.	14-Aug-20	29,621,555	15.00%
Vanguard Group (the Vanguard Group, Inc and its controlled entities)	25-Mar-21	13,127,609	6.05%
Franklin Resources, Inc and affiliates	5-Aug-20	11,678,503	5.91%

On-market buy back

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

CORPORATE DIRECTORY

APN Industria REIT

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

Responsible Entity 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
Joseph De Rango, Alternate Director for Howard Brenchley

Company Secretary

Chantal Churchill

Manager

APN Funds Management Limited
PO Box 18011
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E registrars@linkmarketservices.com.au

Stock Exchange Listing

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

Responsible Entity
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ACN 080 674 479 AFSL No 237500

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Melbourne Victoria 3000 Australia

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APN | Industria REIT