

APPENDIX 4E

Industria Trust No. 1 (ARSN 125 862 875)

Full-Year Report

Full-year ended 30 June 2016

Note on Stapling Arrangement from 5 December 2013:

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

Industria Trust No. 1 (Previously Australand Wholesale Property Trust No. 6)
 Industria Trust No. 2 (Previously Australand Wholesale Property Trust No. 6A)
 Industria Trust No. 3 (Previously APN Wholesale Direct Property Pool)
 Industria Trust No. 4 (Previously BTP Central Trust)
 Industria Company No. 1 Ltd (Previously APN DF1 Developments (Qld) Pty Ltd)

The purpose of the stapling was to form Industria REIT for listing on the Australian Stock Exchange.

In accordance with accounting standards, Industria Trust No. 1 has been identified as the acquirer in the stapling transaction.

This report is based on the consolidated financial statements of Industria Trust No. 1, which are attached to this report.

Results for announcement to the market

| | Industria Trust No. 1 and its controlled entities | |
|---|--|-------------------------------|
| | \$'000 | |
| Revenues from ordinary activities | down 2.97% to 37,956 | |
| Profit from ordinary activities after tax attributable to members | up 37.28% to 31,261 | |
| Net profit for the period attributable to members | up 37.28% to 31,261 | |
| Funds from operations (FFO) ¹ | up 1.11% to 21,535 | |
| Net tangible assets per security | 30 June 2016 \$2.12 | 30 June 2015 \$2.02 |

¹ Funds from Operations (FFO) for the year has been calculated as follows:

| | Industria Trust No. 1 and its controlled entities | |
|---|--|-----------------------|
| | Full-year 2016 | Full-year 2015 |
| | \$'000 | \$'000 |
| Net profit attributable to security holders | 31,261 | 22,772 |
| Adjusted for: | | |
| - Straight line lease revenue recognition | (1,050) | (1,223) |
| - Net (gain)/loss on change in fair value of: | | |
| Investment properties | (12,026) | (3,257) |
| Derivatives | 1,224 | 1,776 |
| - Deferred tax provision | (234) | (78) |
| - Amortised borrowing costs | 273 | 323 |
| - Amortised leasing costs and rent free adjustments | 2,087 | 985 |
| Funds from Operations | 21,535 | 21,298 |

| Distributions | Amount per security (cents) | \$'000 |
|---|------------------------------------|---------------|
| Interim – 31 Dec 2015 (123,019,191 securities on issue) | 7.50 | 9,226 |
| Final – 30 June 2016 (123,019,191 securities on issue) | 8.00 | 9,842 |
| Total | 15.50 | 19,068 |
| Previous corresponding period | 16.20 | 20,131 |
| Record date for determining entitlements to the distribution | 30 June 2016 | |
| Details of any distribution reinvestment plan in operation | N/a | |
| Last date for receipt of an election notice for participation in any distribution reinvestment plan | N/a | |

Note: Franked amount per security is not applicable

| Other information | 30 June 2016 | 30 June 2015 |
|---------------------------------------|---------------------|---------------------|
| Distribution declared (\$'000) | 19,068 | 20,131 |
| Distribution per security (cents) | 15.50 | 16.20 |
| FFO payout ratio (Distribution / FFO) | 88.5% | 94.5% |

For further details, please refer to the following documents:

- Full-year Results Announcement (attached)
- Directors' Report and Financial Statements (attached)
- Investor presentation (separate ASX release)



John Freemantle
Company Secretary

22 August 2016

'Industria REIT' being

Industria Trust No. 1 and its Controlled Entities

ARSN 125 862 875

Financial Report for the Financial Year

Ended 30 June 2016

Stapling arrangement

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

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

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

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Directors' Report

The Directors of APN Funds Management Limited ('APN FM'), the Responsible Entity of Industria Trust No. 1 ('Trust'), present their report on the consolidated entity ('Group'), being Industria Trust No. 1 and its controlled entities, for the financial year ended 30 June 2016.

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

Information about the Directors

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

Directors of APN Funds Management Limited

Geoff Brunsdon
Howard Brenchley
Jennifer Horrigan
Michael Johnstone
Michael Groth (Alternate Director)

Principal activities

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

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

Significant changes in the state of affairs

There was no significant change in state of affairs of the Group during the financial year.

Review of operations

The results of the operations of the Group are disclosed in the consolidated statement of profit or loss and other comprehensive income of these financial statements. The Group's total comprehensive income was \$31,261,000 for the financial year ended 30 June 2016 (30 June 2015: \$22,772,000).

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

| | FY16 \$'000 | FY15 \$'000 |
|---|----------------|----------------|
| Net rental income | 29,115 | 29,644 |
| Operating expenses | (2,880) | (2,810) |
| Net profit before interest, tax and other items | 26,235 | 26,834 |
| Net gain in fair value adjustments on investment properties | 12,026 | 3,257 |
| Gain on sale of investment properties | 3 | 668 |
| Fair value loss on derivatives | (1,224) | (1,776) |
| Net interest expense | (6,013) | (6,215) |
| Net profit before tax | 31,027 | 22,768 |
| Income tax – current | - | (74) |
| Income tax – deferred | 234 | 78 |
| Total comprehensive income for the financial year | 31,261 | 22,772 |

The Responsible Entity uses the Group's 'Funds From Operations' (FFO) as an additional performance indicator. FFO is calculated in accordance with the Property Council of Australia's best practice guidelines and adjusts the consolidated profit or loss and other comprehensive income for certain non-cash and other items, including unrealised gains or losses on the revaluation of the Group's investment properties and derivatives as outlined below.

Directors' Report (continued)

Review of operations (Continued)

Funds from Operations:

| | FY16 \$'000 | FY15 \$'000 |
|--|----------------|----------------|
| Total comprehensive income for the financial year | 31,261 | 22,772 |
| Adjusted for: | | |
| Add back amortised borrowing costs | 273 | 323 |
| Add back amortised leasing costs and rent free adjustments | 2,087 | 985 |
| Reverse straight lining of rent | (1,050) | (1,223) |
| Add back fair value loss on derivatives | 1,224 | 1,776 |
| Reverse fair value gain on investment properties | (12,026) | (3,257) |
| (Deduct) / Add back deferred tax (credit) / charge | (234) | (78) |
| FFO | 21,535 | 21,298 |
| Key financial performance metrics: | | |
| FFO (cents per security) | 17.51 | 17.25 |
| Distributions per security (cents per security) | 15.50 | 16.20 |
| Payout Ratio (Distribution / FFO) | 88.5% | 94.5% |
| Statutory earnings per security (cents per security) | 25.41 | 18.44 |
| Securities on issue (millions) | 123,019 | 123,488 |

The total comprehensive income for the financial year ended 30 June 2016 was \$31,261,000, compared to \$22,772,000 in the previous year, with the increase driven primarily by fair value gains on investment properties.

FFO rose 1.5% from 17.25 cents per security in FY15 to 17.51 cents per security in FY16.

Net tangible assets and asset valuations

Total investment property assets increased by \$17,980,000 (\$12,026,000 after adjustments for straight lining of rent, tenant incentives and associated leasing costs incurred), a 4.5% year on year increase, to \$417,863,000. This balance includes \$1,170,000 of capital expenditure during the period, \$2,900,000 of incentives paid during the period, and two assets classified as held for sale. Following the sale of 7 Brandl St and 85 Brandl St post balance date (at an average 13% premium to their prior book values), the investment property asset balance will decrease to \$386,139,000.

Significant valuation movements included:

- Industria's two assets at Rhodes Corporate Park – buildings A and C - increased in value by \$11.9m (9.0%), with key lease renewals enhancing the cap rate on the assets;
- 7 Clunies Ross and 17 – 19 McKechnie Drive increased in value by 4.8% (\$1.8 million) after Interactive leased 4,160 square metres in the prior year, resulting in a weighted average lease expiry of 7.2 years at 7 Clunies Ross;
- Brisbane Technology Park (BTP) Central, which represents the consolidation of a number of small holdings and 51A McKechnie Drive (100% occupied by Queensland Health), reduced in value by \$1.4 million (3.3%) (including land held for future development), due to near-term lease expiries; and
- 8 Clunies Ross and 9 McKechnie Drive reduced in value by \$2.1 million (9.0%) after the major tenant provided notice they would vacate.

Net tangible assets ("NTA") total \$261,157,000 (2015: \$249,838,000), equating to \$2.12 per security as at 30 June 2016 (2015: \$2.02).

Directors' Report (continued)

Leasing

Vacancy leased-up over the period boosted occupancy to 96%. The portfolios weighted average lease expiry remains strong at 4.9 years, and lease expiries for FY17 and FY18 remain relatively low at 8.0% and 7.1% respectively.

Activity was led by Industria's Brisbane Technology Park (BTP) assets, which are located 15 minutes from the CBD and 20 minutes from the airport, offering attractive rents of \$340 per square metre, and having benefited from improved market conditions including vacancy within the BTP precinct reducing to 6.8% (PCA July 2016). Key leasing transactions over the financial year included:

- 80 – 90 South Park Drive – 10,241 square metres to Hollier Dicksons, de-risking an October 2016 lease expiry with a new 7 year lease;
- Rhodes C – Renewal to Frasers Property Group over 3,720 square metres;
- 85 Brandl St – Leased 735 square metres to Cook Medical, facilitating the sale 30% ahead of book value;
- 88 Brandl St – 11 leases completed with tenants ranging from 50 – 250 square metres after Industria took over management of the property from a serviced office provider; and
- 18 Brandl St – 1,740 square metres to Lumascape across office and warehouse space.

When combined with the leasing completed in the first half of FY16, 20% of the portfolio has been taken up by tenants over the 2016 financial year.

Acquisitions

There were no acquisitions during the year.

Disposals

On 5 February 2016, the Group disposed of Lot 3, Brandl St, for consideration of \$1,168,000. The disposal resulted in a gain of \$3,000. In addition to this two sales were agreed late in the financial year that resulted in 7 Brandl St and 85 Brandl St, Brisbane Technology Park, being carried at their Net Realisable Values and disclosed as assets classified as held for sale in the consolidated statement of financial position. Key metrics on the sales included:

- 7 Brandl St – Sold on 1 August 2016, 10% ahead of the prior book value, representing net sale proceeds of \$25,137,000; and
- 85 Brandl St – Contracts were exchanged on 2 August 2016 for a sale price of \$7,230,000. After making estimates for settlement adjustments, the asset is being carried at its net realisable value of \$6,587,000, a 30% increase over the prior book value.

The above sales followed the successful lease up of vacancy and creation of 5.2 and 4.8 year weighted average lease expiries (respectively), increasing the attractiveness of the assets to purchasers and crystallising value well ahead of prior book values.

Market Overview

Brisbane Technology Park

Despite vacancy within Brisbane Technology Park being low at 6.8%, the broader Brisbane market has an excess of supply and high vacancy – with the fringe reporting vacancy of 12.9% and the CBD 16.9%. Demand for office space remains subdued and competition high and as a result market rental growth is negligible. However leasing across the Group's properties has outperformed the broader market, with Industria leasing up over 5,000 square metres of vacancy in the past 12 months. This success follows a period of active marketing to secure tenants, and has enhanced the weighted average lease expiry and reduced the lost rent associated with vacancy.

The suburban investment market has performed strongly over the past two years. Industria has been the beneficiary of this, agreeing the sale of 7 Brandl St. and 85 Brandl St. at yields of 7.5% - 100 basis points tighter than carrying valuations. Elsewhere in the market, assets have been trading on cap rates ranging from 7.2% to 8.3%, indicating continued appetite for property in Brisbane despite the challenging conditions.

Directors' Report (continued)

Market Overview (continued)

Rhodes

A combination of negative net supply and modest positive net absorption has led to the Sydney suburban vacancy rate falling to 6.6%. Stock withdrawals for residential conversion totalled 77,599sqm (or 2.5% of stock) in calendar 2015, and were only partially offset by new office supply of 30,479sqm. Although these conditions have seen effective gross rents increase by ~5% over the past 12 months, the growth in tenant demand has been patchy outside the CBD and as a result the Group still has 3 suites to lease at Building C Rhodes.

The market is experiencing strong capital flows, with calendar 2015 the largest year on record for Sydney office sales – with volumes exceeding \$6.2 billion, led by growth in offshore and syndication buyers. Strong capital flows have continued into 2016, with the sale of 3 – 5 Rider Boulevard, Rhodes, for ~\$230 million in June 2016 evidence of recent and continuing demand for investment opportunities. Given the strength of the NSW economy and lower than average vacancy, we expect Sydney office markets to continue to strengthen.

Melbourne industrial

New supply has largely been the driver of increasing vacancy in the Melbourne industrial markets in recent years. Vacancy now stands at 1.07 million square metres, with the growth in vacancy mainly coming from prime assets – where vacancy has increased from 477,000 square metres to 553,000 square metres. The majority of supply (and backfill vacancy) is in the Northern and Western markets, and this will worsen in late 2016/2017 with a further 231,000 square metres committed and under construction. Fortunately the Group is reasonably well placed to weather these conditions, with an average 5.7 year weighted average lease expiry over the Group's industrial assets and no material near-term expiries,

Investment yields continue to firm, and prime yields now range from 6.7% to 7.4%. Almost \$1.2 billion of industrial property exchanged hands in the 12 months to June 2016, with sale volumes boosted by strong interest from syndicators and unlisted funds. Sale and Leaseback trades have made up a major component of the transactional activity in Melbourne, with the two largest being the Woolworths DC (Dandenong South, \$215 million) and Oxford Cold Storage (Laverton North, \$206 million).

Future Prospects

Global growth continues to disappoint despite years of proactive policies and approaches from governments and central banks to stimulate sustainable growth. This environment creates ongoing challenges for businesses to increase prices and generate higher profits, and results in persistent focus on cost control across the board. This outlook underpins the Group's focus on owning interests in office and industrial properties that provide functional and affordable workspaces for business. We believe properties with these characteristics will outperform in a low growth environment, meeting the needs and wants of businesses who remain cost conscious when assessing their accommodation requirements. Combined with owning properties in good locations, the Group's portfolio is well placed to maintain high occupancy in the medium to long term.

The low growth environment has also led to a reduction in investor return expectations, especially for assets with long leases and limited income risk. Lower return expectations have increased values, creating an environment whereby it is more feasible for developers to deliver new buildings. These new buildings have increased supply across most major markets and muted rental growth. A further consequence of supply and increased competition is tenant incentives, which typically are in the form of providing a tenant with rent free periods or subsidising tenants fit out requirements. These conditions are largely present across all markets, and create a drag on cash flow and potentially tarnish returns.

Directors' Report (continued)

Future Prospects (continued)

In order to appropriately manage these risks, the Group completes bi-annual asset reviews that assess all aspects of the subject property, the market fundamentals, and how this compares to the carrying value and future potential of the asset. The Group also owns a diversified portfolio of assets that are located across major cities, and maintains a conservative approach to managing the balance sheet – with a target leverage band of 30% – 40%.

For the reasons articulated above, the Group is well positioned moving forward, with the ability to appropriately manage the future risks and rewards to provide sustainable income and capital growth to unitholders over time.

On Market Securities Buy-Back

On 27 March 2015, Industria REIT announced an on market buy-back of up to 6,250,000 stapled securities equating to approximately 5% of the total number of securities on issue. The buy-back was approved to take place during the 12 month period from 13 May 2015 to 12 May 2016 and commenced on 19 June 2015 with a focus on enhancing value and returns to investors.

During the period from 1 July 2015 to 12 May 2016, Industria REIT acquired 469,208 securities (2015: 1,511,602) at an average price of \$1.8613 per security (2015: \$1.9366) representing a 12.2% discount (2015: 4.13%) to the net tangible assets per security at 30 June 2016 of \$2.12 (2015: \$2.02).

Brisbane Technology Park (BTP) Co-operation Agreement

As outlined in the Product Disclosure Statement and Prospectus dated 28 October 2013, a Co-operation Agreement is in existence between Industria and Graystone Pty Ltd (Graystone). Graystone was the property manager of Industria's Brisbane Technology Park portfolio until December 2015, at which time CBRE took over as the property manager. Graystone retain option rights, under the Co-operation Agreement, over 45 and 45B McKechnie Drive at BTP Central (refer Note 10 (c)). The exercise price of the option under the Co-operation Agreement is broadly in line with the disclosed fair value.

The options expire in December 2016, and the Directors have been informed Graystone are likely to exercise some or all of their option rights.

Distributions

Distributions of \$19,068,000 were paid or declared by the Group during the financial year ended 30 June 2016 (2015: \$20,131,000).

For full details of distributions paid and payable during the financial year refer to note 7 of 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 9.

Matters subsequent to the end of the financial year

The Group entered into an unconditional contract to sell 7 Brandl St, Brisbane Technology Park, for \$25,500,000 on 21 April 2016. Settlement for this asset took place on 1 August 2016.

On 28 June 2016 the Group entered into a Heads of Agreement to dispose 85 Brandl St, Brisbane Technology Park, for \$7,230,000. On 2 August 2016 an unconditional sale contract was signed and settlement is scheduled for 8 September 2016.

In the period since the end of the financial year and up to the date of this report, no other matter or circumstance has arisen that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Directors' Report (continued)

Options granted

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

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

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

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

Indemnification of officers of the Responsible Entity and auditors

APN Funds Management Limited ('the Company') in its capacity as the Responsible Entity of the Group has agreed to indemnify the Directors and officers of the Company and its related bodies corporate, both past and present, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors and officers of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The Company will meet the full amount of any such liabilities, including costs and expenses. In addition, the Company has paid a premium in respect of a contract insuring against a liability incurred by an officer of the Group. The Company 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 are disclosed in note 18 to the financial statements. The Responsible Entity and its associates' security holdings in the Group are disclosed in note 18 to the financial statements.

The number of securities in the Group issued, bought back and cancelled during the financial year, and the number of securities on issue at the end of the financial year is disclosed in note 16 to the 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 included in note 1 to the financial statements.

Geoff Brunsdon, a Director of the Responsible Entity of the Trust, holds 50,000 securities in Industria REIT as at 30 June 2016 (2015: 50,000). No other director owns securities, or rights or options over securities, in the Group.

Rounding of amounts

The Trust 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.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors



Geoff Brunsdon
Director

Dated at Melbourne, 22 August 2016

The Board of Directors
APN Funds Management Limited
Level 30, 101 Collins Street
Melbourne, Vic 3000

Dear Board Members

INDEPENDENCE DECLARATION – INDUSTRIA REIT

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

As lead audit partner for the audit of the financial statements of Industria REIT for the year ended 30 June 2016, 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Peter A. Caldwell
Partner
Chartered Accountants

Melbourne, 22 August 2016

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2016

| | Notes | 2016 \$'000 | 2015 \$'000 |
|---|-------|-----------------|-----------------|
| Revenue | | | |
| Rental income | | 37,956 | 39,117 |
| Total revenue from continuing operations | | 37,956 | 39,117 |
| Other income | | | |
| Other income | 3 | 41 | - |
| Interest income | | 27 | 47 |
| Net gain on sale of investment properties | 10 | 3 | 668 |
| Net gain in fair value adjustments on investment properties | 10 | 12,026 | 3,257 |
| | | 12,097 | 3,972 |
| Total income | | 50,053 | 43,089 |
| Expenses | | | |
| Property costs | | (8,841) | (9,473) |
| Trust management fees | 18 | (2,318) | (2,219) |
| Interest expense | 4 | (6,040) | (6,262) |
| Fair value loss on derivatives | | (1,224) | (1,776) |
| Trust costs | | | |
| Recurring trust costs | | (603) | (591) |
| Total expenses | | (19,026) | (20,321) |
| Net profit before tax | | 31,027 | 22,768 |
| Income tax expense – current | 5 | - | (74) |
| Income tax benefit / (expense) – deferred | 5 | 234 | 78 |
| Net profit after tax | | 31,261 | 22,772 |
| Attributable to: | | | |
| Equity holders of Industria Trust No. 1 | | 24,806 | 14,328 |
| Equity holders of non-controlling interests ¹ | | 6,455 | 8,444 |
| | | 31,261 | 22,772 |
| Other comprehensive income | | - | - |
| Total comprehensive income for the financial year | | 31,261 | 22,772 |
| Total comprehensive income is attributable to: | | | |
| Equity holders of Industria Trust No. 1 | | 24,806 | 14,328 |
| Equity holders of non-controlling interests ¹ | | 6,455 | 8,444 |
| | | 31,261 | 22,772 |
| Earnings per security | | | |
| Basic and diluted (cents per security) | 21 | 25.40 | 18.22 |

¹ Non-Controlling interests represents the net profit after tax and comprehensive income attributable to the other stapled entities comprising the Industria REIT Group.

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

As at 30 June 2016

| | Notes | 2016 \$'000 | 2015 \$'000 |
|---|-------|------------------|------------------|
| Current assets | | | |
| Cash and cash equivalents | 19 | 1,607 | 1,873 |
| Trade and other receivables | 8 | 2,021 | 3,992 |
| Other assets | 9 | 355 | 519 |
| Assets classified as held for sale | 23 | 31,724 | - |
| Total current assets | | 35,707 | 6,384 |
| Non-current assets | | | |
| Investment properties | 10 | 386,139 | 399,883 |
| Other assets | 9 | - | 89 |
| Total non-current assets | | 386,139 | 399,972 |
| Total assets | | 421,846 | 406,356 |
| Current liabilities | | | |
| Payables | 11 | (4,967) | (6,215) |
| Provisions | 13 | - | (385) |
| Derivative financial instruments | 14 | (1,042) | (1,216) |
| Distributions payable | 7 | (9,842) | (9,681) |
| Liabilities directly associated with assets classified as held for sale | 23 | - | - |
| Total current liabilities | | (15,851) | (17,497) |
| Non-current liabilities | | | |
| Payables | 11 | (240) | (180) |
| Derivative financial instruments | 14 | (3,266) | (1,869) |
| Borrowings | 12 | (139,263) | (134,669) |
| Deferred tax liability | 5 | (2,069) | (2,303) |
| Total non-current liabilities | | (144,838) | (139,021) |
| Total liabilities | | (160,689) | (156,518) |
| Net assets | | 261,157 | 249,838 |
| Equity | | | |
| Equity holders of Industria Trust No. 1: | | | |
| Contributed equity | 16 | 165,096 | 165,674 |
| Retained earnings / (accumulated losses) | 16 | 10,922 | (384) |
| | | 176,018 | 165,290 |
| Equity holders of non-controlling interests ¹ | 17 | 85,139 | 84,548 |
| Total equity | | 261,157 | 249,838 |
| Net tangible assets per security | | 2.12 | 2.02 |

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

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the year ended 30 June 2016

| | Contributed equity | (Accumulated losses)/ retained earnings | Total | Non-controlling interests ¹ | Total equity |
|--|--------------------|--|----------------|--|----------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Balance at 1 July 2014 | 167,659 | (2,785) | 164,874 | 85,250 | 250,124 |
| Net profit for the financial year | - | 14,328 | 14,328 | 8,444 | 22,772 |
| Other comprehensive income for the year | - | - | - | - | - |
| Total comprehensive income for the year | - | 14,328 | 14,328 | 8,444 | 22,772 |
| Transactions with unitholders in their capacity as owners | | | | | |
| Buy-back of contributed equity (Note 16) | (1,985) | - | (1,985) | (942) | (2,927) |
| Distributions paid or provided (Note 7) | - | (11,927) | (11,927) | (8,204) | (20,131) |
| Balance at 30 June 2015 | 165,674 | (384) | 165,290 | 84,548 | 249,838 |
| Net profit for the financial year | - | 24,806 | 24,806 | 6,455 | 31,261 |
| Other comprehensive income for the year | - | - | - | - | - |
| Total comprehensive income for the year | - | 24,806 | 24,806 | 6,455 | 31,261 |
| Transactions with unitholders in their capacity as owners | | | | | |
| Buy-back of contributed equity (Note 16) | (578) | - | (578) | (296) | (874) |
| Distributions paid or provided (Note 7) | - | (13,500) | (13,500) | (5,568) | (19,068) |
| Balance at 30 June 2016 | 165,096 | 10,922 | 176,018 | 85,139 | 261,157 |

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

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the year ended 30 June 2016

| | Notes | 2016 \$'000 | 2015 \$'000 |
|---|-------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 36,185 | 37,826 |
| Payments to suppliers | | (15,188) | (15,015) |
| Interest received | | 28 | 47 |
| Income tax refunded / (paid) | | 71 | (437) |
| Finance costs paid | | (5,997) | (6,095) |
| Net cash inflow from operating activities | 19 | 15,099 | 16,326 |
| Cash flows from investing activities | | | |
| Payments for improvements to investment properties | 10 | (1,302) | (1,128) |
| Proceeds from sale of investment properties | 10 | 1,168 | 11,347 |
| Net cash (outflow) / inflow from investing activities | | (134) | 10,219 |
| Cash flows from financing activities | | | |
| Repayment of borrowings | | - | (1,940) |
| Proceeds from borrowings | | 4,550 | - |
| Payment for buy-back of equity | 16 | (874) | (2,927) |
| Distributions paid | | (18,907) | (22,375) |
| Net cash outflow from financing activities | | (15,231) | (27,242) |
| Net (decrease) in cash and cash equivalents | | (266) | (697) |
| Cash and cash equivalents at the beginning of the financial year | | 1,873 | 2,570 |
| Cash and cash equivalents at the end of the financial year | 19 | 1,607 | 1,873 |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

1. Summary of significant accounting policies

Statement of compliance & basis of preparation

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Group, as detailed in note 15 to these accounts. For the purposes of preparing these consolidated financial statements, the Group is a for-profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes comply with International Financial Reporting Standards (IFRS).

The financial statements were authorised for issue by the Directors on 22 August 2016.

These consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of investment properties and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

In the application of A-IFRS management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of A-IFRS that have a significant effect on the financial statements and estimates with a significant risk of a material adjustment in the next financial year are disclosed, where applicable, in the relevant notes to the financial statements.

The accounting policies set out below have been applied in preparing the financial statements for the financial year ended 30 June 2016 and the comparative information presented in these financial statements.

Notes to the Consolidated Financial Statements (continued)

1. Summary of significant accounting policies (continued)

Application of new and revised Accounting Standards

In the current year, the Fund has applied the amendments to AASBs issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 July 2015, and therefore relevant for the current year end.

AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality'

This amendment completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations, allowing that Standard to effectively be withdrawn.

Rounding off of amounts

The Trust 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.

Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report for the financial year ended 30 June 2016:

(a) Revenue recognition

(i) Investment property

The fair value model has been chosen in relation to all investment properties, as it will give the most relevant information regarding transactions and the financial position of the Group. The fair value model requires that the declared values reflect market conditions at the end of the reporting period. Independent valuations are performed on a regular basis.

Any increases or decreases in the carrying amount of investment property resulting from fair value adjustments are recognised as a gain / (loss) in the consolidated statement of profit or loss and other comprehensive income.

(ii) Rental income

Rental income from properties is recognised on a straight-line basis over the lease term. Rental income not received at reporting date, is reflected in the consolidated statement of financial position as a receivable or if paid in advance, as rent in advance.

(iii) Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(b) Expenses

All expenses, including responsible entity fees, are recognised in the consolidated statement of profit or loss and other comprehensive income on an accruals basis.

(c) Cash and cash equivalents

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

Restricted cash is shown in the consolidated statement of financial position according to the timing of its release. Accordingly, cash that cannot be applied or used within the next twelve months is shown as a non-current asset. All other cash and cash equivalents are shown as current assets.

Notes to the Consolidated Financial Statements (continued)

1. Summary of significant accounting policies (continued)

(d) Financing costs

Financing costs comprise interest expense on borrowings. All borrowing costs are recognised in the consolidated statement of profit or loss and other comprehensive income using the effective interest rate method.

Financing costs exclude borrowing costs capitalised to qualifying assets. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Borrowing costs that are directly attributable to the acquisition, construction or development of a qualifying asset are capitalised as part of that asset. Capitalisation of borrowing costs cease during extended periods in which active development is interrupted. When a development is complete and ceases to be a qualifying asset, borrowing costs are expensed as incurred.

(e) Loans and receivables

Trade and sundry receivables are recorded at amortised cost less impairment. Trade receivables are due within thirty days. Trade receivables are reviewed regularly and bad debts are written off when identified. A specific allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets.

(f) Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in consolidated statement of profit or loss and other comprehensive income in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in consolidated statement of profit or loss and other comprehensive income in the period in which the property is derecognised.

(g) Distributions

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.

(h) Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

(i) Income tax

Income tax on the profit or loss for the financial year comprises current and deferred tax. 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.

Notes to the Consolidated Financial Statements (continued)

1. Summary of significant accounting policies (continued)

(i) Income tax (continued)

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.

(j) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

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.

(k) Impairment

(i) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(ii) Impairment of other tangible assets

At each reporting date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash generating unit) for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Notes to the Consolidated Financial Statements (continued)

1. Summary of significant accounting policies (continued)

(l) Payables

Trade payables and other accounts payable represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are usually paid within 30 days of recognition. They are recognised at amortised cost, which for the Group is the fair value of consideration to be paid in the future for the goods and services received.

(m) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

(n) Leases and lease incentives

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

(o) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective Interest Rate

The effective interest rate method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets classified as at FVTPL.

Notes to the Consolidated Financial Statements (continued)

1. Summary of significant accounting policies (continued)

(o) Financial instruments (continued)

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and AASB 139 'Financial Instruments: Recognition and Measurement' permits the entire combined contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 14.

Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity, is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Notes to the Consolidated Financial Statements (continued)

1. Summary of significant accounting policies (continued)

(o) Financial instruments (continued)

Financial liabilities and equities

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised as the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and AASB 139 'Financial Instruments: Recognition and Measurement' permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in consolidated statement of profit or loss and other comprehensive income. The net gain or loss recognised in consolidated statement of profit or loss and other comprehensive income incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 14.

Other financial liabilities

Other financial liabilities, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis.

The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Notes to the Consolidated Financial Statements (continued)

1. Summary of significant accounting policies (continued)

(o) Financial instruments (continued)

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in consolidated statement of profit or loss and other comprehensive income.

(p) Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to interest rates such as interest rate swaps.

Derivatives are categorised as held for trading and are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit and loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit and loss depends on the nature of the hedge relationship.

(q) Issued units

Issued and paid up units are recognised at the fair value of the consideration received by the Trust. Any transaction costs arising on issue of ordinary units are recognised directly in unitholders' interest as a reduction of the unit proceeds received.

(r) Provisions

Provisions are recognised when the Group has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

An onerous contract is considered to exist where the Group has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

(s) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Trust and entities (including structured entities) controlled by the Trust and its subsidiaries. Control is achieved when 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 Trust reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Trust has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

Notes to the Consolidated Financial Statements (continued)

1. Summary of significant accounting policies (continued)

(s) Basis of consolidation (continued)

The Trust considers all relevant facts and circumstances in assessing whether or not the Trust's voting rights in an investee are sufficient to give it power, including:

- the size of the Trust's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Trust, other vote holders or other parties;
- rights arising from other contractual arrangements; and

any additional facts and circumstances that indicate that the Trust has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Trust obtains control over the subsidiary and ceases when the Trust loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Trust gains control until the date when the Trust ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Trust and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Trust and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

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.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Trust.

When the Group loses control of a subsidiary, a gain or loss is recognised in consolidated statement of profit or loss and other comprehensive income and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable AASBs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Notes to the Consolidated Financial Statements (continued)

1. Summary of significant accounting policies (continued)

(t) Investment in joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these financial statements using the equity method of accounting. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of AASB 139 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with AASB 136 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with AASB 136 to the extent that the recoverable amount of the investment subsequently increases.

(u) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in consolidated statement of profit or loss and other comprehensive income as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with AASB 112 'Income Taxes' and AASB 119 'Employee Benefits' respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 'Share-based Payment' at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations' are measured in accordance with that Standard.

Notes to the Consolidated Financial Statements (continued)

1. Summary of significant accounting policies (continued)

(u) Business combinations (continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in consolidated statement of profit or loss and other comprehensive income as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another Standard. Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in consolidated statement of profit or loss and other comprehensive income. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

(v) Earnings per security

(i) Basic earnings per security

Basic earnings per security is calculated as net profit attributable to unitholders of the Group 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.

(ii) Diluted earnings per security

Diluted earnings per security adjusts the figures used in the determination of basic earnings per security to take into account the effect of interest and other financing costs associated with dilutive potential ordinary securities and the weighted average number of securities assumed to have been issued for no consideration in relation to dilutive potential ordinary securities. As there are no potentially dilutive securities on issue, diluted earnings per security is the same as basic earnings per security.

(w) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales for such assets (or disposal groups) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint venture.

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with AASB 139 unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method (see the accounting policy regarding investments in associates or joint ventures above). Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Notes to the Consolidated Financial Statements (continued)

1. Summary of significant accounting policies (continued)

(x) Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial report, the Standards and Interpretations listed below were in issue but not yet effective. These are not expected to have any material impact on the Group's financial report in future reporting periods.

| Standard | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|---|--|---|
| <ul style="list-style-type: none"> ▪ AASB 9 'Financial Instruments', and the relevant amending standards | 1 January 2018 | 30 June 2019 |
| <ul style="list-style-type: none"> ▪ AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15', AASB 2015-8 'Amendments to Australian Accounting Standards – Effective date of AASB 15' | 1 January 2018 | 30 June 2019 |
| <ul style="list-style-type: none"> ▪ AASB 16 'Leases' | 1 January 2019 | 30 June 2020 |
| <ul style="list-style-type: none"> ▪ AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation' | 1 January 2016 | 30 June 2017 |
| <ul style="list-style-type: none"> ▪ AASB 2014-9 'Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements' | 1 January 2016 | 30 June 2017 |
| <ul style="list-style-type: none"> ▪ AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture', AASB 2015-10 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128' | 1 January 2018 | 30 June 2019 |
| <ul style="list-style-type: none"> ▪ AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle' | 1 January 2016 | 30 June 2017 |
| <ul style="list-style-type: none"> ▪ AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101' | 1 January 2016 | 30 June 2017 |
| <ul style="list-style-type: none"> ▪ AASB 2015-5 'Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception' | 1 January 2016 | 30 June 2017 |
| <ul style="list-style-type: none"> ▪ AASB 2016-1 'Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses' | 1 January 2017 | 30 June 2018 |

Notes to the Consolidated Financial Statements (continued)

1. Summary of significant accounting policies (continued)

(x) Standards and Interpretations in issue not yet adopted (continued)

| Standard | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|---|--|---|
| <ul style="list-style-type: none"> ▪ AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107' | 1 January 2017 | 30 June 2018 |

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations (for which Australian equivalent Standards and Interpretations have not yet been issued) were in issue but not yet effective:

| Standard or Interpretation | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|---|--|---|
| <ul style="list-style-type: none"> ▪ Clarifications to IFRS 15 'Revenue from Contracts with Customers' | 1 January 2018 | 30 June 2019 |

2. Accounting estimates and Judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires the Responsible Entity to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are discussed below.

Estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources are based on historical experience and various other factors including expectations of future events that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(a) Critical accounting estimates and assumptions

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

The Group had investment properties with a net carrying amount of \$386,139,000 (2015: \$399,883,000) (see note 10), representing estimated fair value. These carrying amounts reflect certain assumptions about expected future rentals, rent-free periods, operating costs and appropriate discount and capitalisation rates. In forming these assumptions, the Responsible Entity considered information about current and recent sales activity, current market rents, and discount and capitalisation rates, for properties similar to those owned by the Group, as well as independent valuations of the Group's property.

Notes to the Consolidated Financial Statements (continued)

2. Accounting estimates and Judgements (continued)

(b) Critical judgements in applying the entity's accounting policies

Judgements made by management in the application of AASBs that have a significant affect on the financial report and estimates with a significant risk of material adjustment in the next financial year are as follows:

- Fair value of investment properties
Note 10 outlines the fair value of the properties of the Group and the valuation techniques used to determine these fair values. Significant judgement is required to estimate the future cash flows used to calculate the fair value of investment properties. In making their judgement, the Directors have considered internal and external valuations and the appropriateness of future cash flows and capitalisation rates applied.

3. Other income

| | 2016 \$'000 | 2015 \$'000 |
|--------------|----------------|----------------|
| Other income | 41 | - |

4. Finance costs

| | 2016 \$'000 | 2015 \$'000 |
|---------------------------------|----------------|----------------|
| Interest on bank borrowings (i) | 5,767 | 5,939 |
| Amortisation of borrowing costs | 273 | 323 |
| | 6,040 | 6,262 |

- (i) The Group has a revolving credit facility with ANZ and NAB which provides the Group with \$165m of flexible debt (2015: \$155m). As at 30 June 2016, \$140.11m (2015: \$135.56m) of this facility has been drawn down. The Group has a number of interest rate swaps to hedge its risk to changes in the interest rate. Refer to note 14 for details of the fair value of the interest rate swaps.

5. Income tax expenses

| | 2016 \$'000 | 2015 \$'000 |
|---|----------------|----------------|
| (a) Income tax (benefit) / expense recognised in the consolidated statement of profit or loss and other comprehensive income | | |
| The components of tax (benefit) / expense comprises: | | |
| Current tax expense | - | 79 |
| Deferred tax (benefit) / expense relating to the origination and reversal of temporary differences | (234) | (78) |
| Overprovision from prior years | - | (5) |
| | (234) | (4) |

Notes to the Consolidated Financial Statements (continued)

5. Income tax expenses (continued)

| | 2016 \$'000 | 2015 \$'000 |
|--|----------------|----------------|
| (b) Reconciliation between tax expense and pre-tax net profit | | |
| Profit from continuing operations | 31,027 | 22,768 |
| Less: Profit of the group relating to non-taxable Trust entities | (31,917) | (20,741) |
| Taxable (loss) / profit of group | (890) | 2,027 |
| Prima facie tax payable @ 30% (2015: 30%) | (267) | 608 |
| Add/(subtract) the tax effect of: | | |
| Unused tax losses recognised in deferred tax asset | - | 93 |
| Previously unrecognised and unused tax losses and deductible temporary differences now recognised as deferred tax assets | - | (662) |
| Effect of expenses that are not deductible in determining taxable profit | 24 | - |
| Other | 9 | (38) |
| Overprovision from prior years | - | (5) |
| Income tax benefit | (234) | (4) |

(c) Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | Opening balance \$000 | Recognised in profit or loss \$000 | Closing balance \$000 |
|---------------------------------------|-----------------------------|---|-----------------------------|
| Provisions and accruals | 32 | (362) | (330) |
| Allowance for doubtful debts | 43 | (43) | - |
| Capitalised acquisition costs | 306 | 9 | 315 |
| Capitalised borrowing costs | 1 | (1) | - |
| Investment properties | (3,030) | (10) | (3,040) |
| Fair value adjustments on derivatives | 345 | 141 | 486 |
| Tax losses carried forward | - | 500 | 500 |
| | (2,303) | 234 | (2,069) |

6. Auditor's remuneration

| | 2016 \$ | 2015 \$ |
|--|----------------|----------------|
| Assurance services | | |
| Audit services | | |
| Audit of financial reports and other audit work under the <i>Corporations Act 2001</i> | 125,500 | 125,500 |
| Total remuneration for audit services | 125,500 | 125,500 |
| Other assurance services | | |
| Compliance plan audit services | 8,000 | 8,000 |
| Total remuneration for other assurance services | 8,000 | 8,000 |
| Total auditor's remuneration | 133,500 | 133,500 |

The auditor of the Group is Deloitte Touche Tohmatsu.

Notes to the Consolidated Financial Statements (continued)

7. Distributions

Distributions recognised in the financial year by the Group are detailed below:

| Distributions 2016 | Cents per security | Total amounts \$'000 |
|---------------------------|---------------------------|-----------------------------|
| Half-year ended: | | |
| December 2015 | 7.50 | 9,226 |
| June 2016 | 8.00 | 9,842 |
| Total | 15.50 | 19,068 |

| Distributions 2015 | Cents per security | Total amounts \$'000 |
|---------------------------|---------------------------|-----------------------------|
| Half-year ended: | | |
| December 2014 | 8.36 | 10,450 |
| June 2015 | 7.84 | 9,681 |
| Total | 16.20 | 20,131 |

8. Trade and other receivables

| | 2016 \$'000 | 2015 \$'000 |
|------------------------------|--------------------|--------------------|
| Current | | |
| Rent debtors | 2,021 | 4,366 |
| Allowance for doubtful debts | - | (374) |
| | 2,021 | 3,992 |

Accounts receivable are non-interest bearing and are generally on 0-30 day terms. An allowance for doubtful debts would be recognised when there is objective evidence that an individual receivable is impaired. As at 30 June 2016, no receivables were impaired (2015: \$374,000).

The ageing analysis of accounts receivable not impaired as at 30 June 2016 is as follows:

- Consolidated 0-30 days \$1,787,000 (2015: \$3,872,000)
- Consolidated 31-90 days \$234,000 (2015: \$120,000)
- Consolidated 90+days Nil (2015: Nil)

9. Other assets

| | 2016 \$'000 | 2015 \$'000 |
|------------------------|--------------------|--------------------|
| Current | | |
| Prepayments | 354 | 344 |
| Income tax recoverable | - | 82 |
| Other | 1 | 93 |
| | 355 | 519 |
| Non-current | | |
| Deferred charges | - | 89 |
| | - | 89 |

Notes to the Consolidated Financial Statements (continued)

10. Investment properties

Investment properties represent the industrial and business park properties held by the Group for rental income.

| | 2016 \$'000 | 2015 \$'000 |
|--------------------------------------|----------------|----------------|
| Industrial and office properties (b) | 383,051 | 396,400 |
| Land held for future development (c) | 3,088 | 3,483 |
| Total | 386,139 | 399,883 |

(a) Reconciliation of carrying amount

The following is a reconciliation of the carrying amounts of investment properties at the beginning and end of the financial year:

| | 2016 \$'000 | 2015 \$'000 |
|---|----------------|----------------|
| Carrying amount at beginning of the financial year | 399,883 | 403,971 |
| Additions at cost: industrial and office properties | 1,302 | 1,128 |
| Disposals | (1,163) | (10,190) |
| Movement in deferred lease incentives | 2,140 | 1,717 |
| Straight line revenue recognition | 3,675 | - |
| Net gain in fair value adjustments ¹ | 12,026 | 3,257 |
| Property reclassified as held for sale (note 23) | (31,724) | - |
| Carrying amount at end of the financial year | 386,139 | 399,883 |

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

(b) Industrial and office properties

| | Ownership interest | Fair value 30 June 2016 \$'000 | Fair value 30 June 2015 \$'000 | Latest independent valuation date | Valuer |
|--|-----------------------|---|---|--|--------------|
| 34 Australis Drive, VIC | 100% | 24,000 | 21,650 | 31 Dec 2015 | Urbis |
| 80-96 South Park Drive, VIC | 100% | 20,200 | 18,650 | 31 Dec 2015 | Urbis |
| 89 West Park Drive, VIC | 100% | 17,387 | 15,750 | 31 Dec 2015 | Urbis |
| 32-40 Garden Street, VIC | 100% | 14,696 | 14,800 | 31 Dec 2015 | Urbis |
| 5 Butler Blvd, SA | 100% | 12,500 | 12,800 | 30 Jun 2015 | Savills |
| 140 Sharps Road, VIC | 100% | 13,500 | 13,100 | 31 Dec 2015 | Urbis |
| 7 Clunies Ross and 17-19 McKechnie Drive, QLD | 100% | 39,000 | 37,200 | 30 Jun 2016 | Knight Frank |
| 8 Clunies Ross and 9 McKechnie Drive, QLD | 100% | 21,375 | 23,500 | 30 Jun 2016 | Knight Frank |
| 7 Brandl St, QLD ² | 100% | - | 22,200 | 30 Jun 2015 | LMW |
| 37 Brandl St, QLD | 100% | 13,170 | 13,650 | 30 Jun 2015 | LMW |
| 18 Brandl St, QLD | 100% | 11,500 | 11,800 | 30 Jun 2015 | LMW |
| 88 Brandl St, QLD | 100% | 13,475 | 14,000 | 30 Jun 2016 | Knight Frank |
| 85 Brandl St, QLD ² | 100% | - | 5,000 | 31 Dec 2015 | LMW |
| Building A, 1 Homebush Bay Drive, NSW | 100% | 89,816 | 81,000 | 31 Dec 2015 | Knight Frank |
| Building C, 1 Homebush Bay Drive, NSW | 100% | 54,732 | 51,600 | 31 Dec 2015 | Knight Frank |
| BTP Central, QLD | 100% | 37,700 | 39,700 | 30 Jun 2016 | Knight Frank |
| Total consolidated entity | | 383,051 | 396,400 | | |

² The fair value of the above assets has been determined based on their net realisable values. These assets are assets classified as held for sale as at 30 June 2016, refer note 23.

Notes to the Consolidated Financial Statements (continued)

10. Investment properties (continued)

(b) Industrial and office properties (continued)

The fair value of assets which have not been independently valued at 30 June 2016 have been determined based on Directors' valuations.

At 30 June 2016 included within the investment property fair value is a deduction for \$6,146,000 representing lease incentive commitments the Group will need to pay under the lease contracts (2015: \$857,000).

(c) Land held for future development

| | Ownership interest | Fair value 30 June 2016 \$'000 | Fair value 30 June 2015 \$'000 | Latest independent valuation date | Valuer |
|--------------------------------------|--------------------|--------------------------------|--------------------------------|-----------------------------------|----------|
| Lot 3, Brandl Street, QLD (Note (i)) | 100% | - | 1,021 | 30 Sept 2013 | Colliers |
| 45 and 45B McKechnie Drive, QLD (ii) | 100% | 3,088 | 2,462 | 31 Dec 2014 | LMW |
| Total | | 3,088 | 3,483 | | |

(i) Sale of Lot 3, Brandl Street

On 5 February 2016, the Group disposed of Lot 3, Brandl St, QLD for consideration of \$1,168,000. The disposal resulted in a gain of \$3,000 which is recognised in the consolidated statement of profit or loss and other comprehensive income in the current financial year.

(ii) BTP Co-operation Agreement

As outlined in the Product Disclosure Statement and Prospectus dated 28 October 2013, a Co-operation Agreement is in existence between Industria and Graystone Pty Ltd (Graystone), Graystone was the property manager of Industria's Brisbane Technology Park portfolio until December 2015, at which time CBRE took over as the property manager. Graystone retain option rights, under the Co-operation Agreement, over 45 and 45B McKechnie Drive at BTP Central (refer above). The exercise price of the option under the Co-operation Agreement is broadly in line with the disclosed fair value.

The options expire in December 2016, and the Directors have been informed Graystone are likely to exercise some or all of their option rights.

(d) Fair value measurement, valuation techniques and inputs

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.

| Fair Value Hierarchy | Fair value 30 June 2016 \$'000 | Valuation Technique | Inputs used to measure fair value | Range of unobservable inputs |
|----------------------|--------------------------------|--------------------------------------|--------------------------------------|------------------------------|
| Level 3 | 383,051 | DCF and income capitalisation method | Net passing rent (per sqm p.a.) | \$67 - \$473 |
| | | | Net market rent (per sqm p.a.) | \$70 - \$647 |
| | | | 10 year average market rental growth | 1.50% - 4.40% |
| | | | Adopted capitalisation rate | 7.00% - 9.75% |
| | | | Adopted terminal yield | 7.25% - 10.50% |
| Level 3 | 3,088 | Direct comparison method | Adopted discount rate | 8.00% - 10.75% |
| | | | Sales price per sqm | \$500 |

The adopted valuation for investment properties is the mid-point of the valuations determined using the discounted cash flow (DCF) method and the income capitalisation method. The adopted valuation for land held for future development is based on the direct comparison method. The DCF, income capitalisation and direct comparison methods use unobservable inputs in determining fair value, as per the table above.

Notes to the Consolidated Financial Statements (continued)

10. Investment properties (continued)

(d) Fair value measurement, valuation techniques and inputs (continued)

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

Notes to the Consolidated Financial Statements (continued)

10. Investment properties (continued)

(e) Valuation process

The aim of the valuation process is to ensure that assets are held at fair value in the Group's accounts and that the Group is compliant with applicable regulations (for example the Corporations Act and ASIC regulations).

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 valued. Internal valuations have been performed by the Group's internal valuers, reviewed and accepted by the Board of Directors of the Responsible Entity. It is Group policy to have all properties independently valued at least every two years.

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 rate, terminal yield and discount rates based on comparable market evidence and recent external valuation parameters are used to produce a capitalisation and discounted cash flow valuation. The adopted value is generally a mid-point of these two approaches.

(f) Sensitivity information

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

Generally, a change in the assumption made for the adopted capitalisation rate is accompanied by a directionally similar change in the adopted terminal yield. The adopted capitalisation rate forms part of the income capitalisation approach and the adopted terminal yield forms part of the discounted cash flow approach. The mid-point of the two valuations is then adopted.

When calculating 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 assessing a discounted cash flow, the adopted discount rate and adopted terminal yield have a strong interrelationship in deriving a fair value given the discount rate will determine the rate in which the terminal value is discounted to the present value.

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

(g) Highest and best use

For all investment properties the current use equates to the highest and best use.

Notes to the Consolidated Financial Statements (continued)

10. Investment properties (continued)

(h) Leasing arrangements

The investment properties are leased to tenants under long term operating leases. Rentals are receivable from the tenants monthly. Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements as receivable are as follows:

| | 2016 \$'000 | 2015 \$'000 |
|---|----------------|----------------|
| Within one year | 27,139 | 30,427 |
| More than one year but not more than five years | 122,516 | 95,688 |
| More than five years | 38,810 | 49,267 |
| Total | 188,465 | 175,382 |

(i) Properties pledged as security

At 30 June 2016 and 30 June 2015, the Group's debt facility is secured by first ranking mortgages over all of the investment properties held by the Group.

At 30 June 2016, the carrying amount of the investment properties and assets classified as held for sale pledged as collateral was \$417,863,000 (2015: \$399,883,000). The debt facility imposes certain financial covenants with respect to the secured investment properties. These covenants include maintenance of the financial ratios outlined in note 12.

(j) Amounts recognised in the consolidated statement of profit and loss for investment properties

| | 2016 \$'000 | 2015 \$'000 |
|---|----------------|----------------|
| Rental income | 37,956 | 39,117 |
| Direct operating expenses | (8,841) | (9,473) |
| Net gain in fair value adjustments | 12,026 | 3,257 |
| Net gain on sale of investment properties | 3 | 668 |
| Net amount recognised in profit and loss for investment properties | 41,144 | 33,569 |

11. Payables

| | 2016 \$'000 | 2015 \$'000 |
|-----------------------------------|----------------|----------------|
| Current | | |
| Trade payables | 108 | 65 |
| Accruals and other creditors | 4,582 | 5,943 |
| GST payable | 277 | 207 |
| | 4,967 | 6,215 |
| Non-current | | |
| Rental bond received from tenants | 240 | 180 |
| | 240 | 180 |

Notes to the Consolidated Financial Statements (continued)

12. Borrowings

| | 2016 \$'000 | 2015 \$'000 |
|--|----------------|----------------|
| Non-current | | |
| Bank loans – secured | 139,263 | 134,669 |
| | 139,263 | 134,669 |
| Financing arrangements | | |
| The Group has access to the following lines of credit: | | |
| Loan facility limit | 165,000 | 155,000 |
| Facilities drawn at balance date | 140,110 | 135,560 |
| Facilities not drawn at balance date | 24,890 | 19,440 |

At 30 June 2016, the Group had available liquidity of \$24,890,000 (2015: \$19,440,000).

Summary of borrowing arrangements

The Group has a revolving credit facility with major Australian financial institutions, with a remaining maturity profile not exceeding 5 years. The weighted average effective interest rate on the loans is 3.49% (2015: 3.66%). During the financial year, the Group extended the debt facilities by 12 months such that the new maturity dates are 5 December 2018 and 5 December 2020. The facility limit was increased from \$155m to \$165m.

The Group has entered into interest rate swap contracts exchanging variable rate interest for fixed rate interest. The movement in the fair value of the interest rate swaps has been recognised in the consolidated statement of profit or loss and other comprehensive income in the current financial year as hedge accounting has not been applied.

The debt facility imposes certain financial covenants with respect to the secured investment properties. These covenants include maintenance of the following financial ratios at the reporting date:

- The loan to valuation ratio will not exceed 55% at all times
- The gearing ratio will not exceed 55%
- The ratio of net rental income to interest costs under the facility will not fall below 2.0 times
- The portfolio weighted average lease length to expiry will be greater than 2.5 years.

Included in the carrying value of borrowings are capitalised borrowing costs of \$847,000 (2015: \$891,000).

13. Provisions

| | 2016 \$'000 | 2015 \$'000 |
|--------------------------------------|----------------|----------------|
| Current | | |
| Provision for future tenant rebate * | - | 385 |
| Movements in provisions: | | |
| At beginning of the financial year | 385 | 385 |
| Utilised during the financial year | (385) | - |
| At end of the financial year | - | 385 |

* Provision for future tenant rebate was an incentive for a current tenant to remain with Industria Company No. 1 Ltd. The incentive was paid during the current financial year.

Notes to the Consolidated Financial Statements (continued)

14. Financial instruments

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

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

These activities expose the Group to a variety of financial risks including credit risk, liquidity risk and market risk which includes interest rate risk and other price risks.

The overall risk management program seeks to mitigate these risks and reduce volatility on the Group's financial performance. Financial risk management is carried out centrally by the Responsible Entity under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign currency risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and the investment of excess liquidity.

(a) Financial risk management objectives

The Group outsources the investment management to APN Funds Management Limited, who provide services to the Group, co-ordinates access to domestic financial markets, and manages the financial risks relating to the operations of the Group in accordance with an investment mandate set out in accordance with the Group's constitution and product disclosure statement. The Responsible Entity has determined that the appointment of these managers is appropriate for the Group and is in accordance with the Group's investment strategy.

The Group's overall risk management program focuses on ensuring compliance with the Group's product disclosure statement and seeks to maximise the returns derived for the level of risk to which the Group is exposed.

The Group's investment objective is to provide investors with a consistent, relatively high level of income combined with some capital growth, sourced from an appropriately wide spread of property-based revenue streams. The Group invests in Australian direct properties.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the Group's investment policies, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the Responsible Entity on a continuous basis.

It is the Responsible Entity's aim to invest in such a way that any risks the Group is exposed to are minimised, while at the same time endeavouring to achieve the investment objectives of the Group.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 1 to the financial statements.

(c) Capital risk management

The Responsible Entity's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for unitholders and to maintain an optimal capital structure to reduce the cost of capital. This objective is implemented on a stapled securities group basis (i.e. for Industria REIT).

Industria REIT's capital position is primarily monitored through its ratio of net debt to the fair value of the investment properties ('Gearing Ratio'). Industria REIT's strategy is to maintain the Gearing Ratio in the range of 30% to 40%. As at 30 June 2016 Industria REIT's Gearing Ratio was 33.1% (2015: 33.4%).

Notes to the Consolidated Financial Statements (continued)

14. Financial instruments (continued)

(c) Capital risk management (continued)

The gearing ratio was calculated as follows:

| | Notes | 2016 \$'000 | 2015 \$'000 |
|--|--------|----------------|----------------|
| Total interest bearing debt | 12 | 140,110 | 135,560 |
| Less: cash and cash equivalents | 19 | (1,607) | (1,873) |
| Net debt | | 138,503 | 133,687 |
| Value of property portfolio ¹ | 10, 23 | 417,863 | 399,883 |
| Gearing Ratio | | 33.1% | 33.4% |

¹ Includes investment property and assets classified as held for sale.

(d) Categories of financial instruments

The Group has investments in the following categories of financial assets and liabilities:

| | 2016 \$'000 | 2015 \$'000 |
|--|----------------|----------------|
| Consolidated Financial assets | | |
| Loans and receivables | 2,376 | 4,600 |
| Financial liabilities | | |
| Financial liabilities measured at amortised cost | (154,312) | (150,745) |
| Financial liabilities designated as at fair value through profit or loss | (4,308) | (3,085) |

The carrying amount of interest-bearing liabilities in the Group as at 30 June 2016 is \$139,263,000 (2015: \$134,669,000).

(e) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Credit risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The Group has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the financial risk of financial loss from default. The Group's investment objective is to find high quality customers predominately with a stable credit history. The Group measures credit risk on a fair value basis.

The maximum exposure to credit risk as at 30 June 2016 and at 30 June 2015 is the carrying amounts of financial assets recognised in the consolidated statement of financial position of the Group. The Group holds no collateral as security and the credit quality of all financial assets that are neither past due nor impaired is consistently monitored in order to identify any potential adverse changes in the credit quality. The Group does not have any significant credit risk exposure to any single counterparty or counterparties having similar characteristics.

Notes to the Consolidated Financial Statements (continued)

14. Financial instruments (continued)

(e) Credit risk (continued)

Derivative counterparties and cash transactions are limited to financial institutions that meet the treasury risk management policy's minimum credit rating criteria. Credit risk arising on loans and receivable balances is monitored on an ongoing basis with the result that the exposure to bad debts by the Group is not significant. There are no significant financial assets that have had renegotiated terms that would otherwise have been past due or impaired.

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

The decision to accept the credit risk associated with leasing space to a particular tenant is balanced against the risk of the potential financial loss of not leasing up vacant space.

The Responsible Entity believes that the Group's receivables that are neither past due nor impaired do not give rise to any significant credit risk.

(f) Liquidity risk

Liquidity risk includes the risk that the Group, as a result of its operations:

- will not have sufficient funds to settle a transaction on the due date;
- will be forced to sell financial assets at a value which is less than what they are worth; or
- may be unable to settle or recover a financial asset at all.

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. To help reduce these risks the Group:

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

The Group's main liquidity risk is its ability to refinance its current borrowings. Realised profits generated by the Group are to be returned to unitholders as described in the Group's Constitution and as such realised profits are not used to support the refinancing activities or the Group. To assist in mitigating refinancing risk, the Responsible Entity is in regular contact with the financial institutions.

The table on the next page shows an analysis of the contractual maturities of key liabilities which forms part of the Group's assessment of liquidity risk excluding liabilities attributable to unitholders:

Notes to the Consolidated Financial Statements (continued)

14. Financial instruments (continued)

(f) Liquidity risk (continued)

| | Within 1 year \$'000 | Between 1 and 2 years \$'000 | Over 2 years \$'000 | Total contractual cash flows \$'000 | Carrying amounts \$'000 |
|------------------------------|----------------------------|------------------------------------|---------------------------|--|-------------------------------|
| Consolidated | | | | | |
| 2016 | | | | | |
| Liabilities | | | | | |
| Lease incentives payable | 6,146 | - | - | 6,146 | 6,146 |
| Payables – current | 4,967 | - | - | 4,967 | 4,967 |
| Payables – non-current | - | - | 256 | 256 | 240 |
| Distribution payable | 9,842 | - | - | 9,842 | 9,842 |
| Interest-bearing liabilities | 4,809 | 4,884 | 146,576 | 156,269 | 139,263 |
| Interest rate swaps | 1,042 | 1,278 | 1,988 | 4,308 | 4,308 |
| | 26,806 | 6,162 | 148,820 | 181,788 | 164,766 |
| 2015 | | | | | |
| Liabilities | | | | | |
| Lease incentives payable | 857 | - | - | 857 | 857 |
| Payables – current | 6,215 | - | - | 6,215 | 6,215 |
| Payables – non-current | - | - | 192 | 192 | 180 |
| Distribution payable | 9,681 | - | - | 9,681 | 9,681 |
| Interest-bearing liabilities | 5,567 | 5,482 | 142,887 | 153,936 | 134,669 |
| Interest rate swaps | 1,216 | 1,036 | 833 | 3,085 | 3,085 |
| | 23,536 | 6,518 | 143,912 | 173,966 | 154,687 |

(g) Derivatives – interest rate swap contracts

The Group has a debt facility with a floating interest rate being applied. A series of interest rate swaps have been entered into thereby fixing the interest rate on the debt.

The following table details the notional principal amounts and fair value of the interest rate swap contracts outstanding:

| Type of contract | Expiration | Underlying | Notional amount of contracts outstanding \$'000 | Fair value assets \$'000 | Fair value (liabilities) \$'000 |
|---------------------------|---------------|----------------|---|--------------------------------|---------------------------------------|
| As at 30 June 2016 | | | | | |
| ANZ | | | | | |
| Interest rate swap | February 2021 | Interest rates | 15,000 | - | (559) |
| Interest rate swap | February 2021 | Interest rates | 10,000 | - | (485) |
| Interest rate swap | January 2020 | Interest rates | 10,000 | - | (577) |
| Interest rate swap | June 2019 | Interest rates | 5,000 | - | (270) |
| Interest rate swap | February 2019 | Interest rates | 5,000 | - | (274) |
| NAB | | | | | |
| Interest rate swap | February 2021 | Interest rates | 15,000 | - | (550) |
| Interest rate swap | February 2021 | Interest rates | 10,000 | - | (479) |
| Interest rate swap | January 2020 | Interest rates | 10,000 | - | (573) |
| Interest rate swap | June 2019 | Interest rates | 5,000 | - | (269) |
| Interest rate swap | February 2019 | Interest rates | 5,000 | - | (272) |
| | | | | - | (4,308) |

Notes to the Consolidated Financial Statements (continued)

14. Financial instruments (continued)

(g) Derivatives – interest rate swap contracts (continued)

| Type of contract | Expiration | Underlying | Notional amount of contracts outstanding | Fair value assets | Fair value (liabilities) |
|---------------------------|---------------|----------------|--|-------------------|--------------------------|
| | | | \$'000 | \$'000 | \$'000 |
| As at 30 June 2015 | | | | | |
| ANZ | | | | | |
| Interest rate swap | January 2016 | Interest rates | 20,000 | - | (109) |
| Interest rate swap | January 2018 | Interest rates | 15,000 | - | (360) |
| Interest rate swap | February 2018 | Interest rates | 10,000 | - | (333) |
| Interest rate swap | January 2020 | Interest rates | 10,000 | - | (286) |
| Interest rate swap | February 2019 | Interest rates | 5,000 | - | (246) |
| Interest rate swap | June 2019 | Interest rates | 5,000 | - | (210) |
| NAB | | | | | |
| Interest rate swap | January 2016 | Interest rates | 20,000 | - | (108) |
| Interest rate swap | January 2018 | Interest rates | 15,000 | - | (359) |
| Interest rate swap | February 2018 | Interest rates | 10,000 | - | (332) |
| Interest rate swap | January 2020 | Interest rates | 10,000 | - | (286) |
| Interest rate swap | February 2019 | Interest rates | 5,000 | - | (246) |
| Interest rate swap | June 2019 | Interest rates | 5,000 | - | (210) |
| | | | | - | (3,085) |

During the year, the Group recognised a loss of \$1,224,000 (2015: \$1,776,000) on interest rate swaps.

The interest rate swap settles on a monthly basis. The floating rate on the debt being applied is the Australian BBSY. The counterparty settles the difference between the fixed and floating interest rate if the fixed rate is higher on a net basis.

| | 2016 \$'000 | 2015 \$'000 |
|--------------------------------|----------------|----------------|
| Current liabilities | | |
| Interest rate swap contracts | 1,042 | 1,216 |
| Non-current liabilities | | |
| Interest rate swap contracts | 3,266 | 1,869 |

The interest rate swaps have not been identified as hedging instruments and any movements in the fair value are recognised immediately in profit or loss.

(h) Market risk

Market risk is the risk that the fair value of future cash flows of the Group's financial instruments will fluctuate because of changes in market prices. The Responsible Entity manages the financial risks relating to the operations of the Group in accordance with an investment mandate set out in accordance with the Group's constitution and product disclosure statement. The Group's investment mandate is to provide investors with a consistent, relatively high level of income combined with some capital growth, sourced from an appropriately wide spread of property-based revenue streams. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk. Components of market risk to which the Group is exposed are interest rate risk and price risk.

Notes to the Consolidated Financial Statements (continued)

14. Financial instruments (continued)

(h) Market risk (continued)

Interest rate risk

The Group's interest bearing financial assets and liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis.

As at balance date, the Group's exposure to interest rates is as follows:

Assets: Cash and cash equivalents at fair values of \$1,607,000 (2015: \$1,873,000) with a weighted average interest rate of 1.96% (2015: 2.47%).

Liabilities: Interest-bearing liabilities at amortised cost of \$139,263,000 (2015: \$134,669,000) with a weighted average interest rate of 3.49% (2015: 3.66%).

Interest rate sensitivity

The sensitivity analysis below has been determined based on the Group's exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period, in the case of instruments that have floating interest rates. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. The interest rate movements have been determined based on management's best estimate, having regard to historical levels of changes in interest rates and the current debt environment in which the Group operates.

Actual movements in the interest rate may be greater or less than anticipated due to a number of factors, including unusually large market shocks both in the global and domestic property markets. As a result, historic variations in interest rates are not a definitive indicator of future variations.

| | Net Profit | |
|----------------------------------|--------------------------|--------------------------|
| | 100bp increase \$'000 | 100bp decrease \$'000 |
| 30 June 2016 | | |
| Variable rate instruments | (414) | 414 |
| Derivative financial instruments | 3,395 | (3,384) |
| | 2,981 | (2,970) |
| 30 June 2015 | | |
| Variable rate instruments | (376) | 376 |
| Derivative financial instruments | 2,830 | (2,973) |
| | 2,454 | (2,597) |

Notes to the Consolidated Financial Statements (continued)

14. Financial instruments (continued)

(i) Fair value of financial instruments

The Directors of the Responsible Entity consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured at fair value at 30 June 2016, 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 2016 | | | | |
|---|-------------------|-------------------|-------------------|-----------------|
| | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
| Consolidated | | | | |
| Financial liabilities at FVTPL | | | | |
| Interest rate swaps | - | (4,308) | - | (4,308) |
| Total | - | (4,308) | - | (4,308) |

| Fair value measurement as at 30 June 2015 | | | | |
|---|-------------------|-------------------|-------------------|-----------------|
| | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
| Consolidated | | | | |
| Financial liabilities at FVTPL | | | | |
| Interest rate swaps | - | (3,085) | - | (3,085) |
| Total | - | (3,085) | - | (3,085) |

There were no transfers between Levels during the financial year.

The interest rate swaps have been valued using discounted cash flow approach. Future cash flows are estimated based on forward interest rates (from observable forward interest rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

Notes to the Consolidated Financial Statements (continued)

15. Controlled entities

| | Country of incorporation | Percentage owned (%) | |
|---|-----------------------------|-------------------------|------|
| | | 2016 | 2015 |
| 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 |
| 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 | Australia | - | - |
| APN DF1 SPV1 (Qld) Pty Ltd | Australia | - | - |
| APN DF1 SPV2 (Qld) Pty Ltd | Australia | - | - |
| APN DF1 SPV3 (Qld) Pty Ltd | Australia | - | - |
| McKechnie Drive Pty Ltd | Australia | - | - |
| BTP Central Pty Ltd | Australia | - | - |

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

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

| Name of subsidiary | Place of incorporation and principal place of business | Proportion of ownership interests and voting rights held by non- controlling interests | | Profit/(loss) allocated to non- controlling interests | | Accumulated non- controlling interests | |
|--------------------------------|--|--|------|--|--------|--|---------------|
| | | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | | % | % | \$'000 | \$'000 | \$'000 | \$'000 |
| Industria Trust No. 2 | Australia | - | - | 4,454 | 1,980 | 19,242 | 17,800 |
| Industria Trust No. 3 | Australia | - | - | 4,771 | 1,619 | 18,915 | 16,319 |
| Industria Trust No. 4 | Australia | - | - | (1,533) | 2,814 | 9,578 | 11,651 |
| Industria Company No. 1 Ltd | Australia | - | - | (656) | 2,032 | 37,404 | 38,778 |
| | | | | | | 85,139 | 84,548 |

Notes to the Consolidated Financial Statements (continued)

16. Contributed equity

As part of the stapling transaction, Industria Trust No. 1 has been identified as the acquirer of the other stapled entities. The results and equity of these entities are presented as non-controlling interests in these consolidated financial statements on the basis that Industria Trust No. 1 has not obtained ownership as a result of the stapling.

For financial information, please refer to the financial statements of Industria Trust No. 2, Industria Trust No. 3, Industria Trust No. 4 and Industria Company No. 1 Ltd.

Reconciliation of securities on issue – 2016

| | Securities issued/ (bought back) | Cumulative securities | \$'000 |
|---|-------------------------------------|--------------------------|--------|
| Securities at the beginning of the financial year | | 123,488,399 | |
| Buy-back of contributed equity | (469,208) | 123,019,191 | (874) |
| Securities at the end of the financial year | | 123,019,191 | |

Reconciliation of securities in issue – 2015

| | Securities issued/ (bought back) | Cumulative securities | \$'000 |
|---|-------------------------------------|--------------------------|---------|
| Securities at the beginning of the financial year | | 125,000,001 | |
| Buy-back of contributed equity | (1,511,602) | 123,488,399 | (2,927) |
| Securities at the end of the financial year | | 123,488,399 | |

During the financial year, the Group undertook a security buy-back programme and bought back 469,208 securities (2015: 1,511,602 securities) on market for \$874,000 (2015: \$2,927,000) as part of the entity's capital management strategy.

| | | 2016 \$'000 | 2015 \$'000 |
|--|-----|----------------|----------------|
| Equity | | | |
| Capital and reserves attributable to unitholders: | | | |
| <u>Unitholders of Industria Trust No. 1</u> | | | |
| Contributed equity | (a) | 165,096 | 165,674 |
| Retained earnings / (accumulated losses) | (b) | 10,922 | (384) |
| Parent interest | | 176,018 | 165,290 |
| <u>Unitholders of non-controlling interests</u> | | | |
| Contributed equity | (a) | 55,722 | 56,018 |
| Retained earnings | (b) | 29,417 | 28,530 |
| Non-controlling interests | | 85,139 | 84,548 |
| Total unitholders interest | | 261,157 | 249,838 |

Notes to the Consolidated Financial Statements (continued)

16. Contributed equity (continued)

| (a) Contributed equity | 2016 \$'000 | 2015 \$'000 |
|---|------------------------|------------------------|
| 123,019,191 securities fully paid less issue costs (2015: 123,488,399 securities) | 220,818 | 221,692 |
| Movements in equity | | |
| At beginning of the financial year | 221,692 | 224,619 |
| Bought back during the financial year | (874) | (2,927) |
| On issue at year end | 220,818 | 221,692 |
| Balance at the end of the year is attributable to | | |
| Equity holders of Industria Trust No. 1 | 165,096 | 165,674 |
| Equity holders of non-controlling interests | 55,722 | 56,018 |
| Total contributed equity | 220,818 | 221,692 |
| | 2016 \$'000 | 2015 \$'000 |
| (b) Retained earnings | | |
| <i>Unitholders of Industria Trust No. 1</i> | | |
| Retained earnings / (accumulated losses) | 10,922 | (384) |
| <i>Unitholders of non-controlling interest</i> | | |
| Retained earnings | 29,417 | 28,530 |
| Total unitholders retained earnings | 40,339 | 28,146 |
| Movements in above unitholders' retained earnings comprise: | | |
| Retained earnings at beginning of financial year | 28,146 | 25,505 |
| Net profit attributable to the unitholders | 31,261 | 22,772 |
| Distributions | (19,068) | (20,131) |
| Retained earnings at end of financial year | 40,339 | 28,146 |

Notes to the Consolidated Financial Statements (continued)

17. Non-controlling interests

| | 2016 \$'000 | 2015 \$'000 |
|--------------------------------|----------------|----------------|
| Interest in contributed equity | 55,722 | 56,018 |
| Interest in retained earnings | 29,417 | 28,530 |
| | 85,139 | 84,548 |

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

Movements in above non-controlling interests equity comprises:

| | 2016 \$'000 | 2015 \$'000 |
|--|----------------|----------------|
| Balance at beginning of financial year | 84,548 | 85,250 |
| Bought back during the year | (296) | (942) |
| Net profit attributable to the unitholders | 6,455 | 8,444 |
| Distributions | (5,568) | (8,204) |
| Balance at end of financial year | 85,139 | 84,548 |

18. Related parties

(a) Key Management Personnel

Directors

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 the Group does not employ personnel in its own right, there are no staff costs included in the consolidated statement of profit or loss and other comprehensive income.

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

(b) The Responsible Entity

The Responsible Entity of Industria Trust No. 1 is APN Funds Management Limited ('APN FM').

APN FM is entitled to a base management fee of 0.55% per annum of the gross asset value of the Group (reducing to 0.50% p.a. of Gross Asset Value in excess of \$750m and 0.45% p.a. of gross asset value in excess of \$1,500m). During the financial year, \$2,318,000 (2015: \$2,219,000) has been incurred in management fees payable to APN FM.

Notes to the Consolidated Financial Statements (continued)

18. Related parties (continued)

(b) The Responsible Entity (continued)

At the reporting date, \$583,000 (2015: \$557,000) remains payable to the Responsible entity relating to the above management fees.

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 plus a leasing fee at market rates.

During the year, APN FM provided leasing services to the Group. Prior to 1 January 2016 APN FM was entitled to fees of \$517,000 (2015: \$325,000) in respect of leasing services provided, based on market rates. These fees have not been charged and will not be charged while APN FM is Responsible Entity of the Group. Subsequent to 1 January 2016, APN FM provided leasing services to the Group and consequently charged leasing fees totalling \$71,000 (2015: Nil).

(c) Interests of related entities

The responsible entity of Industria Trust No. 1 is APN Funds Management Limited. The ultimate parent company of APN Funds Management Limited is APN Property Group Limited.

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

| | Distributions Received/Receivable 2016 | Distributions Received/Receivable 2015 | Securities 2016 | Securities 2015 |
|--------------------------------|--|--|--------------------|--------------------|
| APN Property Group Limited | 2,601,738 | 1,380,053 | 17,068,109 | 10,938,179 |
| APN AREIT Fund | 759,619 | 658,584 | 4,900,766 | 4,400,766 |
| APN CFS AREIT Fund | 16,377 | - | 204,713 | - |
| APN Property for Income Fund | 123,225 | 191,970 | 795,000 | 1,185,000 |
| APN Property for Income Fund 2 | 46,500 | 82,620 | 300,000 | 510,000 |
| APN Unlisted Property Fund | - | 181,937 | - | 729,929 |
| Total | 3,547,459 | 2,495,164 | 23,268,588 | 17,763,874 |

18.9% of the stapled securities of Industria REIT are held by related APN entities (2015: 14.4%).

19. Cash flow information

Reconciliation of cash

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. Cash as at the end of the financial year as shown in the consolidated statement of cash flows is reconciled to the related items in the consolidated statement of financial position as follows:

Notes to the Consolidated Financial Statements (continued)

19. Cash flow information (continued)

Reconciliation of cash (continued)

| | 2016 \$'000 | 2015 \$'000 |
|---|----------------|----------------|
| Cash and cash equivalents | 1,607 | 1,873 |
| Reconciliation of profit after income tax to net cash inflow from operating activities | | |
| Net profit for the financial year | 31,261 | 22,772 |
| <i>Non-cash items:</i> | | |
| Straight line lease revenue recognition | (1,050) | (1,223) |
| Amortisation of borrowing costs | 273 | 323 |
| Movement in deferred lease incentives | (2,140) | (1,717) |
| Allowance for doubtful debts | 337 | 374 |
| Fair value loss on derivatives | 1,224 | 1,776 |
| Net gain in fair value adjustments on investment properties | (12,026) | (3,257) |
| Net gain on sale of investment properties | (3) | (668) |
| | 17,876 | 18,380 |
| <i>Changes in assets/liabilities during the financial year:</i> | | |
| Increase in trade and other receivables | (820) | (72) |
| Decrease in payables | (1,723) | (1,904) |
| Decrease in deferred tax | (234) | (78) |
| Net cash inflows from operating activities | 15,099 | 16,326 |

20. Parent entity financial information

Summary financial information

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

| | 2016 \$'000 | 2015 \$'000 |
|--|-----------------|-----------------|
| Statement of financial position | | |
| Current assets | 5,035 | 9,033 |
| Non-current assets | 217,738 | 203,198 |
| Total assets | 222,773 | 212,231 |
| Current liabilities | (9,510) | (8,517) |
| Non-current liabilities | (37,245) | (38,424) |
| Total liabilities | (46,755) | (46,941) |
| Net assets | 176,018 | 165,290 |
| Unitholders' equity | | |
| Issued capital | 165,096 | 165,674 |
| Accumulated losses | 10,922 | (384) |
| Total unitholders equity | 176,018 | 165,290 |
| Profit for the financial year | 24,806 | 14,328 |
| Other comprehensive income | - | - |
| Total comprehensive income | 24,806 | 14,328 |

At 30 June 2016, the parent entity had not provided guarantees (2015: Nil), has no contingent liabilities (2015: Nil) and no contractual commitments (2015: Nil).

Notes to the Consolidated Financial Statements (continued)

21. Earnings per security

| | 2016 | 2015 |
|---|--------------|--------------|
| Profit attributable to unitholders (\$'000) | 31,261 | 22,772 |
| Weighted average number of securities outstanding (thousands) | 123,093 | 124,965 |
| Basic and diluted earnings per security (cents) | 25.40 | 18.22 |

22. Segment information

The Group derives all income from investment in properties, which are 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.

23. Assets classified as held for sale

| | 2016 \$000's | 2015 \$000's |
|--|-----------------|-----------------|
| Investment property held for sale (i) | 31,724 | - |
| Liabilities associated with assets held for sale | - | - |

- (i) The Group entered into an unconditional contract to sell 7 Brandl St, Qld for \$25,500,000 on 21 April 2016 with settlement occurring on the 1 August 2016. On 28 June 2016 the Group entered into a Heads of Agreement to dispose 85 Brandl St, Qld for \$7,230,000. On 2 August 2016 an unconditional sale contract was signed and settlement is expected on 8 September 2016. Following the sale of these two assets held for sale the Group expects to receive \$31,724,000 (net of sales costs and settlement adjustments).

24. Commitments

The Group has no commitments as at 30 June 2016 (2015: Nil).

25. Contingent Liabilities and Contingent Assets

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 plus a leasing fee at market rates.

During the year, APN FM provided leasing services to the Group. Prior to 1 January 2016 APN FM was entitled to fees of \$517,000 (2015: \$325,000) in respect of leasing services provided, based on market rates. These fees have not been charged and will not be charged while APN FM is Responsible Entity of the Group.

The Group has no contingent assets as at 30 June 2016 (2015: Nil).

26. Events occurring after the reporting period

Other than those subsequent events disclosed in note 23 there have been no other significant events or transactions that have arisen since 30 June 2016 which, in the opinion of the Directors, would affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group.

Notes to the Consolidated Financial Statements (continued)

27. Additional information

APN Funds Management Limited, a public company incorporated and operating in Australia, is the Responsible Entity of Industria Trust No. 1.

Principal registered office

Level 30
101 Collins Street
MELBOURNE VIC 3000
Tel: (03) 8656 1000

Principal place of business

Level 30
101 Collins Street
MELBOURNE VIC 3000
Tel: (03) 8656 1000

Directors' Declaration

For the year ended 30 June 2016

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 financial statements are in compliance with International Financial Reporting Standards, as stated in note 1 to the financial statements;
- (c) In the Directors' opinion, the attached 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 consolidated entity; and
- (d) The Directors have been given the declarations required by s.295A of the Corporations Act 2001

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

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



Geoff Brunsdon
Director
Melbourne, 22 August 2016

Independent Auditor's Report to the Stapled Unitholders of Industria REIT

We have audited the accompanying financial report of Industria REIT, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the trust and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 10 to 51.

Directors' Responsibility for the Financial Report

The directors of the trust 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 Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

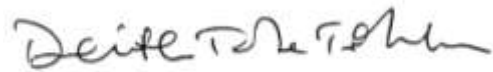
Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Industria REIT, would be in the same terms if given to the directors as at the time of this auditor's report.

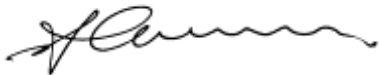
Opinion

In our opinion:

- (a) the financial report of Industria REIT is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.



DELOITTE TOUCHE TOHMATSU



Peter A. Caldwell
Partner
Chartered Accountants

Melbourne, 22 August 2016