APPENDIX 4E

Annual Financial Report

For the year ended 30 June 2015

Name of Entity:	Australian Industrial REIT ARSN: 165 651 301

Results for Announcement to the Market

	For the year ended 30 June 2015 $'000s	For the period from 18 September 2013 to 30 June 2014 (1) $'000s	Change %
Revenue from ordinary activities	32,752	17,765	+84.4
Net profit before gain/(loss) in fair value and transfer from hedge reserve	17,723	11,156	+58.9
Unrealised gain/(loss) in fair value of investment properties	19,244	(1,611)	Note 2
Unrealised gain/(loss) in fair value of derivatives	(314)	-	Note 2
Transfer from cash flow hedge	(355)	-	Note 2
Net profit for the period attributable to unitholders	36,298	9,545	+280.3
Distributable earnings	18,804	9,947	+89.0

Net tangible assets

	30 June 2015	30 June 2014	Change (%)
Net tangible asset backing per unit	$2.13	$1.94	9.8

Distributions

	For the year ended 30 June 2015	For the period from 18 September 2013 to 30 June 2014	Change (%)
Interim distribution	$8.28 million	$2.07 million	+300.0
Final distribution	$9.24 million	$7.84 million	+17.9
Interim distribution per unit	8.60 cents	3.21 cents	+167.9
Final distribution per unit	9.60 cents	8.18 cents	+17.4

Record date for determining entitlement to the interim distribution	31 December 2014
Payment date for the interim distribution	27 February 2015
Record date for determining entitlement to the final distribution	30 June 2015
Payment date for the final distribution	28 August 2015

Note:

1. The Fund was registered as a managed investment scheme on 18 September 2013 and commenced trading on the Australian Securities Exchange ('ASX') on 21 October 2013. The Fund's first financial year was for the shortened period from registration as a managed investment scheme on 18 September 2013 to 30 June 2014.
2. Variance not meaningful as prior period comparative is nil or negative.

Commentary on results

A brief explanation of the above figures, a commentary on the results for the period and any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position is provided in the attached:

- ASX announcement
- Annual Financial Report
- Results presentation

Details of distribution reinvestment plans in operation

The distribution reinvestment plan did not operate in respect of the interim and final distributions for the year ended 30 June 2015.

Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows and Statement of Changes in Equity

Refer to the attached Annual Financial Report for the year ended 30 June 2015.

Entities over which control has been gained or lost during the period

Not applicable.

Details of associates and joint venture entities

Not applicable.

Accounting standards used by foreign entities

Not applicable.

Audit

This Appendix 4E is based on accounts which have been audited (refer to attached Annual Financial Report for the year ended 30 June 2015).

AUSTRALIAN INDUSTRIAL REIT

ANNUAL FINANCIAL REPORT

2015

AUSTRALIAN
INDUSTRIAL
REIT

ARSN: 165 651 301

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2015

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

The Directors of Fife Capital Funds Limited (ABN 18 130 077 735), the Responsible Entity for the Australian Industrial REIT (ARSN 165 651 301), present their report together with the Financial Statements (the **Annual Financial Report**) of Australian Industrial REIT for the year ended 30 June 2015.

Australian Industrial REIT was registered as a managed investment scheme on 18 September 2013 and commenced trading on the Australian Securities Exchange (**ASX**) on 21 October 2013.

1. DIRECTORS

The Directors of the Responsible Entity in office during the year ended 30 June 2015 and until the date of this report are as follows:

Rod Pearse OAM	Independent Chairman
Michael Allen	Independent Non-executive Director
Peter Dransfield	Independent Non-executive Director
John Hudson	Non-executive Director
Allan Fife	Managing Director

Directors were in office for the entire period unless otherwise stated.

Rod Pearse OAM, Independent Chairman

Rod Pearse is Chairman of the Board of Fife Capital Funds Limited and the Compliance & Risk Management Committee.

Rod has more than 35 years' experience in the building materials and mining industries. He was Chief Executive Officer and Managing Director of Boral Limited between 2000 and 2009, and has also held senior roles with Shell Australia, Shell International and CSR.

Rod is also the Chairman of the Outward Bound Australia Board, a member of the Infrastructure NSW Board, Juvenile Diabetes Research Foundation Advisory Board, and a director of O'Connell Street Associates and of Sydney Motorway Corporation Pty Limited.

He was formerly a member of WestConnex Delivery Authority Board, Wollongong SMART Infrastructure Advisory Board, AGSM/Australian School of Business Advisory Council, Business Council of Australia Board, Chairman of BCA Sustainable Growth Taskforce, a member of COAG Reform Council Expert Panel on Cities, and a Councillor of the Australian Business Arts Foundation.

Rod holds a Bachelor of Commerce (Economics) (Hons) from the University of New South Wales and a Master of Business Administration (Hons) from Harvard University.

Michael Allen, Independent Non-executive Director

Michael Allen is an independent Director of Fife Capital Funds Limited and Chairman of the Audit Committee.

Michael retired as a Partner of King & Wood Mallesons in 2010 after more than 20 years, five of which were as national head of the Property, Construction and Environment team.

At King & Wood Mallesons, Michael specialised in major property projects and developments with an emphasis on industrial, retail, residential, mixed-use, tourist and urban re-development projects.

He is a leading authority on the structuring and delivery of development projects. For over 30 years he has advised listed developers, institutions, banks, government and other lawyers on property projects and law (including law reform).

Michael is President and a founding fellow of the Australian College of Community Association Lawyers Inc, a member of the Fife Capital Group Compliance & Risk Management Committee and was formerly a university lecturer in law. Michael holds a BJuris and LLB from the University of New South Wales and is a graduate of the Australian Institute of Company Directors.

Peter Dransfield, Independent Non-executive Director

Peter Dransfield is an independent Director of Fife Capital Funds Limited and a member of the Audit Committee and Compliance & Risk Management Committee.

Peter has been engaged in the property investment and development industry for more than 40 years covering all aspects of the industrial, commercial, retail and residential sectors. Peter has held senior roles at Walker Corporation and Australand Holdings, and was a Director of Housing for the NSW Government and a director of Macquarie Real Estate Equity Funds.

Peter is currently the Chairman of Devine Limited, an advisor to Pepper Property and Chairman of several Urban Growth NSW joint ventures.

He has previously been a director of Multiplex Limited, Walker Corporation Limited, Bremer Park Limited, National Gaming and Leisure Limited and Industrial Property Trust of Australia.

John Hudson, Non-executive Director

John Hudson is a non-executive Director of Fife Capital Funds Limited and a member of the Audit Committee.

John has been engaged in both the development and investment of real estate for over 30 years. This has included significant periods as the senior finance executive in a series of major independent property companies.

Prior to ceasing full time executive roles, he was the Managing Director and Chief Executive Officer of Thakral Holdings Group, a specialist hotel REIT with ancillary commercial and retail property together with residential development activities and over $1 billion in assets. John has also held senior roles at Walker Corporation and CRI Limited.

John is currently a director of various unlisted companies and a member of the investment committee for Terra Australis Property Fund which sold its industrial assets to the Australian Industrial REIT in conjunction with listing on the ASX. John is also a member of the investment committee for Terra Australis Property Fund II. He is a Fellow of the Institute of Chartered Accountants in England and Wales and was a Fellow of the Royal Institution of Chartered Surveyors.

Allan Fife, Managing Director

Allan Fife is the Managing Director of Fife Capital Funds Limited and a member of the Compliance & Risk Management Committee.

Allan founded Fife Capital Group in 2006 and has more than 30 years of domestic and international experience in property acquisition, divestment and corporate finance, acting for institutions, corporations and governments. He is responsible for the performance of Fife Capital Group's funds and their investments.

Prior to establishing Fife Capital Group, Allan spent 20 years in real estate corporate advisory, where he was responsible for advisory, financing, development, direct property investment and property funds management. He has been an executive director to the manager and trustee companies of a number of property investment entities.

Allan holds an Adjunct Professorship in the School of Finance and Economics, University of Western Sydney. Allan holds a Bachelor of Arts, a Master of Commerce (Hons) and is a Doctor of Philosophy. He also holds a certificate in valuation and has practiced as a real estate valuer.

Company secretaries

Allan Fife and Keir Barnes were the Company Secretaries of the Responsible Entity for the year ended 30 June 2015. On 7 August 2015, Susan Vuong was appointed joint Company Secretary of the Responsible Entity. In conjunction with that appointment, Allan Fife resigned as joint Company Secretary of the Responsible Entity.

Susan Vuong is a company secretary with over 12 years' experience in the financial services industry. Susan Vuong is a Solicitor of the Supreme Court of NSW and holds a Graduate Diploma in Corporate, Finance & Securities Law from the University of Sydney, and a Bachelor of Commerce and Bachelor of Laws (Hons) from the University of Wollongong.

Keir Barnes was a founding member of Fife Capital Group and is principally responsible for the financial and operational management of the group. This includes overseeing funds management, capital management, financial reporting and analysis, tax and treasury. Keir is an experienced executive, having spent more than 13 years in funds management, finance and accounting.

Keir holds a Bachelor of Commerce from the University of New South Wales, a Master of Business Administration (Executive) from the Australian Graduate School of Management, and is a member of the Institute of Chartered Accountants Australia.

1.1. Directors' unitholdings

The relevant interest of each Director in units in the Fund as at the date of this report is shown below:

Director	Number of units
Rod Pearse	379,841
Michael Allen	52,077
Peter Dransfield	81,353
John Hudson	52,077
Allan Fife	532,425

1.2. Directors' meetings

The number of Directors' meetings, including meetings of committees of the Board of Directors, held during the year and the Director's attendance at these meetings, either in person or by proxy, is shown below:

	Board		Audit Committee		Compliance & Risk Management Committee		Independent Board Committee	
Director	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Rod Pearse	24	23	–	4[1]	4	4	12	12
Michael Allen	24	23	4	4	–	4[1]	12	12
Peter Dransfield	24	22	4	4	4	4	12	11
John Hudson	24	24	4	4	–	4[1]	–	–
Allan Fife	24	24	–	4[1]	4	4	–	–

1. The number of meetings attended for which the Director is not a member of the committee.

At the date of this report, the Board of the Responsible Entity had an Audit Committee, a Compliance & Risk Management Committee and an Independent Board Committee (**IBC**). The Board of the Responsible Entity established the IBC to consider and respond to proposals concerning the Fund and/or the Responsible Entity made by third parties.

The members of the Audit Committee are Michael Allen (Chairman), Peter Dransfield and John Hudson. The members of the Compliance & Risk Management Committee are Rod Pearse (Chairman), Peter Dransfield and Allan Fife. The members of the IBC are Rod Pearse (Chairman), Michael Allen and Peter Dransfield.

2. PRINCIPAL ACTIVITIES

The principal activity of the Australian Industrial REIT and its controlled entities (the **Fund**) is investment in Australian industrial property. There have been no significant changes in the nature of the Fund's activities during the year.

3. TOTAL ASSETS OF THE FUND

As at 30 June 2015, the Fund had total assets of $331.1 million (30 June 2014: $296.8 million). The basis for valuation of the assets is disclosed in Note 2 of the Financial Statements.

4. REVIEW OF OPERATIONS

4.1. Financial review

A summary of the Fund's results for the year is set out below:

	30 Jun 2015 $'000	18 Sep 2013 to 30 Jun 2014 $'000
Statutory net profit	36,298	9,545
Distributable earnings	18,804	9,947
Distributions	17,524	9,909
Basic and diluted earnings for statutory net profit (cents per unit)	37.73	12.19
Distributable earnings (cents per unit)	19.54	12.70
Distributions (cents per unit)	18.20	11.39
Net tangible assets ($ per unit)	2.13	1.94

Statutory net profit or loss measures profit or loss in accordance with Australian Accounting Standards (**AASBs**).

Distributable earnings is the basis upon which distributions are determined by the Directors. Distributable earnings represents the Directors' view of underlying earnings from ongoing operating activities for the period, being statutory net profit/loss after tax adjusted for items such as:

- non-cash items, including straight lining of rental income, amortisation of incentives and unrealised fair value gains or losses; and
- other non-recurring amounts outside core operating activities.

The table below provides a reconciliation between the statutory net profit and distributable earnings:

	30 Jun 2015 $'000	18 Sep 2013 to 30 Jun 2014 $'000
Statutory net profit	**36,298**	**9,545**
Straight lining of rental income and amortisation of incentives, rental guarantees and associated amounts	(1,439)	(1,209)
Site access fees, net of capitalised interest[1]	50	–
Unrealised (gain)/loss in fair value of investment properties	(19,244)	1,611
Transfer from cash flow hedge reserve	355	–
Unrealised (gain)/loss in fair value of derivatives	314	–
Non-recurring corporate activity expenses	2,470	–
Distributable earnings	**18,804**	**9,947**

1. Site access fees and interest capitalised in relation to assets under development are required to be included within investment properties for statutory reporting purposes. However, these cash transactions are included within distributable earnings.

The Fund delivered a strong result for the year ended 30 June 2015, recording a statutory net profit of $36.3 million or 37.73 cents per unit, compared to a statutory net profit of $9.5 million or 12.19 cents per unit for the corresponding period from 18 September 2013 to 30 June 2014.

Key drivers of the Fund's performance include $19.2 million of unrealised fair value gains from the revaluation of the Fund's portfolio, increased rental income from the acquisition of a "built-to-suit" property at Erskine Park, NSW during the year and the benefit from a full year of rental income from the acquisition of seven industrial properties during the previous corresponding period. This was partly offset by additional property expenses and finance costs associated with additional debt drawn down to partially fund the acquisitions and $2.5 million of one-off costs associated with corporate activity during the year.

The statutory net profit of $9.5 million for the previous corresponding period included approximately $1.6 million of unrealised fair value losses made to the carrying value of investment properties. The unrealised fair value loss was largely attributable to the write off of property acquisition costs in relation to 15 properties that were acquired in connection with or subsequent to the Fund's listing on the ASX.

Distributable earnings for the reporting period were $18.8 million or 19.54 cents per unit, which is an increase on the distributable earnings guidance of 19.4 cents per unit (30 June 2014: $9.9 million or 12.70 cents per unit). The Directors have declared distributions totalling $17.5 million or 18.20 cents per unit for the year ended 30 June 2015, in line with guidance (30 June 2014: $9.9 million or 11.39 cents per unit).

The distribution payout ratio of 93.2% (30 June 2014: 99.6%) is consistent with the Board's policy to distribute between 90% and 100% of distributable earnings. The payout ratio was higher for the period ended 30 June 2014 due to the Fund having issued $56.4 million of new equity partway through the June 2014 distribution period with those units having full entitlement to the June 2014 distribution.

4.2. Operational review

Property acquisitions and leasing

As at 30 June 2015, the Fund owned 16 industrial properties valued at $330.1 million located across major metropolitan areas of Sydney, Melbourne and Perth.

In September 2014, the Fund acquired an industrial property located in Erskine Park, NSW, for $5.5 million. The Fund entered into a development agreement with the developer, a Fife Capital managed entity, to deliver two "built-to-suit" warehouses on a fixed price basis, each of which had a pre-committed lease. The total cost including the land was $13.8 million (excluding acquisition costs). Construction was completed in late 2014 and triggered the commencement of two seven year leases to Premium Floors and Dutt Transport. Further minor extension works were completed for the Dutt Transport tenancy in February 2015.

While the Responsible Entity has sourced other attractive acquisition opportunities that satisfy the Fund's strict investment criteria, it did not seek to acquire additional properties from December 2014 to avoid breaching a defeating condition of the unsolicited takeover offer from 360 Capital Industrial Fund (**TIX**) detailed in section 4.4 of the Directors' Report. TIX declared the takeover offer unconditional on 6 May 2015.

Leasing activity during the year has been encouraging. As noted above, the Fund entered into seven year leases to Premium Floors and Dutt Transport upon completion of construction of the Fund's Erskine Park, NSW property. Post balance date, the Fund entered into a ten year lease with Complete Supply Co (**CSC**) over part of the Fund's property at 324-332 Frankston-Dandenong Road, Dandenong South, VIC and a new 15 year lease to Orora Limited (an S&P / ASX 100 listed company that was previously part of Amcor Limited) over the Fund's property at 2 Keon Parade, Keon Park, VIC. The new lease involves a refurbishment and expansion of the existing facility at the property, which will be managed by a Fife Capital entity, with the new lease to commence on completion of the expansion works. The works will be funded from the Fund's newly extended debt facility.

As at 30 June 2015, the weighted average lease expiry of the portfolio is 4.9 years by gross building area (pro-forma for the CSC and Orora leases signed post balance date), compared with 5.1 years at 30 June 2014. The portfolio remains 100% leased, with most of the Fund's leases having structured rental growth mechanisms which increase rents annually.

The Fund's five largest tenants account for 51% of rental income (based on the annualised rent payable by tenants to the Fund as at 30 June 2015, excluding recovery of any outgoings). Major tenants include Amcor Packaging, a subsidiary of Orora Limited (14%), and Australia Post (11%).

The majority of the Fund's portfolio has been recently completed or refurbished. As a consequence, there was minimal capital expenditure on the portfolio during the period.

Property valuations

The Fund's portfolio of 16 industrial properties was revalued during the year, resulting in a $21.2 million or 6.9% increase in the value of the portfolio. The increase in value was primarily due to a combination of income growth and tightening in capitalisation rates. After taking into account acquisition costs and other predominantly non-cash adjustments, the Fund recorded a fair value gain on investment properties of $19.2 million (30 June 2014: loss of $1.6 million).

As a result of the revaluations, the Fund's weighted average capitalisation rate tightened to 7.8% as at 30 June 2015, from 8.5% as at 30 June 2014.

Revaluations and the Erskine Park, NSW acquisition resulted in a 12% increase in the value of the Fund's portfolio to $330.1 million (30 June 2014: $295.1 million). As at 30 June 2015, $329.9 million has been recorded as investment properties and $0.2 million has been recorded as a rental guarantee asset.

Net tangible asset backing

Property revaluations during the year contributed to an increase in the Fund's net tangible assets (**NTA**) to $2.13 per unit as at 30 June 2015, up from $1.94 per unit as at 30 June 2014. NTA per unit is calculated by dividing the net tangible assets of the Fund of $205.1 million by the number of units on issue at balance date.

4.3. Capital management

The Responsible Entity has undertaken a number of capital management initiatives during the year.

Equity raisings

The Fund raised $0.9 million in new equity during the year ended 30 June 2015 through a Distribution Reinvestment Plan (**DRP**) that was operated in respect of the distribution for the six months ended 30 June 2014. The DRP units were issued on 29 August 2014 with the proceeds, together with debt, used to fund the acquisition of a "built-to-suit" property at Erskine Park, NSW during the year.

The DRP did not operate in respect of the distributions for the six months ended 31 December 2014 and 30 June 2015.

Debt

As at 30 June 2015, the Fund had borrowings of $114.0 million (30 June 2014: $100.0 million) under a $130.0 million revolving cash advance facility with National Australia Bank (**NAB**).

Post balance date, the Responsible Entity executed the extension to the Fund's existing debt facility to $170 million in tranches with terms of three and five years. The extension will provide headroom to fund potential expansion works and pursue future acquisition opportunities. Pro forma for the extension, as at 30 June 2015, the Fund's headroom increases to $56 million and the weighted average term to maturity increases to 4.2 years (30 June 2014: 3.9 years).

Gearing (interest bearing liabilities less cash divided by total assets less cash) as at 30 June 2015 was 34%, compared to 33% as at 30 June 2014, and remains within the Fund's target gearing range of 25% to 40%.

The Fund also remains within its debt facility financial covenants limits which are detailed in Note 9 of the Financial Statements.

Interest rate management

To manage risk associated with interest rate fluctuations, the Board targets fixed interest rate exposure of between 50% and 100% of drawn borrowings. As at 30 June 2015, approximately 79% of the Fund's borrowings were hedged by way of interest rate swaps (30 June 2014: 69%).

The increase in fixed interest rate exposure is predominately due to a restructure and extension of the Fund's interest rate swaps in January 2015. The restructure sought to take advantage of prevailing market rates which were at historical lows and was in line with the Fund's strategy to provide investors with stable earnings that support the payment of distributions to unitholders. Upon implementation, the Fund had $90 million of interest rate swaps. One off costs associated with the restructure were funded from existing debt facilities. As at 30 June 2015, the weighted average term to maturity of hedges was 4.3 years (30 June 2014: 3.4 years).

The average cost of debt during the year ended 30 June 2015 was 4.6% per annum (inclusive of interest rate swaps, margin, line fees and amortisation of debt establishment costs), down from 5.1% per annum for the period ended 30 June 2014. This was predominantly due to lower base lending rates and the restructure of the Fund's interest rate hedge arrangements.

4.4. Corporate activity

During December 2014, the Responsible Entity announced three separate approaches from entities associated with 360 Capital Group and 360 Capital Industrial Fund:

- On 17 December 2014, the Responsible Entity announced that it had received a request for a copy of the Fund's register of members from 360 Capital Investment Management Limited (**CIML**) acting as responsible entity for entities ultimately owned by 360 Capital Group;
- On 18 December 2014, the Responsible Entity announced that it had received an unsolicited indicative non-binding proposal from CIML as responsible entity of 360 Capital Industrial Fund (**TIX**) to acquire all units in ANI by way of a trust scheme for 100% scrip consideration (**Scheme Proposal**); and
- On 19 December 2014, the Responsible Entity announced that it had received an unsolicited off-market takeover offer from CIML as responsible entity of TIX to acquire all units in Australian Industrial REIT (the **Offer**).

On 5 January 2015, the IBC, comprising Rod Pearse, Michael Allen and Peter Dransfield, announced that it had significant concerns in relation to a number of elements of the Scheme Proposal, and that it had determined not to further engage with CIML in relation to the Scheme Proposal.

TIX lodged a Bidder's Statement in relation to the Offer on 3 February 2015 and a replacement Bidder's Statement on 13 February 2015. A second supplementary Bidder's Statement was lodged on 23 February 2015. The Responsible Entity lodged a Target's Statement in response to the Offer on 26 February 2015. The Target's Statement contained a report from the Independent Expert, KPMG Corporate Finance, which concluded that the Offer was neither fair nor reasonable. The IBC recommended that Australian Industrial REIT unitholders reject the Offer.

On 24 March 2015, TIX released a third supplementary Bidder's Statement, updating the Offer terms and declaring the Offer final in the absence of a competing proposal. The Offer was subsequently declared unconditional on 6 May 2015. On 31 March 2015, the Fund released a supplementary Target's Statement in response to the updated Offer. The IBC again recommended that Australian Industrial REIT unitholders reject the Offer, and the Independent Expert concluded that the updated Offer is neither fair nor reasonable.

On 27 April 2015, CIML issued a Notice of Meeting calling an extraordinary general meeting of Australian Industrial REIT unitholders to vote on resolutions to replace Fife Capital Funds Limited as responsible entity of the Fund with a member of the 360 Capital Group. The unitholder meeting was held on 25 May 2015, with unitholders rejecting the proposed change of responsible entity, consistent with the recommendation of the IBC.

TIX currently has an interest in approximately 33% of the Fund's units and the Offer is due to expire on 28 September 2015 (unless otherwise extended or withdrawn). The IBC continues to recommend that Australian Industrial REIT unitholders reject the Offer.

4.5. Business strategies and prospects for future financial years

The Responsible Entity will continue to focus on delivering the Fund's investment objectives and strategy which are to provide investors with:

- exposure to quality industrial properties located in major metropolitan areas in Australia within close proximity to major road, rail, air or port infrastructure;
- stable earnings from the collection of rent from the tenants of the Fund's properties that support the payment of regular income distributions to unitholders, with that rental income underpinned by leases to reputable tenants with the majority of income growth derived from fixed and/or CPI-linked rental increases;
- the potential for capital growth over time where the value of the Fund's properties appreciates;
- a conservative capital structure with target gearing of 25% to 40%; and
- future acquisition and investment opportunities through utilising Fife Capital Group's relationships.

The Fund's risk exposures include but are not limited to, strategic and investment risks, governance risks, operational and financial risks, market risks, outsourcing risks, legal and compliance risks, fraud and reputational risks, funding and interest rate risks and economic, environmental and social sustainability risks.

The key business risks associated with the Fund's ability to meet its investment and strategic objectives and that are likely to have an effect on financial performance include the Fund's ability to source acquisitions at an appropriate yield, adverse movements in the market price of assets affecting the portfolio value, lease expiry risk, funding risk, interest rate and debt refinancing risks, capital market risks and the Fund's reliance on Fife Capital Group. While these risks cannot be entirely eliminated, the Responsible Entity has implemented measures to mitigate these risks including, but not limited to:

- maintaining an experienced Board with a majority of independent Directors to establish and monitor the Fund's investment strategies and assess the performance of the Fund against those strategies;
- maintaining a management team with asset management, property management and acquisition expertise;

- maintaining a strong balance sheet, with target gearing of between 25% and 40%, to provide flexibility to undertake asset management initiatives and/or acquire additional assets;
- active capital management to minimise short-term debt maturities; and
- targeting a range for fixed rate interest rate exposure of between 50% and 100% of drawn borrowings to provide greater certainty over finance costs.

The Responsible Entity will continue to focus on active asset management, including addressing near term lease expiries ahead of time as demonstrated by the post balance date leasing events at 324-332 Frankston-Dandenong Road, Dandenong South, VIC and 2 Keon Parade, Keon Park, VIC, to support the payment of regular distributions to unitholders. A disciplined approach will continue to be applied when assessing and funding acquisition opportunities that are consistent with the Fund's investment strategy and that have the potential to enhance the Fund.

5. DISTRIBUTIONS

Distributions paid or payable by the Fund for the year ended 30 June 2015 total $17.5 million, equating to 18.20 cents per unit (30 June 2014: $9.9 million or 11.39 cents per unit). The total distribution for the year ended 30 June 2015 represents a 10.3% increase over the annualised distribution per unit for the year ended 30 June 2014.

An interim distribution of $8.3 million (8.60 cents per unit) was declared for the six months ended 31 December 2014 and paid on 27 February 2015.

A final distribution of $9.2 million (9.60 cents per unit) was declared for the six months ended 30 June 2015 and will be paid on or about 28 August 2015.

6. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors, there were no significant changes in the state of affairs of the Fund during the year ended 30 June 2015 other than those disclosed in this Directors' Report and the Financial Statements.

7. LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Responsible Entity intends to continue to implement its strategy for the Fund, focused on sustainable long-term value creation and earnings growth for Australian Industrial REIT unitholders as outlined in the PDS issued at the time of the initial public offering of units in the Fund and the 2014 Annual Report. The performance of the Fund will be subject to a number of factors, including movements in the underlying property market over time.

8. EVENTS SUBSEQUENT TO REPORTING DATE

Since the end of the reporting period, the Directors of the Responsible Entity are not aware of any other matter or circumstance not otherwise disclosed in the Directors' Report or the Financial Statements that has significantly affected or may significantly affect the operations of the Fund, the results of those operations, or the state of the Fund's affairs in future reporting periods.

9. CORPORATE GOVERNANCE

The Fund's Corporate Governance Statement is set out on pages 31 to 36 of the Fund's Annual Report for the year ended 30 June 2015.

10. RESPONSIBLE ENTITY FEES

Management fees totalling $1.9 million were paid or payable by the Fund to the Responsible Entity during the year ended 30 June 2015 (30 June 2014: $1.0 million).

11. INTERESTS IN THE FUND

As at 30 June 2015, 96,288,031 ordinary units of the Fund were authorised and on issue (30 June 2014: 95,826,704 units). Movements in the Fund during the year are detailed in Note 10 of the Financial Statements.

The interests in the Fund held by the Responsible Entity and the Directors of the Responsible Entity at the end of the year are detailed in Notes 17(a) and 17(b) of the Financial Statements. No options were issued during or since the end of the period and no Director holds options over issued or unissued units in the Fund.

12. REMUNERATION REPORT

The Fund had no employees during the year. Compensation is paid to the Responsible Entity in the form of management fees and is disclosed in Note 17(a) of the Financial Statements. No other amounts are paid directly or indirectly by the Fund to Key Management Personnel for services provided to the Fund. Further detail regarding remuneration and transactions with Key Management Personnel is provided in Note 17(b) of the Financial Statements.

13. ENVIRONMENTAL REGULATION AND PERFORMANCE

The Fund's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. The Directors believe that the Fund has adequate systems in place for the management of its environmental requirements and are not aware of any material breach of those environmental requirements.

14. INSURANCE AND INDEMNIFICATION

No insurance premiums were paid out of the assets of the Fund for insurance cover provided to Directors and Officers of the Responsible Entity or the auditor of the Fund.

In accordance with the Fund's Constitution, the Responsible Entity is entitled to be indemnified out of the assets of the Fund for any liability incurred by the Responsible Entity in properly performing or exercising any of its powers or duties in relation to the Fund. The Responsible Entity has agreed to indemnify Ernst & Young, the auditor of the Fund, out of the assets of the Fund, where the loss arises from a breach of the auditor's engagement terms by the Responsible Entity or as a result of the Responsible Entity's negligence, wrongful or wilful act or omission. Ernst & Young is not indemnified for the provision of services where such an indemnification is prohibited by the Corporations Act.

No indemnity payment has been made under the arrangements referred to above during or since the end of the financial year.

15. ROUNDING OF AMOUNTS

The Fund is of a kind referred to in Class Order 98/100, issued by the Australian Securities & Investments Commission. In accordance with that Class Order, amounts in the Directors' Report and Financial Statements have been rounded off to the nearest thousand dollars, unless otherwise stated.

16. NON-AUDIT SERVICES

Details of the amounts paid or payable to the auditor, Ernst & Young, for audit and non-audit services provided are detailed in Note 20 of the Financial Statements.

The Directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 'Code of Ethics for Professional Accountants' issued by the Accounting Professional & Ethics Standards Board as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Fund, acting as an advocate for the Fund or jointly sharing risks and rewards.

17. AUDITOR'S INDEPENDENCE DECLARATION

A declaration of independence, as required under section 307C of the Corporations Act 2001, has been provided by the Fund's auditor, Ernst & Young, and is set out on page 10.

This Directors' Report is signed in accordance with a resolution of the Directors of Fife Capital Funds Limited.

Rod Pearse OAM
Chairman
Fife Capital Funds Limited
Sydney, 26 August 2015

Allan Fife
Managing Director
Fife Capital Funds Limited
Sydney, 26 August 2015

AUDITOR'S INDEPENDENCE DECLARATION

Building a better working world

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Auditor's Independence Declaration to the Directors of Fife Capital Funds Limited as the Responsible Entity of Australian Industrial REIT

In relation to our audit of the financial report of Australian Industrial REIT for the year ended 30 June 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Chris Lawton
Partner
26 August 2015

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2015

	Notes	30 Jun 2015 $'000	18 Sep 2013 to 30 Jun 2014 $'000
Revenue			
Rental income	3	32,722	17,658
Other income		–	76
Finance income		30	31
Total revenue		**32,752**	**17,765**
Expenses			
Property expenses		(4,833)	(2,362)
Responsible Entity fees	17(a)	(1,892)	(1,008)
Finance costs		(5,036)	(2,876)
Other expenses		(798)	(363)
Corporate activity expenses		(2,470)	–
Total expenses		**(15,029)**	**(6,609)**
Net profit before gain/(loss) in fair value and transfer from hedge reserve		**17,723**	**11,156**
Unrealised gain/(loss) in fair value of investment properties	7(b)	19,244	(1,611)
Unrealised gain/(loss) in fair value of derivatives		(314)	–
Transfer from cash flow hedge reserve	11	(355)	–
Statutory net profit for the year attributable to unitholders		**36,298**	**9,545**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Net movement in cash flow hedge reserve	11	(606)	(1,664)
Total comprehensive income for the year attributable to unitholders		**35,692**	**7,881**
Earnings per unit – basic and diluted (cents per unit)	13	37.73	12.19

The Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2015

	Notes	30 Jun 2015 $'000	30 Jun 2014 $'000
Current assets			
Cash and cash equivalents	14	106	588
Receivables and prepayments	5	942	1,066
Rental guarantees	6	84	188
Total current assets		**1,132**	**1,842**
Non-current assets			
Investment properties	7	329,866	294,874
Rental guarantees	6	125	42
Total non-current assets		**329,991**	**294,916**
Total assets		**331,123**	**296,758**
Current liabilities			
Payables and deferred income	8	3,182	2,183
Distribution payable	4	9,243	7,839
Total current liabilities		**12,425**	**10,022**
Non-current liabilities			
Interest bearing liabilities	9	113,322	99,081
Derivative financial instruments	15(c)	314	1,664
Total non-current liabilities		**113,636**	**100,745**
Total liabilities		**126,061**	**110,767**
Net assets		**205,062**	**185,991**
Equity			
Issued capital	10	188,922	188,019
Reserves	11	(2,270)	(1,664)
Retained earnings/(accumulated losses)	12	18,410	(364)
Total equity		**205,062**	**185,991**

The 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 2015

	Notes	Issued capital $'000	Retained earnings/ (accumulated losses) $'000	Hedge reserve $'000	Total $'000
Balance at 18 September 2013		**–**	**–**	**–**	**–**
Total comprehensive income for the period attributable to unitholders					
Net profit for the period		–	9,545	–	9,545
Other comprehensive income	11	–	–	(1,664)	(1,664)
Total comprehensive income for the period		**–**	**9,545**	**(1,664)**	**7,881**
Transactions with unitholders recorded directly in equity					
Equity raised	10	191,717	–	–	191,717
Costs associated with equity raisings	10	(3,698)	–	–	(3,698)
Distributions paid and payable	4	–	(9,909)	–	(9,909)
Balance at 30 June 2014		**188,019**	**(364)**	**(1,664)**	**185,991**
Total comprehensive income for the year attributable to unitholders					
Net profit for the year		–	36,298	–	36,298
Other comprehensive income	11	–	–	(606)	(606)
Total comprehensive income for the year		**–**	**36,298**	**(606)**	**35,692**
Transactions with unitholders recorded directly in equity					
Equity raised	10	908	–	–	908
Costs associated with equity raisings	10	(5)	–	–	(5)
Distributions paid and payable	4	–	(17,524)	–	(17,524)
Balance at 30 June 2015		**188,922**	**18,410**	**(2,270)**	**205,062**

The 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 2015

	Notes	30 Jun 2015 $'000	18 Sep 2013 to 30 Jun 2014 $'000
Cash flow from operating activities			
Rental income received (inclusive of GST)		33,770	17,440
Other property receipts		523	1,334
Payments to suppliers (inclusive of GST)		(9,741)	(4,095)
Payments to the Responsible Entity (inclusive of GST)		(2,063)	(948)
Finance income received		30	31
Finance costs paid		(4,871)	(2,544)
Net cash flow from operating activities	14	**17,648**	**11,218**
Cash flow from investing activities			
Payments for purchase of, and additions to, investment properties (including rental guarantees)		(14,234)	(295,648)
Net cash flow used in investing activities		**(14,234)**	**(295,648)**
Cash flow from financing activities			
Net proceeds from borrowings		13,945	99,065
Proceeds from equity raisings		–	191,717
Costs associated with equity raisings		(5)	(3,694)
Payment to restructure interest rate swaps		(2,624)	–
Distributions paid to unitholders		(15,212)	(2,070)
Net cash flow (used in)/from financing activities		**(3,896)**	**285,018**
Net movement in cash and cash equivalents		(482)	588
Cash and cash equivalents at the beginning of the year		588	–
Cash and cash equivalents at the end of the year	14	**106**	**588**

The Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

1. CORPORATE INFORMATION

The Australian Industrial REIT (the **Fund**) was established on 17 June 2013 and registered with the Australian Securities & Investments Commission (**ASIC**) as a managed investment scheme on 18 September 2013. The Fund commenced trading on the ASX on 21 October 2013.

The Responsible Entity of the Fund is Fife Capital Funds Limited (ABN 18 130 077 735; AFSL 438693) (**Responsible Entity**). Both the Fund and the Responsible Entity are domiciled in Australia.

The Financial Statements of the Fund for the year ended 30 June 2015 comprise the consolidated Financial Statements of the Australian Industrial REIT and its controlled entities. The Fund's financial year end date is 30 June.

The Directors of the Responsible Entity have authorised the Annual Financial Report for issue on 26 August 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation

This general purpose financial report for the year ended 30 June 2015 has been prepared in accordance with the requirements of the constitution of the Fund (as amended) (the **Fund's Constitution**), Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board, other mandatory professional reporting requirements and the Corporations Act 2001. For the purposes of preparing the consolidated Financial Statements, the Fund is a for-profit entity.

The Financial Statements have been prepared on a historical cost basis, except for investment properties and derivative financial instruments which have been measured at their fair value.

The consolidated Financial Statements are prepared on a going concern basis. The Directors note that the Fund is in a net current asset deficiency position primarily due to the provision for the June 2015 distribution. The Fund has minimal cash and cash equivalents as it is the policy of the Responsible Entity to use surplus cash to repay debt. The Fund has the ability to drawdown funds to pay the distribution on 28 August 2015, having available headroom in the Fund's debt facility of $16.0 million.

The Financial Statements are presented in Australian dollars, which is the Fund's functional currency. In accordance with ASIC Class Order 98/100, the amounts shown in the Directors' Report and Financial Statements have been rounded to the nearest thousand dollars, unless otherwise stated.

i. Statement of compliance

The Financial Statements have been prepared in accordance with Australian Accounting Standards (**AASBs**) (including Australian Interpretations) adopted by the Australian Accounting Standards Board and the Corporations Act 2001.

The Financial Statements comply with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board.

New and amended accounting standards and interpretations

The Fund has adopted all new and revised standards and interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for financial reporting periods beginning on or before 1 July 2014.

Certain Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Fund for the year ended 30 June 2015. The Fund plans to adopt these standards in the first annual period following the effective date. The impact of these new standards (to the extent relevant to the Fund) and interpretations is as follows:

- AASB 9 *Financial Instruments* (effective from 1 January 2018): This standard includes requirements to improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139 *Financial Instruments: Recognition and Measurement*. The impact of AASB 9 has been assessed and it is not expected to have a significant impact on the amounts recognised in the Financial Statements.
- AASB 15 *Revenue from contracts with customers* (effective from 1 January 2017): This standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The notion of control replaces the existing notion of risks and rewards. The Responsible Entity is currently assessing the impact of AASB 15, but does not expect this to have a significant impact on the Fund.

In addition to the above, further amendments to accounting standards have been proposed as a result of the revision of related standards and the Annual Improvement Projects (for non-urgent changes). These recently issued or amended standards are not expected to have a significant impact on the amounts recognised in these Financial Statements when they are restated on application of these new accounting standards.

b. Principles of consolidation

The consolidated Financial Statements comprise the financial statements of Australian Industrial REIT and its subsidiaries as at 30 June 2015. Control is achieved when Australian Industrial REIT is exposed to, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. All subsidiaries have a 30 June financial year end.

In preparing the consolidated Financial Statements, all inter-entity transactions and balances, including unrealised profits or losses arising thereon, have been eliminated in full.

The financial information for the parent entity is disclosed in Note 18 and has been prepared on the same basis as the consolidated Financial Statements with investments in subsidiaries being recorded at cost.

c. Significant accounting judgements, estimates and assumptions

The preparation of the Fund's consolidated Financial Statements requires the Directors of the Responsible Entity to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, the accompanying disclosures, and the disclosure of contingent liabilities. Actual results may differ from these judgements, estimates and assumptions.

Significant judgements, estimates and assumptions made by the Directors of the Responsible Entity in the preparation of these Financial Statements are outlined below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Fair value of investment properties

Investment properties are revalued each balance date to reflect their fair value. Fair value is determined according to the Fund's policy on valuing assets and applying assumptions and estimates. Further information on the assumptions and estimates made in respect of investment properties is included in Note 2(k) and Note 7. If any of these assumptions or estimates is not correct there may be a material impact on the carrying amounts of investment properties in the Statement of Financial Position.

Fair value of derivative financial instruments

The fair value of derivative financial instruments recorded in the Statement of Financial Position is determined by reference to market values for similar instruments. Changes in assumptions about these factors could affect the reported fair value of derivative financial instruments. See Note 2(r), Note 11 and Note 15 for further information.

d. Revenue recognition

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Fund and can be reliably measured, regardless of when the payment is made. Rental income from operating leases on investment properties is recognised in the Statement of Comprehensive Income on a straight line basis over the term of the lease. Contingent rental income is recognised as income in the reporting period in which it is earned. Rent not received at the reporting date is reflected in the Statement of Financial Position as a receivable, or if paid in advance, as rent received in advance.

Lease incentives granted are recorded as part of investment properties and amortised on a straight line basis over the term of the lease. The amortisation is recorded against rental income.

Interest income is recognised on an accruals basis using the effective interest method.

All other revenues are recognised on an accruals basis. Revenue that is not received at balance date is reflected in the Statement of Financial Position as receivable and carried at its recoverable value.

e. Expenses

Expenses are brought to account on an accruals basis.

Property expenditure includes rates, taxes and other outgoings incurred in relation to investment properties, where such expenses are the responsibility of the Fund.

f. Finance costs

Finance costs are recognised as an expense when incurred and include interest payable on borrowings, payments in respect of derivatives, and amortisation of ancillary costs incurred in connection with the arrangement of borrowings.

g. Taxation

Income tax

The Fund is treated as a trust for Australian tax purposes. Under current Australian income tax legislation, the Fund is not liable for Australian income tax, including Capital Gains Tax (**CGT**), provided that unitholders are presently entitled to the income of the Fund as determined in accordance with the Fund's Constitution.

Goods and Services Tax

Revenues, expenses and assets (with the exception of receivables) are recognised net of the amount of Goods and Services Tax (**GST**) except where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the taxation authority is included in the Statement of Financial Position as part of receivables or payables.

Cash flows are included in the 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 within operating cash flows.

h. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at bank and short-term deposits.

i. Receivables

Receivables are carried at the original invoice amount, less any provision for doubtful debts, and are usually due within 30 days. The collectability of receivables is reviewed on an ongoing basis. Bad debts are written off when identified by reducing the amount of the receivable in the Statement of Financial Position. A provision for doubtful debts is recognised when there is evidence that the Fund will not be able to collect the amount due.

j. Rental guarantees

Rental guarantees are measured as the expected future cash flows under the guarantee arrangements and are disclosed as a separate asset. The guarantee payments are recorded in the Statement of Comprehensive Income net of amortisation of the financial asset over the period of the guarantee.

k. Investment properties

Investment properties are direct property investments held for long term rental yields and/or capital appreciation and comprise freehold land and buildings.

Investment properties are initially measured at cost including associated acquisition costs. Subsequent to initial recognition, investment properties are stated at fair value. Fair value is the price that would be received when selling an asset in an orderly transaction between market participants at the measurement date. Gains or losses arising from changes in the fair value of investment properties are recognised in the Statement of Comprehensive Income in the period in which they arise.

The fair value of investment properties is reviewed by the Directors at each reporting date and assessed having regard to internal Directors' valuations or external independent valuations. The Directors' assessment of fair value takes into account the

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

most recent independent valuations, with updates having regard to matters including changes in estimated capitalisation rates, rent assumptions, material capital expenditure and/or valuations of comparable properties.

The Directors' assessment of fair value is periodically confirmed by independent valuations on a rolling basis. Independent real estate valuation experts determine the fair value of investment property using recognised valuation techniques such as the capitalisation of net income method and discounted cash flow method.

The fair value of investment properties reflects market conditions at the end of the reporting period. This represents the best estimate as at the reporting date, however actual sale prices achieved may be higher or lower than the reported fair value. This is particularly relevant during periods of market uncertainty or illiquidity.

Investment properties are not depreciated. The carrying amount of investment properties may include the costs of acquisition, additions, refurbishments, improvements, lease incentives, leasing fees and assets related to fixed increases in operating lease rentals in future periods.

Where investment properties have been revalued, the potential effect of CGT on disposal has not been taken into account in the determination of the revalued carrying amount. The Fund does not expect to be ultimately liable for CGT in respect of the sale of assets provided that unitholders are presently entitled to the income of the Fund as determined in accordance with the Fund's Constitution.

l. Leases over investment properties

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Leases where the lessor retains substantially all of the risks and benefits of the ownership of the asset are classified as operating leases. Rental revenues from operating leases are included in the Statement of Comprehensive Income in accordance with the revenue recognition policy at Note 2(d).

m. Lease incentives and leasing fees

Costs that are directly associated with negotiating and executing ongoing leasing and renewal of tenant lease agreements are capitalised to the value of the investment property and amortised on a straight line basis over the term of the lease.

These costs may include leasing fees incurred for the negotiation of leases and incentives such as cash, rent-free periods, contributions to certain lessees' costs and fit-outs and improvements that are provided to lessees to enter into a lease. The carrying amount of lease incentives and leasing fees is reflected in the fair value of investment properties.

n. Payables

Payables represent liabilities and accrued amounts owing by the Fund at the end of the reporting period which are unpaid. Payables are unsecured and are carried at amortised cost.

o. Distribution payable

A distribution payable to unitholders of the Fund is recognised in the reporting period in which it is declared, determined or publicly recommended by the Directors of the Responsible Entity, but not distributed at the reporting date.

p. Provisions

A provision is recognised when a present legal or constructive obligation exists as a result of a past event and it is probable that a future sacrifice of economic benefit will be required to settle the obligation, the timing or amount of which is uncertain.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When 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 where the effect of the time value of money is material.

q. Interest bearing liabilities

Interest bearing liabilities are recognised initially at fair value less any attributable transaction costs. Subsequent to initial recognition, interest bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the Statement of Comprehensive Income over the period of the borrowings on an effective interest rate basis.

Fees and costs in respect of the establishment of loan facilities are included as part of the carrying amount of interest bearing liabilities and expensed over the term of the agreement.

Interest bearing liabilities are classified as current liabilities unless the Fund has an unconditional right to defer settlement of the liability to at least 12 months after the balance date.

r. Derivative financial instruments

The Fund holds derivative financial instruments, in the form of interest rate swap agreements, which are used to convert the variable interest rate on a portion of its borrowings to fixed interest rates. The swaps are entered into with the objective of reducing the risk associated with interest rate fluctuations. The Fund has defined policies to manage interest risk which are outlined further in Note 15 of the Financial Statements. Derivatives are not transacted for speculative purposes.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments. The fair value of all derivative contracts has been confirmed with the counterparty.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

Where instruments qualify for hedge accounting, the effective portion of the change in the fair value of cash flow hedges have been recognised directly in equity under the heading of hedge reserve. The gain or loss relating to any ineffective portion is recognised immediately in the Statement of Comprehensive Income. Amounts accumulated in the hedge reserve in equity

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

are transferred to the Statement of Comprehensive Income in the period when the hedged item will affect profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively.

Where derivative instruments do not qualify for hedge accounting, changes in the fair value of the derivative instrument are recognised immediately in net profit within the Statement of Comprehensive Income.

s. Impairment of assets

An assessment is made at each reporting date as to whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the recoverable amount is estimated. If the carrying amount of that asset exceeds the estimated recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

t. Contributed equity

Units on issue are classified as equity and recognised at the fair value of the consideration received by the Fund. Any transaction costs arising on the issue of ordinary units are recognised in equity as a reduction of the proceeds received.

u. Earnings per unit

Basic earnings per unit is calculated as net profit or loss attributable to unitholders divided by the weighted average number of units issued.

Diluted earnings per unit is calculated as profit or loss attributable to unitholders (adjusted for any profit recognised in the period in relation to dilutive potential ordinary units) divided by the weighted average number of ordinary units and dilutive potential ordinary units.

v. Segment reporting

The Fund operates in one segment, being investment in Australian industrial property.

The Fund has determined its one operating segment based on the internal information that is provided to the chief operating decision maker and which is used in making strategic decisions. The Managing Director has been identified as the Fund's chief operating decision maker.

w. Comparatives

Unless otherwise stated, the comparative reporting period of the Fund is identified as either the period from 18 September 2013 to 30 June 2014, or the financial position as at 30 June 2014. Given this shortened reporting period, not all comparatives are directly comparable.

3. RENTAL INCOME

	30 Jun 2015 $'000	18 Sep 2013 to 30 Jun 2014 $'000
Rental and other property income (excluding straight lining of rental income and lease incentives)	31,208	15,368
Rental income resulting from straight lining of rental income and lease incentives	1,514	2,290
Total rental income	**32,722**	**17,658**

4. DISTRIBUTIONS PAID AND PAYABLE

	Distribution $'000	Distribution cents per unit
December 2013 distribution (paid 28 February 2014)	2,070	3.21
June 2014 distribution (paid 29 August 2014)	7,839	8.18
Total distributions for the period ended 30 June 2014	**9,909**	**11.39**
December 2014 distribution (paid 27 February 2015)	8,281	8.60
June 2015 distribution (payable 28 August 2015)	9,243	9.60
Total distributions for the year ended 30 June 2015	**17,524**	**18.20**

5. RECEIVABLES AND PREPAYMENTS

	30 Jun 2015 $'000	30 Jun 2014 $'000
Current		
Rent receivable	36	181
Prepayments	906	885
Total receivables and prepayments	**942**	**1,066**

There have been no impairments of receivables as at 30 June 2015.

6. RENTAL GUARANTEES

	30 Jun 2015 $'000	30 Jun 2014 $'000
Current		
Rental guarantees	84	188
Non-current		
Rental guarantees	125	42
Total rental guarantees	**209**	**230**

7. INVESTMENT PROPERTIES

a. Properties

	Acquisition date	Last independent valuation date	Independent valuer	Last independent valuation $'000	30 Jun 2015 cap rate	Book value 30 Jun 2015 $'000	Book value 30 Jun 2014 $'000
New South Wales							
30 Clay Place, Eastern Creek	Oct 2013	Dec 2014	CBRE	15,000	6.75%	15,400	13,800
92-98 Cosgrove Road, Enfield	Oct 2013	Dec 2014	Jones Lang LaSalle	36,000	8.00%	36,500	35,250
52-74 Quarry Road, Erskine Park	Sep 2014	Dec 2014	CBRE	13,950	7.50%	14,375	–
75 Owen Street, Glendenning	Oct 2013	Dec 2014	Jones Lang LaSalle	6,775	7.50%	7,000	6,625
29 Glendenning Road, Glendenning	Dec 2013	Jun 2015	CBRE	34,500	7.00%	34,500	30,500
6 Macdonald Road, Ingleburn	Oct 2013	Dec 2014	Jones Lang LaSalle	16,750	7.50%	17,500	16,150
10 Williamson Road, Ingleburn	Oct 2013	Jun 2015	Jones Lang LaSalle	35,000	7.75%	35,000	30,900
12 Williamson Road, Ingleburn	Oct 2013	Dec 2014	CBRE	32,500	7.50%	33,000	31,000
74-94 Newton Road, Wetherill Park	Oct 2013	Jun 2015	CBRE	24,100	8.00%	24,100	23,900
Victoria							
24-32 Stanley Drive, Somerton	Oct 2013	Dec 2014	m3property	26,500	8.00%	27,000	25,800
324-332 Frankston-Dandenong Road, Dandenong South	Mar 2014	Jun 2015	m3property	26,000	7.75%	26,000	24,621
2 Keon Parade, Keon Park[1]	Mar 2014	Jun 2015	m3property	10,000	8.75%	10,000	9,250
49 Temple Drive, Thomastown[1]	Mar 2014	Jun 2015	m3property	13,000	8.75%	13,000	13,000
9 Fellowes Court, Tullamarine	Mar 2014	Dec 2014	m3property	3,250	8.00%	3,400	3,058
Western Australia							
23 Selkis Road, Bibra Lake	Mar 2014	Jun 2015	Jones Lang LaSalle	17,100	9.25%	17,100	15,750
99 Quill Way, Henderson	Mar 2014	Dec 2014	m3property	16,200	9.00%	16,200	15,500
Total						**330,075**	**295,104**
Less: Amounts classified as rental guarantee						(209)	(230)
Total investment properties						**329,866**	**294,874**

1. 2 Keon Parade, Keon Park and 49 Temple Drive, Thomastown are held on one title.

7. INVESTMENT PROPERTIES CONTINUED

b. Reconciliation of movement in investment properties

	30 Jun 2015 $'000	18 Sep 2013 to 30 Jun 2014 $'000
Balance at the beginning of the year	294,874	–
Purchase price and associated acquisition costs	5,800	295,574
Capitalised expenditure and delivery payments, net of site access fee	8,367	74
Net effect of rental guarantees, straight lining of rental income, lease incentives and leasing fees, net of amortisation	1,560	1,067
Unrealised gain/(loss) in fair value	19,244	(1,611)
Movement in amounts classified as rental guarantee	21	(230)
Balance at the end of the year	**329,866**	**294,874**

c. Valuation process

Investment properties are stated at fair value. Fair value is the price that would be received when selling an asset in an orderly transaction between market participants at the measurement date. Gains or losses arising from changes in the fair value of investment properties are recognised in the Statement of Comprehensive Income in the period in which they arise.

The fair value of investment properties is reviewed by the Directors at each financial reporting date and assessed having regard to internal Directors' valuations or external independent valuations. Valuations are performed using recognised valuation techniques such as the capitalisation of net income method and discounted cash flow method.

As at 30 June 2015, seven properties were valued by independent valuers. The carrying value of the remaining nine properties, which were valued by independent valuers as at 31 December 2014, have been assessed by the Directors.

The Directors' assessment of fair value takes into account the most recent independent valuations, with updates having regard to feedback from valuers and matters including changes in estimated capitalisation rates, rent assumptions, material capital expenditure and/or valuations of comparable properties.

The Directors' assessment of fair value is periodically confirmed by engaging an independent valuer to assess the fair value of individual properties:

- at least every three years on a rotating basis in accordance with relevant industry standards; and
- if there is a reason to believe that the fair value of a property has materially changed from its book value (for example, as a result of changes in market conditions, leasing activity in relation to the property or capital expenditure).

Independent valuations are performed by independent professionally qualified valuers who hold a recognised relevant professional qualification and have specialised expertise in the investment properties valued.

d. Fair value measurement, valuation techniques and inputs

Investment properties are classified within level 3 for fair value measurement purposes which means that valuation models for the properties include assumptions that are not based upon observable market data. The valuation techniques and unobservable inputs used in determining the fair value of investment properties as at 30 June 2015 are outlined below:

Fair value hierarchy	Valuation technique	Inputs used to measure fair value	Range of unobservable inputs
Level 3	Discounted cash flow method and capitalisation of net income method	Net passing rent (per sqm p.a.)	$62 – $175
		Net market rent (per sqm p.a.)	$68 – $170
		10 year average market rental growth	3.00% – 3.28%
		Adopted capitalisation rate	6.75% – 9.25%
		Adopted terminal yield	7.25% – 10.00%
		Adopted discount rate	8.75% – 9.75%

The discounted cash flow method is an income based valuation methodology whereby a discount rate is applied to future expected income streams, including the projected terminal value at the end of the projected period, to estimate the present value. The capitalisation of net income method involves capitalising the net market income of a property in perpetuity to derive a capital value, which is adjusted for allowances including letting up allowances, capital expenditure and reversions.

7. INVESTMENT PROPERTIES CONTINUED

e. Sensitivity information

The table below details the movement in the fair value when each of the significant inputs either increase or decrease, with all other inputs remaining constant:

Significant inputs	Fair value measurement sensitivity to significant increases in input	Fair value measurement sensitivity to significant decreases 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

It is often the case that multiple significant inputs change simultaneously, which can reduce the impact of the changes in the inputs, or magnify the movement in the fair value. For example, a directionally opposite change in the net market rent and the adopted capitalisation rate would magnify the impact on fair value, whereas a movement in the same direction will reduce the impact on the fair value.

In determining the discounted cash flow, a directionally similar change in the adopted discount rate and the adopted terminal yield would magnify the impact on fair value, whereas a movement in opposite directions would reduce the impact on the fair value.

f. Highest and best use

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

g. Operating lease receivables

Investment properties are leased to tenants under operating leases with rent payable monthly. At balance date, unexpired lease terms range between 0.5 years to 13.4 years by gross building area (30 June 2014: 1.5 years to 14.4 years). Post balance date, the Fund entered into a new ten year lease with Complete Supply Co over part of the Fund's property at 324-332 Frankston-Dandenong Road, Dandenong South, VIC and a new 15 year lease to Orora Limited over the Fund's property at 2 Keon Parade, Keon Park, VIC.

Minimum lease payments receivable under non-cancellable operating leases of investment properties are as follows:

	30 Jun 2015 $'000	30 Jun 2014 $'000
Due within one year	27,833	25,129
Due between one and five years	71,369	69,384
Due after five years	37,892	53,841
Total minimum lease receipts due	**137,094**	**148,354**

h. Investment properties pledged as security

Refer to Note 9 of the Financial Statements for information on investment properties pledged as security.

8. PAYABLES AND DEFERRED INCOME

	30 Jun 2015 $'000	30 Jun 2014 $'000
Current		
Trade creditors	315	97
Accruals	1,999	1,120
Other payables	611	620
Rental and other income received in advance	257	346
Total payables and deferred income	**3,182**	**2,183**

9. INTEREST BEARING LIABILITIES

As at 30 June 2015, the Fund has a $130 million revolving cash advance debt facility with National Australia Bank.

The debt facility is secured by real property mortgages over the Fund's investment properties and other securities that are considered customary and usual for a facility of this nature.

All borrowings of the Fund are denominated in Australian dollars. Interest bearing liabilities are carried at amortised cost.

		30 Jun 2015		30 Jun 2014	
	Expiry date	Facility limit $'000	Amount drawn $'000	Facility limit $'000	Amount drawn $'000
National Australia Bank	Jul 2017	65,000	57,000	65,000	50,000
National Australia Bank	Mar 2019	65,000	57,000	65,000	50,000
		130,000	**114,000**	**130,000**	**100,000**
Less: unamortised borrowing costs			(678)		(919)
Total interest bearing liabilities			**113,322**		**99,081**

Post balance date, the Responsible Entity executed the extension to the Fund's existing debt facility to $170 million in tranches with terms of three and five years.

The Responsible Entity intends to maintain sufficient head room relative to key loan covenants. Key loan covenants and actual results against those covenants are summarised below:

	Covenant	30 Jun 2015	30 Jun 2014
Loan to value ratio	50.0% or less	34.5%	33.9%
Interest cover ratio	2.0 times or greater	4.5 times	4.8 times

The loan to value ratio is calculated by dividing the total principal outstanding under the debt facility by the aggregate value of the Fund's properties.

The Fund's interest cover ratio is calculated as the ratio of earnings before interest, income tax, minority interests, amortisation, depreciation and any other non-cash items of the Fund, divided by interest expense for the period. For the year ended 30 June 2015, the interest cover ratio excluding non-recurring corporate activity expenses is 5.0 times.

10. ISSUED CAPITAL

	Note	Number of units '000	Unit value $'000
Balance at 18 September 2013		–	–
Equity raised through initial public offering in October 2013	(a)	64,500	129,000
Equity raised through unit purchase plan in December 2013	(b)	3,142	6,348
Equity raised through entitlement offer in March 2014	(c)	28,185	56,369
Issue costs		–	(3,698)
Balance at 30 June 2014		**95,827**	**188,019**
Equity raised through distribution reinvestment plan in August 2014	(d)	461	908
Issue costs		–	(5)
Balance at 30 June 2015		**96,288**	**188,922**

At the end of the period 96,288,031 units were authorised and on issue (30 June 2014: 95,826,704 units).

a. Initial public offering

On 21 October 2013, the Fund raised $129.0 million from unitholders in an initial public offering of units in the Fund and was admitted to the official list of the ASX. The proceeds of the offer and bank debt provided by National Australia Bank were used to fund the acquisition of the initial portfolio of eight industrial properties located across Sydney and Melbourne.

b. Unit purchase plan

In December 2013, the Fund raised $6.3 million of equity from unitholders under a unit purchase plan. The proceeds from the unit purchase plan together with bank debt were used to fund the acquisition of a property at 29 Glendenning Road, Glendenning NSW for $29.5 million plus associated acquisition costs.

10. ISSUED CAPITAL CONTINUED

c. Entitlement offer

In March 2014, the Fund raised $56.4 million of equity from existing and new unitholders under a fully underwritten, accelerated pro-rata non-renounceable entitlement offer. The proceeds from the entitlement offer together with bank debt were used to fund the acquisition of six industrial properties located in Melbourne and Perth for $81.2 million plus associated acquisition costs.

d. Distribution reinvestment plan

The Fund operated a distribution reinvestment plan (**DRP**) in relation to the distribution for the six months ended 30 June 2014. In August 2014, 461,327 units were issued under the DRP at an issue price of $1.9684 per unit, raising $0.9 million of equity. Units issued under the DRP rank equally with all existing units. The DRP did not operate in respect of the distributions for the six months ended 31 December 2014 and 30 June 2015.

e. Rights and restrictions over units

All units on issue rank equally for the purpose of distributions and on termination of the Fund.

11. HEDGE RESERVE

	30 Jun 2015 $'000	18 Sep 2013 to 30 Jun 2014 $'000
Balance at the beginning of the year	(1,664)	–
Effective portion of changes in the fair value of cash flow hedges	(961)	(1,664)
Transfer of hedge reserve to Income Statement	355	–
Balance at the end of the year	**(2,270)**	**(1,664)**

During January 2015, the Fund restructured and extended its interest rate hedging arrangements.

The effective portion of the changes in the fair value of derivatives designated as cash flow hedges was recorded in the hedge reserve until the date of restructure.

The cumulative gains and losses deferred in the hedge reserve relating to the closed interest rate hedges is released to the Income Statement over the original maturity term of the hedges.

The restructured interest rate hedging arrangements have not been designated as cash flow hedges and any movement in the fair value of the hedges is reflected in net profit in the Statement of Comprehensive Income.

At balance date, interest rate hedge maturity terms range between 3.6 years to 4.6 years, with a weighted average term to maturity of 4.3 years.

12. RETAINED EARNINGS/(ACCUMULATED LOSSES)

	30 Jun 2015 $'000	18 Sep 2013 to 30 Jun 2014 $'000
Balance at the beginning of the year	(364)	–
Net profit for the year	36,298	9,545
Distributions paid and payable	(17,524)	(9,909)
Balance at the end of the year	**18,410**	**(364)**

13. EARNINGS PER UNIT

	30 Jun 2015	18 Sep 2013 to 30 Jun 2014
Net profit for the year ($'000)	36,298	9,545
Weighted average number of units on issue ('000)	96,213	78,318
Basic and diluted earnings per unit (cents)	37.73	12.19

The Fund has no dilutive potential units, therefore the diluted earnings per unit is the same as the basic earnings per unit.

14. NOTES TO THE STATEMENT OF CASH FLOWS

a. Reconciliation of cash and cash equivalents

	30 Jun 2015 $'000	18 Sep 2013 to 30 Jun 2014 $'000
Cash at bank	106	588
Total cash and cash equivalents	**106**	**588**

b. Reconciliation of profit to net cash flow from operating activities

	30 Jun 2015 $'000	18 Sep 2013 to 30 Jun 2014 $'000
Net profit for the year	36,298	9,545
Straight lining of rental income and lease incentives, amortisation of rental guarantees, leasing costs and borrowing costs	(1,273)	(920)
Site access fee, net of capitalised interest	50	–
Unrealised (gain)/loss in fair value of investment properties	(19,244)	1,611
Unrealised (gain)/loss in fair value of derivatives	314	–
Transfer from cash flow hedge reserve	355	–
Increase/(decrease) in payables and deferred income	999	2,048
(Increase)/decrease in receivables and prepayments	124	(1,066)
Other items	25	–
Net cash flow from operating activities	**17,648**	**11,218**

15. CAPITAL AND FINANCIAL RISK MANAGEMENT

a. Capital management

The Responsible Entity's capital management objectives are to ensure the Fund continues as a going concern, while providing returns for unitholders and maintaining a capital structure that supports a competitive cost of capital.

The Fund's capital structure consists of cash, interest bearing liabilities and contributed equity (which comprises contributed equity, reserves and accumulated profit/loss).

The Responsible Entity regularly reviews the Fund's capital structure to ensure sufficient funds and financing facilities are available on a cost effective basis and a sufficient liquidity buffer is maintained. The Fund can alter its capital structure by issuing new units, adjusting distributions to unitholders, returning capital to unitholders, drawing additional debt or repaying debt.

The Responsible Entity monitors the capital structure through the Fund's gearing ratio. Gearing is calculated as interest bearing liabilities less cash divided by total assets less cash. As at 30 June 2015, gearing was 34.2% (30 June 2014: 33.3%) which is within the Fund's target gearing range of between 25% and 40%.

In addition, the Responsible Entity intends to maintain sufficient head room relative to key loan covenants. The Fund's financial covenants are detailed in Note 9 of the Financial Statements.

b. Financial risk management

The Fund's activities expose it to financial risks including credit risk, liquidity risk and interest rate risk.

Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will default on their contractual obligations, resulting in a financial loss to the Fund. It arises principally from the Fund's receivables from customers, cash and payments due to the Fund under rental guarantees.

Five tenants account for approximately 51% of the annualised rent payable by tenants to the Fund (excluding recovery of any outgoings) as at 30 June 2015. The largest exposure of 14% is to Amcor Packaging, which is a subsidiary of Orora Limited. The second largest exposure of 11% is to Australia Post which has a AA- Standard & Poor's credit rating. The Board regularly reviews the aggregate tenant exposure across the Fund's portfolio.

15. CAPITAL AND FINANCIAL RISK MANAGEMENT CONTINUED

b. Financial risk management continued

Cash deposits and derivative counterparties are currently limited to National Australia Bank which has a AA- Standard & Poor's credit rating.

As at 30 June 2015, rental guarantees were in place in respect of two of the Fund's properties.

The Fund's exposure to credit risk consists of the following:

	30 Jun 2015 $'000	30 Jun 2014 $'000
Cash and cash equivalents	106	588
Receivables and prepayments	942	1,066
Rental guarantees	209	230
Total	**1,257**	**1,884**

As at 30 June 2015 there were no significant financial assets that were past due (30 June 2014: $nil).

Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Responsible Entity manages liquidity by ensuring there is sufficient cash and/or undrawn credit facilities available. The Responsible Entity prepares and monitors rolling forecasts of liquidity requirements on the basis of expected cash flows.

The Fund also manages liquidity risk through monitoring the maturity of its debt facility. Post balance date, the Fund extended its debt facility as detailed in Note 9 of the Financial Statements.

The following table reflects the contractual maturities of the Fund's interest bearing liabilities and derivative financial instruments (including estimated interest payments and interest rate swap payments) based on conditions existing at balance date. The amounts presented represent future undiscounted cash flows and may not reconcile with the amount disclosed in the Statement of Financial Position.

30 Jun 2015	1 year or less $'000	1–2 years $'000	2–5 years $'000	More than 5 years $'000	Contractual cash flows $'000	Carrying amount $'000
Non-derivative financial liabilities						
Bank loans – principal	–	–	114,000	–	114,000	114,000
Bank loans – interest	3,913	3,934	3,997	–	11,844	–
Payables and deferred income	3,182	–	–	–	3,182	3,182
Distribution payable	9,243	–	–	–	9,243	9,243
Derivative financial liabilities						
Interest rate swaps – net settled	493	313	(527)	–	279	314
Total	**16,831**	**4,247**	**117,470**	**–**	**138,548**	**126,739**

30 Jun 2014	1 year or less $'000	1–2 years $'000	2–5 years $'000	More than 5 years $'000	Contractual cash flows $'000	Carrying amount $'000
Non-derivative financial liabilities						
Bank loans – principal	–	–	100,000	–	100,000	100,000
Bank loans – interest	4,250	4,313	8,872	–	17,435	–
Payables and deferred income	2,183	–	–	–	2,183	2,183
Distribution payable	7,839	–	–	–	7,839	7,839
Derivative financial liabilities						
Interest rate swaps – net settled	689	577	464	–	1,730	1,664
Total	**14,961**	**4,890**	**109,336**	**–**	**129,187**	**111,686**

15. CAPITAL AND FINANCIAL RISK MANAGEMENT CONTINUED

b. Financial risk management continued

Interest rate risk

Interest rate risk is the risk that cash flows and/or fair values of financial instruments will fluctuate due to changes in market interest rates.

The Fund's interest rate risk arises from borrowings and cash holdings. Borrowings at variable rates expose the Fund to cash flow interest rate risk. The Fund manages this risk by using floating-to-fixed interest rate swaps which have the effect of converting a portion of the Fund's borrowings from floating rates to fixed rates. These derivatives have been recorded in the Statement of Financial Position at their fair value. The derivatives in place at 30 June 2015 are not designated as cash flow hedges and movements in the fair value of these instruments are recognised within net profit in the Statement of Comprehensive Income. In the year ended 30 June 2014, the interest rate swaps were designated as cash flow hedges and the movement in the fair value of these instruments was reflected in the hedge reserves and did not impact net profit.

The Responsible Entity has entered into interest rate swaps in respect of approximately 79% of the drawn amount of debt at 30 June 2015 (30 June 2014: 69%). This is within the Board's target range for fixed interest rate exposure of between 50% and 100% of drawn borrowings.

As at 30 June 2015, fixed interest rates varied from 2.49% to 2.57% (30 June 2014: 3.23% to 3.97%) and floating interest rates were at bank bill rates plus a bank margin.

The Fund's exposure to interest rate risks for classes of financial assets and financial liabilities is as follows:

	30 Jun 2015 $'000	30 Jun 2014 $'000
Variable rate instruments		
Cash and cash equivalents	106	588
Interest bearing liabilities – principal	114,000	100,000

The following sensitivity analysis shows the impact on net profit and total equity at balance date if market interest rates had been 100 basis points higher or 100 basis points lower, assuming all other variables remained constant. This is an illustrative example, rather than the expected movement in interest rates.

The effect on net profit and total equity is determined by multiplying cash and interest bearing liabilities subject to floating rates at balance date by the change in interest rates, combined with the impact on the mark-to-market valuation of interest rate swaps of a change in interest rates. The mark-to-market movements on interest rate swaps that are designated as cash flow hedges are recognised directly in equity within the hedge reserve. Where interest rates swaps are not designated as cash flow hedges the mark-to-market movements are recognised directly in net profit. In calculating the change in fair value of interest rate swaps, a change in interest rates at balance date is assumed to result in a corresponding movement in the forward yield curve.

	Increase/(decrease) in net profit		Increase/(decrease) in total equity	
	100 basis points increase $'000	100 basis points decrease $'000	100 basis points increase $'000	100 basis points decrease $'000
30 Jun 2015				
Variable rate instruments	(1,139)	1,139	(1,139)	1,139
Interest rate swaps	4,616	(4,616)	4,616	(4,616)
Net impact	**3,477**	**(3,477)**	**3,477**	**(3,477)**
30 Jun 2014				
Variable rate instruments	(994)	994	(994)	994
Interest rate swaps	693	(693)	2,962	(2,962)
Net impact	**(301)**	**301**	**1,968**	**(1,968)**

15. CAPITAL AND FINANCIAL RISK MANAGEMENT CONTINUED

c. Accounting classifications and fair values

The carrying amounts of financial assets and financial liabilities recorded in the Financial Statements have been determined in accordance with the accounting policies disclosed in Note 2 of the Financial Statements.

Interest rate derivatives were measured and recognised at fair value at 30 June 2015. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on the forward price curve of interest rates at balance date.

All other financial instruments (including cash, short term receivables, rental guarantees, short term payables and interest bearing liabilities) are carried at cost or at amortised cost in accordance with the accounting policies disclosed in Note 2 of the Financial Statements. The Directors consider that the carrying amounts of these financial assets and financial liabilities, other than interest bearing liabilities, approximate their fair values predominantly due to the short term maturities of these instruments. The carrying amount of interest bearing liabilities is considered to approximate fair value as credit conditions have not changed significantly since entering into the borrowing agreements.

The fair value of interest bearing liabilities is derived based upon valuation models that include assumptions that are not based on observable market data and accordingly are classified in level 3 of the fair value hierarchy. Key inputs include discount rates that reflect the issuer's borrowing rate at the end of the reporting period.

Fair value hierarchy

The table below analyses financial instruments carried at fair value by valuation method. The different levels are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of interest rate derivatives is determined based on a discounted cash flow analysis using assumptions that are supported by directly or indirectly observable market rates and are classified in level 2 below. The discount rate applied ranges from 1.98% to 3.37% (30 June 2014: 2.57% to 3.90%). The fair value of all derivative contracts has been confirmed with the counterparty.

30 Jun 2015	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets carried at fair value:				
Interest rate swaps	–	–	–	–
Financial liabilities carried at fair value:				
Interest rate swaps	–	314	–	314

30 Jun 2014	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets carried at fair value:				
Interest rate swaps	–	–	–	–
Financial liabilities carried at fair value:				
Interest rate swaps	–	1,664	–	1,664

16. CAPITAL COMMITMENTS

There are no material capital commitments at 30 June 2015 (30 June 2014: $nil).

17. RELATED PARTIES

a. Responsible Entity and trustee

Fife Capital Funds Limited (ABN 18 130 077 735) is the Responsible Entity and trustee of the Fund and the trustee of each of the Fund's sub-trusts. Fife Capital Funds Limited is a member of the Fife Capital group of entities (**Fife Capital Group**) and is considered a related party of the Fund. Mr Allan Fife (the Managing Director of the Responsible Entity) or a related entity of Allan Fife is an ultimate owner of each of the entities in the Fife Capital Group.

Responsible Entity fees

In accordance with the Fund's Constitution, Fife Capital Funds Limited is entitled to receive a management fee for acting as the Responsible Entity of the Fund of 0.60% per annum on the gross asset value of the Fund, payable monthly in arrears.

17. RELATED PARTIES CONTINUED

a. Responsible Entity and trustee continued

The Responsible Entity's management fees for the year ended 30 June 2015 are $1,891,560 (18 September 2013 to 30 June 2014: $1,007,771). As at 30 June 2015, the total amount owed to the Responsible Entity in relation to management fees is $163,294 (30 June 2014: $146,346).

Responsible Entity unitholdings

As at 30 June 2015, the Responsible Entity does not hold any units in the Fund (30 June 2014: nil). Other entities associated with Allan Fife (the Managing Director of the Responsible Entity) hold 532,425 units in the Fund as disclosed in Note 17(b) below.

b. Key Management Personnel

The Directors of Fife Capital Funds Limited, the Responsible Entity of the Fund, are considered to be Key Management Personnel.

Remuneration of Key Management Personnel

Compensation is paid to the Responsible Entity in the form of management fees and is disclosed in Note 17(a) above. No other amounts are paid directly or indirectly by the Fund to the Key Management Personnel for services provided to the Fund.

The non-executive directors of the Responsible Entity receive remuneration in their capacity as directors of the Responsible Entity in the form of directors' fees. There are no equity incentive schemes in relation to the Fund. Remuneration of the directors is paid by Fife Capital Pty Limited, a member of the Fife Capital Group.

Unitholdings of Key Management Personnel

Directors, employees and associates of Fife Capital Funds Limited and entities controlled by members of the Fife Capital Group may hold units in the Fund. Units were purchased on commercial terms.

The number of units held by the Key Management Personnel of Fife Capital Funds Limited (including entities controlled, jointly controlled or significantly influenced by them) is set out below:

Director	Balance at 1 July 2014	Acquired during the year	Sold during the year	Balance at 30 June 2015
Rod Pearse	364,686	15,155	–	379,841
Michael Allen	50,000	2,077	–	52,077
Peter Dransfield	81,353	–	–	81,353
John Hudson	50,000	2,077	–	52,077
Allan Fife	532,425	–	–	532,425
Total	**1,078,464**	**19,309**	**–**	**1,097,773**

c. Transactions with other members of Fife Capital Group

Property management

As disclosed in the PDS for the Fund dated 2 October 2013, Fife Asset Services Pty Limited (**Fife Asset Services**) has been appointed as property manager of each of the Fund's properties. Fife Asset Services is a member of the Fife Capital Group and is considered a related party of the Fund.

In accordance with Property Management Agreements in respect of each property, Fife Asset Services is entitled to receive the following fees:

- a property management fee of 3.0% of the gross annual income (before incentives) of the property; and
- a leasing fee if a new tenant is introduced and a new lease or licence is negotiated other than a new lease over an area which is subject to a rental guarantee or a sublease or sub-licence. The leasing fee is the market rate percentage that would be charged as a leasing fee for the new lease or licence.

Property management fees for the year ended 30 June 2015 are $932,743 (18 September 2013 to 30 June 2014: $504,876). As at 30 June 2015, the total amount owed to Fife Asset Services in relation to property management fees is $nil (30 June 2014: $2,438). No leasing fees payable to Fife Asset Services were incurred during the period ended 30 June 2015 (30 June 2014: $nil) or were outstanding at 30 June 2015 (30 June 2014: $nil).

17. RELATED PARTIES CONTINUED

b. Key Management Personnel continued

Development management

As disclosed in the PDS, the Responsible Entity and Fife Capital Group Pty Limited (**Fife Capital**) have entered into a Co-operation Deed, under which:

- the Responsible Entity may become entitled to acquire additional properties identified by Fife Capital; and
- the Fund is required to offer a right for Fife Capital to provide property management services in respect of additional properties which the Fund acquires and/or development management services that the Fund requires for any development projects that it undertakes from time to time.

During September 2014, the Fund acquired land at 52-74 Quarry Road, Erskine Park, NSW for $5,450,000 from a Fife Capital managed entity. The Responsible Entity entered into a development agreement with the developer, a separate Fife Capital managed entity, to deliver two "built-to-suit" warehouses on a fixed price basis. Each warehouse had a pre-committed lease to a tenant and was wholly occupied following practical completion of construction. Subsequent to practical completion of construction, minor extension works were completed on behalf of a tenant. The total cost including the land was $13,790,597 (excluding acquisition costs).

The Fund received a site access fee of approximately 7.8% per annum on amounts paid to the vendor and the developer until practical completion of construction and commencement of the leases. The total site access fee received by the Fund was $98,532. In addition, the developer provided a rental guarantee to the Fund equivalent to the rent incentives granted to the tenants. The Fund has received $275,899 of rental guarantee payments in relation to the Erskine Park property during the year ended 30 June 2015.

No development management fees payable to Fife Capital were incurred during the year ended 30 June 2015 (30 June 2014: $nil) or were outstanding at 30 June 2015 (30 June 2014: $nil).

d. Terra Australis Property Fund

Prior to the initial public offering of units in the Fund on the ASX, the Fund had 100 units on issue, all of which were owned by Terra Australis Property Fund (**TAP**), an unlisted wholesale real estate investment fund managed by a separate Fife Capital Group entity. Further information regarding TAP is contained in the PDS for the Fund dated 2 October 2013.

During the year ended 30 June 2015, the Fund recognised amounts totalling $187,669 under rental guarantees from TAP sub-trusts pursuant to a Relationship Deed between each TAP sub-trust and each corresponding Fund sub-trust.

During the period ended 30 June 2014, the Fund had the following transactions with members of TAP:

- during October 2013, TAP redeemed the 100 units in the Fund that it owned at a redemption price of $1.00 per unit so that the Fund was 100% owned by participants in the initial public offering of units in the Fund;
- during October 2013, the Fund acquired six industrial properties for $130,125,000 from sub-trusts of TAP. $128,425,000 of the proceeds were paid in October 2013 with a further $1,700,000 paid in November 2013 following practical completion of construction of the Fund's property at 30 Clay Place, Eastern Creek;
- pursuant to an agreement between the Fund and TAP, TAP met 74% of costs associated with the initial public offering and acquisition of the initial portfolio of eight properties, excluding stamp duty and debt establishment costs;
- the Fund recognised amounts totalling $1,592,926 under rental guarantees from TAP sub-trusts pursuant to a Relationship Deed between each TAP sub-trust and each corresponding Fund sub-trust; and
- pursuant to a Relationship Deed between a Fund sub-trust and the corresponding TAP sub-trust, coupon fee income of $75,565 was received in respect of the Fund's property at 30 Clay Place, Eastern Creek.

18. PARENT ENTITY DISCLOSURES

The individual financial statements for the parent entity, Australian Industrial REIT, are shown below.

	30 Jun 2015 $'000	30 Jun 2014 $'000
Current assets	660	1,165
Non-current assets	309,350	295,250
Total assets	**310,010**	**296,415**
Current liabilities	11,509	9,134
Non-current liabilities	113,635	100,745
Total liabilities	**125,144**	**109,879**
Issued capital	188,922	188,019
Reserves	(2,270)	(1,664)
Retained earnings	(1,786)	181
Total equity	**184,866**	**186,536**
Net profit	15,557	10,090
Other comprehensive income	(606)	(1,664)
Total comprehensive income	**14,951**	**8,426**

19. SUBSIDIARIES

Name of subsidiary	Country of domicile and operation	Class of units	Ownership interest 30 Jun 2015	Ownership interest 30 Jun 2014
AIR Bibra Lake Trust	Australia	Ordinary	100%	100%
AIR Dandenong South Trust	Australia	Ordinary	100%	100%
AIR Eastern Creek Trust	Australia	Ordinary	100%	100%
AIR Enfield Trust	Australia	Ordinary	100%	100%
AIR Erskine Park Trust	Australia	Ordinary	100%	–
AIR Glendenning Trust	Australia	Ordinary	100%	100%
AIR Glendenning 2 Trust	Australia	Ordinary	100%	100%
AIR Henderson Trust	Australia	Ordinary	100%	100%
AIR Ingleburn Trust	Australia	Ordinary	100%	100%
AIR Ingleburn 2 Trust	Australia	Ordinary	100%	100%
AIR Ingleburn 3 Trust	Australia	Ordinary	100%	100%
AIR Somerton Trust	Australia	Ordinary	100%	100%
AIR Thomastown Trust	Australia	Ordinary	100%	100%
AIR Tullamarine Trust	Australia	Ordinary	100%	100%
AIR Wetherill Park Trust	Australia	Ordinary	100%	100%
AIR ST1 Trust	Australia	Ordinary	100%	–

20. AUDITOR'S REMUNERATION

	30 Jun 2015 $'000	30 Jun 2014 $'000
Audit and review of the financial statements	67	67
Assurance services in relation to capital raisings	–	160
Other assurance and compliance services	30	18
Total	**97**	**245**

The auditor of the Fund and its subsidiaries is Ernst & Young.

Ernst & Young received fees for assurance services provided in connection with the initial public offering of units in the Fund during the period ended 30 June 2014. Certain costs associated with the initial public offering were shared between the Fund and TAP as detailed in Note 17(d) of the Financial Statements.

21. CONTINGENT LIABILITIES

As detailed in the Target's Statement released by the Responsible Entity of the Fund on 26 February 2015, the Fund estimates the costs associated with the corporate activity to be up to $4.4 million. As at 30 June 2015, $2.5 million of the estimated cost has been incurred or accrued (30 June 2014: $nil).

22. EVENTS SUBSEQUENT TO REPORTING DATE

Since the end of the period, the Directors of the Responsible Entity are not aware of any other matter or circumstance not otherwise disclosed in the Directors' Report or the Financial Statements that has significantly affected or may significantly affect the operations of the Fund, the results of those operations, or the state of the Fund's affairs in future reporting periods.

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2015

The Directors of Fife Capital Funds Limited, the Responsible Entity for the Australian Industrial REIT, declare that:

a. in the Directors' opinion, there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable;

b. in the Directors' opinion, the financial statements and notes for the consolidated entity:

   i. comply with Accounting Standards and the Corporations Act 2001; and

   ii. give a true and fair view of the financial position as at 30 June 2015 and the performance for the period ended on that date; and

c. the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2(a)(i).

This declaration has been made after receiving the declarations required to be made to the Directors by the Managing Director and Chief Financial Officer in accordance with section 295A of the Corporations Act 2001 for the year ended 30 June 2015.

This declaration has been made on 26 August 2015 in accordance with a resolution of the Directors of Fife Capital Funds Limited.

Rod Pearse OAM
Chairman
Fife Capital Funds Limited
Sydney, 26 August 2015

Allan Fife
Managing Director
Fife Capital Funds Limited
Sydney, 26 August 2015

Building a better working world

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Independent auditor's report to the unitholders of Australian Industrial REIT

Report on the financial report

We have audited the accompanying financial report of Australian Industrial REIT (the "Trust"), which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the declaration of the directors of Fife Capital Funds Limited, the Responsible Entity of the consolidated entity comprising the Trust and the entities it controlled at the year's end or from time to time during the year.

Directors' responsibility for the financial report

The directors of the Responsible Entity 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the 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 about 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 judgment, 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 controls relevant to the entity's preparation and fair presentation of the financial report 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Responsible Entity, 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.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Responsible Entity a written Auditor's Independence Declaration, a copy of which is included by reference in the directors' report.

Opinion

In our opinion:

a. the financial report of Australian Industrial 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 2015 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 financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Ernst & Young

Chris Lawton
Partner
Sydney
26 August 2015

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