

ASX Release

26 August 2015

2015 Annual Results

Fife Capital Funds Limited (**Responsible Entity**), the responsible entity for the Australian Industrial REIT (**ANI** or the **Fund**) is pleased to announce the Fund's results for the year ended 30 June 2015. This is ANI's first full-year result since listing on the ASX in October 2013.

Key performance highlights

- Statutory net profit of \$36.3 million
- Distributable earnings¹ of \$18.8 million or 19.54 cents per unit
- Full year distributions of 18.20 cents per unit, up 6.81 cents from the period ended 30 June 2014
- Gearing² of 34.2%, within the target range of 25% to 40%
- Net tangible assets (**NTA**) per unit of \$2.13, representing an increase of 9.8% from \$1.94 as at 30 June 2014
- Portfolio value of \$330.1 million across 16 properties, with revaluation gains of \$21.2 million during the year
- Weighted average capitalisation rate of 7.85%
- Portfolio continues to be 100% leased
- Weighted average lease expiry of 4.9 years by gross building area³

Mr Allan Fife, the Managing Director of the Responsible Entity, said: "ANI has today announced a very strong result for the 12 months to 30 June 2015."

"This result is underpinned by the continued execution of ANI's strategy. During the year, we acquired a further "built-to-suit" property located in Erskine Park, NSW for a total cost of \$13.8 million, which has contributed to the increase in distributable earnings over 30 June 2014. The Fund also saw a \$21.2 million revaluation gain during the year, reflecting the quality of ANI's portfolio and location of its assets."

ANI has also continued to address near-term lease expiries. Mr Fife said: "The Fund has entered into a 10 year lease over a portion of the Fund's property at Dandenong South, and has today announced a new 15 year lease over the Fund's property at Keon Park. The Responsible Entity will continue its strategy of actively addressing lease expiries before they occur."

Financial results

ANI's statutory net profit for the year was \$36.3 million, increasing relative to the statutory net profit achieved for the period ended 30 June 2014 of \$9.5 million. This result was driven by \$19.2 million in unrealised fair value gains, increased rental income from the Erskine Park property acquired during the year, the benefit of a full year of rental income from properties acquired during the period ended 30 June 2014 and the reduced

¹ Represents the Directors' view of underlying earnings from ongoing operating activities for the year, being statutory net profit or loss after tax adjusted for non-cash items (such as straight lining of rental income, amortisation of incentives and unrealised fair value gains or losses), property acquisition costs and other non-recurring amounts outside core operating activities. A reconciliation to distributable earnings is provided in the Directors' Report on page 41 of the Annual Report as announced to the ASX.

² Interest bearing liabilities less cash divided by total assets less cash.

³ Pro forma for two new leases announced post balance date at 324-332 Frankston-Dandenong Road, Dandenong South, VIC and 2 Keon Parade, Keon Park, VIC.

interest costs associated with the interest rate swap restructure. These impacts were partly offset by additional property expenses and finance costs associated with debt drawn to fund the new acquisitions, as well as \$2.5 million of one-off costs associated with corporate activity during the year.

Distributable earnings for the year were \$18.8 million, or 19.54 cents per unit. This reflects an increase of 6.84 cents over distributable earnings for period ended 30 June 2014 of 12.70 cents per unit.

During the year, ANI declared distributions of \$17.5 million, or 18.20 cents per unit. This represents an increase of 6.81 cents over the distribution for the period ended 30 June 2014 of 11.39 cents per unit. The payout ratio for the year ended 30 June 2015 is 93.2%, in accordance with the Board's policy of distributing between 90% and 100% of distributable earnings to unitholders.

ANI recognised \$19.2 million in unrealised fair value gains following the revaluation of the portfolio at 30 June 2015. The Fund's portfolio of 16 industrial properties was revalued during the year, resulting in an uplift of \$21.2 million in the portfolio's value due to a combination of income growth and strengthening capitalisation rates. This was partly offset by acquisition costs relating to the purchase of the Fund's Erskine Park property during the year.

As at 30 June 2015, the Fund's net tangible assets per unit has increased by 9.8%, from \$1.94 as at 30 June 2014 to \$2.13 as at 30 June 2015.

Portfolio update

ANI has continued to grow its portfolio of quality industrial assets leased to reputable tenants located in major metropolitan areas of Australia. In September 2014, the Fund acquired a "built-to-suit" industrial property at Erskine Park, NSW. ANI entered into a development management agreement with the developer, a Fife Capital managed entity, to deliver two warehouses on a fixed-cost basis. The property was fully pre-committed with two seven year leases⁴ to Dutt Transport and Premium Floors. The property was acquired for a total cost of \$13.8 million. Construction of the property was completed in late 2014, and further building extension works were undertaken for Dutt Transport in February 2015.

During the year, ANI has continued to make leasing progress over near-term expiries within the Fund's portfolio. Post balance date in July 2015, ANI announced that it had entered into a new 10 year lease with Complete Supply Co over a portion of the Fund's property at 324-332 Frankston-Dandenong Road, Dandenong South, VIC.

The Responsible Entity has also today announced the execution of a new 15 year lease⁵ 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 Fund's portfolio was 100% leased and pro forma for the two new leases signed post balance date, the weighted average lease expiry was 4.9 years.

As at 30 June 2015, the value of ANI's portfolio was \$330.1 million, with a weighted average capitalisation rate of 7.85%, tightening from 8.50% as at 30 June 2014. This reflects a combination of income growth and the firming of capitalisation rates in the broader market.

Capital management

ANI has maintained its conservative capital structure during the year. During the year, ANI restructured and extended its hedging arrangements, increasing the amount hedged from \$69.3 million to \$90.0 million and reducing the Fund's marginal borrowing cost. As at 30 June 2015, ANI's hedge coverage ratio was 79%.

As at 30 June 2015, ANI had drawn borrowings of \$114.0 million. The Responsible Entity today announced the execution of an extension to the Fund's existing debt facility to \$170 million in tranches with terms of three

⁴ One lease is subject to a five year break clause that can be exercised by the tenant under certain circumstances.

⁵ The lease is subject to a 12 year break clause that can be exercised by the tenant under certain circumstances.

and five years. The extension will provide headroom for ANI to fund potential expansion works and pursue future acquisition opportunities. Pro forma for the extension, ANI's headroom increases to \$56 million and the weighted average term to maturity increases to 4.2 years as at 30 June 2015.

The Fund's gearing as at 30 June 2015 was 34.2%, up from 33.3% as at 30 June 2014. The increase is primarily due to the acquisition of the property at Erskine Park, NSW during in September 2014 and associated costs. Gearing remains within ANI's target band of 25% to 40%.

In August 2014 the Fund raised \$0.9 million in new equity from the Distribution Reinvestment Plan (**DRP**), which was in operation for the Fund's distribution for the six months to 30 June 2014. Proceeds from the DRP, together with debt, were applied to the acquisition of the property of Erskine Park, NSW.

Corporate activity

On 19 December 2014, 360 Capital Investment Management Limited (**CIML**) as responsible entity for 360 Capital Industrial Trust (**TIX**) announced an unsolicited off-market all-scrip takeover for all outstanding units in ANI (the **Offer**). CIML amended the terms of the Offer and declared it final on 24 March 2015, and the offer was declared unconditional on 6 May 2015.

In response to the Offer, the Independent Board Committee (**IBC**), consisting of Mr Rod Pearse, Mr Michael Allen and Mr Peter Dransfield, recommended that ANI unitholders reject the Offer.

On 27 April 2015, CIML issued a Notice of Meeting calling an extraordinary general meeting of ANI unitholders to vote on resolutions to replace Fife Capital Funds Limited as the responsible entity of ANI with a member of the 360 Capital Group. The unitholder meeting was held on 25 May 2015, with ANI unitholders firmly rejecting the proposal to replace the Responsible Entity.

TIX currently holds an interest in approximately 33% of ANI units, with the Offer due to expire on 28 September 2015 (unless extended or withdrawn). The IBC continues to recommend that ANI unitholders reject the Offer.

Strategy and outlook

The Responsible Entity is focused on progressing ANI's strategy through enhancing the Fund's stable earnings stream to support a growing distribution.

Mr Fife said: "Active asset management continues to be a key priority for ANI. We have made pleasing progress on addressing near-term lease expiries during the year, and will focus on delivering positive leasing outcomes over the year to come."

"The Fund is well positioned to continue delivering on its investment strategy, and the Responsible Entity will continue to pursue value enhancing opportunities for the Fund where they add value to unitholders and are complementary to the existing portfolio."

Distributable earnings guidance for the year ending 30 June 2016 is unchanged at approximately 20.4 cents per unit. Distribution guidance also remains unchanged at approximately 19.2 cents per unit.

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For further information please contact:

Allan Fife

Managing Director
Fife Capital Funds Limited

Telephone: +61 2 9251 2777
Website: www.aireit.com.au

Jenny Saliba

Chief Financial Officer (acting)
Fife Capital Funds Limited

Telephone: +61 2 9251 2777
Website: www.aireit.com.au

About the Australian Industrial REIT (ASX: ANI)

The Fund is an Australian real estate investment trust that offers investors exposure to a quality portfolio of 16 industrial properties with a total value of \$330.1 million located across Sydney, Melbourne and Perth. The Fund's earnings are underpinned by the portfolio's long average lease term, with leases to a range of quality tenants.