# AUSTRALIAN INDUSTRIAL REIT

# ANNUAL REPORT
## YEAR ENDED 30 JUNE
# 2015

# AUSTRALIAN INDUSTRIAL REIT

## DISCLAIMER

This is the Annual Report for Australian Industrial REIT (ARSN 165 651 301) (**ANI** or the **Fund**). This report has been prepared and issued by Fife Capital Funds Limited (ABN 18 130 077 735) (AFSL 438 693) (**Fife Funds** or the **Responsible Entity**) as the Responsible Entity of the Fund.

The information contained in this report should not be taken as financial product advice and has been prepared as general information only without consideration of your particular investment objectives, financial circumstances or particular needs. This report is not an invitation, offer or recommendation (express or implied) to apply for or purchase or take any other action in respect of ANI units.

This document contains forward-looking statements and forecasts, including statements regarding future earnings and distributions. These forward-looking statements and forecasts are not guarantees of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond the Responsible Entity's control, and which may cause actual results or performance to differ materially from those expressed or implied by the forward-looking statements and forecasts contained in this report. No representation is made that any of these statements or forecasts will come to pass or that any forecast result will be achieved. These forward-looking statements and forecasts are based on information available to the Responsible Entity as of the date of this report. Except as required by law or regulation (including the ASX Listing Rules) the Responsible Entity undertakes no obligation to update or revise these forward-looking statements or forecasts.

Certain financial information in this report is prepared on a different basis to the annual financial report, which is prepared in accordance with Australian Accounting Standards. Where financial information presented within this report does not comply with Australian Accounting Standards, a reconciliation to the statutory information is provided. Any additional financial information in this report which is not included in the annual financial report was not subject to independent audit or review by Ernst & Young.

The Australian Industrial REIT (ANI or the Fund) is a real estate investment trust that has been established to own Australian industrial properties.

**The Fund's portfolio consists of 16 industrial properties situated within recognised logistics, distribution and employment locations. The properties are valued at $330.1 million as at 30 June 2015.**

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# KEY ACHIEVEMENTS

ANI continues to progress its investment strategy through active asset management initiatives and the acquisition of a further "built-to-suit" property in Erskine Park, NSW. Revaluations during the year led to a $21.2 million increase in the value of the portfolio.

## $13.8m ACQUISITION

Acquisition of a "built-to-suit" property at 52-74 Quarry Road, Erskine Park, NSW

## 10yr LEASE

Entered into a new long term lease over a portion of the Fund's property at 324-332 Frankston-Dandenong Road, Dandenong South, VIC

# 15yr LEASE

Executed a new long-term lease over the Fund's property at 2 Keon Parade, Keon Park, VIC, addressing a near-term expiry in the Fund's portfolio ahead of schedule

# $18.8m DISTRIBUTABLE EARNINGS

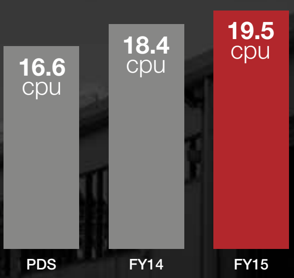
Reflects the full year benefit of acquisitions during the prior comparable period, the acquisition of a "built-to-suit" property in NSW, and the benefit of reduced costs following the restructure of ANI's interest rate swaps


# $90m SWAP RESTRUCTURE

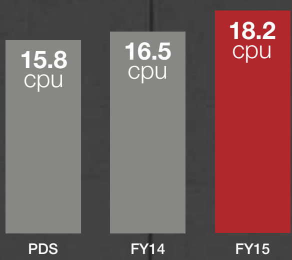
Reduced ANI's marginal borrowing cost, increased the hedge ratio to 79% and extended the weighted average term to maturity of the Fund's hedges to 4.3 years

# KEY HIGHLIGHTS

## Distributable earnings per unit

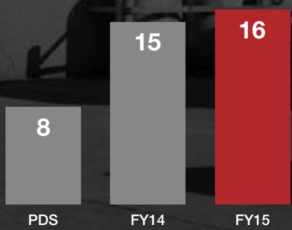



## Distribution per unit

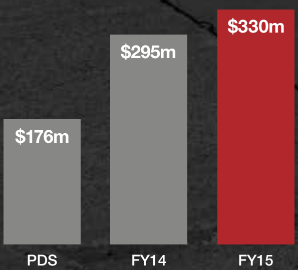



## Net tangible assets per unit


## Investment properties




## Property portfolio value




1. The Fund listed on the ASX and commenced trading on 21 October 2013. The PDS forecasts and FY14 figures shown above have been annualised for comparative purposes.


Statutory net profit

**$36.3m**

Distributable earnings

**$18.8m**

Gearing[2]

**34.2%**

Portfolio leased

**100%**

Weighted average lease expiry[3]

**4.9 years[4]**

Weighted average capitalisation rate[5]

**7.85%**

2. Interest bearing liabilities less cash divided by total assets less cash.
3. By gross building area.
4. 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.
5. By value.

# LETTER FROM THE CHAIRMAN

For the year ahead, your Board seeks to progress ANI's strategy, with a focus on enhancing and building on the Fund's sustainable earnings stream to support growing distributions

**19.54 cents**
distributable earnings per unit

**$330.1 million**
portfolio value

On behalf of the Board of Fife Capital Funds Limited, the Responsible Entity of the Australian Industrial REIT, I am pleased to present the Fund's Annual Report for the year ended 30 June 2015.

This is the Fund's second Annual Report, and the first full financial year following the Fund's initial public offer of units in October 2013. The 2015 financial year has seen the Responsible Entity continue to progress ANI's strategy, directly leading to the positive financial and operating results delivered in FY15. The full year distribution of 18.20 cents per unit reflects the continued growth of the Fund, being an increase of over 10% relative to the year ended 30 June 2014 on an annualised basis[1]. Similarly, distributable earnings for FY15 were 19.54 cents per unit, an increase of over 6% relative to FY14 on an annualised basis[1].

It has been an eventful year for ANI, with the acquisition of a new "built-to-suit" asset, new capital management initiatives and pleasing progress on the Fund's near-term lease expiries. As you are aware, your Fund has also been the subject of an ongoing unsolicited off-market takeover offer from 360 Capital Industrial Fund. The Board and I would like to thank you for your patience during this process, and wish to reiterate our commitment to maximising the value of your investment in ANI.

As part of this corporate activity, a meeting of ANI unitholders was convened to consider resolutions to replace Fife Funds as responsible entity with an entity associated with 360 Capital Industrial Fund. On 25 May 2015, these resolutions were firmly rejected by ANI unitholders. Unitholders representing more than 75% of ANI units voted on the proposal. Excluding units voted by entities associated with 360 Capital Industrial

1. The Fund listed on the ASX and commenced trading on 21 October 2013, and the result for the period ended 30 June 2014 did not reflect a full year of trading performance.

Fund, 98% of ANI units that voted on the proposal supported Fife Funds being retained as responsible entity. On behalf of the Board, I would like to take this opportunity to thank unitholders for their continued support. We will continue to implement Fife Funds' strategy for ANI with a focus on sustainable long-term value creation and earnings growth for ANI unitholders.

Since the IPO in October 2013, the Responsible Entity has acquired a further eight assets, doubling the number of properties in the portfolio and bringing the total value to $330.1 million while substantially improving the diversification of the Fund's rental income. These asset acquisitions have contributed to the strong growth in the Fund's earnings achieved over the year, while ensuring the quality of the Fund's portfolio has not been diminished.

The acquisition of these assets has also been appropriately supported by the Fund's operational achievements during the year, and the Board is very pleased with the successful leasing outcomes delivered over the past 12 months. Post balance date, the Responsible Entity has executed new leases over two of ANI's properties, addressing a portion of the near term lease expiries within the ANI portfolio. This active focus on addressing near term lease expiries, coupled with the CPI-linked or fixed rental reviews across the majority of the portfolio, will continue to support ANI's earnings into the future.

Turning to the Fund's capital structure, capital management initiatives undertaken during the year have contributed to the Board's conservative and sustainable approach to funding. The restructure of the Fund's interest rate swaps achieved in January 2015 has contributed to a decrease in ANI's effective cost of debt while simultaneously reducing the Fund's exposure to interest rates. Similarly, the execution of an extension to the Fund's debt facility post balance date will provide ANI with greater flexibility and funding certainty to continue growing through future extensions to the portfolio and high quality industrial property acquisitions.

For the year ahead, your Board seeks to progress ANI's strategy, with a focus on enhancing and building on the Fund's sustainable earnings stream to support growing distributions. As previously disclosed to unitholders, distributable earnings guidance for the year ending 30 June 2016 is 20.4 cents per unit, while distribution guidance is 19.2 cents per unit.

Active portfolio management will continue to play a key part in delivering growth for the Fund, and the Board will continue to pursue value creating initiatives. This may include the acquisition of properties satisfying ANI's investment criteria where this has the potential to create value for unitholders.

On behalf of Fife Funds, I would like to thank all of our unitholders for their ongoing support and investment in ANI.

Yours faithfully,
**ROD PEARSE OAM**

Independent Chairman
Fife Capital Funds Limited
as responsible entity of the Australian Industrial REIT

# LETTER FROM THE MANAGING DIRECTOR

Our approach to active asset management, the strong partnership approach we maintain with our tenants, and the support of our investors provide a stable platform from which the Fund can grow.

10%

increase in net tangible assets per unit

$18.8 million

distributable earnings

The Fund's first full financial year since listing has been a year of continued strong performance. We have grown ANI's earnings and distributions in a sustainable manner, and we remain positioned for future growth.

Over the past 12 months, ANI has achieved a statutory net profit of $36.3 million, and distributable earnings of $18.8 million. In turn, this has supported the distribution for the year of $17.5 million, representing a payout ratio of 93%.

The year has also seen an increase in the value of ANI's portfolio, from $295.1 million at 30 June 2014 to $330.1 million at 30 June 2015. This reflects a combination of the asset acquisition during the year, compressing capitalisation rates and rental growth across the Fund's portfolio, driving an increase in net tangible assets per unit from $1.94 at 30 June 2014 to $2.13 at 30 June 2015.

From a capital management perspective, ANI's gearing at year end was 34.2%, within the Board's target range of 25% to 40%, and consistent with the prudent approach to capital management we have adopted to date. While we remain cautious on longer term interest rate trends, particularly in light of the macroeconomic environment, during the year we took the opportunity to restructure ANI's interest rate swaps, increasing the proportion of debt hedged to 79% of drawn debt and in the process reducing the Fund's marginal cost of debt. We have also extended ANI's debt facility from $130 million to $170 million and extended its maturity, providing additional headroom for future extensions to the portfolio or further acquisitions.

The result we have delivered is built on the relationships we enjoy with our tenants. Our strategy of active asset management recognises the expectations of the businesses and people who occupy ANI's properties. We endeavour to work with our tenants to provide more than just a commodified property space, and we believe the relationships we build in this context bring with them tangible benefits for ANI.

This approach to active asset management is exemplified through our leasing results, with two new long-dated leases being executed within the ANI portfolio post balance date. These leases will deliver additional income certainty to ANI over coming years and will allow us to further develop our relationships with our tenants.

We have also sought to grow ANI's portfolio directly, through the acquisition of a new "built-to-suit" property in Erskine Park, NSW. Under the terms of the acquisition, ANI was able to secure a new, purpose-built property fully pre-committed to two reputable tenants without taking on material leasing or development risk while enjoying reduced transaction costs.

Despite these successes, we are not content to rest on our laurels. Since listing, we have doubled the number of properties in ANI's portfolio by acquiring well-located industrial properties that are consistent with ANI's strategy. As a result, ANI's portfolio is now diversified over a wider range of geographies and supported by a greater variety of tenants, all within the context of the Fund's integrated asset management strategy. Looking to the future, we will seek to build on the quality of ANI's portfolio, both through enhancing the Fund's existing properties and by continuing to acquire properties that meet ANI's investment criteria.

A key part of the latter strategy is ANI's relationship with Fife Capital Group. The property at Erskine Park, NSW, developed as a "built-to-suit" asset by Fife Capital Group, was acquired during the year and is a clear example of the benefits to ANI arising from this relationship.

This is particularly relevant for ANI in light of the continuing investor interest in the industrial property sector. Capitalisation rates continue to tighten, reflecting strong demand for industrial assets. The disciplined approach we have taken to date in assessing potential acquisition opportunities will be maintained, and the Fund will pursue growth only with reference to its investment objectives.

Looking forward to the new financial year, I believe ANI is well positioned to continue delivering on the investment strategy employed by the Responsible Entity. Our approach to active asset management, the strong partnership approach we maintain with our tenants, and the support of our investors provide a stable platform from which the Fund can grow.

I look forward to providing you with further updates as we continue to execute ANI's strategy over the coming year, and I thank you for your continued support.

Yours faithfully,
**ALLAN FIFE**

Managing Director
Fife Capital Funds Limited
as responsible entity of the Australian Industrial REIT

# FUND OVERVIEW

## About ANI

Australian Industrial REIT listed on the ASX on 21 October 2013 as an Australian real estate investment trust offering investors exposure to a quality portfolio of industrial assets. The Fund initially consisted of eight industrial assets valued at $175.8 million. Since listing, the Fund has expanded its portfolio through the acquisition of a further eight assets.

As at 30 June 2015, the Fund owns a portfolio of 16 industrial properties valued at approximately $330.1 million, located in Sydney, Melbourne and Perth. The portfolio is fully leased to a diverse range of quality tenants, providing a stable long-term earnings stream to investors. As at 30 June 2015, the portfolio's weighted average lease expiry was 4.9 years[1].

The Fund is a managed investment scheme and is externally managed by Fife Capital Funds Limited (the Responsible Entity), a member of the Fife Capital Group. The Board of the Responsible Entity comprises a majority of directors who are independent of Fife Capital Group, ensuring that the Fund's strategy and objectives are appropriately aligned with unitholders.

**ANI's strategy is based on five core concepts:**

**1**

### QUALITY PROPERTIES

Exposure to quality industrial properties located in major metropolitan areas in Australia within close proximity to major road, rail, air or port infrastructure

**2**

### STABLE EARNINGS

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

**3**

### POTENTIAL FOR GROWTH

The potential for capital growth over time where the value of the Fund's properties appreciates

**4**

### CONSERVATIVE CAPITAL STRUCTURE

A conservative capital structure with target gearing of 25% to 40%

**5**

### FIFE CAPITAL GROUP RELATIONSHIP

Future acquisition and investment opportunities through utilising Fife Capital Group's relationships

1. By gross building area. 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.

## About Fife Capital Group

Fife Capital Group is an independent real estate investment and advisory group which was established in 2006. Fife Capital Group is principally engaged in the active ownership and management of real estate on behalf of clients including institutional, corporate and private investors.

Fife Capital Group is based in Sydney, Australia, and manages a range of property funds, syndicates and institutional mandates. Fife Capital Group primarily invests in industrial, office, retail and residential property, with a particular focus on industrial and commercial property. In addition, Fife Capital Group provides advice to institutional, corporate and private groups across a wide range of investments in property and property funds.

# YEAR IN REVIEW

# Financial Highlights

| Key financial metrics | 30 June 15 | 30 June 14[1] |
|---|---|---|
| Statutory net profit | $36.3 million | $9.5 million |
| Distributable earnings | $18.8 million | $9.9 million |
| Distributions | $17.5 million | $9.9 million |
| Distributable earnings (cents per unit) | 19.54 | 12.70 |
| Distribution (cents per unit) | 18.20 | 11.39 |
| Distribution payout ratio | 93.2% | 99.6% |
| Net tangible assets per unit | $2.13 | $1.94 |

The Fund recorded a statutory net profit of $36.3 million for the financial year ended 30 June 2015, reflecting a substantial increase over the statutory net profit achieved for the period ended 30 June 2014 of $9.5 million. Statutory net profit or loss measures profit or loss in accordance with Australian Accounting Standards.

Distributable earnings is 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), and other non-recurring amounts outside core operating activities.

Distributable earnings for the year were $18.8 million, equating to distributable earnings per unit of 19.54 cents, an increase of 6.84 cents per unit over the period ended 30 June 2014.

1. The Fund listed on the ASX and commenced trading on 21 October 2013. The metrics shown reflect the shorter financial period as a result of this.

The increase reflects the full year benefit to the Fund of rental income from acquisitions conducted during the previous year, the additional rental income from the acquisition of a "built-to-suit" property at Erskine Park, NSW in September 2014, and the reduced interest cost resulting from the restructuring of the Fund's interest rate swaps in January 2015. The increase over the previous corresponding period also reflects the Fund's shorter financial year for the period ended 30 June 2014, as the Fund listed on the ASX and commenced trading on 21 October 2013. A reconciliation to distributable earnings is provided on page 41 in the Directors' Report.

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

During the year, the Fund recognised $19.2 million in unrealised fair value gains. The Fund's portfolio of 16 industrial properties was revalued during the year, resulting in a $21.2 million increase in the value of the portfolio. This increase was primarily 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 in September 2014.

Following the revaluation of the Fund's properties, net tangible assets per unit increased by 9.8% from $1.94 as at 30 June 2014 to $2.13 as at 30 June 2015.


# Operational Highlights

ANI continues to grow its portfolio by acquiring quality industrial assets leased to reputable tenants located in major metropolitan areas of Australia. In September 2014, the Fund announced the acquisition of a "built-to-suit" industrial property at Erskine Park, NSW. The property was acquired under a development management agreement with a Fife Capital managed entity to provide two warehouses on a fixed cost basis. Both warehouses were subject to pre-committed leases to quality tenants. Construction was completed in late 2014, which triggered the commencement of two seven year leases[1] to Dutt Transport and Premium Floors. Additional extensions to the premises were completed in February 2015 for Dutt Transport, further enhancing the asset and income profile.

Following the acquisition and $21.2 million of revaluations during the year, the value of the Fund's portfolio has increased to $330.1 million.

During the year, ANI has continued to make significant 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, and in August 2015, announced that it had executed a new 15 year lease[2] over 2 Keon Parade, Keon Park, VIC.

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

As at 30 June 2015, the Fund's portfolio was 100% leased and pro forma for the leases signed post balance date, the weighted average lease expiry was 4.9 years.

ANI's earnings are secured by leases to a range of quality tenants. As at 30 June 2015, the two largest tenants in the portfolio were Orora (previously part of Amcor Limited) and Australia Post, together accounting for approximately 25% of annualised net rent payable by tenants (excluding the recovery of any outgoings) as at 30 June 2015[3].

# Capital Management

**Key capital management metrics**

| | |
|---|---|
| Debt facility limit[4] | $170.0 million |
| Amount drawn | $114.0 million |
| Headroom[4] | $56.0 million |
| Gearing[5] | 34.2% |
| Target gearing | 25% – 40% |
| Weighted average debt duration[4] | 4.2 years |
| Weighted average interest rate[6] | 4.6% |
| Proportion hedged | 79% |

3. Based on the annualised rent payable by the tenant to the Fund (excluding recovery of any outgoings) as at 30 June 2015. 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.
4. Pro forma for the extension of the Fund's debt facility to $170 million.
5. Interest bearing liabilities less cash divided by total assets less cash.
6. Inclusive of interest rate swaps, margin, line fees and amortisation of debt establishment costs for the year ended 30 June 2015.

Post balance date, the Responsible Entity executed an extension to the Fund's existing debt facilities from $130 million to $170 million in tranches for terms of three and five years. The extension provides significant headroom for ANI to fund potential expansion works and pursue future acquisition opportunities.

Pro forma for the extension, ANI had drawn borrowings of $114 million under a $170 million revolving cash advance facility with National Australia Bank. The weighted average term to maturity of the facility is 4.2 years as at 30 June 2015, with the first maturity in August 2018.

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

The Responsible Entity uses interest rate swaps to manage the risk associated with interest rate fluctuations. The Board targets fixed rate interest exposure of between 50% and 100% of drawn borrowings. In January 2015, ANI announced that it had restructured and extended its hedging arrangements, increasing the amount hedged from $69.3 million to $90.0 million. This resulted in a reduction in the Fund's marginal borrowing costs, and the Fund's weighted average interest rate for the year declined as a result. As at 30 June 2015, ANI's hedge coverage ratio was approximately 79% of drawn debt.

In August 2014, ANI raised $0.9 million in new equity through 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 used to fund the acquisition of the property at Erskine Park, NSW during the year.

## 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 to convene an extraordinary general meeting of ANI unitholders to vote on resolutions to replace Fife Funds 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.

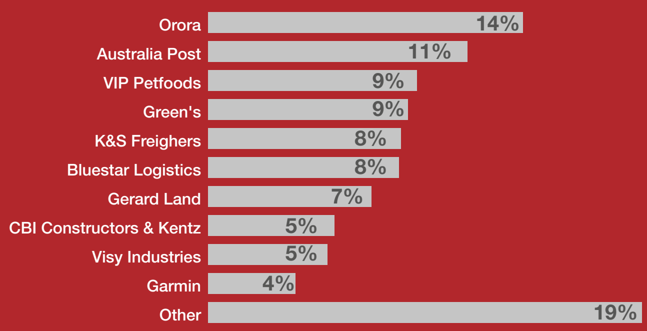
# THE PORTFOLIO

## Key Portfolio Highlights

| | 30 June 2015 | 30 June 2014 |
|---|---|---|
| Number of properties | 16 | 15 |
| Gross building area[1] | 274,940 sqm | 266,073 sqm |
| Portfolio value | $330.1 million | $295.1 million |
| Weighted average capitalisation rate | 7.85% | 8.50% |
| Proportion leased | 100% | 100% |
| Weighted average lease expiry[2] | 4.9 years[3] | 5.1 years |

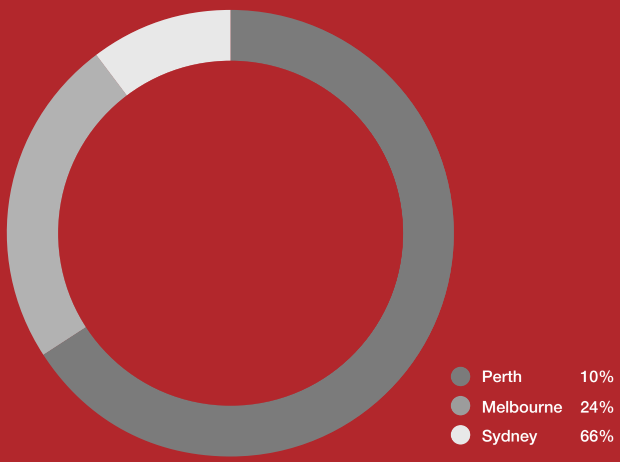
1. Includes 13,840 sqm of container rated hardstand.
2. By gross building area.
3. Pro forma for two new leases announced post balance date at 324-332 Frankston-Dandenong Road, Dandenong South, VIC and 2 Keon Parade, Keon Park, VIC.

## Portfolio diversification by tenant[1] as at 30 June 2015[2]

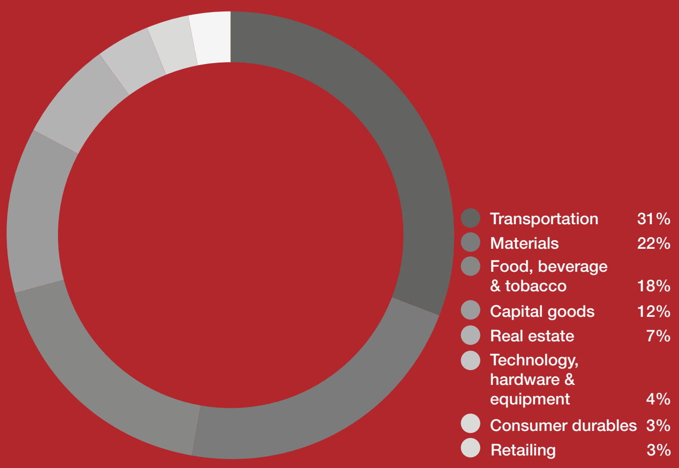



1. Based on the annualised rent payable by the tenant to the Fund (excluding recovery of any outgoings) as at 30 June 2015.
2. Pro forma for two new leases announced post balance date at 324-332 Frankston-Dandenong Road, Dandenong South, VIC and 2 Keon Parade, Keon Park, VIC.

## Geographic diversification by value as at 30 June 2015

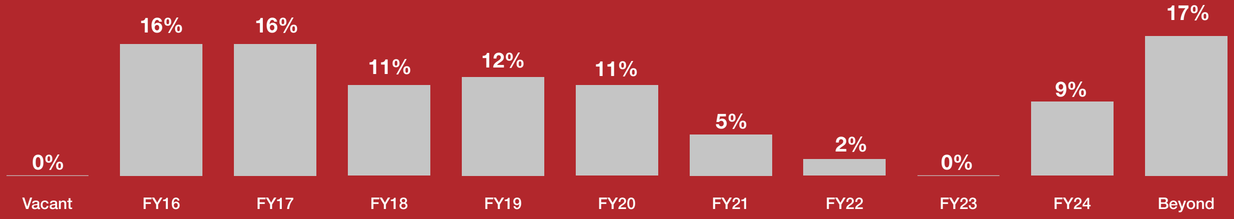



## Tenant industry diversification[1] as at 30 June 2015[2]




1. Based on the annualised rent payable by the tenant to the Fund (excluding recovery of any outgoings) as at 30 June 2015.
2. 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.

## Weighted average lease expiry by gross building area as at 30 June 2015[1]



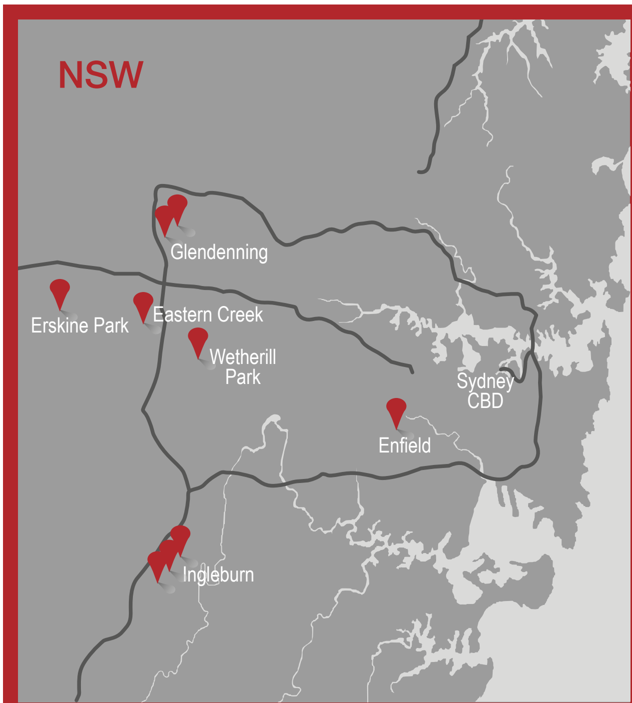

1. Pro forma for two new leases announced post balance date at 324-332 Frankston-Dandenong Road, Dandenong South, VIC and 2 Keon Parade, Keon Park, VIC.

**Portfolio overview as at 30 June 2015**

| Property | State | Acquisition date | Value ($m) | Capitalisation rate | Gross building area (sqm) | Proportion leased[1] | WALE (years)[1] |
|---|---|---|---|---|---|---|---|
| **Sydney** | | | | | | | |
| 92-98 Cosgrove Road, Enfield | NSW | Oct 2013 | 36.5 | 8.00% | 33,863[2] | 100% | 3.7 |
| 10 Williamson Road, Ingleburn | NSW | Oct 2013 | 35.0 | 7.75% | 27,260 | 100% | 3.5 |
| 29 Glendenning Road, Glendenning | NSW | Dec 2013 | 34.5 | 7.00% | 21,298 | 100% | 13.4 |
| 12 Williamson Road, Ingleburn | NSW | Oct 2013 | 33.0 | 7.50% | 25,666 | 100% | 8.2 |
| 74-94 Newton Road, Wetherill Park | NSW | Oct 2013 | 24.1 | 8.00% | 17,044 | 100% | 1.0 |
| 6 Macdonald Road, Ingleburn | NSW | Oct 2013 | 17.5 | 7.50% | 12,375 | 100% | 3.2 |
| 30 Clay Place, Eastern Creek | NSW | Oct 2013 | 15.4 | 6.75% | 6,012 | 100% | 10.4 |
| 52-74 Quarry Road, Erskine Park | NSW | Sep 2014 | 14.4 | 7.50% | 8,867 | 100% | 5.4 |
| 75 Owen Street, Glendenning | NSW | Oct 2013 | 7.0 | 7.50% | 4,600 | 100% | 3.5 |
| **Melbourne** | | | | | | | |
| 24-32 Stanley Drive, Somerton | VIC | Oct 2013 | 27.0 | 8.00% | 24,350 | 100% | 3.0 |
| 324-332 Frankston-Dandenong Road, Dandenong South | VIC | Mar 2014 | 26.0 | 7.75% | 28,316 | 100% | 3.5 |
| 49 Temple Drive, Thomastown[3] | VIC | Mar 2014 | 13.0 | 8.75% | 13,438 | 100% | 1.0 |
| 2 Keon Parade, Keon Park[3] | VIC | Mar 2014 | 10.0 | 8.75% | 13,125 | 100% | 12.8 |
| 9 Fellowes Court, Tullamarine | VIC | Mar 2014 | 3.4 | 8.00% | 4,072 | 100% | 1.5 |
| **Perth** | | | | | | | |
| 23 Selkis Road, Bibra Lake | WA | Mar 2014 | 17.1 | 9.25% | 18,235 | 100% | 2.0 |
| 99 Quill Way, Henderson | WA | Mar 2014 | 16.2 | 9.00% | 16,419 | 100% | 2.7 |
| **Total** | | | **330.1** | **7.85%** | **274,940** | **100%** | **4.9** |

1. By gross building area as at 30 June 2015. 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.
2. Includes 13,840 sqm of container rated hardstand.
3. 49 Temple Drive, Thomastown and 2 Keon Parade, Keon Park are held on one title.

# ASSET SUMMARIES




## Sydney

9 properties

$217 million

66% of portfolio value

## 92-98 Cosgrove Road, Enfield, NSW

Enfield is an established industrial and logistics area, approximately 16km west of the Sydney CBD. The property is adjacent to the Enfield Intermodal Logistics Centre which is linked to Port Botany.

The site is occupied by three warehouses with associated offices and a large container yard.

| | |
|---|---|
| Ownership | 100% |
| Title | Freehold |
| Value ($m) | 36.5 |
| Capitalisation rate | 8.00% |
| Gross building area (sqm)[1] | 33,863 |
| Proportion leased[2] | 100% |
| WALE (years)[2] | 3.7 |
| Major tenants | K&S Freighters, Lesandu (a subsidiary of Harvey Norman) |

1. Includes 13,840sqm of container rated hardstand.
2. By gross building area as at 30 June 2015.


## 10 Williamson Road, Ingleburn, NSW

Ingleburn is located approximately 47km south-west of the Sydney CBD and has direct access to the M5 and M7 motorways.

The property comprises new and recently upgraded warehouse distribution buildings and associated offices. The property is divided into three separate tenancies and adjoins the Fund's property at 12 Williamson Road.

| | |
|---|---|
| Ownership | 100% |
| Title | Freehold |
| Value ($m) | 35.0 |
| Capitalisation rate | 7.75% |
| Gross building area (sqm) | 27,260 |
| Proportion leased[1] | 100% |
| WALE (years)[1] | 3.5 |
| Major tenants | Visy Industries Australia<br>Steelforce Australia<br>Advanced Power |

1. By gross building area as at 30 June 2015.

## 29 Glendenning Road, Glendenning, NSW

Glendenning is an established industrial precinct in north-western Sydney located at the intersection of the M7 and M2 motorways.

The property consists of warehousing, manufacturing, and head office facilities.

| | |
|---|---|
| Ownership | 100% |
| Title | Freehold |
| Value ($m) | 34.5 |
| Capitalisation rate | 7.00% |
| Gross building area (sqm) | 21,298 |
| Proportion leased[1] | 100% |
| WALE (years)[1] | 13.4 |
| Major tenant | Green's General Foods |

1. By gross building area as at 30 June 2015.

# ASSET SUMMARIES

## 12 Williamson Road, Ingleburn, NSW

Ingleburn is an established industrial and logistics location in south-western Sydney with direct access to the M5 and M7 motorways.

The property comprises a substantial distribution warehouse, processing facility, and associated offices.

| | |
|---|---|
| Ownership | 100% |
| Title | Freehold |
| Value ($m) | 33.0 |
| Capitalisation rate | 7.50% |
| Gross building area (sqm) | 25,666 |
| Proportion leased[1] | 100% |
| WALE (years)[1] | 8.2 |
| Major tenant | VIP Petfoods |

1. By gross building area as at 30 June 2015.


## 74-94 Newton Road, Wetherill Park, NSW

Wetherill Park is strategically situated in Sydney's outer central west industrial region with access to the M4 and M5 motorways.

The property is a high capacity logistics facility with modern office and warehouse buildings surrounded by a heavy vehicle yard.

| | |
|---|---|
| Ownership | 100% |
| Title | Freehold |
| Value ($m) | 24.1 |
| Capitalisation rate | 8.00% |
| Gross building area (sqm) | 17,044 |
| Proportion leased[1] | 100% |
| WALE (years)[1] | 1.0 |
| Major tenant | Australia Post (sub-leases to DHL and ITW Proline) |

1. By gross building area as at 30 June 2015.

## 6 Macdonald Road, Ingleburn, NSW

Ingleburn is an established industrial and logistics area in south-western Sydney with access to the M5 and M7 motorways.

The property was completed in 2009 and comprises a modern warehouse with associated office space which was designed to accommodate two tenancies.

| | |
|---|---|
| Ownership | 100% |
| Title | Freehold |
| Value ($m) | 17.5 |
| Capitalisation rate | 7.50% |
| Gross building area (sqm) | 12,375 |
| Proportion leased[1] | 100% |
| WALE (years)[1] | 3.2 |
| Major tenants | Sekisui House Australia<br>Australia Post |

1. By gross building area as at 30 June 2015.


## 30 Clay Place, Eastern Creek, NSW

The property is situated in the M7 Business Hub at Eastern Creek, near the M4 and M7 motorways.

The property is a modern warehouse distribution facility with associated office space that was "built-to-suit" for Garmin Australasia and completed in 2013.

| | |
|---|---|
| Ownership | 100% |
| Title | Freehold |
| Value ($m) | 15.4 |
| Capitalisation rate | 6.75% |
| Gross building area (sqm) | 6,012 |
| Proportion leased[1] | 100% |
| WALE (years)[1] | 10.4 |
| Major tenant | Garmin Australasia |

1. By gross building area as at 30 June 2015.

# ASSET SUMMARIES

## 52-74 Quarry Road, Erskine Park, NSW

Erskine Park is an established industrial suburb approximately 45km west of the Sydney CBD, close to the junction of the M4 and M7 motorways.

The property consists of two modern "built-to-suit" warehouses with associated offices that were completed in late 2014.

| | |
|---|---|
| Ownership | 100% |
| Title | Freehold |
| Value ($m) | 14.4 |
| Capitalisation rate | 7.50% |
| Gross building area (sqm) | 8,867 |
| Proportion leased[1] | 100% |
| WALE (years)[1] | 5.4 |
| Major tenants | Premium Floors<br>Dutt Transport |

1. By gross building area as at 30 June 2015.

## 75 Owen Street, Glendenning, NSW

Glendenning is an established industrial precinct located at the intersection of the M7 and M2 motorways.

The property is a modern, generic industrial warehouse with associated office space.

| | |
|---|---|
| Ownership | 100% |
| Title | Freehold |
| Value ($m) | 7.0 |
| Capitalisation rate | 7.50% |
| Gross building area (sqm) | 4,600 |
| Proportion leased[1] | 100% |
| WALE (years)[1] | 3.5 |
| Major tenant | Hyne & Son |

1. By gross building area as at 30 June 2015.


# Melbourne

5 properties

$79 million

24% of portfolio value

## 24-32 Stanley Drive, Somerton, VIC

Somerton is a more recently established industrial area approximately 18km north of the Melbourne CBD.

The property comprises a modern warehouse distribution facility with three substantial high clearance warehouses and associated office accommodation.

| | |
|---|---|
| Ownership | 100% |
| Title | Freehold |
| Value ($m) | 27.0 |
| Capitalisation rate | 8.00% |
| Gross building area (sqm) | 24,350 |
| Proportion leased[1] | 100% |
| WALE (years)[1] | 3.0 |
| Major tenant | Bluestar Logistics |

1. By gross building area as at 30 June 2015.

# ASSET SUMMARIES

## 324-332 Frankston-Dandenong Road, Dandenong South, VIC

Dandenong South is a well established industrial precinct in Melbourne's south-west corridor.

The property consists of three standalone buildings, offering high clearance functional warehouses and associated offices.

| | |
|---|---|
| Ownership | 100% |
| Title | Freehold |
| Value ($m) | 26.0 |
| Capitalisation rate | 7.75% |
| Gross building area (sqm) | 28,316 |
| Proportion leased[1] | 100% |
| WALE (years)[1, 2] | 3.5 |
| Major tenants | Complete Supply Co[2]<br>Gerard Land[3] |

1. By gross building area as at 30 June 2015.
2. Complete Supply Co entered into a new 10 year lease over a portion of the property in July 2015.
3. Gerard Land have sublet two buildings to individual tenants, Schneider Electric and Sullair (formerly Champion Compressors).

## 49 Temple Drive, Thomastown, VIC

Thomastown is situated in a well established industrial location, approximately 17km north of the Melbourne CBD.

The building comprises a modern style industrial warehouse with associated office space and has been recently refurbished.

| | |
|---|---|
| Ownership | 100% |
| Title | Freehold[2] |
| Value ($m) | 13.0 |
| Capitalisation rate | 8.75% |
| Gross building area (sqm) | 13,438 |
| Proportion leased[1] | 100% |
| WALE (years)[1] | 1.0 |
| Major tenant | Orora |

1. By gross building area as at 30 June 2015.
2. 49 Temple Drive, Thomastown and 2 Keon Parade, Keon Park are held on one title.

## 2 Keon Parade, Keon Park, VIC

Keon Park is situated in a well established industrial location, approximately 17km north of the Melbourne CBD.

The property comprises an industrial warehouse and associated office space.

| | |
|---|---|
| Ownership | 100% |
| Title | Freehold[3] |
| Value ($m) | 10.0 |
| Capitalisation rate | 8.75% |
| Gross building area (sqm) | 13,125 |
| Proportion leased[1] | 100% |
| WALE (years)[1,2] | 12.8 |
| Major tenant | Orora |

1. By gross building area as at 30 June 2015.
2. Pro forma for a new 15 year lease announced in August 2015. The lease is subject to a 12 year break clause that can be exercised by the tenant under certain circumstances.
3. 49 Temple Drive, Thomastown and 2 Keon Parade, Keon Park are held on one title.

## 9 Fellowes Court, Tullamarine, VIC

Tullamarine is an established industrial precinct, approximately 16km north-west of Melbourne's CBD.

The property consists of a clear span steel portal frame warehouse and a two level office.

| | |
|---|---|
| Ownership | 100% |
| Title | Freehold |
| Value ($m) | 3.4 |
| Capitalisation rate | 8.00% |
| Gross building area (sqm) | 4,072 |
| Proportion leased[1] | 100% |
| WALE (years)[1] | 1.5 |
| Major tenant | McHugh & Eastwood |

1. By gross building area as at 30 June 2015.

# ASSET SUMMARIES


## Perth

2 properties

$33 million

10% of portfolio value


## 23 Selkis Road, Bibra Lake, WA

Bibra Lake is a newly established industrial precinct south-west of the Perth CBD.

The property comprises a large industrial warehouse with associated office space. The property consists of a recently extended warehouse, manufacturing warehouse and associated offices.

| | |
|---|---|
| Ownership | 100% |
| Title | Freehold |
| Value ($m) | 17.1 |
| Capitalisation rate | 9.25% |
| Gross building area (sqm) | 18,235 |
| Proportion leased[1] | 100% |
| WALE (years)[1] | 2.0 |
| Major tenant | Orora |

1. By gross building area as at 30 June 2015.


## 99 Quill Way, Henderson, WA

Henderson is an established marine port and related logistics precinct, south-west of the Perth CBD.

The property consists of two standalone buildings, each with associated offices and yard storage areas.

| | |
|---|---|
| Ownership | 100% |
| Title | Freehold |
| Valuation ($m) | 16.2 |
| Capitalisation rate | 9.00% |
| Gross building area (sqm) | 16,419 |
| Proportion leased[1] | 100% |
| WALE (years)[1] | 2.7 |
| Major tenant | CBI Constructors & Kentz |

1. By gross building area as at 30 June 2015.

# BOARD OF DIRECTORS

*From left:* Rod Pearse OAM, John Hudson, Allan Fife, Peter Dransfield, Michael Allen.

## 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.

He 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.

# SENIOR MANAGEMENT

## ALLAN FIFE
### MANAGING DIRECTOR

Refer to profile on page 29.

## KEIR BARNES
### CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

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 has undertaken and overseen the establishment, financing and management of a number of property funds and investments. Prior to joining Fife Capital Group, Keir was an executive in the property division of an Australian corporate advisory firm involved in a range of property advisory transactions and the management of property funds. Keir started her career with a chartered accounting firm.

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.

## BEN FIFE
### HEAD OF PROPERTY

Ben Fife is the Head of Property at Fife Capital Group and is responsible for its property investment, management activities and value enhancement strategies. Ben has over 15 years of direct property experience. He was responsible for the acquisition of the Fund's industrial properties. Ben has led the negotiation of more than 130,000sqm of lease commitments and delivery of more than 80,000sqm of construction, refurbishment and extension works.

Prior to Fife Capital Group, Ben spent nine years with a major property development group, ultimately with joint management of its NSW Commercial and Industrial division where he was principally responsible for the establishment, oversight and delivery of major industrial sites on behalf of institutional clients.

Ben holds a Bachelor of Commerce (Property Economics) and a Diploma of Business (Real Estate Management and Stock and Station Agent) from the University of Western Sydney and Sydney Graduate School of Management, and has completed the Executive Development Program at the Wharton School, University of Pennsylvania.

# CORPORATE GOVERNANCE STATEMENT

The Australian Industrial REIT (**ANI** or **Fund**) is a registered managed investment scheme listed on the Australian Securities Exchange (**ASX**). The Responsible Entity of the Fund is Fife Capital Funds Limited (**Fife Funds** or **Responsible Entity**), a member of the Fife Capital Group of entities (**Fife Capital Group**).

This Corporate Governance Statement outlines the corporate governance framework and practices adopted by the Board of the Responsible Entity and in place for the financial year ended 30 June 2015 (**FY15**), with reference to ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd Edition) (**Recommendations**).

The Board of the Responsible Entity (**Board**) has established a number of corporate governance documents consistent with the Recommendations, which in addition to the Fund's Constitution and compliance plan form the Fund's corporate governance framework. The documents are referenced in this Corporate Governance Statement where relevant, and are as follows:

- Code of Conduct Policy
- Responsible Entity Board Charter
- Audit Committee Charter
- Compliance & Risk Management Committee Charter
- Securities Dealing Policy
- Continuous Disclosure & Market Communications Policy
- Risk Management Policy

The corporate governance documents are available on the Fund's website in the Governance & Principles section under "About Us" at http://www.aireit.com.au/about-us/governance-and-principles.

The Fund's corporate governance framework reflects its role as the responsible entity of an externally managed listed real estate investment trust. The Responsible Entity has followed the specific guidance applicable to externally managed listed entities under the Recommendations, and has complied with those Recommendations during the reporting period.

A number of Recommendations do not apply to the Fund as an externally managed listed entity, and in some cases alternative Recommendations apply.

This Corporate Governance Statement is current as at 26 August 2015 and has been approved by the Board.

## PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

A listed entity should establish and disclose the respective roles and responsibilities of its board and management and how their performance is monitored and evaluated

The Responsible Entity is a separate legal entity to the Fund, appointed to operate the Fund subject to the Corporations Act 2001 (Cth) (**Corporations Act**), the ASX Listing Rules, the Responsible Entity's Australian Financial Services Licence (**AFS Licence**), the Fund's Constitution and the Fund's compliance plan.

The Fund is governed by the Fund's Constitution and its compliance plan. The compliance plan has been adopted by the Board and sets out the processes, systems and measures that the Responsible Entity applies to ensure compliance with the Fund's Constitution and Corporations Act. The compliance plan has been lodged with the Australian Securities & Investments Commission (**ASIC**) and a copy of the compliance plan can be obtained from ASIC.

### Responsibilities of the Board and management

#### The Board

The Responsible Entity has adopted a Charter that sets out the roles and responsibilities of the Board in relation to the Fund.

Under the Charter, the Board of the Responsible Entity has overall responsibility for corporate governance, including setting the strategic direction for the Fund, establishing goals for management and monitoring the achievement of these goals.

Key responsibilities include:

- reviewing the investment objectives for the Fund to ensure they are consistent with the Fund's strategic direction;
- monitoring and overseeing the financial positions of the Fund and the Responsible Entity; and
- ensuring compliance with the Corporations Act, ASX Listing Rules, AFS Licence obligations and other statutory duties and obligations as imposed by law.

Importantly, the Board must ensure it acts in the best interests of unitholders and that the activities of the Fund are conducted in a proper and efficient manner.

#### Delegation to management

The Board has delegated responsibility for the day to day management of the Responsible Entity and the Fund to the Managing Director. The Managing Director delegates a number of the functions, activities and duties required to be performed by the Responsible Entity to external service providers and to Fife Capital Group. The Managing Director informs the Board of the delegation of key functions, activities and duties and the performance of those function, activities and duties.

### Evaluating the performance of the Board

Under the Board Charter, the Board is required to review its performance and that of its Committees on average once every two years. The Board undertook a Board and Committee performance evaluation during the reporting period by way of director questionnaires. This evaluation was completed in July 2015. In addition to formal evaluations, the Board encourages directors to provide feedback or raise any issues as and when they arise. This can be done formally or informally through the Chairman of the Board, Managing Director or Company Secretary, as appropriate.

# CORPORATE GOVERNANCE STATEMENT

### Evaluating the performance of senior executives

The Fund is externally managed by the Responsible Entity, which is a member of the Fife Capital Group, and does not have any employees.

Fife Capital Group provides resources to the Responsible Entity, including experienced and skilled staff, to enable the Responsible Entity to appropriately and adequately conduct its operations and administer its affairs. The performance of senior executives involved in the operation of the Fund is regularly evaluated by Fife Capital Group.

### Company Secretary

The Board Charter provides that the Company Secretary is accountable to the Board on all governance matters, including supporting the effectiveness of the Board by monitoring that Board policy and procedures are followed. The appointment and removal of the Company Secretary is a matter for decision by the Board of the Responsible Entity.

The Board Charter also provides that all directors have access to the Company Secretary.

### Independent professional advice

The Board Charter provides that with the prior approval of the Chairman, Directors may obtain independent professional advice at the expense of the Responsible Entity on matters arising in the course of their Board duties.

### Conflicts of Interest

The Board Charter provides that all Directors and Officers of the Responsible Entity must comply with the Fife Capital Group Conflicts Management Policy which sets out the framework to ensure there are adequate arrangements for the management of conflicts of interest that may arise, wholly or partially, in relation to the provision of financial services by the Responsible Entity or its representative, as part of the financial services business of the Responsible Entity or its representative.

### Arrangements between the Responsible Entity and ANI

The Responsible Entity is entitled to receive a fee of 0.60% per annum of the gross asset value of the Fund for acting as the responsible entity of the Fund. This fee is calculated and paid monthly in arrears. The Responsible Entity is not entitled to performance fees under the Constitution.

## PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

A listed entity should have a board of an appropriate size, composition, skills and commitment to enable it to discharge its duties effectively

### Structure of the Board

The Board of the Responsible Entity comprises five Directors, the majority of which are independent, including the Chairman of the Board.

The roles of Chairman and Chief Executive Officer are not held by the same individual. Rod Pearse OAM is Chairman of the Board and Allan Fife holds the role of Managing Director and Chief Executive Officer.

Profiles of each Director including details of their experience and committee memberships are provided on pages 38-39 of the Annual Report. Directors' attendance at Board and Committee meetings during the reporting period is set out on page 40 of the Annual Report. The period of office held by each current Director is set out in the table below.

### Board Committees

Ultimate responsibility for the oversight of the operations of the Fund sits with the Responsible Entity. The Responsible Entity has established an Audit Committee and a Compliance & Risk Management Committee to assist it in carrying out those responsibilities, which operate in accordance with charters approved by the Board. Each committee is required to review its composition and effectiveness on an annual basis.

During FY15 the Responsible Entity established an Independent Board Committee (**IBC**) to consider and respond to proposals concerning ANI and the Responsible Entity made by third parties. The Board adopted IBC protocols to manage the actual, potential and perceived conflicts of interest that may arise so that the separate interests of ANI unitholders were appropriately considered independently of the separate interests of the Fife Capital Group. The members of the IBC are:

- Mr Rod Pearse, independent non-executive Director (Chairman)
- Mr Michael Allen, independent non-executive Director
- Mr Peter Dransfield, independent non-executive Director

| Director | Position | Independent | Date appointed | Length of service |
|---|---|---|---|---|
| Rod Pearse OAM | Chairman and Non-Executive Director | Yes | 4 June 2013 | 2 years, 2 months |
| Allan Fife | Managing Director and Chief Executive Officer | No | 7 March 2008 | 7 years, 5 months |
| Michael Allen | Non-Executive Director | Yes | 4 June 2013 | 2 years, 2 months |
| Peter Dransfield | Non-Executive Director | Yes | 4 June 2013 | 2 years, 2 months |
| John Hudson | Non-Executive Director | No | 23 April 2013 | 2 years, 4 months |

### Director independence

The Board of the Responsible Entity regularly assesses the independence of each Director in light of the declaration of interests they have disclosed and such other matters the Board considers appropriate to take into account in determining whether the Director is independent of management and free of any business or other relationship that could materially interfere with or could be perceived to materially interfere with, the exercise of their unfettered and independent judgement. In determining the independence of its Directors, the Board Charter sets out the factors relevant to making such a determination, which are consistent with the factors set out in box 2.3 of the Recommendations.

Michael Allen is the Chairman of the Fife Capital Group Compliance & Risk Management Committee. The Board does not consider this to be a material business relationship which would interfere with the exercise of unfettered and independent judgement.

John Hudson is not considered by the Board to be independent as he was a member of the investment committee for Terra Australis Property Fund (**TAP**), which sold its industrial assets to the Fund in conjunction with listing on the ASX in October 2013. John Hudson is currently an investment committee member for TAP and its successor fund, Terra Australis Property Fund II, each of which is managed by Fife Capital Group.

## PRINCIPLE 3: ACT ETHICALLY AND RESPONSIBLY

A listed entity should act ethically and responsibly

### Code of Conduct

The Board has adopted a Code of Conduct that sets out the Responsible Entity's values, commitments, ethical standards and policies in managing the Fund and outlines the standard of conduct expected of the Responsible Entity and its representatives, taking into account the Responsible Entity's legal and other obligations to unitholders in the Fund.

### Securities Dealing Policy

The Board of the Responsible Entity and Fife Capital Group have also adopted a Securities Dealing Policy to regulate dealings in units in the Fund by the Board, and the executives and employees of Fife Capital Group. This policy aims to assist in maintaining market confidence in the integrity of dealings in the Fund's units.

### Sustainability

Fife Funds believes that ANI's business should be conducted in a way that recognises the ongoing impact on all stakeholders while delivering long-term value to unitholders. To this end, the Board considers the environmental impact of ANI's business and aims to operate in an ethical and sustainable way.

The Responsible Entity is also cognisant of the environmental risks that ANI's investments may be exposed to and the potential impact this may have on the Fund's investment objectives. The Responsible Entity (having regard to the nature of ANI's business as an owner of industrial properties) has adopted the following key environmental sustainability principles:

- ANI considers the environmental context of each property during the acquisition process;
- Fife Funds seeks to engage developers capable of delivering properties with appropriate environmental outcomes that satisfy expectations and enhance the long-term value of ANI's portfolio;
- ANI strives to liaise with tenants to implement value-enhancing environmental solutions at an appropriate time during the tenant's occupation of the property; and
- ANI endeavours to work with both existing and new tenants to achieve their environmental sustainability goals.

As discussed in Principle 7 below, the Board has conducted a review to consider the extent to which ANI has a material exposure to economic, environmental and social sustainability risks.

## PRINCIPLE 4: SAFEGUARD INTEGRITY IN CORPORATE REPORTING

A listed entity should have formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting

### Audit Committee

The Board of the Responsible Entity has established an Audit Committee to provide advice and assistance to the Board in overseeing the integrity of the Fund's financial reporting, internal accounting and control processes, and the external audit function, including the independence of external auditors.

The Audit Committee consists of three non-executive Directors, the majority of whom are independent Directors, and is chaired by an independent Director who is not the chair of the Board.

The current members of the Audit Committee are:

- Mr Michael Allen, independent non-executive Director (Chairman)
- Mr Peter Dransfield, independent non-executive Director
- Mr John Hudson, non-executive Director

#### Audit Committee Charter

The Board has adopted an Audit Committee Charter which sets out the key responsibilities of the Audit Committee including:

- reviewing the financial reporting processes;
- examining the adequacy of the nature, extent and effectiveness of the internal accounting and control processes of the Responsible Entity;
- overseeing the adequacy and effectiveness of the Responsible Entity's accounting and financial policies and controls and seeking assurance of compliance with relevant regulatory and statutory requirements; and
- overseeing the external audit process, including reviewing external audit reports, making recommendations to the Board on the appointment and rotation of the external auditor, independence of the external auditor and review of the reasonableness of external audit fees.

### External auditor

The Audit Committee meets with the external auditor without management present at least once per annum.

# CORPORATE GOVERNANCE STATEMENT

### Unitholder meetings

The Fund is not required to (and does not) hold annual general meetings. If the Responsible Entity convenes a unitholder meeting for the Fund, the Company Secretary will (depending on the business of the meeting) request the external auditor (or a qualified representative of the auditor) to attend the unitholder meeting and be available to answer any investor questions about the conduct of the audit, the auditor's independence, accounting policies adopted by the Fund and the preparation and content of the auditor's report.

An extraordinary general meeting (**EGM**) of unitholders was held on 25 May 2015. The Responsible Entity arranged for the Fund's external auditor, Ernst & Young to attend the EGM.

### Declaration by the Chief Executive Officer and Chief Financial Officer

For each of the FY15 interim financial report and FY15 annual financial report, the Board received a declaration from the CEO and CFO stating that, in their opinion, the financial records of the Fund have been properly maintained; the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position, and performance of the Fund; and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

The declarations provided by the CEO and CFO in relation to the FY15 interim financial report satisfy Recommendation 4.2 of the Recommendations, and those provided for the FY15 annual financial report satisfy the requirements of both section 295A of the Corporations Act and Recommendation 4.2 of the Recommendations.

## PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

A listed entity should make timely and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its securities

### Continuous disclosure and market communications

The Board is responsible for ensuring disclosure to the market and unitholders of all price sensitive information that relates to the Fund and the interests of unitholders.

The Board has adopted a Continuous Disclosure and Market Communications Policy to assist the Responsible Entity in fulfilling the Fund's continuous disclosure obligations in a timely and efficient manner.

In accordance with the policy, the Board:

- considers information that potentially requires disclosure and determines what information needs to be disclosed;
- approves the form of the information to be disclosed for significant announcements;
- oversees the distribution of continuous disclosure notices to the ASX; and
- takes steps to ensure that unitholders are encouraged to participate in any unitholder meeting that may be held by the Fund.

The policy also sets out the disclosure procedures adopted by the Board. Procedures are in place to ensure that all matters which may potentially require disclosure are promptly reported to the Managing Director. Significant announcements (as defined under the policy) are referred to the Board by the Managing Director. The matters are assessed and where required under the ASX Listing Rules, the market is informed.

Under the ASX Listing Rules, all listed entities must appoint a person responsible for communications with the ASX. The Company Secretary, in conjunction with the Managing Director, is primarily responsible for ensuring compliance with the continuous disclosure requirements of the ASX Listing Rules and overseeing and coordinating information disclosure to the ASX, analysts, brokers, unitholders, media and the public.

## PRINCIPLE 6: RESPECT THE RIGHTS OF SECURITYHOLDERS

A listed entity should respect the rights of its securityholders by providing them with appropriate information and facilities to allow them to exercise those rights effectively

### Communications with unitholders

The Board of the Responsible Entity is committed to promoting investor confidence and the rights of unitholders by communicating effectively with unitholders and ensuring unitholders have equal and timely access to material information concerning the Fund.

Communication with unitholders is principally conducted through the Fund's website, which contains the following communications:

- ASX announcements;
- Fund annual and half year reports;
- investor presentations;
- correspondence sent from the Chairman of the Responsible Entity to unitholders;
- copies of corporate governance charters and policies;
- key dates and events; and
- historical distribution and tax information.

#### Investor relations program

The Responsible Entity has adopted an Investor Relations Program to facilitate effective two-way communication with investors. The program is intended to supplement the Responsible Entity's Continuous Disclosure and Market Communications Policy. The program is designed to:

- provide details of the Fund's regular methods of communication and interaction with unitholders and other financial market participants;
- maintain open and on-going dialogue with unitholders and other financial market participants;
- allow unitholders and other market participants to gain a greater understanding of the Fund's business, financial performance and prospects;
- provide an opportunity for unitholders and other financial market participants to express views to the Responsible Entity on matters of concern or interest to them; and
- provide for those views to be distilled and communicated to the Board of the Responsible Entity in an efficient and concise manner.

### Electronic communications

The Responsible Entity encourages unitholders to receive Fund communications electronically. Unitholders may elect to receive all or some of their unitholder communications electronically. This election can be made directly with the Fund's registry, Link Market Services. In addition, interested parties can subscribe to a distribution list held by the Responsible Entity to receive email notifications of ANI ASX announcements released by the Responsible Entity.

### Unitholder meetings

As noted above, the Fund is not required to hold an annual general meeting of unitholders.

In the event that the Responsible Entity convenes a general meeting of the Fund's unitholders, the Board will consider best practice methods to facilitate unitholder participation. This may include a live webcast and/or teleconference of the proceedings, making transcripts of the meeting available after the event, and other means to allow unitholders unable to attend in person to participate appropriately.

## PRINCIPLE 7: RECOGNISE AND MANAGE RISK

A listed entity should establish a sound risk management framework and periodically review the effectiveness of that framework

### Compliance & Risk Management Committee

The Board has established the Compliance & Risk Management Committee to provide advice and assistance to the Board in fulfilling its responsibilities in relation to oversight of the Fund's compliance and risk management framework.

The Compliance & Risk Management Committee consists of three Directors, the majority of whom are independent Directors, and is chaired by an independent Director.

The current members of the Compliance & Risk Management Committee are:

- Mr Rod Pearse, independent non-executive Director (Chairman)
- Mr Peter Dransfield, independent non-executive Director
- Mr Allan Fife, Managing Director

### Compliance & Risk Management Committee Charter

The Compliance & Risk Committee Charter sets out the key responsibilities of the Committee, which include:

- assisting the Board in overseeing and reviewing the risk management framework and the effectiveness of risk management of the Responsible Entity;
- overseeing the appropriate investigation and management reporting of significant risk events and incidents;
- ensuring the Responsible Entity complies with its AFS Licence obligations and the Fund's compliance plan;
- reporting to the Board any breach of the Corporations Act involving the Fund or any breach of the Fund's Constitution or compliance plan; and
- assessing the adequacy of the Fund's compliance plan at regular intervals.

### Risk management framework

The Responsible Entity regards the management of risks that affect ANI as fundamental and having a separate Compliance & Risk Management Committee demonstrates the Board's commitment to ensure that compliance and risk management matters are given adequate and due consideration. Effective risk management should mitigate potential loss or damage and optimise growth opportunities. Set out below are components of the risk management framework implemented for ANI.

### Risk management policy

The Responsible Entity of the Fund has established a Risk Management Policy which details the policies for the oversight and management of material business risks. The policy reflects Fife Funds' role as the responsible entity of an externally managed property trust, which is listed on the ASX with specific legal and statutory obligations.

The Responsible Entity's Risk Management Policy and its underlying risk management framework and internal control system incorporates the guidelines described in the International Standard on Risk Management (ISO 31000:2009).

### Risk management matrix

The effective management of risks is vital to the success of the Fund and the Responsible Entity.

The Fund's risk exposures relate primarily to the risks associated with the property industry and the general business environment. The Risk Management Policy summarises the categories of risk exposures which 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.

Material business risks are documented in a risk management matrix which sets out how the risks may arise, the likelihood of the risk arising, potential impact on the Fund and measures adopted by the Responsible Entity in managing the risks. The risk management matrix is a working document which is periodically updated for new risks or developments on existing risks.

Management regularly reports to the Board on material business risks through the Compliance & Risk Management Committee.

### Compliance plan and AFS Licence

The Responsible Entity must ensure it complies with the requirements of its AFS Licence, the Corporations Act, ASX Listing Rules, and other statutory duties and obligations as imposed by law.

The Fund's compliance plan sets out the procedures the Responsible Entity must follow in operating the Fund to meet its statutory obligations.

To determine whether the Fund has met these statutory obligations, the Fund's external auditor conducts an annual audit on the Fund's compliance plan. The external auditor reports to ASIC on whether the Responsible Entity has complied with the compliance plan for the financial year and whether the compliance plan continues to meet the requirements of Part 5C.4 of the Corporations Act.

In addition, the external auditor conducts an annual AFS Licence audit and reports on whether the Responsible Entity has complied with the specified provisions of Part 7.8 of the Corporations Act.

The compliance plan is reviewed at least annually by the Compliance Officer and any recommendations are put to the Compliance and Risk Management Committee and Board. The Fund's compliance plan was last amended on 25 August 2015.

### Risk management framework review

The Board, in conjunction with the Compliance & Risk Management Committee reviewed the Fund's risk management framework during the reporting period to satisfy itself that the framework continues to be sound and that the Fund operates within the risk appetite determined by the Board. The review considered the effectiveness of the key components of the Fund's risk management systems summarised above.

### Economic, environmental and social sustainability risks

As part of the risk management framework review, the Board also considered ANI's position in relation to material exposures to economic, environmental and social sustainability (**EES**) risks, taking into account the Fund's strategy, due diligence processes and externally managed structure. The measures in place to mitigate potential exposure to key economic sustainability risks such as the ability to continue to maintain and grow rental income include, but are not limited to, portfolio diversification and active asset management.

Environmental sustainability risks associated with contamination are actively managed through detailed due diligence on property acquisitions to identify, understand and determine whether the risk is acceptable to ANI prior to purchase.

### Internal audit

The Fund does not have an internal audit function. The Audit Committee periodically assesses the requirement for an internal audit function and reviews its recommendation to the Board on this matter. As part of this assessment, the Audit Committee considers amongst other things, the existing internal and external assurance measures received in relation to the Fund during the year and any evidence of a break down in controls which warrant a change to the existing arrangements. External assurance measures include the audit of the Responsible Entity's and ANI's full year financial reports, half year review of ANI's interim financial reports, ANI's compliance plan audit, and the Responsible Entity's AFS Licence audit undertaken each year.

## PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

An externally managed listed entity should clearly disclose the terms governing the remuneration of the manager

As noted in Principle 1 above, the Responsible Entity is entitled to receive a fee of 0.60% per annum of the gross asset value of the Fund for acting as the responsible entity of the Fund. This fee is calculated and paid monthly in arrears. For FY15, the Fund paid the Responsible Entity fees of $1.9 million, as set out on page 47 of the Annual Report. The Responsible Entity is not entitled to performance fees under the Constitution.

The remuneration of the Responsible Entity is set out in the Fund's Constitution at article 25. A copy of the Fund's Constitution is available on the Fund's website at http://www.aireit.com.au/about-us/governance-and-principles.

### Remuneration of non-executive directors and senior executives

Director and senior executive remuneration is not paid by the Fund. Rather, it is determined and paid by Fife Capital Group.

A distinction is made between the structure of non-executive Directors' remuneration and senior executives.

Only non-executive Directors are remunerated for their duties in acting as a Director of the Responsible Entity. Non-executive Directors are remunerated by way of fees and do not receive options, bonus payments or retirement benefits in connection with their directorships other than statutory superannuation.

Senior executives, other than the Managing Director, receive a combination of fixed and performance based remuneration.

There are no equity incentive schemes in relation to the Fund.

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 46.

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.

## 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 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

Ernst & Young
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

# 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.

# INDEPENDENT AUDITOR'S 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

# ADDITIONAL INFORMATION

AS AT 21 AUGUST 2015

## TOP 20 UNITHOLDERS

| Name | | Number of units | % of issued capital |
|---|---|---|---|
| 1. | 360 Capital Investment Management Limited in its capacity as responsible entity | 23,540,118 | 24.45 |
| 2. | J P Morgan Nominees Australia Limited | 9,414,640 | 9.78 |
| 3. | HSBC Custody Nominees (Australia) Limited | 9,010,282 | 9.36 |
| 4. | 360 Capital Investment Management Limited | 8,336,757 | 8.66 |
| 5. | UBS Wealth Management Australia Nominees Pty Ltd | 5,976,943 | 6.21 |
| 6. | Citicorp Nominees Pty Limited | 2,529,747 | 2.63 |
| 7. | National Nominees Limited | 2,477,668 | 2.57 |
| 8. | Clough Superannuation Pty Ltd | 1,000,000 | 1.04 |
| 9. | Australian Executor Trustees Limited | 901,739 | 0.94 |
| 10. | BNP Paribas Noms Pty Ltd | 716,516 | 0.74 |
| 11. | Navigator Australia Ltd | 705,293 | 0.73 |
| 12. | Netwealth Investments Limited | 499,239 | 0.52 |
| 13. | Nulis Nominees (Australia) Limited | 425,568 | 0.44 |
| 14. | RBC Investor Services Australia Nominees Pty Limited | 401,022 | 0.42 |
| 15. | Equitas Nominees Pty Limited | 378,841 | 0.39 |
| 16. | Fife AIR Pty Limited | 356,425 | 0.37 |
| 17. | Exwere Investments Pty Ltd | 350,000 | 0.36 |
| 18. | Invia Custodian Pty Limited | 300,000 | 0.31 |
| 18. | Marian & EH Flack Nominees Pty Ltd | 300,000 | 0.31 |
| 20. | HSBC Custody Nominees (Australia) Limited – A/C 3 | 262,059 | 0.27 |
| **Total** | | **67,882,857** | **70.50** |

## SUBSTANTIAL HOLDERS[1]

| Name | Effective date | Number of units | % of issued capital |
|---|---|---|---|
| 360 Capital Investment Management Limited | 21 August 2015 | 31,876,875 | 33.11 |
| BT Investment Management Limited | 3 March 2015 | 8,064,998 | 8.38 |
| The Vanguard Group, Inc. | 14 August 2015 | 4,817,288 | 5.00 |

1. Information included in the substantial holdings table is sourced from publicly disclosed company releases or the register that the Responsible Entity maintains in accordance with section 672DA of the Corporations Act, in each case as at 21 August 2015.

## SPREAD OF UNITHOLDERS

| Holding | Number of unitholders | Number of units | % of issued capital |
|---|---|---|---|
| 1 to 1,000 | 169 | 60,499 | 0.06 |
| 1,001 to 5,000 | 199 | 698,278 | 0.73 |
| 5,001 to 10,000 | 221 | 1,857,201 | 1.93 |
| 10,001 to 100,000 | 742 | 21,621,131 | 22.45 |
| 100,001 or more | 48 | 72,050,922 | 74.83 |
| **Total** | **1,379** | **96,288,031** | **100.00** |

62 unitholders held less than a marketable parcel of 215 units in ANI ($2.32 on 21 August 2015) and they held a total of 2,200 units.

## VOTING RIGHTS

Each fully paid ordinary unit in ANI is entitled to one vote.

## ON-MARKET BUY BACK

There is no current on-market buy back of units in ANI.

# GLOSSARY

| Term | DEFINITION |
|---|---|
| **ANI** or the **Fund** | Australian Industrial REIT. |
| **Board** | The Board of Directors of the Responsible Entity. |
| **Capitalisation rate** | A valuation measure, calculated as the valuer's assessment of the market level of net passing rent for the property (on a fully leased basis) divided by the assessed value, which may include capital adjustments. |
| **Distributable earnings** | Represents the Directors' view of underlying earnings from ongoing operating activities for the year, being statutory net profit or 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. A reconciliation to distributable earnings is provided on page 41 in the Annual Report. |
| **Fife Funds** | Fife Capital Funds Limited (ABN 18 130 077 735) (AFSL 438 693), as the Responsible Entity of the Fund. |
| **Fife Capital Group** | The group of entities related to Fife Capital Group Pty Limited including the Responsible Entity. |
| **FY14** | The year ended 30 June 2014. |
| **FY15** | The year ended 30 June 2015. |
| **Gearing** | Interest bearing liabilities less cash divided by total assets less cash. |
| **IPO** | Initial Public Offer. |
| **Net passing rent** | The annualised rent as at 30 June 2015 payable by a tenant to the Fund (excluding any recovery of outgoings). |
| **Net Tangible Assets (NTA)** | The total assets of ANI less total liabilities, excluding intangibles, expressed on a per unit basis. |
| **PDS** | Product Disclosure Statement for the Fund dated 2 October 2013 which was issued in connection with the Fund's initial public offering. |
| **Responsible Entity** | Fife Capital Funds Limited (ABN 18 130 077 735) (AFSL 438 693). |
| **Weighted Average Lease Expiry (WALE)** | Weighted average lease expiry as at 30 June 2015, which is the average lease expiry of all of the properties in the Fund's portfolio weighted by each property's gross building area (including 13,840sqm of container rated hardstand). |

# DIRECTORY

## FUND WEBSITE

The Fund's website, www.aireit.com.au, has useful information regarding the Fund including copies of the Fund's annual reports, ASX announcements and information regarding distributions.

## ANNUAL TAX STATEMENTS

An annual tax statement will be sent to unitholders at the end of August each year. The statement contains information to assist you with the completion of your income tax return.

Unitholders can access their annual tax statement by visiting: www.linkmarketservices.com.au.

## DISTRIBUTION PAYMENTS

The Fund intends to make distributions on a half-yearly basis. Distributions will generally be paid in August and February for the six month periods ending 30 June and 31 December each year, respectively.

The Fund's preferred method of payment for distributions is by direct credit. This enables you to receive your payments quickly and securely. You can nominate any Australian bank, building society or credit union account for direct payment by downloading a direct credit form and sending the completed form to the Fund's unit registry.

## DISTRIBUTION REINVESTMENT PLAN

The Responsible Entity introduced a Distribution Reinvestment Plan (DRP) for the Fund. The DRP was not in operation for the distributions for the six months ended 31 December 2014 and 30 June 2015.

## INVESTOR ENQUIRIES

If you have any questions regarding your unitholding or wish to update your personal or distribution payment details, please contact the Fund's unit registry.

## COMPLAINTS

Unitholders wishing to register a complaint should direct it to the Responsible Entity in the first instance at the details below.

The Company Secretary
Fife Capital Funds Limited
Level 12, 89 York Street
Sydney NSW 2000

Phone: +61 2 9251 2777
Fax: +61 2 9251 2877
Email: admin@aireit.com.au

If you are not satisfied with the way in which your complaint has been resolved, you are entitled to take up the matter with the Financial Ombudsman Service (FOS). FOS is an independent dispute resolution scheme of which Fife Capital Funds Limited is a member. FOS can be contacted using the following details.

Financial Ombudsman Service Limited
GPO Box 3
Melbourne VIC 3001

Phone: 1300 780 808
Fax: +61 3 9613 6399
Email: info@fos.org.au

## PRIVACY

The Responsible Entity is committed to ensuring the confidentiality and security of your personal information. The Responsible Entity's Privacy Policy which details the handling of personal information is available on the Fund's website www.aireit.com.au/privacy-policy.

**AUSTRALIAN INDUSTRIAL REIT**
ARSN 165 651 301

**RESPONSIBLE ENTITY**
Fife Capital Funds Limited
ABN 18 130 077 735
AFSL 438 693

**DIRECTORS OF THE RESPONSIBLE ENTITY**
Rod Pearse OAM,
*Independent Chairman*

Allan Fife,
*Managing Director*

Michael Allen,
*Independent Non-executive Director*

Peter Dransfield,
*Independent Non-executive Director*

John Hudson,
*Non-executive Director*

**SECRETARIES OF THE RESPONSIBLE ENTITY**
Susan Vuong
Keir Barnes

**REGISTERED OFFICE OF THE RESPONSIBLE ENTITY**
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Website: www.linkmarketservices.com.au

**AUSTRALIAN SECURITIES EXCHANGE**
ASX Code: ANI

AUSTRALIAN
INDUSTRIAL
REIT