

APN | Property Group

Corporate Governance Statement

**APN Funds Management and
Industria Company No. 1 Limited**

August 2017



CORPORATE GOVERNANCE STATEMENT

This is the corporate governance statement for APN Funds Management Limited (in its capacity as Responsible Entity) (**APN FM or Company**) and Industria Company No 1 Limited (**Industria Co**) for the financial year ended 30 June 2017 (**Reporting Period**) as it applies to the stapled group known as Industria REIT (**Fund**). This statement outlines the Fund's corporate governance practices in place throughout the Reporting Period, which comply with the recommendations set by the ASX Corporate Governance Council (Corporate Governance Principles and Recommendations 3rd Edition) (**Recommendations**), unless otherwise stated.

Company policies, charters and codes referred to in this Statement are available on the Fund's website at <http://www.industriareit.com.au/about/corporate-governance/>

This statement was approved by the Board on 22 August 2017.

Overview

Industria REIT comprises the following five entities (including their various subsidiary trusts and companies):

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

Investors in Industria REIT hold a unit or share of each of the above entities that are stapled together, such that an individual unit or share in one of the above entities may not be transferred or dealt with without the others.

APN Funds Management Limited is the Responsible Entity of each of the four stapled trusts. APN Funds Management Limited is a wholly owned subsidiary of APN Property Group Limited (**APN PG**), a company listed on the Australian Securities Exchange (**ASX**). Aside from the Fund, the board of APN FM is responsible for overseeing the management and strategic direction of APN PG's listed and unlisted real estate investment trusts in its role as responsible entity, trustee and/or investment manager. APN PG makes available to APN FM and Industria Co the necessary management and resources for the operation of the Fund. The board of APN FM comprises four directors, three of whom (including the Chair) are independent of the business and of the board of APN PG.

Industria Company No 1 Limited is also a member of Industria REIT and is managed by its own board. The board of Industria Co comprises five directors, three of whom (including the Chair) are independent of the business and of the board of APN PG.

Importantly, the boards of both APN FM and Industria Co are comprised of a majority of independent directors (including an independent Chair), each of whom has a legal obligation to put the interests of investors in the Fund ahead of their own and, in the case of APN FM, APN FM's sole shareholder, APN PG.

The boards of APN FM and Industria Co co-operate to ensure that the interests of the entities comprising Industria REIT are aligned and therefore have adopted the same policies and procedures. For simplicity in this Corporate Governance Statement, all reference to the Company, APN FM, Board or Fund should be read as including and referring also to Industria Co and its board of directors and governance practices, wherever the context permits and unless otherwise specified.

Through its directors, executives, staff and resources, the Company is committed to the highest standards of governance. The corporate governance framework incorporates the requirements of market regulators, adopted codes and charters, documented policies and procedures and guidance from industry best practice. These policies and practices remain under regular review as the corporate governance environment and good practices evolve.

PRINCIPLE 1: Lay solid foundations for management and oversight

1.1 Roles and responsibilities of the Board and Management

The Board has adopted a Charter that details the functions and responsibilities of the Board. The Board has expressly reserved its powers in relation to certain matters, and has delegated its powers in relation to other matters to management. Any delegations by the Board to management are done in accordance with a formal Delegated Authority Policy or otherwise by way of a resolution of the Board.

The Board reserves its powers and responsibilities in relation to matters including, but not limited to:

- the oversight of the Company, including its control and accountability systems;
- subject to its overriding duties to securityholders in the Fund, setting the aims, strategies and policies of APN FM and its funds management business;
- where appropriate, ratifying the appointment and the removal of senior executives including, but not limited to the fund managers of the Fund;
- providing input into and final approval of management's development of strategy and performance objectives in respect of the Fund;
- reviewing, ratifying and monitoring systems of risk management and internal compliance and control, codes of conduct and legal compliance, particularly in respect of the Fund;
- without limiting the above, identifying conflict of interest situations within APN FM's business and the business of the Fund and:
 - determining whether the conflict of interest situation is to be avoided or whether it can be appropriately controlled; and
 - if the conflict of interest situation can be appropriately controlled, determining and implementing the procedure necessary to control the conflict;
- monitoring senior management's performance and implementation of strategy and ensuring appropriate resources are available;
- approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures in respect of the Fund;
- approving the issue of disclosure documents in respect of the Fund; and
- approving and monitoring financial and other reporting obligations of the Fund, in particular ensuring compliance with the continuous disclosure obligations of the Fund under the Corporations Act and the Listing Rules.

The Board delegates its powers and responsibilities in relation to matters including, but not limited to:

- the day to day operation of the Fund; and
- implementing the decisions and determination of the Board.

1.2 Election and re-election

Prior to appointing a director or putting a new candidate forward for election, the Company undertakes appropriate checks in relation to the candidate's experience, education, criminal history and bankruptcy history.

When presenting a director for re-election, the Company provides securityholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director, including whether the Board supports the re-election.

1.3 Appointment

The Board has adopted a letter of appointment that contains the terms on which Non-Executive and Independent directors are to be appointed, including the basis upon which they will be indemnified by the Company. Non-executive and Independent Directors are entitled to take independent advice at the cost of the Company in relation to their role as members of the Board.

1.4 Company Secretary

The Company Secretary is accountable directly to the Board, through the Chair, for all governance matters to do with the proper functioning of the Board.

1.5 Diversity Policy

The Company recognises the benefits to be gained from a diverse workforce where the differing skills, perspectives and experiences of individuals from different backgrounds can lead to more innovative and efficient business practices. The Company is committed to facilitating an environment in which the principles of diversity are embedded in the culture and systems of the organisation and where every individual has the opportunity to excel.

Recognising that the Company accesses the necessary management and resources for the operation of the Fund from APN PG and, as such, does not have direct responsibility for employment decisions in its own right, the Board has adopted the following measurable objectives for the Reporting Period:

- The selection process for Board appointments, having regard for the need to maintain an appropriate mix of skills, experience, expertise and diversity will consider at least one female candidate wherever reasonably possible;
 - ✓ No new APN FM Board appointments / One new Industria Co Board appointment (Executive Director) were made in the financial year. This appointment was an internal male candidate.

As at 30 June 2017 the proportion of male and female members of the Board was;

	Men	Women
Board of APN Funds Management Limited	75%	25%
Board of Industria Company No.1 Limited	80%	20%

1.6 and 1.7 Review of Board and Senior Executives performance

The performance of the Board is reviewed annually by the Board, with the assistance of the Remuneration and Nomination Committee. The evaluation includes a review of:

- the Board's membership and the charters of the Board and its committees;
- Board processes and its committees' effectiveness in supporting the Board; and
- the performance of the Board and its committees.

A review of each Director's performance is undertaken by the Chair, after consultation with the other directors, prior to a director standing for re-election.

While the Company does not have employees, regular input and feedback is provided to APN PG on the performance of Senior Executives.

PRINCIPLE 2: Structure the Board to add value

2.1 Nomination and Remuneration Committee

The Board has established a Nomination and Remuneration Committee. The Nomination and Remuneration comprises three members: Jennifer Horrigan (Chair), Michael Johnstone and Geoff Brunsdon. All members of the Nomination and Remuneration (including the Chair of the Committee) are Independent Directors.

The Nomination and Remuneration Committee operates under an approved charter with its key responsibilities being to:

- determine the appropriate size and composition of the Board;
- oversee and provide recommendations to the Board in respect of the appointment, re-appointment and removal of directors;
- develop formal and transparent procedures and criteria for the selection of candidates for, and appointments to, the Board in the context of each board's existing composition and structure;
- developing a succession plan for the Board and to regularly review the succession plan;
- implement induction programs that enable directors to gain an understanding of:
 - the Company's and the Fund's financial, strategic, operational and risk management position;
 - their rights, duties and responsibilities; and

- the role of the Board and Board committees;
- provide directors and key executives with access to continuing education to update their skills and knowledge and provide them access to internal and external sources of information which enhance their effectiveness in their roles;
- develop a process for performance and remuneration evaluation of the Board, its committees and individual directors and to the extent applicable, key executives, which can be made available to the public;
- to the extent applicable, develop and influence remuneration and incentive policies which motivate directors and management to pursue the long-term growth and success of the Company within an appropriate control framework;
- to the extent applicable, develop and influence remuneration and incentive policies which demonstrate a clear relationship between key executive performance and remuneration; and
- to the extent applicable, determine the remuneration packages of directors.

All matters determined by the Nomination and Remuneration Committee are submitted to the full Board as recommendations for Board decisions. Minutes of a Nomination and Remuneration Committee meeting are tabled at a subsequent Board meeting. Attendance records of Nomination and Remuneration Committee meetings are provided in the Directors' Report of the Fund's Annual Report.

2.2. Board Skill Matrix

The Board has adopted a skills matrix to ensure that there is an appropriate mix of skills and experience on its Board and Committees to enable the Board to deliver the desired outcomes, and to allow the Board to effectively discharge its corporate governance and oversight responsibilities.

The following table sets out the key skills and experience that the Board considers to be most relevant and which are represented on the Board:

Skill Category	Geoff Brunsdon	Jennifer Horrigan	Michael Johnstone	Howard Brenchley	Michael Groth*
Leadership	3	3	3	2	2
Strategic Planning	3	3	3	3	3
Funds Management and Property	3	3	3	3	3
Capital Projects	3	1	3	2	2
Financial Acumen	3	3	3	2	3
Governance, Legal and Risk	3	3	3	2	3
Customer Experience and Marketing	1	3	3	2	2
Information Technology	1	2	3	1	2
Health, safety and environment	3	2	3	1	1
Crisis Management	3	3	3	2	2
People and Remuneration	3	3	3	2	2

Rating Criteria - 3 = Strong Skills and Experience, 2 = Medium Skills and Experience, 1 = Low Skills and Experience

*Michael Groth - APN FM, Alternate Director for Howard Brenchley and Industria Co Director since 1 December 2016.

2.3, 2.4 and 2.5 Directors Independence and Length of Service

The Board of APN FM comprises four Directors: Geoff Brunsdon (Independent Chair), Jennifer Horrigan (Independent Director), Michael Johnstone (Independent Director) and Howard Brenchley (Non-Executive Director), all of whom are Non-Executive Directors.

The Board of Industria Co comprises five Directors: Geoff Brunsdon (Independent Chair), Jennifer Horrigan (Independent Director), Michael Johnstone (Independent Director), Howard Brenchley (Non-Executive Director) and Michael Groth (Executive Director and Chief Financial Officer), four of whom are Non-Executive Directors.

Both Boards have a majority of independent directors and have an independent Chair.

The independence of Directors is assessed in accordance with the guidelines outlined in the Recommendations. The Board considers Geoff Brunsdon, Jennifer Horrigan and Michael Johnstone to be Independent Directors, as they do not have a material interest, position, association or relationship that could

reasonably be perceived to materially interfere with the independent exercise of their judgement. Directors must disclose any interests or conflicts in accordance with Corporations Act and Company policies prior to the consideration of matters at the meetings of the Board.

The Fund's Annual Report details offices held by Directors with other organisations (Director's Report) and related party dealings (Notes to the Financial Statements) as required by law.

If a Director's independence status changes, this will be disclosed to the market in a timely manner in accordance with the Company's disclosure obligations and Company policies.

Details of the term of office held by each Director in office as at the date of this report are as follows:

Director	APN FM Length of Service (years)	Industria Co Length of Service (years)
Geoff Brunsdon	8	4
Jennifer Horrigan	5	4
Michael Johnstone	8	4
Howard Brenchley	19	4
Michael Groth	N/A	9 months

2.6 Induction of Directors

Induction for newly appointed directors is provided on appointment, which includes a detailed pack outlining Company and Fund information, key policies and procedures. Directors are expected to be adequately informed in respect of relevant industry and regulatory issues and changes. Training sessions, including presentations by experts, are scheduled around Board meeting dates as required or at the request of the Board. Directors may raise other training requirements or professional development opportunities at any time.

PRINCIPLE 3: Act ethically and responsibly

3.1 Code of Conduct and Securities Trading Policy

The Company has adopted a Code of Conduct that applies to all directors and employees (i.e. those provided as resources by APN PG) of the Company and its subsidiaries. The purpose of the Code of Conduct is to clarify the standards of ethical behaviour required of the Company's directors and employees and to ensure that the high standards of corporate and individual behaviour are observed by all the Company's directors and employees in the context of their involvement with the Company and the Fund. By adoption of the Code of Conduct, the Company seeks to ensure that all stakeholders dealing with the Company and the Fund, whether it be employees, securityholders, investors, customers or competitors, can be guided by the stated values and policies of the Company.

The Code of Conduct also sets out the Board's view on conflicts of interest and related party transactions involving directors, employees and related parties and other legal and compliance obligations of the Company including corporate opportunities, confidentiality, fair dealing, protection of and proper use of Company information and assets, compliance with laws and regulations and encouraging the reporting of unlawful or unethical conduct.

The Company has adopted a Securities Trading Policy that summarises the law relating to insider trading and other relevant provisions and sets out the procedures of the Company for permission and disclosure of trading by directors, employees and related parties.

The Securities Trading Policy applies to all directors, employees and related parties of the Company and is designed to prevent breaches of the insider trading provisions. The policy includes an overriding prohibition against trading while in the possession of inside information and the restrictions of trading during closed (black out) periods. It is the responsibility of all directors, employees and related parties to comply with the insider trading provisions of the Corporations Act and to bring information in relation to any actual or potential insider trading to the attention of the relevant officer of the Company, as appropriate.

PRINCIPLE 4: Safeguard integrity in corporate reporting

4.1 Audit, Risk and Compliance Committee

The Board has established an Audit, Risk and Compliance Committee. The Audit, Risk and Compliance Committee comprises three members: Michael Johnstone (Chair), Geoff Brunson and Jennifer Horrigan. All members of the Audit, Risk and Compliance Committee (including the Chair of the Committee) are Independent Directors.

The Audit, Risk and Compliance Committee operates under an approved charter and is responsible for overseeing the internal and external audit function, the compliance and risk management framework and internal controls in respect of the Company and the Fund.

Its key responsibilities are;

Financial statements

- to review the Company's and the Fund's financial statements and related notes, and ensure they are consistent with information known to Board members and that they reflect appropriate accounting principles, standards and regulations;
- to review the external auditor's reviews or audits of the Company and the Fund's financial statements and corresponding reports;
- to consider any significant changes required in the external auditor's audit plans;
- to review accounting and reporting issues as they arise; and
- to review any disputes or issues that may arise during the course of an audit.

External audit

- to determine the appointment and removal of external auditors;
- to monitor compliance with the Corporations Act in relation to auditor rotation;
- to undertake periodic reviews in order to monitor the effectiveness, objectivity and independence of the external auditor;
- to review and consider the adequacy of the audit plan proposed by the external auditors;
- to review all of the external auditor's reports;
- to commission such enquiry by the external auditors as the Board deems appropriate;
- to consider management's responses to matters that arise from external audits;
- to conduct regular reviews of management's activity pertaining to audit findings to ensure any issues are being dealt with in a timely manner; and
- to perform annual assessments of the external auditor's compliance with any applicable laws, regulations and any other relevant requirements.

Risk management

- to monitor the management of risks relevant to the Company and the Fund;
- to review APN FM's current risk management program (including all internal policies developed and implemented to manage and identify all identified risks (Governance Policies)) and whether it identifies all areas of potential risk;
- to review and make recommendations to the Board on the strategic direction, objectives and effectiveness of the Company's financial and risk management policies; and
- to oversee investigations of allegations of fraud or malfeasance.

Compliance

- to monitor the compliance of the Company and Fund with:
 - the Corporations Act;
 - the compliance plan of the Fund;
 - the constitution of the Fund;
 - the Australian Financial Services Licence (AFSL) of APN FM; and
 - to the extent the Fund remains a Listed Scheme, the Listing Rules;
- to report to the Board any breach of the obligations listed in above;

- to report to the Australian Securities and Investments Commission (ASIC) if the Committee is of the view that APN FM has not taken, or does not propose to take, appropriate action to deal with a matter reported;
- to assess at regular intervals whether the Fund's compliance plan is adequate;
- to report to the Board on its assessment of the Fund's compliance plan; and
- to make recommendations to the Board about any changes that it considers should be made to the Fund's compliance plan.

All matters determined by the Audit, Risk and Compliance Committee are submitted to the full Board as recommendations for Board decisions. Minutes of an Audit, Risk and Compliance Committee meeting are tabled at a subsequent Board meeting. Attendance records at Audit, Risk and Compliance Committee meetings are provided in the Director's Report of the Fund's Annual Report.

4.2 Chief Executive Officer and Chief Financial Officer Declarations

Prior to approval of the Fund's financial statements, the Board receives from the Chief Executive Officer and Chief Financial Officer a declaration that, in their opinion, the financial records of the Fund have been properly maintained and that 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 controls which is operating effectively.

4.3 Auditors attendance at AGMs

The Fund's external auditor, Deloitte Touche Tohmatsu (Deloitte), generally attends the Annual General Meeting (AGM) of Industria REIT to answer questions from securityholders relevant to the audit. No representative of Deloitte attended the AGM on 19 October 2016. No questions were raised to the auditor prior to the meeting and no questions were raised on the day

PRINCIPLE 5: Make timely and balanced disclosure

5.1 Continuous Disclosure Policy

The Company has adopted a Continuous Disclosure Policy to ensure that securityholders and the market have equal and timely access to material information regarding developments in relation to the Fund in accordance with applicable disclosure requirements in the Corporations Act, Chapter 3 of the ASX Listing Rules and ASX Listing Rules Guidance Note 8. Such information will relate to matters including the financial position, performance, ownership and governance in relation to the Fund.

PRINCIPLE 6: Respect the rights of security holders

6.1, 6.2, 6.3 and 6.4 Website, Communications Policy and Investor communication

The Company is committed to providing all stakeholders with accessible, accurate and timely information on the activities and performance of the Fund. The Company has adopted a Communications Policy in order to ensure that there is effective two-way communication between the Fund and its securityholders.

The Fund's website (<http://www.industriareit.com.au/>) is the primary location for all Company, Fund and governance related information as outlined in the Recommendations. The Company ensures that this website is continually updated and contains recent announcements, webcasts, presentations, disclosure documents, market information and answers to frequently asked questions. Securityholders also have the option to receive communications from, and send communications to, the Company, Fund and its registry provider electronically.

An Annual General Meeting (AGM) of securityholders is held in October each year. The date, time and venue of the AGM are notified to the ASX and a copy placed on the Fund's website. The Notice of Meeting (NoM) will be accompanied by explanatory notes on the items of business and together they will seek to clearly and accurately explain the nature of the business of the meeting. All securityholders have the opportunity to attend and vote (or appoint a proxy to vote) on any resolutions proposed. The proxy form included with the NoM will explain clearly how it is to be completed and submitted. All securityholders at the AGM have the opportunity to ask questions of the Board.

PRINCIPLE 7: Recognise and manage risk

7.1 Audit and Risk Committee

Please refer to Principle 4 for the composition and key responsibilities of the Audit, Risk and Compliance Committee.

7.2 Risk Management Framework

The Board reviewed the risk management framework during the year and is satisfied that the framework remains sound.

7.3 Internal Audit function

The Company does not have a dedicated internal audit function; however, the Company's governance framework incorporates risk-based compliance reviews on key operations and processes of the Company and Fund. Compliance reviews are reported to the Board and are accompanied by recommendations for any changes to the Company's and Fund's processes, systems and controls in accordance with legal and regulatory requirements.

7.4 Exposure to economic, environmental and social sustainability risks

The Sustainability Statement is disclosed on the Fund's website and identifies exposure, if any, to material sustainability risks (economic, environmental and social).

PRINCIPLE 8: Remunerate fairly and responsibly

8.1 Nomination and Remuneration Committee

Please refer to Principle 2 for the composition and key responsibilities of the Nomination and Remuneration Committee.

8.2 Remuneration policies and practices of Non-Executive Directors, Executive Directors and Senior Executives

The Nomination and Remuneration Committee assists the Board and APN PG with oversight of the remuneration policies and practices. In the context of APN PG providing the necessary management and resources for the operation of the Fund, the Company's remuneration policies and practices are aimed at assisting attracting, motivating and retaining high calibre Independent Directors, Non-Executive Directors, Executive Directors and Senior Executives.

Further information is provided in the Remuneration Report outlined in the Directors Report of the Company's Annual Report, including the remuneration paid for the Reporting Period.

8.3 Equity based remuneration scheme

The Fund does not employ any staff and the Company's Non-Executive Directors do not receive any equity-based remuneration.