

APN | Industria REIT

Sustainability Report *October 2020*



About APN Industria REIT

This is the inaugural sustainability report for APN Industria REIT ('ADI' or 'The Fund'), an externally managed real estate investment trust managed by APN Property Group ('APN'). ADI was listed on the Australian Securities Exchange in 2013 with a market capitalisation of \$250 million. Since that time, the fund's portfolio has grown to 32 industrial and business park assets, valued at approximately \$826 million, and ADI's market capitalisation is now approximately \$500 million.

ADI does not have any employees, and engages APN to deliver its investment strategy, which includes leasing, buying and selling properties, collecting rent, and undertaking accounting, compliance and investor relations services. As such, it is APN's sustainability policies and practices as they apply to ADI which form the basis of this report.

This report relates to the period 1 July 2019 to 30 June 2020.

Fund Manager's Introduction

Long-term investment requires a long-term management approach. The continued success of a business is inextricably linked to the management of its financial, social and environmental risks and opportunities – which is why APN is committed to sustainability and responsible investment.

A core principle that we have at APN is that we are defined by our actions, not our words. To date, we have largely relied on these actions to demonstrate our commitment to environmental, social and governance (ESG) factors. We are acutely aware, however, that it is in the interests of our investors and stakeholders for us to formally measure and communicate our responsible investment practices, which is the purpose of this report.

Similarly, FY20 saw the APN Board approve the Sustainability & Responsible Investment Policy, which formalises our commitment to identifying and mitigating risks, and gaining a competitive advantage by leveraging opportunities and investing in initiatives that make an impact.

An additional initiative that ADI is pursuing is a formal commitment to achieve certified carbon neutrality under the Climate Active standard in FY21. It is anticipated that this will make ADI the first A-REIT to achieve this milestone across its portfolio and operations, demonstrating APN's commitment to sustainability and creating a true point of difference.

Although this is the first Sustainability Report for ADI, since 2017 we have been taking action to reduce our carbon emissions and enhance the energy efficiency of our properties. This has been predominantly through investments in solar power generation – installing 2.5 Megawatts across the portfolio – and LED (energy efficient) lighting.

Not only are these initiatives good for the environment, but they are cost-effective and make good business sense. By lowering both the cost of energy and the volatility of this cost, we reduce operational expenses for our tenants, minimise the risk of vacancies, and add value to our properties.



Recent achievements have included:



632kW

solar PV system

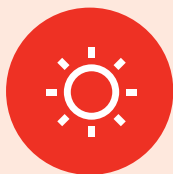
The installation of a 632kW solar PV system at 81 Rushdale St, Knoxfield, which is forecast to remove 766,600kg of CO₂ from the atmosphere annually and result in a lower cost of energy for our tenant, who also renewed their lease for a new 5-year term.



3,356

LED lights

The installation of 3,356 LED lights across our portfolio, reducing CO₂ emissions by 919 tons annually.



53%

self-sufficiency

The installation of 7 rooftop solar PV installations across 13 properties at Brisbane Technology Park, resulting in energy self-sufficiency of 53% in daylight hours

Our sustainable approach extends to the management of ADI's capital, with conservative balance sheet leverage of 29% (calculated as net debt to portfolio value). This conservative financial position ensured that an emergency equity raise was not necessary when COVID-19 recently threatened the cash flows of many businesses, and as a result securityholders were not subjected to a potentially dilutive equity raise during the period of particular market distress in March and April 2020.

Exercising discipline in the short term is critical to long-term outperformance. Whilst opportunities exceeding \$1.4 billion in value were assessed during the period, the acquisitions completed were limited to 3 assets totaling \$57.1 million: 350 – 356 Cooper St (Epping, Victoria), 10 Brandl Street (BTP, Queensland) and 60 Grindle Road (Wacol, Queensland). On the balance of opportunities acquired by competing purchasers, those purchasers took more aggressive views than APN on the risk of tenant default, prolonged downtime or capex. This is not discouraging – we are determined to only invest where the risk and return profile is attractive, and where the property can generate sustainable income and add value throughout the business cycle.

We are currently operating in an uncertain economic environment. While we cannot forecast what will happen in the future, we believe APN's culture, governance and risk management processes, underpinned by decades of experience in business and specifically in real estate investment, positions ADI well to continue to capture opportunities as we move forward.

For this inaugural ADI sustainability report, we have sought to tell our story of progress and outcomes. We acknowledge there are areas whereby we can increase transparency and improve over time, and we welcome the opportunity to engage with you as we capture feedback on the most valuable aspects of sustainability for our investors and stakeholders.



Yours sincerely,

Alex Abell,

*APN Industria REIT
Fund Manager*

Our Purpose and Values



APN has developed its statement of purpose as we believe it is helpful for our customers, shareholders, team members and other stakeholders to have a clear statement of the reason our company exists.

APN's values are fundamentally important in achieving our purpose. Our values exist in every one of our people – they are not abstract concepts in our business. Our values guide our decision-making and set out what we stand for as an organisation. They are not negotiable.

Most importantly at APN, our actions, not our words, define us. Nowhere is this more important for us than in this statement of what we stand for.

Our purpose

To create long-term shareholder value by positively impacting people's lives through investing in real estate.

Our values

Integrity

Honesty and integrity and putting our customers first is fundamentally important to us.

Respect

We deal with everyone we work with respectfully. We value true diversity – distinct from boxes and labels, we appreciate the value of different experiences and perspectives.

Courage

We have the courage to call things out, to stand against the crowd and to take considered risks.

Humility

We appreciate humility in everything we do. We have our feet on the ground and we value actions over words.

Results

We value hard work and focus on delivering great results with simplicity and common sense. We communicate regularly and transparently. We take ownership and we are accountable.



Sustainable Development Goals



The United Nations' Sustainable Development Goals (SDGs) articulate the world's most pressing sustainability issues.

These goals can support investors in recognising sustainability trends – and the potential for long-term financial performance – by investing in sustainable

economies, assets and markets. Over the long term, the SDGs aim to achieve economic growth without compromising our environment or placing unfair burdens on societies.

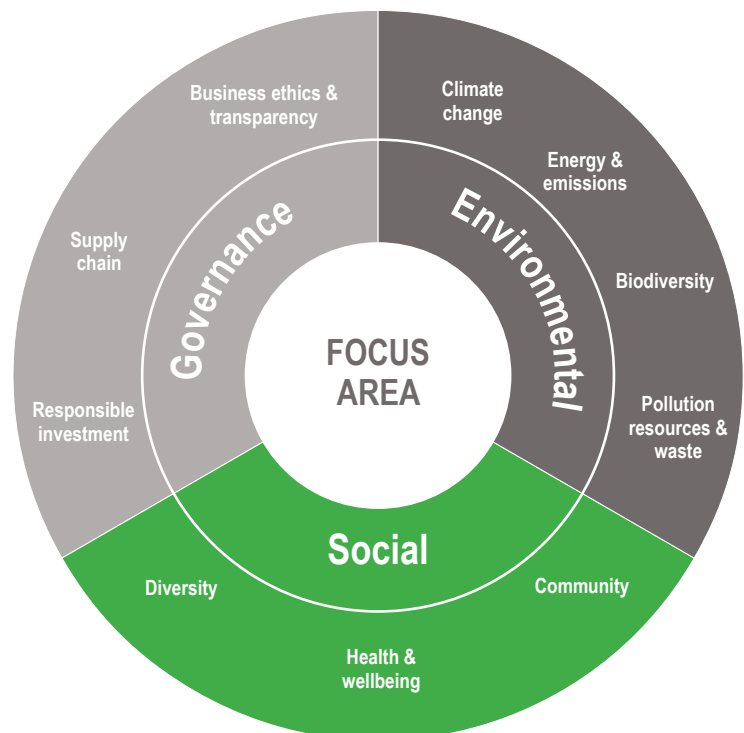
The SDGs below represent the areas where we believe APN can make a meaningful impact.

Sustainable development goals targeted by APN

GOOD HEALTH AND WELL-BEING 	GENDER EQUALITY 	AFFORDABLE AND CLEAN ENERGY 	DECENT WORK AND ECONOMIC GROWTH 	INDUSTRY, INNOVATION AND INFRASTRUCTURE 
SUSTAINABLE CITIES AND COMMUNITIES 	RESPONSIBLE CONSUMPTION AND PRODUCTION 	CLIMATE ACTION 	LIFE ON LAND 	

APN Environmental, Social & Governance (ESG) focus areas

APN has identified the material ESG issues that are relevant to our business – and sector – using the Sustainability Accounting Standards Board (SASB) materiality map for infrastructure and real estate. This helps us to focus and act on the issues that are the highest priority for the business.





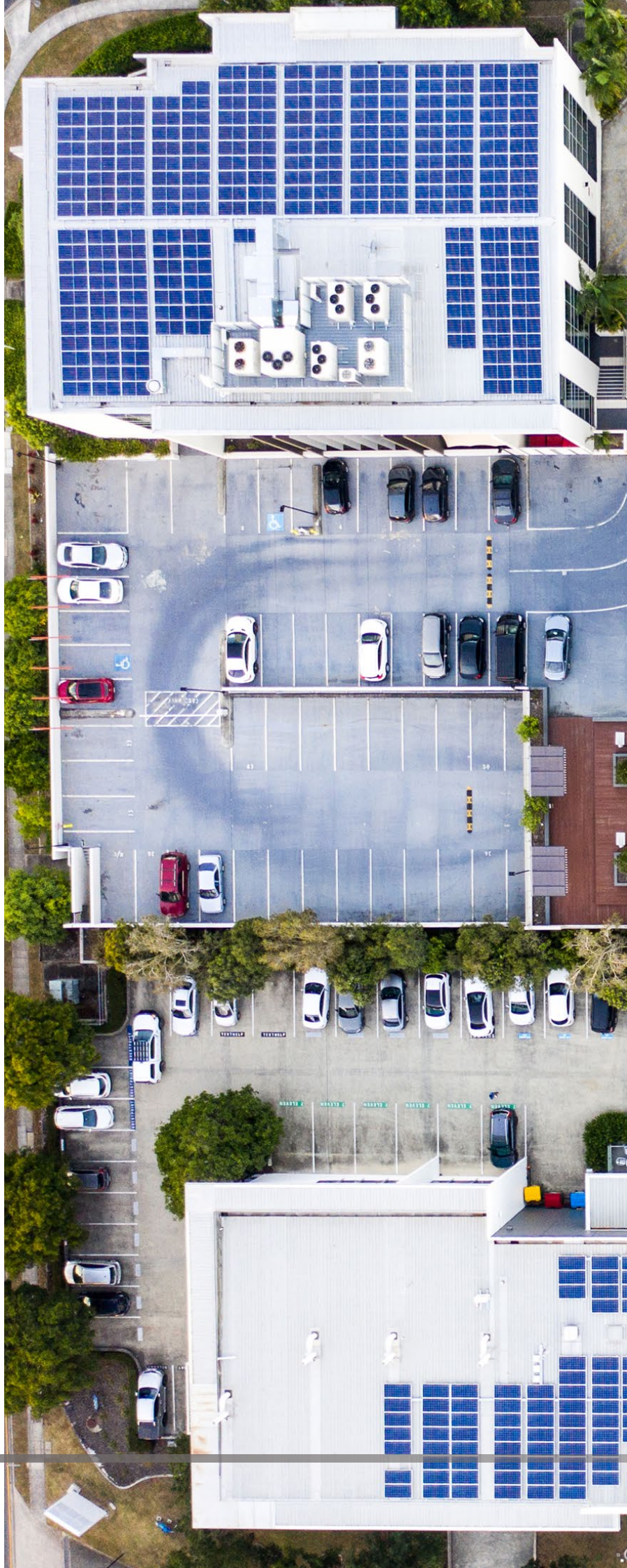
Environment

ADI is on track to achieve carbon neutrality in FY21. It is anticipated we will be the first A-REIT to achieve this milestone for both our operations, and the controllable emissions sources across our building portfolio.

Our carbon neutral claim will be certified in accordance with the Climate Active Organisations standard, an Australian Government framework recognised by the European Union Commission and the World Bank.

Becoming carbon neutral is an ambitious step that will be valued by the increasing number of investors focused on Environmental Social and Governance (ESG) issues, and we are pleased to be bringing our tenants along on this journey too.

In fact, two of our properties – Buildings A and C, 1 Homebush Bay, Rhodes – have already achieved carbon neutral certification, and as a result of our investments since 2017, tenants across our portfolio are already enjoying the benefits of enhanced energy efficiency and reduced energy costs.





Brisbane Technology Park





Reducing emissions through solar PV investment at Brisbane Technology Park



**Electricity savings
(kWh) p.a.**

1,328,000

**Greenhouse gas
emissions reductions
(tonnes CO₂e) p.a.**

1,075

**Equivalent number of
passenger vehicles taken
off the road each year***

232.2

Property address	Financial year completed	System capacity	Investment	Electricity savings (kWh) p.a.	Greenhouse gas emissions reductions (tonnes CO ₂ e) p.a.	Equivalent number of passenger vehicles taken off the road each year*
12 Electronics Street	2017	100kW	\$76,000	114,000	92	19.9
7 Clunies Ross Court	2018	209kW	\$303,000	280,000	226	48.9
88 Brandl Street	2017	197kW	\$296,000	230,000	186	40.3
37 Brandl Street	2017	200kW	\$300,000	257,000	208	44.9
18 Brandl Street	2019	100kW	\$88,000	138,000	112	24.1
8 Clunies Ross Court & 9 McKechnie Drive	2017	210kW	\$326,000	309,000	250	54.1
Total		1,016kW	\$1,389,000	1,328,000	1,075	232.2

*Greenhouse gas equivalency according to EPA Greenhouse Gas Equivalencies Calculator



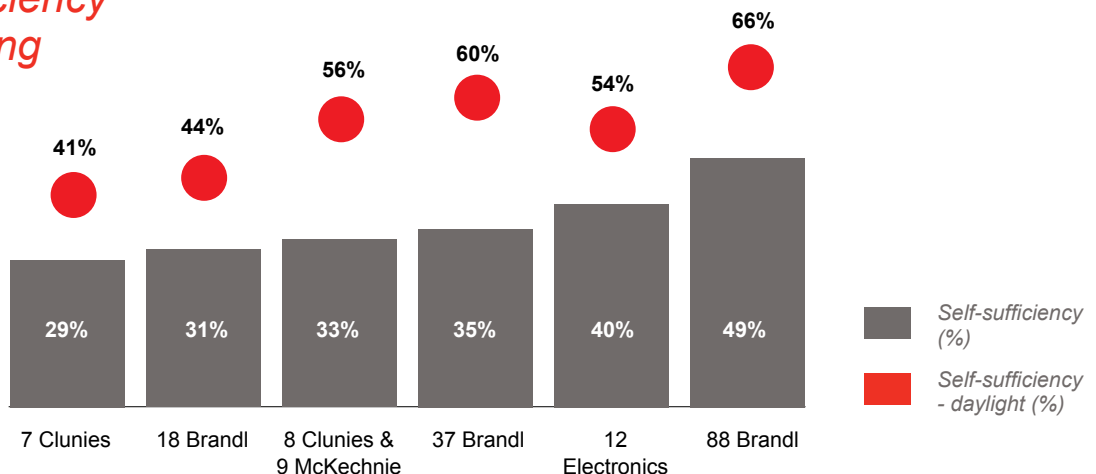
Reducing emissions through LED upgrades at Brisbane Technology Park

Electricity savings (kWh) p.a.	Greenhouse gas emissions reductions (tonnes CO ₂ e) p.a.	Equivalent number of passenger vehicles taken off the road each year*
140,000	113.3	24.5

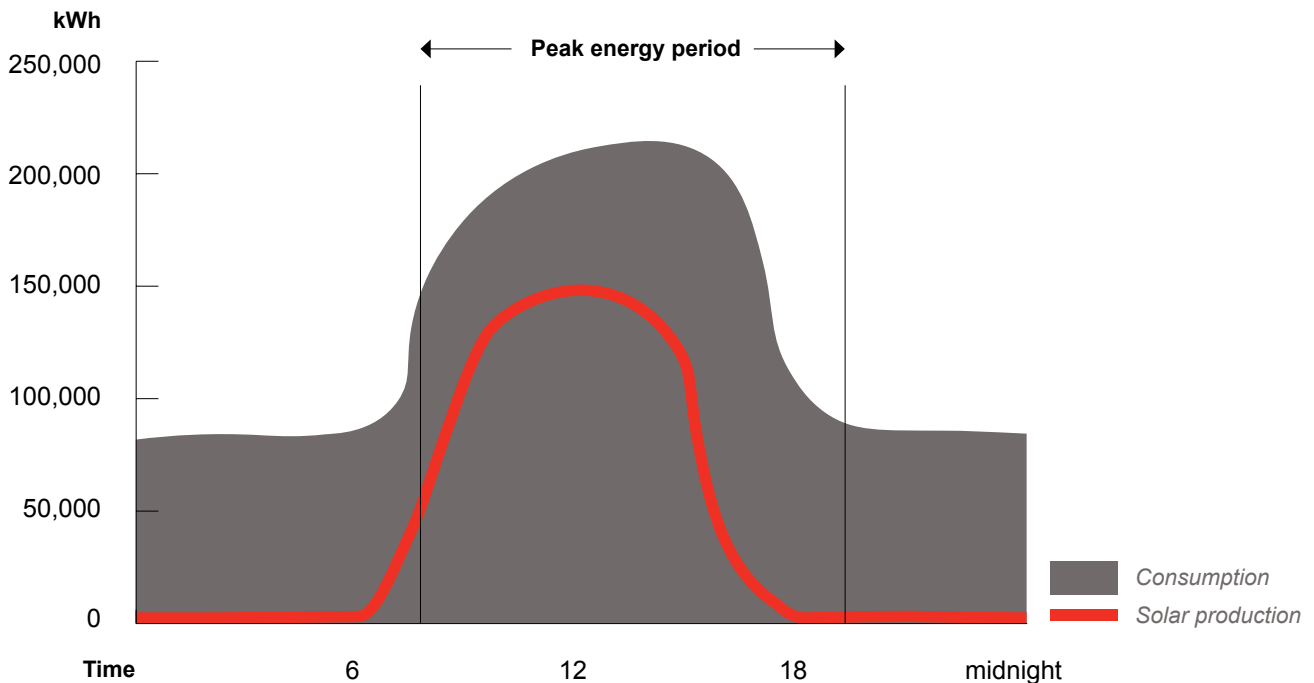
Property address	Electricity savings (kWh) p.a.	Greenhouse gas emissions reductions (tonnes CO ₂ e) p.a.	Equivalent number of passenger vehicles taken off the road each year*
12 Electronics Street	15,000	12.5	2.7
7 Clunies Ross Court	51,000	41.6	9
8 Clunies Ross Court	9,000	7.1	1.5
18 Brandl Street	13,000	10.8	2.3
37 Brandl Street	23,000	18.5	4
88 Brandl Street	11,000	8.6	1.9
9 McKechnie Drive	11,000	8.8	1.9
33 McKechnie Drive	7,000	5.4	1.2
Total	140,000	113.3	24.5

*Greenhouse gas equivalency according to EPA Greenhouse Gas Equivalencies Calculator

Self-sufficiency per building



Average consumption and production



ADI owns 13 assets located at Brisbane Technology Park (BTP). In 2017, APN saw an opportunity to improve returns by reducing costs – and CO₂ emissions – through strategic investments in solar, lighting and air conditioning.

Of the fund's properties at BTP, 7 have been fitted with rooftop solar PV installations, collectively reaching more than 1MW of capacity and removing 1,075kg of CO₂ from the atmosphere. Energy self-sufficiency has increased to an average of 53% during daylight hours, reducing reliance on the energy grid, and this clean energy has been on-sold to tenants and delivered a 15% yield on cost.

At the same time, indoor environmental quality was enhanced by modernising older air conditioning units that relied on environmentally damaging refrigerant gases, thereby reducing the risk of obsolescence and improving tenant comfort – a particularly important factor in Queensland, where air conditioners are running virtually every day.

The fund also implemented a rolling program of lighting upgrades at BTP, with the cost of replacing older lights in common areas with LEDs reducing the ongoing operational costs borne by both the fund and our tenants.

Not only do the LED lights provide superior energy efficiency capabilities, reducing the lighting load by more than 60%, but they also have a longer lifespan than fluorescent tubes. They also produce a brighter light – one tenant who recently tripped a circuit happily continued to operate normally until the Property Manager inspected the property and pointed out that half of their lights were out.

BTP tenants have been very receptive to the changes, with some commenting that these initiatives, specifically, are what they like most about the properties. Most tenants want to embrace sustainability, but they don't want to pay a premium for it – and the cost reductions generated by these strategic environmental investments provide them with the best of both worlds.

81 Rushdale St, Knoxfield



Solar PV capacity

632kw

Greenhouse gas emissions reductions (tonnes CO₂e) p.a.

766,600kg

Value of energy produced

\$135,000

Estimated % of site energy needs provided by solar

26%

ADI acquired this single-tenanted asset in May 2019, taking on a potential vacancy risk as the tenant had a near-term expiry. The tenant, a manufacturer of double-glazed windows, has a furnace on site, and energy is a major cost component of their business – a higher cost, even, than rent.

The opportunity APN saw in buying the property was to solve the tenant's energy problem, thereby providing them with a more economical total occupancy cost with less volatility, enticing them to renew their lease.

Prior to acquiring the asset, APN had completed sufficient diligence on the size and cost of a solar PV installation, and understood the costs and benefits from the tenant's perspective. Once the property acquisition was finalised, APN collaborated with the tenant to understand in greater detail the key design and delivery drivers, and worked towards agreeing on a new lease term at the same time.

Ultimately an agreement was reached with the tenant to renew the lease, and for the installation of a 632kW solar PV array on the roof. The energy generated from the solar was to deliver a financial return to ADI's securityholders; remove 766,600kg of CO₂ from the atmosphere annually; and deliver 26% energy self-sufficiency. Not only has this reduced the

tenant's energy bill, it also reduced their exposure to the volatility from the wholesale energy market, and enabled them to fix a component of their energy cost.

This transaction is an excellent example of how APN operates – thinking laterally; understanding business from the tenant's perspective; and generating a return for the environment and our securityholders.

However, despite this being an outstanding outcome, we are yet to determine the most objective and cost-efficient method of capturing our environmental contribution, because unlike office buildings – which are relatively comparable and can be assigned a NABERS rating – the energy consumed by single-let industrial properties is predominantly dependent on the tenant's operational activities, which are not within the owner's control. For example, a tenant in one warehouse could be using the property for storage, which has a very low draw of energy, whereas another could be using it for highly energy intensive manufacturing. Not being able to utilise a common and cost-efficient measurement metric, like NABERS, may result in our achievements throughout our industrial portfolio not being recognised as perhaps they should be – and it is for this reason we will continue to provide case studies such as this.

88 Brandl St, Brisbane Technology Park



In 2019, the fund elected to invest in a state-of-the-art end-of-trip facility at this BTP address, complete with bike storage space, changing facilities, toilets and showers.

The fund made the end-of-trip facility significantly larger than the current demand for it would dictate, even losing two car parks in the process. This is, of course, an example of how APN takes the long view – it is our belief that over time, more people will gravitate towards using public transport, cycling and going for a run at lunchtime; meaning that demand

will be greater for this end-of-trip facility in the future, and expensive retrofits will be avoided.

Of course, the mere presence of the end-of-trip facility encourages more sustainable actions. If the facility wasn't there, staffers at this address would be unlikely to ride their bike to work at all, because the facilities wouldn't exist to shower and freshen up afterwards.

It's about changing mindsets and changing behaviours, and that takes time – and vision.

The year ahead

APN will seek to stay ahead of the curve and continue to improve year-on-year, and will keep pursuing ways to enhance energy efficiency and reduce operating costs for tenants.

Throughout 2020, APN has been collaborating with Griffith University on various innovation and research projects, including to find ways to reduce heat loads on the windows at our Brisbane Technology Park properties. Heat loads on glazing is a major issue in the built environment, and technology advancement and innovation in this area has the potential to have widespread benefits for not just ADI's assets, but all buildings. Reducing the impact of heat loads would improve building and air conditioning performance, decreasing CO₂ emissions, whilst allowing tenants the ability to continue to enjoy the natural light and vistas offered by windows. We anticipate further collaborations in years to come.

In the coming year we will also continue to encourage tenants to join us on our sustainability journey. One way APN is doing this is by engaging tenants at the most basic levels, which can often be overlooked as they focus on the key areas of

performance for their business. Examples include encouraging tenants to install sensors that will cause lights to go out in parts of the property that aren't being used, and where possible operating energy-intensive appliances on sunny days – benefiting from our solar PV. These simple education initiatives have the impact of reducing energy consumption, CO₂ emissions and operating costs.

Regarding our suppliers, we acknowledge outsourced providers can adopt practices that are inconsistent with APN's values and sustainability expectations. Key ways to successfully manage suppliers are through communication, awareness, and accountability through KPIs, whilst also being diligent when procuring. These are all areas we are progressing.

For financial year 2021 our most measurable objective, in a quantitative sense, will be achieving carbon neutrality. Our carbon neutral claim will be certified under the Climate Active Organisations standard, and energy consumption and greenhouse gas emissions across the ADI portfolio will be collated and reported to achieve this objective.

Key takeaways



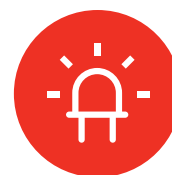
Carbon neutral

On track to achieve certified carbon neutrality under the Climate Active standard in FY21.



Solar

Solar PV systems installed across 15 properties with an average 15% yield, removing 2,885 tonnes of CO₂e from the atmosphere per annum.



LED

LED lights installed across 14 properties, reducing emissions by 919 tons of CO₂ per annum.

NABERS energy ratings

NABERS (National Australian Built Environment Rating System) is a national rating system that measures the energy efficiency and water usage of a building by comparison to similar buildings in the area.

At present, NABERS assessments are only conducted for ADI's office buildings. The most objective and cost-efficient method for capturing industrial building performance is yet to be determined.

Brisbane Technology Park properties	NABERS energy rating
7 Clunies Ross Court	3.5
33 McKechnie Drive*	1.0
12 Electronics Street	5.5
51 McKechnie Drive	5.5
8 Clunies Ross Court	4.5
10 Brandl Street**	1.5
37 Brandl Street	4.5
18 Brandl Street	3.0
88 Brandl Street	5.5
Rhodes Corporate Park properties	NABERS energy rating
Rhodes A	5.0
Rhodes C	4.5

*Medium term development site

**Acquired in October 2019; business plan to upgrade in coming periods

Social

APN's guiding principle is that if you look after people, then they tend to look after you. APN's positive culture produces strong relationships with our team, tenants and the community.

APN's Diversity Policy is founded on a culture that promotes and supports inclusion and flexibility. We value a variety of experiences and perspectives, and we embrace and respect the contributions and differences of all team members, irrespective of gender, age, ethnicity, beliefs, cultures, background or other differences. We have zero tolerance for discrimination, harassment, vilification and victimisation in the workplace.

We understand the importance of hiring well, and conduct background checks on all new members of our team (and all new service providers). The selection process for all appointments – including at board level, senior management level and employee level – has regard for the need to maintain an appropriate mix of skills, experience, expertise and diversity, which is why at least one female candidate will be considered for every role wherever reasonably possible.

Remuneration changes and discretionary bonus payments are based on individual performance and market guidance, to ensure there is no unconscious gender pay inequality, and every team member has the right to join – or not join – a union or workplace organisation.

APN will consider flexible work arrangements for any team member on request, in order to balance family and other commitments with their work. APN also provides eight weeks paid parental leave to the primary carer, and two weeks' paid leave to the secondary carer. Opportunities are provided for team members on extended parental leave to maintain their connection with the business by including them in correspondence, events and training programs.

APN places a premium on safety. There is a Health and Safety Policy, and there is a culture in place to support that policy. Safety is the leading agenda item for the formal asset management meeting held weekly, and there is an emphasis and responsibility placed on all APN team members to escalate potential safety risks before an incident arises. For

the period 1 July 2019 to 30 June 2020 there were zero injuries, zero near-misses, and a zero lost-time injury frequency rate (LTIFR). These outcomes were achieved for APN, and the ADI portfolio.

APN considers it essential to give back to the community, which is why we made \$21,000 of contributions to charity, as well as contributing our time. APN is a founding member and Platinum Sponsor of the Property Industry Foundation, where Tim Slattery, our CEO, serves as a Victorian Advisory Board Member. The Property Industry Foundation brings the property and construction industry together to build homes for homeless youth.

We believe that a satisfied tenant is a customer for life. In the words of Sandy Lokas, Managing Director of BTP tenant Hyphen IO, "[APN] do care about your success, and they don't just see you as a tenant. They see you as a long-term partner."

The past financial year has tested the resolve of many, and the fund has sought to engage fairly and equitably with tenants who have been affected by the changing landscape. In integrating ESG risks into our day-to-day framework, we have sought to strike the right balance by providing rent concessions in certain circumstances, while still taking a commercial view and ensuring these concessions are only made where it is appropriate to do so. This has resulted in some challenging conversations – but it is a testament to the rapport we have developed with our tenants that we have been able to maintain strong relationships with them regardless.

The fund had intended to undertake a formal occupier survey in FY20, but with the onset of COVID-19, many of our office properties were occupied at lower densities while businesses were encouraged to work from home where possible. As a result, the survey, which will provide us with data points on areas presenting opportunities and challenges, will take place in FY21. We look forward to engaging with our tenants to learn how they think we can do better, and – as in all facets of the business – striving to make those improvements in the years ahead.

Key takeaways



Diversity

Zero tolerance for discrimination. Diversity Policy requires selection process for all appointments to consider skills, experience, expertise and diversity.



Health and safety

Zero injuries reported, zero near-misses, zero lost-time injury frequency rate (LTIFR).



Worker remuneration

Remuneration and discretionary bonus payments based on individual performance and market guidance in order to remove unconscious gender pay inequality.



Paid parental leave

Eight weeks paid leave for primary carer; two weeks paid leave for secondary carer.



Community

\$21,000 donated to charitable organisations, including bushfire relief assistance and the Property Industry Foundation, which builds housing for homeless youths. CEO Tim Slattery serves on the Property Industry Foundation Victorian Advisory Board.



COVID-19

\$267,000 in rent concessions provided to tenants, where appropriate in FY20.



Formal Occupiers Survey

To be conducted in FY21.

Gender diversity

	Men	Women	Movement from FY19
Board of APN Property Group Limited	80%	20%	↑ (from 0%)
Board of APN Funds Management Limited	75%	25%	No change
Board of Industria Company No.1 Limited	80%	20%	No change
Senior Management* of the APN Group	71%	29%	↑ (from 25%)
All employees of the APN Group	49%	51%	↑ (from 45%)

*Senior Management is defined as a manager having a direct reporting line to the CEO (i.e. CEO-1). It also includes the CEO role itself.

Governance

Through our governance, we have established a robust framework for ensuring that we practice what we preach.

Our Board and Senior Management are responsible for making certain that the actions of APN's people are in line with our values and practices. Most significantly in FY20, the Board approved our Sustainability and Responsible Investment Policy, which aims to foster an environmentally responsible culture within the workplace. The policy will be regularly reviewed to ensure it is aligned with best practice.

The Board and Senior Management are also responsible for encouraging and embracing diversity and inclusion throughout the business, in line with our Diversity Policy – which requires, among other things, that a woman must be considered for every position wherever reasonably possible.

APN's financial alignment to ADI's investors, in the form of co-investment, is one of the highest in the A-REIT sector. APN has an investment of approximately \$70 million in ADI securities, which represents approximately 14.3% of the shares on issue.

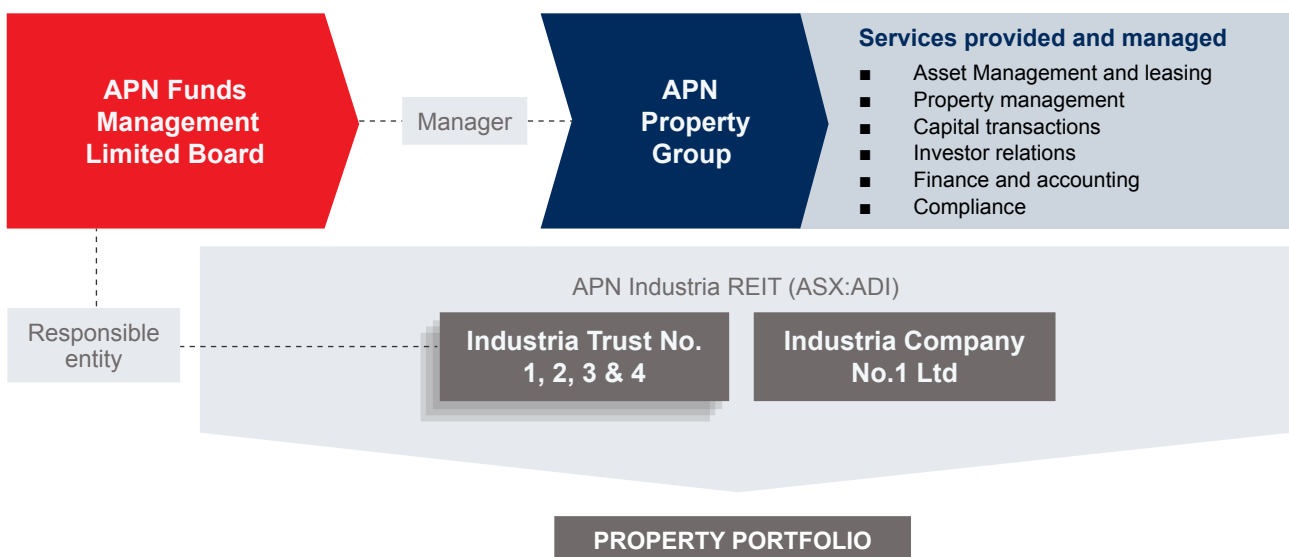
Although APN and the senior management team is strongly aligned to all securityholders through the co-investment, there is also an independent Responsible Entity Board. Each of the Directors have over 30 years of average experience, which can be called upon when questioning management on the activities and strategy of the fund. The independent Board is a significant investment that demonstrates APN's commitment to strong governance.

Providing opportunities for investors to participate equally in capital raisings for ADI continues to be a priority for the Board. Throughout calendar year 2019, two capital raisings were completed, and on both occasions' minority investors were provided the opportunity to participate on terms consistent with institutional investors. In total, 41% of the equity raised was allocated to minority securityholders.

APN's culture of accountability and transparency is also enforced by the Anti-Bribery and Corruption Policy, which strictly prohibits the offer, provision or acceptance of bribes and other improper payments, and requires all staff to uphold the highest standards of honesty, integrity and ethical behaviours. In keeping with this approach, and in fairness to all investors of every political persuasion, neither APN or ADI make political donations.

To make certain that APN works within its risk framework, there is an emphasis on a culture of compliance. Training and education are provided to ensure every member of the team, at every level, is aware of their obligations, and compensation for all employees is tied to compliance outcomes. An electronic tool is also leveraged to record key compliance obligations.

Heading into FY21, APN will continue to explore ways to better train and support staff; consider how the more flexible working arrangements necessitated by COVID-19 can be maintained and adjusted in a post-COVID world; maintain ADI's commitment to innovation by constantly looking at new products to support our tenants and investors; and seek out social investment opportunities that further the public interest while, at the same time, providing our investors with a good return.



Key takeaways



ESG policy

Sustainability and Responsible Investment Policy approved by the Board in FY20.



Diversity

A woman must be considered for every position wherever possible.



Alignment

As the manager of APN Industria REIT, APN holds a 14.3% co-investment stake in ADI and is strongly aligned to delivering investor returns.



Board

Fully independent Responsible Entity Board with over 30 years of average experience.



Bribery and corruption

Zero tolerance stance enforced by Anti-Bribery and Corruption Policy.



Conservative gearing

Leverage of 29%, below target range of 30-40%.



Equitable treatment of securityholders

41% of equity raised in the past 18 months allocated to minority securityholders.



Political donations

The fund does not make political donations.



Compliance

An online reporting tool is leveraged to manage compliance, which is directly linked to compensation outcomes for all employees.

APN | Industria REIT

