Independent auditor's report

To the members of Industrials REIT Limited

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2022 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with International Financial Report Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

We have audited the financial statements of Industrials REIT Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2022 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the audit committee, we were appointed by the Directors on 16 September 2020 to audit the financial statements for the year ending 31 March 2021 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is two years, covering the years ending 31 March 2021 to 31 March 2022. We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Group or the Parent Company.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- using our knowledge of the Group and its market sector together with the current general economic environment to assess management's identification of the inherent risks to the Group's business and how these might impact the Group's ability to remain a going concern for the going concern period, being the period to 30 September 2023, which is at least 12 months from when the financial statements are authorised for issue;
- obtaining an understanding of management's process for assessing going concern including an understanding of the key assumptions used;
- obtaining management's going concern assessment and:
- assessing the Group's forecasts cash flows with reference to historic performance and challenging the Directors' forecast assumptions in comparison to the current performance of the Group;
- testing the inputs into the forecasts for reasonableness based on historic activity and corroboration to contractual agreements;
- agreeing the Group's available borrowing facilities and the related terms and covenants to loan agreements;
- obtaining covenant calculations and forecast calculations to test for any potential future covenant breaches. We also considered the covenant compliance headroom for sensitivity to both future changes in property valuations and the Group's future financial performance;
- considering board minutes, and evidence obtained through the audit and challenged the Directors on the identification of any contradictory information in the forecasts and the impacting the going concern assessment;
- analysing the Director's stress testing calculations and challenging the assumptions made using our knowledge of the business and of the current economic climate, to assess the reasonableness of the downside scenarios selected; and reviewing the disclosures in the financial statements relating to going concern to check that the disclosure is consistent with the circumstances.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the Parent Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage	100% (2020: 100%) of Group profit before tax 100% (2020: 100%) of Group revenue 100% (2020: 100%) of Group total assets		
		2022	2021
Key audit matters	Valuation of Investment Property	✔	✔
Materiality	Group financial statements as a whole £7,220,000 (2020: £6,430,000) based on 1% (2020: 1%) of Group total assets		

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

The Group's investment portfolio in the year was geographically distributed across Germany, the United Kingdom and Switzerland. We scoped our audit in alignment with the operating segments as disclosed in Note 5, with UK multi-let industrial and Group being identified as significant. Each significant component was subject to full scope audit utilising component materiality. Guernsey, Germany and Switzerland being non-significant components, were subject to full scope audit procedures utilising group materiality. Audit procedures for all components were performed by the Group audit team.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the scope of our audit addressed the key audit matter
Valuation of Investment Property *Refer to Note 3 (Significant Accounting Policies), Note 4 (Key Sources of Estimation Uncertainty) and Note 16 (Investment Property)* The valuation of investment property requires significant judgement and estimates by the Directors, with the assistance of independent valuers ("the External Valuers"), and is therefore considered a significant risk due to the subjective nature of certain assumptions inherent in each valuation. The key inputs into the fair value model which are subject to significant management estimates include market rents, market yields and vacancy rates. Any input inaccuracies or unreasonable assumptions could give rise to a material misstatement of investment property valuations, therefore impacting the income statement and the balance sheet. There is also a risk that the Directors may influence the significant judgements and estimates in respect of property valuations in order to achieve property valuation and other performance targets to meet market expectations.	To respond to the key audit matter, we have performed the following audit procedures: • We read the external valuation reports and checked that the approaches used were consistent with the requirements of relevant accounting standards. • We assessed the competency, independence and objectivity of the external valuers, which included making enquiries regarding interests and relationships that may have created a threat to the valuer's objectivity; • We used our knowledge and experience, alongside our valuation specialists, to evaluate and challenge the valuation assumptions, methodologies and inputs used. This included establishing our own range of expectations for the valuation of investment property based on externally available metrics and wider economic and commercial factors as it relates to market yields. We assessed the valuation for each of the investment properties against our own expectation and challenged the external valuer in respect of those properties where the valuations fell outside of our range of expectation through discussion and inspection of corroborating information to determine the appropriate valuation; • We assessed the accuracy of data provided to the external valuer by obtaining the tenancy schedules and reconciling the rental values used in the valuations to the tenancy schedules. This included tracing a sample back to underlying lease agreements, alongside verifying vacancy rates utilised in the valuations to the tenancy schedules; • We assessed whether the disclosures in the financial statements are appropriate and in accordance with IFRS 13 Fair Value Measurement; and • We assessed whether all property valuations have been correctly included in the financial statements. **Key observations:** Based on the procedures performed, we consider the assumptions and methodologies used to value the Group's investment portfolio to be appropriate and that the disclosures in the financial statements are appropriate and in accordance with relevant accounting standards.

Independent auditor's report continued

To the members of Industrials REIT

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements	
	2022	2021
Materiality	£7,220,000	£6,430,000
Basis for determining materiality	Group financial statements as a whole – 1% of total assets	
Rationale for the benchmark applied	We determined that total assets would be the most appropriate basis for determining overall materiality as we consider this to be one of the principal considerations for users of the financial statements in assessing the financial performance of the Group.	
Performance materiality	£5,055,000	£3,860,000
Basis for determining performance materiality	70% of materiality – in determining performance materiality we have considered the following factors; • Our risk assessment, including our assessment of the Group's overall control environment; and • The impact of the year ending 31 March 2022 being the second year of our audit of the Group and our past experience of the audit.	60% of materiality – in determining performance materiality we have considered the following factors; • Our risk assessment, including our assessment of the Group's overall control environment; and • The impact of the year ending 31 March 2021 being the first year of our audit of the Group.

Specific materiality

We also determined that for other classes of transactions and account balances not related to investment properties, a misstatement of less than materiality for the financial statements as a whole, specific materiality, could influence the economic decisions of users. As a result, we determined materiality for these items based on 5% of the three-year average of European Public Real Estate Association ("EPRA") earnings being £940,000 (2021: 5% of EPRA being £945,000). We further applied a performance materiality level of 70% (2021: 60%) of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

Component materiality

We set materiality for each component of the Group based on a percentage of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £350,000 to £6,820,000 (2021: £1,163,000 to £5,790,000) and for amounts impacting EPRA earnings from £350,000 to £880,000 (2021: £290,000 to £850,000). In the audit of each component, we further applied performance materiality levels of 70% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £216,000 (2021: £130,000) and for amounts impacting EPRA earnings in excess of £28,000 (2021: £19,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Corporate governance statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the parent company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

Going concern and longer-term viability	• The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 118; and • The Directors' explanation as to their assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 51
Other Code provisions	• Directors' statement on fair, balanced and understandable set out on page 119; • Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 50; • The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 50; and • The section describing the work of the audit committee set out on page 94

Other Companies (Guernsey) Law, 2008 reporting

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if in our opinion:

- proper accounting records have not been kept by the Company; or
- the financial statements are not in agreement with the accounting records; or
- we have failed to obtain all the information and explanation which, to the best of our knowledge and belief, are necessary, for the purposes of our audit.

Responsibilities of Directors

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations and performing our own checks of compliance with relevant requirements including the Companies (Guernsey) Law 2008, the UK Listing Rules, Johannesburg Stock Exchange filing requirements and the REIT tax regime requirements;
- Agreement of the financial statement disclosures to underlying supporting documentation to assess compliance with those laws and regulations having an impact on the financial statements;
- Enquiries of management and the Audit Committee as to their identification of any non-compliance with laws or regulations, or any actual or potential claims;
- Review of minutes of Board meetings throughout the period;
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. We identified specific fraud risks with respect to the valuation of investment property, which has been included as a key audit matter and our audit response is set out in that section of our audit report. We also identified specific fraud risks with respect to revenue recognition through new or amended leases and management override to reflect higher occupancy and increase property valuations;
- In relation to the risk of management override of internal controls, by undertaking procedures to review journal entries processed during and subsequent to the year end and evaluating whether there was a risk of material misstatement due to fraud; and
- We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Independent auditor’s report continued

To the members of Industrials REIT

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

The partner on the audit resulting in this independent auditor’s opinion is Christopher Young.

Use of our report

This report is made solely to the Parent Company’s members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Parent Company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

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Christopher Young
For on and behalf of BDO LLP
Chartered Accountants and Recognised Auditor
London, United Kingdom
9 June 2022

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