Centuria

Centuria Industrial REIT
The consolidated entity comprises Centuria Industrial REIT and its subsidiaries

ARSN 099 680 252

Interim Financial Report
For the half-year ended 31 December 2018

Centuria Property Funds No. 2 Limited ABN 38 133 363 185 is the Responsible Entity for Centuria Industrial REIT.

Centuria Industrial REIT
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For the half year ended 31 December 2018

Directors' report

For the half year ended 31 December 2018

The directors of Centuria Property Funds No. 2 Limited, the Responsible Entity of Centuria Industrial REIT ('CIP') present their report, together with the interim consolidated financial report of the Trust and its subsidiaries ('the Trust') for the half year ended 31 December 2018 and the independent auditor's review report thereon.

Directors of the Responsible Entity

The directors of Centuria Property Funds No. 2 Limited during or since the end of the half year are:

Name	Appointed	Directorship of other listed companies
Peter Done	26 Jun 2017	Centuria Capital Limited
Darren Collins	26 Jun 2017	
Matthew Hardy	26 Jun 2017	
Nicholas Collishaw	12 Oct 2017	Centuria Capital Limited
Roger Dobson	12 Oct 2017	

The company secretaries of Centuria Industrial REIT during or since the end of the half year are:

Name	Appointed	Resigned
Anna Kovarik	05 Jul 2018	
James Lonie	16 Jun 2017	05 Jul 2018

No director holds any units in the Trust.

No director holds a right or option over interests in the Trust. No options over any issued or unissued units in the Trust have been issued to any director.

There are no contracts to which any director is a party to under which a director is entitled to a benefit and/or confers a right to call for or be delivered interests in the Trust.

Principal activities

The Trust is a registered managed investment scheme domiciled in Australia.

The principal continuing activity of the Trust was investment in industrial properties within Australia. There have been no significant changes in the nature of the Trust's activities since the date of the Trust's establishment.

The Trust did not have any employees during the half year.

Significant change in the state of affairs

In the opinion of the Responsible Entity there were no significant changes in the state of affairs of the Trust that occurred during the half year.

Review of operations

Results

The results of the operations of the Trust are disclosed in the consolidated interim statement of profit or loss and other comprehensive income of the interim financial report. The Trust's profit from continuing operations for the half year ended 31 December 2018 was $46,106,000 (31 December 2017: $49,608,000 profit).

As at 31 December 2018, the Trust's Net Tangible Assets ('NTA') have increased 10.0 cents per unit ('cpu'), or 3.9%, to $2.66 per unit since 30 June 2018.

Investment property valuations

The total value of the Trust's portfolio as at 31 December 2018 was $1,154.7 million representing an increase of 4.3% from 30 June 2018 on a like for like basis, excluding new acquisitions.

The weighted average capitalisation rate for the portfolio, has firmed 22 basis points to 6.54% at 31 December 2018 (30 June 2018: 6.76%).

Review of operations (continued)

Leasing and occupancy

The Trust secured 65,902 square metres ('sqm') of leases across 16 transactions for the half year ended 31 December 2018. This represented 8.2% of the portfolio's gross lettable area.

At 31 December 2018 the Trust's portfolio was 97.1% occupied with a weighted average lease expiry of 4.7 years. For the year ending 30 June 2019, lease expiries represent less than 1.5% of portfolio income.

Capital management

As at 31 December 2018, the Trust had drawn borrowings of $454.8 million with a weighted average expiry of 3.3 years. The drawn debt was 74.8% hedged reducing the interest rate exposure of the Trust.

The Trust's gearing at 31 December 2018 was 37.0% (30 June 2018: 38.4%).

Outlook

The Responsible Entity's strategy and ongoing focus remains unchanged. Management continues to focus on portfolio leasing to ensure occupancy and income are maximised, active asset management, risk mitigation and repositioning strategies. Management are also focused on acquiring quality assets in order to enhance existing stable and secure income streams.

The Responsible Entity confirms distributable earnings guidance for the year ending 30 June 2019 is expected to be in the range of 18.5 - 19.0 cpu. The distribution guidance for the year ending 30 June 2019 is 18.4 cpu which will be paid in equal quarterly instalments.

Distributions

Distributions paid or payable in respect of the half year were:

	31 December 2018		31 December 2017	
	Cents per unit	**$'000**	**Cents per unit**	**$'000**
September quarter	**4.60**	**11,424**	4.85	12,022
December quarter	**4.60**	**12,271**	4.85	12,029
	9.20	**23,695**	9.70	24,051

Key dates in connection with the December quarter distribution are:

Event	**Date**
Ex-distribution date	28 Dec 2018
Record date	31 Dec 2018
Distribution payment date	31 Jan 2019

The distributable earnings for the half year ended 31 December 2018 were $23.3 million. This was a 3.9% decrease to the prior period.

Review of operations (continued)

Distributions (continued)

The following table provides a reconciliation from the consolidated interim statement of profit or loss and other comprehensive income to the distributable earnings for the half year:

	31 December 2018 $'000	31 December 2017 $'000
Net profit for the half year	**46,106**	49,608
Adjustments:		
Net gain on fair value of investment properties	**(30,395)**	(24,885)
Net loss/(gain) on fair value of derivative financial instruments	**735**	(492)
Straight-lining of rental income	**(947)**	720
Amortisation of incentives and leasing fees	**2,659**	1,051
Amortisation of borrowing costs	**404**	363
Loss/(gain) on fair value of financial assets	**3,107**	(2,142)
Loss on sale of investment property	**326**	-
Other transaction related costs	**1,284**	-
Distributable earnings for the half year	**23,279**	24,223

Distribution reinvestment plan

The Trust did not activate the Distribution Reinvestment Plan ('DRP') during the half year ended 31 December 2018.

Transaction with related party

On 21 December 2018, the Trust acquired 149 Kerry Road, Archerfield QLD from Centuria Metropolitan REIT in an arm's length transaction for $30,550,000 after an on market campaign.

Events subsequent to balance date

On 1 February 2019, the Trust entered into an unconditional contract and paid a 5% deposit for the acquisition of 16-18 Baile Road, Canning Vale WA for a purchase price of $18.1 million. The settlement is expected to occur in March 2019.

There are no other matters or circumstances which have arisen since the end of the period and the date of this report, in the opinion of the Responsible Entity, which significantly affect the operations of the Trust, the results of those operations, or the state of affairs of the Trust, in future financial years.

Auditor's independence declaration

The auditor's independence declaration required under Section 307C of the Corporations Act 2001 is set out on page 5 and forms part of the Directors' report for the half year ended 31 December 2018.

Rounding of amounts

The Trust is an entity of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191 and in accordance with that Instrument amounts in the Directors' report and the interim financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

This report is made in accordance with a resolution of Directors.

Peter Done
Director

Matthew Hardy
Director

Sydney
6 February 2019

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Centuria Property Funds No. 2 Limited, the Responsible Entity of Centuria Industrial REIT

I declare that, to the best of my knowledge and belief, in relation to the review of Centuria Industrial REIT for the half-year ended 31 December 2018 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Nigel Virgo

Partner

Sydney

6 February 2019

Centuria Industrial REIT
Interim Financial Report

For the half year ended 31 December 2018

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Consolidated interim statement of profit or loss and other comprehensive income

For the half year ended 31 December 2018

	Note	31 December 2018 $'000	31 December 2017 $'000
Revenue			
Rent and recoverable outgoings	B2	**44,149**	40,999
Total revenue from continuing operations		**44,149**	40,999
Other income			
Interest income		**112**	82
Net gain on fair value of investment properties	C1	**30,395**	24,885
Gain on fair value of derivative financial instruments		**-**	492
Other income		**397**	1,676
Gain on fair value of financial assets held at fair value through profit or loss after transaction costs		**-**	2,142
Total other income		**30,904**	29,277
Total revenue from continuing operations and other income		**75,053**	70,276
Expenses			
Rates, taxes and other property outgoings		**10,820**	8,221
Finance costs	B3	**9,405**	8,499
Management fees	D2	**3,226**	3,013
Other expenses		**1,328**	935
Loss on sale of investment property		**326**	-
Loss on fair value of derivative financial instruments		**735**	-
Loss on fair value of financial assets held at fair value through profit or loss after transaction costs		**3,107**	-
Profit from continuing operations for the period		**46,106**	49,608
Net profit for the period		**46,106**	49,608
Total comprehensive income for the period		**46,106**	49,608
Basic and diluted earnings per unit			
Basic earnings per unit (cents per unit)		**18.49**	20.70

The above consolidated interim statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated interim statement of financial position

As at 31 December 2018

	Note	31 December 2018 $'000	30 June 2018 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**25,468**	21,177
Trade and other receivables		**6,509**	3,606
Other assets		**-**	3,227
Derivative financial instruments		**-**	14
Investment properties held for sale	C2	**-**	10,000
Total current assets		**31,977**	38,024
Non-current assets			
Investment properties	C1	**1,154,650**	999,000
Investments in listed entities	C3	**-**	49,337
Intangibles		**10,501**	10,501
Derivative financial instruments		**-**	37
Total non-current assets		**1,165,151**	1,058,875
Total assets		**1,197,128**	1,096,899
LIABILITIES			
Current liabilities			
Trade and other payables		**23,782**	21,411
Borrowings	C4	**-**	135,000
Derivative financial instruments		**4**	-
Total current liabilities		**23,786**	156,411
Non-current liabilities			
Borrowings	C4	**453,056**	292,987
Derivative financial instruments		**691**	11
Total non-current liabilities		**453,747**	292,998
Total liabilities		**477,533**	449,409
Net assets		**719,595**	647,490
EQUITY			
Issued capital	C5	**676,011**	626,317
Retained earnings		**43,584**	21,173
Total equity		**719,595**	647,490

The above consolidated interim statement of financial position should be read in conjunction with the accompanying notes.

Consolidated interim statement of changes in equity

For the half year ended 31 December 2018

	Note	Issued capital $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2017		538,551	(29,589)	508,962
Net profit for the period		-	49,608	49,608
Other comprehensive income		-	-	-
Total comprehensive income for the period		**-**	**49,608**	**49,608**
Units issued	C5	88,034	-	88,034
Dividend reinvestment plan ('DRP')		308	-	308
Equity raising costs		(1,419)	-	(1,419)
Distributions provided for or paid		-	(24,051)	(24,051)
Balance at 31 December 2017		**625,474**	**(4,032)**	**621,442**
Balance at 1 July 2018		**626,317**	**21,173**	**647,490**
Net profit for the period		-	46,106	46,106
Total comprehensive income for the period		**-**	**46,106**	**46,106**
Units issued	C5	50,967	-	50,967
Equity raising costs	C5	(1,273)	-	(1,273)
Distributions provided for or paid		-	(23,695)	(23,695)
Balance at 31 December 2018		**676,011**	**43,584**	**719,595**

The above consolidated interim statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated interim statement of cash flows

For the half year ended 31 December 2018

	Note	31 December 2018 $'000	31 December 2017 $'000
Cash flows from operating activities			
Receipts from customers		**45,750**	39,159
Payments to suppliers		**(14,361)**	(10,294)
Interest received		**112**	82
Interest paid		**(8,654)**	(7,202)
Distribution received		**1,722**	-
Net cash generated by operating activities		**24,569**	21,745
Cash flows from investing activities			
Net proceeds from sale of investment properties		**11,375**	-
Payments for investment properties		**(128,943)**	(81,988)
Proceeds from sale of investments held at fair value through profit or loss		**46,229**	-
Payments for investments held in listed trusts		**-**	(44,402)
Net cash used in investing activities		**(71,339)**	(126,390)
Cash flows from financing activities			
Distribution paid		**(23,470)**	(21,994)
Proceeds from borrowings		**68,796**	39,500
Repayment of borrowings		**(43,748)**	-
Payments for borrowing costs		**(285)**	(128)
Proceeds from issue of units		**50,967**	88,034
Equity issue costs		**(1,199)**	(1,419)
Net cash generated by financing activities		**51,061**	103,993
Net increase/(decrease) in cash and cash equivalents		**4,291**	(652)
Cash and cash equivalents at beginning of the period		**21,177**	8,189
Cash and cash equivalents at end of period		**25,468**	7,537

The above consolidated interim statement of cash flows should be read in conjunction with the accompanying notes.

Condensed notes to the interim financial report

For the half year ended 31 December 2018

A About the report

A1 General information

Centuria Industrial REIT is a registered managed investment scheme under the Corporations Act 2001 and is domiciled in Australia. The principal activity of the Trust is disclosed in the Directors' report.

Statement of compliance

The interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: Interim Financial Reporting and the Corporations Act 2001.

The interim financial report does not include all of the information required for the annual financial report, and should be read in conjunction with the annual financial report of the Trust for the year ended 30 June 2018.

For the purposes of preparing the financial report, the Trust is a for-profit entity.

The interim financial report was authorised for issue in accordance with a resolution of the board of directors of Centuria Property Funds No. 2 Limited, the Responsible Entity, on 6 February 2019.

Basis of preparation

The interim financial report has been prepared on the basis of historical cost, except for investment properties and financial instruments that are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Going concern

The interim financial report has been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The principal accounting policies adopted in the preparation of the interim financial report are consistent with those of the previous financial year and corresponding interim reporting period.

Rounding of amounts

The Trust is a scheme of the kind referred to in ASIC Legislative Instrument 2016/191, related to the 'rounding off' of amounts in the Directors' report and the interim financial statements. Amounts in the Directors' report and the interim financial statements have been rounded off, in accordance with the instrument to the nearest thousand dollars, unless otherwise indicated.

Functional and presentation currency

The interim financial report is presented in Australian dollars, which is the Trust's functional currency.

Additional information

The registered office and principal place of business of the Trust and the Responsible Entity are as follows:

Registered office:
Suite 39.01, Level 39, 100 Miller Street
NORTH SYDNEY NSW 2060

Principal place of business:
Suite 39.01, Level 39, 100 Miller Street
NORTH SYDNEY NSW 2060

A2 Significant accounting policies

The principal accounting policies adopted in the preparation of the interim financial report are consistent with those of the previous financial year and corresponding interim period with the exception of the adoption of AASB 9 *Financial Instruments: Recognition and Measurement* and AASB 15 *Revenue from Contracts with Customers*.

New and amended accounting standards and interpretations commencing 1 January 2018

The Trust has adopted AASB 9 and AASB 15 at 1 July 2018. AASB 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities. AASB 15 contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time.

A2 Significant accounting policies (continued)

New and amended accounting standards and interpretations commencing 1 January 2018 (continued)

There have been no significant changes to the Trust's financial performance and position as a result of the adoption of the new and amended accounting standards and interpretations effective for annual reporting periods beginning on or after 1 January 2018. There has been no financial impact as a result of adopting AASB 9 and AASB 15 and new disclosures have been included where required.

A3 Changes in accounting policy

The nature and key effects of the changes to the Trust's accounting policies resulting from the adoption of the accounting policies are summarised below.

AASB 9 Financial Instruments

AASB 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces AASB 139 *Financial Instruments: Recognition and Measurement*.

(a) Classification - Financial assets and financial liabilities

AASB 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). The standard eliminates the existing AASB 139 categories of held to maturity, loans and receivables and available for sale. Loans and receivables are classified and measured at amortised cost. The Trust holds these assets in order to collect contractual cash flows, and the contractual terms are solely payments of outstanding principal and interest on the principal outstanding. The Trust's available for sale financial assets are already measured at FVTPL.

The standard requires all financial liabilities to be subsequently classified at amortised cost, except in certain circumstances, of which none apply to the Trust. Accordingly, there is no change in the classification of the Trust's payables and borrowings on adoption of AASB 9.

(b) Impairment - Receivables

AASB 9 replaces the 'incurred loss' model in AASB 139 with a forward-looking 'expected credit loss' ('ECL') model. The new impairment model is only relevant to the Trust's financial assets measured at amortised cost. The new accounting policy in Note A4 outlines the probability-weighted model used to determine ECL amounts.

Based on its assessment, the Trust does not believe that the new impairment model will have a material impact on its equity upon transition as at 1 July 2018.

(c) Hedge accounting

The new hedge accounting rules generally allow for more hedge relationships to be eligible for hedge accounting, as the standard is aligned to a principles-based approach. The Trust's risk management strategies and hedging documentation are aligned with the requirements of AASB 9 and accordingly there is no material impact on the adoption of AASB 9 on the Trust's derivatives and hedge accounting.

(d) Transition

Changes in the accounting policies resulting from the adoption of AASB 9 have been applied retrospectively.

There is no material impact on the financial position previously reported as at 30 June 2018 and 31 December 2017 as a result of the adoption of AASB 9 and its retrospective application.

AASB 15 Revenue from customers

AASB 15 applies to all contracts with customers to deliver goods or services as part of the entity's ordinary course of business excluding insurance contracts, financial instruments and leases, which are addressed by other standards. It replaces existing revenue recognition guidance, including AASB 118 *Revenue* and AASB 111 *Construction Contracts* and contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based give-step analysis of transactions to determine whether, how much and when revenue is recognised. It applies to all contracts with customers except leases, financial instruments and insurance contracts.

A3 Changes in accounting policy (continued)

AASB 15 Revenue from customers (continued)

(a) Classification and measurement of revenue

Revenue is recognised over time if:
- The customer simultaneously receives and consumes the benefits as the entity performs;
- The customer controls the asset as the entity creates or enhances it; or
- The seller's performance does not create an asset for which the seller has an alternative use and there is a right to payment for the performance to date.

Where the above criteria are not met, revenue is recognised at a point in time.

In the notes to the financial statements, the Trust has disaggregated income for the current and comparative financial period to disclose recoveries revenue. Based on the Trust's assessment of when performance obligations are satisfied, there is no change in the timing of revenue recognition when comparing to the previous accounting policy, other than the change in terminology. Under AASB 15, recoveries revenue will be recognised over time.

Recoveries revenue

The Trust recovers the costs associated with general building and tenancy operation from lessees in accordance with specific clauses within lease agreements. These are invoiced monthly based on an annual estimate. The consideration is due 30 days from the invoice date. Should any adjustment be required based on actual costs incurred, this is recognised in the statement of profit or loss and other comprehensive income within the same reporting period and billed annually.

(b) Transition

Changes in the accounting policies resulting from the adoption of AASB 15 have been applied retrospectively. There has been no impact on the Trust's previously reported financial position as a result of the adoption of AASB 15.

A4 New accounting policies

The Trust has introduced a new accounting policy as part of the adoption of changes to the accounting standard AASB 9, which is effective for the reporting period beginning 1 July 2018.

Recoverability of loans and receivables

At each reporting period, the Trust assesses whether financial assets carried at amortised cost are 'credit-impaired'. A financial asset is 'credit-impaired' when one or more events that has a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The Trust recognises loss allowances at an amount equal to lifetime ECL on trade and other receivables. Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the trade receivables and are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between cash flows due to the Trust in accordance with the contract and the cash flows that the Trust expects to receive.

The Trust analyses the age of outstanding receivable balances and applies historical default percentages adjusted for other current observable data as a means to estimate lifetime ECL, including forecasts of interest rates and inflation, as well as the financial stress of counterparties and their ability to operate as a going concern.

Debts that are known to be uncollectable are written off when identified.

A5 Segment reporting

The Trust operates in one segment, being investments in Australian industrial property. The Trust 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 Responsible Entity has been identified as the Trust's chief operating decision maker.

B Trust performance

B1 Distributions

	31 December 2018		31 December 2017	
	Cents per unit	**$'000**	**Cents per unit**	**$'000**
September quarter	**4.60**	**11,424**	4.85	12,022
December quarter	**4.60**	**12,271**	4.85	12,029
	9.20	**23,695**	9.70	24,051

Key dates in connection with the December quarter distribution are:

Event	**Date**
Ex-distribution date	28 Dec 2018
Record date	31 Dec 2018
Distribution payment date	31 Jan 2019

B2 Rental income

	31 December 2018 $'000	31 December 2017 $'000
Rental income	**36,623**	35,471
Recoverable outgoings	**6,579**	6,248
Straight-lining of lease revenue	**947**	(720)
	44,149	40,999

B3 Finance costs

Finance costs include interest expense and amortised borrowing costs. Interest expense is recognised in profit or loss as it accrues. Finance costs are recognised using the effective interest rate applicable to the financial liability.

	31 December 2018 $'000	31 December 2017 $'000
Interest expense	**9,001**	8,136
Amortisation of borrowing costs	**404**	363
	9,405	8,499

C Trust's assets and liabilities

C1 Investment properties

	31 December 2018 $'000	30 June 2018 $'000
Opening balance	**999,000**	886,150
Acquisitions of investment properties	**118,694**	82,894
Capital improvements and associated costs	**5,558**	4,416
	124,252	87,310
Gain on fair value	**30,395**	50,416
Change in deferred rent and lease incentives	**540**	2,705
Disposed deferred rent and lease incentives	**-**	789
Change in capitalised leasing fees	**463**	1,767
Disposals at fair value	**-**	(30,100)
Rental guarantee cash received	**-**	(37)
Closing balance^	**1,154,650**	999,000

^ The carrying amount of investment properties includes components related to deferred rent, capitalised lease incentives and leasing fees amounting to $20.8 million (30 June 2018: $19.8 million).

C1 Investment properties (continued)

Property	Fair value 31 Dec 2018 $'000	Fair value 30 Jun 2018 $'000	Capitalisation rate 31 Dec 2018 %	Capitalisation rate 30 Jun 2018 %	Discount rate 31 Dec 2018 %	Discount rate 30 Jun 2018 %	31 Dec 2018 Valuer	Last independent valuation date
NSW								
2 Woolworths Way, Warnervale NSW	**81,200**	81,000	**7.00%**	7.50%	**7.75%**	7.75%	Directors	Sep 2018
10 Williamson Rd, Ingleburn NSW	**48,900**	46,000	**5.75%**	6.00%	**7.00%**	7.00%	Directors	Sep 2018
29 Glendenning Rd, Glendenning NSW	**45,650**	42,000	**5.50%**	6.00%	**7.00%**	7.25%	Directors	Sep 2018
92-98 Cosgrove Rd, Enfield NSW	**44,450**	42,250	**6.25%**	6.50%	**7.50%**	7.50%	Directors	Sep 2018
12 Williamson Rd, Ingleburn NSW	**38,750**	36,200	**6.25%**	6.75%	**7.50%**	8.00%	Directors	Sep 2018
37-51 Scrivener St, Warwick Farm NSW	**35,500**	34,400	**6.75%**	6.75%	**7.00%**	7.25%	Directors	Sep 2018
74-94 Newton Rd, Wetherill Park NSW	**34,400**	28,200	**6.00%**	6.25%	**6.75%**	7.25%	Directors	Sep 2018
457 Waterloo Rd, Chullora NSW	**29,050**	27,500	**5.75%**	6.00%	**6.75%**	7.00%	Directors	Sep 2018
6 Macdonald Rd, Ingleburn NSW	**22,550**	21,700	**5.75%**	6.00%	**7.00%**	7.25%	Directors	Sep 2018
30 Clay Pl, Eastern Creek NSW	**19,000**	18,000	**5.50%**	6.00%	**7.00%**	7.50%	Directors	Sep 2018
8 Penelope Cres, Arndell Park NSW	**18,850**	17,100	**5.75%**	6.25%	**7.00%**	7.50%	Directors	Sep 2018
52-74 Quarry Rd, Erskine Park NSW	**17,550**	16,500	**6.00%**	6.25%	**7.00%**	7.00%	Directors	Sep 2018
75 Owen St, Glendenning NSW	**8,500**	7,600	**6.00%**	6.50%	**7.00%**	7.25%	Directors	Sep 2018
VIC								
1 International Drive, Westmeadows VIC	**41,800**	-	**7.00%**	-%	**7.50%**	-%	Directors	Oct 2018
207-219 Browns Rd, Noble Park VIC	**40,050**	37,550	**6.75%**	6.75%	**7.25%**	7.75%	Directors	Sep 2018
324-332 Frankston-Dandenong Rd, Dandenong South VIC	**32,550**	30,400	**6.00%**	6.25%	**7.00%**	7.50%	Directors	Sep 2018
102-128 Bridge Rd, Keysborough VIC	**29,850**	30,500	**7.00%**	7.25%	**7.75%**	8.25%	Directors	Sep 2018
24-32 Stanley Dr, Somerton VIC	**28,500**	27,000	**6.50%**	6.50%	**7.25%**	7.25%	Directors	Sep 2018
2 Keon Pde, Keon Park VIC	**25,100**	25,000	**5.75%**	6.00%	**7.00%**	7.25%	Directors	Sep 2018
69 Studley Ct, Derrimut VIC	**21,450**	19,250	**6.50%**	6.75%	**7.00%**	7.75%	Directors	Sep 2018
14-17 Dansu Ct, Hallam VIC	**21,050**	18,600	**6.50%**	6.75%	**7.00%**	7.50%	Directors	Sep 2018
500 Princes Hwy, Noble Park VIC	**20,500**	20,000	**7.25%**	7.50%	**7.50%**	8.00%	Directors	Sep 2018
12-13 Dansu Ct, Hallam VIC	**17,300**	15,400	**6.00%**	6.00%	**7.25%**	7.25%	Directors	Sep 2018
49 Temple Dr, Thomastown VIC	**11,650**	11,400	**7.50%**	7.50%	**7.75%**	7.75%	Directors	Sep 2018
9 Fellowes Ct, Tullamarine VIC	**4,350**	4,300	**7.00%**	7.00%	**7.00%**	7.00%	Directors	Sep 2018

C1 Investment properties (continued)

Property	Fair value 31 Dec 2018 $'000	Fair value 30 Jun 2018 $'000	Capitalisation rate 31 Dec 2018 %	Capitalisation rate 30 Jun 2018 %	Discount rate 31 Dec 2018 %	Discount rate 30 Jun 2018 %	31 Dec 2018 Valuer	Last independent valuation date
QLD								
22 Hawkins Cres, Bundamba QLD	**46,800**	46,500	**6.50%**	6.75%	**7.50%**	7.75%	Directors	Sep 2018
1 Ashburn Rd, Bundamba QLD	**38,250**	37,000	**6.50%**	6.75%	**7.25%**	7.75%	Directors	Sep 2018
33-37 Mica St, Carole Park QLD	**30,050**	29,750	**6.50%**	6.50%	**7.50%**	7.75%	Directors	Sep 2018
43-45 Mica St, Carole Park QLD	**1,800**	1,800	**6.00%**	6.00%	**-%**	-%	Directors	Sep 2018
136 Zillmere Rd, Boondall QLD	**31,600**	30,500	**6.75%**	6.75%	**7.25%**	7.25%	Directors	Sep 2018
69 Rivergate Pl, Murarrie QLD	**31,000**	30,000	**6.25%**	6.50%	**7.00%**	7.25%	Directors	Sep 2018
149 Kerry Road, Archerfield QLD	**30,550**	-	**6.00%**	-%	**7.00%**	-%	Directors	Nov 2018
616 Boundary Rd, Richlands QLD	**16,350**	-	**7.25%**	-%	**7.50%**	-%	Directors	Sep 2018
21 Jay St, Mount St John, Townsville QLD	**10,950**	10,500	**7.50%**	7.50%	**7.75%**	8.00%	Directors	Sep 2018
WA								
310 Spearwood Ave, Bibra Lake WA	**54,550**	54,100	**7.50%**	7.50%	**7.75%**	7.75%	Directors	Sep 2018
Lot 14 Sudlow Rd, Bibra Lake WA	**33,650**	32,550	**7.50%**	7.50%	**8.00%**	8.25%	Directors	Sep 2018
103 Stirling Crescent, Hazelmere WA	**15,200**	-	**6.75%**	-%	**7.50%**	-%	Directors	Nov 2018
155 Lakes Road, Hazelmere WA	**8,600**	-	**6.75%**	-%	**7.50%**	-%	Directors	Nov 2018
23 Selkis Rd, Bibra Lake WA	**20,000**	19,900	**7.50%**	7.50%	**8.00%**	8.25%	Directors	Sep 2018
92 Robinson Rd, Belmont WA	**11,350**	11,250	**7.75%**	7.75%	**7.25%**	7.75%	Directors	Sep 2018
99 Quill Way, Henderson WA	**11,300**	13,500	**7.75%**	7.75%	**8.25%**	8.00%	Directors	Sep 2018
ACT								
54 Sawmill Cct, Hume ACT	**16,000**	15,700	**6.75%**	7.00%	**7.25%**	7.75%	Directors	Sep 2018
SA								
9-13 Caribou Dr, Direk SA	**8,150**	8,100	**9.00%**	9.00%	**9.00%**	8.25%	Directors	Sep 2018
	1,154,650	999,000						

The Trust's weighted average capitalisation rate as at 31 December 2018 is 6.54% (30 June 2018: 6.76%).

C2 Investment properties classified as held for sale

	31 December 2018 $'000	30 June 2018 $'000
39-45 Wedgewood Rd, Hallam VIC	-	10,000
	-	10,000

Assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

On 5 July 2017, the Trust entered into an unconditional contract for the sale of 39-45 Wedgewood Rd, Hallam VIC. The contract provided for settlement on a deferred basis, and the sale was completed on 13 July 2018.

C3 Investments in listed entities

	31 December 2018 $'000	30 June 2018 $'000
Investment in Propertylink Group ('PLG')		
Acquisitions (including transaction costs)	-	44,402
Gain on fair value	-	4,935
Closing balance	-	49,337

On 8 September 2017, the Trust acquired 46,543,981 units of Propertylink Group ('PLG') at $0.95 per unit.

The Trust divested its entire holding in Propertylink Group ('PLG') on 9 August 2018 at a price of $1.01 per unit. The proceeds after transaction costs were $46.3 million.

C4 Borrowings

	31 December 2018 $'000	30 June 2018 $'000
Current		
Secured loan	-	135,000
	-	135,000
Non-current		
Secured loan	**454,800**	294,752
Borrowing costs	**(1,744)**	(1,765)
	453,056	292,987

As at 31 December 2018, the Trust had $190.0 million (30 June 2018: $190.0 million) of interest rate swaps hedged against its drawn debt. In addition to these, $150.0 million of the Trust debt facilities are on a fixed interest basis taking the total fixed rate debt to $340.0 million.

All facilities are interest only facilities and are secured by first mortgages over the Trust's investment properties and a first ranking fixed and floating charge over all assets of the Trust.

The secured loan has covenants in relation to Loan to Value Ratio ('LVR') and Interest Coverage Ratio ('ICR') which the Trust has complied with during the period.

C5 Issued capital

	31 December 2018		30 June 2018	
	Units '000	$'000	Units '000	$'000
Opening balance	**248,357**	**626,317**	211,957	538,551
Units issued	**18,400**	**50,967**	35,932	88,034
Distribution reinvestment plan ('DRP')	**-**	**-**	468	1,158
Equity raising costs	**-**	**(1,273)**	-	(1,426)
Closing balance	**266,757**	**676,011**	248,357	626,317

All units in the Trust are of the same class and carry equal rights to capital and income distributions.

D Other notes

D1 Fair value of financial instruments

The fair values of financial assets and financial liabilities, together with the carrying amounts in the consolidated interim statement of financial position are as follows:

	Measurement	Fair value hierarchy	Carrying amount $'000	Fair value $'000
31 December 2018				
Financial assets				
Receivables	Amortised Cost	Not applicable	**6,509**	**6,509**
			6,509	**6,509**
Financial liabilities				
Payables	Amortised Cost	Not applicable	**23,782**	**23,782**
Borrowings (excluding borrowing costs)	Amortised Cost	Not applicable	**454,800**	**456,325**
Interest rate swaps	Fair Value	Level 2	**695**	**695**
			479,277	**480,802**
30 June 2018				
Financial assets				
Receivables	Amortised Cost	Not applicable	3,606	3,606
Investments in listed entity	Fair Value	Level 1	49,337	49,337
Interest rate swaps	Fair Value	Level 2	51	51
			52,994	52,994
Financial liabilities				
Payables	Amortised Cost	Not applicable	21,411	21,411
Borrowings (excluding borrowing costs)	Amortised Cost	Not applicable	429,752	429,752
Interest rate swaps	Fair Value	Level 2	11	11
			451,174	451,174

The directors of the Responsible Entity consider that the carrying amount of the financial assets and financial liabilities recorded at amortised cost in the financial report approximates their fair value.

Valuation techniques

The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of interest rate swaps are determined using a discounted cash flow analysis. The future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.

The Trust classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1: derived from quoted prices (unadjusted) in active markets for identical assets or liabilities that the Trust can access at the measurement date.
- Level 2: derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

D1 Fair value of financial instruments (continued)

Valuation techniques (continued)

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Fair value hierarchy

The table below sets out the Trust's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy:

	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000
31 December 2018				
Financial liabilities held at fair value				
Interest rate swaps	**695**	**-**	**695**	**-**
	695	**-**	**695**	**-**
30 June 2018				
Financial assets held at fair value				
Investment in listed equity	49,337	49,337	-	-
Interest rate swaps	51	-	51	-
	49,388	49,337	51	-
Financial liabilities held at fair value				
Interest rate swaps	11	-	11	-
	11	-	11	-

There were no transfers between Level 1 and Level 2 during the period.

The Responsible Entity obtains independent valuations to measure the fair value of financial instruments at each reporting date. The Responsible Entity assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of International Financial Reporting Standards, including the level in the fair value hierarchy that the resulting fair value estimate should be classified.

D2 Related parties

Key management personnel

The Trust does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Trust and this is considered the key management personnel. The directors of the Responsible Entity are key management personnel.

No compensation is paid directly by the Trust to any key management personnel of the Responsible Entity.

Key management personnel loan disclosures

The Trust has not made, guaranteed or secured, directly or indirectly, any loans to key management personnel or their personally related entities at any time during the reporting period.

D2 Related parties (continued)

Responsible entity fees and other transactions

The Responsible Entity is entitled to a management fee which is calculated at 0.65% of the gross value of assets held plus GST, in accordance with the Trust's constitution. The Responsible Entity has elected to charge 0.60% per annum.

Custodian fees are paid to the custodian. Custody fees paid to Centuria Property Funds No. 2 Limited are calculated in relation to some of the Trust's assets and in accordance with the constitution at a rate of 0.05% of the Trust’s gross assets.

At reporting date an amount of $671,962 (31 December 2017: $635,776) owing to the Responsible Entity and its related parties was included in trade and other payables. The payables are non-interest bearing with payment terms and conditions consistent with normal commercial practices.

The following fees were paid and/or payable to the Responsible Entity and its related parties from the Trust and all subsidiaries during the period:

	31 December 2018 $'000	31 December 2017 $'000
Management fees	**3,226**	3,013
Custodian fees	**233**	218
Property management fees	**596**	340
Facility management fees	**220**	157
Due diligence acquisition costs	**25**	100
Leasing fees	**361**	49
Project management fees	**93**	19
	4,754	3,896

All transactions with related parties are conducted on normal commercial terms and conditions. From time to time Centuria Property Funds No. 2 Limited, its directors or its director-related entities may buy or sell units in the Trust. These transactions are on the same terms and conditions as those entered into by other Trust investors.

Units in the Trust held by related parties

At 31 December 2018, the following related parties of the Responsible Entity hold units in the Trust:

	Closing units held	Closing interest held
31 December 2018		
Centuria Capital No. 2 Industrial Fund	**52,742,109**	**19.77%**
Centuria Capital No. 5 Fund	**8,455,887**	**3.17%**
Centuria Property Funds No. 2 Limited	**2,148,149**	**0.81%**
Centuria Growth Bond Fund	**704,725**	**0.26%**
Centuria Balanced Fund	**382,501**	**0.14%**
	64,433,371	**24.15%**
30 June 2018		
Centuria Capital No. 2 Industrial Fund	48,372,668	19.48%
Centuria Growth Bond Fund	650,000	0.26%
Centuria Balanced Fund	350,000	0.14%
	49,372,668	19.88%

No other related parties of the Responsible Entity held units in the Trust.

D2 Related parties (continued)

Other transactions within the Trust

No director has entered into a material contract with the Trust since the end of the previous year and there were no material contracts involving directors' interests subsisting at period end.

Transaction with related party

On 21 December 2018, the Trust acquired 149 Kerry Road, Archerfield QLD from Centuria Metropolitan REIT in an arm's length transaction for $30,550,000 after an on market campaign.

D3 Events subsequent to reporting date

On 1 February 2019, the Trust entered into an unconditional contract and paid a 5% deposit for the acquisition of 16-18 Baile Road, Canning Vale WA for a purchase price of $18.1 million. The settlement is expected to occur in March 2019.

There are no other matters or circumstances which have arisen since the end of the period and the date of this report, in the opinion of the Responsible Entity, which significantly affect the operations of the Trust, the results of those operations, or the state of affairs of the Trust, in future financial years.

Directors' declaration

For the half year ended 31 December 2018

The Directors of Centuria Property Funds No. 2 Limited, the Responsible Entity of Centuria Industrial REIT, declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable;

(b) the attached financial statements and notes thereto are in compliance with International Financial Reporting Standards, as stated in Note A1 to the financial statements; and

(c) in the directors' opinion, the attached financial statements and notes A1 to D3 are in accordance with the Corporations Act 2001, including compliance with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and giving a true and fair view of the Trust's financial position as at 31 December 2018 and of its performance for the half year ended on that date.

This declaration is made in accordance with a resolution of Directors.

Peter Done
Director

Matthew Hardy
Director

Sydney
6 February 2019

Independent Auditor's Review Report

To the unitholders of Centuria Industrial REIT

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of Centuria Industrial REIT (the Group).

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of the Group is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Financial Report*** comprises:

- Consolidated interim statement of financial position as at 31 December 2018
- Consolidated interim statement of profit or loss and other comprehensive income, Consolidated interim statement of changes in equity and Consolidated interim statement of cash flows for the half-year ended on that date
- Notes A1 to D3 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The ***Group*** comprises Centuria Industrial REIT and the entities it controlled at the half year's end or from time to time during the half-year.

The ***Interim Period*** is the 6 months ended on 31 December 2018.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Centuria Property Funds No.2 Limited (the Responsible Entity) are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Centuria Industrial REIT, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a Half-year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

KPMG

Nigel Virgo

Partner

Sydney

6 February 2019