

Centuria

**Centuria Industrial REIT
and its subsidiaries**

ARSN 099 680 252

**Interim Financial Report
For the half year ended 31 December 2019**

Centuria Industrial REIT

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Directors' report

For the half year ended 31 December 2019

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 2019 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	01 Oct 2017	Centuria Capital Limited; and Redcape Hotel Group Management Limited
Roger Dobson	01 Oct 2017	

The company secretary of Centuria Property Funds No. 2 Limited during or since the end of the half year is:

Name	Appointed
Anna Kovarik	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 for the half year ended 31 December 2019 was \$31,493,000 (31 December 2018: \$46,106,000 profit).

As at 31 December 2019, the Trust's Net Tangible Assets ('NTA') have increased 10.0 cents per unit ('cpu'), or 3.7%, to \$2.83 per unit since 30 June 2019.

Investment property valuations

The total value of the Trust's portfolio as at 31 December 2019 was \$1,552.3 million representing an increase of 2.3% from 30 June 2019 on a like for like basis, excluding new acquisitions.

The weighted average capitalisation rate for the portfolio, on a like for like basis, has firmed 11 basis points to 6.35% as at 31 December 2019. The weighted average capitalisation rate for the portfolio including new acquisitions is 6.19%.

Review of operations (continued)

Leasing and occupancy

The Trust secured 63,395 square metres ('sqm') of leases across 14 transactions for the half year ended 31 December 2019. This represented 6.8% of the portfolio's gross lettable area.

At 31 December 2019 the Trust's portfolio was 95.8% occupied and the remaining lease expiry for the year ending 30 June 2020 represent less than 1.1% of portfolio income. During the half year period the Trust has acquired several assets that have a long weighted average lease expiry ('WALE') and these have increased the Trust's WALE to 7.1 years (30 June 2019: 4.3 years).

Capital management

As at 31 December 2019, the Trust had drawn borrowings of \$585.0 million with a weighted average expiry of 3.8 years. The drawn debt was 78.6% hedged reducing the interest rate exposure of the Trust.

The Trust's gearing at 31 December 2019 was 35.5% (30 June 2019: 37.4%).

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 2020 is expected to be in the range of 19.6 - 19.9 cpu. The distribution guidance for the year ending 30 June 2020 is 18.7 cpu which will be paid in equal quarterly instalments.

Distributions

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

	31 December 2019		31 December 2018	
	Cents per unit	\$'000	Cents per unit	\$'000
September quarter	4.675	14,086	4.60	11,424
December quarter	4.675	16,225	4.60	12,271
Total	9.350	30,311	9.20	23,695

Key dates in connection with the December quarter distribution are:

Event	Date
Ex-distribution date	30 Dec 2019
Record date	31 Dec 2019
Distribution payment date	24 Jan 2020

The Funds From Operations ('FFO') for the half year ended 31 December 2019 were \$30.0 million. This was a 25.3% increase 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 funds from operations for the half year:

	31 December 2019	31 December 2018
	\$'000	\$'000
Net profit for the half year	31,493	46,106
Adjustments:		
Net (gain) on fair value of investment properties	(4,338)	(30,395)
Straight-lining of rental income	(1,017)	(947)
Amortisation of incentives and leasing fees	1,883	2,659
Rent free and abatement	1,863	1,073
Net loss on fair value of derivative financial instruments	126	735
Loss on fair value of financial assets held at fair value through profit or loss after transaction costs	-	3,107
Loss on sale of investment property	-	326
Other transaction related costs	-	1,284
Funds from operations	30,010	23,948

The Trust issued 76.2 million units in the September and December quarters to assist with the acquisition of new properties. These units were entitled to a distribution for the full quarter, however as the properties acquired were not owned for the entire period, the income received from these properties was less than the distribution paid for these periods. Accordingly, this has resulted in total distributions for the period being higher than the funds from operations.

Distribution reinvestment plan

Distribution Reinvestment Plan ('DRP') remains activated during the half year. Unitholders may elect to have all or part of their distribution entitlement reinvested by the issue of new units rather than being paid cash.

Events subsequent to balance date

On 16 January 2020, the Trust settled on the acquisition of 24 West Link Place, Richlands, QLD for \$8.0 million.

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 2019.

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.

Directors' report

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



Darren Collins
Director



Matthew Hardy
Director

Sydney
5 February 2020



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 2019 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

Peter Zabaks

Partner

Sydney

5 February 2020

Centuria Industrial REIT Interim Financial Report

For the half year ended 31 December 2019

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Consolidated interim statement of profit or loss and other comprehensive income

For the half year ended 31 December 2019

	Note	31 December 2019 \$'000	31 December 2018 \$'000
Revenue			
Rent and recoverable outgoings	B2	53,121	44,149
Total revenue		53,121	44,149
Other income			
Interest income		50	112
Net gain on fair value of investment properties	C2	4,338	30,395
Other income		-	397
Total other income		4,388	30,904
Total revenue and other income		57,509	75,053
Expenses			
Rates, taxes and other property outgoings		12,624	10,820
Finance costs	B3	8,136	9,405
Management fees	D2	3,869	3,226
Other expenses		1,261	1,328
Loss on fair value of derivative financial instruments		126	735
Loss on sale of investment property		-	326
Loss on fair value of financial assets held at fair value through profit or loss after transaction costs		-	3,107
Total expenses		26,016	28,947
Net profit for the period		31,493	46,106
Other comprehensive income			
Other comprehensive income for the period		-	-
Total comprehensive income for the period		31,493	46,106
Basic and diluted earnings per unit			
Basic earnings per unit (cents per unit)		10.39	18.49

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 2019

	31 December 2019	30 June 2019
Note	\$'000	\$'000
ASSETS		
Current assets		
Cash and cash equivalents	23,002	9,348
Trade and other receivables	6,909	7,029
Other assets	C1 23,415	2,115
Investment properties held for sale	C3 11,400	11,400
Total current assets	64,726	29,892
Non-current assets		
Investment properties	C2 1,540,884	1,209,850
Intangibles	10,501	10,501
Total non-current assets	1,551,385	1,220,351
Total assets	1,616,111	1,250,243
LIABILITIES		
Current liabilities		
Trade and other payables	20,009	16,265
Distributions payable	16,225	12,459
Total current liabilities	36,234	28,724
Non-current liabilities		
Borrowings	C4 582,834	468,431
Derivative financial instruments	3,668	3,541
Total non-current liabilities	586,502	471,972
Total liabilities	622,736	500,696
Net assets	993,375	749,547
EQUITY		
Issued capital	C5 930,617	687,971
Retained earnings	62,758	61,576
Total equity	993,375	749,547

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 2019

	Note	Issued capital \$'000	Retained earnings \$'000	Total equity \$'000
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		(1,273)	-	(1,273)
Distributions provided for or paid	B1	-	(23,695)	(23,695)
Balance at 31 December 2018		676,011	43,584	719,595
Balance at 1 July 2019		687,971	61,576	749,547
Net profit for the period		-	31,493	31,493
Total comprehensive income for the period		-	31,493	31,493
Units issued	C5	245,418	-	245,418
Dividend reinvestment plan ('DRP')	C5	3,476	-	3,476
Equity raising costs	C5	(6,248)	-	(6,248)
Distributions provided for or paid	B1	-	(30,311)	(30,311)
Balance at 31 December 2019		930,617	62,758	993,375

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 2019

	Note	31 December 2019 \$'000	31 December 2018 \$'000
Cash flows from operating activities			
Receipts from customers		60,557	45,750
Payments to suppliers		(20,898)	(14,361)
Interest received		50	112
Interest paid		(10,262)	(8,654)
Distribution received		-	1,722
Net cash generated by operating activities		<u>29,447</u>	<u>24,569</u>
Cash flows from investing activities			
Net proceeds from sale of investment properties		-	11,375
Payments for investment properties		(346,188)	(128,943)
Proceeds from sale of investments held at fair value through profit or loss		-	46,229
Net cash used in investing activities		<u>(346,188)</u>	<u>(71,339)</u>
Cash flows from financing activities			
Distribution paid		(23,069)	(23,470)
Proceeds from borrowings		177,051	68,796
Repayment of borrowings		(62,000)	(43,748)
Payments for borrowing costs		(865)	(285)
Proceeds from issue of units		245,418	50,967
Equity issue costs		(6,140)	(1,199)
Net cash generated by financing activities		<u>330,395</u>	<u>51,061</u>
Net increase in cash and cash equivalents		13,654	4,291
Cash and cash equivalents at beginning of the period		<u>9,348</u>	<u>21,177</u>
Cash and cash equivalents at end of period		<u>23,002</u>	<u>25,468</u>

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 2019

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 2019.

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 5 February 2020.

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:

Level 41, Chifley Tower, 2 Chifley Square
SYDNEY NSW 2000

Principal place of business:

Level 41, Chifley Tower, 2 Chifley Square
SYDNEY NSW 2000

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 16 *Leases*.

AASB 16 Leases

The Trust has adopted AASB 16 at 1 July 2019. AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases.

About the report

A2 Significant accounting policies (continued)

AASB 16 Leases (continued)

(a) Nature of change

AASB 16 was issued in February 2016. It has resulted in leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors has no significant change.

(b) Impact

The standard affects primarily the accounting for the Trust's operating leases. As at the reporting date, two of the Trust's investment properties have non-cancellable operating lease commitments (refer to Note C2). However these have no material impact to the Trust's financial position, profit and classification of cash flows.

(c) Transition

Changes in the accounting policies resulting from the adoption of AASB 16 has been applied retrospectively.

There is no material impact on the financial position previously reported as at 30 June 2019 and 31 December 2018 as a result of the adoption of AASB 16 and its retrospective application.

A3 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 2019		31 December 2018	
	Cents per unit	\$'000	Cents per unit	\$'000
September quarter	4.675	14,086	4.60	11,424
December quarter	4.675	16,225	4.60	12,271
Total	9.350	30,311	9.20	23,695

Key dates in connection with the December quarter distribution are:

Event	Date
Ex-distribution date	30 Dec 2019
Record date	31 Dec 2019
Distribution payment date	24 Jan 2020

B2 Rental income

	31 December 2019	31 December 2018
	\$'000	\$'000
Rental income	43,321	36,623
Recoverable outgoings	8,783	6,579
Straight-lining of lease revenue	1,017	947
	53,121	44,149

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 2019	31 December 2018
	\$'000	\$'000
Interest expense	7,932	8,002
Finance agent fee	-	999
Amortisation of borrowing costs	204	404
	8,136	9,405

C Trust's assets and liabilities

C1 Other assets

	31 December 2019 \$'000	30 June 2019 \$'000
Deposits on acquisitions	615	2,115
GST receivables	22,800	-
	<u>23,415</u>	<u>2,115</u>

The acquisition of 46 Robinson Road East, Virginia QLD and 23-41 Galway Avenue, Marlestone SA did not constitute a going concern for GST purposes and the Trust has paid \$23.6 million of GST on settlement. The Trust is expecting to receive GST refund from the next GST return.

C2 Investment properties

	31 December 2019 \$'000	30 June 2019 \$'000
Opening balance	1,209,850	999,000
Acquisitions of investment properties	297,356	147,118
Stamp duty and other transaction costs	21,267	8,868
Capital improvements and associated costs	7,263	7,879
	<u>325,886</u>	<u>163,865</u>
Gain on fair value	4,338	53,808
Change in deferred rent and lease incentives	1,247	2,903
Change in capitalised leasing fees	(437)	1,674
	<u>5,148</u>	<u>58,385</u>
Less: Investment properties held for sale	-	(11,400)
Closing balance[^]	<u>1,540,884</u>	<u>1,209,850</u>

[^] The carrying amount of investment properties includes components related to deferred rent, capitalised lease incentives and leasing fees amounting to \$25.2 million (30 June 2019: \$24.4 million).

Trust's assets and liabilities

C2 Investment properties (continued)

Property	Fair value		Capitalisation rate		Discount rate		31 Dec 2019 Valuer	Last independent valuation date
	31 Dec 2019 \$'000	30 Jun 2019 \$'000	31 Dec 2019 %	30 Jun 2019 %	31 Dec 2019 %	30 Jun 2019 %		
NSW								
2 Woolworths Way, Warnervale NSW	81,500	81,250	7.00%	7.00%	7.75%	7.75%	Directors	Sep 2018
10 Williamson Rd, Ingleburn NSW	53,400	49,000	5.50%	5.75%	6.75%	6.75%	Independent	Dec 2019
92-98 Cosgrove Rd, Enfield NSW	50,300	50,000	5.75%	5.75%	6.50%	6.50%	Directors	Jun 2019
29 Glendenning Rd, Glendenning NSW	47,500	45,700	5.25%	5.50%	6.75%	7.00%	Directors	Sep 2018
12 Williamson Rd, Ingleburn NSW	40,000	39,200	6.00%	6.00%	6.50%	7.25%	Independent	Dec 2019
74-94 Newton Rd, Wetherill Park NSW	37,000	36,750	5.50%	5.75%	6.50%	6.50%	Directors	Jun 2019
37-51 Scrivener St, Warwick Farm NSW	36,750	36,750	6.50%	6.50%	7.00%	7.00%	Directors	Jun 2019
457 Waterloo Rd, Chullora NSW	34,000	29,500	5.25%	5.75%	6.50%	6.75%	Independent	Dec 2019
6 Macdonald Rd, Ingleburn NSW	25,100	25,000	5.50%	5.50%	6.50%	6.50%	Directors	Jun 2019
8 Penelope Cres, Arndell Park NSW	21,750	21,700	5.50%	5.50%	6.50%	6.75%	Directors	Jun 2019
30 Clay Pl, Eastern Creek NSW	19,100	19,000	5.50%	5.50%	6.50%	6.75%	Directors	Sep 2018
52-74 Quarry Rd, Erskine Park NSW	18,000	17,600	5.50%	6.00%	6.50%	6.75%	Independent	Dec 2019
75 Owen St, Glendenning NSW	9,700	8,600	5.50%	6.00%	6.50%	7.00%	Independent	Dec 2019
QLD								
46 Robinson Road East, Virginia QLD	211,800	-	5.00%	-%	6.75%	-%	Independent	Dec 2019
22 Hawkins Cres, Bundamba QLD	47,250	47,000	6.50%	6.50%	7.50%	7.50%	Directors	Sep 2018
1 Ashburn Rd, Bundamba QLD	38,500	38,250	6.50%	6.50%	7.25%	7.25%	Directors	Sep 2018
136 Zillmere Rd, Boondall QLD	32,300	31,600	6.50%	6.75%	6.75%	7.00%	Directors	Sep 2018
33-37 Mica St, Carole Park QLD	31,750	30,250	6.25%	6.50%	7.25%	7.50%	Directors	Sep 2018
69 Rivergate Pl, Murarrie QLD	31,000	31,000	6.25%	6.25%	7.00%	7.00%	Directors	Sep 2018
149 Kerry Rd, Archerfield QLD	30,600	30,600	6.00%	6.00%	6.75%	6.75%	Directors	Nov 2018
680 Boundary St, Richlands QLD	19,750	-	6.75%	-%	7.50%	-%	Directors	Jun 2019
46 Gosport St, Hemmant QLD	17,600	17,000	7.75%	7.75%	8.75%	7.75%	Directors	May 2019
616 Boundary Rd, Richlands QLD	16,600	16,500	7.00%	7.25%	7.25%	7.25%	Directors	Sep 2018
21 Jay St, Mount St John, Townsville QLD*	11,000	11,000	7.50%	7.50%	7.75%	7.75%	Directors	Sep 2018
43-45 Mica St, Carole Park QLD	1,850	1,850	6.00%	6.00%	-%	-%	Directors	Sep 2018

Trust's assets and liabilities

C2 Investment properties (continued)

Property	Fair value		Capitalisation rate		Discount rate		31 Dec 2019 Valuer	Last independent valuation date
	31 Dec 2019 \$'000	30 Jun 2019 \$'000	31 Dec 2019 %	30 Jun 2019 %	31 Dec 2019 %	30 Jun 2019 %		
VIC								
207-219 Browns Rd, Noble Park VIC	45,200	44,300	6.25%	6.25%	7.50%	7.50%	Directors	Jun 2019
1 International Drive, Westmeadows VIC	43,750	43,500	6.75%	6.75%	7.25%	7.25%	Directors	Jun 2019
324-332 Frankston-Dandenong Rd, Dandenong South VIC	33,700	33,500	6.00%	6.00%	6.75%	7.00%	Directors	Sep 2018
24-32 Stanley Dr, Somerton VIC	31,700	31,500	6.25%	6.25%	7.00%	7.00%	Directors	Jun 2019
102-128 Bridge Rd, Keysborough VIC	31,200	30,700	7.00%	7.00%	7.50%	7.50%	Directors	Sep 2018
75-79 and 105 Corio Quay Rd, North Geelong VIC	27,500	-	6.00%	-%	7.00%	-%	Independent	Dec 2019
2 Keon Pde, Keon Park VIC	26,700	25,500	5.50%	5.75%	6.75%	7.00%	Directors	Sep 2018
69 Studley Ct, Derrimut VIC	23,000	21,500	6.25%	6.50%	6.75%	7.50%	Independent	Dec 2019
500 Princes Hwy, Noble Park VIC	22,250	21,000	7.00%	7.25%	7.25%	7.50%	Directors	Sep 2018
14-17 Dansu Ct, Hallam VIC	21,600	21,500	6.50%	6.50%	7.00%	7.00%	Directors	Sep 2018
12-13 Dansu Ct, Hallam VIC	19,100	18,000	5.50%	5.75%	6.75%	7.00%	Directors	Jun 2019
49 Temple Dr, Thomastown VIC	13,500	13,000	6.50%	6.75%	7.25%	7.25%	Directors	Sep 2018
9 Fellowes Ct, Tullamarine VIC	5,100	4,500	6.50%	6.75%	7.00%	7.00%	Independent	Dec 2019
WA								
310 Spearwood Ave, Bibra Lake WA	55,200	54,750	7.50%	7.50%	7.75%	7.75%	Directors	Sep 2018
Lot 14 Sudlow Rd, Bibra Lake WA	34,400	33,800	7.50%	7.50%	8.00%	8.00%	Directors	Sep 2018
23 Selkis Rd, Bibra Lake WA	20,300	20,200	7.50%	7.50%	7.50%	7.50%	Directors	Sep 2018
103 Stirling Crescent, Hazelmere WA	16,000	15,400	6.75%	6.75%	7.25%	7.25%	Directors	Nov 2018
16-18 Baile Rd, Canning Vale WA	18,100	18,100	7.00%	7.00%	7.00%	7.00%	Directors	Sep 2018
92 Robinson Rd, Belmont WA	10,900	11,400	7.00%	7.25%	7.50%	7.75%	Directors	Sep 2018
155 Lakes Road, Hazelmere WA	8,800	8,700	6.75%	6.75%	7.00%	7.00%	Directors	Nov 2018
ACT								
54 Sawmill Cct, Hume ACT*	16,100	16,100	6.75%	6.75%	6.75%	6.75%	Directors	Sep 2018

Trust's assets and liabilities

C2 Investment properties (continued)

Property	Fair value		Capitalisation rate		Discount rate		31 Dec 2019 Valuer	Last independent valuation date
	31 Dec 2019 \$'000	30 Jun 2019 \$'000	31 Dec 2019 %	30 Jun 2019 %	31 Dec 2019 %	30 Jun 2019 %		
SA								
23-41 Galway Avenue, Marleston SA	24,384	-	7.25%	-%	8.00%	-%	Independent	Dec 2019
32-54 Kurna Avenue, Edinburgh Park SA	19,500	-	7.00%	-%	8.00%	-%	Directors	Jun 2019
9-13 Caribou Dr, Direk SA	8,800	7,800	7.25%	8.50%	7.75%	8.75%	Independent	Dec 2019
	1,540,884	1,209,850						

* The Trust holds a leasehold interest in 21 Jay St, Mount St John, Townsville QLD and 54 Sawmill Cct, Hume ACT.

During the period, the Trust acquired 680 Boundary Road, Richlands QLD, 75-79 and 105 Corio Quay Road, North Geelong VIC, 32-54 Kurna Ave, Edinburgh Park SA, 46 Robinson Road East, Virginia QLD and 23-41 Galway Avenue, Marleston SA.

The Trust's weighted average capitalisation rate as at 31 December 2019 is 6.19% (30 June 2019: 6.46%).

Trust's assets and liabilities

C3 Investment properties classified as held for sale

	31 December 2019 \$'000	30 June 2019 \$'000
99 Quill Way, Henderson WA	11,400	11,400
	<u>11,400</u>	<u>11,400</u>

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.

C4 Borrowings

	31 December 2019 \$'000	30 June 2019 \$'000
Non-current		
Secured loan	585,000	469,949
Borrowing costs	(2,166)	(1,518)
	<u>582,834</u>	<u>468,431</u>

As at 31 December 2019, the Trust had the following secured debt facilities:

	31 December 2019 \$'000	30 June 2019 \$'000
Secured loan facility		
Debt facility limit	650,000	520,000
Undrawn amount	(65,000)	(50,051)
Drawn amount	<u>585,000</u>	<u>469,949</u>
Hedged amount	<u>460,000</u>	<u>360,000</u>
	<u>460,000</u>	<u>360,000</u>

As at 31 December 2019, the Trust had \$250.0 million (30 June 2019: \$150.0 million) of fixed rate loan and \$210.0 million (30 June 2019: \$210.0 million) of interest rate swaps hedged against its drawn debt. At the end of the reporting period, the Trust's total debt facilities that are on a fixed interest basis is \$460.0 million (30 June 2019: \$360.0 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 2019		30 June 2019	
	Units '000	\$'000	Units '000	\$'000
Opening balance	270,847	687,971	248,357	626,317
Units issued	75,122	245,418	18,400	50,967
Distribution reinvestment plan ('DRP')	1,086	3,476	4,090	12,270
Equity raising costs	-	(6,248)	-	(1,583)
Closing balance	<u>347,055</u>	<u>930,617</u>	<u>270,847</u>	<u>687,971</u>

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 directors of the Responsible Entity consider that the carrying amount of the financial assets and financial liabilities approximate their fair value in the financial statements. All financial instruments are measured at amortised cost with the exception of the derivative financial instruments. Derivative financial instruments are measured at fair value and have a level 2 designation in the fair value hierarchy. There were no transfers between levels of the fair value hierarchy during the period.

Independent valuations are obtained from third parties to support the fair value measurement of financial instruments at each reporting date to meet the requirements of International Financial Reporting Standards.

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).

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.

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 which has been identified as 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.

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.

Other notes

D2 Related parties (continued)

Responsible entity fees and other transactions (continued)

At reporting date an amount of \$698,924 (31 December 2018: \$671,962) 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 2019 \$'000	31 December 2018 \$'000
Management fees	3,869	3,226
Property management fees	771	596
Facility management fees	324	220
Custodian fees	285	233
Leasing fees	271	361
Project management fees	224	93
Due diligence acquisition fees	50	25
	5,794	4,754

Under the previous property management agreement, related party and external agent property management fees were billed and paid directly by the Trust. The revised agreement provides that Centuria Property Services Pty Limited ('CPS') as the manager, will pay all external agent property management fees on behalf of the Trust, and will recover these costs from the Trust as part of their billing process. As a result of this change, property management fees are higher compared to the prior period given it includes both external agent and related party property management fees.

All transactions with related parties are conducted on arms-length 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 2019, the following related parties of the Responsible Entity hold units in the Trust:

	Closing units held	Closing interest held
31 December 2019		
Centuria Capital No. 2 Industrial Fund	48,898,176	14.09%
Centuria Capital No. 5 Fund	16,999,400	4.90%
Centuria Property Funds No. 2 Limited	2,181,086	0.63%
Centuria Growth Bond Fund	704,725	0.20%
Centuria Balanced Fund	382,501	0.11%
	69,165,888	19.93%

30 June 2019

Centuria Capital No. 2 Industrial Fund	45,136,934	16.67%
Centuria Capital No. 5 Fund	16,999,400	6.28%
Centuria Property Funds No. 2 Limited	2,181,086	0.81%
Centuria Growth Bond Fund	704,725	0.26%
Centuria Balanced Fund	382,501	0.14%
	65,404,646	24.16%

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

Other notes

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.

D3 Commitments

The Trust has committed to a 5,500 sqm expansion of 21 Jay St, Mount St John, Townsville QLD with a total cost capped at \$14.0 million plus GST. Woolworths, the current tenant of this property, will reset the existing lease to 12 years from completion of the expansion.

D4 Events subsequent to reporting date

On 16 January 2020, the Trust settled on the acquisition of 24 West Link Place, Richlands, QLD for \$8.0 million.

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 2019

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 D4 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 2019 and of its performance for the half year ended on that date.

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



Darren Collins
Director



Matthew Hardy
Director

Sydney
5 February 2020



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 Centuria Industrial REIT (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 2019 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 2019
- 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 D4 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 2019.

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 2019 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



Peter Zabaks

Partner

Sydney

5 February 2020