

Centuria

**Centuria Office REIT
and its subsidiaries**

ARSN 124 364 718

**Interim Financial Report
For the half-year ended 31 December 2020**

Centuria Property Funds Limited ABN 11 086 553 639 is the Responsible Entity for Centuria Office REIT.

Centuria Office REIT

Table of contents

For the half-year ended 31 December 2020

	Page
Directors' report	1
Auditor's Independence Declaration	5
Interim financial report	6
Directors' declaration	24
Independent auditor's review	25

Directors' report

For the half-year ended 31 December 2020

The directors of Centuria Property Funds Limited, the Responsible Entity of Centuria Office REIT ('COF') present their report, together with the consolidated interim financial report of the Trust and its subsidiaries ('the Trust') for the half-year ended 31 December 2020 and the independent auditor's review report thereon.

Directors of the Responsible Entity

The directors of Centuria Property Funds Limited during or since the end of the half-year are:

Name	Appointed	Resigned	Directorship of other listed companies
Peter Done	5 Dec 2007		Centuria Capital Limited
Matthew Hardy	4 Jul 2013		
Darren Collins	10 Mar 2015		
Nicholas Collishaw	1 Oct 2017		Centuria Capital Limited Redcape Hotel Group Management Ltd
Roger Dobson	1 Oct 2017	29 Jul 2020	

The company secretary of Centuria Property Funds Limited during or since the end of the financial year is:

Name	Appointed
Anna Kovarik	5 Jul 2018

Roger Dobson has resigned from the board of the Responsible Entity, Centuria Property Funds Limited effective 29 July 2020. His position will not be replaced.

Refer to Note D2 of the interim financial report for director's units holding 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 activity of the Trust was investment in commercial office property 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 this interim financial report. The Trust's profit for the half-year ended 31 December 2020 was \$21,542,000 (31 December 2019: \$24,697,000 profit).

The Trust's Net Tangible Assets ('NTA') have reduced 4 cents per unit or 1.6% to \$2.45 as at 31 December 2020 (30 June 2020: \$2.49 per unit).

Review of operations (continued)

Results (continued)

The current period results have been affected by the COVID-19 pandemic. On 7 April 2020, the government announced a National Cabinet Mandatory Code of Conduct ('the Code'). The Code applies to all qualifying tenancies that are suffering financial stress or hardship as a result of the COVID-19 pandemic. The Trust continues to apply the Code and has, where appropriate, granted applicable tenants rent relief packages to alleviate the impacts of the COVID-19 pandemic in the form of rent waivers or deferrals. The background and impact on the interim financial statements are outlined in Note A2.

Investment property valuations

The total value of the Trust's portfolio as at 31 December 2020 was \$2,064 million (30 June 2020: \$2,086 million).

The weighted average capitalisation rate for the portfolio is 5.91% after excluding the held for sale asset 465 Victoria Ave, Chatswood NSW 31 December 2020 (30 June 2020: 5.93%).

The COVID-19 pandemic has given rise to uncertainty in the market which may have an impact on key drivers of property valuations. For the half-year ended 31 December 2020, the Trust has engaged external valuers to assess the valuations of 13 of its properties across the portfolio representing 59% of the portfolio value.

Leasing and occupancy

The Trust secured 28,306 sqm of leases across 31 transactions for the half-year ended 31 December 2020. This represented 9.3% of the portfolio's net lettable area.

At 31 December 2020 the Trust's portfolio was 91.5% occupied with a WALE of 4.5 years. As at 31 December 2020, FY21 lease expiries represent 4.3% of portfolio income.

Capital management

As at 31 December 2020, the Trust had a multi-bank debt facility totalling \$880.0 million (30 June 2020: \$880.0 million) with a weighted average expiry of 2.8 years (30 June 2020: 3.4 years). Drawn borrowings totalled \$749.0 million (30 June 2020: \$749.0 million), with an all in interest cost of 2.2% (30 June 2020: 2.2%) and 75% of the drawn debt hedged (30 June 2020: 75%). The Trust's gearing at 31 December 2020 was 34.7% (30 June 2020: 34.5%).

Outlook

The Responsible Entity's strategy and ongoing focus remains unchanged. The Responsible Entity continues to focus on actively managing the Trust's portfolio, with an emphasis on tenant retention to ensure income and occupancy are maximised. This is coupled with the ongoing strategy to acquire quality 'fit for purpose' office real estate assets delivering quality and sustainable income streams.

The Responsible Entity confirms FFO guidance for the year ending 30 June 2021 is expected to be in the range of 19.4 - 19.9 cpu.

The 2021 financial year distribution guidance is 16.5 cpu which will be paid in equal quarterly instalments.

Distributions

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

	31 December 2020		31 December 2019	
	Cents per unit	\$'000	Cents per unit	\$'000
September quarter	4.125	21,224	4.450	15,855
December quarter	4.125	21,224	4.450	22,839
Total	8.250	42,448	8.900	38,694

Key dates in connection with the December quarter distribution are:

Review of operations (continued)

Distributions (continued)

Event	Date
Ex-distribution date	30 Dec 2020
Record date	31 Dec 2020
Distribution payment date	28 Jan 2021

The Funds From Operations (FFO) for the half-year ended 31 December 2020 was \$57.7 million. This was a 47.8% increase to the prior half-year which was driven by the incremental earnings from acquisitions made in the previous half-year and the Foxtel lease surrender at 35 Robina Town Centre Drive, Robina QLD.

For the half-year ended 31 December 2020, a distribution of 8.25 cpu was declared, compared to 11.2 cents of FFO per weighted average unit, which represents a payout ratio of 74%.

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

	31 December 2020 \$'000	31 December 2019 \$'000
Net profit for the period	21,542	24,697
Adjustments:		
Loss on fair value of investment properties	30,192	11,897
Realised/unrealised loss on fair value of derivatives	37	448
Rent free and abatement	4,746	3,489
Straight-lining of rental income	(1,948)	(2,406)
Amortisation of incentives and leasing fees	3,149	879
Interest adjustments for AASB 16	(30)	(28)
Transaction costs	-	46
Funds From Operations	57,688	39,022

Distribution reinvestment plan

The Trust did not activate the Distribution Reinvestment Plan ('DRP') during the half-year ended 31 December 2020.

Events subsequent to balance date

On 1 February 2021, settlement occurred for the disposal of the Trust's 25% share of 465 Victoria Avenue, Chatswood NSW for \$44.7 million excluding transaction costs.

Since balance date, the COVID-19 pandemic has continued to evolve and may have an impact on specific areas of judgement required for preparing these financial statements.

The Trust has continued to re-evaluate the significant inputs used to drive property valuations and recoverability of tenant arrears on a regular basis as detailed in Note C1.

Based on these evaluations, the Trust has determined there are no material events which would give rise to an adjustment.

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 half-year ended 31 December 2020.

Rounding of amounts

The Trust is an entity of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, related to the 'rounding off' of amounts in the Directors' report and interim financial report.

Amounts in the Directors' report and interim financial report have been rounded off, in accordance with the instrument, to the nearest thousand dollars, unless otherwise indicated.

Rounding of amounts (continued)

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



Peter Done
Director



Matthew Hardy
Director

Sydney
4 February 2021



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

To the Directors of Centuria Property Funds Limited, the Responsible Entity of
Centuria Office REIT

I declare that, to the best of my knowledge and belief, in relation to the review of Centuria Office REIT
for the half-year ended 31 December 2020 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

4 February 2021

Centuria Office REIT Interim Financial Report

For the half-year ended 31 December 2020

Contents

	Page
Consolidated interim statement of profit or loss and other comprehensive income	7
Consolidated interim statement of financial position	8
Consolidated interim statement of changes in equity	9
Consolidated interim statement of cash flows	10
Condensed notes to the interim financial report	11
A About the report	11
A1 General information	11
A2 COVID-19 Pandemic	11
A3 Significant accounting policies	13
A4 Segment reporting	13
B Trust performance	14
B1 Distributions	14
B2 Rental income	14
B3 Finance costs	14
C Trust's assets and liabilities	15
C1 Investment properties	15
C2 Investment properties classified as held for sale	19
C3 Borrowings	19
C4 Issued capital	20
D Other notes	21
D1 Fair value of financial instruments	21
D2 Related parties	21
D3 Events subsequent to reporting date	23
Directors' declaration	24

Consolidated interim statement of profit or loss and other comprehensive income

For the half-year ended 31 December 2020

	Note	31 December 2020 \$'000	31 December 2019 \$'000
Revenue			
Rent and recoverable outgoings	B2	91,669	66,346
Total revenue		91,669	66,346
Other income			
Interest income		6	86
Total revenue		91,675	66,432
Expenses			
Loss/(gain) on fair value of investment properties		30,192	11,897
Rates, taxes and other property outgoings		20,666	15,516
Finance costs	B3	9,237	8,733
Management fees	D2	5,860	4,142
Other expenses		2,972	953
Rental waivers and ECL expense		1,169	-
Loss on fair value of derivative financial instruments		37	448
Transaction costs		-	46
Total expenses		70,133	41,735
Net profit for the period		21,542	24,697
Other comprehensive income			
Other comprehensive income for the period		-	-
Total comprehensive income for the period		21,542	24,697
Basic and diluted earnings per unit			
Units on issue (cents per unit)		4.19	4.81

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 2020

	31 December 2020	30 June 2020
Note	\$'000	\$'000
Assets		
Current assets		
Cash and cash equivalents	32,274	28,809
Other assets	2,592	1,536
Trade and other receivables	4,234	3,263
Investment properties held for sale	44,700	-
Total current assets	83,800	33,608
Non-current assets		
Investment properties	2,019,671	2,085,650
Total non-current assets	2,019,671	2,085,650
Total assets	2,103,471	2,119,258
Liabilities		
Current liabilities		
Trade and other payables	28,801	22,260
Distributions payable	21,224	22,896
Total current liabilities	50,025	45,156
Non-current liabilities		
Borrowings	746,614	746,372
Lease liability	32,693	32,722
Derivative financial instruments	12,093	12,056
Total non-current liabilities	791,400	791,150
Total liabilities	841,425	836,306
Net assets	1,262,046	1,282,952
Equity		
Issued capital	1,283,138	1,283,138
Accumulated losses	(21,092)	(186)
Total equity	1,262,046	1,282,952

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 2020

	Note	Issued capital \$'000	Retained earnings/ (Accumulated losses) \$'000	Total equity \$'000
Balance at 1 July 2019		833,320	61,248	894,568
Net profit for the period		-	24,697	24,697
Other comprehensive income		-	-	-
Total comprehensive income for the period		-	24,697	24,697
Units issued		457,503	-	457,503
Equity raising costs		(11,513)	-	(11,513)
Distributions provided for or paid	B1	-	(38,694)	(38,694)
Balance at 31 December 2019		1,279,310	47,251	1,326,561
Balance at 1 July 2020		1,283,138	(186)	1,282,952
Net profit for the period		-	21,542	21,542
Total comprehensive income for the period		-	21,542	21,542
Distributions provided for or paid	B1	-	(42,448)	(42,448)
Balance at 31 December 2020		1,283,138	(21,092)	1,262,046

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 2020

	Note	31 December 2020 \$'000	31 December 2019 \$'000
Cash flows from operating activities			
Receipts from customers		105,446	74,860
Payments to suppliers		(36,409)	(21,015)
Interest received		6	86
Interest paid		(7,824)	(7,432)
Net cash generated by operating activities		61,219	46,499
Cash flows from investing activities			
Payments for investment properties		(13,590)	(669,886)
Net cash used in investing activities		(13,590)	(669,886)
Cash flows from financing activities			
Distribution paid		(44,120)	(31,382)
Proceeds from borrowings		-	235,000
Payments for borrowing costs		(44)	(1,145)
Payments for derivative financial instruments		-	(5,930)
Proceeds from issue of units		-	457,503
Equity issue costs		-	(11,513)
Net cash (used in)/generated by financing activities		(44,164)	642,533
Net increase in cash and cash equivalents		3,465	19,146
Cash and cash equivalents at beginning of financial period		28,809	17,546
Cash and cash equivalents at end of period		32,274	36,692

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 2020

A About the report

A1 General information

Centuria Office 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 notes and information required for the annual financial report and should be read in conjunction with the annual financial report for the year ended 30 June 2020.

For the purposes of preparing the interim 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 Limited, the Responsible Entity, on 4 February 2021.

Basis of preparation

The interim financial report has been prepared on the basis of historical cost, except for investment property and financial instruments which have been measured at fair value at the end of the reporting period. Cost is based on the fair value of the consideration given in exchange of assets. All amounts are presented in Australian dollars, which is the Trust's functional currency, unless otherwise noted.

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 COVID-19 pandemic has created uncertainty on the global financial markets and has affected the ability of impacted tenants to meet their rental obligations. The Trust has completed an extensive assessment on trade receivables and the directors remain confident that the Trust will be able to continue as a going concern.

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 an entity of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, related to the 'rounding off' of amounts in the Directors' report and interim financial report. Amounts in the Directors' report and the interim financial report have been rounded off 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 COVID-19 Pandemic

Background

The COVID-19 pandemic continues to pose a challenge to local and global economies. The real estate sector specifically has been impacted by concerns surrounding security of income and uncertainty around property valuations. In addition, this uncertainty and associated market volatility has resulted in less transactional activity and investment in a number of real estate sectors, especially in the commercial office market.

About the report

A2 COVID-19 Pandemic (continued)

Background (continued)

To help alleviate the impact of COVID-19 on applicable tenants, the government announced a National Cabinet Mandatory Code of Conduct ('the Code') in April 2020. The Code applies to all qualifying tenancies that are suffering financial stress or hardship as a result of the COVID-19 pandemic. The Trust has continued to apply the Code throughout the reporting period and has, where appropriate, granted applicable tenants rent relief packages in the form of rent waivers or deferrals.

The Trust has considered the impact of COVID-19 and the consequential volatility on financial markets, as well as the effect of the continuing provision of rent relief packages under the Code in preparing its interim financial statements.

While the specific areas of judgement did not change, the impact of COVID-19 resulted in the application of further judgement within those identified areas. Given the continuing evolution of COVID-19 and the limited recent experience of the economic and financial impacts of such a pandemic as it runs its course, changes to the estimates and outcomes that have been applied in the measurement of the Fund's assets and liabilities may arise in the future. Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods.

Processes Applied

As a consequence of COVID-19 and in preparing these financial statements, the Responsible Entity:

- re-evaluated whether there were any additional areas of judgement or estimation uncertainty;
- assessed the carrying values of its assets and liabilities and determined the impact thereon as a result of market inputs and variables impacted by COVID-19;
- considered the impact of COVID-19 on the Trust's financial statement disclosures.
- as part of the subsequent events procedures, the Trust continued to monitor the impacts of COVID-19.

The Responsible Entity has continued to re-evaluate the significant inputs used to drive property valuations and recoverability of tenant arrears on a regular basis. Based on these evaluations, the Responsible Entity has determined there are no material events which would give rise to an adjustment.

Consideration of the Statements of Financial Position and Further Disclosures

Key statement of financial position items and related disclosures that have been impacted by COVID-19 were as follows:

(i) Trade and other receivables

The COVID-19 pandemic has created volatility on the global financial market and it affects the ability of impacted tenants to meet their rental obligations. The Trust has completed an extensive assessment on trade receivables to determine the recoverability of rental income.

For the half year ended 31 December 2020, the Trust granted \$2.6m of rent relief comprising of \$1.7 million in rental waivers and \$0.9 million of deferrals to tenants. As at 31 December 2020, an ECL provision of \$1.2 million (30 June 2020: \$1.7 million) is provided against trade receivables in relation to rental income and outgoing recoveries.

(ii) Investment properties

As a result of COVID-19, there is significant valuation uncertainty as a result of a contracted property investment market and less transactional evidence in the current uncertain market. Assessing the fair value of investment property involves uncertainties around underlying assumptions given the constantly changing nature of the situation. Refer to Note C1.

(iii) Financial instruments

Given recent market volatility as a result of COVID-19, the Trust reviewed the appropriateness of inputs to its valuations of financial instruments including receivables, payables and derivative instruments. The impact of changes of inputs to the valuations has also been considered in terms of the classification of exposures in the fair value hierarchy and transfers within the fair value hierarchy.

About the report

A3 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 interim period.

A4 Segment reporting

The Trust operates in one segment, being investment in Australian office 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 2020		31 December 2019	
	Cents per unit	\$'000	Cents per unit	\$'000
September quarter	4.125	21,224	4.450	15,855
December quarter	4.125	21,224	4.450	22,839
Total	8.250	42,448	8.900	38,694

Key dates in connection with the December quarter distribution are:

Event	Date
Ex-distribution date	30 Dec 2020
Record date	31 Dec 2020
Distribution payment date	28 Jan 2021

B2 Rental income

	31 December 2020	31 December 2019
	\$'000	\$'000
Rental income	76,946	52,381
Recoverable outgoings	12,775	11,559
Straight-lining of lease revenue	1,948	2,406
	<u>91,669</u>	<u>66,346</u>

Rental income for the half year ended 31 December 2020 includes a lease surrender payment from Foxtel at 35 Robina Town Centre Drive, Robina QLD.

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 2020	31 December 2019
	\$'000	\$'000
Interest expense	8,950	8,548
Borrowing costs	287	174
Derivative instrument break cost	-	11
	<u>9,237</u>	<u>8,733</u>

C Trust's assets and liabilities

C1 Investment properties

	31 December 2020 \$'000	30 June 2020 \$'000
Opening balance	2,085,650	1,321,475
Acquisitions of investment properties	-	624,527
Stamp duty and associated costs	-	33,412
Capital improvements and associated costs	8,689	13,259
	<u>8,689</u>	<u>671,198</u>
Loss on fair value	(33,017)	(38,102)
Gain on fair value of held for sale asset	2,825	-
Change in capitalised leasing fees	933	385
Change in deferred rent and lease incentives	(709)	19,415
Initial recognition of right of use asset	-	32,779
	<u>(29,968)</u>	<u>14,477</u>
Transfers (to)/from held for sale	(44,700)	78,500
Closing balance	<u>2,019,671</u>	<u>2,085,650</u>

465 Victoria Avenue, Chatswood NSW was transferred to current assets held-for-sale following the exchange in November 2020. Settlement occurred on 1 February 2021 at the contract price of \$44.7 million excluding transaction costs.

The carrying amount of investment properties includes components related to deferred rent, capitalised lease incentives and leasing fees amounting to \$42,028,000 (30 Jun 20: \$41,804,000) and a right of use asset of \$31,971,000.

Stamp duty and other associated costs incurred for property acquisitions are recognised and included in the initial measurement of the asset. However, these costs are written off on application of the fair value method through profit or loss.

Trust's assets and liabilities

C1 Investment properties (continued)

Property	Fair value		Capitalisation rate		Discount rate		31 Dec 20 Valuer	Last independent valuation date
	31 Dec 20 \$'000	30 Jun 20 \$'000	31 Dec 20 %	30 Jun 20 %	31 Dec 20 %	30 Jun 20 %		
NSW								
8 Central Ave, Eveleigh NSW*	190,000	189,000	5.38%	5.38%	6.25%	6.75%	CBRE	Dec 2020
201 Pacific Hwy, St Leonards NSW*	106,500	106,500	5.63%	5.63%	6.38%	6.63%	KF	Dec 2020
9 Help St, Chatswood NSW	86,500	86,000	5.75%	5.75%	6.75%	6.75%	Directors	Jun 2020
203 Pacific Hwy, St Leonards NSW**	69,000	69,500	5.88%	5.88%	6.75%	6.75%	JLL	Dec 2020
465 Victoria Ave, Chatswood NSW**	-	41,875	-%	5.75%	-%	6.75%		Jun 2020
77 Market St, Wollongong NSW	36,000	35,500	6.75%	7.25%	7.25%	7.75%	Directors	Jun 2020
ACT								
2 Phillip Law St, NewActon ACT^	252,000	253,000	5.13%	5.13%	6.00%	6.00%	Directors	Jun 2020
60 Marcus Clarke St, Canberra ACT^	61,000	62,250	7.00%	7.00%	7.25%	7.50%	Savills	Dec 2020
54 Marcus Clarke St, Canberra ACT^	20,700	20,900	7.50%	7.50%	7.00%	7.00%	Directors	Jun 2020
QLD								
825 Ann St, Fortitude Valley QLD	155,000	163,000	6.00%	6.00%	6.75%	7.00%	Savills	Dec 2020
154 Melbourne St, South Brisbane QLD	85,000	88,000	6.00%	6.00%	6.75%	7.00%	Savills	Dec 2020
100 Brookes St, Fortitude Valley QLD	76,500	78,500	6.25%	6.25%	7.00%	7.00%	Directors	Jun 2020
438-517 Kingsford Smith Dr, Hamilton QLD^^	76,500	77,500	6.25%	6.13%	7.25%	7.00%	M3	Dec 2020
35 Robina Town Ctr Dr, Robina QLD#	40,000	52,000	7.50%	7.25%	7.75%	6.75%	JLL	Dec 2020
555 Coronation Dr, Brisbane QLD	38,750	34,500	6.75%	7.00%	7.25%	7.50%	M3	Dec 2020
VIC								
818 Bourke St, Docklands VIC	220,000	223,000	5.13%	5.13%	6.00%	6.25%	CBRE	Dec 2020
576 Swan St, Richmond VIC	65,500	66,500	5.50%	5.50%	6.50%	6.50%	CBRE	Dec 2020
2 Kendall St, Williams Landing VIC	65,500	64,500	6.00%	6.00%	7.00%	7.00%	Directors	Jun 2020
SA								
1 Richmond Rd, Keswick SA	35,000	36,000	7.25%	7.25%	8.00%	8.00%	Directors	Jun 2020
131-139 Grenfell St, Adelaide SA	18,250	17,250	7.25%	7.75%	7.00%	8.00%	Colliers	Dec 2020

Trust's assets and liabilities

C1 Investment properties (continued)

Property	Fair value		Capitalisation rate		Discount rate		31 Dec 20 Valuer	Last independent valuation date
	31 Dec 20 \$'000	30 Jun 20 \$'000	31 Dec 20 %	30 Jun 20 %	31 Dec 20 %	30 Jun 20 %		
WA								
235 William St, Northbridge WA	186,000	188,000	6.50%	6.50%	7.00%	7.00%	Directors	Jun 2020
144 Stirling St, Perth WA	70,000	65,000	6.00%	6.25%	6.75%	7.00%	JLL	Dec 2020
46 Colin St, Perth WA ^{^~}	65,971	67,375	7.25%	7.25%	7.25%	7.25%	Directors	Jun 2020
	<u>2,019,671</u>	<u>2,085,650</u>						

* The Trust owns 50% of 201 and 203 Pacific Highway, St Leonards NSW and 8 Central Avenue, Eveleigh NSW.

** The 25% of 425 Victoria Avenue, Chatswood NSW was transferred to investment properties classified as held for sale (see Note C2) following the exchange in November 2020.

[^] The Trust holds a leasehold interest in 46 Colin Street, Perth WA, 203 Pacific Highway, St Leonards NSW, 2 Phillip Law St, NewActon ACT, 60 Marcus Clarke St, Canberra ACT and 54 Marcus Clarke St ACT.

[~] A right of use asset on the ground lease at 46 Colin St is included in the fair value of the property. The carrying value of the lease liability as at 31 December 2020 is \$32,693,000.

[#] The valuation for 35 Robina Town Ctr Dr, Robina QLD reflects the Foxtel lease surrender

The Trust's weighted average capitalisation rate for the period is 5.91% after excluding the held for sale asset 465 Victoria Ave, Chatswood NSW (30 Jun 20: 5.93%).

Trust's assets and liabilities

C1 Investment properties (continued)

Valuation techniques and significant unobservable inputs

The fair values of the investment properties were determined by the directors of the Responsible Entity or by an external, independent valuation company having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued. Fair value is based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Given the evolving economic conditions as a result of the COVID-19 pandemic, there is continuing uncertainty surrounding the potential impact on future cashflows and valuations. Rent relief allowances provided in accordance with the Code were taken into consideration when determining the cashflows for the property, however actual future cashflows may differ from this. The Responsible Entity has also considered additional factors such as increase in downtime, incentive allowances, reduction in rental growth and rental relief in line with the Code when determining property valuations. The Trust has externally valued 13 properties in its property portfolio at 31 December 2020.

The valuations were prepared by considering the following valuation methodologies:

- **Capitalisation Approach:** the annual net rental income is capitalised at an appropriate market yield to arrive at the property's market value. Appropriate capital adjustments are then made where necessary to reflect the specific cash flow profile and the general characteristics of the property.
- **Discounted Cash Flow Approach:** this approach incorporates the estimation of future annual cash flows over a 10 year period by reference to expected rental growth rates, ongoing capital expenditure, terminal sale value and acquisition and disposal costs. The present value of future cash flows is then determined by the application of an appropriate discount rate to derive a net present value for the property.
- **Direct Comparison Approach:** this approach identifies comparable sales on a dollar per square metre of lettable area basis and compares the equivalent rates to the property being valued to determine the property's market value.

The valuations reflect, as appropriate; the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market's general perception of their credit-worthiness; the allocation of maintenance and insurance responsibilities between the lessor and lessee; and the remaining economic life of the property. It has been assumed that whenever rent reviews or lease renewals are pending with anticipated reversionary increases, all notices and, where appropriate, counter notices have been served validly and within the appropriate time.

A further sensitivity analysis was undertaken by the Trust to assess the fair value of investment properties given the uncertain impact of the COVID-19 pandemic on property values. The table below illustrates the impact on valuation of movements in capitalisation rates:

Fair Value at 31 December 2020 \$'000	Capitalisation rate impact	
	+0.25%	-0.25%
2,019,671	\$'000 (80,000)	\$'000 88,000

Given the unknown future impact that COVID-19 might have on the commercial real estate market and global market in general, coupled with a lower interest rate environment, a higher degree of judgement and consideration is required in assessing the significant inputs that determine property valuations. Management and external valuers acknowledge current valuations are subject to 'material valuation uncertainty' as a consequence of this. A reduction in transaction volumes has made direct comparison as a method more difficult. It is also challenging to determine the full impact on Net Passing Income for the property for future periods as the Trust continue to negotiate rent relief arrangements with tenants that fall within the Code. To date, there has been little evidence to suggest that capitalisation and discount rates have softened since the COVID-19. As the COVID-19 pandemic progresses, the Trust has continued to re-assess the valuation method to ensure appropriate consideration given to inputs used.

Trust's assets and liabilities

C2 Investment properties classified as held for sale

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.

	31 December 2020 \$'000	30 June 2020 \$'000
465 Victoria Ave, Chatswood NSW	44,700	-
	<u>44,700</u>	<u>-</u>

During the period, 465 Victoria Ave, Chatswood NSW was transferred from investment properties to investment properties classified as held for sale following exchange in November 2020. Settlement occurred on 1 February 2021 at the contract price of \$44.7 million excluding transaction costs.

C3 Borrowings

	31 December 2020 \$'000	30 June 2020 \$'000
Non-current		
Secured loan	749,029	749,029
Borrowing costs	(2,415)	(2,657)
	<u>746,614</u>	<u>746,372</u>
	31 December 2020 \$'000	30 June 2020 \$'000
Facility limit	880,000	880,000
Facilities used - bank loans	(749,029)	(749,029)
Facilities used - bank guarantee	(1,496)	(1,496)
Facilities unused at reporting date - bank loans	<u>129,475</u>	<u>129,475</u>

As at 31 December 2020, the Trust had \$565 million (30 Jun 20: \$565 million) of interest rate swaps hedged against its drawn debt.

The facilities 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.

Trust's assets and liabilities

C4 Issued capital

	31 December 2020		30 June 2020	
	Units '000	\$'000	Units '000	\$'000
Opening balance	514,522	1,283,138	356,291	833,320
Units issued	-	-	158,231	461,299
Equity raising costs	-	-	-	(11,481)
Closing balance	514,522	1,283,138	514,522	1,283,138

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 the 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 0.60% of the gross value of assets held plus GST, however, the Responsible Entity has elected to charge a management fee calculated at 0.55% of the gross value of assets held plus GST.

At reporting date an amount of \$283,809 (31 December 2019: \$1,038,779) owing to the Responsible Entity was included in trade and other payables. The payables are non-interest bearing with payment terms and conditions consistent with normal commercial practices.

Other notes

D2 Related parties (continued)

Responsible entity fees and other transactions (continued)

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

	31 December 2020 \$'000	31 December 2019 \$'000
Management fees	5,860	4,142
Property management fees	1,489	1,414
Facility management fees	794	814
Development fees	559	331
Custodian fees	380	319
Leasing fees	104	43
Due diligence acquisition fees	50	150
Project management fees	-	8
	9,236	7,221

All transactions with related parties are conducted on arms-length terms and conditions. From time to time CPFL, 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 2020, the following related parties of the Responsible Entity hold units in the Trust:

	Closing units held	Closing interest held
31 December 2020		
Centuria Capital No. 2 Office Fund	72,633,773	14.12%
Over Fifty Guardian Friendly Society Limited	14,861,980	2.89%
Centuria Growth Bond Fund	8,408,906	1.63%
Centuria Capital No. 2 Fund	3,396,219	0.66%
Centuria Property Funds No. 2 Limited	2,263,375	0.44%
Centuria Balanced Bond Fund	975,493	0.19%
Roger Dobson	156,828	0.03%
Nicholas Collishaw	153,217	0.03%
Peter Done	141,894	0.03%
John McBain	75,260	0.01%
Darren Collins	34,500	0.01%
Matthew Hardy	32,316	0.01%
Jason Huljich	3,896	0.01%
	103,137,657	20.06%

Other notes

D2 Related parties (continued)

Units in the Trust held by related parties (continued)

30 June 2020

Centuria Capital No. 2 Office Fund	72,633,773	14.12%
Over Fifty Guardian Friendly Society Limited	14,861,980	2.89%
Centuria Growth Bond Fund	8,408,906	1.63%
Centuria Capital No. 2 Fund	3,396,219	0.66%
Centuria Property Funds No. 2 Limited	2,263,375	0.44%
Centuria Balanced Bond Fund	975,493	0.19%
Roger Dobson	156,828	0.03%
Nicholas Collishaw	153,217	0.03%
Peter Done	141,894	0.03%
John McBain	75,260	0.01%
Darren Collins	34,500	0.01%
Matthew Hardy	32,316	0.01%
Jason Huljich	3,896	0.01%
	<u>103,137,657</u>	<u>20.06%</u>

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

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 Events subsequent to reporting date

On 1 February 2021, settlement occurred for the disposal of the Trust's 25% share of 465 Victoria Avenue, Chatswood NSW for \$44.7 million excluding transaction costs.

Since balance date, the COVID-19 pandemic has continued to evolve and may have an impact on specific areas of judgement required for preparing these interim financial statements.

The Trust has continued to re-evaluate the significant inputs used to drive property valuations and recoverability of tenant arrears on a regular basis as detailed in Note C1. Based on these evaluations, the Trust has determined there are no material events which would give rise to an adjustment.

Directors' declaration

For the half-year ended 31 December 2020

The directors of Centuria Property Funds Limited, the Responsible Entity of Centuria Office REIT ('the Trust'), 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 2020 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
4 February 2021



Independent Auditor's Review Report

To the unitholders of Centuria Office REIT

Conclusion

We have reviewed the accompanying **Interim Financial Report** of Centuria Office 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 Office 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 2020 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 2020;
- 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; and
- The Directors' Declaration.

The **Group** comprises Centuria Office 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 2020.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.



Responsibilities of the Directors for the Interim Financial Report

The Directors of the Centuria Property Funds 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 Responsibilities for the Review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 and its performance for the Half-year Period ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of an Interim Period 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.

KPMG

Peter Zabaks

Partner

Sydney

4 February 2021