

Centuria

**Centuria Industrial REIT
and its subsidiaries**

ARSN 099 680 252

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

Centuria Industrial REIT

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Directors' report

For the half-year ended 31 December 2020

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 2020 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	Resigned	Directorship of other listed companies
Roger Dobson	01 Oct 2017		
Peter Done	26 Jun 2017		Centuria Capital Limited
Nicholas Collishaw	01 Oct 2017		Centuria Capital Limited; and Redcape Hotel Group Management Limited
Natalie Collins	29 Jul 2020		
Darren Collins	26 Jun 2017	29 Jul 2020	
Matthew Hardy	26 Jun 2017	29 Jul 2020	

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

Refer to Note D2 of the interim financial report for director's unit holdings 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 is 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 changes 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 2020 was \$99,558,000 (31 December 2019: \$31,493,000).

As at 31 December 2020, the Trust's Net Tangible Assets ('NTA') was \$2.99 per unit, representing a 0.17 cents per unit ('cpu') increase (30 June 2020: \$2.82).

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 qualified 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 \$2,399.4 million (30 June 2020: \$1,602.4 million), an increase of 49.7% for the half-year period.

The weighted average capitalisation rate for the portfolio, firmed 63 basis points year on year to 5.42% as at 31 December 2020 (30 June 2020: 6.05%).

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 29 of its properties across the portfolio.

Leasing and occupancy

The Trust secured 140,074 square metres ('sqm') of leases across 14 transactions for the half-year ended 31 December 2020. This represented 13.0% of the portfolio's gross lettable area.

At 31 December 2020 the Trust's portfolio was 97.7% occupied and the remaining lease expiry for the year ending 30 June 2021 represent less than 3.4% 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 9.8 years (30 June 2020: 7.2 years).

Capital management

As at 31 December 2020, the Trust had a multi-bank debt facility totalling \$880.0 million (30 June 2020: \$650.0 million) with a weighted average expiry of 3.3 years (30 June 2020: 3.3 years). Drawn borrowings totalled \$733.5 million (30 June 2020: \$454.4 million), with an all in interest cost of 2.73% (30 June 2020: 3.44%) and 55.9% of the drawn debt fixed through swaps and fixed borrowings (30 June 2020: 90.2%). The Trust's gearing at 31 December 2020 was 29.6% (30 June 2020: 27.2%).

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.

During the half-year period, the Responsible Entity announced an upgrade on Funds From Operations ('FFO') guidance for the year ending 30 June 2021. The new guidance is expected to be no less than 17.6 cpu, against previous guidance of 17.4 cpu. The distribution guidance for the year ending 30 June 2021 is 17.0 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	4.25	21,638	4.67	14,086
December quarter	4.25	23,404	4.68	16,225
Total	8.50	45,042	9.35	30,311

Review of operations (continued)

Distributions (continued)

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

The Funds From Operations ('FFO') for the half-year ended 31 December 2020 were \$42.8 million. This was a 42.7% increase to the prior period.

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 2020 \$'000	31 December 2019 \$'000
Net profit for the half-year	99,558	31,493
Adjustments:		
Net (gain) on fair value of investment properties	(53,676)	(4,338)
Straight-lining of rental income	(6,752)	(1,017)
Amortisation of incentives and leasing fees	1,686	1,883
Rent free and abatement	2,205	1,863
Net (gain)/loss on fair value of derivative financial instruments	(224)	126
Transaction costs	33	-
Funds from operations	42,830	30,010

The Trust issued 150.4 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 28 January 2021, the Trust entered into an unconditional contract and paid a 5% deposit for the acquisition of 179 Studley Court, Derrimut VIC and 513 Mt Derrimut Road, Derrimut VIC for a purchase price of \$37.3 million. The settlement is expected to occur in February 2021.

136 Zillmere Road, Boondall QLD is under contract to be sold to a related party, Centuria Industrial Income Fund No. 1.

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 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 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.



Roger Dobson
Director



Peter Done
Director

Sydney
2 February 2021



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 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

2 February 2021

Centuria Industrial REIT Interim Financial Report

For the half-year ended 31 December 2020

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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	77,723	53,121
Total revenue		<u>77,723</u>	<u>53,121</u>
Other income			
Interest income		6	50
Net gain on fair value of investment properties	C1	53,676	4,338
Gain on fair value of derivative financial instruments		224	-
Total other income		<u>53,906</u>	<u>4,388</u>
Total revenue and other income		<u>131,629</u>	<u>57,509</u>
Expenses			
Rates, taxes and other property outgoings		15,287	12,624
Finance costs	B3	9,411	8,136
Management fees	D2	6,133	3,869
Other expenses		1,240	1,261
Loss on fair value of derivative financial instruments		-	126
Total expenses		<u>32,071</u>	<u>26,016</u>
Net profit for the period		<u>99,558</u>	<u>31,493</u>
Other comprehensive income			
Other comprehensive income for the period		-	-
Total comprehensive income for the period		<u>99,558</u>	<u>31,493</u>
Basic and diluted earnings per unit			
Basic earnings per unit (cents per unit)		20.41	10.39

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

	Note	31 December 2020 \$'000	30 June 2020 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		21,009	17,078
Trade and other receivables		6,063	5,805
Investment properties held for sale	C2	50,100	11,300
Total current assets		77,172	34,183
Non-current assets			
Investment properties	C1	2,349,273	1,591,100
Intangibles		10,501	10,501
Total non-current assets		2,359,774	1,601,601
Total assets		2,436,946	1,635,784
LIABILITIES			
Current liabilities			
Trade and other payables		22,848	19,608
Distributions payable		23,404	18,713
Total current liabilities		46,252	38,321
Non-current liabilities			
Borrowings	C3	730,616	452,401
Derivative financial instruments		5,795	6,019
Total non-current liabilities		736,411	458,420
Total liabilities		782,663	496,741
Net assets		1,654,283	1,139,043
EQUITY			
Issued capital	C4	1,528,122	1,067,398
Retained earnings		126,161	71,645
Total equity		1,654,283	1,139,043

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 \$'000	Total equity \$'000
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		245,418	-	245,418
Dividend reinvestment plan ("DRP")		3,476	-	3,476
Equity raising costs		(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
Balance at 1 July 2020		1,067,398	71,645	1,139,043
Net profit for the period		-	99,558	99,558
Total comprehensive income for the period		-	99,558	99,558
Units issued	C4	465,786	-	465,786
Dividend reinvestment plan ("DRP")	C4	4,356	-	4,356
Equity raising costs	C4	(9,418)	-	(9,418)
Distributions provided for or paid	B1	-	(45,042)	(45,042)
Balance at 31 December 2020		1,528,122	126,161	1,654,283

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		81,872	60,557
Payments to suppliers		(24,537)	(20,898)
Interest received		6	50
Interest paid		(8,668)	(10,262)
Net cash generated by operating activities		48,673	29,447
Cash flows from investing activities			
Payments for investment properties		(742,943)	(346,188)
Net cash used in investing activities		(742,943)	(346,188)
Cash flows from financing activities			
Distribution paid		(35,995)	(23,069)
Proceeds from borrowings		329,093	177,051
Repayment of borrowings		(50,000)	(62,000)
Payments for borrowing costs		(1,185)	(865)
Proceeds from issue of units		465,786	245,418
Equity issue costs		(9,498)	(6,140)
Net cash generated by financing activities		698,201	330,395
Net increase in cash and cash equivalents		3,931	13,654
Cash and cash equivalents at beginning of the period		17,078	9,348
Cash and cash equivalents at end of period		21,009	23,002

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 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 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 No. 2 Limited, the Responsible Entity, on 2 February 2021.

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.

The COVID-19 pandemic has created uncertainty in global financial market 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.

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 COVID-19 Pandemic

Background

The continuing COVID-19 pandemic has posed a significant 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. Although, this uncertainty and associated market volatility has resulted in a significant slowdown of transactional activity and investment in a number of real estate sectors, the industrial property market has proved resilient with transactional volumes remaining strong.

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 granted applicable tenants rent relief packages in the form of rent waivers or deferrals, however given the resilience of industrial markets and tenants, applications for rent relief within the portfolio have been minimal.

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

(a) Trade and other receivables

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

(b) Investment properties

As a result of COVID-19, there is continuing 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 evolving nature of the situation. Refer to Note C1.

(c) Intangible assets

The Trust has tested goodwill and indefinite life intangible assets for impairment. Such assessment incorporated consideration of COVID-19.

(d) 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.

About the report

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 2020		31 December 2019	
	Cents per unit	\$'000	Cents per unit	\$'000
September quarter	4.25	21,638	4.67	14,086
December quarter	4.25	23,404	4.68	16,225
Total	8.50	45,042	9.35	30,311

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 Revenue

	31 December 2020	31 December 2019
	\$'000	\$'000
Rental income	60,153	43,321
Recoverable outgoings	10,818	8,783
Straight-lining of lease revenue	6,752	1,017
	77,723	53,121

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	9,089	7,932
Amortisation of borrowing costs	322	204
	9,411	8,136

C Trust's assets and liabilities

C1 Investment properties

	31 December 2020 \$'000	30 June 2020 \$'000
Opening balance	1,591,100	1,209,850
Purchase price of investment properties	693,048	310,284
Stamp duty and other transaction costs	41,668	21,569
Capital improvements and associated costs	954	11,512
Capital developments and associated costs	1,761	11,163
	737,431	354,528
Net gain on fair value of investment properties	53,676	18,129
Add back: fair value loss on investment properties held for sale	833	100
Gain on fair value of investment properties	54,509	18,229
Change in deferred rent and lease incentives	5,494	8,455
Change in capitalised leasing fees	339	38
Closing gross balance	2,388,873	1,591,100
Less: Investment properties held for sale	(39,600)	-
Closing balance[^]	2,349,273	1,591,100

[^] The carrying amount of investment properties includes components related to deferred rent, capitalised lease incentives and leasing fees amounting to \$38.7 million (30 June 2020: \$32.8 million).

Trust's assets and liabilities

C1 Investment properties (continued)

Property	Fair value		Capitalisation rate		Discount rate		31 Dec 2020 Valuer	Last independent valuation date
	31 Dec 2020 \$'000	30 Jun 2020 \$'000	31 Dec 2020 %	30 Jun 2020 %	31 Dec 2020 %	30 Jun 2020 %		
NSW								
2 Woolworths Way, Warnervale NSW	74,000	74,000	7.00%	7.00%	7.00%	7.00%	Directors	Jun 2020
67-69 Mandoon Rd, Girraween NSW^	73,128	-	5.50%	-%	6.25%	-%	Directors	Oct 2020
10 Williamson Rd, Ingleburn NSW	56,750	53,400	5.25%	5.50%	6.00%	6.75%	Independent	Dec 2020
29 Glendenning Rd, Glendenning NSW	54,500	52,500	4.75%	5.00%	6.00%	6.25%	Directors	Jun 2020
92-98 Cosgrove Rd, Enfield NSW	51,500	50,500	5.25%	5.75%	6.25%	6.50%	Independent	Dec 2020
37-51 Scrivener St, Warwick Farm NSW	44,000	36,750	5.50%	6.50%	6.50%	7.00%	Independent	Dec 2020
12 Williamson Rd, Ingleburn NSW	40,500	38,500	5.50%	6.00%	6.50%	6.50%	Independent	Dec 2020
74-94 Newton Rd, Wetherill Park NSW	37,000	37,000	5.25%	5.50%	6.25%	6.50%	Independent	Dec 2020
457 Waterloo Rd, Chullora NSW	35,500	34,000	5.00%	5.25%	6.25%	6.50%	Independent	Dec 2020
6 Macdonald Rd, Ingleburn NSW	27,250	25,100	5.00%	5.50%	6.50%	6.50%	Independent	Dec 2020
8 Penelope Cres, Arndell Park NSW	23,000	21,750	5.25%	5.50%	6.25%	6.50%	Independent	Dec 2020
52-74 Quarry Rd, Erskine Park NSW	21,200	18,000	5.00%	5.50%	6.25%	6.50%	Independent	Dec 2020
30 Clay Pl, Eastern Creek NSW	20,200	19,500	5.00%	5.25%	6.00%	6.25%	Directors	Jun 2020
144 Hartley Rd, Smeaton Grange NSW^	15,800	-	5.50%	-%	6.25%	-%	Directors	Jul 2020
75 Owen St, Glendenning NSW	11,000	9,700	5.00%	5.50%	6.50%	6.50%	Independent	Dec 2020
QLD								
46 Robinson Road East, Virginia QLD	245,000	211,800	4.50%	5.00%	6.00%	6.75%	Independent	Dec 2020
60-80 Southlink St, Parkinson QLD^	49,000	-	5.50%	-%	6.50%	-%	Directors	Sep 2020
22 Hawkins Cres, Bundamba QLD	48,000	47,400	6.00%	6.25%	6.25%	6.50%	Directors	Jun 2020
1 Ashburn Rd, Bundamba QLD	43,000	41,250	6.00%	6.25%	6.75%	7.25%	Directors	Jun 2020
1 Lahrs Rd, Ormeau QLD^	43,000	-	5.50%	-%	6.75%	-%	Directors	Sep 2020
136 Zillmere Rd, Boondall QLD	-	32,500	-%	6.50%	-%	6.75%	Directors	Jun 2020
33-37 Mica St, Carole Park QLD	33,000	31,800	6.00%	6.25%	7.00%	7.25%	Directors	Jun 2020
149 Kerry Rd, Archerfield QLD	30,800	30,800	5.75%	5.75%	6.50%	6.50%	Directors	Jun 2020
21 Jay St, Mount St John, Townsville QLD*	28,700	28,300	6.25%	6.75%	7.25%	8.00%	Independent	Dec 2020
69 Rivergate Pl, Murarie QLD	28,500	28,500	6.00%	6.00%	7.00%	7.00%	Directors	Jun 2020
46 Gosport St, Hemmant QLD	24,000	23,000	6.50%	7.00%	7.00%	7.75%	Independent	Dec 2020
680 Boundary St, Richlands QLD	19,400	19,750	6.50%	6.75%	7.50%	7.25%	Independent	Dec 2020
616 Boundary Rd, Richlands QLD	16,700	16,700	6.50%	6.50%	7.25%	7.25%	Directors	Jun 2020

Trust's assets and liabilities

C1 Investment properties (continued)

Property	Fair value		Capitalisation rate		Discount rate		31 Dec 2020 Valuer	Last independent valuation date
	31 Dec 2020 \$'000	30 Jun 2020 \$'000	31 Dec 2020 %	30 Jun 2020 %	31 Dec 2020 %	30 Jun 2020 %		
35 Cambridge St, Coorparoo QLD^	12,500	-	6.25%	-%	6.25%	-%	Directors	Jul 2020
24 West Link Place, Richlands QLD	8,800	8,000	6.00%	6.50%	6.75%	7.00%	Independent	Dec 2020
42 Hoepner Road, Bundamba QLD	6,045	4,300	-%	-%	-%	-%	Directors	Jun 2020
43-45 Mica St, Carole Park QLD	1,800	1,800	6.00%	6.50%	-%	-%	Directors	Jun 2020
VIC								
1816-1832 Dandenong Rd, Clayton VIC^	416,700	-	4.25%	-%	5.50%	-%	Independent	Dec 2020
207-219 Browns Rd, Noble Park VIC	49,000	45,300	5.75%	6.25%	6.50%	7.25%	Independent	Dec 2020
45 Fulton Dr, Derrimut VIC^	49,000	-	5.25%	-%	6.25%	-%	Independent	Dec 2020
1 International Drive, Westmeadows VIC	43,500	43,500	6.75%	6.75%	6.75%	7.25%	Independent	Dec 2020
324-332 Frankston-Dandenong Rd, Dandenong South VIC	41,750	34,250	5.25%	5.75%	6.50%	6.75%	Independent	Dec 2020
102-128 Bridge Rd, Keysborough VIC	39,500	38,500	6.25%	6.50%	7.00%	7.00%	Directors	Jun 2020
24-32 Stanley Dr, Somerton VIC	34,100	31,700	5.75%	6.25%	6.50%	7.00%	Independent	Dec 2020
75-79 and 105 Corio Quay Rd, North Geelong VIC	30,000	27,500	5.75%	6.00%	6.50%	7.00%	Independent	Dec 2020
2 Keon Pde, Keon Park VIC	28,800	27,750	5.25%	5.50%	6.50%	6.50%	Directors	Jun 2020
69 Studley Ct, Derrimut VIC	28,000	27,000	5.50%	5.75%	6.00%	6.50%	Directors	Jun 2020
500 Princes Hwy, Noble Park VIC	25,250	24,250	6.25%	6.50%	6.50%	6.75%	Directors	Jun 2020
14-17 Dansu Ct, Hallam VIC	22,300	21,700	6.25%	6.50%	6.50%	7.00%	Independent	Dec 2020
12-13 Dansu Ct, Hallam VIC	20,500	19,100	5.25%	5.50%	6.50%	6.75%	Independent	Dec 2020
140 Fulton Dr, Derrimut VIC^	20,000	-	5.25%	-%	6.50%	-%	Directors	Jul 2020
49 Temple Dr, Thomastown VIC	16,000	15,600	6.00%	6.25%	6.75%	7.00%	Directors	Jun 2020
51-73 Lambeck Dr, Tullamarine VIC^	14,000	-	5.75%	-%	6.75%	-%	Directors	Jun 2020
9 Fellowes Ct, Tullamarine VIC	5,500	5,100	5.75%	6.50%	6.50%	6.50%	Independent	Dec 2020

Trust's assets and liabilities

C1 Investment properties (continued)

Property	Fair value		Capitalisation rate		Discount rate		31 Dec 2020 Valuer	Last independent valuation date
	31 Dec 2020 \$'000	30 Jun 2020 \$'000	31 Dec 2020 %	30 Jun 2020 %	31 Dec 2020 %	30 Jun 2020 %		
WA								
310 Spearwood Ave, Bibra Lake WA	55,600	55,500	7.00%	7.00%	7.50%	7.50%	Directors	Jun 2020
Lot 14 Sudlow Rd, Bibra Lake WA	34,500	34,500	7.00%	7.00%	7.50%	7.50%	Directors	Jun 2020
23 Selkis Rd, Bibra Lake WA	19,500	19,500	7.25%	7.25%	7.75%	7.75%	Directors	Jun 2020
16-18 Baile Rd, Canning Vale WA	18,500	18,100	7.00%	7.00%	7.25%	7.00%	Independent	Dec 2020
103 Stirling Crescent, Hazelmere WA	15,700	15,600	6.75%	6.75%	7.00%	7.00%	Directors	Jun 2020
92 Robinson Rd, Belmont WA	10,000	10,250	7.25%	7.25%	7.50%	7.50%	Directors	Jun 2020
155 Lakes Road, Hazelmere WA	8,000	8,000	6.75%	6.75%	7.25%	7.25%	Directors	Jun 2020
ACT								
54 Sawmill Cct, Hume ACT*	19,100	19,000	6.00%	6.00%	6.25%	6.25%	Directors	Jun 2020
SA								
23-41 Galway Avenue, Marleston SA	30,800	24,500	6.00%	7.25%	6.75%	8.00%	Independent	Dec 2020
32-54 Kaurna Avenue, Edinburgh Park SA	21,100	19,500	6.75%	7.00%	7.75%	8.00%	Independent	Dec 2020
9-13 Caribou Dr, Direk SA	9,000	8,800	7.00%	7.25%	7.75%	7.75%	Directors	Jun 2020
	2,349,273	1,591,100						

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

^ Investment properties acquired by the Trust during the half-year period.

The Trust's weighted average capitalisation rate as at 31 December 2020 is 5.42% (30 June 2020: 6.05%).

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.

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% \$'000	-0.25% \$'000
2,399,373	(105,800)	116,000

Management and external valuers acknowledges current valuations are subject to 'material valuation uncertainty' as a consequence of this. To date, there has been little evidence to suggest that capitalisation and discount rates have softened since the onset of COVID-19. As the COVID-19 pandemic progresses, the Trust has continued to re-assess the valuation method to ensure appropriate consideration is given to inputs used.

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
99 Quill Way, Henderson WA	10,500	11,300
136 Zillmere Rd, Boondall QLD	39,600	-
	<u>50,100</u>	<u>11,300</u>

On 7 December 2020, the Trust entered into an unconditional contract for the sale of 136 Zillmere Road, Boondall QLD for \$39.6 million. The sale is expected to be completed in March 2021.

Trust's assets and liabilities

C3 Borrowings

	31 December 2020 \$'000	30 June 2020 \$'000
Non-current		
Secured loan - fixed	250,000	250,000
Secured loan - variable	483,500	204,407
Borrowing costs	(2,884)	(2,006)
	730,616	452,401

As at 31 December 2020, the Trust had the following secured debt facilities:

	31 December 2020 \$'000	30 June 2020 \$'000
Secured loan facility		
Facilities limit	880,000	650,000
Facilities unused	(146,500)	(195,593)
Facilities used	733,500	454,407
Interest rate swaps	160,000	160,000
Fixed rate borrowings	250,000	250,000
Hedged amount	410,000	410,000

As at 31 December 2020, the Trust had \$250.0 million (30 June 2020: \$250.0 million) of fixed rate loan and \$160.0 million (30 June 2020: \$160.0 million) of interest rate swaps hedged against its drawn debt. At the end of the reporting period, the Trust's debt facilities that are on a fixed interest basis are \$410.0 million (30 June 2020: \$410.0 million).

All 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.

C4 Issued capital

	31 December 2020		30 June 2020	
	Units '000	\$'000	Units '000	\$'000
Opening balance	400,275	1,067,398	270,847	687,971
Units issued	149,036	465,786	127,921	383,753
Distribution reinvestment plan ('DRP')	1,369	4,356	1,507	4,950
Equity raising costs	-	(9,418)	-	(9,276)
Closing balance	550,680	1,528,122	400,275	1,067,398

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

An equity instrument is any contract that evidences a residual interest in the assets of a Trust after deducting all of its liabilities. Equity instruments issued by the Trust are recognised at the proceeds received, net of direct issue costs.

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. The directors of the Responsible Entity are key management personnel of that entity and their names are:

Roger Dobson
Peter Done
Nicholas Collishaw
Natalie Collins

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.

Other notes

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.

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 2020 \$'000	31 December 2019 \$'000
Management fees	6,133	3,869
Property management fees	812	771
Facility management fees	566	324
Custodian fees	471	285
Leasing fees	290	271
Project management fees	441	224
Due diligence acquisition fees	225	50
	8,938	5,794

At reporting date an amount of \$1,623,738 (31 December 2019: \$698,924) 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.

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.

Related party investments held by the Trust

At 31 December 2020, the Trust did not hold any units in the related parties of the Responsible Entity (30 June 2020: nil).

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 Industrial Fund	58,310,756	10.59%
Centuria Capital No. 5 Fund	21,593,800	3.92%
Centuria Property Funds No. 2 Limited	2,181,086	0.40%
Centuria Growth Bond Fund	895,191	0.16%
Centuria Balanced Fund	485,879	0.09%
Roger Dobson	20,703	-%
	83,487,415	15.16%
30 June 2020		
Centuria Capital No. 2 Industrial Fund	48,898,176	12.22%
Centuria Capital No. 5 Fund	16,999,400	4.25%
Centuria Property Funds No. 2 Limited	2,181,086	0.54%
Centuria Growth Bond Fund	704,725	0.18%
Centuria Balanced Fund	382,501	0.10%
Roger Dobson	18,000	-%
	69,183,888	17.29%

Other notes

D2 Related parties (continued)

Units in the Trust held by related parties (continued)

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 Commitments

The Trust has committed to a warehouse development at 42 Hoepner Road, Bundamba QLD with an estimated total development cost of \$12.1 million plus GST. As at 31 December the Trust has spent \$2.0 million (plus GST) on this development project.

D4 Events subsequent to reporting date

On 27 January 2021, the Trust entered into an unconditional contract and paid a 5% deposit for the acquisition of 179 Studley Court, Derrimut VIC and 513 Mt Derrimut Road, Derrimut VIC for a purchase price of \$37.3 million. The settlement is expected to occur in February 2021.

136 Zillmere Road, Boondall QLD is under contract to be sold to a related party, Centuria Industrial Income Fund No. 1.

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 2020

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 2020 and of its performance for the half-year ended on that date.

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



Roger Dobson
Director



Peter Done
Director

Sydney
2 February 2021



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 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 D4 comprising a summary of significant accounting policies and other explanatory information; and
- 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 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 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 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

2 February 2021