

# **Centuria Industrial REIT**

(Formerly 360 Capital Industrial Fund)

## **Condensed Interim Financial Report For the half-year ended 31 December 2016**

**ARSN 099 680 252**

# CENTURIA INDUSTRIAL REIT

## Table of contents

**For the half year ended 31 December 2016**

	<b>Page</b>
Responsible Entity report	3
Auditor's independence declaration	9
Consolidated interim statement of profit or loss and other comprehensive income	10
Consolidated interim statement of financial position	11
Consolidated interim statement of changes in equity	12
Consolidated interim statement of cash flows	13
Condensed notes to the interim financial report	14
Directors' declaration	27
Independent auditor's review report	28

## **Centuria Industrial REIT and its controlled entities**

### **Responsible Entity report**

#### **For the half year ended 31 December 2016**

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The Directors of Centuria Property Funds No. 2 Limited ("CPF2L") (formerly 360 Capital Investment Management Limited ("CIML")), the Responsible Entity, present their report together with the interim financial report of Centuria Industrial REIT (formerly 360 Capital Industrial Fund (ASX: TIX)) (ARSN 099 680 252) and its controlled entities ("the Fund") (ASX: CIP) for the half year ended 31 December 2016.

#### **Directors**

The following persons were Directors of the Responsible Entity during the half year and up to the date of this report, unless otherwise stated:

#### **Appointed on 9 January 2017**

John Slater (Chairman)

Michael Figg

Robert Lloyd

#### **Resigned on 9 January 2017**

David van Aanholt

Tony Robert Pitt

William John Ballhausen

Graham Ephraim Lenzner

Andrew Graeme Moffat

#### **Principal activities**

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

#### **Operating and financial review**

The statutory profit attributable to the unitholders of the Fund for the half year ended 31 December 2016 was \$31.4 million (December 2015: \$1.6 million). The operating profit (profit before specific non-cash and significant items) was \$22.9 million (December 2015: \$24.9 million).

Operating profit is a financial measure which is not prescribed by Australian Accounting Standards ("AAS") and represents the profit under AAS adjusted for specific non-cash items and significant items. The Directors consider operating profit to reflect the core earnings of the Fund and it is used as a guide to assess the Fund's ability to pay distributions to unitholders.

## Centuria Industrial REIT and its controlled entities

### Responsible Entity report

For the half year ended 31 December 2016

#### Operating and financial review (continued)

The following table summarises key reconciling items between statutory profit attributable to the unitholders of the Fund and operating profit. The operating profit information in the table has not been subject to any specific review procedures by the Fund's auditor but has been extracted from Note 6: Segment reporting of the financial statements for the half year ended 31 December 2016, which have been subject to audit; refer to page 28 for the auditor's review report on the financial statements.

	31 December 2016 \$'000	31 December 2015 \$'000
<b>Profit attributable to the unitholders of the Fund</b>	<b>31,362</b>	<b>1,621</b>
<b>Specific non-cash items</b>		
Net (gain)/loss on fair value of investment properties	(2,918)	724
Net (gain)/loss on derivative financial instruments	(5,200)	1,864
Amortisation of capitalised borrowing costs on debt facilities	354	597
Straight-lining of lease revenue	(1,146)	(342)
Amortisation of incentives and leasing fees	430	452
Net loss on fair value of financial assets	-	4,951
<b>Significant items</b>		
Business combination transaction costs	-	8,145
Net loss on sale of investment property	-	138
Rental guarantee cash received	-	54
<b>Operating profit (profit before specific non-cash and significant items)</b>	<b>22,882</b>	<b>18,204</b>
Pro forma operating profit of ANI <sup>1</sup>	-	6,648
<b>Operating profit (including pro forma adjustments)</b>	<b>22,882</b>	<b>24,852</b>

The key financial highlights for the financial half year ended 31 December 2016 include:

- Profit attributable to the unitholders of the Fund of \$31.4 million, representing 14.8 cents per unit ("cpu");
- Operating profit of \$22.9 million representing 10.8 cpu, down 7.9% on the prior period;
- Distributions per unit ("DPU") increased by 0.5% to 10.8 cpu;
- Net tangible assets ("NTA") increased to \$499.6 million (\$2.36 per unit) from \$491.1 million (\$2.32 per unit) as at 30 June 2016;
- Gearing<sup>2</sup> increased to 42.9%, reducing to 42.2% upon settlement of 60 Marple Avenue, Villawood (30 June 2016: 42.6%).

1 Pro forma operating profit of ANI represents the net profit of ANI adjusted for specific non-cash and significant items prior to consolidation with CIP. This adjustment allows for a comparison of operating profit to pro forma earnings included in the CIP Offer Bidder's Statement and allows for a more meaningful comparison with earnings in future years. The pro forma adjustment illustrates the overall operating profit of the combined Funds from 1 July 2015 to 31 December 2015 as if the consolidation had occurred on 1 July 2015.

2 Gearing: Borrowings less cash divided by total assets less cash and goodwill.

## Centuria Industrial REIT and its controlled entities

### Responsible Entity report

For the half year ended 31 December 2016

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#### Operating and financial review (continued)

The key operational highlights for the half year ended 31 December 2016 include:

- Portfolio occupancy of 95.1%;
- WALE<sup>3</sup> of 4.3 years;
- Leased 77,245 square metres ("sqm") in the period;
- Portfolio property values increased by 0.7% to \$911.9m;
- Portfolio WACR<sup>4</sup> of 7.42%.

#### Financial results

Statutory revenue increased by 49.8% to \$49.1 million reflecting the growth in rental income and assets value from the increased investment property portfolio. Net profit for the year was \$31.4 million representing an increase of \$29.7 million from the prior year. Operating profit of \$22.9 million was 7.9% down on the prior year driven by higher finance costs as a results of a higher debt balance.

During the period, total assets of the Fund increased by \$6.4 million or 0.7% to \$929.7 million mainly driven by increases in asset valuations. The Fund's NTA has increased 1.7% during the year to \$499.6 million from \$491.1 million as at 30 June 2016.

#### Property Portfolio

Reducing vacancy and near term expiry risk in the CIP portfolio remains a key focus. Considerable progress has been made on this front since 30 June 2016 with CIP securing seven key leasing transactions across a total 77,245 sqm, comprising two new leases over 26,217 sqm and five renewals over 51,028 sqm. At 31 December 2016 CIP's portfolio was 95.1% occupied with a 4.3 year WALE.

Of the 77,245 sqm of transactions secured, 57,162 sqm relate to FY17 expiries or vacant space and 20,083 sqm relate to FY18 and beyond expiries.

Portfolio average fixed rental growth remains underpinned at 3.2% p.a. with 71% of CIP's leases having fixed annual reviews.

#### Property valuations

At 31 December 2016, the value of CIP's portfolio was \$911.9 million<sup>5</sup> representing an increase of 0.7% since 30 June 2016. Consequently, NTA has increased 4 cents, or 1.7%, to \$2.36 per unit.

12 assets were independently valued at 31 December 2016 with the remaining 25 assets subject to Director's valuations. All of CIP's assets have been independently valued in the last 12 months.

The WACR of CIP's portfolio has remained relatively stable, firming 3 basis points to 7.42% at 31 December 2016.

3 WALE: Weighted average lease expiry.

4 WACR: Weighted average capitalisation rate.

5 Including investment property - held for sale.

## **Centuria Industrial REIT and its controlled entities**

### **Responsible Entity report**

**For the half year ended 31 December 2016**

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#### **Capital transactions**

On 5 January 2017 CIP announced that it had entered into an unconditional contract for the sale of 60 Marple Avenue, Villawood to an owner-occupier for \$20.0 million representing an 8.1% premium to the 30 June 2016 book value of \$18.5 million. Settlement is scheduled to occur on 17 February 2017.

#### **Capital management**

CIP presently has debt facilities totaling \$420 million expiring in June 2017. CPF2L is currently arranging replacement facilities totaling \$450 million with a blend of 3 to 6 year term from multiple lenders to ensure diversity of funding and reduce future refinancing risk.

CIP currently has hedges over 100.6% of its debt facilities with maturities differing from the underlying facilities. CPF2L intend to undertake a review of CIP's hedge book to ensure exposure to interest rate risk is prudently managed in line with CIP's conservative capital management philosophy.

CIP's Interest Cover Ratio was approximately 4.3 times relative to a bank covenant of 2.0 times, demonstrating adequate covenant headroom.

#### **Outlook and guidance**

On 17 August 2016 CIP, under the management of 360 Capital Group Limited, earnings guidance of greater than 21.6 cpu was made. Following a detailed review of CIP's leasing assumptions since the change in management on 9 January 2017, and acknowledging that as part of CIP's de-levering strategy the proceeds from asset sales will not be reinvested (instead used to retire debt) and taking into account the likely higher 'all-in' interest cost arising from the upcoming refinancing, CPF2L advises that FY17 forecast earnings are restated at 20.5 cpu.

CPF2L intends to distribute to CIP unitholders 100% of distributable earnings in FY17.

## Centuria Industrial REIT and its controlled entities

### Responsible Entity report

#### For the half year ended 31 December 2016

#### Distributions

Distributions declared during the half year ended 31 December 2016 are as follows:

	31 December 2016 \$'000	31 December 2015 \$'000
September 2015 quarter paid 5.375 cpu on 23 October 2015	-	10,227
December 2015 quarter paid 5.375 cpu on 27 January 2016	-	11,393
September 2016 quarter paid 5.400 cpu on 27 October 2016	11,445	-
December 2016 quarter paid 5.400 cpu on 25 January 2017	11,445	-
<b>Total distributions</b>	<b>22,890</b>	<b>21,620</b>

#### Units on issue

The Fund did not issue units during the period ended 31 December 2016 (2015: 59.5 million). The total number of units on issue in the Fund as at 31 December 2016 was 211,957,288 (30 June 2016: 211,957,288).

#### Fees, commissions or other charges by the Responsible Entity or Related Parties of the Responsible Entity

All fees payable to the Responsible Entity or its related parties are detailed in Note 13 to the interim financial statements.

#### Units held by the Responsible Entity or Related Parties of the Responsible Entity

As at 31 December 2016, related parties of the Responsible Entity held units in the Fund as detailed in Note 13 of the interim financial statements.

#### Significant changes in state of affairs

In the opinion of the Directors, there were no other significant changes in the state of affairs of the Fund that occurred during the half year under review other than those listed above or elsewhere in the Responsible Entity report.

#### Likely developments and expected results of operations

The Responsible Entity continues to implement the strategy of the Fund being to invest in industrial properties within Australia. The Fund continues to seek to return income to unitholders through its distributions and capital growth through increasing the value of the underlying properties.

#### Events subsequent to balance date

On 23 November 2016, Centuria Capital Limited agreed with 360 Capital Group Limited to acquire all of the shares in CPF2L and associated management rights over the listed and unlisted property investment funds for which CPF2L is the Responsible Entity, which includes this Fund. The acquisition of shares in CPF2L was completed on 9 January 2017.

On 5 January 2017, the Fund entered into an unconditional contract to sell 60 Marple Avenue, Villawood, NSW for \$20.0 million with settlement expected on 17 February 2017.

No other matters or circumstances apart from those already mentioned in the Responsible Entity Report have arisen since the end of the half year which have significantly affected or may significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial period.

#### Auditor's independence declaration

The auditor's independence declaration required under Section 307C of the *Corporations Act 2001* is set out on page 9 and forms part of the Responsible Entity report for the half year ended 31 December 2016.

**Centuria Industrial REIT and its controlled entities**

**Responsible Entity report**

**For the half year ended 31 December 2016**

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**Rounding of amounts**

The Fund is an entity of the kind referred to in Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission ("ASIC"). In accordance with that Instrument, amounts in the annual financial report and Responsible Entity report have been rounded to the nearest thousand dollars, unless otherwise stated.

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



Director

Sydney  
16 February 2017



Director

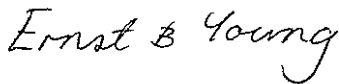


## **Auditor's Independence Declaration to the Directors of Centuria Property Funds No. 2 Limited as Responsible Entity for Centuria Industrial REIT**

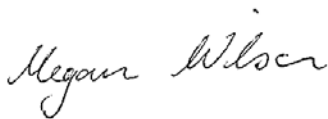
As lead auditor for the review of Centuria Industrial REIT for the half-year ended 31 December 2016, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Centuria Industrial REIT and the entities it controlled during the financial period.



Ernst & Young



Megan Wilson  
Partner  
16 February 2017

**Centuria Industrial REIT and its controlled entities**  
**Consolidated interim statement of profit or loss and other comprehensive income**  
**For the half year ended 31 December 2016**

		<b>31 December 2016 \$'000</b>	<b>31 December 2015 \$'000</b>
	<b>Note</b>		
<b>Revenue from continuing operations</b>			
Rental income	3	40,598	32,682
Finance revenue		53	87
<b>Total revenue from continuing operations</b>		<b>40,651</b>	<b>32,769</b>
<b>Other income</b>			
Other income		319	-
Net gain on fair value of investment properties		2,918	-
Net gain on fair value of derivative financial instruments		5,200	-
<b>Total other income</b>		<b>8,437</b>	<b>-</b>
<b>Total revenue from continuing operations and other income</b>		<b>49,088</b>	<b>32,769</b>
Investment property expenses		6,393	5,086
Management fees	13	3,054	2,612
Administration expenses		190	423
Net loss on fair value of investment properties		-	724
Net loss on sale of investment properties		-	138
Net loss on fair value of derivative financial instruments		-	1,864
Loss on fair value of financial assets		-	4,951
Business combination transaction costs		-	8,145
Finance costs	4	8,089	6,812
<b>Net profit from continuing operations</b>		<b>31,362</b>	<b>2,014</b>
<b>Total comprehensive income for the half year</b>		<b>31,362</b>	<b>2,014</b>
<b>Total comprehensive income attributable to:</b>			
Unitholders of the Fund		<b>31,362</b>	1,621
External non-controlling interests		-	393
<b>Total comprehensive income for the half year</b>		<b>31,362</b>	<b>2,014</b>
<b>Earnings per unit - basic and diluted - cents per unit</b>	<b>5</b>	<b>14.8</b>	<b>0.9</b>

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

**Centuria Industrial REIT and its controlled entities**  
**Consolidated interim statement of financial position**  
**As at 31 December 2016**

		<b>31 December 2016 \$'000</b>	<b>30 June 2016 \$'000</b>
	<b>Note</b>		
<b>Current assets</b>			
Cash and cash equivalents		5,014	4,452
Receivables		2,344	3,115
Investment property – held for sale	7	20,000	22,800
<b>Total current assets</b>		<b>27,358</b>	<b>30,367</b>
<b>Non-current assets</b>			
Investment properties	8	891,850	882,400
Goodwill		10,501	10,501
<b>Total non-current assets</b>		<b>902,351</b>	<b>892,901</b>
<b>Total assets</b>		<b>929,709</b>	<b>923,268</b>
<b>Current liabilities</b>			
Trade and other payables		6,181	9,308
Distribution payable		11,445	11,499
Borrowings	9	396,553	-
<b>Total current liabilities</b>		<b>414,179</b>	<b>20,807</b>
<b>Non-current liabilities</b>			
Borrowings	9	-	390,201
Derivative financial instruments		5,462	10,664
<b>Total non-current liabilities</b>		<b>5,462</b>	<b>400,865</b>
<b>Total liabilities</b>		<b>419,641</b>	<b>421,672</b>
<b>Net assets</b>		<b>510,068</b>	<b>501,596</b>
<b>Equity</b>			
Issued units	10	538,551	538,551
Accumulated losses		(28,483)	(36,955)
<b>Total equity</b>		<b>510,068</b>	<b>501,596</b>

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

**Centuria Industrial REIT and its controlled entities**  
**Consolidated interim statement of changes in equity**  
**For the half year ended 31 December 2016**

		Issued units \$'000	Accumulated losses \$'000	Total equity attributable to unitholders of the fund \$'000	External non-controlling interests \$'000	Total equity \$'000
	Note					
<b>Balance at 1 July 2016</b>		538,551	(36,955)	501,596	-	501,596
Total comprehensive income for the half year		-	31,362	31,362	-	31,362
<b>Transactions with unitholders in their capacity as unitholders</b>						
Distributions paid and payable	2	-	(22,890)	(22,890)	-	(22,890)
					-	
<b>Balance at 31 December 2016</b>		<b>538,551</b>	<b>(28,483)</b>	<b>510,068</b>	<b>-</b>	<b>510,068</b>
<b>Balance at 1 July 2015</b>		398,630	(42,125)	356,505	-	356,505
Total comprehensive income for the half year		-	1,621	1,621	393	2,014
Recognition of external non-controlling interests		-	-	-	51,467	51,467
Acquisition of external non-controlling interests		-	(2,804)	(2,804)	(51,860)	(54,664)
<b>Transactions with unitholders in their capacity as unitholders</b>						
Units issued		140,397	-	140,397	-	140,397
Equity raising cost		(68)	-	(68)	-	(68)
Distributions paid and payable	2	-	(21,620)	(21,620)	-	(21,620)
		140,329	(21,620)	118,709	-	118,709
<b>Balance at 31 December 2015</b>		<b>538,959</b>	<b>(64,928)</b>	<b>474,031</b>	<b>-</b>	<b>474,031</b>

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

**Centuria Industrial REIT and its controlled entities**  
**Consolidated interim statement of cash flows**  
**For the half year ended 31 December 2016**

		<b>31 December 2016 \$'000</b>	<b>31 December 2015 \$'000</b>
	<b>Note</b>		
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		45,847	36,125
Payments to suppliers (inclusive of GST)		(15,287)	(11,015)
Finance revenue		53	87
Finance costs		(7,788)	(5,771)
<b>Net cash inflows from operating activities</b>	<b>12</b>	<b>22,825</b>	<b>19,426</b>
<b>Cash flows from investing activities</b>			
Payments for additions to investment properties		(5,317)	(3,663)
Proceeds from disposal of investment properties		-	10,362
Distributions received		-	2,897
Payments for financial assets		-	(3,780)
Payments for subsidiaries		-	(3,411)
Payments for external non-controlling interests		-	(3,487)
Payments of business combination transaction costs		-	(6,900)
Payments of ANI defence costs incurred prior to acquisition		-	(2,884)
<b>Net cash outflows from investing activities</b>		<b>(5,317)</b>	<b>(10,866)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings	9	16,000	27,500
Repayment of borrowings	9	(10,000)	(17,100)
Payment of transaction costs to issue capital		-	(68)
Payments for borrowing costs		(2)	(2)
Distributions paid to unitholders		(22,944)	(19,476)
<b>Net cash outflows from financing activities</b>		<b>(16,946)</b>	<b>(9,146)</b>
Net increase/(decrease) in cash and cash equivalents		562	(586)
Cash and cash equivalents at the beginning of the half year		4,452	6,329
<b>Cash and cash equivalents at the end of the half year</b>		<b>5,014</b>	<b>5,743</b>

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

**Centuria Industrial REIT and its controlled entities**  
**Condensed notes to the interim financial report**  
**For the half year ended 31 December 2016**

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**Note 1: Basis of preparation**

**a) Basis of preparation**

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 general purpose financial statements are for the entity Centuria Industrial REIT (formerly 360 Capital Industrial Fund) and its controlled entities ("the Fund"). The Fund is a listed Fund established and domiciled in Australia. The Responsible Entity of the Fund is Centuria Property Funds No. 2 Limited (formerly 360 Capital Investment Management Limited). The registered office and the principal place of business is Suite 39.01, Level 39, 100 Miller Street, North Sydney NSW 2060 Australia. The nature of operations and principal activities of the Fund are disclosed in the Responsible Entity Report.

The interim financial report does not include all of the notes and information required for a full annual financial report and should be read in conjunction with the annual financial report for the year ended 30 June 2016.

The interim financial report was authorised for issue by the Board on 16 February 2017.

The interim financial report has been prepared on a going concern basis. The Directors of the Fund note that the Fund is in a net current liabilities position of \$386.8 million due to the classification of borrowings as current as a result of the upcoming facility expiry in June 2017. As part of the transfer of management from 360 Capital Group Limited, Centuria is now in advanced negotiations with various financiers to refinance the entire CIP loan facility. As at the date of this report there are no breaches of any of the loan covenants relating to the existing debt facility. Given the quality property portfolio, the Fund expects to be able to refinance its debt facility prior to expiry in June 2017.

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.

**Note 2: Distributions**

Total distributions paid or payable to unitholders by the Fund during the half year ended 31 December 2016 were as follows:

	<b>31 December 2016 \$'000</b>	<b>31 December 2015 \$'000</b>
September 2015 quarter paid 5.375 cpu on 23 October 2015	-	10,227
December 2015 quarter paid 5.375 cpu on 27 January 2016	-	11,393
September 2016 quarter paid 5.400 cpu on 27 October 2016	11,445	-
December 2016 quarter paid 5.400 cpu on 25 January 2017	11,445	-
<b>Total distributions</b>	<b>22,890</b>	<b>21,620</b>

Centuria Industrial REIT and its controlled entities  
Condensed notes to the interim financial report  
For the half year ended 31 December 2016

**Note 3: Rental income**

	31 December 2016 \$'000	31 December 2015 \$'000
Rent	39,882	32,792
Straight-lining of lease revenue	1,146	342
Amortisation of incentives and leasing fees	(430)	(452)
	<b>40,598</b>	32,682

**Note 4: Finance costs**

	31 December 2016 \$'000	31 December 2015 \$'000
Interest and finance charges paid and payable	7,735	6,215
Amortisation of capitalised borrowing costs on debt facilities	354	597
	<b>8,089</b>	6,812

**Note 5: Earnings per unit**

	31 December 2016 ¢	31 December 2015 ¢
Basic and diluted earnings per unit attributable to unitholders of the Fund	<b>14.8</b>	0.9
	<b>\$'000</b>	<b>\$'000</b>
<b>Basic and diluted earnings</b>		
Net profit attributable to unitholders of the Fund	<b>31,362</b>	1,621
	<b>000's</b>	<b>000's</b>
<b>Weighted average number of units</b>		
Weighted average number of units	<b>211,957</b>	176,395

**Centuria Industrial REIT and its controlled entities**  
**Condensed notes to the interim financial report**  
**For the half year ended 31 December 2016**

**Note 6: Segment reporting**

The Fund invests solely in industrial properties within Australia.

The Chief Operating Decision Maker being, the CEO – Listed Property Funds of the Responsible Entity, monitors the performance and results of the Fund at a total Fund level. As a result, the Fund has only one segment. Operating profit is a financial measure which is not prescribed by AAS and represents the profit under AAS adjusted for specific non-cash and significant items which management consider to reflect the core earnings of the Fund and is used as a guide to assess the Funds ability to pay distributions to unitholders.

The following table summarises key reconciling items between statutory profit attributable to the unitholders of the Fund and operating profit.

	<b>31 December 2016 \$'000</b>	<b>31 December 2015 \$'000</b>
<b>Profit attributable to the unitholders of the Fund</b>	<b>31,362</b>	1,621
<b>Specific non-cash items</b>		
Net (gain)/loss on fair value of investment properties	(2,918)	724
Net (gain)/loss on fair value of derivative financial instruments	(5,200)	1,864
Amortisation of capitalised borrowing costs on debt facilities	354	597
Straight-lining of lease revenue	(1,146)	(342)
Amortisation of incentives and leasing fees	430	452
Net loss on fair value of financial assets	-	4,951
<b>Significant items</b>		
Business combination transaction costs	-	8,145
Net loss on sale of investment property	-	138
Rental guarantee cash received	-	54
<b>Operating profit (profit before specific non-cash and significant items)</b>	<b>22,882</b>	<b>18,204</b>
Pro forma operating profit of ANI <sup>1</sup>	-	6,648
<b>Operating profit (including pro forma adjustments)</b>	<b>22,882</b>	<b>24,852</b>
Weighted average number of units ('000) used for operating earnings	<b>211,957</b>	211,957
<b>Operating profit per unit (including pro forma adjustments) (EPU) - cents</b>	<b>10.8</b>	<b>11.7</b>

<sup>1</sup> Pro forma operating profit of ANI represents the net profit of ANI adjusted for specific non-cash and significant items prior to consolidation with CIP. This adjustment allows for a comparison of operating profit to pro forma earnings included in the CIP Offer Bidder's Statement and allows for a more meaningful comparison with earnings in future years. The pro forma adjustment illustrates the overall operating profit of the combined Funds from 1 July 2015 to 31 December 2015 as if the consolidation had occurred on 1 July 2015.



**Centuria Industrial REIT and its controlled entities**  
**Condensed notes to the interim financial report**  
**For the half year ended 31 December 2016**

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**Note 7: Investment property - held for sale**

	<b>31 December 2016 \$'000</b>	<b>30 June 2016 \$'000</b>
74-94 Newton Road, Wetherill Park, NSW	-	22,800
60 Marple Avenue, Villawood, NSW	20,000	-
	<b>20,000</b>	<b>22,800</b>

Assets are classified as held for sale when it is considered highly probable that they will be sold within 12 months of the balance date.

On 5 January 2017, the Fund entered into an unconditional contract to sell 60 Marple Avenue, Villawood, NSW for \$20.0 million with settlement expected on 17 February 2017. 74-94 Newton Road, Wetherill Park, NSW has been transferred to investment properties as it is not expected to be sold in the next 12 months (see note 8).

**Centuria Industrial REIT and its controlled entities**  
**Condensed notes to the interim financial report**  
**For the half year ended 31 December 2016**

**Note 8: Investment properties**

	Date of acquisition	Book value		Capitalisation rate		Date of last external valuation	Last external valuation \$'000
		31 December 2016 \$'000	30 June 2016 \$'000	31 December 2016 %	30 June 2016 %		
Investment property valuations							
12-13 Dansu Court, Hallam, VIC	Dec 03	14,300	14,100	7.50	7.50	Dec 16	14,300
14-17 Dansu Court, Hallam, VIC	Dec 03	17,600	17,400	7.50	7.50	Dec 16	17,600
39-45 Wedgewood Road, Hallam, VIC	Dec 03	9,300	9,300	7.75	7.75	Dec 16	9,300
310 Spearwood Avenue, Bibra Lake, WA	May 05	48,500	50,000	8.00	8.00	Dec 16	48,500
6 Albert Street, Preston, VIC	Mar 06	25,400	25,400	7.75	7.75	Jun 16	25,400
102-128 Bridge Road, Keysborough, VIC	Jul 06	30,600	30,300	7.75	7.75	Dec 16	30,600
60 Marple Avenue, Villawood, NSW <sup>1</sup>	Feb 07	-	18,500	-	8.50	Jun 16	18,500
500 Princes Highway, Noble Park, VIC	Oct 07	20,300	20,000	8.00	8.25	Dec 16	20,300
8 Penelope Crescent, Arndell Park, NSW	Nov 07	15,500	15,500	7.50	7.50	Dec 16	15,500
37-51 Scrivener Street, Warwick Farm, NSW	Jan 08	26,300	26,200	8.00	8.00	Jun 16	26,200
54 Sawmill Circuit, Hume, ACT	Jun 12	15,300	15,250	7.25	7.25	Jun 16	15,250
9-13 Caribou Drive, Direk, SA	Jun 12	9,600	9,600	8.50	8.50	Jun 16	9,600
22 Hawkins Crescent, Bundamba, QLD	Jun 12	43,500	43,300	7.25	7.25	Jun 16	43,300
1 Ashburn Road, Bundamba, QLD	Jun 12	36,600	36,600	7.75	7.75	Jun 16	36,600
457 Waterloo Road, Chullora, NSW	Jun 13	26,000	26,000	6.75	6.75	Jun 16	26,000
69 Studley Court, Derrimut, VIC	Jun 13	20,600	20,600	7.25	7.25	Jun 16	20,600
2 Woolworths Way, Warnervale, NSW	Jul 14	80,850	80,850	7.25	7.25	Jun 16	80,850
21 Jay Street, Mount St John, Townsville, QLD	Jul 14	10,800	10,800	8.00	8.00	Jun 16	10,800
33-37 Mica Street, Carole Park, QLD	Sep 14	26,750	26,500	7.50	7.50	Dec 16	26,750
69 Rivergate Place, Murarrie, QLD	Dec 14	29,500	29,000	6.50	6.50	Jun 16	29,000
136 Zillmere Road, Boondall, QLD	Jan 15	28,300	28,300	7.25	7.25	Jun 16	28,300

**Centuria Industrial REIT and its controlled entities**  
**Condensed notes to the interim financial report**  
**For the half year ended 31 December 2016**

**Note 8: Investment properties (continued)**

	Date of acquisition	Book value		Capitalisation rate		Date of last external valuation	Last external valuation \$'000
		31 December 2016 \$'000	30 June 2016 \$'000	31 December 2016 %	30 June 2016 %		
92-98 Cosgrove Road, Enfield, NSW	Oct 15	37,600	37,600	7.50	7.50	Jun 16	37,600
10 Williamson Road, Ingleburn, NSW	Oct 15	36,500	36,500	7.50	7.50	Jun 16	36,500
12 Williamson Road, Ingleburn, NSW	Oct 15	34,200	34,000	7.25	7.25	Jun 16	34,000
29 Glendenning Road, Glendenning, NSW	Oct 15	40,000	39,050	6.50	6.50	Jun 16	39,050
74-94 Newton Road, Wetherill Park, NSW <sup>2</sup>	Oct 15	24,200	-	6.75	-	Dec 16	24,200
6 Macdonald Road, Ingleburn, NSW	Oct 15	17,900	17,900	7.25	7.25	Jun 16	17,900
30 Clay Place, Eastern Creek, NSW	Oct 15	16,300	16,300	6.50	6.50	Jun 16	16,300
52-74 Quarry Road, Erskine Park, NSW	Oct 15	15,300	15,200	6.75	6.75	Jun 16	15,200
75 Owen Street, Glendenning, NSW	Oct 15	7,750	7,750	6.75	6.75	Jun 16	7,750
24-32 Stanley Drive, Somerton, VIC	Oct 15	27,400	27,400	7.50	7.50	Jun 16	27,400
324-332 Frankston-Dandenong Road, Dandenong South, VIC	Oct 15	27,100	27,100	7.50	7.50	Jun 16	27,100
49 Temple Drive, Thomastown, VIC	Oct 15	13,000	13,000	8.00	8.00	Dec 16	13,000
2 Keon Parade, Keon Park, VIC	Oct 15	20,800	19,750	7.00	7.25	Dec 16	20,800
9 Fellowes Court, Tullamarine, VIC	Oct 15	4,200	3,750	7.25	7.25	Dec 16	4,200
23 Selkis Road, Bibra Lake, WA	Oct 15	17,700	17,300	8.00	8.25	Jun 16	17,300
99 Quill Way, Henderson, WA	Oct 15	16,300	16,300	8.25	8.25	Jun 16	16,300
<b>Total</b>		<b>891,850</b>	<b>882,400</b>				

1 The property book value of 60 Marple Avenue, Villawood, NSW was transferred to Investment property – held for sale (refer to Note 7).

2 The property book value of 74-94 Newton Road, Wetherill Park, NSW was transferred from Investment property – held for sale (refer to Note 7).

Centuria Industrial REIT and its controlled entities  
Condensed notes to the interim financial report  
For the half year ended 31 December 2016

**Note 8: Investment properties (continued)**

		<b>31 December 2016 \$'000</b>	<b>30 June 2016 \$'000</b>
	<b>Note</b>		
<b>Movement during the period:</b>			
Opening balance as at 1 July		882,400	533,400
Properties acquired through the ANI Acquisition		-	331,326
Transfer to non-current assets held for sale	7	(20,000)	(22,800)
Transfer from non-current assets held for sale	7	22,800	-
Additions to investment properties		1,561	10,356
Net gain on fair value of investment properties		2,911	28,905
Change in deferred rent and lease incentives		1,097	1,351
Change in capitalised leasing fees		1,081	(138)
Closing balance		<b>891,850</b>	882,400

**Note 9: Borrowings**

		<b>31 December 2016 \$'000</b>	<b>30 June 2016 \$'000</b>
<b>Current</b>			
Borrowings - secured		397,500	-
Capitalised borrowing costs		(947)	-
		<b>396,553</b>	-
<b>Non-current</b>			
Borrowings - secured		-	391,500
Capitalised borrowing costs		-	(1,299)
		-	390,201
<b>Borrowings - secured</b>			
Total facility limit		420,000	420,000
Used at end of reporting date		397,500	391,500
<b>Unused at end of reporting date</b>		<b>22,500</b>	28,500
<b>Movement during the period:</b>			
Opening balance as at 1 July		391,500	253,000
Borrowings acquired through the ANI Acquisition		-	120,000
Repayments of facility		(10,000)	(153,600)
Drawdowns from facility		16,000	172,100
<b>Closing balance</b>		<b>397,500</b>	391,500

**Centuria Industrial REIT and its controlled entities**  
**Condensed notes to the interim financial report**  
**For the half year ended 31 December 2016**

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**Note 9: Borrowings (continued)**

**a) Loan facilities summary**

NAB and Bankwest syndicated debt facility

At balance date, the syndicated facility with NAB and Bankwest was drawn to \$397.5 million (June 2016: \$391.5 million) with a total facility limit of \$420.0 million. As a result of the acquisition of shares in CPF2L (refer note 14) the current syndicated debt facility's maturity date was changed to 30 June 2017.

**b) Funding covenants**

All loan facilities are subject to standard commercial covenants consistent with the type of loan including Loan to Value Ratio ("LVR"), Interest Cover Ratio ("ICR") & Negative Variations. At the date of this report, the Fund complies with all debt covenants and did at all times during the half year.

As at 31 December 2016 the Syndicated debt facility was drawn to \$397.5 million, which represents a LVR of 43.8% based on the most recent attributable external valuations adopted by the banking syndicate, which complied with the bank covenant of less than 55.0%. As at 31 December 2016 the ICR was calculated to be 4.3 times for the syndicated debt facility, which complied with the bank covenant of not less than 2.0 times.

**Note 10: Equity**

**(a) Issued Units**

	<b>31 December 2016 000's</b>	<b>30 June 2016 000's</b>
Centuria Industrial REIT - Ordinary units issued	211,957	211,957
	<b>\$'000</b>	<b>\$'000</b>
Centuria Industrial REIT - Ordinary units issued	538,551	538,551

**(b) Movements in issued units**

There were no movements in issued units of the Fund for the half year ended 31 December 2016.

**Centuria Industrial REIT and its controlled entities**  
**Condensed notes to the interim financial report**  
**For the half year ended 31 December 2016**

**Note 11: Other financial assets and liabilities**

**Fair values**

The fair values of receivables, trade and other payables and distributions payable approximate their carrying amounts largely due to the short-term maturities of these instruments. The fair values quoted in the below table in relation to non-current liabilities are all categorised within the fair value hierarchy as Level 2 inputs.

	Carrying value		Fair value	
	31 December	30 June	31 December	30 June
	2016	2016	2016	2016
	\$'000	\$'000	\$'000	\$'000
<b>Current financial liabilities</b>				
Borrowings	396,553	-	397,500	-
Total current financial liabilities	<b>396,553</b>	-	<b>397,500</b>	-
<b>Non-current financial liabilities</b>				
Borrowings	-	390,201	-	391,500
Total non-current financial liabilities	-	390,201	-	391,500

Fair value hierarchy

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy. Described as follows, based on the lowest level input that is significant to the fair value measurements as a whole:

Level 1 – Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities

Level 2 – Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable)

Level 3 – Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable)

For financial instruments that are recognised at fair value on a recurring basis, the Fund determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

As at 31 December 2016, the Fund held the following classes of financial instruments measured at fair value:

	Total	Level 1	Level 2	Level 3
	\$'000	\$'000	\$'000	\$'000
<b>Financial liabilities measured at fair value</b>				
Derivative financial instruments	(5,462)	-	(5,462)	-
	(5,462)	-	(5,462)	-

**Centuria Industrial REIT and its controlled entities**  
**Condensed notes to the interim financial report**  
**For the half year ended 31 December 2016**

**Note 11: Other financial assets and liabilities (continued)**

As at 30 June 2016, the Fund held the following classes of financial instruments measured at fair value:

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Financial liabilities measured at fair value</b>				
Derivative financial instruments	(10,664)	-	(10,664)	-
	(10,664)	-	(10,664)	-

During the period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements. Fair value hierarchy levels are reviewed on an annual basis unless there is a significant change in circumstances indicating that the classification may have changed.

**Valuation techniques**

Derivative financial instruments

For derivatives, as market prices are unavailable the Fund uses valuation models to derive fair value. The models are industry standard and mostly employ a Black-Scholes framework to calculate the expected future value of payments by derivative, which is discounted back to a present value. The models' interest rate inputs are benchmark interest rates such as BBSW and active broker quoted interest rates in the swap, bond and futures markets. Interest rate volatilities are sourced through a consensus data provider. As such, the input parameters into the models are deemed observable, thus these derivatives are categorised as Level 2 instruments.

Borrowings

The fair value of the borrowings is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

**Note 12: Reconciliation of net profit to net cash inflows from operating activities**

	<b>31 December</b>	<b>31 December</b>
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Profit for the half year</b>	<b>31,362</b>	2,014
<u>Adjustment for:</u>		
Net (gain)/loss in fair value of investment properties	(2,918)	724
Net (gain)/loss on derivative financial instruments	(5,200)	1,864
Loss on sale of properties	-	138
Amortisation of capitalised borrowing costs on debt facilities	354	597
Net loss on fair value of financial assets	-	4,951
Business combination transaction costs	-	8,145
<u>Changes in assets and liabilities:</u>		
Decrease/(increase) in receivables and prepayments	94	(141)
(Decrease)/increase in trade and other payables	(867)	1,134
<b>Net cash inflows from operating activities</b>	<b>22,825</b>	19,426

**Centuria Industrial REIT and its controlled entities**  
**Condensed notes to the interim financial report**  
**For the half year ended 31 December 2016**

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**Note 13: Related party transactions**

**Responsible Entity**

The Responsible Entity of Centuria Industrial REIT is Centuria Property Funds No. 2 Limited, a wholly owned subsidiary of Centuria Capital Group Limited.

**Responsible Entity's fees and other transactions**

Under the terms of the constitution, the Responsible Entity is entitled to receive fees in accordance with the Product Disclosure Statement and constitution of the Fund.

**Management fees**

	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>\$</b>	<b>\$</b>
<b>Fees for the half year paid/payable by the Fund:</b>		
Management of the Fund	2,819,994	2,395,846
Custodian fees	200,098	173,970
Fund recoveries	33,475	42,045
	<b>3,053,567</b>	<b>2,611,861</b>

	<b>31 December 2016</b>	<b>30 June 2016</b>
	<b>\$</b>	<b>\$</b>
<b>Aggregate amounts due to the Responsible Entity at balance date:</b>		
Management of the Fund	-	1,155
Custodian fees	-	10,311
Fund recoveries	-	7,494
	-	<b>18,960</b>

The Responsible Entity is entitled to a management fee of 0.65% per annum of the gross asset value of the Fund calculated in accordance with the Fund's constitution. The Responsible Entity has elected to charge 0.60% per annum.

Custodian fees are paid to the custodian, also being Centuria Property Funds No. 2 Limited, and calculated in accordance with the constitution at a rate of 0.05% of the Fund's gross assets.



**Centuria Industrial REIT and its controlled entities**  
**Condensed notes to the interim financial report**  
**For the half year ended 31 December 2016**

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**Note 13: Related party transactions (continued)**

**Unitholdings**

Other Funds managed by and Related to the Responsible Entity held units in the Fund as follows:

	<b>31 December 2016</b>	<b>30 June 2016</b>
<b>360 Capital Diversified Property Fund<sup>1</sup></b>		
Number of units held	33,148,945	33,148,945
Interest % held	15.64%	15.64%
Distributions paid/payable by the Fund (\$)	3,580,086	6,883,954
<b>360 Capital AREIT Fund<sup>1</sup></b>		
Number of units held	-	-
Interest % held	-	-
Distributions paid by the Fund (\$)	-	3,945

<sup>1</sup> On 30 December 2016, unitholders approved the resolution for Centuria Capital Limited to acquire all of the shares in the Responsible Entity. Subsequent to the acquisition, these entities have ceased to be a related party of the Fund. Refer to Note 14 for more information.

**Remuneration of Directors and Key Management Personnel of the Responsible Entity**

The Fund does not employ personnel in its own right. However, it is required to have an incorporated Responsible Entity to manage the activities of the Fund and this is considered the Key Management Personnel ("KMP"). The Directors of the Responsible Entity are KMP.

No compensation is paid directly by the Fund to Directors or to any KMP of the Responsible Entity.

**Loans to Directors and Key Management Personnel of the Responsible Entity**

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the Directors and KMP or their personally related entities at any time during the half year.

**Other transactions with Directors and Specified Executives of the Responsible Entity**

From time to time, Directors and KMP or their personally related entities may buy or sell units in the Fund. These transactions are subject to the same terms and conditions as those entered into by other Fund investors.

**Centuria Industrial REIT and its controlled entities**  
**Condensed notes to the interim financial report**  
**For the half year ended 31 December 2016**

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**Note 14: Events subsequent to balance date**

On 23 November 2016, Centuria Capital Limited agreed with 360 Capital Group Limited to acquire all of the shares in Centuria Property Funds No. 2 Limited and associated management rights over the listed and unlisted property investment funds for which CPF2L is the responsible entity, which includes this Fund. The acquisition of shares in CPF2L was completed on 9 January 2017.

On 5 January 2017, the Fund entered into an unconditional contract to sell 60 Marple Avenue, Villawood, NSW for \$20.0 million with expected settlement in February 2017.

No other matters or circumstances have arisen since the end of the half year which have significantly affected or may significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial years.

**Note 15: Responsible Entity details**

The registered office and the principal place of business of the Responsible Entity is:

Centuria Property Funds No. 2 Limited  
Suite 39.01, Level 39, 100 Miller Street  
North Sydney, NSW 2060

**Centuria Industrial REIT and its controlled entities**

**Directors' declaration**

**For the half year ended 31 December 2016**

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

- 1) The consolidated interim financial statements and notes that are set out on pages 10 to 26, are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Fund's financial position as at 31 December 2016 and of its performance for the half year ended on that date; and
  - (ii) complying with AASB 134: *Interim Financial Reporting* and *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- 2) There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

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



Director



Director

Sydney  
16 February 2017

To the unitholders of Centuria Industrial REIT

## Report on the Interim Financial Report

We have reviewed the accompanying consolidated interim financial report of Centuria Industrial REIT (the "Fund") which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period ended on that date, condensed notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Fund and the entities it controlled at the period end or from time to time during the period.

## Directors' Responsibility for the Interim Financial Report

The directors of Centuria Property Funds No. 2 Limited, the Responsible Entity of the Fund, are responsible for the preparation of the consolidated interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the consolidated interim financial report that is free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express a conclusion on the consolidated interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the consolidated interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Fund's financial position as at 31 December 2016 and its performance for the period ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Centuria Industrial REIT, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a consolidated interim 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.

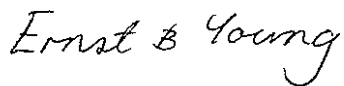
## Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Responsible Entity a written Auditor's Independence Declaration, a copy of which follows the Responsible Entity Report.

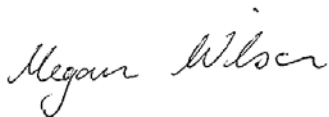
## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the consolidated interim financial report of Centuria Industrial REIT is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated Fund's financial position as at 31 December 2016 and of its performance for the period ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



Megan Wilson  
Partner  
Sydney  
16 February 2017