

Centuria Industrial REIT

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

ARSN: 099 680 252

**Annual Financial Report
For the year ended 30 June 2017**

Centuria Industrial REIT

Table of contents

For the year ended 30 June 2017

	Page
Directors' report	1
Auditor's independence declaration	8
Consolidated statement of profit or loss and other comprehensive income	9
Consolidated statement of financial position	10
Consolidated statement of changes in equity	11
Consolidated statement of cash flows	12
Notes to the financial statements	13
Directors' declaration	45
Independent auditor's report	46
Corporate governance statement	50
Additional ASX information	51

Centuria Industrial REIT

Directors' report

For the year ended 30 June 2017

The directors of Centuria Property Funds No. 2 Limited, the Responsible Entity of Centuria Industrial REIT ('CIP') present their report, together with the consolidated financial report of the Trust and its subsidiaries ('the Trust') for the year ended 30 June 2017 and the independent auditor's report thereon.

Directors of the Responsible Entity

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

Name	Appointed	Resigned
Darren Collins	26 Jun 2017	Continuing
Peter Done	26 Jun 2017	Continuing
Matthew Hardy	26 Jun 2017	Continuing
Jason Huljich	26 Jun 2017	Continuing
Michael Figg	09 Jan 2017	26 Jun 2017
Robert Lloyd	09 Jan 2017	26 Jun 2017
John Slater	09 Jan 2017	26 Jun 2017
David van Aanholt	16 Dec 2010	09 Jan 2017
Tony Robert Pitt	16 Dec 2010	09 Jan 2017
William John Ballhausen	16 Dec 2010	09 Jan 2017
Graham Ephraim Lenzner	02 Oct 2013	09 Jan 2017
Andrew Graeme Moffat	17 Dec 2010	09 Jan 2017

The company secretaries of Centuria Property Funds No. 2 Limited during or since the end of the financial year are:

Name	Appointed	Resigned
James Lonie	16 Jun 2017	Continuing
Charisse Nortje	17 Dec 2013	16 Jun 2017
Alan Sutton	22 Sep 2008	09 Jan 2017

No director holds any units in the Trust.

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

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

The following table sets out the directorships of other Australian listed companies held by the directors during the three years immediately before the end of the financial year:

Director	Company	Appointed	Resigned
Jason Huljich	Centuria Capital Limited	28/11/2007	Continuing
Peter Done	Centuria Capital Limited	28/11/2007	Continuing
Matthew Hardy	Not applicable		
Darren Collins	Not applicable		

Centuria Industrial REIT

Directors' report

For the year ended 30 June 2017

Principal activities

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

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

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

Significant change in the state of affairs

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

Review of operations

Results

The results of the operations of the Trust are disclosed in the consolidated statement of profit or loss and other comprehensive income of these financial statements. The Trust's profit from continuing operations for the year ended 30 June 2017 was \$50,817,000 (2016: \$49,788,000 profit).

As at 30 June 2017, the Trust's Net Tangible Assets ('NTA') has increased 3.0 cents per unit ('cpu'), or 1.3%, to \$2.35 per unit.

Investment property valuations

The total value of the Trust's portfolio as at 30 June 2017 was \$896.2 million representing an increase of 1.1% from 30 June 2016 on a like for like basis, excluding sold properties.

The weighted average capitalisation rate for the portfolio, on a like for like basis, has firmed 8 basis points to 7.31% at 30 June 2017.

Leasing and occupancy

The Trust secured 134,080 sqm of leases across 11 transactions for the year ended 30 June 2017. This represented 17.7% of the portfolio's gross lettable area.

At 30 June 2017 the Trust's portfolio was 92.1% occupied with a WALE of 4.4 years. For the year ending 30 June 2018, lease expiries represents less than 5.0% of portfolio income.

Capital management

During the year the entire debt book was re-financed replacing the existing \$420 million bank debt with a new \$450 million common terms facility. The new facility provides improved diversification of both lenders and maturities, significantly reducing future re-financing risk.

As at 30 June 2017, the Trust had drawn borrowings of \$397.3 million with a weighted average expiry of 3.4 years. The drawn debt was 86% hedged helping provide security over the expenses of the Trust.

The Trust's gearing at 30 June 2017 was 43.1%.

Centuria Industrial REIT

Directors' report

For the year ended 30 June 2017

Review of operations (continued)

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 continued deleveraging of the balance sheet and acquiring quality assets to replace the sale of non-core assets in order to enhance existing stable and secure income streams.

The Trust's distributable earnings guidance for the year ending 30 June 2018 is expected to be in the range of 19.5 – 20.0 cpu. The distribution guidance for the year ending 30 June 2018 is 19.4 cpu which will be paid in equal quarterly instalments.

Distributions

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

	30 Jun 2017		30 Jun 2016	
	Cents per unit	\$'000	Cents per unit	\$'000
September quarter	5.40	11,446	5.375	10,227
December quarter	5.40	11,445	5.375	11,393
March quarter	4.85	10,280	5.425	11,499
June quarter	4.85	10,280	5.425	11,499
	20.50	43,451	21.60	44,618

Key dates in connection with the 30 June 2017 distribution are:

Event	Date
Ex-distribution date	29 Jun 17
Record date	30 Jun 17
Distribution payment date	28 Jul 17

Centuria Industrial REIT

Directors' report

For the year ended 30 June 2017

Review of operations (continued)

Distributions (continued)

The distributable earnings for the year ended 30 June 2017 were \$43.5 million. This was a 10.3% decrease to the prior year. This has been attributed to the lost income from assets divested in during the 2016 and 2017 financial years.

Distributions per unit of 20.5 cents were in line with the revised guidance provided by the Responsible Entity in February 2017.

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

	30 Jun 2017 \$'000
Net profit for the year	50,817
<i>Adjustments:</i>	
Net gain on fair value of investment properties	(3,767)
Gain on fair value of derivative financial instruments	(3,789)
Incentive amortisation and rental straight-lining	(1,522)
Amortisation of leasing fees	443
Amortisation of borrowing costs	1,329
Distributable earnings for the year	<u>43,511</u>

Centuria Industrial REIT

Directors' report

For the year ended 30 June 2017

Environmental regulation

The Trust's operations are not subject to any significant environmental regulation under Commonwealth, State or Territory legislation.

Options granted

No options were granted over unissued units in the Trust during or since the end of the financial year.

No unissued units in the Trust were under option as at the date of this report.

No units were issued in the Trust during or since the end of the financial year as a result of the exercise of an option over unissued units in the Trust.

Events subsequent to balance date

On 5 July 2017, the Trust entered into an unconditional contract for the sale of 39-45 Wedgewood Rd, Hallam, Victoria for \$10,000,000. The contract provides for settlement on a deferred basis, and is expected to occur on 29 June 2018.

On 6 July 2017, the Trust issued an additional 14,286,000 units as a result of an institutional placement which raised \$35,000,000.

On 17 July 2017, the Trust settled on the acquisition of 207-209 Browns Rd, Noble Park Victoria for \$37,000,000.

On 10 August 2017 the Trust entered into an unconditional contract and paid a 5% deposit of \$560,000, for the acquisition of 92-100 Robinson Avenue, Belmont WA for a purchase price of \$11,200,000. Settlement of the property is expected on 31 August 2017.

Indemnifying officers or auditors

Indemnification

Under the Trust's constitution the Responsible Entity, including its officers and employees, is indemnified out of the Trust's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the Trust.

The Responsible Entity has not indemnified or agreed to indemnify any auditor or other officer of the Trust, or any related body corporate.

Insurance premiums

The Responsible Entity has paid insurance premiums in respect of directors' and officers' liability and legal expense insurance contracts, for current and former directors and officers, including senior executives of the Responsible Entity.

Centuria Industrial REIT

Directors' report

For the year ended 30 June 2017

Trust information in the directors' report

Responsible Entity interests

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

	30 Jun 2017	30 Jun 2016
	\$	\$
Leasing fees	1,389	-
Management fees	5,571,388	5,089,545
Custodian fees	396,941	389,220
Fund recoveries	85,177	93,884
Property management fees	114,399	-
Facility management fees	18,633	-
Project management fees	7,910	-
	<u>6,195,837</u>	<u>5,572,649</u>

The Responsible Entity and/or its related parties have held units in the Trust during the financial year as outlined in Note 20 to the financial statements.

Other Trust information

The number of units in the Trust issued and redeemed during the financial year, and the balance of issued units at the end of the financial year are disclosed in Note 15 to the financial statements.

The recorded value of the Trust's assets as at the end of the financial year is disclosed in the consolidated statement of financial position as "Total assets" and the basis of recognition and measurement is included in Notes 1 to 23 of these financial statements.

Auditor's independence declaration

The auditor's independence declaration is set out on page 8 and forms part of the directors' report for year ended 30 June 2017.

Centuria Industrial REIT

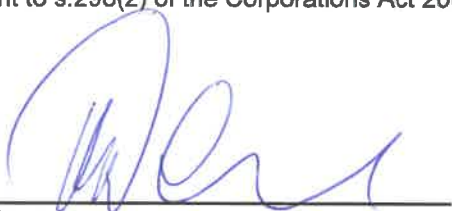
Directors' report

For the year ended 30 June 2017

Rounding off of amounts

The scheme is a scheme of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of the board of directors of Centuria Property Funds No. 2 Limited made pursuant to s.298(2) of the Corporations Act 2001.



Peter Done
Director



Jason Huljich
Director

Dated at Sydney this 14th day of August

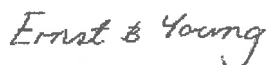
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Auditor's Independence Declaration to the Directors of Centuria Property Funds No. 2 Limited as Responsible Entity for Centuria Industrial REIT

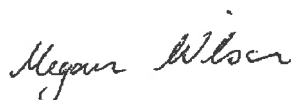
As lead auditor for the audit of Centuria Industrial REIT for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

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

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



Ernst & Young



Megan Wilson
Partner
14 August 2017

Centuria Industrial REIT

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2017

	Note	30 Jun 2017 \$'000	30 Jun 2016 \$'000
Revenue			
Rent and recoverable outgoings		80,425	75,109
Total revenue from continuing operations		80,425	75,109
Other income			
Interest income		117	152
Net gain on fair value of investment properties	9	3,767	28,749
Gain on fair value of derivative financial instruments		3,789	-
Other income		320	-
Total other income		7,993	28,901
Total revenue from continuing operations and other income		88,418	104,010
Expenses			
Net loss on fair value of financial assets held at fair value through profit or loss after transaction costs	10	-	(4,951)
Loss on fair value of derivative financial instruments		-	(7,366)
Rates, taxes and other property outgoings		(13,803)	(12,468)
Finance costs	4	(16,600)	(14,820)
Management fees	20	(5,571)	(5,090)
Professional fees		(1,459)	(1,327)
Other expenses		(168)	(94)
Business combination transaction costs		-	(8,106)
Profit from continuing operations for the year		50,817	49,788
Net profit for the year		50,817	49,788
Other comprehensive income			
Other comprehensive income for the year		-	-
Total comprehensive income for the year		50,817	49,788
Basic and diluted earnings per unit			
Units on issue (cents per unit)	6	23.98	25.66

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

Centuria Industrial REIT

Consolidated statement of financial position

As at 30 June 2017

	Note	30 Jun 2017 \$'000	30 Jun 2016 \$'000
Assets			
Current assets			
Cash and cash equivalents	17	8,189	4,452
Trade and other receivables	7	2,248	1,895
Investment properties held for sale	8	10,000	22,800
Other assets	11	4,393	1,220
Total current assets		24,830	30,367
Non-current assets			
Investment properties	9	886,150	882,400
Intangibles	10	10,501	10,501
Total non-current assets		896,651	892,901
Total assets		921,481	923,268
Liabilities			
Current liabilities			
Trade and other payables	12	17,147	20,807
Borrowings	13	55,000	-
Derivative financial instruments	14	219	-
Total current liabilities		72,366	20,807
Non-current liabilities			
Borrowings	13	339,958	390,201
Derivative financial instruments	14	195	10,664
Total non-current liabilities		340,153	400,865
Total liabilities		412,519	421,672
Net assets		508,962	501,596
Equity			
Issued capital	15	538,551	538,551
Accumulated losses		(29,589)	(36,955)
Total equity		508,962	501,596

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

Centuria Industrial REIT

Consolidated statement of changes in equity

For the year ended 30 June 2017

	Note	Issued capital \$'000	Retained earnings/ (accumulated losses) \$'000	Total equity \$'000
Balance at 1 July 2015		398,630	(42,125)	356,505
Net profit for the year		-	49,788	49,788
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	49,788	49,788
Applications		-	-	-
Entitlement issue - ANI acquisition	15	140,089	-	140,089
Redemptions		-	-	-
Equity raising costs	15	(168)	-	(168)
Distributions to unit holders	5	-	(44,618)	(44,618)
Balance at 30 June 2016		538,551	(36,955)	501,596
Net profit for the year		-	50,817	50,817
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	50,817	50,817
Distributions to unit holders	5	-	(43,451)	(43,451)
Balance at 30 June 2017		538,551	(29,589)	508,962

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

Centuria Industrial REIT

Consolidated statement of cash flows

For the year ended 30 June 2017

	Note	30 Jun 2017 \$'000	30 Jun 2016 \$'000
Cash flows from operating activities			
Receipts from customers		87,557	80,958
Payments to suppliers		(31,054)	(28,677)
Interest received		117	152
Interest paid		(14,423)	(12,962)
Net cash generated by operating activities	17	42,197	39,471
Cash flows from investing activities			
Proceeds from sale of investment properties		20,000	10,360
Payments for investment properties		(10,757)	(7,969)
Payments for investments held at fair value through profit or loss		-	(3,780)
Distributions received		-	2,897
Payments for subsidiaries		-	(6,898)
Payments for transaction costs		-	(8,096)
Payments for ANI defence costs incurred prior to acquisition		-	(2,884)
Net cash generated by/(used in) investing activities		9,243	(16,370)
Cash flows from financing activities			
Payments to procure issued units		-	(168)
Distributions paid		(44,670)	(42,368)
Proceeds from borrowings		425,752	172,100
Repayment of borrowings		(420,000)	(153,600)
Payments to procure borrowings		(2,324)	(942)
Payments in relation to derivative financial instruments		(6,461)	-
Net cash used in financing activities		(47,703)	(24,978)
Net increase/(decrease) in cash and cash equivalents		3,737	(1,877)
Cash and cash equivalents at beginning of financial year		4,452	6,329
Cash and cash equivalents at end of financial year	17	8,189	4,452

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

Centuria Industrial REIT

Notes to the financial statements

For the year ended 30 June 2017

Note		Page
1.	General information	14
2.	Significant accounting policies	15
3.	Revenue	19
4.	Expenses	19
5.	Distributions	20
6.	Earnings per unit	21
7.	Trade and other receivables	22
8.	Investment properties classified as held for sale	22
9.	Investment properties	23
10.	Intangible assets	27
11.	Other assets	31
12.	Trade and other payables	31
13.	Borrowings	32
14.	Derivatives	33
15.	Issued capital	34
16.	Contingent assets, liabilities and commitments	34
17.	Cash and cash equivalents	35
18.	Auditor's remuneration	36
19.	Financial instruments	36
20.	Related parties	41
21.	Events subsequent to reporting date	43
22.	Parent entity disclosures	44
23.	Additional information	44

Centuria Industrial REIT

Notes to the financial statements

About the report

For the year ended 30 June 2017

1. General information

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

Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards including Interpretations, and complies with other requirements of the law.

The financial statements and notes of the Trust comply with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB').

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

The 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 14 August 2017.

Basis of preparation

The financial statements have been prepared on the basis of historical cost, except for certain non-current assets and financial instruments that are measured at fair value, as explained in the accounting policies set out below.

Going concern

The 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.

At reporting date, the Trust has a net current asset deficiency of \$47,536,000 principally as a result of a tranche of debt maturing in the next twelve months, so has been classified as current.

As there have been no breaches of any of the loan covenants relating to the debt facility and the Trust continues to comply with its loan covenants, the Directors believes that a renewal of the expiring debt will be successfully negotiated prior to its expiry. Consequently after refinancing the expiring tranche of debt, the net current asset deficiency will be rectified.

After taking into account all available information, the directors have concluded that there are reasonable grounds to believe the basis of preparation of the financial report on a going concern basis is appropriate.

Rounding of amounts

The scheme is a scheme of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Centuria Industrial REIT

Notes to the financial statements

About the report

For the year ended 30 June 2017

1. General information (continued)

Functional and presentation currency

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

2. Significant accounting policies

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Trust and entities controlled by the Trust. Control is achieved where the Trust is exposed to, or has rights to, the variable returns from its involvement with an entity and has the ability to affect these returns through its power over the entity.

The Trust accounts for business combinations using the acquisition method when control is transferred to the Trust. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. When the Trust loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date on which control commences until the date on which control ceases.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the consolidated group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Subsidiaries

The consolidated financial statements incorporate the financial statements of Centuria Industrial REIT and the subsidiaries it controls. Subsidiaries are entities controlled by the Trust in accordance with AASB 10. Control exists when an investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the financial report from the date that control commences until the date that control ceases.

The Trust uses the purchase method of accounting to account for the acquisition of subsidiaries. Intercompany transactions, balances and recognised gains on transactions between Trust entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Trust.

Investments in subsidiaries are accounted for at cost in the individual financial statements of the parent entity, less any impairment.

Centuria Industrial REIT

Notes to the financial statements

About the report

For the year ended 30 June 2017

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

Subsidiaries (continued)

The consolidated financial statements include the assets, liabilities and results of the following subsidiaries:

Name of entity	Country of domicile	Class of units	Equity interest	
			30 Jun 2017 %	30 Jun 2016 %
BIPT Preston No. 1 Sub Trust	Australia	Ordinary	100	100
BIPT Marple Ave Holding Trust	Australia	Ordinary	100	100
BIPT Marple Ave Sub Trust	Australia	Ordinary	100	100
BIPT Clarinda Rd Holding Trust	Australia	Ordinary	100	100
BIPT Clarinda Rd Sub Trust	Australia	Ordinary	100	100
BIPT Noble Park Holding Trust	Australia	Ordinary	100	100
BIPT Noble Park Sub Trust	Australia	Ordinary	100	100
BIPT Scrivener Street Holding Trust	Australia	Ordinary	100	100
BIPT Scrivener Street Sub Trust	Australia	Ordinary	100	100
Australian Industrial REIT	Australia	Ordinary	100	100
AIR Somerton Trust	Australia	Ordinary	100	100
AIR Wetherill Park Trust	Australia	Ordinary	100	100
AIR Glendenning Trust	Australia	Ordinary	100	100
AIR Ingleburn Trust	Australia	Ordinary	100	100
AIR Ingleburn 2 Trust	Australia	Ordinary	100	100
AIR Ingleburn 3 Trust	Australia	Ordinary	100	100
AIR Eastern Creek Trust	Australia	Ordinary	100	100
AIR Enfield Trust	Australia	Ordinary	100	100
AIR Tullamarine Trust	Australia	Ordinary	100	100
AIR Thomastown Trust	Australia	Ordinary	100	100
AIR Henderson Trust	Australia	Ordinary	100	100
AIR Dandenong Sough Trust	Australia	Ordinary	100	100
AIR Bibra Lake Trust	Australia	Ordinary	100	100
AIR Glendenning 2 Trust	Australia	Ordinary	100	100
AIR Erskine Park Trust	Australia	Ordinary	100	100
AIR ST1 Trust	Australia	Ordinary	100	100

Centuria Industrial REIT

Notes to the financial statements

About the report

For the year ended 30 June 2017

2. Significant accounting policies (continued)

(b) Adoption of new and revised accounting standards

In the current year, the Trust has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current reporting year. New and revised Standards and amendments thereof and Interpretations effective for the current period that are relevant to the Trust include:

- AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'. Effective for annual reporting periods beginning on or after 1 January 2016.
- AASB 2015-2 'Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101'. Effective for annual reporting periods beginning on or after 1 January 2016.

The adoption of these new and revised Standards and Interpretations has not had any significant impact on the disclosures or amounts reported in these financial statements.

(c) New standards and interpretations not yet adopted

At the date of this report, the Standards and Interpretations listed below were on issue but not yet effective. They are available for early adoption at 30 June 2017, but have not been applied in preparing these financial statements. The potential effect of the below Standards and Interpretations on the Trust's consolidated financial statements has been assessed and determined to be immaterial:

- AASB 9 'Financial Instruments', AASB 2009-11, AASB 2010-7 and AASB 2014-7 'Amendments to Australian Accounting Standards arising from AASB 9'. Effective for annual reporting periods beginning on or after 1 January 2018.
- AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15'. Effective for annual reporting periods beginning on or after 1 January 2018.
- AASB 16 'Leases'. Effective for annual reporting periods beginning on or after 1 January 2019.
- AASB 2016-2 'Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107'. Effective for annual reporting periods beginning on or after 1 January 2017.
- AASB 2017-1 'Amendments to Australian Accounting Standards - Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments'. Effective for annual reporting periods beginning on or after 1 January 2018.

Centuria Industrial REIT

Notes to the financial statements

About the report

For the year ended 30 June 2017

2. Significant accounting policies (continued)

(d) Use of estimates and judgements

In the application of the Trust's accounting policies, the Responsible Entity is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period; or in the period of the revision and future periods if the revision affects both current and future periods. The key estimates and judgements in the financial report relate to the valuation of investment properties (per Note 9) and derivative financial instruments (per Note 19).

Judgements made by the Responsible Entity that have significant effects on the financial statements and estimates with significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

(e) 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.

Centuria Industrial REIT

Notes to the financial statements

Trust performance

For the year ended 30 June 2017

3. Revenue

Recognition and measurement

Revenue is measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Trust and the revenue can be reliably measured.

(a) Rental income

Rental income from investment property is recognised in profit or loss on a straight line basis over the term of the lease. Rental income not received at reporting date is reflected in the consolidated statement of financial position as a receivable. If rents are paid in advance these amounts are recorded as payables in the consolidated statement of financial position.

Lease incentives granted are recognised as an integral part of the net consideration agreed for the use of the leased premises, irrespective of the incentive's nature or form or the timing of payments. The aggregate cost of lease incentives are recognised as a reduction of rental income on a straight-line basis over the lease term.

Contingent rents based on the future amount of a factor that changes other than with the passage of time are only recognised when charged.

(b) Recoverable outgoings

Recoverable outgoings are recognised on an accrual basis.

(c) Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding using the effective interest rate method.

(d) Sale of properties

Any gain or loss arising on the sale of an investment property is recognised when the significant risks and rewards of ownership have been transferred to the purchaser and where there is no continuing management involvement, which normally coincides with settlement of the contract for sale. The gain or loss is calculated as the difference between the net disposal proceeds and the carrying amount of the asset.

4. Expenses

(a) 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.

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
Interest expense	15,271	13,925
Borrowing costs	1,329	895
	<u>16,600</u>	<u>14,820</u>

Centuria Industrial REIT

Notes to the financial statements

Trust performance

For the year ended 30 June 2017

4. Expenses (continued)

(b) Other expenses

All other expenses, including management fees, are recognised in profit or loss on an accruals basis. Other operating expenses include legal, accounting and audit fees.

(c) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) recoverable from the Australian Taxation Office (ATO) as an input tax credit (ITC).

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included in receivables or payables in the consolidated statement of financial position.

Cash flows are included in the consolidated statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the ATO is classified as operating cash flows.

5. Distributions

	30 Jun 2017		30 Jun 2016	
	Cents per unit	\$'000	Cents per unit	\$'000
September quarter	5.40	11,446	5.375	10,227
December quarter	5.40	11,445	5.375	11,393
March quarter	4.85	10,280	5.425	11,499
June quarter	4.85	10,280	5.425	11,499
	20.50	43,451	21.60	44,618

Key dates in connection with the 30 June 2017 distribution are:

Event	Date
Ex-distribution date	29 Jun 17
Record date	30 Jun 17
Distribution payment date	28 Jul 17

Distribution and taxation

Under current legislation the Trust is not subject to income tax when its taxable income (including assessable realised capital gains) is distributed in full to the unit holders. The Trust ordinarily fully distributes its distributable income, calculated in accordance with the Trust constitution and applicable taxation legislation, to the unit holders who are presently entitled to the income under the constitution.

Investments and financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised that portion of the gain that is subject to capital gains tax will be distributed to unit holders so that the Trust is not subject to capital gains tax.

Centuria Industrial REIT

Notes to the financial statements

Trust performance

For the year ended 30 June 2017

5. Distributions (continued)

Distribution and taxation (continued)

Realised capital losses are not distributed to unit holders but are retained in the Trust to be offset against any future realised capital gains. If realised capital gains exceed realised capital losses the excess is distributed to the unit holders.

Distributions paid and payable are recognised as distributions within equity. A liability is recognised where distributions have been declared but not been paid. Distributions paid are included in cash flows from financing activities in the consolidated statement of cash flows.

	30 Jun 2017	30 Jun 2016
6. Earnings per unit		
Basic and diluted earnings per unit (cents per unit)	23.98	25.66
Earnings used in calculating basic and diluted earnings per unit (\$'000)	50,817	49,788
Weighted average number of units ('000)	211,957	194,079

Centuria Industrial REIT

Notes to the financial statements

Assets and liabilities

For the year ended 30 June 2017

7. Trade and other receivables

Current

Trade debtors

Less provision for impairment

Other current receivables

30 Jun 2017 \$'000	30 Jun 2016 \$'000
1,721	1,695
-	(153)
527	353
<u>2,248</u>	<u>1,895</u>

Trade receivables and other receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method, less an allowance for impairment. Due to the short-term nature of these financial rights, their carrying amounts are estimated to represent their fair values.

The carrying amounts of the Trust's assets, other than those recorded at fair value, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised directly in profit or loss.

8. Investment properties classified as held for sale

During the period, the Trust pursued a sale strategy for the following properties:

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
74-94 Newton Road, Wetherill Park NSW [^]	-	22,800
39-45 Wedgewood Rd, Hallam VIC	10,000	-
	<u>10,000</u>	<u>22,800</u>

[^] During the period, 74-94 Newton Road, Wetherill Park NSW was transferred to investment properties as it is not expected to be sold within the next 12 months (Note 9).

Assets held for sale are measured at fair value. The fair values listed above do not include estimated selling costs which are expected to be incurred upon disposal.

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. The Responsible Entity must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Where sale completion is delayed by events outside the control of the Trust, and the sale is not completed within one year from the date of classification, the Trust may still classify the asset as held for sale. In this circumstance, there must be sufficient evidence the Trust is committed to sell the asset, and as such obtain a firm purchase commitment from the buyer along with a favourable resolution for the Trust, for the delay. A favourable resolution for the Trust would be the right to receive rental income for the period, up until the date any sale was completed.

Refer to Note 21 for details on the sale of the investment properties subsequent to 30 June 2017.

Centuria Industrial REIT

Notes to the financial statements

Assets and liabilities

For the year ended 30 June 2017

9. Investment properties

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
Opening balance	882,400	533,400
Investment properties no longer held for sale (Note 8)	22,800	-
Properties acquired through ANI acquisition	-	331,326
Capital improvements and associated costs	2,925	10,356
Total purchase costs	25,725	341,682
Gain on fair value	3,767	28,894
Change in deferred rent and lease incentives	3,928	1,416
Disposed deferred rent and lease incentives	181	-
Change in capitalised leasing fees	187	(138)
Disposals at fair value	(20,000)	-
Rental guarantee cash received	(38)	(54)
Closing gross balance	896,150	905,200
Less: Investment properties held for sale (Note 8)	(10,000)	(22,800)
Closing balance [^]	886,150	882,400

[^] The carrying amount of investment properties includes components related to deferred rent, capitalised lease incentives and leasing fees amounting to \$15,389,000 (2016: \$11,320,000).

During the year, the Trust disposed of 60 Marple Avenue, Villawood NSW for a gross sale price of \$20,000,000.

Leases as lessor

The Trust leases out its investment properties under operating leases. The future minimum lease payments receivable under non-cancellable leases are as follows:

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
Less than one year	62,316	65,218
Between one and five years	164,105	176,734
More than five years	95,250	101,963
	321,671	343,915

Centuria Industrial REIT

Notes to the financial statements

Assets and liabilities

For the year ended 30 June 2017

9. Investment properties (continued)

Property	30 Jun 2017 Fair Value \$'000	30 Jun 2016 Fair Value \$'000	30 Jun 2017 Capitalisation Rate	30 Jun 2016 Capitalisation Rate	30 Jun 2017 Discount Rate	30 Jun 2016 Discount Rate	30 Jun 2017 Valuer	Last Independent Valuation Date
12-13 Dansu Ct, Hallam VIC	14,300	14,100	7.50%	7.50%	8.25%	8.50%	Director	Dec 2016
14-17 Dansu Ct, Hallam VIC	17,300	17,400	7.50%	7.50%	8.25%	8.50%	Director	Dec 2016
39-45 Wedgewood Rd, Hallam VIC*	-	9,300	-	7.75%	-	8.75%	N/A	Dec 2016
310 Spearwood Ave, Bibra Lake WA	47,800	50,000	8.00%	8.00%	9.50%	9.75%	Director	Dec 2016
6 Albert St, Preston VIC	26,200	25,400	7.75%	7.75%	8.25%	8.25%	Independent	Jun 2017
102-128 Bridge Rd, Keysborough VIC	30,900	30,300	7.75%	7.75%	8.25%	8.50%	Director	Dec 2016
60 Marple Ave, Villawood NSW*	-	18,500	-	8.50%	-	8.50%	N/A	Dec 2016
500 Princes Hwy, Noble Park VIC	20,300	20,000	8.00%	8.25%	8.25%	8.50%	Director	Dec 2016
8 Penelope Cres, Arndell Park NSW	15,500	15,500	6.75%	7.50%	8.25%	8.75%	Director	Dec 2016
37-51 Scrivener St, Warwick Farm NSW	29,700	26,200	7.50%	8.00%	8.50%	9.00%	Independent	Jun 2017
54 Sawmill Cct, Hume ACT	15,300	15,250	7.25%	7.25%	8.50%	8.50%	Director	Jun 2016
9-13 Caribou Dr, Direk SA	8,250	9,600	9.00%	8.50%	10.00%	9.25%	Independent	Jun 2017
22 Hawkins Cres, Bundamba QLD	44,000	43,300	7.25%	7.25%	8.50%	8.50%	Director	Jun 2016
1 Ashburn Rd, Bundamba QLD	36,250	36,600	7.50%	7.75%	8.25%	8.25%	Director	Jun 2016
457 Waterloo Rd, Chullora NSW	22,600	26,000	6.75%	6.75%	8.25%	8.50%	Independent	Jun 2017
69 Studley Ct, Derrimut VIC	20,000	20,600	7.25%	7.25%	8.00%	8.00%	Director	Jun 2016
2 Woolworths Way, Warnervale NSW	81,000	80,850	7.25%	7.25%	8.50%	8.50%	Director	Jun 2016
21 Jay St, Mount St John, Townsville QLD	11,000	10,800	8.00%	8.00%	9.00%	9.00%	Director	Jun 2016
33-37 Mica St, Carole Park QLD	28,000	26,500	7.25%	7.50%	8.75%	9.00%	Director	Dec 2016
69 Rivergate Pl, Murarrie QLD	30,000	29,000	6.50%	6.50%	7.75%	7.75%	Director	Jun 2016
136 Zillmere Rd, Boondall QLD	28,500	28,300	7.25%	7.25%	7.75%	8.75%	Independent	Jun 2017
92-98 Cosgrove Rd, Enfield NSW	38,500	37,600	7.25%	7.50%	8.25%	8.50%	Independent	Jun 2017

Centuria Industrial REIT

Notes to the financial statements

Assets and liabilities

For the year ended 30 June 2017

9. Investment properties (continued)

Property	30 Jun 2017 Fair Value \$'000	30 Jun 2016 Fair Value \$'000	30 Jun 2017 Capitalisation Rate	30 Jun 2016 Capitalisation Rate	30 Jun 2017 Discount Rate	30 Jun 2016 Discount Rate	30 Jun 2017 Valuer	Last Independent Valuation Date
10 Williamson Rd, Ingleburn NSW	36,650	36,500	7.25%	7.50%	8.50%	8.50%	Independent	Jun 2017
12 Williamson Rd, Ingleburn NSW	34,500	34,000	7.25%	7.25%	8.50%	8.50%	Director	Jun 2016
29 Glendenning Rd, Glendenning NSW	40,000	39,050	6.50%	6.50%	8.25%	8.25%	Director	Jun 2016
74-94 Newton Rd, Wetherill Park NSW [^]	25,000	-	6.75%	-	7.75%	-	Director	Dec 2016
6 Macdonald Rd, Ingleburn NSW	18,650	17,900	7.00%	7.25%	8.25%	8.25%	Independent	Jun 2017
30 Clay Pl, Eastern Creek NSW	16,300	16,300	6.50%	6.50%	8.25%	8.25%	Director	Jun 2016
52-74 Quarry Rd, Erskine Park NSW	15,400	15,200	6.75%	6.75%	8.25%	8.25%	Director	Jun 2016
75 Owen St, Glendenning NSW	7,400	7,750	6.75%	6.75%	8.25%	8.25%	Director	Jun 2016
24-32 Stanley Dr, Somerton VIC	26,500	27,400	7.50%	7.50%	8.50%	8.50%	Director	Jun 2016
324-332 Frankston-Dandenong Rd, Dandenong South VIC	26,700	27,100	7.50%	7.50%	8.25%	8.25%	Independent	Jun 2017
49 Temple Dr, Thomastown VIC	12,400	13,000	8.00%	8.00%	8.75%	8.50%	Director	Dec 2016
2 Keon Pde, Keon Park VIC	21,700	19,750	7.00%	7.25%	8.50%	8.75%	Director	Dec 2016
9 Fellowes Ct, Tullamarine VIC	4,200	3,750	7.25%	7.25%	7.75%	8.25%	Director	Dec 2016
23 Selkis Rd, Bibra Lake WA	19,750	17,300	7.50%	8.25%	8.50%	9.00%	Independent	Jun 2017
99 Quill Way, Henderson WA	15,600	16,300	8.25%	8.25%	9.00%	9.25%	Director	Jun 2016
	886,150	882,400						

The Trust's weighted average capitalisation rate for the year is 7.31% (2016: 7.45%).

* The investment properties were disposed of during the financial year.

[^] The investment property was classified as available for sale in the year ended 30 June 2016 (Note 21).

Centuria Industrial REIT

Notes to the financial statements

Assets and liabilities

For the year ended 30 June 2017

9. Investment properties (continued)

Recognition and measurement

Investment properties are properties held either to earn rental income or for capital appreciation or for both. Investment properties are initially recorded at cost which includes stamp duty and other transaction costs. Subsequently, the investment properties are measured at fair value with any change in value recognised in profit or loss. The carrying amount of investment properties includes components relating to deferred rent, lease incentives and leasing fees.

An investment property is derecognised upon disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Valuation techniques and significant unobservable inputs

The fair value 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, when 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.

Centuria Industrial REIT

Notes to the financial statements

Assets and liabilities

For the year ended 30 June 2017

9. Investment properties (continued)

Fair value measurement

The fair value measurement of investment property has been categorised as a Level 3 fair value as it is derived from valuation techniques that include inputs that are not based on observable market data (unobservable inputs).

Significant unobservable inputs	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Net passing rent	Increase	Decrease
Gross market rent	Increase	Decrease
Net market rent	Increase	Decrease
Capitalisation rate	Decrease	Increase
Terminal Yield	Decrease	Increase
Discount Rate	Decrease	Increase

Capitalisation and discount rates are considered significant Level 3 inputs. Refer to Note 19 for further information.

10. Intangible assets

Acquisition of Australian Industrial REIT (ANI)

On 19 December 2014, a formal, off market, takeover offer ("Offer") for all the units in the ANI was made by the Fund and a Bidder's Statement was lodged with the ASX on 3 February 2015. On 28 September 2015, the fourth and final Supplementary Bidder's Statement was lodged with the ASX. This updated Offer to ANI unitholders proposed a unit exchange of 0.9 Fund units for every one ANI unit, a 14.5 cents cash payment per ANI unit and an additional 10.0 cents cash payment per ANI unit to be paid by the 360 Capital Group (the previous owner of the Responsible Entity).

By 12 October 2015, the Fund had received a cumulative total of 75.0% of acceptances under the Offer, thus establishing effective control of the entity. On this date alone ("Acquisition date") the Fund received 38.2% of acceptances in the Offer, bringing the total ownership to over 50.0% of units in ANI, thus meaning the Fund had effectively obtained the ability to control ANI through holding greater than 50.0% of units on issue. By reaching over 50% on 12 October 2015 the Fund offer was required to be extended by two weeks and by the end of this extended period, on 26 October 2015 the acceptances had reached 93.3%. Post reaching greater than 90% during the extension period the Fund elected to compulsorily acquire the remaining 6.7%. The acquisition has been accounted for using the acquisition method. The consolidated financial statements include the results of ANI since Acquisition date. On 1 December 2015, the Fund completed the compulsory acquisition of ANI.

The acquisition of ANI has created the largest listed pure rent-collecting industrial REIT in Australia: the combination of the Fund and ANI has created the market leading sector specialist with a total investment portfolio of \$896.1 million (2016: \$905.2 million), providing for increased liquidity, scale and diversification.

Centuria Industrial REIT

Notes to the financial statements

Assets and liabilities

For the year ended 30 June 2017

10. Intangible assets (continued)

Details of the purchase consideration to acquire the controlling interest in ANI on 12 October 2015 are as follows:

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
Cash paid	-	8,823
Units issued at fair value	-	128,705
Financial assets at fair value through profit or loss	-	79,020
Total purchase consideration	-	216,548

The fair value of assets and liabilities recognised as a result of the acquisition are as follows:

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
Assets		
Cash and cash equivalents	-	1,925
Receivables	-	863
Investment properties	-	331,326
Liabilities		
Trade and other payables	-	(6,335)
Borrowings	-	(120,000)
Derivative financial instruments	-	(1,732)
Net identifiable assets acquired including external non-controlling interests	-	206,047
Add: Goodwill	-	10,501
Total purchase consideration	-	216,548

The fair value of receivables and other financial assets approximates the collectible amount. External non-controlling interests have been calculated at the respective share of net assets.

Contingent consideration

There was no contingent consideration as part of this transaction.

Centuria Industrial REIT

Notes to the financial statements

Assets and liabilities

For the year ended 30 June 2017

10. Intangible assets (continued)

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
Purchase consideration - cash outflow on acquisition		
Cash consideration paid	-	8,823
Less: Cash and cash equivalents acquired	-	(1,925)
Outflows of cash to acquire subsidiary	-	6,898
Add: Business combination transaction costs expensed through profit or loss	-	8,106
Add: Business combination transaction costs recognised in equity	-	168
Total cash outflow to acquire subsidiary	-	15,172

Acquisition related costs

Acquisition related costs of \$8.1 million incurred have been expensed in the consolidated statement of profit or loss and have been included as part of net cash flows from investing activities in the consolidated statement of cash flows. Transaction costs include stamp duty applicable to the transfer of ownership of the ANI property portfolio, legal and advisory fees. The attributable costs of the issuance of equity of \$0.2 million have been charged directly to equity as a reduction in issued capital and have been included as part of net cash flows from financing activities in the consolidated statement of cash flows.

Units issued

Prior to gaining control of ANI on 12 October 2015, the Fund had issued 31,890,005 units (valued at \$78.6 million based on the daily market trading rates of the Fund at the date of each issue) to unitholders of ANI as scrip consideration for the Offer. Upon gaining control of ANI on 12 October 2015, the Fund issued a further 33,121,951 units valued at \$77.8 million. The remaining units were acquired during the period from 13 October 2015 to 1 December 2015 including the part scrip consideration issue of 21,647,562 units valued at \$54.4 million.

Loss on fair value of financial assets

Prior to gaining control of ANI on 12 October 2015, the Fund had accumulated an ownership interest of 36.8% and had recognised this investment as a financial asset at fair value through profit or loss. Upon gaining control of ANI, this investment was treated as if it was disposed of at fair value on Acquisition date and the resulting loss recognised in profit or loss.

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
Opening balance at 1 July 2015	-	68,807
Consideration paid for units	-	15,164
Disposal of financial assets (at Acquisition date fair value)	-	(79,020)
Loss on fair value of financial assets	-	4,951

Centuria Industrial REIT

Notes to the financial statements

Assets and liabilities

For the year ended 30 June 2017

10. Intangible assets (continued)

Goodwill

The goodwill was generated on the acquisition of ANI in December 2015. Goodwill is tested annually for impairment.

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
<i>Non-current</i>		
Goodwill - at cost	10,501	10,501
	<u>10,501</u>	<u>10,501</u>
Movement in carrying amounts:		
Opening balance	10,501	-
Acquisitions	-	10,501
Closing balance	<u>10,501</u>	<u>10,501</u>

Recognition and measurement

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at Acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Trust elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Trust acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the Acquisition date.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised directly in profit or loss.

Centuria Industrial REIT

Notes to the financial statements

Assets and liabilities

For the year ended 30 June 2017

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
11. Other assets		
<i>Current</i>		
Prepaid interest	50	-
Prepaid rates, taxes and other property outgoings	1,093	1,220
Investment property deposits [^]	3,250	-
	<u>4,393</u>	<u>1,220</u>

[^] In June 2017 the Trust paid deposits on the exchange of 207-209 Browns Road, Noble Park VIC and Lot 14 Sudlow Road, Bibra Lake WA. As at 30 June 2017, the Trust had not yet settled the purchase of these properties.

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
12. Trade and other payables		
<i>Current</i>		
Trade creditors and expenses payable	3,030	3,472
Distributions payable	10,280	11,499
Other current creditors and accruals	3,837	5,836
	<u>17,147</u>	<u>20,807</u>

Trade payables and other accounts payable are recognised when the Trust becomes obliged to make future payments resulting from the purchase of goods and services and are recorded initially at fair value, net of any attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost.

Distributions paid and payable are recognised as distributions within equity. A liability is recognised where distributions have been declared but not been paid. Distributions paid are included in cash flows from financing activities in the consolidated statement of cash flows.

Centuria Industrial REIT

Notes to the financial statements

Assets and liabilities

For the year ended 30 June 2017

13. Borrowings

Current

Secured loan
Borrowing costs

30 Jun 2017 \$'000	30 Jun 2016 \$'000
55,000	-
-	-
55,000	-

Non-current

Secured loan
Borrowing costs

342,252	391,500
(2,294)	(1,299)
339,958	390,201

At 30 June 2017, the Trust had the following secured debt facilities:

Total facilities - bank loans	450,000	420,000
Facilities used at reporting date - bank loans	(397,252)	(391,500)
Facilities unused at reporting date - bank loans	52,748	28,500

As at 30 June 2017, the Trust had \$190,000,000 (2016: \$400,000,000) of interest rate swaps hedged against its drawn debt. Refer to Note 14 for further details on interest rate swap contracts held at, and contracts executed subsequent to, 30 June 2017. In addition to these, \$150,000,000 of the Trusts debt facilities are on a fixed interest basis taking the total hedged debt to \$340,000,000.

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

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

Borrowings are recorded initially at fair value, net of any attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest rate method with any difference between the initial and recognised amount and redemption value being recognised in profit or loss over the period of borrowing and are derecognised when the contractual obligations are discharged, cancelled or expire.

Centuria Industrial REIT

Notes to the financial statements

Assets and liabilities

For the year ended 30 June 2017

14. Derivatives

Interest rate swap contracts

Under interest rate swap contracts, the Trust agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Trust to mitigate the risk of changing interest rates on the cash flow exposures on the variable rate debt held. The following table details the specific instruments held at reporting date, showing the notional principal amounts and contracted fixed interest rate of each contract:

Type of contract	Maturity Date	Contracted fixed interest rate	Notional amount of contract \$'000	Fair value of assets \$'000	Fair value of liabilities \$'000
30 Jun 2017					
Interest rate swap	12 Feb 18	2.18%	80,000	-	(219)
Interest rate swap	16 Jun 20	2.10%	55,000	-	(26)
Interest rate swap	16 Jun 22	2.30%	55,000	-	(169)
			190,000	-	(414)
30 Jun 2016					
Interest rate swap	07 Jan 18	2.62%	20,000	-	(301)
Interest rate swap	09 Feb 20	2.66%	210,000	-	(7,340)
Interest rate swap	10 Feb 20	2.57%	60,000	-	(1,915)
Interest rate swap	11 Feb 19	2.49%	30,000	-	(659)
Interest rate swap	12 Feb 18	2.18%	80,000	-	(449)
			400,000	-	(10,664)

On 29 June 2017, due to the refinancing of the Trusts debt facilities, the Trust was required to terminate four of its interest rate swaps for a total cost of \$6,461,000. On the same day, the Trust entered into two new interest rate swaps, which are on better terms for the Trust.

Derivatives are initially recognised at fair value and attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and the resulting gain or loss is recognised in profit or loss.

The fair value of interest rate swaps is the estimated amount that the entity would receive or pay to transfer the swap at reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

The Trust has not applied hedge accounting to its derivative financial instruments.

Centuria Industrial REIT

Notes to the financial statements

Assets and liabilities

For the year ended 30 June 2017

	30 Jun 2017		30 Jun 2016	
	Units '000	\$'000	Units '000	\$'000
15. Issued capital				
Opening balance	211,957	538,551	152,458	398,630
Entitlement issue - ANI acquisition	-	-	59,499	140,089
Equity raising costs	-	-	-	(168)
Closing balance	211,957	538,551	211,957	538,551

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

16. Contingent assets, liabilities and commitments

Unless otherwise stated in this report, the Trust has no contingent assets, liabilities or commitments as at 30 June 2017.

Centuria Industrial REIT

Notes to the financial statements

Cash flows

For the year ended 30 June 2017

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
17. Cash and cash equivalents		
Cash and bank balances	8,189	4,452
	<u>8,189</u>	<u>4,452</u>
Reconciliation of profit for the year to net cash flows from operating activities:		
Net profit for the year	50,817	49,788
Adjustments:		
Net gain on fair value of investment properties	(3,767)	(28,760)
Net loss on fair value of financial assets	-	4,951
(Gain)/loss on fair value of derivatives	(3,789)	7,366
Loss on fair value of rental guarantee	-	11
Change in deferred rent and lease incentives	(1,541)	-
Deferred rent disposed on sale of investment properties	(181)	-
Change in capitalised leasing fees	126	-
Borrowing cost amortisation	1,329	895
Business combination transaction costs	-	8,106
Changes in operating assets and liabilities:		
Increase in receivables	(353)	(1,435)
Decrease in other assets	77	-
Decrease in payables	(521)	(1,451)
Net cash generated by operating activities	<u>42,197</u>	<u>39,471</u>

Cash and cash equivalents comprise of cash on hand and cash in banks, net of outstanding bank overdrafts.

Centuria Industrial REIT

Notes to the financial statements

Other notes

For the year ended 30 June 2017

	30 Jun 2017 \$	30 Jun 2016 \$
18. Auditor's remuneration		
EY:		
Audit and review of financials	90,000	129,200
Audit of compliance plan	6,000	3,680
Taxation and property due diligence services	50,000	40,975
	<u>146,000</u>	<u>173,855</u>

19. Financial instruments

A. Fair value

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

	Measurement	Fair Value Hierarchy	Carrying amount \$'000	Fair value \$'000
30 Jun 2017				
Financial liabilities				
Payables (excluding non-financial payables)	Amortised Cost	Not applicable	13,835	13,835
Borrowings	Amortised Cost	Not applicable	394,958	397,252
Interest rate swaps	Fair Value	Level 2	414	414
			<u>409,207</u>	<u>411,501</u>
30 Jun 2016				
Financial liabilities				
Payables (excluding non-financial payables)	Amortised Cost	Not applicable	17,419	17,419
Borrowings	Amortised Cost	Not applicable	390,201	391,500
Interest rate swaps	Fair Value	Level 2	10,664	10,664
			<u>418,284</u>	<u>419,583</u>

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

Valuation techniques

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

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

Centuria Industrial REIT

Notes to the financial statements

Other notes

For the year ended 30 June 2017

19. Financial instruments

A. Fair value (continued)

Valuation techniques (continued)

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.

Fair value hierarchy

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

	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
30 Jun 2017				
Financial liabilities held at fair value				
Interest rate swaps	414	-	414	-
	414	-	414	-
30 Jun 2016				
Financial liabilities held at fair value				
Interest rate swaps	10,664	-	10,664	-
	10,664	-	10,664	-

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

Centuria Industrial REIT

Notes to the financial statements

Other notes

For the year ended 30 June 2017

19. Financial instruments (continued)

A. Fair value (continued)

Fair value hierarchy (continued)

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

B. Capital management

The capital structure of the Trust consists of cash and cash equivalents and the proceeds from the issue of the units of the Trust.

The risk associated with meeting redemption requests is minimal as the Responsible Entity has discretion in approving redemptions.

The Trust has no restrictions or specific capital requirements on the application and redemption of units, other than the approval of the Responsible Entity.

The Trust's overall investment strategy remains unchanged from the prior year.

C. Financial risk management objectives

The Trust is exposed to a variety of financial risks as a result of its activities. These potential risks include market risk (interest rate risk), credit risk and liquidity risk. The Trust's risk management and investment policies seek to minimise the potential adverse effects of these risks on the Trust's financial performance.

D. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Trust's activities expose it primarily to the financial risks of changes in interest rates. The Trust enters into derivative financial instruments to manage its exposure to interest rate risk and these include interest rate swaps that the Trust has entered into to mitigate the risk of rising interest rates.

There has been no change to the Trust's exposure to market risks or the manner in which it manages and measures the risk from the previous year.

Centuria Industrial REIT

Notes to the financial statements

Other notes

For the year ended 30 June 2017

19. Financial instruments (continued)

D. Market risk (continued)

Interest rate risk management

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at reporting date:

	Note	30 Jun 2017		30 Jun 2016	
		Effective interest rate	Total \$'000	Effective interest rate	Total \$'000
Financial assets					
Cash and cash equivalents	17	1.00%	8,189	2.00%	4,452
			<u>8,189</u>		<u>4,452</u>
Financial liabilities					
Borrowings (excluding borrowing costs)	13	3.89%	394,958	3.78%	390,201
Interest rate swaps	14	2.19%	414	2.53%	10,664
			<u>395,372</u>		<u>400,865</u>

The sensitivity analysis below has been determined based on the Trust's exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period, in the case of financial assets and financial liabilities that have variable interest rates.

At reporting date, if variable interest rates had been 100 (2016: 100) basis points higher or lower and all other variables were held constant, the impact to the Trust would have been as follows:

	Variable + / -	Sensitivity impact	
		Rate increase \$'000	Rate decrease \$'000
30 Jun 2017			
Net (loss)/profit	1.00%	(1,991)	1,991
		<u>(1,991)</u>	<u>1,991</u>
30 Jun 2016			
Net (loss)/profit	1.00%	(12,195)	11,794
		<u>(12,195)</u>	<u>11,794</u>

The Trust's sensitivity to interest rates calculated above is after taking into account the impact of interest rate changes on the interest rate swap fair values. The methods and assumptions used to prepare the sensitivity analysis have not changed during the year.

Centuria Industrial REIT

Notes to the financial statements

Other notes

For the year ended 30 June 2017

19. Financial instruments (continued)

E. Credit risk

The Trust has adopted the policy of dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the financial risk of financial loss from default. The Trust's exposure and the credit ratings of its counterparties are continuously monitored by the Responsible Entity.

At 30 June 2017, the main financial assets exposed to credit risk are trade receivables. There were no significant concentrations of credit risk to counterparties at 30 June 2017. Refer to Note 7 for details of trade receivables.

The credit risk on receivables is minimal because of the proven remittance history of the counterparties. Credit risk from balances with banks and financial institutions is managed by the Responsible Entity in accordance with the Trust's investment policy. Cash investments are made only with approved counterparties.

The following table shows the ageing of the Trust's receivables that are due but not impaired at the reporting date:

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
Not past due	1,392	1,393
Past due 0-30 days	91	157
Past due 31-60 days	142	3
Past due 61-90 days	96	6
More than 91 days past due	-	136
	<u>1,721</u>	<u>1,695</u>

The carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date.

F. Liquidity risk

The Trust's strategy of managing liquidity risk is in accordance with the Trust's investment strategy. The Trust manages liquidity risk by maintaining adequate banking facilities and through the continuous monitoring of forecast and actual cash flows and aligning the profiles of financial assets and liabilities.

The Trust's strategy of managing liquidity risk is in accordance with the Trust's investment strategy. The Trust manages liquidity risk by maintaining adequate banking facilities and through the continuous monitoring of forecast and actual cash flows and aligning the profiles of financial assets and liabilities.

Centuria Industrial REIT

Notes to the financial statements

Other notes

For the year ended 30 June 2017

19. Financial instruments (continued)

F. Liquidity risk (continued)

The following tables summarise the maturity profile of the Trust's financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Trust can be required to pay. The tables include both interest and principal cash flows:

	Effective interest rate	Total principal and interest \$'000	Less than 1 year \$'000	1 to 5 years \$'000	5+ years \$'000
30 Jun 2017					
Trade and other payables	-	13,835	13,835	-	-
Borrowings	3.89%	449,572	69,464	380,108	-
Derivative financial instruments	2.19%	438	269	169	-
		463,845	83,568	380,277	-
30 Jun 2016					
Trade and other payables	-	20,807	20,807	-	-
Borrowings	3.78%	413,570	12,584	400,986	-
Derivative financial instruments	2.53%	8,136	2,457	5,679	-
		442,513	35,848	406,665	-

The principal amounts included in the above borrowings is \$394,958,000 (2016: \$390,201,000).

20. Related parties

Key management personnel

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

Darren Collins
Peter Done
Matthew Hardy
Jason Huljich

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

Key management personnel loan disclosures

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

Centuria Industrial REIT

Notes to the financial statements

Other notes

For the year ended 30 June 2017

20. Related parties (continued)

Responsible entity fees and other transactions

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

Custodian fees are paid to the custodian, 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.

At reporting date an amount of \$494,272 (2016: \$18,960) owing to the Responsible Entity was included in trade and other payables. The payables are non-interest bearing with payment terms and conditions consistent with normal commercial practices.

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

	30 Jun 2017	30 Jun 2016
	\$	\$
Leasing fees	1,389	-
Management fees	5,571,388	5,089,545
Custodian fees	396,941	389,220
Fund recoveries	85,177	93,884
Property management fees	114,399	-
Facility management fees	18,633	-
Project management fees	7,910	-
	<u>6,195,837</u>	<u>5,572,649</u>

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

Units in the Trust held by related parties

At 30 June 2017, the following related parties of the Responsible Entity hold units in the Trust:

	Closing units held	Closing interest held
30 Jun 2017		
Centuria Capital No. 2 Industrial Fund	33,148,945	15.64%
Centuria Balanced Fund	350,000	0.17%
Centuria Growth Bond Fund	650,000	0.31%
	<u>34,148,945</u>	<u>16.11%</u>
30 Jun 2016		
360 Capital Diversified Property Fund	33,148,945	15.64%
	<u>33,148,945</u>	<u>15.64%</u>

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

Centuria Industrial REIT

Notes to the financial statements

Other notes

For the year ended 30 June 2017

20. Related parties (continued)

Other transactions within the Trust

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

21. Events subsequent to reporting date

On 5 July 2017, the Trust entered into an unconditional contract for the sale of 39-45 Wedgewood Rd, Hallam, Victoria for \$10,000,000. The contract provides for settlement on a deferred basis, and is expected to occur on 29 June 2018.

On 6 July 2017, the Trust issued an additional 14,286,000 units as a result of an institutional placement which raised \$35,000,000.

On 17 July 2017, the Trust settled on the acquisition of 207-209 Browns Rd, Noble Park Victoria for \$37,000,000.

On 10 August 2017 the Trust entered into an unconditional contract and paid a 5% deposit of \$560,000, for the acquisition of 92-100 Robinson Avenue, Belmont WA for a purchase price of \$11,200,000. Settlement of the property is expected on 31 August 2017.

Centuria Industrial REIT

Notes to the financial statements

Other notes

For the year ended 30 June 2017

22. Parent entity disclosures

*Financial position**

Assets

Current assets	8,420	2,583
Non-current assets	837,411	861,302
Total assets	845,831	863,885

Liabilities

Current liabilities	14,377	15,220
Non-current liabilities	395,372	398,290
Total liabilities	409,749	413,510

Equity

Issued capital	538,550	538,551
Accumulated losses	(102,468)	(88,176)
Total equity	436,082	450,375

*Financial performance**

Profit for the year*	29,159	26,974
Other comprehensive income	-	-
Total comprehensive income for the year	29,159	26,974

*The above table represents the stand alone financial position and performance of Centuria Industrial REIT and does not include the financial position or performance of its subsidiaries. Accordingly, the amounts reflected above may be different from the consolidated financial statements.

^ Net profit attributable to members of the Parent of \$50,817,000 (2016: \$49,788,000 profit), per the consolidated statement of profit or loss and other comprehensive income, includes net profit of the Parent's subsidiaries of \$21,658,000 (2016: \$22,814,000 profit).

23. Additional information

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

Registered office:

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

Principal place of business:

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

Centuria Industrial REIT Directors' declaration

For the year ended 30 June 2017

The directors of Centuria Property Funds No. 2 Limited, the Responsible Entity of Centuria Industrial REIT ('the Trust'), declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable;
- (b) the attached financial statements and notes thereto are in compliance with International Financial Reporting Standards, as stated in Note 1 to the financial statements; and
- (c) in the directors' opinion, the attached financial statements and notes 1 to 23 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 30 June 2017 and of its performance for the financial year ended on that date.

Signed in accordance with a resolution of the board of directors of the Responsible Entity made pursuant to s.295(5) of the Corporations Act 2001.



Peter Done
Director



Jason Huljich
Director

Dated at Sydney this 14th day of August 2017.

INDEPENDENT AUDITOR'S REPORT

To the unitholders of Centuria Industrial REIT

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Centuria Industrial REIT (the Fund), and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration of Centuria Property Funds No. 2 Limited, the Responsible Entity of the Fund.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's consolidated financial position as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit 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* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Valuation of Investment Properties

Why significant

Investment properties comprise 97% of the Group's total assets. These assets are carried at fair value, which is determined by the directors with reference to either external independent property valuations or internal valuations based upon market conditions existing at reporting date.

This is considered a key audit matter due to the judgments required in determining fair value. These judgments include assessing the capitalisation rate, discount rate, market and contractual rent, re-leasing costs and occupancy levels.

Disclosure of investment properties and significant judgments are included in note 16 to the financial statements.

How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ We assessed the design and operating effectiveness of the relevant controls over the leasing process used to provide inputs into the valuation reports and underlying tenancy schedules;
- ▶ We evaluated a sample of both the external independent valuations and internal valuations;
- ▶ We involved our real estate valuation specialists to assist with the assessment of the valuation methodologies adopted, the competence of the valuation experts and the assumptions used in their valuations. We evaluated the suitability of the valuation methodologies applied for financial reporting purposes;
- ▶ We assessed the independence of the external valuation experts engaged to perform the property valuations.
- ▶ We tested a sample of the property income used in both the internal and external valuations to tenancy schedules; and
- ▶ We obtained and reviewed the signed contract for one property where the valuation was based on the contracted sale price and agreed it to the valuations recorded by the Directors.

Information Other than the Financial Report and Auditor's Report

The directors are responsible for the other information. The other information comprises the information included in the Group's 2017 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors' for the Financial Report

The Directors of the Responsible Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young

Ernst & Young

Megan Wilson

Megan Wilson
Partner
Sydney
14 August 2017

Centuria Industrial REIT

Corporate governance statement

For the year ended 30 June 2017

The Corporate Governance Statement for the Trust is available on the Centuria website at <http://www.centuria.com.au/listed-property/corporate-governance/>.

Centuria Industrial REIT

Additional ASX information

As at 1 August 2017

Distribution of holders of units

Holding range	Number of units	Number of holders	Percentage of total (%)
1 to 1,000	157,398	393	0.07
1,001 to 5,000	7,765,178	2,253	3.43
5,001 to 10,000	16,991,369	2,239	7.51
10,001 to 100,000	65,648,359	2,892	29.02
100,001 and over	135,680,698	84	59.97
Total	226,243,002	7,861	100.00

Substantial unitholders

	Number of units	Percentage of total (%)
CENTURIA INVESTMENT HOLDINGS PTY LIMITED <CC2IF A/C>	33,148,945	14.652%
J P MORGAN NOMINEES AUSTRALIA LIMITED	27,043,255	11.953%
CITICORP NOMINEES PTY LIMITED	20,331,076	8.986%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	17,504,714	7.737%
Total	98,027,990	43.329%

Voting rights

All units carry one vote per unit without restriction.

Top 20 unitholders

	Number of units	Percentage of total (%)
CENTURIA INVESTMENT HOLDINGS PTY LIMITED <CC2IF A/C>	33,148,945	14.652%
J P MORGAN NOMINEES AUSTRALIA LIMITED	27,043,255	11.953%
CITICORP NOMINEES PTY LIMITED	20,331,076	8.986%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	17,504,714	7.737%
NATIONAL NOMINEES LIMITED	9,749,711	4.309%
PERSHING AUSTRALIA NOMINEES PTY LTD <NOMINEE A/C>	6,505,731	2.876%
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	1,528,970	0.676%
WYLLIE GROUP PTY LTD	1,388,889	0.614%
MISS YVONNE CATHERINE LYNCH	1,100,000	0.486%
WYLLIE GROUP PTY LTD	1,000,000	0.442%
HORRIE PTY LTD	975,000	0.431%
BNP PARIBAS NOMS (NZ) LTD <DRP>	763,702	0.338%
SANDHURST TRUSTEES LTD <SISF A/C>	712,485	0.315%
BNP PARIBAS NOMS PTY LTD <DRP>	710,180	0.314%
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	665,412	0.294%
UBS NOMINEES PTY LTD	564,475	0.249%
NATIONAL NOMINEES LIMITED <DB A/C>	528,515	0.234%
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	435,023	0.192%
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	400,155	0.177%
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	400,109	0.177%
Total	125,456,347	55.452%