

# Centuria

**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 2019**

# Centuria Industrial REIT

## Table of contents

For the year ended 30 June 2019

### Contents

	Page
Directors' report	1
Auditor's Independence Declaration	6
Consolidated financial statements	7
Directors' declaration	39
Independent auditor's report	40
Corporate Governance Statement	44
Additional stock exchange information	45

# Directors' report

## For the year ended 30 June 2019

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 statements of the Trust and its subsidiaries ('the Trust') for the year ended 30 June 2019 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:

<b>Name</b>	<b>Appointed</b>	<b>Directorship of other listed companies</b>
Peter Done	26 Jun 2017	Centuria Capital Limited
Darren Collins	26 Jun 2017	
Matthew Hardy	26 Jun 2017	
Nicholas Collishaw	01 Oct 2017	Centuria Capital Limited; and Redcape Hotel Group Management Limited
Roger Dobson	01 Oct 2017	

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

<b>Name</b>	<b>Appointed</b>	<b>Resigned</b>
Anna Kovarik	05 Jul 2018	
James Lonie	16 Jun 2017	05 Jul 2018

No director holds any units in the Trust.

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

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

### Principal activities

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

The principal 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 changes in the state of affairs

In the opinion of the Responsible Entity there were no significant changes in the state of affairs of the Trust that occurred during the 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 2019 was \$88,828,000 (30 June 2018: \$98,895,000).

As at 30 June 2019, the Trust's Net Tangible Assets ('NTA') has increased 17.0 cents per unit ('cpu'), or 6.6%, to \$2.73 per unit.

**Review of operations (continued)**

**Investment property valuations**

The total value of the Trust's portfolio as at 30 June 2019 was \$1,221.3 million representing an increase of 7.3% from 30 June 2018 on a like for like basis.

The weighted average capitalisation rate for the portfolio, on a like for like basis, has firmed 35 basis points to 6.41% as at 30 June 2019.

**Leasing and occupancy**

The Trust secured 113,912 square metres ('sqm') of leases across 28 transactions for the year ended 30 June 2019. This represented 14% of the portfolio's gross lettable area.

At 30 June 2019, the Trust's portfolio was 95.9% occupied with a Weighted Average Lease Expiry ('WALE') of 4.3 years. For the upcoming financial year ending 30 June 2020, lease expiries represented 8.1% of portfolio income.

**Capital management**

As at 30 June 2019, the Trust had drawn borrowings of \$469.9 million with a weighted average expiry of 3.7 years. The drawn debt was 76.6% hedged helping provide security over the expenses of the Trust.

The Trust's gearing at 30 June 2019 was 37.4% (30 June 2018: 38.4%).

**Outlook**

The Responsible Entity's strategy and ongoing focus remains unchanged. Management continue to focus on portfolio leasing to ensure occupancy and income are maximised, active asset management, risk mitigation and repositioning strategies. Management are also focused on acquiring quality assets in order to enhance existing stable and secure income streams.

The Trust's Funds From Operations ('FFO') guidance for the year ending 30 June 2020 is expected to grow by 2-3% from financial year 2019. The distributable guidance for the year ending 30 June 2020 is 18.7 cpm which will be paid in equal quarterly instalments.

**Distributions**

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

	30 June 2019		30 June 2018	
	Cents per unit	\$'000	Cents per unit	\$'000
September quarter	4.60	11,424	4.85	12,022
December quarter	4.60	12,271	4.85	12,029
March quarter	4.60	12,271	4.85	12,037
June quarter	4.60	12,459	4.85	12,045
Total	18.40	48,425	19.40	48,133

Key dates in connection with the 30 June 2019 distribution are:

Event	Date
Ex-distribution date	27 Jun 2019
Record date	28 Jun 2019
Distribution payment date	09 Aug 2019

The distributable earnings for the year ended 30 June 2019 were \$48.7 million. This was a 2.3% increase to the prior year.

The FFO for the year ended 30 June 2019 were \$50.0 million (30 June 2018: \$47.6 million).

**Review of operations (continued)**

**Distributions (continued)**

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

	<b>30 June 2019</b>	<b>30 June 2018</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Net profit for the year</b>	<b>88,828</b>	98,895
<b>Adjustments:</b>		
Net (gain) on fair value of investment properties	<b>(53,808)</b>	(50,416)
Straight-lining of rental income	<b>(2,281)</b>	438
Amortisation of incentives and leasing fees	<b>4,185</b>	2,499
One off refinancing break costs	<b>3,930</b>	-
Net loss/(gain) on fair value of derivative financial instruments	<b>3,581</b>	(453)
Net loss/(gain) on fair value of investments in listed trusts	<b>3,107</b>	(4,935)
Lease surrender	-	800
Amortisation of borrowing costs	<b>716</b>	760
Advisory in relation to takeover defence	<b>438</b>	-
<b>Distributable earnings for the year</b>	<b>48,696</b>	47,588

**Distribution reinvestment plan**

The Trust has reactivated the March quarter and June quarter Distribution Reinvestment Plan ('DRP') under which unitholders may elect to have all or part of their distribution entitlement reinvested by the issue of new units rather than being paid cash.

**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**

The Trust has completed a fully underwritten institutional placement on 2 July 2019, raising \$70.0 million (23.0 million units) to fund acquisitions.

On 3 July 2019, the Trust settled on the acquisition of 75-105 Corio Quay Road, North Geelong, VIC for \$22.8 million.

On 15 July 2019, the Trust settled on the acquisition of 680 Boundary Road, Richlands, QLD for \$19.5 million.

On 6 August 2019, the Trust has completed a non-underwritten Unit Purchase Plan ('UPP'), raising \$21.1 million (6.9 million units) to fund debt reductions and acquisitions.

There are no other matters or circumstances which have arisen since the end of the financial year and the date of this report, in the opinion of the Responsible Entity, which significantly affect the operations of the Trust, the results of those operations, or the state of affairs of the Trust, in future financial years.

### 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.

### Trust information in the directors' report

#### *Responsible Entity interests*

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

	30 June 2019	30 June 2018
	\$'000	\$'000
Management fees	6,812	6,233
Property management fees	1,378	697
Leasing fees	867	520
Custodian fees	495	452
Facility management fees	214	298
Project management fees	182	96
Due diligence acquisition costs	150	100
	<b>10,098</b>	<b>8,396</b>

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

The Responsible Entity and/or its related parties have held units in the Trust during the financial year as outlined in D2 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 C9 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 the notes to the financial statements.

#### **Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

## Directors' report

### Rounding off of amounts

The Trust is an entity of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, related to the 'rounding off' of amounts in the Directors' Report and financial statements. Amounts in the Directors' Report and financial statements have been rounded off, in accordance with the instrument to the nearest thousand dollars, unless otherwise indicated.

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



Peter Done  
Director



Matthew Hardy  
Director

Sydney  
6 August 2019



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

To the Directors of Centuria Property Funds No. 2 Limited, the Responsible Entity of  
Centuria Industrial REIT

I declare that, to the best of my knowledge and belief, in relation to the audit of Centuria Industrial REIT for  
the financial year ended 30 June 2019 there have been:

- i. no contraventions of the auditor independence requirements as set out in the  
*Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Nigel Virgo

*Partner*

Sydney

6 August 2019



# Centuria Industrial REIT Annual Financial Report

For the year ended 30 June 2019

## Contents

	Page
Consolidated statement of profit or loss and other comprehensive income	8
Consolidated statement of financial position	9
Consolidated statement of changes in equity	10
Consolidated statement of cash flows	11
Note to the financial statements	12
A About the report	12
A1 General information	12
A2 Significant accounting policies	12
B Trust performance	14
B1 Distribution	14
B2 Revenue	14
B3 Expenses	15
B4 Earnings per unit	16
C Trust's assets and liabilities	17
C1 Trade and other receivables	17
C2 Investment properties	18
C3 Investment properties classified as held for sale	23
C4 Investments held in listed trusts	23
C5 Intangibles	24
C6 Trade and other payables	24
C7 Borrowings	25
C8 Derivatives	26
C9 Issued capital	26
C10 Contingent assets, liabilities and commitments	27
C11 Cash and cash equivalents	27
D Trust structure	28
D1 Interest in material subsidiaries	28
D2 Related parties	29
D3 Parent entity disclosures	31
E Other notes	32
E1 Auditor's remuneration	32
E2 Financial instruments	32
E3 New accounting standards and interpretations	36
E4 Events subsequent to reporting date	38
E5 Additional information	38
Directors' declaration	39
Independent auditor's report	40

# Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2019

	Note	30 June 2019 \$'000	30 June 2018 \$'000
<b>Revenue</b>			
Rent and recoverable outgoings	B2	93,863	83,560
<b>Total revenue from continuing operations</b>		<b>93,863</b>	<b>83,560</b>
<b>Other income</b>			
Interest income		195	132
Net gain on fair value of investment properties	C2	53,808	50,416
Gain on fair value of derivative financial instruments		-	453
Other income		602	3,398
Gain on fair value of financial assets held at fair value through profit or loss after transaction costs	C4	-	4,935
<b>Total other income</b>		<b>54,605</b>	<b>59,334</b>
<b>Total revenue from continuing operations and other income</b>		<b>148,468</b>	<b>142,894</b>
<b>Expenses</b>			
Rates, taxes and other property outgoings		22,293	18,968
Finance costs	B3	21,496	17,532
Management fees	D2	6,812	6,233
Loss on fair value of derivative financial instruments		3,581	-
Loss on fair value of financial assets held at fair value through profit or loss after transaction costs	C4	3,107	-
Other expenses		2,351	1,266
<b>Profit from continuing operations for the year</b>		<b>88,828</b>	<b>98,895</b>
<b>Net profit for the year</b>		<b>88,828</b>	<b>98,895</b>
<b>Other comprehensive income</b>			
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>	B4	<b>88,828</b>	<b>98,895</b>
<b>Basic and diluted earnings per unit</b>			
Basic earnings per unit (cents per unit)	B4	34.3	40.6

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

# Consolidated statement of financial position

As at 30 June 2019

	Note	30 June 2019 \$'000	30 June 2018 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	C11	9,348	21,177
Trade and other receivables	C1	7,029	3,606
Other assets		2,115	3,227
Derivative financial instruments	C8	-	14
Investment properties held for sale	C3	11,400	10,000
<b>Total current assets</b>		<b>29,892</b>	<b>38,024</b>
<b>Non-current assets</b>			
Investment properties	C2	1,209,850	999,000
Investments in listed entities	C4	-	49,337
Intangibles	C5	10,501	10,501
Derivative financial instruments	C8	-	37
<b>Total non-current assets</b>		<b>1,220,351</b>	<b>1,058,875</b>
<b>Total assets</b>		<b>1,250,243</b>	<b>1,096,899</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	C6	16,265	9,366
Borrowings	C7	-	135,000
Distributions payable	B1	12,459	12,045
<b>Total current liabilities</b>		<b>28,724</b>	<b>156,411</b>
<b>Non-current liabilities</b>			
Borrowings	C7	468,431	292,987
Derivative financial instruments	C8	3,541	11
<b>Total non-current liabilities</b>		<b>471,972</b>	<b>292,998</b>
<b>Total liabilities</b>		<b>500,696</b>	<b>449,409</b>
<b>Net assets</b>		<b>749,547</b>	<b>647,490</b>
<b>EQUITY</b>			
Issued capital	C9	687,971	626,317
Retained earnings		61,576	21,173
<b>Total equity</b>		<b>749,547</b>	<b>647,490</b>

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

# Consolidated statement of changes in equity

For the year ended 30 June 2019

	Note	Issued capital \$'000	Retained earnings/ (accumulated losses) \$'000	Total equity \$'000
<b>Balance at 1 July 2017</b>		538,551	(29,589)	508,962
Net profit for the year		-	98,895	98,895
<b>Total comprehensive income for the year</b>		-	<b>98,895</b>	<b>98,895</b>
Units issued	C9	88,034	-	88,034
Dividend reinvestment plan ('DRP')	C9	1,158	-	1,158
Equity raising costs	C9	(1,426)	-	(1,426)
Distributions provided for or paid	B1	-	(48,133)	(48,133)
<b>Balance at 30 June 2018</b>		<b>626,317</b>	<b>21,173</b>	<b>647,490</b>
<b>Balance at 1 July 2018</b>		626,317	21,173	647,490
Net profit for the year		-	88,828	88,828
<b>Total comprehensive income for the year</b>		-	<b>88,828</b>	<b>88,828</b>
Units issued	C9	50,967	-	50,967
Dividend reinvestment plan ('DRP')	C9	12,270	-	12,270
Equity raising costs	C9	(1,583)	-	(1,583)
Distributions provided for or paid	B1	-	(48,425)	(48,425)
<b>Balance at 30 June 2019</b>		<b>687,971</b>	<b>61,576</b>	<b>749,547</b>

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

# Consolidated statement of cash flows

For the year ended 30 June 2019

	30 June 2019	30 June 2018
Note	\$'000	\$'000
<b>Cash flows from operating activities</b>		
Receipts from customers	99,898	91,833
Payments to suppliers	(33,752)	(32,441)
Distribution received	1,722	1,676
Interest received	195	132
Interest paid	(17,800)	(16,748)
<b>Net cash generated by operating activities</b>	<b>50,263</b>	<b>44,452</b>
C11		
<b>Cash flows from investing activities</b>		
Net proceeds from sale of investment properties	10,028	28,245
Payments for investment properties	(171,306)	(88,973)
Proceeds from sale of investments held at fair value through profit or loss	46,229	-
Payments for investments held in listed trusts	-	(44,402)
<b>Net cash used in investing activities</b>	<b>(115,049)</b>	<b>(105,130)</b>
<b>Cash flows from financing activities</b>		
Distribution paid	(44,684)	(45,210)
Proceeds from borrowings	140,945	47,500
Repayment of borrowings	(100,748)	(15,000)
Payments for borrowing costs	(882)	(232)
Proceeds from issue of units	59,909	88,034
Equity issue costs	(1,583)	(1,426)
<b>Net cash generated by financing activities</b>	<b>52,957</b>	<b>73,666</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		
	<b>(11,829)</b>	12,988
Cash and cash equivalents at beginning of financial year	21,177	8,189
<b>Cash and cash equivalents at end of financial year</b>	<b>9,348</b>	<b>21,177</b>
C11		

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

# Note to the financial statements

For the year ended 30 June 2019

## A About the report

### A1 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 Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted 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 6 August 2019.

#### Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for investment properties, derivative financial instruments and financial assets at fair value through profit and loss, which have been measured at fair value at the end of each reporting period. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, which is the Trust's functional currency, unless otherwise noted.

#### (i) 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.

#### Rounding of amounts

The Trust is a scheme of a kind referred to in ASIC Legislative Instrument 2016/191, related to the 'rounding off' of amounts in the Directors' Report and financial statements. Amounts in the Directors' Report and financial statements have been rounded off, in accordance with the instrument to the nearest thousand dollars, unless otherwise indicated.

#### Functional and presentation currency

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

### A2 Significant accounting policies

The accounting policies and methods of computation in the preparation of the consolidated financial statements are consistent with those adopted in the previous financial year ended 30 June 2018 unless specifically outlined below or in the relevant notes to the consolidated financial statements.

When the presentation or classification of items in the consolidated financial statements has been amended, comparative amounts are also reclassified, unless it is impractical.

Accounting policies are selected and applied in a manner that ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events are reported.

These financial statements contain all significant accounting policies that summarise the recognition and measurement basis used and which are relevant to provide an understanding of the financial statements. Accounting policies that are specific to a note to the financial statements are described in the note to which they relate.

## About the report

### A2 Significant accounting policies (continued)

#### 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 judgements, 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 C2), derivative financial instruments (per Note E2) and goodwill (per Note C5).

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.

#### Segment reporting

The Trust operates in one segment, being investments in Australian industrial property. The Trust has determined its one operating segment based on the internal information that is provided to the chief operating decision maker and which is used in making strategic decisions. The Responsible Entity has been identified as the Trust's chief operating decision maker.

## B Trust performance

### B1 Distribution

	30 June 2019		30 June 2018	
	Cents per unit	\$'000	Cents per unit	\$'000
September quarter	4.60	11,424	4.85	12,022
December quarter	4.60	12,271	4.85	12,029
March quarter	4.60	12,271	4.85	12,037
June quarter	4.60	12,459	4.85	12,045
	<b>18.40</b>	<b>48,425</b>	19.40	48,133

Key dates in connection with the 30 June 2019 distribution are:

Event	Date
Ex-distribution date	27 Jun 2019
Record date	28 Jun 2019
Distribution payment date	9 Aug 2019

#### 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 unitholders. The Trust ordinarily fully distributes its distributable income, calculated in accordance with the Trust constitution and applicable taxation legislation, to the unitholders 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 unitholders so that the Trust is not subject to capital gains tax.

Realised capital losses are not distributed to unitholders 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 unitholders.

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

### B2 Revenue

	30 June 2019	30 June 2018
	\$'000	\$'000
Rental income	77,798	71,620
Recoverable outgoings	13,784	12,378
Straight-lining of lease revenue	2,281	(438)
	<b>93,863</b>	83,560

#### 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.

##### (i) 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.



## Trust performance

### B2 Revenue (continued)

#### Recognition and measurement (continued)

##### (i) Rental income (continued)

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

##### (ii) Recoverable outgoings

The Trust recovers the costs associated with general building and tenancy operation from lessees in accordance with specific clauses within lease agreements. These are invoiced monthly based on an annual estimate. The consideration is due 30 days from the invoice date. Should any adjustment be required based on actual costs incurred, this is recognised in the statement of profit or loss and other comprehensive income within the same reporting period and billed annually. Under AASB 118, recoverable outgoings revenue was recognised on an accruals basis based on the contract terms. On transition to AASB 15, these are not recognised over time as defined in the contract terms.

##### (iii) Interest revenue

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

##### (iv) Sale of properties

Any gain or loss arising on the sale of an investment property is recognised when the control of the asset is passed on to the buyer, which normally coincides with the settlement of the contract for sale. Under the old accounting standard, the gain was only recognised when the risk and rewards had been transferred to the buyer. The gain or loss is calculated as the difference between the net disposal proceeds and the carrying amount of the asset.

### B3 Expenses

#### Recognition and measurement

Finance costs are recognised in the profit or loss statement as they accrue. Finance costs are recognised using the effective interest rate applicable to the financial liability.

##### (i) Finance costs

Finance costs include interest expense and amortised borrowing costs.

	30 June 2019 \$'000	30 June 2018 \$'000
Interest expense	20,354	16,772
Amortisation of borrowing costs	1,142	760
	<u>21,496</u>	<u>17,532</u>

##### (ii) Other expenses

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

##### (iii) 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.

## Trust performance

### B4 Earnings per unit

	30 June 2019	30 June 2018
Basic and diluted earnings per unit (cents per unit)	34.3	40.6
Earnings used in calculating basic and diluted earnings per unit (\$'000)	88,828	98,895
Weighted average number of units ('000)	258,670	243,773

## C Trust's assets and liabilities

### C1 Trade and other receivables

	30 June 2019 \$'000	30 June 2018 \$'000
<b>Current</b>		
Trade debtors	3,069	473
Other current receivables	3,960	3,133
	<u>7,029</u>	<u>3,606</u>

Refer to Note E2 for details on fair value measurement and the Trust's exposure to risks associated with financial assets (other receivables are not considered to be financial assets).

#### Recognition and measurement

Loans and receivables are initially recognised at fair value and subsequently amortised cost using the effective interest rate method less any allowance under the expected credit loss ('ECL') model. Under the old standard, receivables are measured at amortised costs. On transition to AASB 9, the Trust's receivables continue to be measured at amortised costs. The new impairment model does not have a material impact on the Trust.

Refer to the policy application below and Note E3 for further details.

#### Policy application from 1 July 2018

##### Recoverability of loans and receivables

At each reporting period, the Trust assesses whether financial assets carried at amortised cost are 'credit-impaired'. A financial asset is 'credit-impaired' when one or more events that has a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The Trust recognises loss allowances at an amount equal to lifetime ECL on trade and other receivables. Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the trade receivables and are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between cash flows due to the Trust in accordance with the contract and the cash flows that the Trust expects to receive.

The Trust analyses the age of outstanding receivable balances and applies historical default percentages adjusted for other current observable data as a means to estimate lifetime ECL, including forecasts of interest rates and inflation, as well as the financial stress of counterparties and their ability to operate as a going concern.

Debts that are known to be uncollectable are written off when identified.

## Trust's assets and liabilities

### C2 Investment properties

	30 June 2019 \$'000	30 June 2018 \$'000
<b>Opening balance</b>	<b>999,000</b>	886,150
Acquisitions of investment properties	155,986	82,894
Capital improvements and associated costs	7,879	4,416
	<u>163,865</u>	<u>87,310</u>
Gain on fair value	53,808	50,416
Change in deferred rent and lease incentives	2,903	2,705
Disposed deferred rent and lease incentives	-	789
Change in capitalised leasing fees	1,674	1,767
Disposal at fair value	-	(30,100)
Rental guarantee cash received	-	(37)
Closing gross balance	<u>1,221,250</u>	<u>999,000</u>
Less: Investment properties held for sale	<u>(11,400)</u>	-
<b>Closing balance<sup>^</sup></b>	<u><b>1,209,850</b></u>	<u>999,000</u>

<sup>^</sup> The carrying amount of investment properties includes components related to deferred rent, capitalised lease incentives and leasing fees amounting to \$24.4 million (2018: \$19.8 million).

### 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 June 2019 \$'000	30 June 2018 \$'000
Less than one year	79,711	63,348
Between one and five years	224,944	180,540
More than five years	96,100	91,111
	<u>400,755</u>	<u>334,999</u>

## Trust's assets and liabilities

### C2 Investment properties (continued)

Property	Fair value		Capitalisation rate		Discount rate		30 June 2019 Valuer	Last independent valuation date
	30 June 2019 \$'000	30 June 2018 \$'000	30 June 2019 %	30 June 2018 %	30 June 2019 %	30 June 2018 %		
<b>NSW</b>								
2 Woolworths Way, Warnervale NSW	<b>81,250</b>	81,000	<b>7.00</b>	7.50	<b>7.75</b>	7.75	Directors	Sep 2018
10 Williamson Rd, Ingleburn NSW	<b>49,000</b>	46,000	<b>5.75</b>	6.00	<b>6.75</b>	7.00	Directors	Sep 2018
29 Glendenning Rd, Glendenning NSW	<b>45,700</b>	42,000	<b>5.50</b>	6.00	<b>7.00</b>	7.25	Directors	Sep 2018
92-98 Cosgrove Rd, Enfield NSW	<b>50,000</b>	42,250	<b>5.75</b>	6.50	<b>6.50</b>	7.50	Independent	Jun 2019
12 Williamson Rd, Ingleburn NSW	<b>39,200</b>	36,200	<b>6.00</b>	6.75	<b>7.25</b>	8.00	Directors	Sep 2018
37-51 Scrivener St, Warwick Farm NSW	<b>36,750</b>	34,400	<b>6.50</b>	6.75	<b>7.00</b>	7.25	Independent	Jun 2019
74-94 Newton Rd, Wetherill Park NSW	<b>36,750</b>	28,200	<b>5.75</b>	6.25	<b>6.50</b>	7.25	Independent	Jun 2019
457 Waterloo Rd, Chullora NSW	<b>29,500</b>	27,500	<b>5.75</b>	6.00	<b>6.75</b>	7.00	Directors	Sep 2018
6 Macdonald Rd, Ingleburn NSW	<b>25,000</b>	21,700	<b>5.50</b>	6.00	<b>6.50</b>	7.25	Independent	Jun 2019
30 Clay Pl, Eastern Creek NSW	<b>19,000</b>	18,000	<b>5.50</b>	6.00	<b>6.75</b>	7.50	Directors	Sep 2018
8 Penelope Cres, Arndell Park NSW	<b>21,700</b>	17,100	<b>5.50</b>	6.25	<b>6.75</b>	7.50	Independent	Jun 2019
52-74 Quarry Rd, Erskine Park NSW	<b>17,600</b>	16,500	<b>6.00</b>	6.25	<b>6.75</b>	7.00	Directors	Sep 2018
75 Owen St, Glendenning NSW	<b>8,600</b>	7,600	<b>6.00</b>	6.50	<b>7.00</b>	7.25	Directors	Sep 2018
<b>VIC</b>								
1 International Drive, Westmeadows VIC	<b>43,500</b>	-	<b>6.75</b>	-	<b>7.25</b>	-	Independent	Jun 2019
207-219 Browns Rd, Noble Park VIC	<b>44,300</b>	37,550	<b>6.25</b>	6.75	<b>7.50</b>	7.75	Independent	Jun 2019
324-332 Frankston-Dandenong Rd, Dandenong South VIC	<b>33,500</b>	30,400	<b>6.00</b>	6.25	<b>7.00</b>	7.50	Directors	Sep 2018
102-128 Bridge Rd, Keysborough VIC	<b>30,700</b>	30,500	<b>7.00</b>	7.25	<b>7.50</b>	8.25	Directors	Sep 2018
24-32 Stanley Dr, Somerton VIC	<b>31,500</b>	27,000	<b>6.25</b>	6.50	<b>7.00</b>	7.25	Independent	Jun 2019
2 Keon Pde, Keon Park VIC	<b>25,500</b>	25,000	<b>5.75</b>	6.00	<b>7.00</b>	7.25	Directors	Sep 2018
69 Studley Ct, Derrimut VIC	<b>21,500</b>	19,250	<b>6.50</b>	6.75	<b>7.50</b>	7.75	Directors	Sep 2018
14-17 Dansu Ct, Hallam VIC	<b>21,500</b>	18,600	<b>6.50</b>	6.75	<b>7.00</b>	7.50	Directors	Sep 2018
500 Princes Hwy, Noble Park VIC	<b>21,000</b>	20,000	<b>7.25</b>	7.50	<b>7.50</b>	8.00	Directors	Sep 2018
12-13 Dansu Ct, Hallam VIC	<b>18,000</b>	15,400	<b>5.75</b>	6.00	<b>7.00</b>	7.25	Independent	Jun 2019
49 Temple Dr, Thomastown VIC	<b>13,000</b>	11,400	<b>6.75</b>	7.50	<b>7.25</b>	7.75	Directors	Sep 2018
9 Fellowes Ct, Tullamarine VIC	<b>4,500</b>	4,300	<b>6.75</b>	7.00	<b>7.00</b>	7.00	Directors	Sep 2018

## Trust's assets and liabilities

### C2 Investment properties (continued)

Property	Fair value		Capitalisation rate		Discount rate		30 June 2019 Valuer	Last independent valuation date
	30 June 2019 \$'000	30 June 2018 \$'000	30 June 2019 %	30 June 2018 %	30 June 2019 %	30 June 2018 %		
<b>QLD</b>								
22 Hawkins Cres, Bundamba QLD	47,000	46,500	6.50	6.75	7.50	7.75	Directors	Sep 2018
1 Ashburn Rd, Bundamba QLD	38,250	37,000	6.50	6.75	7.25	7.75	Directors	Sep 2018
33-37 Mica St, Carole Park QLD	30,250	29,750	6.50	6.50	7.50	7.75	Directors	Sep 2018
43-45 Mica St, Carole Park QLD	1,850	1,800	6.00	6.00	-	-	Directors	Sep 2018
136 Zillmere Rd, Boondall QLD	31,600	30,500	6.75	6.75	7.00	7.25	Directors	Sep 2018
69 Rivergate Pl, Murarrie QLD	31,000	30,000	6.25	6.50	7.00	7.25	Directors	Sep 2018
149 Kerry Rd, Archerfield QLD	30,600	-	6.00	-	6.75	-	Directors	Nov 2018
616 Boundary Rd, Richlands QLD	16,500	-	7.25	-	7.25	-	Directors	Sep 2018
21 Jay St, Mount St John, Townsville QLD	11,000	10,500	7.50	7.50	7.75	8.00	Directors	Sep 2018
46 Gosport St, Hemmant QLD	17,000	-	7.75	-	7.75	-	Directors	May 2019
<b>WA</b>								
310 Spearwood Ave, Bibra Lake WA	54,750	54,100	7.50	7.50	7.75	7.75	Directors	Sep 2018
Lot 14 Sudlow Rd, Bibra Lake WA	33,800	32,550	7.50	7.50	8.00	8.25	Directors	Sep 2018
103 Stirling Crescent, Hazelmere WA	15,400	-	6.75	-	7.25	-	Directors	Nov 2018
155 Lakes Road, Hazelmere WA	8,700	-	6.75	-	7.00	-	Directors	Nov 2018
23 Selkis Rd, Bibra Lake WA	20,200	19,900	7.50	7.50	7.50	8.25	Directors	Sep 2018
92 Robinson Rd, Belmont WA	11,400	11,250	7.25	7.75	7.75	7.75	Directors	Sep 2018
16-18 Baile Rd, Canning Vale WA	18,100	-	7.00	-	7.00	-	Directors	Sep 2018
99 Quill Way, Henderson WA	-	13,500	-	7.75	-	8.00	Directors	Sep 2018
<b>ACT</b>								
54 Sawmill Cct, Hume ACT	16,100	15,700	6.75	7.00	6.75	7.75	Directors	Sep 2018
<b>SA</b>								
9-13 Caribou Dr, Direk SA	7,800	8,100	8.50	9.00	8.75	8.25	Directors	Sep 2018
	<b>1,209,850</b>	<b>999,000</b>						

## Trust's assets and liabilities

### **C2 Investment properties (continued)**

During the year, the Trust acquired 616 Boundary Road, Richlands QLD, 1 International Drive, Westmeadows VIC, 103 Stirling Crescent, Hazelmere WA, 155 Lakes Road, Hazelmere WA, 149 Kerry Road, Archerfield QLD, 16-18 Baile Road, Canning Vale WA and 46 Gosport Street, Hemmant QLD.

The Trust's weighted average capitalisation rate for the year is 6.46% (2018: 6.76%).

# Trust's assets and liabilities

## C2 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.

### 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).

<b>Significant unobservable inputs</b>	<b>Fair value measurement sensitivity to significant increase in input</b>	<b>Fair value measurement sensitivity to significant decrease in input</b>	<b>Range of inputs</b>
Market rent	Increase	Decrease	\$30 - \$206
Capitalisation rate	Decrease	Increase	5.50% - 8.50%
Discount Rate	Decrease	Increase	6.50% - 8.75%

The above unobservable inputs are considered significant Level 3 inputs.



## Trust's assets and liabilities

### C3 Investment properties classified as held for sale

Assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

	30 June 2019 \$'000	30 June 2018 \$'000
39-45 Wedgewood Rd, Hallam VIC	-	10,000
99 Quill Way, Henderson WA	11,400	-
	<u>11,400</u>	<u>10,000</u>

On 5 July 2017, the Trust entered into an unconditional contract for the sale of 39-45 Wedgewood Rd, Hallam VIC. The contract provided for settlement on a deferred basis, and the sale was completed on 13 July 2018 for \$10.0 million.

#### Recognition and measurement

Investment properties are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. These investment properties are carried at fair value. The valuation techniques to determine the fair value of investment properties held for sale are same as the valuation techniques of investment properties described in Note C2.

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.

### C4 Investments held in listed trusts

On 8 September 2017, the Trust acquired 46,543,981 units of Propertylink Group ('PLG') at \$0.95 per unit.

The Trust divested its entire holding in Propertylink Group ('PLG') on 9 August 2018 at a price of \$1.01 per unit. The proceeds after transaction costs were \$46.3 million.

	30 June 2019 \$'000	30 June 2018 \$'000
<b>Current</b>		
<b>Investment in Propertylink Group ('PLG')</b>		
Opening balance	49,337	-
Acquisitions (including transaction costs)	-	44,402
(Loss)/gain on fair value	(3,107)	4,935
Disposal at fair value (less transaction costs)	(46,230)	-
<b>Closing balance</b>	<u>-</u>	<u>49,337</u>

#### Recognition and measurement

A financial asset is designated as at fair value through profit or loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Trust's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and AASB 139 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as fair value through profit and loss.

## Trust's assets and liabilities

### C4 Investments held in listed trusts (continued)

#### Recognition and measurement (continued)

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. Fair value is determined in the manner described in Note E2.

### C5 Intangibles

#### Goodwill

	30 June 2019 \$'000	30 June 2018 \$'000
Goodwill - at cost	10,501	10,501
	<u>10,501</u>	<u>10,501</u>

#### (i) Indefinite life of controlling interest

Goodwill acquired in a business combination is initially measured at fair value and reflect the controlling interest in Australian Industrial REIT ('ANI').

#### (ii) Goodwill

Goodwill acquired in a business combination is measured at cost and subsequently measured at cost less any impairment losses. The cost represents the excess of the cost of a business combination over the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

#### (iii) Impairment

Goodwill is tested annually for impairment. It is impaired if the recoverable amount, calculated as fair value less costs to sell, is less than its carrying amount.

Based on impairment testing performed as at 30 June 2019 the fair value of the portfolio less costs to sell calculation, which is based on market capitalisation plus a portfolio premium, supports the recoverability of goodwill. Based on this testing recoverable amount exceeds the carrying amount by \$105.6 million. A change in portfolio premium or market capitalisation exceeding this amount may lead to the carrying amount of goodwill exceeding its recoverable amount. At balance date and immediately after balance date the current market price of the Trust units do not indicate a permanent structural decline in the fair valuation of equity below the net assets of the Trust. No intangibles were impaired in 2019 (2018: nil).

### C6 Trade and other payables

	30 June 2019 \$'000	30 June 2018 \$'000
<b>Current</b>		
Trade creditors and expenses payable	3,906	2,279
Other current creditors and accruals	12,359	7,087
	<u>16,265</u>	<u>9,366</u>

Refer to Note D2 for amounts payable to related parties.

#### Recognition and measurement

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.

## Trust's assets and liabilities

### C6 Trade and other payables (continued)

#### Recognition and measurement (continued)

A provision is recognised if, as a result of a past event, the Trust has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

### C7 Borrowings

	30 June 2019 \$'000	30 June 2018 \$'000
<b>Current</b>		
Secured loan	-	135,000
	<u>-</u>	<u>135,000</u>
<b>Non-current</b>		
Secured loan	469,949	294,752
Borrowing costs	(1,518)	(1,765)
	<u>468,431</u>	<u>292,987</u>

At 30 June 2019, the Trust had the following secured debt facilities:

Total facilities - bank loans	520,000	460,000
Facilities used at reporting date - bank loans	(469,949)	(429,752)
Facilities unused at reporting date - bank loans	<u>50,051</u>	<u>30,248</u>

As at 30 June 2019, the Trust had \$210.0 million (2018: \$190.0 million) of interest rate swaps hedged against its drawn debt. Refer to Note C8 for further details on interest rate swap contracts held at, and contracts executed subsequent to 30 June 2019. In addition to these, \$150.0 million of the Trust's debt facilities are on a fixed interest basis taking the total fixed rate debt to \$360.0 million (2018: \$340.0 million).

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

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

#### Recognition and measurement

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.

Refer to Note E2 for details on the Trust's exposure to risks associated with financial liabilities.

## Trust's assets and liabilities

### C8 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
<b>30 June 2019</b>					
Extendible interest rate swap*	27 Jun 22	0.98%	110,000	-	(193)
Interest rate swap	28 Dec 21	2.03%	50,000	-	(1,191)
Interest rate swap	28 Dec 23	2.14%	50,000	-	(2,157)
			<b>210,000</b>	<b>-</b>	<b>(3,541)</b>
<b>30 June 2018</b>					
Interest rate swap	12 Feb 19	2.01%	80,000	14	-
Interest rate swap	16 Jun 20	2.10%	55,000	37	-
Interest rate swap	16 Jun 22	2.30%	55,000	-	(11)
			<b>190,000</b>	<b>51</b>	<b>(11)</b>

\* The bank has a right to exercise an option and extend the interest rate swap to 27 June 2024.

#### Recognition and measurement

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. Under the old accounting standard, the financial liabilities of the Trust were classified as fair value through profit and loss ('FVTPL') which has not changed on transition to AASB 9, where financial liabilities are still classified as FVTPL.

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.

Refer to Note E2 for details on the Trust's exposure to risks associated with financial liabilities.

### C9 Issued capital

	30 June 2019		30 June 2018	
	Units '000	\$'000	Units '000	\$'000
Opening balance	248,357	626,317	211,957	538,551
Units issued	18,400	50,967	35,932	88,034
Distribution reinvestment plan ('DRP')	4,090	12,270	468	1,158
Equity raising costs	-	(1,583)	-	(1,426)
<b>Closing balance</b>	<b>270,847</b>	<b>687,971</b>	<b>248,357</b>	<b>626,317</b>

Institutional placement was completed on 2 July 2019, raising \$70.0 million through the issue of 23.0 million units. The Trust has completed Unit Purchase Plan on 6 August 2019, raising \$21.1 million (6.9 million units).

## Trust's assets and liabilities

### C9 Issued capital (continued)

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

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

### C10 Contingent assets, liabilities and commitments

Unless otherwise stated in this report, the Trust has no contingent assets, liabilities or commitments as at 30 June 2019.

### C11 Cash and cash equivalents

	30 June 2019 \$'000	30 June 2018 \$'000
Cash and cash equivalents	9,348	21,177
	<u>9,348</u>	<u>21,177</u>

### Reconciliation of profit for the year to net cash flows from operating activities:

<b>Net profit for the year</b>	<b>88,828</b>	<b>98,895</b>
<b>Adjustments:</b>		
Net gain on fair value of investment properties	(53,808)	(50,416)
Net loss/(gain) on fair value of listed investments	3,107	(4,935)
Loss/(gain) on fair value of derivatives	3,581	(453)
Change in deferred rent and lease incentives	467	1,609
Change in capitalised leasing fees	1,436	890
Borrowing cost amortisation	1,142	760
<b>Changes in operating assets and liabilities:</b>		
Increase in receivables	(3,350)	(499)
Decrease/(increase) in other assets	2,930	(1,750)
Increase in payables	5,930	351
<b>Net cash generated by operating activities</b>	<b>50,263</b>	<b>44,452</b>

Cash and cash equivalents comprise of cash on hand and cash in banks.

## D Trust structure

### D1 Interest in material subsidiaries

#### Recognition and measurement

##### *(i) Business combination*

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.

##### *(ii) 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.

##### *(iii) Subsidiaries*

The consolidated financial statements include the assets, liabilities and results 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.

## Trust structure

### D1 Interest in material subsidiaries (continued)

#### Recognition and measurement (continued)

##### (iii) Subsidiaries (continued)

Name of entity	Country of domicile	Class of units	Equity interest	
			30 June 2019 %	30 June 2018 %
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 Glendening 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 South Trust	Australia	Ordinary	100	100
AIR Bibra Lake Trust	Australia	Ordinary	100	100
AIR Glendening 2 Trust	Australia	Ordinary	100	100
AIR Erskine Park Trust	Australia	Ordinary	100	100
AIR ST1 Trust	Australia	Ordinary	100	100

### D2 Related parties

#### Key management personnel

The Trust does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Trust 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:

Peter Done  
Darren Collins  
Matthew Hardy  
Nicholas Collishaw  
Roger Dobson

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.

#### 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.

## Trust structure

### D2 Related parties (continued)

#### Responsible entity fees and other transactions (continued)

Custodian fees are paid to the custodians. Custody fees paid to Centuria Property Funds No. 2 Limited are calculated in relation to some of the Trust's assets and in accordance with the constitution at a rate of 0.05% of the Trust's gross assets.

At reporting date an amount of \$1,009,134 (2018: \$925,304) owing to the Responsible Entity and its related parties was included in trade and other payables. The payables are non-interest bearing with payment terms and conditions consistent with normal commercial practices.

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

	30 June 2019 \$'000	30 June 2018 \$'000
Management fees	6,812	6,233
Property management fees	1,378	697
Leasing fees	867	520
Custodian fees	495	452
Facility management fees	214	298
Project management fees	182	96
Due diligence acquisition costs	150	100
	<u>10,098</u>	<u>8,396</u>

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

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

	Closing units held	Closing interest held
<b>30 June 2019</b>		
Centuria Capital No. 2 Industrial Fund	45,136,934	16.67%
Centuria Capital No. 5 Fund	16,999,400	6.28%
Centuria Property Funds No. 2 Limited	2,181,086	0.81%
Centuria Growth Bond Fund	704,725	0.26%
Centuria Balanced Fund	382,501	0.14%
	<u>65,404,646</u>	<u>24.16%</u>
<b>30 June 2018</b>		
Centuria Capital No. 2 Industrial Fund	48,372,668	19.48%
Centuria Growth Bond Fund	650,000	0.26%
Centuria Balanced Fund	350,000	0.14%
	<u>49,372,668</u>	<u>19.88%</u>

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



## Trust structure

### D2 Related parties (continued)

#### Other transactions within the Fund

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.

### D3 Parent entity disclosures

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

	30 June 2019 \$'000	30 June 2018 \$'000
<b>Financial position</b>		
<b>Assets</b>		
Current assets	12,821	21,290
Non-current assets	1,231,553	1,070,774
<b>Total assets</b>	<u>1,244,374</u>	<u>1,092,064</u>
<b>Liabilities</b>		
Current liabilities	22,854	16,627
Non-current liabilities	471,973	427,947
<b>Total liabilities</b>	<u>494,827</u>	<u>444,574</u>
<b>Equity</b>		
Issued capital	687,971	626,317
Retained earnings	61,576	21,173
<b>Total equity</b>	<u>749,547</u>	<u>647,490</u>
<b>Financial performance</b>		
Profit for the year	<u>88,828</u>	98,895
<b>Total comprehensive income for the year</b>	<u>88,828</u>	<u>98,895</u>

## E Other notes

### E1 Auditor's remuneration

	30 June 2019 \$'000	30 June 2018 \$'000
<b>KPMG:</b>		
Audit and review of financials	169	129
Property due diligence services & advice	40	108
	<u>209</u>	<u>237</u>

### E2 Financial instruments

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

#### Fair value

	Measurement	Fair value hierarchy	Carrying amount	Fair value
<b>30 June 2019</b>			<b>\$'000</b>	<b>\$'000</b>
<b>Financial assets</b>				
Receivables	Amortised cost	Not applicable	7,029	7,029
			<u>7,029</u>	<u>7,029</u>
<b>Financial liabilities</b>				
Payables	Amortised cost	Not applicable	16,265	16,265
Borrowings (excluding borrowing costs)	Amortised cost	Not applicable	469,949	475,177
Interest rate swaps	Fair Value	Level 2	3,541	3,541
			<u>489,755</u>	<u>494,983</u>
<b>30 June 2018</b>				
<b>Financial assets</b>				
Receivables	Amortised Cost	Not applicable	3,606	3,606
Investment in listed entity	Fair Value	Level 1	49,337	49,337
Interest rate swaps	Fair Value	Level 2	51	51
			<u>52,994</u>	<u>52,994</u>
<b>Financial liabilities</b>				
Payables	Amortised Cost	Not applicable	9,366	9,366
Borrowings (excluding borrowing costs)	Amortised Cost	Not applicable	429,752	429,752
Interest rate swaps	Fair Value	Level 2	11	11
			<u>439,129</u>	<u>439,129</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.

#### (i) 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.

### E2 Financial instruments (continued)

#### Fair value (continued)

##### (i) 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.

##### (ii) 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
<b>30 June 2019</b>				
<b>Financial liabilities held at fair value</b>				
Interest rate swaps	3,541	-	3,541	-
Fixed interest borrowings (excluding borrowing costs)	155,228	-	-	155,228
	<b>158,769</b>	<b>-</b>	<b>3,541</b>	<b>155,228</b>
<b>30 June 2018</b>				
<b>Financial assets held at fair value</b>				
Investment in listed equity	49,337	49,337	-	-
Interest rate swaps	51	-	51	-
	<b>49,388</b>	<b>49,337</b>	<b>51</b>	<b>-</b>
<b>Financial liabilities held at fair value</b>				
Interest rate swaps	11	-	11	-
Fixed interest borrowings (excluding borrowing costs)	150,000	-	-	150,000
	<b>150,011</b>	<b>-</b>	<b>11</b>	<b>150,000</b>

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

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.

## Other notes

### E2 Financial instruments (continued)

#### 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 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.

#### 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.

#### 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.

#### 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 June 2019		30 June 2018	
	Effective interest rate	Total \$'000	Effective interest rate	Total \$'000
<b>Financial assets</b>				
Cash and cash equivalents	0.55%	9,348	0.80%	21,177
Interest rate swaps	-%	-	0.07%	51
		<u>9,348</u>		<u>21,228</u>
<b>Financial liabilities</b>				
Borrowings (excluding borrowing costs)	3.41%	469,949	3.54%	429,752
Interest rate swaps	0.25%	3,541	0.07%	11
		<u>473,490</u>		<u>429,763</u>

## Other notes

### E2 Financial instruments (continued)

#### Market risk (continued)

##### Interest rate sensitivity

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 (2018: 100) basis points ('bps') 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
<b>30 June 2019</b>			
Net (loss)/profit	100 bps	<u>6,509</u>	<u>(7,552)</u>
		<b>6,509</b>	<b>(7,552)</b>
<b>30 June 2018</b>			
Net (loss)/profit	100 bps	<u>(1,574)</u>	<u>1,574</u>
		<b>(1,574)</b>	<b>1,574</b>

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.

#### 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 2019, the main financial assets exposed to credit risk are trade receivables. There were no significant concentrations of credit risk to counterparties at 30 June 2019. Refer to Note C1 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 carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date.

#### 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.

**E2 Financial instruments (continued)****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
<b>30 June 2019</b>					
Trade and other payables	-%	28,724	28,724	-	-
Borrowings	3.44%	524,255	15,508	508,747	-
Derivative financial instruments	0.25%	2,045	526	1,519	-
		<b>555,024</b>	<b>44,758</b>	<b>510,266</b>	<b>-</b>
<b>30 June 2018</b>					
Trade and other payables	-%	21,411	21,411	-	-
Borrowings	3.54%	473,571	149,654	323,917	-
Derivative financial instruments	0.07%	52	(155)	207	-
		<b>495,034</b>	<b>170,910</b>	<b>324,124</b>	<b>-</b>

The principal amounts included in the above borrowings is \$468.0 million (2018: \$428.0 million).

**E3 New accounting standards and interpretations****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 9 *Financial Instruments* - Effective for annual reporting periods beginning on or after 1 July 2019.
- AASB 15 *Revenue from Contracts with Customers* - Effective for annual reporting periods beginning on or after 1 July 2019.

**AASB 9 Financial Instruments**

AASB 9 *Financial Instruments* sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces AASB 139 *Financial Instruments: Recognition and Measurement*.

**(a) Classification - Financial assets and financial liabilities**

AASB 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). The standard eliminates the existing AASB 139 categories of held to maturity, loans and receivables and available for sale. Loans and receivables are classified and measured at amortised cost. The Trust holds these assets in order to collect contractual cash flows, and the contractual terms are solely payments of outstanding principal and interest on the principal outstanding. The Trust's available for sale financial assets are already measured at FVTPL.

The standard requires all financial liabilities to be subsequently classified at amortised cost, except in certain circumstances, of which none apply to the Trust. Accordingly, there is no change in the classification of the Trust's payables and borrowings on adoption of AASB 9.

### E3 New accounting standards and interpretations (continued)

#### Adoption of new and revised accounting standards (continued)

##### **AASB 9 Financial Instruments (continued)**

###### **(b) Impairment - Receivables**

AASB 9 replaces the 'incurred loss' model in AASB 139 with a forward-looking 'expected credit loss' ('ECL') model. The new impairment model is only relevant to the Trust's financial assets measured at amortised cost. The new accounting policy in Note C1 outlines the probability-weighted model used to determine ECL amounts. Based on the Trust's assessment, the new impairment model does not have a material impact on its equity at transition date.

###### **(d) Hedge accounting**

The new hedge accounting rules generally allow for more hedge relationships to be eligible for hedge accounting, as the standard is aligned to a principles-based approach. The Trust's risk management strategies and hedging documentation are aligned with the requirements of AASB 9 and accordingly there is no material impact on the adoption of AASB 9 on the Trust's derivatives and hedge accounting.

###### **(e) Transition**

Changes in the accounting policies resulting from the adoption of AASB 9 have been applied retrospectively. There has been no impact on the financial position previously reported as at 30 June 2018 and 31 December 2018 as a result of the adoption of AASB 9 and its retrospective application.

##### **AASB 15 Revenue from Contracts with Customers**

AASB 15 applies to all contracts with customers to deliver goods or services as part of the entity's ordinary course of business excluding insurance contracts, financial instruments and leases, which are addressed by other standards. It replaces existing revenue recognition guidance, including AASB 118 *Revenue* and AASB 111 *Construction Contracts* and contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based give-step analysis of transactions to determine whether, how much and when revenue is recognised. It applies to all contracts with customers except leases, financial instruments and insurance contracts.

###### **(a) Classification and measurement of revenue**

Revenue is recognised over time if:

- The customer simultaneously receives and consumes the benefits as the entity performs;
- The customer controls the asset as the entity creates or enhances it; or
- The seller's performance does not create an asset for which the seller has an alternative use and there is a right to payment for the performance to date.

Where the above criteria are not met, revenue is recognised at a point in time.

In the notes to the financial statements, the Trust has disaggregated income for the current and comparative financial period to disclose recoveries revenue. Based on the Trust's assessment of when performance obligations are satisfied, there is no change in the timing of revenue recognition when comparing to the previous accounting policy, other than the change in terminology. Under AASB 15, recoveries revenue will be recognised over time.

###### **(b) Transition**

Changes in the accounting policies resulting from the adoption of AASB 15 have been applied retrospectively. There has been no impact on the Trust's previously reported financial position as a result of the adoption of AASB 15. Refer to Note B2 for further details.

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.

#### **New standards and interpretations not yet adopted**

##### **AASB 16 Leases**

###### **(a) Nature of change**

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

The accounting for lessors will not significantly change.

### **E3 New accounting standards and interpretations (continued)**

#### **New standards and interpretations not yet adopted (continued)**

##### **AASB 16 Leases (continued)**

###### **(b) Impact**

The standard will affect primarily the accounting for the Trust's operating leases. As at the reporting date, the Trust does not have any non-cancellable operating lease commitments. Accordingly, the standard has no impact to the Trust's profit and classification of cash flows.

###### **(c) Mandatory application date**

Mandatory for financial years commencing on or after 1 January 2019, but available for early adoption. The Trust will adopt this standard at the year ending 30 June 2020.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

### **E4 Events subsequent to reporting date**

The Trust has completed a fully underwritten institutional placement on 2 July 2019, raising \$70.0 million (23.0 million units) to fund acquisitions.

On 3 July 2019, the Trust settled on the acquisition of 75-105 Corio Quay Road, North Geelong, VIC for \$22.8 million.

On 15 July 2019, the Trust settled on the acquisition of 680 Boundary Road, Richlands, QLD for \$19.5 million.

On 6 August 2019, the Trust has completed a non-underwritten Unit Purchase Plan ('UPP'), raising \$21.1 million (6.9 million units) to fund debt reductions and acquisitions.

There are no other matters or circumstances which have arisen since the end of the financial year and the date of this report, in the opinion of the Responsible Entity, which significantly affect the operations of the Trust, the results of those operations, or the state of affairs of the Trust, in future financial years.

### **E5 Additional information**

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

Registered office:

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

Principal place of business:

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



## Directors' declaration

### For the year ended 30 June 2019

In the opinion of the Directors' of Centuria Property Funds No. 2 Limited, the Responsible Entity of Centuria Industrial REIT ("the Trust"):

- (a) the consolidated financial statements and notes set out on pages 7 to 38 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  - (ii) giving a true and fair view of the Trust's financial position as at 30 June 2019 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

Note A1 confirms that the consolidated financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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



Peter Done  
Director



Matthew Hardy  
Director

Sydney  
6 August 2019



# Independent Auditor's Report

To the unitholders of Centuria Industrial REIT

## Opinion

We have audited the **Financial Report** of Centuria Industrial REIT (the Fund).

In our opinion, the accompanying Financial Report of the Fund is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 30 June 2019
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The **Group** consists of Centuria Industrial REIT (the Fund) and the entities it controlled at the year-end or from time to time during the financial year.

## Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 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 fulfilled our other ethical responsibilities in accordance with the Code.

## Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

This matter was addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.



**Valuation of Investment Properties (\$1,209.9m) and Investment Properties Held for Sale (\$11.4m)**

Refer to Notes C2 and C3 to the Financial Report.

The key audit matter	How the matter was addressed in our audit
<p>The valuation of investment properties and investment properties held for sale is a key audit matter as they are significant in value (being 98% of total assets) and contain assumptions with estimation uncertainty.</p> <p>These estimates lead to additional audit effort due to differing assumptions based on asset classes, geographies and characteristics of individual investment properties.</p> <p>The Group’s policy is investment properties and investment properties held for sale are valued at fair value. The fair value is determined by the Group using internal methodologies and through the use of external valuation experts.</p> <p>We focussed on the following significant assumptions contained in the Group’s valuation methodology for investment properties:</p> <ul style="list-style-type: none"> <li>- Capitalisation rates;</li> <li>- Market rental yield;</li> <li>- Weighted average lease expiry and vacancy levels;</li> <li>- Capital adjustments; and</li> <li>- Leasing incentives.</li> </ul> <p>In assessing this Key Audit Matter, we involved our real-estate valuation specialists, who understand the Group’s investment profile and business and the economic environment it operates in.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• Understanding the Group’s process regarding the valuation of investment properties;</li> <li>• Assessing the methodology used in the valuation of investment properties for consistency with accounting standards, industry practice and Group policies;</li> <li>• Assessing the scope, competence and objectivity of external experts engaged by the Group and internal valuers;</li> <li>• Working with our real estate valuation specialists and reading published reports and industry commentary to gain an understanding of prevailing market conditions;</li> <li>• On a portfolio basis, taking into account the asset classes, geographies and characteristics of individual investment properties, challenged, with reference to published reports or industry commentary, significant assumptions. These assumptions included: capitalisation rates, market rental yields, weighted average lease expiry and vacancy levels, capital adjustments and leasing incentives; and</li> <li>• On a sample basis, assessing the appropriateness of specific valuation assumptions through comparison to market analysis published by industry experts, recent market transactions, inquiries with the Group and historical performance of the investment properties. We also involved our real estate valuation specialists to assess significant assumptions where there are limited published reports or industry commentary available.</li> </ul>



## Other Information

Other Information is financial and non-financial information in Centuria Industrial REIT's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors of Centuria Property Funds No. 2 Limited (the Responsible Entity) are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report, Corporate Governance Statement and Additional ASX Information. The letter from the Chairman & Fund Manager, portfolio overview and portfolio profile are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

## Responsibilities of the Directors for the Financial Report

The Directors of the Responsible Entity are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Fund's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Fund or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 the Financial Report.



A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our Auditor's Report.

A handwritten signature of the KPMG firm, written in black ink.

KPMG

A handwritten signature in black ink, appearing to be 'Nigel Virgo'.

Nigel Virgo

*Partner*

Sydney

6 August 2019

## **Corporate Governance Statement**

The corporate governance statement for the Trust was last updated on 25 September 2018 and is available on the Centuria website at <http://www.centuria.com.au/listed-property/corporate-governance>.

## Additional stock exchange information

As at 31 July 2019

### Distribution of units

Holding	Number of units	Number of holders	Percentage of total (%)
1 - 1000	162,087	462	0.06
1,001 - 5,000	5,645,439	1,729	1.92
5,001 - 10,000	12,041,451	1,595	4.10
10,001 - 100,000	49,561,923	2,175	16.87
100,001 and over	226,386,624	80	77.05
	<b>293,797,524</b>	<b>6,041</b>	<b>100.00</b>

### Substantial unitholders

	Number of units	Percentage of total (%)
CENTURIA CAPITAL GROUP	65,404,646	22.26
PENDAL GROUP LIMITED	21,276,547	7.24
THE VANGUARD GROUP	19,497,929	6.64
<b>Total</b>	<b>106,179,122</b>	<b>36.14</b>

### Voting rights

All units carry one vote per unit without restriction.

### Top 20 unitholders

	Number of units	Percentage of total (%)
HSBC CUSTODY NOMINEES	56,992,014	19.40
J P MORGAN NOMINEES AUSTRALIA	45,167,826	15.37
CENTURIA INVESTMENT HOLDINGS	45,136,934	15.36
CITICORP NOMINEES PTY LIMITED	23,248,321	7.91
CENTURIA INVESTMENT HOLDINGS	16,999,400	5.79
NATIONAL NOMINEES LIMITED	9,600,168	3.27
BNP PARIBAS NOMINEES PTY LTD	2,211,212	0.75
CENTURIA PROPERTY FUNDS NO 2	2,181,086	0.74
UBS NOMINEES PTY LTD	1,564,355	0.53
BRISLOT NOMINEES PTY LTD	1,410,482	0.48
AUSTRALIAN EXECUTOR TRUSTEES	1,259,302	0.43
HSBC CUSTODY NOMINEES	1,206,210	0.41
STANBOX NO 2 PTY LTD	1,170,000	0.40
MISS YVONNE CATHERINE LYNCH	1,103,148	0.38
HORRIE PTY LTD	996,500	0.34
BUTTONWOOD NOMINEES PTY LTD	847,000	0.29
BNP PARIBAS NOMS PTY LTD	780,497	0.27
NEWECONOMY COM AU NOMINEES	714,839	0.24
AMP LIFE LIMITED	631,247	0.22
NETWEALTH INVESTMENTS LIMITED	620,538	0.21
	<b>213,841,079</b>	<b>72.79</b>