

# Centuria

**Centuria Industrial REIT  
and its subsidiaries**

**ARSN 099 680 252**

**Annual Financial Report  
For the year ended 30 June 2020**

Centuria Property Funds No. 2 Limited ABN 38 133 363 185 is the Responsible Entity for Centuria Industrial REIT.

# Centuria Industrial REIT

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For the year ended 30 June 2020

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# Directors' report

## For the year ended 30 June 2020

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 2020 and the independent auditor's report thereon.

### Directors of the Responsible Entity

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

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

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

Name	Appointed
Anna Kovarik	05 Jul 2018

Refer to Note D2 of the annual financial report for directors' unit holdings in the Trust.

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

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

### Principal activities

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

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

The Trust did not have any employees during the 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 2020 was \$75,337,000 (30 June 2019: \$88,828,000).

As at 30 June 2020, the Trust's Net Tangible Assets ('NTA') was \$2.82 per unit, representing a 9.0 cents per unit ('cpu') increase from prior year (30 June 2019: \$2.73).

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

**Review of operations (continued)**

**Investment property valuations**

The total value of the Trust's portfolio as at 30 June 2020 was \$1,602.4 million (30 June 2019: \$1,221.3 million), an increase of 31.2% year on year.

The weighted average capitalisation rate for the portfolio firmed 41 basis points year on year to 6.05% as at 30 June 2020 (30 June 2019: 6.46%).

The COVID-19 pandemic has given rise to uncertainties with impact on key drivers used in the property valuation process including the appropriate capitalisation, discount rate as well as future cashflows. For the year ended 30 June 2020, the Trust has engaged external valuers to assess the valuations of 30 of its properties across the portfolio.

**Leasing and occupancy**

The Trust secured 122,008 square metres ('sqm') of leases across 27 transactions for the year ended 30 June 2020. This represented 12.6% of the portfolio's gross lettable area.

At 30 June 2020, the Trust's portfolio was 97.8% occupied with a Weighted Average Lease Expiry ('WALE') of 7.2 years. For the upcoming financial year ending 30 June 2021, lease expiries represent 5.4% of portfolio income.

**Capital management**

As at 30 June 2020, the Trust had a multi-bank debt facility totalling \$650.0 million (30 June 2019: \$520.0 million) with a weighted average expiry of 3.3 years (30 June 2019: 3.7 years). Drawn borrowings totalled \$454.4 million (30 June 2019: \$469.9 million), with an all in interest cost of 3.44% (30 June 2019: 3.90%) and 90.2% of the drawn debt fixed through swaps and fixed borrowings (30 June 2019: 76.6%). The Trust's gearing at 30 June 2020 was 27.2% (30 June 2019: 37.4%).

**Outlook**

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

Due to the on-going impacts of the COVID-19 pandemic, the Trust's FFO guidance for the year ending 30 June 2021 is expected to reduce to 17.4 cpu, 7.9% from financial year 2020. The distribution guidance for the year ending 30 June 2021 is expected to be 17.0 cpu which will be paid in equal quarterly instalments.

**Distributions**

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

	30 June 2020		30 June 2019	
	Cents per unit	\$'000	Cents per unit	\$'000
September quarter	4.675	14,086	4.60	11,424
December quarter	4.675	16,225	4.60	12,271
March quarter	4.675	16,244	4.60	12,271
June quarter	4.675	18,713	4.60	12,459
Total	18.700	65,268	18.40	48,425

Key dates in connection with the 30 June 2020 distribution are:

Event	Date
Ex-distribution date	29 Jun 2020
Record date	30 Jun 2020
Distribution payment date	10 Aug 2020

FFO for the year ended 30 June 2020 was \$63.5 million (30 June 2019: \$50.0 million), representing a 27.1% increase from prior year.

**Review of operations (continued)**

**Distributions (continued)**

The Trust paid distributions of 18.7 cpu during the 2020 financial year which was in line with guidance provided as part of the June 2019 year end result. The following table provides a reconciliation from the consolidated statement of profit or loss and other comprehensive income to the FFO for the year:

	30 June 2020 \$'000	30 June 2019 \$'000
<b>Net profit for the year</b>	<b>75,337</b>	88,828
<b>Adjustments:</b>		
Net (gain) on fair value of investment properties	(18,129)	(53,808)
Straight-lining of rental income	(7,508)	(2,281)
Rent free and abatement	5,430	1,972
Amortisation of incentives and leasing fees	4,129	4,185
Net loss on fair value of derivative financial instruments	2,477	3,581
Transaction costs	1,759	3,930
Net loss on fair value of investments in listed trusts	-	3,107
Advisory in relation to takeover defence	-	438
<b>Funds from operations</b>	<b>63,495</b>	49,952

The Trust issued 129.4 million units across September, December and June quarters to fund with the acquisition of new properties and loan repayments. These units were entitled to a distribution for the full quarter in which they were issued, however as the properties acquired were not owned for the entire quarter, the income received from these properties was less than the distribution paid for these periods. Accordingly, this has resulted in total distributions for the year being higher than the funds from operations.

**Distribution reinvestment plan**

The Trust has reactivated the September quarter, December 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 distributions 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 exchanged contracts to acquire the following three assets subsequent to 30 June 2020 for a total value of \$447.1 million:

- 1816-1832 Dandenong Road, Clayton VIC for \$416.7 million (plus costs);
- 144 Hartley Road, Smeaton Grange NSW for \$16.4 million (plus costs); and
- 51-73 Lambeck Drive, Tullamarine VIC for \$14.0 million (plus costs).

On 5 August 2020, the Trust announced its intention to raise \$340.0 million of new equity through an accelerated non-renounceable entitlement offer. The offer is expected to complete on 5 August 2020.

### Events subsequent to balance date (continued)

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

Victoria has reported increasing numbers of COVID-19 cases since early July 2020 and the Victorian government has subsequently announced a Stage 4 lockdown for Melbourne from 2 August 2020.

On 21 July 2020, the Government announced it is extending the JobKeeper Payment for a further six months until the end of March 2021 to support businesses that continue to be significantly impacted by COVID-19.

The Trust has continued to re-evaluate the significant inputs used to drive property valuations and recoverability of tenant arrears on a regular basis as detailed in Note C1 and C2. Based on these evaluations, the Trust has determined there are no material events which would give rise to an adjustment.

### 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 2020	30 June 2019
	\$'000	\$'000
Management fees	8,749	6,812
Property management fees	1,900	1,378
Facility management fees	272	214
Custodian fees	587	495
Leasing fees	505	867
Project management fees	357	182
Due diligence acquisition fees	175	150
	12,545	10,098

The Responsible Entity and/or its related parties have held units in the Trust during the financial year are 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 Note 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.

## Directors' report

### 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.

### Rounding 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



Roger Dobson  
Director

Sydney  
5 August 2020



# 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 2020 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

KPMG

Peter Zabaks

*Partner*

Sydney

5 August 2020



# Centuria Industrial REIT Annual Financial Report

For the year ended 30 June 2020

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# Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2020

	Note	30 June 2020 \$'000	30 June 2019 \$'000
<b>Revenue</b>			
Rent and recoverable outgoings	B2	118,163	93,863
<b>Total revenue from continuing operations</b>		<b>118,163</b>	<b>93,863</b>
<b>Other income</b>			
Interest income		70	195
Net gain on fair value of investment properties	C2	18,129	53,808
Other income		-	602
<b>Total other income</b>		<b>18,199</b>	<b>54,605</b>
<b>Total revenue from continuing operations and other income</b>		<b>136,362</b>	<b>148,468</b>
<b>Expenses</b>			
Rates, taxes and other property outgoings		27,560	22,293
Finance costs	B3	18,621	21,496
Management fees	D2	8,749	6,812
Other expenses		2,595	2,351
Loss on fair value of derivative financial instruments		2,477	3,581
Rental waivers expense		938	-
Expected credit loss expense	C1	85	-
Loss on fair value of financial assets held at fair value through profit or loss after transaction costs	C4	-	3,107
<b>Profit from continuing operations for the year</b>		<b>75,337</b>	<b>88,828</b>
<b>Net profit for the year</b>		<b>75,337</b>	<b>88,828</b>
<b>Other comprehensive income</b>			
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>	B4	<b>75,337</b>	<b>88,828</b>
<b>Basic and diluted earnings per unit</b>			
Basic earnings per unit (cents per unit)	B4	22.5	34.3

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 2020

	Note	30 June 2020 \$'000	30 June 2019 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	C11	17,078	9,348
Trade and other receivables	C1	5,805	7,029
Other assets		-	2,115
Investment properties held for sale	C3	11,300	11,400
<b>Total current assets</b>		<b>34,183</b>	<b>29,892</b>
<b>Non-current assets</b>			
Investment properties	C2	1,591,100	1,209,850
Intangibles	C5	10,501	10,501
<b>Total non-current assets</b>		<b>1,601,601</b>	<b>1,220,351</b>
<b>Total assets</b>		<b>1,635,784</b>	<b>1,250,243</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	C6	19,608	16,265
Distributions payable	B1	18,713	12,459
<b>Total current liabilities</b>		<b>38,321</b>	<b>28,724</b>
<b>Non-current liabilities</b>			
Borrowings	C7	452,401	468,431
Derivative financial instruments	C8	6,019	3,541
<b>Total non-current liabilities</b>		<b>458,420</b>	<b>471,972</b>
<b>Total liabilities</b>		<b>496,741</b>	<b>500,696</b>
<b>Net assets</b>		<b>1,139,043</b>	<b>749,547</b>
<b>EQUITY</b>			
Issued capital	C9	1,067,398	687,971
Retained earnings		71,645	61,576
<b>Total equity</b>		<b>1,139,043</b>	<b>749,547</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 2020

	Note	Issued capital \$'000	Retained earnings \$'000	Total equity \$'000
<b>Balance at 1 July 2018</b>		626,317	21,173	647,490
Net profit for the year		-	88,828	88,828
Total comprehensive income for the year		-	<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)
Balance at 30 June 2019		<b>687,971</b>	<b>61,576</b>	<b>749,547</b>
<b>Balance at 1 July 2019</b>		687,971	61,576	749,547
Net profit for the year		-	75,337	75,337
Total comprehensive income for the year		-	<b>75,337</b>	<b>75,337</b>
Units issued	C9	383,753	-	383,753
Dividend reinvestment plan ('DRP')	C9	4,950	-	4,950
Equity raising costs	C9	(9,276)	-	(9,276)
Distributions provided for or paid	B1	-	(65,268)	(65,268)
Balance at 30 June 2020		<b>1,067,398</b>	<b>71,645</b>	<b>1,139,043</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 2020

	30 June 2020	30 June 2019
Note	\$'000	\$'000
<b>Cash flows from operating activities</b>		
Receipts from customers	122,986	99,898
Payments to suppliers	(36,737)	(33,752)
Distribution received	-	1,722
Interest received	70	195
Interest paid	(20,984)	(17,800)
<b>Net cash generated by operating activities</b>	<b>65,335</b>	<b>50,263</b>
C11		
<b>Cash flows from investing activities</b>		
Payments for investment properties	(361,587)	(171,306)
Net proceeds from sale of investment properties	-	10,028
Proceeds from sale of investments held at fair value through profit or loss	-	46,229
<b>Net cash used in investing activities</b>	<b>(361,587)</b>	<b>(115,049)</b>
<b>Cash flows from financing activities</b>		
Distribution paid	(54,064)	(44,684)
Proceeds from borrowings	187,051	140,945
Repayment of borrowings	(202,593)	(100,748)
Payments for borrowing costs	(971)	(882)
Proceeds from issue of units	383,753	59,909
Equity issue costs	(9,194)	(1,583)
<b>Net cash generated by financing activities</b>	<b>303,982</b>	<b>52,957</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		
	<b>7,730</b>	<b>(11,829)</b>
Cash and cash equivalents at beginning of financial year	9,348	21,177
<b>Cash and cash equivalents at end of financial year</b>	<b>17,078</b>	<b>9,348</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 2020

## 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 ('CPF2L'), the Responsible Entity, on 5 August 2020.

#### 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 the 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.

The COVID-19 pandemic creates uncertainty on the global and local financial market and it affects the ability of impacted tenants to meet their rental obligations. The Trust has completed an extensive assessment on trade receivables and the directors remain confident that the Trust will be able to continue as a going concern. Refer to Note C1.

#### (ii) Net current liability position

The directors of the Responsible Entity note that the Trust is in a net current liability position of \$4.1 million and the parent entity is in net current liability position of \$19.8 million as at 30 June 2020. Given the Trust and the parent entity has the ability to draw from the \$195.6 million of available funds in the facility to fund working capital requirements, has a 3.3 years weighted average debt expiry and given the future cash generating potential of the Trust, the directors of the Responsible Entity expect the Trust will be able to pay its debts as and when they fall due.

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

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

#### Rounding of amounts

The 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.

### A2 COVID-19 Pandemic

#### Background

COVID-19 was declared a worldwide pandemic by the World Health Organisation in March 2020. COVID-19, as well as measures to slow the spread of the virus, have since had a significant impact on global financial markets. Governments across the globe have enforced restrictions to limit the spread of the virus, with most governments having implemented economic stimulus packages. Despite these measures, there is still considerable economic uncertainty, especially with the perceived threat of a 'second wave' outbreak, and fears of a sustained recession.

COVID-19 has presented a fast evolving and significant challenge to global and local economies. The real estate sector specifically has been impacted by concerns surrounding security of income and uncertainty around property valuations. In addition, this uncertainty and associated market volatility has resulted in a significant slowdown of transactional activity and investment in most real estate markets.

The Trust has considered the impact of COVID-19 and other market volatility in preparing its financial statements. While the specific areas of judgement as noted in Note A3 did not change, the impact of COVID-19 resulted in the application of further judgement within those identified areas. Given the evolving nature of COVID-19 and the limited recent experience of the economic and financial impacts of such a pandemic, changes to the estimates and outcomes that have been applied in the measurement of the Trust's assets and liabilities may arise in the future. Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods.

#### Processes applied

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

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

The Responsible Entity has continued to re-evaluate the significant inputs used to drive property valuations and recoverability of tenant arrears on a regular basis as detailed in Note C1 and C2. Based on these evaluations, the Responsible Entity has determined there are no material events which would give rise to an adjustment.

#### Consideration of the statements of financial position and further disclosures

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

##### **(a) Trade and other receivables**

The COVID-19 pandemic creates volatility on the global financial market and it affects the ability of impacted tenants to meet their rental obligations. The Trust has completed an extensive assessment on trade receivables to determine the recoverability of rental income. Refer to Note C1.

##### **(b) Investment properties**

As a result of COVID-19, there is significant valuation uncertainty as a result of a contracted property investment market and less transactional evidence in the current uncertain market. Assessing the fair value of investment property involves uncertainties around underlying assumptions given the constantly changing nature of the situation. Refer to Note C2.

##### **(c) Intangible assets**

The Trust has tested goodwill and indefinite life intangible assets for impairment. Such assessment incorporated consideration of COVID-19. Refer to Note C5.

##### **(d) Financial instruments**

Given recent market volatility as a result of COVID-19, the Trust reviewed the appropriateness of inputs to its valuations of financial instruments including receivables, payables and derivative instruments. The impact of changes of inputs to the valuations has also been considered in terms of the classification of exposures in the fair value hierarchy and transfers within the fair value hierarchy. Refer to Note E2.

## About the report

### A3 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 2019 unless specifically outlined below or in the relevant notes to the consolidated financial statements with the exception of the adoption of AASB 16 *Leases*.

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.

#### **AASB 16 Leases**

The Trust has adopted AASB at 1 July 2019. AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases.

AASB 16 was issued in February 2016. It has resulted 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 has no significant change.

#### **(a) Impact**

The standard affects primarily the accounting for the Trust's operating leases. As at the reporting date, two of the Trust's investment properties have non-cancellable operating lease commitments (refer to Note C2). However, these have no material impact to the Trust's financial position, profit and classification of cash flows.

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

Changes in the accounting policies resulting from the adoption of AASB 16 has been applied retrospectively.

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

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 2020		30 June 2019	
	Cents per unit	\$'000	Cents per unit	\$'000
September quarter	4.675	14,086	4.60	11,424
December quarter	4.675	16,225	4.60	12,271
March quarter	4.675	16,244	4.60	12,271
June quarter	4.675	18,713	4.60	12,459
Total	18.700	65,268	18.40	48,425

Key dates in connection with the 30 June 2020 distribution are:

Event	Date
Ex-distribution date	29 Jun 2020
Record date	30 Jun 2020
Distribution payment date	10 Aug 2020

#### Distribution and taxation

Under current Australian income tax legislation, the Trust is not liable for income tax for the financial year as the Trust has fully distributed its distributable income as determined under the Trust's constitution, whilst its unitholders are presently entitled to the income.

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 2020	30 June 2019
	\$'000	\$'000
Rental income	92,120	77,798
Recoverable outgoings	18,535	13,784
Straight-lining of lease revenue	7,508	2,281
	118,163	93,863

#### 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.

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

## Trust performance

### B2 Revenue (continued)

#### Recognition and measurement (continued)

##### (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.

##### (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.

### 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 2020 \$'000	30 June 2019 \$'000
Interest expense	16,510	17,710
Derivative instrument break costs	1,634	2,644
Amortisation of borrowing costs	477	1,142
	<u>18,621</u>	<u>21,496</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 exclusive of goods and services tax ('GST') which is 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 with the amount of GST included. 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 2020	30 June 2019
Basic earnings per unit (cents per unit)	22.5	34.3
Earnings used in calculating basic earnings per unit (\$'000)	75,337	88,828
Weighted average number of units ('000)	335,575	258,670

## C Trust's assets and liabilities

### C1 Trade and other receivables

	30 June 2020 \$'000	30 June 2019 \$'000
<b>Current</b>		
Trade debtors	2,284	3,069
Expected credit loss provision	(85)	-
Other current receivables	3,606	3,960
	<u>5,805</u>	<u>7,029</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.

Refer to the policy application below for further details.

#### 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 COVID-19 pandemic has created volatility in the global financial market and some impacted tenants may not be able to meet their rental obligations. On 7 April 2020, the National Cabinet announced the Mandatory Code of Conduct for Commercial Tenancies (the 'Code') which has been implemented by each of the States and Territories. The Trust has applied the Code across all assets and granted applicable tenants relief packages to alleviate the impacts of COVID-19 in the form of rent waivers or deferrals.

The Trust has followed the Code in determining which tenants are applicable for rent relief. The criteria include:

- Eligibility for JobKeeper
- Annual turnover up to \$50 million
- Revenue impacted by greater than 30%

Rent relief has been provided in the form of rent waivers and deferrals, with no less than 50% of relief provided as a waiver. Waivers relating to the 2020 financial year which were agreed with the qualifying tenant retrospectively have been expensed immediately in the 2020 financial year. Waiver negotiations for future occupancy will be spread over the remaining lease term and recognised on a straight line basis.

As at 30 June 2020, the Trust has provided \$0.9 million in rental waivers and a further ECL provision for the Trade receivables balance of \$0.1 million across rental income receivable and tenant outgoing recoveries.

Given that COVID-19 is an ongoing situation, The Responsible Entity has continued to analyse the age of outstanding receivable balances post balance sheet date and applied estimated percentages of recoverability by tenant adjusted for waivers and deferrals granted, other current observable data as a means to estimate ECL, as well as the financial stress of counterparties and their ability to operate as a going concern. Debts that are known to be uncollectible are written off when identified.

## Trust's assets and liabilities

### C2 Investment properties

		30 June 2020 \$'000	30 June 2019 \$'000
<b>Opening balance</b>	Note	1,209,850	999,000
Purchase price of investment properties		310,284	147,360
Stamp duty and other transaction costs		21,569	8,626
Capital improvements and associated costs		11,512	7,879
Capital developments and associated costs		11,163	-
		<u>354,528</u>	<u>163,865</u>
Net gain on fair value of investment properties		18,129	53,808
Add back: fair value loss on investment properties held for sale	C3	100	-
Gain on fair value of investment properties		<u>18,229</u>	<u>53,808</u>
Change in deferred rent and lease incentives		8,455	2,903
Change in capitalised leasing fees		38	1,674
Closing gross balance		<u>1,591,100</u>	<u>1,221,250</u>
Transfer to investment properties held for sale		-	(11,400)
<b>Closing balance<sup>^</sup></b>		<u>1,591,100</u>	<u>1,209,850</u>

<sup>^</sup> The carrying amount of investment properties includes components related to deferred rent, capitalised lease incentives and leasing fees amounting to \$32.8 million (2019: \$24.4 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 2020 \$'000	30 June 2019 \$'000
Less than one year	100,183	79,711
Between one and five years	288,126	224,944
More than five years	577,334	96,100
	<u>965,643</u>	<u>400,755</u>

## Trust's assets and liabilities

### C2 Investment properties (continued)

Property	Fair value		Capitalisation rate		Discount rate		Valuer	Last independent valuation date
	30 June 2020 \$'000	30 June 2019 \$'000	30 June 2020 %	30 June 2019 %	30 June 2020 %	30 June 2019 %		
<b>QLD</b>								
46 Robinson Road East, Virginia QLD	211,800	-	5.00	-	6.75	-	Directors	Dec 2019
22 Hawkins Cres, Bundamba QLD	47,400	47,000	6.25	6.50	6.50	7.50	Independent	Jun 2020
1 Ashburn Rd, Bundamba QLD	41,250	38,250	6.25	6.50	7.25	7.25	Independent	Jun 2020
136 Zillmere Rd, Boondall QLD	32,500	31,600	6.50	6.75	6.75	7.00	Independent	Jun 2020
33-37 Mica St, Carole Park QLD	31,800	30,250	6.25	6.50	7.25	7.50	Independent	Jun 2020
149 Kerry Rd, Archerfield QLD	30,800	30,600	5.75	6.00	6.50	6.75	Independent	Jun 2020
69 Rivergate Pl, Murarrie QLD	28,500	31,000	6.00	6.25	7.00	7.00	Independent	Jun 2020
21 Jay St, Mount St John, Townsville QLD*	28,300	11,000	6.75	7.50	8.00	7.75	Independent	Jun 2020
46 Gosport St, Hemmant QLD	23,000	17,000	7.00	7.75	7.75	7.75	Independent	Jun 2020
680 Boundary St, Richlands QLD	19,750	-	6.75	-	7.25	-	Directors	Jun 2019
616 Boundary Rd, Richlands QLD	16,700	16,500	6.50	7.25	7.25	7.25	Independent	Jun 2020
24 West Link Place, Richlands QLD	8,000	-	6.50	-	7.00	-	Directors	Nov 2019
42 Hoepner Road, Bundamba QLD	4,300	-	-	-	-	-	Independent	Jun 2020
43-45 Mica St, Carole Park QLD	1,800	1,850	6.50	6.00	-	-	Independent	Jun 2020
<b>NSW</b>								
2 Woolworths Way, Warnervale NSW	74,000	81,250	7.00	7.00	7.00	7.75	Independent	Jun 2020
10 Williamson Rd, Ingleburn NSW	53,400	49,000	5.50	5.75	6.75	6.75	Directors	Dec 2019
29 Glendenning Rd, Glendenning NSW	52,500	45,700	5.00	5.50	6.25	7.00	Independent	Jun 2020
92-98 Cosgrove Rd, Enfield NSW	50,500	50,000	5.75	5.75	6.50	6.50	Directors	Jun 2019
12 Williamson Rd, Ingleburn NSW	38,500	39,200	6.00	6.00	6.50	7.25	Directors	Dec 2019
74-94 Newton Rd, Wetherill Park NSW	37,000	36,750	5.50	5.75	6.50	6.50	Directors	Jun 2019
37-51 Scrivener St, Warwick Farm NSW	36,750	36,750	6.50	6.50	7.00	7.00	Directors	Jun 2019
457 Waterloo Rd, Chullora NSW	34,000	29,500	5.25	5.75	6.50	6.75	Directors	Dec 2019
6 Macdonald Rd, Ingleburn NSW	25,100	25,000	5.50	5.50	6.50	6.50	Directors	Jun 2019
8 Penelope Cres, Arndell Park NSW	21,750	21,700	5.50	5.50	6.50	6.75	Directors	Jun 2019
30 Clay Pl, Eastern Creek NSW	19,500	19,000	5.25	5.50	6.25	6.75	Independent	Jun 2020
52-74 Quarry Rd, Erskine Park NSW	18,000	17,600	5.50	6.00	6.50	6.75	Directors	Dec 2019
75 Owen St, Glendenning NSW	9,700	8,600	5.50	6.00	6.50	7.00	Directors	Dec 2019

## Trust's assets and liabilities

### C2 Investment properties (continued)

Property	Fair value		Capitalisation rate		Discount rate		30 June 2020 Valuer	Last independent valuation date
	30 June 2020 \$'000	30 June 2019 \$'000	30 June 2020 %	30 June 2019 %	30 June 2020 %	30 June 2019 %		
<b>VIC</b>								
207-219 Browns Rd, Noble Park VIC	<b>45,300</b>	44,300	<b>6.25</b>	6.25	<b>7.25</b>	7.50	Directors	Jun 2019
1 International Drive, Westmeadows VIC	<b>43,500</b>	43,500	<b>6.75</b>	6.75	<b>7.25</b>	7.25	Directors	Jun 2019
102-128 Bridge Rd, Keysborough VIC	<b>38,500</b>	30,700	<b>6.50</b>	7.00	<b>7.00</b>	7.50	Independent	Jun 2020
324-332 Frankston-Dandenong Rd, Dandenong South VIC	<b>34,250</b>	33,500	<b>5.75</b>	6.00	<b>6.75</b>	7.00	Independent	Jun 2020
24-32 Stanley Dr, Somerton VIC	<b>31,700</b>	31,500	<b>6.25</b>	6.25	<b>7.00</b>	7.00	Directors	Jun 2019
2 Keon Pde, Keon Park VIC	<b>27,750</b>	25,500	<b>5.50</b>	5.75	<b>6.50</b>	7.00	Independent	Jun 2020
75-79 and 105 Corio Quay Rd, North Geelong VIC	<b>27,500</b>	-	<b>6.00</b>	-	<b>7.00</b>	-	Directors	Dec 2019
69 Studley Ct, Derrimut VIC	<b>27,000</b>	21,500	<b>5.75</b>	6.50	<b>6.50</b>	7.50	Independent	Jun 2020
500 Princes Hwy, Noble Park VIC	<b>24,250</b>	21,000	<b>6.50</b>	7.25	<b>6.75</b>	7.50	Independent	Jun 2020
14-17 Dansu Ct, Hallam VIC	<b>21,700</b>	21,500	<b>6.50</b>	6.50	<b>7.00</b>	7.00	Independent	Jun 2020
12-13 Dansu Ct, Hallam VIC	<b>19,100</b>	18,000	<b>5.50</b>	5.75	<b>6.75</b>	7.00	Directors	Jun 2019
49 Temple Dr, Thomastown VIC	<b>15,600</b>	13,000	<b>6.25</b>	6.75	<b>7.00</b>	7.25	Independent	Jun 2020
9 Fellowes Ct, Tullamarine VIC	<b>5,100</b>	4,500	<b>6.50</b>	6.75	<b>6.50</b>	7.00	Directors	Dec 2019
<b>WA</b>								
310 Spearwood Ave, Bibra Lake WA	<b>55,500</b>	54,750	<b>7.00</b>	7.50	<b>7.50</b>	7.75	Independent	Jun 2020
Lot 14 Sudlow Rd, Bibra Lake WA	<b>34,500</b>	33,800	<b>7.00</b>	7.50	<b>7.50</b>	8.00	Independent	Jun 2020
23 Selkis Rd, Bibra Lake WA	<b>19,500</b>	20,200	<b>7.25</b>	7.50	<b>7.75</b>	7.50	Independent	Jun 2020
16-18 Baile Rd, Canning Vale WA	<b>18,100</b>	18,100	<b>7.00</b>	7.00	<b>7.00</b>	7.00	Directors	Dec 2018
103 Stirling Crescent, Hazelmere WA	<b>15,600</b>	15,400	<b>6.75</b>	6.75	<b>7.00</b>	7.25	Independent	Jun 2020
92 Robinson Rd, Belmont WA	<b>10,250</b>	11,400	<b>7.25</b>	7.25	<b>7.50</b>	7.75	Independent	Jun 2020
155 Lakes Road, Hazelmere WA	<b>8,000</b>	8,700	<b>6.75</b>	6.75	<b>7.25</b>	7.00	Independent	Jun 2020

## Trust's assets and liabilities

### C2 Investment properties (continued)

Property	Fair value		Capitalisation rate		Discount rate		30 June 2020 Valuer	Last independent valuation date
	30 June 2020 \$'000	30 June 2019 \$'000	30 June 2020 %	30 June 2019 %	30 June 2020 %	30 June 2019 %		
<b>SA</b>								
23-41 Galway Avenue, Marleston SA	24,500	-	7.25	-	8.00	-	Directors	Dec 2019
32-54 Kaurna Avenue, Edinburgh Park SA	19,500	-	7.00	-	8.00	-	Directors	Jun 2019
9-13 Caribou Dr, Direk SA	8,800	7,800	7.25	8.50	7.75	8.75	Independent	Jun 2020
<b>ACT</b>								
54 Sawmill Cct, Hume ACT*	19,000	16,100	6.00	6.75	6.25	6.75	Independent	Jun 2020
	<b>1,591,100</b>	<b>1,209,850</b>						

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

During the year, the Trust acquired 680 Boundary Road, Richlands QLD, 75-79 and 105 Corio Quay Road, North Geelong VIC, 32-54 Kaurna Ave, Edinburgh Park SA, 46 Robinson Road East, Virginia QLD, 23-41 Galway Avenue, Marleston SA, 24 West Link Place, Richlands QLD and 42 Hoepner Road Bundamba QLD.

The Trust's weighted average capitalisation rate for the year is 6.05% (2019: 6.46%).



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

Given the changing economic conditions as a result of the COVID-19 pandemic, there is uncertainty surrounding the potential impact on future cashflows and valuations. Rent relief allowances in accordance with the Code which sets out commercial leasing principles for businesses during the pandemic were taken into consideration when determining the cashflows for the property, however actual future cashflows may differ from this. The Trust factors additional considerations, including increase in downtime, incentive allowances, reduction in rental growth and rental relief in line with the Code when determining property valuations. The Trust has externally valued 30 properties in its property portfolio at 30 June 2020.

The valuations were prepared by considering the following valuation methodologies:

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

The valuations reflect, 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).

## Trust's assets and liabilities

### C2 Investment properties (continued)

#### Fair value measurement (continued)

Significant unobservable inputs	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input	Range of inputs	
			30 June 2020	30 June 2019
Market rent	Increase	Decrease	\$31 - \$195	\$30 - \$206
Capitalisation rate	Decrease	Increase	5.00% - 7.75%	5.50% - 8.50%
Discount Rate	Decrease	Increase	6.25% - 8.00%	6.50% - 8.75%

The above unobservable inputs are considered significant Level 3 inputs. Refer to Note E2 for further information.

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

Fair Value at 30 June 2020 \$'000	Capitalisation rate impact	
	+0.25% \$'000	-0.25% \$'000
1,602,400	(63,500)	69,100

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

### C3 Investment properties 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 2020 \$'000	30 June 2019 \$'000
99 Quill Way, Henderson WA	11,300	11,400
	<b>11,300</b>	<b>11,400</b>

#### 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 the 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.

### C4 Investments in listed trusts

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

## Trust's assets and liabilities

### C4 Investments in listed trusts (continued)

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 \$46.2 million.

	30 June 2020 \$'000	30 June 2019 \$'000
<b>Current</b>		
<b>Investment in Propertylink Group ('PLG')</b>		
Opening balance	-	49,337
Loss on fair value	-	(3,107)
Disposal at fair value (less transaction costs)	-	(46,230)
<b>Closing balance</b>	<b>-</b>	<b>-</b>

### 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.

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.

## Trust's assets and liabilities

### C5 Intangibles

#### Goodwill

	30 June 2020 \$'000	30 June 2019 \$'000
Goodwill - at cost	10,501	10,501
	<u>10,501</u>	<u>10,501</u>

#### Indefinite life of controlling interest

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

#### Goodwill

Goodwill recognised 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.

#### 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 2020 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 \$170.9 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 2020 (2019: nil).

### C6 Trade and other payables

	30 June 2020 \$'000	30 June 2019 \$'000
<b>Current</b>		
Trade creditors and expenses payable	3,700	3,906
Other current creditors and accruals	15,908	12,359
	<u>19,608</u>	<u>16,265</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 have not been paid. Distributions paid are included in cash flows from financing activities in the consolidated statement of cash flows.

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).

## Trust's assets and liabilities

### C7 Borrowings

	30 June 2020 \$'000	30 June 2019 \$'000
<b>Non-current</b>		
Secured loan - fixed	250,000	150,000
Secured loan - variable	204,407	319,949
Borrowing costs	(2,006)	(1,518)
	<u>452,401</u>	<u>468,431</u>

As at 30 June 2020, the Trust had the following secured debt facilities:

<b>Secured loan facilities</b>		
Facilities limit	650,000	520,000
Facilities unused	(195,593)	(50,051)
<b>Facilities used</b>	<u>454,407</u>	<u>469,949</u>
Interest rate swaps	160,000	210,000
Fixed rate borrowings	250,000	150,000
<b>Hedged amount</b>	<u>410,000</u>	<u>360,000</u>

As at 30 June 2020, the Trust had \$250.0 million (2019: \$150.0 million) of fixed rate loan and \$160.0 million (2019: \$210.0 million) of interest rate swaps hedged against its drawn debt. At the end of the reporting period, the Trust's debt facilities are on a fixed interest basis is \$410.0 million (2019: \$360.0 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 liabilities \$'000
<b>30 June 2020</b>				
Extendible interest rate swap*	27 Jun 22	0.98%	110,000	(2,852)
Interest rate swap	28 Dec 23	2.14%	50,000	(3,167)
			<u>160,000</u>	<u>(6,019)</u>
<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)
			<u>210,000</u>	<u>(3,541)</u>

\* The bank has a right to exercise an option to 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.

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 2020		30 June 2019	
	Units '000	\$'000	Units '000	\$'000
Opening balance	270,847	687,971	248,357	626,317
Units issued	127,921	383,753	18,400	50,967
Distribution reinvestment plan ('DRP')	1,507	4,950	4,090	12,270
Equity raising costs	-	(9,276)	-	(1,583)
<b>Closing balance</b>	<b>400,275</b>	<b>1,067,398</b>	<b>270,847</b>	<b>687,971</b>

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.

## Trust's assets and liabilities

### 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 2020.

### C11 Cash and cash equivalents

	30 June 2020 \$'000	30 June 2019 \$'000
Cash and cash equivalents	17,078	9,348
	<u>17,078</u>	<u>9,348</u>

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

<b>Net profit for the year</b>	<b>75,337</b>	88,828
<b>Adjustments:</b>		
Net gain on fair value of investment properties	(18,129)	(53,808)
Net loss on fair value of listed investments	-	3,107
Loss on fair value of derivatives	2,477	3,581
Change in deferred rent and lease incentives	(4,581)	467
Change in capitalised leasing fees	1,202	1,436
Borrowing cost amortisation	477	1,142
<b>Changes in operating assets and liabilities:</b>		
Decrease/(increase) in receivables	928	(3,350)
Decrease in other assets	296	2,930
Increase in payables	7,328	5,930
<b>Net cash generated by operating activities</b>	<b>65,335</b>	<b>50,263</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. Refer to Note C4 for details of management's assessment.

##### *(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 2020 %	30 June 2019 %
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. The directors of the Responsible Entity are key management personnel of that entity and their names are:

Roger Dobson	
Peter Done	
Nicholas Collishaw	
Natalie Collins	Appointed 29 July 2020
Darren Collins	Resigned 29 July 2020
Matthew Hardy	Resigned 29 July 2020

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.

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 2020 \$'000	30 June 2019 \$'000
Management fees	8,749	6,812
Property management fees	1,900	1,378
Facility management fees	272	214
Custodian fees	587	495
Leasing fees	505	867
Project management fees	357	182
Due diligence acquisition fees	175	150
	<b>12,545</b>	<b>10,098</b>

At reporting date an amount of \$2,071,840 (2019: \$1,009,134) owing to the Responsible Entity and its related parties was included in trade and other payables. The payables are non-interest bearing with payment terms and conditions consistent with normal commercial practices.

All transactions with related parties are conducted on 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.

#### Related party investments held by the Fund

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

#### Units in the Trust held by related parties

At 30 June 2020, the following related parties of the Responsible Entity hold units in the Trust:

	Closing units held	Closing interest held
<b>30 June 2020</b>		
Centuria Capital No. 2 Industrial Fund	48,898,176	12.22%
Centuria Capital No. 5 Fund	16,999,400	4.25%
Centuria Property Funds No. 2 Limited	2,181,086	0.54%
Centuria Growth Bond Fund	704,725	0.18%
Centuria Balanced Fund	382,501	0.10%
Roger Dobson	18,000	-%
	<b>69,183,888</b>	<b>17.29%</b>
<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%
	<b>65,404,646</b>	<b>24.16%</b>

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

## Trust structure

### D2 Related parties (continued)

#### Other transactions within the Trust

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

### D3 Parent entity disclosures

As at, and throughout the current and previous financial year, the parent entity of the Trust was CIP. The table below represents the stand alone financial position and performance of CIP 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 2020 \$'000	30 June 2019 \$'000
<b>Financial position</b>		
<b>Assets</b>		
Current assets	12,374	12,821
Non-current assets	1,617,309	1,231,553
<b>Total assets</b>	<b>1,629,683</b>	<b>1,244,374</b>
<b>Liabilities</b>		
Current liabilities	32,220	22,854
Non-current liabilities	458,420	471,973
<b>Total liabilities</b>	<b>490,640</b>	<b>494,827</b>
<b>Net assets</b>	<b>2,120,323</b>	<b>1,739,201</b>
<b>Equity</b>		
Issued capital	1,067,398	687,971
Retained earnings	71,645	61,576
<b>Total equity</b>	<b>1,139,043</b>	<b>749,547</b>
<b>Financial performance</b>		
Profit for the year	75,337	88,828
<b>Total comprehensive income for the year</b>	<b>75,337</b>	<b>88,828</b>

## E Other notes

### E1 Auditor's remuneration

	30 June 2020 \$'000	30 June 2019 \$'000
<b>KPMG:</b>		
Audit and review of financials	205	169
Property due diligence services & advice	50	40
	<b>255</b>	<b>209</b>

### E2 Financial instruments

The directors of the Responsible Entity consider that the carrying amount of the financial assets and financial liabilities approximate their fair value in the financial statements with the exception of fixed rate borrowings. Carrying value of fixed rate borrowing is \$250.0 million and the fair value is \$260.9 million at 30 June 2020. All financial instruments are measured at amortised cost with the exception of the derivative financial instruments. Derivative financial instruments are measured at fair value and have a level 2 designation in the fair value hierarchy. There were no transfers between levels of the fair value hierarchy during the period.

Independent valuations are obtained from third parties to support the fair value measurement of financial instruments at each reporting date to meet the requirements of International Financial Reporting Standards.

#### (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.

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.

#### 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.

## Other notes

### E2 Financial instruments (continued)

#### 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:

	30 June 2020		30 June 2019	
	Effective interest rate	Total \$'000	Effective interest rate	Total \$'000
<b>Financial assets</b>				
Cash and cash equivalents	0.01%	17,078	0.55%	9,348
		<u>17,078</u>		<u>9,348</u>
<b>Financial liabilities</b>				
Borrowings - fixed (excluding borrowing costs)	3.59%	250,000	3.99%	150,000
Borrowings - variable (excluding borrowing costs)	2.31%	204,407	3.18%	319,949
Interest rate swaps	1.19%	6,019	0.25%	3,541
		<u>460,426</u>		<u>473,490</u>

**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 (2019: 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 2020</b>			
Net (loss)/profit	100 bps	<u>4,660</u>	<u>(5,846)</u>
		<u>4,660</u>	<u>(5,846)</u>
<b>30 June 2019</b>			
Net (loss)/profit	100 bps	<u>6,509</u>	<u>(7,552)</u>
		<u>6,509</u>	<u>(7,552)</u>

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

**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 2020, the main financial assets exposed to credit risk are trade receivables. There were no significant concentrations of credit risk to counterparties at 30 June 2020. 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.

The Trust assessed the collectability of trade receivables impacted by the COVID-19 pandemic, refer to Note C1 for the details of testing.

**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.

## Other notes

### 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 2020</b>					
Trade and other payables	-%	38,321	38,321	-	-
Borrowings	3.01%	499,058	13,700	380,903	104,455
Derivative financial instruments	1.19%	5,306	1,911	1,903	1,492
		<b>542,685</b>	<b>53,932</b>	<b>382,806</b>	<b>105,947</b>
<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>

The principal amounts included in the above borrowings is \$452.4 million (2019: \$468.0 million).

### E3 Events subsequent to reporting date

The Trust exchanged contracts to acquire the following three assets subsequent to 30 June 2020 for a total value of \$447.1 million:

- 1816-1832 Dandenong Road, Clayton VIC for \$416.7 million (plus costs);
- 144 Hartley Road, Smeaton Grange NSW for \$16.4 million (plus costs); and
- 51-73 Lambeck Drive, Tullamarine VIC for \$14.0 million (plus costs).

On 5 August 2020, the Trust announced its intention to raise \$340 million of new equity through an accelerated non-renounceable entitlement offer. The offer is expected to complete on 5 August 2020.

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

Victoria has reported increasing numbers of COVID-19 cases since early July 2020 and the Victorian government has subsequently announced a Stage 4 lockdown for Melbourne from 2 August 2020.

On 21 July 2020, the Government announced it is extending the JobKeeper Payment for a further six months until the end of March 2021 to support businesses that continue to be significantly impacted by COVID-19.

The Trust has continued to re-evaluate the significant inputs used to drive property valuations and recoverability of tenant arrears on a regular basis as detailed in Note C1 and C2. Based on these evaluations, the Trust has determined there is are no material events which would give rise to an adjustment.

### E4 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 2020

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 37 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 2020 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



Roger Dobson  
Director

Sydney  
5 August 2020





# 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 2020 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 2020
- 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 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 (including Independence Standards)* (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 property (\$1,591.1m) and investment property held for sale (\$11.3m)	
Refer to Note C2 to the Financial Report	
The key audit matter	How the matter was addressed in our audit
<p>The valuation of investment property is a key audit matter as they are significant in value (being 98% of total assets) and contain assumptions with estimation uncertainty.</p> <p>The properties being valued at fair value increased the judgment applied by us when evaluating evidence available. This was further heightened with the existence of the COVID-19 pandemic, decreasing depth of market transactions which are ordinarily strong sources of evidence regarding fair value, along with greater concerns of the ability of tenants to meet lease obligations.</p> <p>The Group approached the heightened uncertainty risk using internal methodologies and through the use of external valuation experts. This necessitated additional audit procedures and effort to evaluate the multiple methods and the amplified approach, including assessing the Group's properties using a COVID-19 lens, which included consideration of tenant covenant strength, weighted average lease expiries, incentives, letting up allowances and whether tenant relief has been requested.</p> <p>We focused on the significant forward looking assumption the Group applied in external and internal valuation models with particular considerations to the impact of COVID-19 including:</p> <ul style="list-style-type: none"> <li>● Discount rates: these are complicated in nature and differ due to the asset classes, geographies and characteristics of individual investment properties;</li> <li>● Capitalisation rates (cap rates): reflects the yield that an investor would look to recover their investment in a particular class of asset. COVID-19 has resulted in transactional evidence and other market data points being difficult to obtain; and</li> <li>● Forecast cash flows, including: market rental income, leasing and rental relief assumptions. These assumptions are more judgemental because the extent of the</li> </ul>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>● Understanding the Group's process regarding the valuation of investment property, including specific considerations of the impact of COVID-19 and the resulting valuation approach;</li> <li>● Assessing the Group's methodologies used in the valuations of investment property for consistency with accounting standards and Group policies;</li> <li>● Assessing the scope, competence and objectivity of external experts engaged by the Group and internal valuers;</li> <li>● For the total portfolio, taking into account the asset classes, geographies and characteristics of individual investment properties, we assessed the appropriateness of adopted discount and cap rates and market rental income through comparison to market analysis published by industry experts, recent market transactions, other market data points available, inquiries with the Group and historical performance of the investment properties.</li> <li>● Assessing the appropriateness of the Group's leasing and rental relief assumptions against each property's actual rental income, the rental relief schedules maintained by management, weighted average lease expiry, actual vacancy levels, the Group's tenant credit risk assessment and expected rental relief arrangements with consideration of industry views;</li> <li>● Consulting with our real estate valuation specialists: <ul style="list-style-type: none"> <li>○ To gain an understanding of prevailing market conditions, including existence of market transactions,</li> <li>○ Assess the appropriateness of the property valuation risk profiles and approach to evaluating the appropriateness of valuation</li> </ul> </li> </ul>

<p>uncertainty of how COVID-19 may impact on future tenant cash flows and leasing activity.</p> <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>We paid particular attention to knowledge and sources of information available regarding market conditions specific to year end.</p>	<p>assumptions, and</p> <ul style="list-style-type: none"> <li>○ On a sample basis, assess the appropriateness of significant individual property valuations based on specific assumptions.</li> <li>● Held discussions with external valuers to gain further understanding of specific investment property valuations and underlying assumptions adopted and updated market conditions;</li> <li>● Assessing the disclosures in the financial report including checking the sensitivity analysis calculations, using our understanding obtained from our testing, against accounting standard requirements. This was considered in light of changes and uncertainties of COVID-19 that existed at balance date and up until issuance of our audit report.</li> </ul>
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## 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 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.

KPMG

KPMG

Peter Zabaks

*Partner*

Sydney

5 August 2020

## **Corporate Governance Statement**

The corporate governance statement for the Trust was last updated on 3 September 2019 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 2020

### Distribution of units

Holding	Number of units	Number of holders	Percentage of total (%)
1 - 1000	280,213	717	0.07
1,001 - 5,000	6,809,017	2,161	1.70
5,001 - 10,000	13,590,196	1,796	3.40
10,001 - 100,000	56,588,704	2,415	14.13
100,001 and over	323,006,855	99	80.70
	<b>400,274,985</b>	<b>7,188</b>	<b>100.00</b>

### Substantial unitholders

	Number of units	Percentage of total (%)
CENTURIA CAPITAL GROUP	69,165,888	17.28
THE VANGUARD GROUP	28,821,513	7.20
PENDAL GROUP LIMITED	23,671,063	5.91
<b>Total</b>	<b>121,658,464</b>	<b>30.39</b>

### Voting rights

All units carry one vote per unit without restriction.

### Top 20 unitholders

	Number of units	Percentage of total (%)
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	99,924,877	24.96
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	51,297,743	12.82
CENTURIA INVESTMENT HOLDINGS PTY LIMITED	45,136,934	11.28
CITICORP NOMINEES PTY LIMITED	42,407,934	10.60
NATIONAL NOMINEES LIMITED	18,750,826	4.68
CENTURIA INVESTMENT HOLDINGS PTY LIMITED	16,999,400	4.25
BNP PARIBAS NOMINEES PTY LTD	8,223,078	2.05
CENTURIA INVESTMENT HOLDINGS PTY LIMITED	3,761,242	0.94
CITICORP NOMINEES PTY LIMITED	3,571,780	0.89
BNP PARIBAS NOMS (NZ) LTD	2,843,926	0.71
CENTURIA PROPERTY FUNDS NO 2 LIMITED	2,181,086	0.55
AUSTRALIAN EXECUTOR TRUSTEES LIMITED	1,720,012	0.43
BNP PARIBAS NOMINEES PTY LED HUB24 CUSTODIAL SERV LTD	1,694,126	0.42
BNP PARIBAS NOMS PTY LTD	1,295,707	0.32
MISS YVONNE CATHERINE LYNCH	1,140,000	0.29
NETWEALTH INVESTMENTS LIMITED	1,108,601	0.28
NEWECONOMY COM AU NOMINEES PTY LIMITED	1,047,656	0.26
HORRIE PTY LTD	1,015,000	0.25
HSBC CUSTODY NOMINEES	918,564	0.23
SANDHURST TRUSTEES LTD	878,702	0.22
	<b>305,917,194</b>	<b>76.43</b>