

Centuria

**Centuria Office REIT
and its subsidiaries**

ARSN 124 364 718

**Annual financial report
for the year ended 30 June 2021**

Centuria Property Funds Limited ABN 11 086 553 639 is the Responsible Entity for Centuria Office REIT.

Centuria Office REIT

Table of contents

For the year ended 30 June 2021

Contents

	Page
Directors' report	1
Auditor's Independence Declaration	6
Annual Financial Report	7
Directors' declaration	34
Independent auditor's report	35
Corporate Governance Statement	39
Additional stock exchange information	40

Directors' report

For the year ended 30 June 2021

The directors of Centuria Property Funds Limited ('CPFL'), the Responsible Entity of Centuria Office REIT ('COF') present their report, together with the consolidated financial statements of the Trust and its subsidiaries ('the Trust') for the year ended 30 June 2021 and the independent auditor's report thereon.

Directors of the Responsible Entity

The directors of Centuria Property Funds Limited during or since the end of the financial year are:

Name	Appointed	Resigned	Directorship of other listed companies
Peter Done	5 December 2007		Centuria Capital Limited
Matthew Hardy	4 July 2013		
Darren Collins	10 March 2015		
Nicholas Collishaw	1 October 2017		Centuria Capital Limited, Redcape Hotel Group Management Ltd
Nicole Green	2 July 2021		
Roger Dobson	1 October 2017	29 July 2020	

The company secretary of Centuria Property Funds Limited during or since the end of the financial year is:

Name	Appointed
Anna Kovarik	5 July 2018

Roger Dobson resigned from the board of the Responsible Entity, Centuria Property Funds Limited effective 29 July 2020. Nicole Green was appointed to the Board on 2 July 2021.

Refer to Note D2 of the annual financial report for directors' unitholdings 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 commercial office 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 2021 was \$76,936,000 (30 June 2020: \$23,053,000).

As at 30 June 2021, the Trust's Net Tangible Assets ('NTA') was \$2.48 per unit (30 June 2020: \$2.49 per unit). The current period results have been affected by the COVID-19 pandemic. The Trust continued to apply the National Cabinet Mandatory Code of Conduct ('the Code') and where appropriate, granted applicable tenants rent relief packages to alleviate the impacts of the COVID-19 pandemic in the form of rent waivers or deferrals. The COVID-19 impact on the Fund is disclosed in Note C1 and C2.

Review of operations (continued)

Investment property valuations

The total value of the Trust's portfolio as at 30 June 2021 was \$2,046 million (30 June 2020: \$2,086 million), a decrease of 2% from the prior year. During the year, the Trust sold its interest in 465 Victoria Avenue, Chatswood NSW for \$44.7 million, with all the proceeds used to repay debt.

The weighted average capitalisation rate for the portfolio firmed 12 basis points year on year to 5.81% as at 30 June 2021 (30 June 2020: 5.93%).

The COVID-19 pandemic gives rise to uncertainty in the market and which may have an impact on key drivers of property valuations. The Trust engaged external valuers to prepare independent valuations for the entire portfolio of investment properties over the course of the financial year.

Leasing and occupancy

The Trust secured 61 leases across 52,077 square metres ('sqm') representing 18.1% of the portfolio's Net Lettable Area ('NLA') in the year ended 30 June 2021. This comprised of 33 new leases across 26,388 sqm and 28 renewals across 25,689 sqm.

As at 30 June 2021, the Weighted Average Lease Expiry ('WALE') of the portfolio was 4.3 years (30 June 2020: 4.7 years) and the occupancy rate was 93.1% (30 June 2020: 98.1%).

Capital management

As at 30 June 2021, the Trust had a multi-bank debt facility totalling \$812.5 million (30 June 2020: \$880.0 million) with a weighted average expiry of 4.2 years (30 June 2020: 3.4 years). Drawn borrowings totalled \$704.3 million (30 June 2020: \$749.0 million), and the all-in interest cost for FY21 was 2.2% (30 June 2020: 2.2%) with 80% of the drawn debt hedged (30 June 2020: 75%). The Trust's gearing at 30 June 2021 was 33.5% (30 June 2020: 34.5%).

Outlook

The Responsible Entity's strategy and ongoing focus remains unchanged. The Responsible Entity's primary focus is on actively managing the Trust's portfolio, with an emphasis on tenant retention to ensure income and occupancy are maximised. The Responsible Entity will also continue to review asset allocation and assess potential acquisition opportunities that are considered complementary to the existing portfolio and the Trust's objective of delivering sustainable income returns to unitholders.

The Trust's FFO guidance for the year ending 30 June 2022 is expected to be 18.0 cpu. The 2022 financial year distribution guidance is 16.6 cpu which will be paid in equal quarterly instalments.

Review of operations (continued)

Distributions

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

	30 June 2021		30 June 2020	
	Cents per unit	\$'000	Cents per unit	\$'000
September quarter	4.125	21,224	4.450	15,855
December quarter	4.125	21,224	4.450	22,840
March quarter	4.125	21,224	4.450	22,896
June quarter	4.125	21,224	4.450	22,896
Total	16.500	84,896	17.800	84,487

Key dates in connection with the 30 June 2021 distribution are:

Event	Date
Ex-distribution date	29 June 2021
Record date	30 June 2021
Distribution payment date	10 August 2021

The Funds From Operations for the year ended 30 June 2021 was \$102.2 million (30 June 2020: \$85.4 million), representing a 19.7% increase from prior year.

The Trust declared distributions of 16.5 cpu during the 2021 financial year which was in line with guidance provided as part of the June 2020 year end result. The table below provides a reconciliation from the consolidated statement of profit or loss and other comprehensive income to the FFO for the year:

	30 June 2021 \$'000	30 June 2020 \$'000
Net profit for the year	76,936	23,053
Adjustments		
Loss on fair value of investment properties	15,137	38,102
Rent free and abatement	10,945	7,397
Amortisation of incentives and leasing fees	6,227	4,122
Realised/unrealised loss/(gain) on fair value of derivatives	(4,816)	4,876
Straight-lining of rental income	(2,133)	(4,471)
Adjustments for AASB 16	(61)	(57)
Transaction costs	-	48
Goodwill impairment	-	6,356
Once-off refinancing costs	-	5,942
Funds from operations	102,235	85,368

Distribution reinvestment plan

The Trust did not activate its Distribution Reinvestment Plan ('DRP') during the year ended 30 June 2021.

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.

Directors' report

Options granted (continued)

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

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

Indemnifying officers or auditors

Indemnification

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

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

Insurance premiums

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

Trust information in the directors' report

Responsible Entity interests

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

	30 June 2021 \$'000	30 June 2020 \$'000
Management fees	11,543	10,421
Property management fees	2,727	3,089
Leasing fees	1,755	799
Facility management fees	1,632	1,799
Project management fees	1,154	449
Custodian fees	791	798
Due diligence acquisition fees	100	100
Administration fees	256	-
	<u>19,958</u>	<u>17,455</u>

The Responsible Entity and/or its related parties that hold units in the Trust during the financial year are outlined in Note D2 to the financial statements.

Other Trust information

The number of units in the Trust at the end of the financial year are disclosed in Note C6 to the financial statements.

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

Auditor's independence declaration

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

Directors' report

Rounding 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.



Matthew Hardy
Director



Darren Collins
Director

Sydney
3 August 2021



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

To the Directors of Centuria Property Funds Limited, the Responsible Entity of
Centuria Office REIT

I declare that, to the best of my knowledge and belief, in relation to the audit of Centuria Office REIT for
the financial year ended 30 June 2021 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

3 August 2021

Centuria Office REIT Annual Financial Report

For the year ended 30 June 2021

Contents

	Page
Consolidated statement of profit or loss and other comprehensive income	8
Consolidated statement of financial position	9
Consolidated statement of changes in equity	10
Consolidated statement of cash flows	11
Note to the financial statements	12
A About the report	12
A1 General information	12
A2 Significant accounting policies	12
B Trust performance	14
B1 Distribution	14
B2 Revenue	14
B3 Expenses	15
B4 Earnings per unit	15
C Trust's assets and liabilities	17
C1 Trade and other receivables	17
C2 Investment properties	18
C3 Trade and other payables	22
C4 Borrowings	23
C5 Derivatives	23
C6 Issued capital	25
C7 Contingent assets, liabilities and commitments	25
C8 Cash and cash equivalents	25
D Trust structure	26
D1 Interest in material subsidiaries	26
D2 Related parties	27
D3 Parent entity disclosures	29
E Other notes	31
E1 Auditor's remuneration	31
E2 Financial instruments	31
E3 Events subsequent to reporting date	33
E4 Additional information	33
Directors' declaration	34
Independent auditor's report	35

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2021

	Note	30 June 2021 \$'000	30 June 2020 \$'000
Revenue			
Rent and recoverable outgoings	B2	161,805	146,314
Total revenue from continuing operations		161,805	146,314
Other income			
Gain on fair value of derivative financial instruments		4,816	-
Interest income		7	106
Total other income		4,823	106
Total revenue from continuing operations and other income		166,628	146,420
Expenses			
Rates, taxes and other property outgoings		41,167	35,638
Finance costs	B3	18,418	22,719
Loss/(gain) on fair value of investment properties	C2	15,137	38,102
Management fees	D2	11,543	10,421
Other expenses		2,251	1,975
Rental waivers expense		942	1,538
Expected credit loss expense		234	1,694
Goodwill impairment expense		-	6,356
Loss on fair value of derivative financial instruments		-	4,876
Transaction costs		-	48
Profit from continuing operations for the year		76,936	23,053
Net profit for the year		76,936	23,053
Other comprehensive income			
Other comprehensive income for the year		-	-
Total comprehensive income for the year		76,936	23,053
Basic and diluted earnings per unit			
Basic earnings per unit (cents per unit)	B4	15.0	5.0

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 2021

	Note	30 June 2021 \$'000	30 June 2020 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	C8	15,644	28,809
Trade and other receivables	C1	5,369	3,263
Other assets		1,625	1,536
Total current assets		22,638	33,608
Non-current assets			
Investment properties	C2	2,046,221	2,085,650
Total non-current assets		2,046,221	2,085,650
Total assets		2,068,859	2,119,258
LIABILITIES			
Current liabilities			
Trade and other payables	C3	31,943	22,260
Distributions payable	B1	21,224	22,896
Total current liabilities		53,167	45,156
Non-current liabilities			
Borrowings	C4	700,800	746,372
Derivative financial instruments	C5	7,240	12,056
Lease liability	C2	32,660	32,722
Total non-current liabilities		740,700	791,150
Total liabilities		793,867	836,306
Net assets		1,274,992	1,282,952
EQUITY			
Issued capital	C6	1,283,138	1,283,138
Accumulated losses		(8,146)	(186)
Total equity		1,274,992	1,282,952

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 2021

	Note	Issued capital \$'000	Retained earnings/ (accumulated losses) \$'000	Total equity \$'000
Balance at 1 July 2019		833,320	61,248	894,568
Net profit for the year		-	23,053	23,053
Total comprehensive income for the year		-	23,053	23,053
Units issued		461,299	-	461,299
Equity raising costs		(11,481)	-	(11,481)
Distributions provided for or paid	B1	-	(84,487)	(84,487)
Balance at 30 June 2020		1,283,138	(186)	1,282,952
Balance at 1 July 2020		1,283,138	(186)	1,282,952
Net profit for the year		-	76,936	76,936
Total comprehensive income for the year		-	76,936	76,936
Distributions provided for or paid	B1	-	(84,896)	(84,896)
Balance at 30 June 2021		1,283,138	(8,146)	1,274,992

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 2021

	30 June 2021	30 June 2020
Note	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers	185,778	159,963
Payments to suppliers	(63,000)	(60,711)
Interest received	7	106
Interest paid	(17,250)	(14,582)
Net cash generated by operating activities	105,535	84,776
	C8	
Cash flows from investing activities		
Payments for investment properties	(30,379)	(689,007)
Proceeds from sale of investment properties	44,516	-
Net cash generated by/(used in) investing activities	14,137	(689,007)
Cash flows from financing activities		
Distribution paid	(86,568)	(77,118)
Proceeds from borrowings	177,500	282,525
Repayment of borrowings	(222,200)	(32,000)
Payments for borrowing costs	(1,569)	(1,789)
Payments for derivative financial instruments	-	(5,942)
Proceeds from issue of units	-	461,299
Equity issue costs	-	(11,481)
Net cash (used in)/generated by financing activities	(132,837)	615,494
Net (decrease)/increase in cash and cash equivalents		
	(13,165)	11,263
Cash and cash equivalents at beginning of financial period	28,809	17,546
Cash and cash equivalents at end of financial year	15,644	28,809
	C8	

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 2021

A About the report

A1 General information

Centuria Office 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 Limited, the Responsible Entity, on 3 August 2021.

Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for investment property and derivative financial instruments 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 has created uncertainty on the global financial markets and has affected the ability of impacted tenants to meet their rental obligations. The Trust has completed an extensive assessment on trade receivables and the directors remain confident that the Trust will be able to continue as a going concern.

The principal accounting policies adopted in the preparation of the interim financial report are consistent with those of the previous financial year and corresponding interim reporting period. 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 \$30.5 million as at 30 June 2021. Given the Trust has the headroom in existing loan covenants and the ability to draw from the \$106.7 million of available funds in the facility to fund working capital requirements, has a 4.2 year weighted average debt expiry, and 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.

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 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 2020 unless specifically outlined below or in the relevant notes to the consolidated financial statements.

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

About the report

A2 Significant accounting policies (continued)

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.

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 (Note C2) and derivative financial instruments (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 office 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 2021		30 June 2020	
	Cents per unit	\$'000	Cents per unit	\$'000
September quarter	4.125	21,224	4.450	15,855
December quarter	4.125	21,224	4.450	22,840
March quarter	4.125	21,224	4.450	22,896
June quarter	4.125	21,224	4.450	22,896
Total	16.500	84,896	17.800	84,487

Key dates in connection with the 30 June 2021 distribution are:

Event	Date
Ex-distribution date	29 June 2021
Record date	30 June 2021
Distribution payment date	10 August 2021

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 2021	30 June 2020
	\$'000	\$'000
Rental income	134,498	118,384
Recoverable outgoings	25,174	23,459
Straight-lining of lease revenue	2,133	4,471
	161,805	146,314

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 2021 \$'000	30 June 2020 \$'000
Interest expense	17,722	16,362
Derivative instrument break cost	-	5,942
Amortisation of borrowing costs	696	415
	<u>18,418</u>	<u>22,719</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.

B4 Earnings per unit

	30 June 2021	30 June 2020
Basic earnings per COF unit (cents per unit)	15.00	5.00

Trust performance

B4 Earnings per unit (continued)

Earnings used in calculating basic earnings per unit (\$'000)	76,936	23,053
Weighted average number of COF units ('000)	514,522	459,257

C Trust's assets and liabilities

C1 Trade and other receivables

	30 June 2021 \$'000	30 June 2020 \$'000
Current		
Trade receivables	3,804	1,898
Expected credit loss provision	(1,929)	(1,694)
Other receivables	3,494	3,059
	<u>5,369</u>	<u>3,263</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 and local 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 was implemented by each of the States and Territories during the financial year. The Trust 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 during the mandated period until the Code ceased to apply.

The Trust followed the Code in determining which tenants were applicable for rent relief. The criteria included:

- Eligibility for and receipt of 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. Waivers granted relating to the 2021 financial year which were agreed with the tenant retrospectively have been expensed during the year. Rental deferrals have been negotiated with tenants and is spread over the remaining lease term and recognised on a straight line basis.

During the 2021 financial year, the Trust had granted \$1.9m of rent relief made up of \$0.9 million in rental waivers and \$1.0 million of deferrals to applicable tenants. As at 30 June 2021, an ECL provision of \$1.9 million was recognised for the trade receivables in relation to rental income receivable and tenant outgoing recoveries.

Trust's assets and liabilities

C1 Trade and other receivables (continued)

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.

C2 Investment properties

	30 June 2021 \$'000	30 June 2020 \$'000
Opening balance	2,085,650	1,321,475
Purchase price of investment properties	-	624,527
Stamp duty and other transaction costs	-	33,412
Capital improvements and associated costs	15,357	13,259
	15,357	671,198
(Loss)/gain on fair value	(15,137)	(38,102)
Change in deferred rent and lease incentives	1,992	19,415
Change in capitalised leasing fees	3,065	385
Disposal at fair value	(44,706)	-
Initial recognition of right of use asset	-	32,779
Transfers from/(to) held for sale	-	78,500
Closing balance[^]	2,046,221	2,085,650

[^] The carrying amount of investment properties includes components related to deferred rent, capitalised lease incentives and leasing fees amounting to \$46,139,000 (30 June 2020: \$41,804,000) and a right of use asset of \$31,971,000 (30 June 2020: \$32,375,000).

Leases as lessor

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

	30 June 2021 \$'000	30 June 2020 \$'000
Less than one year	120,407	115,016
Between one and five years	340,369	342,855
More than five years	156,511	176,829
	617,287	634,700

Trust's assets and liabilities

C2 Investment properties (continued)

Property	Fair value		Capitalisation rate		Discount rate		30 June 2021 Valuer	Last independent valuation date
	30 June 2021 \$'000	30 June 2020 \$'000	30 June 2021 %	30 June 2020 %	30 June 2021 %	30 June 2020 %		
NSW								
8 Central Ave, Eveleigh NSW*	200,000	189,000	5.13	5.38	6.13	6.75	CBRE	Jun 2021
201 Pacific Hwy, St Leonards NSW*	107,000	106,500	5.63	5.63	6.38	6.63	Directors	Dec 2020
9 Help St, Chatswood NSW	92,500	86,000	5.38	5.75	6.38	6.75	Colliers	Jun 2021
203 Pacific Hwy, St Leonards NSW*^	68,000	69,500	5.75	5.88	6.63	6.75	JLL	Jun 2021
465 Victoria Ave, Chatswood NSW**	-	41,875	-	5.75	-	6.75		
77 Market St, Wollongong NSW	36,000	35,500	6.75	7.25	7.75	7.75	MMJ	Jun 2021
ACT								
2 Phillip Law St, NewActon ACT^	252,000	253,000	5.00	5.13	5.75	6.00	Colliers	Jun 2021
60 Marcus Clarke St, Canberra ACT^	61,000	62,250	6.75	7.00	7.00	7.50	Directors	Dec2020
54 Marcus Clarke St, Canberra ACT^	22,800	20,900	7.25	7.50	7.00	7.00	M3	Jun 2021
QLD								
825 Ann St, Fortitude Valley QLD	155,000	163,000	6.00	6.00	6.75	7.00	Directors	Dec2020
154 Melbourne St, South Brisbane QLD	80,500	88,000	6.00	6.00	6.50	7.00	Savills	Jun 2021
100 Brookes St, Fortitude Valley QLD	82,000	78,500	6.00	6.25	6.50	7.00	Savills	Jun 2021
438-517 Kingsford Smith Dr, Hamilton QLD	77,000	77,500	6.25	6.13	7.00	7.00	Directors	Dec2020
35 Robina Town Ctr Dr, Robina QLD#	42,000	52,000	7.50	7.25	7.75	6.75	JLL	Jun 2021
555 Coronation Dr, Brisbane QLD	39,000	34,500	6.75	7.00	7.25	7.50	Directors	Dec2020
VIC								
818 Bourke St, Docklands VIC	220,000	223,000	5.13	5.13	6.00	6.25	Directors	Dec2020
576 Swan St, Richmond VIC	65,500	66,500	5.50	5.50	6.50	6.50	Directors	Dec2020
2 Kendall St, Williams Landing VIC	69,000	64,500	5.75	6.00	6.75	7.00	C&W	Jun 2021
WA								
235 William St, Northbridge WA	181,750	188,000	6.50	6.50	6.75	7.00	JLL	Jun 2021
46 Colin St, Perth WA^~	66,971	67,375	7.00	7.25	7.00	7.25	JLL	Jun 2021
144 Stirling St, Perth WA	70,000	65,000	6.00	6.25	6.75	7.00	Directors	Dec2020

Trust's assets and liabilities

C2 Investment properties (continued)

Property	Fair value		Capitalisation rate		Discount rate		30 June 2021 Valuer	Last independent valuation date
	30 June 2021 \$'000	30 June 2020 \$'000	30 June 2021 %	30 June 2020 %	30 June 2021 %	30 June 2020 %		
SA								
1 Richmond Rd, Keswick SA	39,200	36,000	7.00	7.25	7.75	8.00	Knight Frank	Jun 2021
131-139 Grenfell St, Adelaide SA	19,000	17,250	7.00	7.75	6.50	8.00	Colliers	Jun 2021
	2,046,221	2,085,650						

* The Trust owns 50% of these properties.

** The Trust owned 25% of 425 Victoria Avenue, Chatswood NSW which was sold on 1 February 2021 for \$44.7m.

^ The Trust holds a leasehold interest in these properties.

~ A right of use asset on the ground lease at 46 Colin St is included in the fair value of the property. The carrying value of the lease liability as at 30 June 2021 was \$32,660,000 (30 June 2020: \$32,722,000).

The Trust executed a deed of surrender with Foxtel, tenant at 35 Robina Town Centre Drive, Robina QLD. As part of the agreement, COF received a surrender payment equivalent to the present value of the rent payable under the remaining Foxtel lease term.

The Trust's weighted average capitalisation rate for the year is 5.81% (2020: 5.93%).

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.

Transactional volumes in the office markets reduced during the COVID-19 pandemic driven by the uncertainties around what the potential impact of Government mandated restrictions would be on cash flow and valuations. However, office yields in metropolitan areas have remained stable compared to other markets given these types of properties offer more affordable rents. Office buildings with minimal vacancy, strong tenant base and long WALE have remained strong performers with stable or tightening capitalisation rates.

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).

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 2021	30 June 2020
Net market rent	Increase	Decrease	\$267 - \$788	\$258 - \$667
Capitalisation rate	Decrease	Increase	5.00% - 7.50%	5.13% - 7.75%
Discount rate	Decrease	Increase	5.75% - 7.75%	6.00% - 8.00%

Trust's assets and liabilities

C2 Investment properties (continued)

Fair value measurement (continued)

Capitalisation and discount rates 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 and discount rates:

Fair Value at 30 June 2021 \$'000	Capitalisation rate impact	
	-0.25% \$'000	+0.25% \$'000
2,046,221	90,608	(83,130)

C3 Trade and other payables

	30 June 2021 \$'000	30 June 2020 \$'000
Current		
Trade creditors and expenses payable	15,436	4,775
Other current creditors and accruals	16,507	17,485
	<u>31,943</u>	<u>22,260</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

C4 Borrowings

	30 June 2021 \$'000	30 June 2020 \$'000
Non-current		
Secured loan	704,329	749,029
Borrowing costs	(3,529)	(2,657)
	<u>700,800</u>	<u>746,372</u>

At 30 June 2021, the Trust had the following secured debt facilities:

	30 June 2021 \$'000	30 June 2020 \$'000
Secured loan facility		
Facility limit	812,500	880,000
Facilities used - bank loans	(704,329)	(749,029)
Facilities used - bank guarantee	(1,496)	(1,496)
Facilities unused	<u>106,675</u>	<u>129,475</u>

As at 30 June 2021, the Trust had \$565.0 million (2020: \$565.0 million) of interest rate swaps hedged against its drawn debt. Refer to Note C5 for further details on interest rate swap contracts held at 30 June 2021.

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

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

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.

C5 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:

Trust's assets and liabilities

C5 Derivatives (continued)

Interest rate swap contracts (continued)

Type of contract	Maturity date	Contracted fixed interest rate	Notional amount of contract \$'000	Fair value of liabilities \$'000
30 June 2021				
Extendable interest rate swap	16 May 2024	1.27%	60,000	(1,401)
Extendable interest rate swap	30 May 2022	1.15%	70,000	(726)
Extendable interest rate swap	25 Sep 2021	0.70%	50,000	(302)
Extendable interest rate swap	20 Nov 2021	0.68%	50,000	(317)
Extendable interest rate swap	22 Nov 2021	0.69%	75,000	(583)
Extendable interest rate swap	16 May 2022	1.33%	60,000	(1,550)
Extendable interest rate swap	26 Sep 2022	0.93%	50,000	(748)
Extendable interest rate swap	20 Nov 2022	0.75%	50,000	(610)
Extendable interest rate swap	24 Feb 2023	0.64%	100,000	(1,003)
			565,000	(7,240)
30 June 2020				
Extendable interest rate swap	17 May 2021	1.27%	60,000	(2,216)
Extendable interest rate swap	28 May 2021	1.15%	70,000	(1,288)
Extendable interest rate swap	25 Sep 2021	0.70%	50,000	(754)
Extendable interest rate swap	20 Nov 2021	0.68%	50,000	(791)
Extendable interest rate swap	22 Nov 2021	0.69%	75,000	(851)
Extendable interest rate swap	16 May 2022	1.33%	60,000	(2,378)
Extendable interest rate swap	26 Sep 2022	0.93%	50,000	(1,206)
Extendable interest rate swap	20 Nov 2022	0.75%	50,000	(978)
Extendable interest rate swap	24 Feb 2023	0.64%	100,000	(1,594)
			565,000	(12,056)

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.

Trust's assets and liabilities

C6 Issued capital

	30 June 2021		30 June 2020	
	Units '000	\$'000	Units '000	\$'000
Opening balance	514,522	1,283,138	356,291	833,320
Units issued	-	-	158,231	461,299
Equity raising costs	-	-	-	(11,481)
Closing balance	514,522	1,283,138	514,522	1,283,138

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

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

C7 Contingent assets, liabilities and commitments

Unless otherwise stated in this report, the Trust has no contingent assets, liabilities or commitments as at 30 June 2021.

C8 Cash and cash equivalents

	30 June 2021	30 June 2020
	\$'000	\$'000
Cash and bank balances	15,644	28,809
	15,644	28,809

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

Net profit for the year	76,936	23,053
Adjustments:		
Net loss/(gain) on fair value of investment properties	15,137	38,102
Goodwill impairment	-	6,356
Derivative break costs	-	5,942
(Gain)/loss on fair value of derivatives	(4,816)	4,876
Change in deferred rent and lease incentives	4,708	3,024
Change in capitalised leasing fees	1,520	1,099
Borrowing cost amortisation	696	415
Changes in operating assets and liabilities:		
(Increase)/decrease in receivables	(2,106)	835
Decrease/(increase) in other assets	314	(32,446)
Increase in payables	13,146	33,520
Net cash generated by operating activities	105,535	84,776

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.

(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.

Non-controlling interests in the net assets attributable to unit holders of consolidated subsidiaries are identified separately from the Trust's unit holders. Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

(iii) Subsidiaries

The consolidated financial statements include the assets, liabilities and results of Centuria Office 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 2021	30 June 2020
			%	%
Centuria Urban REIT	Australia	Ordinary	100	100
Centuria Urban REIT Sub Trust	Australia	Ordinary	100	100
Centuria Urban REIT Sub Trust No. 2	Australia	Ordinary	100	100
Centuria Metropolitan REIT No. 2	Australia	Ordinary	100	100
Centuria Metropolitan Property Trust	Australia	Ordinary	100	100

D2 Related parties

Key management personnel

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

Peter Done	
Matthew Hardy	
Darren Collins	
Nicholas Collishaw	
Nicole Green	Appointed 2 July 2021
Roger Dobson	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 0.60% of the gross value of assets held plus GST, however, the Responsible Entity has elected to charge a management fee calculated at 0.55% of the gross value of assets held plus GST.

Custodian fees are paid to the custodians. Custody fees paid to Centuria Property Funds 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 Fund's gross assets.

At reporting date, an amount of \$2,107,940 (2020: \$779,046) owing to the Responsible Entity and its related parties was included in trade and other payables. The payables are non-interest bearing with payment terms and conditions consistent with normal commercial practices. The following fees were paid and/or payable to the Responsible Entity and its related parties from the Trust and all subsidiaries during the financial year:

	30 June 2021	30 June 2020
Management fees	11,543,457	10,421,000
Property management fees	2,726,904	3,088,924
Leasing fees	1,755,223	798,898
Facility management fees	1,632,280	1,799,498
Project management fees	1,154,135	448,518
Custodian fees	790,934	798,000
Due diligence acquisition fees	100,000	100,000
Administration fees	256,307	-
	19,959,240	17,454,838

Trust structure

D2 Related parties (continued)

Responsible entity fees and other transactions (continued)

All transactions with related parties are conducted on normal commercial terms and conditions. From time to time Centuria Property Funds 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 2021, the Fund did not hold any units in related parties to the Responsible Entity (30 June 2020: nil).

Trust structure

D2 Related parties (continued)

Units in the Trust held by related parties

At 30 June 2021, the following related parties of the Responsible Entity hold units in the Trust:

	Closing units held	Closing interest held
30 June 2021		
Centuria Capital No. 2 Office Fund	75,233,773	14.62%
Over Fifty Guardian Friendly Society Limited	14,861,980	2.89%
Centuria Growth Bond Fund	5,808,906	1.13%
Centuria Capital No. 2 Fund	3,396,219	0.66%
Centuria Property Funds No. 2 Limited	2,263,375	0.44%
Centuria Balanced Bond Fund	975,493	0.19%
Roger Dobson	205,128	0.04%
Peter Done	202,044	0.04%
Nicholas Collishaw	153,217	0.03%
John McBain	73,027	0.01%
Darren Collins	34,500	0.01%
Matthew Hardy	32,316	0.01%
Jason Huljich	3,896	0.01%
Total	103,243,874	20.08%

30 June 2020

Centuria Capital No. 2 Office Fund	72,633,773	14.12%
Over Fifty Guardian Friendly Society Limited	14,861,980	2.89%
Centuria Growth Bond Fund	8,408,906	1.63%
Centuria Capital No. 2 Fund	3,396,219	0.66%
Centuria Property Funds No. 2 Limited	2,263,375	0.44%
Centuria Balanced Bond Fund	975,493	0.19%
Roger Dobson	135,828	0.03%
Peter Done	152,044	0.03%
Nicholas Collishaw	153,217	0.03%
John McBain	75,260	0.01%
Darren Collins	34,500	0.01%
Matthew Hardy	32,316	0.01%
Jason Huljich	3,896	0.01%
Total	103,126,807	20.06%

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

Other transactions within the Trust

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

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.

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. Based on these evaluations, the Trust has determined there are no material events which would give rise to an adjustment.

D3 Parent entity disclosures

As at, and throughout the current and previous financial year, the parent entity of the Trust was Centuria Office REIT. The amounts reflected below do not include the performance and financial position of its subsidiaries.

Trust structure

D3 Parent entity disclosures (continued)

	30 June 2021	30 June 2020
	\$'000	\$'000

Results of parent entity

Profit for the year	76,936	23,053
Total comprehensive income for the year	76,936	23,053

At reporting date, Centuria Office REIT has not entered into any guarantees or commitments to purchase property plant and equipment.

The accounting policy for measuring the parent entity's investment in underlying subsidiaries was changed during the year from measuring at cost to fair value. This change has also been applied retrospectively to prior year comparative information.

	30 June 2021	30 June 2020
	\$'000	\$'000

Financial position of parent entity at year end

Assets

Current assets	221	5,884
Non-current assets	1,313,820	1,315,926
Total assets	1,314,041	1,321,810

Liabilities

Current liabilities	2,096	1,843
Non-current liabilities	36,954	37,015
Total liabilities	39,050	38,858

Equity

Issued capital	1,283,138	1,283,138
Retained earnings	(8,146)	(186)
Total equity	1,274,992	1,282,952

E Other notes

E1 Auditor's remuneration

	30 June 2021 \$'000	30 June 2020 \$'000
KPMG:		
Audit and review of financials	138	151

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. All financial instruments are measured at amortised cost with the exception of the derivative financial instruments. Derivative financial instruments are measured at fair value and have a level 2 designation in the fair value hierarchy. There were no transfers between levels of the fair value hierarchy during the period.

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

Valuation techniques

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

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

The Trust classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1: derived from quoted prices (unadjusted) in active markets for identical assets or liabilities that the Trust can access at the measurement date.
- Level 2: derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

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

Financial risk management objectives

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

Other notes

E2 Financial instruments (continued)

Market risk

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

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

Interest rate risk management

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

Note	30 June 2021		30 June 2020	
	Effective interest rate	Total \$'000	Effective interest rate	Total \$'000
Financial assets				
Cash and cash equivalents	0.01%	15,644	0.01%	28,809
Trade and other receivables	-%	5,369	-%	3,263
		<u>21,013</u>		<u>32,072</u>
Financial liabilities				
Borrowings (excluding borrowing costs)	1.60%	704,329	1.58%	749,029
Interest rate swaps	0.80%	7,240	0.82%	12,056
		<u>711,569</u>		<u>761,085</u>

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 (2020: 100) basis points higher or lower and all other variables were held constant, the impact to the Trust would have been as follows:

	Variable + / -	Sensitivity impact	
		Rate increase \$'000	Rate decrease \$'000
30 June 2021			
Net profit/(loss)	100 bps	7,681	(12,911)
		<u>7,681</u>	<u>(12,911)</u>
30 June 2020			
Net profit/(loss)	100 bps	13,904	(19,560)
		<u>13,904</u>	<u>(19,560)</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.

E2 Financial instruments (continued)

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 2021, the main financial assets exposed to credit risk are trade receivables. There were no significant concentrations of credit risk to counterparties at 30 June 2021. 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 collectibility 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.

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

	Effective interest rate	Total principal and interest \$'000	Less than 1 year \$'000	1 to 5 years \$'000	5+ years \$'000
30 June 2021					
Trade and other payables	-%	15,436	15,436	-	-
Borrowings	1.60%	752,430	11,288	447,458	293,684
Derivative financial instruments	0.80%	3,929	2,008	1,921	-
		771,795	28,732	449,379	293,684
30 June 2020					
Trade and other payables	-%	4,775	4,775	-	-
Borrowings	1.58%	814,863	12,265	767,485	35,113
Derivative financial instruments	0.82%	5,787	2,847	2,940	-
		825,425	19,887	770,425	35,113

The principal amounts included in the above borrowings is \$704 million (2020: \$749 million).

E3 Events subsequent to reporting date

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

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 2021

In the opinion of the Directors' of Centuria Property Funds Limited, the Responsible Entity of Centuria Office REIT ('the Trust'):

- (a) the consolidated financial statements and notes set out on pages 7 to 33 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 2021 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.



Matthew Hardy
Director



Darren Collins
Director

Sydney
3 August 2021



Independent Auditor's Report

To the unitholders of Centuria Office REIT

Opinion

We have audited the **Financial Report** of Centuria Office 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 2021 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 2021;
- 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; and
- 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 (\$2,046.2m)	
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 properties is a key audit matter as they are significant in value (being 98.9% 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.</p> <p>The Group approached the uncertainty risk, including consideration of the COVID-19 pandemic, using internal methodologies and through the use of external valuation experts.</p> <p>We focused on the significant forward-looking assumption the Group applied in external and internal valuation models with a consideration to the impact of COVID-19 including:</p> <ul style="list-style-type: none"> • Discount rates: these are complicated in nature and differ due to the asset classes, geographies and characteristics of individual investment properties; • Capitalisation rates (cap rates): reflects the yield that an investor would look to recover their investment in a particular class of asset; and • Forecast cash flows, including: market rental income, leasing and rental relief assumptions. <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>Our procedures included:</p> <ul style="list-style-type: none"> • 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; • Assessing the Group's methodologies used in the valuations of investment property for consistency with accounting standards and Group policies; • Assessing the scope, competence and objectivity of external experts engaged by the Group and internal valuers; • 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; • Assessing the appropriateness of the Group's leasing assumptions against each property's actual rental income, weighted average lease expiry, actual vacancy levels, the Group's tenant credit risk assessment and expected rental relief with consideration of industry views; • Consulting with our real estate valuation specialists: <ul style="list-style-type: none"> o To gain an understanding of prevailing market conditions, including existence of market transactions, and o Assess the appropriateness of the property valuation risk profiles and approach to evaluating the appropriateness of valuation assumptions. • Held discussions with external valuers to gain further understanding of specific investment property valuations and underlying assumptions adopted and updated market conditions; • 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.
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Other Information

Other Information is financial and non-financial information in Centuria Office REIT's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors of Centuria Property Funds 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 Director's 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 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:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our Auditor's Report.

KPMG

A handwritten signature in black ink, appearing to read 'Peter Zabaks'.

KPMG

Peter Zabaks
Partner

Sydney
3 August 2021

Corporate Governance Statement

The corporate governance statement for the Trust was last updated on 11 September 2020 and is available on the Centuria website at <https://centuria.com.au/centuria-capital/corporate/sustainability/governance/>.

Additional stock exchange information

As at 27 July 2021

Distribution of units

Holding	Number of units	Number of holders	Percentage of total (%)
1 - 1000	480,692	1,186	0.1
1,001 - 5,000	7,485,322	2,410	1.5
5,001 - 10,000	13,023,939	1,688	2.5
10,001 - 100,000	72,173,724	2,786	14.0
100,001 and over	421,359,130	165	81.9
Total	514,522,807	8,235	100.0

Substantial unit holders

	Number of units	Percentage of total (%)
CENTURIA CAPITAL GROUP	102,539,746	19.93
THE VANGUARD GROUP, INC.	37,782,644	7.34
MONDRIAN INVESTMENT PARTNERS LTD	37,733,527	7.33
LEDERER GROUP	36,454,502	7.09
MARTIN CURRIE AUSTRALIA	27,144,968	5.28
Total	241,655,387	46.97

Voting rights

All units carry one vote per unit without restriction.

Top 20 unit holders

	Number of units	Percentage of issued units
HSBC CUSTODY NOMINEES	153,804,861	29.89
CENTURIA INVESTMENT HOLDINGS PTY LIMITED	75,233,773	14.62
J P MORGAN NOMINEES AUSTRALIA LIMITED	68,816,371	13.38
CITICORP NOMINEES PTY LIMITED	41,829,312	8.13
NATIONAL NOMINEES LIMITED	18,102,354	3.52
CENTURIA FUNDS MANAGEMENT LIMITED	3,396,219	0.66
BINET PTY LTD	3,379,593	0.66
THE TRUST COMPANY (AUSTRALIA) LIMITED	3,187,586	0.62
BNP PARIBAS NOMS PTY LTD <DRP>	2,576,529	0.50
CENTURIA PROPERTY FUNDS	2,263,375	0.44
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	1,883,245	0.37
BNP PARIBAS NOMS (NZ) LTD	1,584,829	0.31
NETWEALTH INVESTMENTS LIMITED	1,549,033	0.30
G C F INVESTMENTS PTY LTD	1,400,000	0.27
SOUTH CREEK INVESTMENTS PTY LTD	1,206,077	0.23
BNP PARIBAS NOMINEES PTY LTD SIX SIS LTD	1,165,189	0.23
KOLL PTY LTD	1,100,000	0.21
TRISTAR METALS PTY LTD	1,000,000	0.19
HORRIE PTY LTD	995,898	0.19
CS FOURTH NOMINEES PTY LTD	950,708	0.19
	385,424,952	74.91