

Centuria

**Centuria Industrial REIT
and its subsidiaries**

ARSN 099 680 252

**Annual Financial Report
For the year ended 30 June 2023**

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

Centuria Industrial REIT

Table of contents

For the year ended 30 June 2023

Contents

	Page
Directors' report	1
Auditor's Independence Declaration	7
Consolidated financial statements	8
Directors' declaration	43
Independent auditor's report	44
Corporate Governance Statement	48
Additional stock exchange information	49

Directors' report

For the year ended 30 June 2023

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 2023 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	Directorship of other listed companies
Roger Dobson	01 Oct 2017	
Peter Done	26 Jun 2017	Centuria Capital Limited
Natalie Collins	29 Jul 2020	
Jennifer Cook	01 Jul 2021	

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

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 loss from continuing operations for the year ended 30 June 2023 was \$76,608,000 (30 June 2022: \$367,480,000 profit).

As at 30 June 2023, the Trust's Net Tangible Assets (NTA) was \$3.96 per unit, representing a \$0.28 cents per unit (cpu) decrease from the prior year (30 June 2022: \$4.24).

Funds From Operations (FFO) for the year ended 30 June 2023 was \$108.1 million (30 June 2022: \$111.7 million), representing a 3.2% decrease from prior year.

Review of operations (continued)

Results (continued)

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 2023 \$'000	30 June 2022 \$'000
Net (loss)/profit for the year	(76,608)	367,480
Adjustments:		
Net loss/(gain) on fair value of investment properties	183,300	(281,776)
Straight-lining of rental income	(12,410)	(12,168)
Loss/(gain) on fair value of derivative financial instruments	(413)	11,938
Rent free and abatement	10,308	7,717
Amortisation of incentives and leasing fees	5,074	4,048
Transaction costs	459	3,954
Goodwill impairment expense	-	10,501
Adjustment for non FFO equity accounted items	(1,623)	-
Funds from operations	108,087	111,694

Investment property

The Trust has externally revalued 38 investment properties as at 30 June 2023. On a like for like basis, the investment properties valuation of the Trust decreased \$153.6 million from the prior year. The weighted average capitalisation rate for the portfolio softened 107 basis points year on year to 5.26% as at 30 June 2023 (30 June 2022: 4.19%).

The total value of the Trust's portfolio including investment properties held for sale and the property value in the equity accounted investments as at 30 June 2023 was \$3,838.7 million (30 June 2022: \$4,100.9 million), a decrease of 8.1% due to disposal and decrease in fair value for the year and a decrease of 3.9% on a like for like basis.

During the year, the Trust entered into a strategic partnership formed with an investment vehicle sponsored by Morgan Stanley Real Estate Investing (MSREI). The Trust disposed c.50% interest in a portfolio of eight assets realising \$180.9m.

The Partnership Portfolio comprised of the following properties:

- 8 Lexington Drive, Bella Vista NSW⁽¹⁾
- 29 Glendenning Road, Glendenning NSW⁽¹⁾
- 52-74 Quarry Road, Erskine Park NSW⁽¹⁾
- 95-105 South Gippsland Hwy, Dandenong South VIC⁽²⁾
- 40 Scanlan Drive, Epping VIC⁽²⁾
- 69 Studley Court, Derrimut VIC⁽²⁾
- 42 Hoepner Road, Bundamba QLD⁽²⁾
- 1 Ashburn Road, Bundamba QLD⁽²⁾

(1) As part of the transaction, 49% of the underlying interest in the sub trusts carrying these properties were disposed, resulting in the retention of a 51% non controlling interest. Whilst these assets continue to be managed by the Responsible Entity, the need for joint decision making across a number of material financial and operating matters under the terms of the sale deeds results in the loss of control with significant influence and therefore equity accounting adopted as the most appropriate basis for reporting these equity stakes.

(2) As part of the transaction, 50% of the direct proportionate interest in each of the properties were divested. The trust continues to consolidate its remaining 50% direct proportionate interest in each of these properties.

Review of operations (continued)***Leasing and occupancy***

The Trust secured 182,004 square metres (sqm) of leases across 32 transactions for the year ended 30 June 2023. This represented 14% of the portfolio's gross lettable area.

At 30 June 2023, the Trust's portfolio was 98.0% occupied with a Weighted Average Lease Expiry (WALE) of 7.7 years. For the upcoming financial year ending 30 June 2024, lease expiries represent 9.8% of portfolio income.

Capital management

Moody's Investor Services maintains the Trust with a Baa2 issuer rating with a stable outlook.

On 2 March 2023, the Trust issued five-year unsecured guaranteed exchangeable notes (Notes) with a face value of \$300.0 million. The Notes are listed on the Official List of the Singapore Exchange Securities Trading Limited (SGX-ST) and have received a rating of Baa2 from Moody's. At year end, the closing fair value of the Notes had decreased to \$287.2 million, representing the difference between the inception date face value of the notes and the fair market value of the Notes as traded in the SGX-ST. The notes attract a fixed coupon of 3.95% per annum calculated based on its face value, payable to Noteholders on a quarterly basis.

The Notes are exchangeable into the Trust's units at an initial exchange price of \$4.1625 (Exchange price). The Exchangeable Notes are embedded with option contracts which allow the Trust or Noteholders to redeem at 100% of the principal amount. The Trust can call for redemption to redeem all and not some only of the Notes, at their face value plus accrued and unpaid interest, if the closing price of the Trust's units at any time after 16 March 2026 to maturity is at least 130% of the applicable Exchange Price. Noteholders have an option to put the notes to the issuer for face value on or about 2 March 2026 or convert to units at any time commencing from 12 April 2023 to 10 days prior to the final maturity of the Notes on 2 March 2028. It is expected that any notes that are not exchanged before maturity will be redeemed by the Trust at 100% of its face value at maturity date.

As at 30 June 2023, the Trust had debt facilities totalling \$1,597.2 million (30 June 2022: \$1,610.0 million) with a weighted average expiry of 4.1 years (30 June 2022: 4.4 years). Drawn borrowings totalled \$1,293.2 million (30 June 2022: \$1,377.2 million), and the all-in interest cost (made up of interest expense and line fees) at 30 June 2023 was 3.2% (30 June 2022: 2.0%) and 87.9% of the total drawn debt fixed through swaps and fixed borrowing (30 June 2022: 61.7%). The Trust's gearing at 30 June 2023 was 33.1% (30 June 2022: 33.2%).

Outlook

The Responsible Entity's strategy and ongoing focus remains unchanged. The Responsible Entity continues 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.

The Trust's Funds From Operations (FFO) guidance for the year ending 30 June 2024 is expected to be 17.0 cpu. The distribution guidance for the year ending 30 June 2024 is expected to be 16.0 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 2023		30 June 2022	
	Cents per unit	\$'000	Cents per unit	\$'000
September quarter	4.000	25,397	4.325	27,307
December quarter	4.000	25,397	4.325	27,374
March quarter	4.000	25,397	4.325	27,420
June quarter	4.000	25,397	4.325	27,461
Total	16.000	101,588	17.300	109,562

Key dates in connection with the 30 June 2023 distribution are:

Event	Date
Ex-distribution date	29 June 2023
Record date	30 June 2023
Distribution payment date	18 August 2023

The Trust paid distributions of 16.0 cpu during the 2023 financial year which was in line with guidance provided as part of the June 2022 year end result.

Distribution reinvestment plan

The Trust did not activate the Distribution Reinvestment Plan (DRP) during the year ended 30 June 2023.

Environmental regulation

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

Options granted

Other than the exchangeable notes, no other options were granted over unissued units in the Trust during or since the end of the financial year.

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

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

Events subsequent to balance date

On 25 July 2023, the Trust settled on the acquisition of 51 Musgrave Road, Coopers Plains QLD for \$10.8 million.

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

Indemnifying officers or auditors

Indemnification

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

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

Insurance premiums

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

Trust information in the directors' report

Responsible Entity interests

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

	30 June 2023 \$'000	30 June 2022 \$'000
Management fees	24,211	22,472
Development management fees	3,370	493
Property management fees	2,194	1,977
Custodian fees	1,931	1,764
Facility management fees	1,915	1,228
Leasing fees	1,346	2,425
Project management fees	226	380
Due diligence acquisition fees	50	625
	35,243	31,364

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 during the financial year, and the balance of issued units at the end of the financial year are disclosed in Note C8 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 7.

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.

Directors' report

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



Roger Dobson
Director



Peter Done
Director

Sydney
14 August 2023



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 2023 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

14 August 2023

Centuria Industrial REIT Annual Financial Report

For the year ended 30 June 2023

Contents

	Page
Consolidated statement of profit or loss and other comprehensive income	9
Consolidated statement of financial position	10
Consolidated statement of changes in equity	11
Consolidated statement of cash flows	12
Note to the financial statements	13
A About the report	13
A1 General information	13
A2 Significant accounting policies	13
B Trust performance	15
B1 Distribution	15
B2 Revenue	15
B3 Expenses	16
B4 Earnings per unit	17
C Trust's assets and liabilities	18
C1 Trade and other receivables	18
C2 Investment properties	19
C3 Investment properties held for sale	26
C4 Equity accounted investments	27
C5 Trade and other payables	29
C6 Borrowings	29
C7 Derivatives	30
C8 Issued capital	32
C9 Contingent assets, liabilities and commitments	32
C10 Cash and cash equivalents	33
D Trust structure	34
D1 Interest in material subsidiaries	34
D2 Related parties	36
D3 Parent entity disclosures	38
E Other notes	39
E1 Auditor's remuneration	39
E2 Financial instruments	39
E3 Events subsequent to reporting date	42
E4 Additional information	42
Directors' declaration	43
Independent auditor's report	44

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2023

	Note	30 June 2023 \$'000	30 June 2022 \$'000
Revenue			
Rent and recoverable outgoings	B2	222,078	203,525
Total revenue from continuing operations		222,078	203,525
Other income			
Interest income		1,139	26
Net gain on fair value of investment properties		-	281,776
Gain on fair value of derivatives and other financial instruments		413	-
Other income		2,217	1,809
Share of net profit of equity accounted investments	C4	3,179	-
Total other income		6,948	283,611
Total revenue from continuing operations and other income		229,026	487,136
Expenses			
Rates, taxes and other property outgoings		49,120	44,096
Finance costs	B3	43,934	26,909
Management fees	D2	24,211	22,472
Goodwill impairment expense		-	10,501
Loss on fair value of derivative financial instruments		-	11,938
Other expenses		5,069	3,740
Net loss on fair value of investment properties	C2	183,300	-
Total expenses		305,634	119,656
(Loss)/profit from continuing operations for the year		(76,608)	367,480
Net profit for the year		(76,608)	367,480
Other comprehensive income			
Other comprehensive income for the year		-	-
Total comprehensive (loss)/income for the year	B4	(76,608)	367,480
Basic and diluted earnings per unit			
Basic earnings per unit (cents per unit)	B4	(12.1)	59.9

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 2023

	Note	30 June 2023 \$'000	30 June 2022 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	C10	20,868	26,604
Trade and other receivables	C1	16,366	14,830
Other assets		538	640
Derivative financial instruments	C7	3,943	5,032
Investment properties held for sale	C3	59,100	34,500
Total current assets		100,815	81,606
Non-current assets			
Investment properties	C2	3,709,950	4,066,426
Equity accounted investments	C4	70,101	-
Derivative financial instruments	C7	25,923	-
Total non-current assets		3,805,974	4,066,426
Total assets		3,906,789	4,148,032
LIABILITIES			
Current liabilities			
Trade and other payables	C5	43,794	47,029
Distributions payable	B1	25,397	27,461
Total current liabilities		69,191	74,490
Non-current liabilities			
Borrowings	C6	1,289,856	1,373,029
Derivative financial instruments	C7	36,593	11,168
Total non-current liabilities		1,326,449	1,384,197
Total liabilities		1,395,640	1,458,687
Net assets		2,511,149	2,689,345
EQUITY			
Issued capital	C8	1,840,488	1,840,488
Retained earnings		670,661	848,857
Total equity		2,511,149	2,689,345

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 2023

	Note	Issued capital \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2021		1,531,361	590,939	2,122,300
Net (loss)/profit for the year		-	367,480	367,480
Total comprehensive income for the year		-	367,480	367,480
Units issued	C8	302,611	-	302,611
Dividend reinvestment plan ('DRP')	C8	13,141	-	13,141
Equity raising costs	C8	(6,625)	-	(6,625)
Distributions provided for or paid	B1	-	(109,562)	(109,562)
Balance at 30 June 2022		1,840,488	848,857	2,689,345
Balance at 1 July 2022		1,840,488	848,857	2,689,345
Net (loss)/profit for the year		-	(76,608)	(76,608)
Total comprehensive income for the year		-	(76,608)	(76,608)
Distributions provided for or paid	B1	-	(101,588)	(101,588)
Balance at 30 June 2023		1,840,488	670,661	2,511,149

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 2023

	30 June 2023	30 June 2022
Note	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers	238,234	212,652
Payments to suppliers	(99,774)	(78,782)
Interest received	1,139	26
Interest paid	(41,996)	(21,967)
Net cash generated by operating activities	97,603	111,929
C10		
Cash flows from investing activities		
Payments for investment properties	(129,450)	(832,373)
Proceeds from sale of investment properties	147,565	10,281
Proceeds from sale of subsidiaries	65,332	-
Net cash generated by/(used in) investing activities	83,447	(822,092)
Cash flows from financing activities		
Distribution paid	(103,652)	(92,414)
Proceeds from borrowings	443,200	1,091,200
Repayment of borrowings	(514,400)	(650,500)
Payments for borrowing costs	(7,134)	(4,957)
Payments for derivative financial instruments	(4,800)	(8,091)
Proceeds from issue of units	-	302,611
Equity issue costs	-	(6,625)
Net cash (used in)/generated by financing activities	(186,786)	631,224
Net decrease in cash and cash equivalents		
	(5,736)	(78,939)
Cash and cash equivalents at beginning of the financial year	26,604	105,543
Cash and cash equivalents at end of financial year	20,868	26,604
C10		

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 2023

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 14 August 2023.

Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for investment properties and derivative financial instruments 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.

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 2022 unless specifically outlined below or in the relevant notes to the consolidated financial statements.

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

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

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

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.

A2 Significant accounting policies (continued)

Use of estimates and judgements (continued)

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) 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 2023		30 June 2022	
	Cents per unit	\$'000	Cents per unit	\$'000
September quarter	4.000	25,397	4.325	27,307
December quarter	4.000	25,397	4.325	27,374
March quarter	4.000	25,397	4.325	27,420
June quarter	4.000	25,397	4.325	27,461
Total	16.000	101,588	17.300	109,562

Key dates in connection with the 30 June 2023 distribution are:

Event	Date
Ex-distribution date	29 June 2023
Record date	30 June 2023
Distribution payment date	18 August 2023

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 2023	30 June 2022
	\$'000	\$'000
Rental income	174,277	160,150
Recoverable outgoings	35,391	31,207
Straight-lining of lease revenue	12,410	12,168
	222,078	203,525

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.

(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.

Trust performance

B2 Revenue (continued)

Recognition and measurement (continued)

(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 2023 \$'000	30 June 2022 \$'000
Interest expense	42,989	22,879
Amortisation of borrowing costs	945	4,030
	<u>43,934</u>	<u>26,909</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 2023	30 June 2022
Basic earnings per unit (cents per unit)*	(12.1)	59.9
Earnings used in calculating basic earnings per unit (\$'000)	(76,608)	367,480
Weighted average number of units ('000)	613,264	613,264

* At balance date, the equity conversion option of the Trust's exchangeable notes are out of the money and anti-dilutive. As a result, a diluted earnings per unit has not been disclosed.

C Trust's assets and liabilities

C1 Trade and other receivables

	30 June 2023 \$'000	30 June 2022 \$'000
Current		
Trade debtors	4,734	4,310
Expected credit loss provision	(2,194)	(205)
Other current receivables	13,826	10,725
	<u>16,366</u>	<u>14,830</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.

During the year, the Trust has provided \$2.1 million ECL provision for the Trade receivables balance and \$0.1m of rental waiver.

Trust's assets and liabilities

C2 Investment properties

	30 June 2023 \$'000	30 June 2022 \$'000
Opening balance	4,066,426	2,936,057
Purchase price of investment properties	20,684	772,410
Stamp duty and other transaction costs	1,581	48,096
Capital improvements and associated costs	7,262	13,918
Capital developments and associated costs	90,973	32,136
	<u>120,500</u>	<u>866,560</u>
Net (loss)/gain on fair value of investment properties	(183,300)	280,756
Add back: net fair value loss on investment properties sold during the year	7,297	-
	<u>176,003</u>	<u>(280,756)</u>
Change in deferred rent and lease incentives	7,512	15,051
Disposed deferred rent and lease incentives	-	(9)
Change in capitalised leasing fees	(406)	2,511
Transfer from investment properties to equity accounted investments	(68,034)	-
Disposal at sale price	(180,945)	-
Closing gross balance	<u>3,769,050</u>	<u>4,100,926</u>
Transfer to investment properties held for sale	(59,100)	(34,500)
Closing balance[^]	<u>3,709,950</u>	<u>4,066,426</u>

[^] The carrying amount of investment properties includes components related to deferred rent, capitalised lease incentives and leasing fees amounting to \$64.8 million (2022: \$57.7 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 2023 \$'000	30 June 2022 \$'000
Less than one year	180,264	175,013
Between one and five years	518,866	538,254
More than five years	1,039,399	1,088,332
	<u>1,738,529</u>	<u>1,801,599</u>

Trust's assets and liabilities

C2 Investment properties (continued)

Property	Fair value		Capitalisation rate		Discount rate		Valuer	Last independent valuation date
	30 June 2023 \$'000	30 June 2022 \$'000	30 June 2023 %	30 June 2022 %	30 June 2023 %	30 June 2022 %		
VIC								
Telstra Data Centre, Clayton VIC	448,500	560,000	4.50	3.13	6.00	5.25	JLL	Jun 2023
90 Bolinda Road, Campbellfield VIC (2)	80,000	37,650	-	4.50	-	5.25	Directors	Dec 2022
207-219 Browns Rd, Noble Park VIC	65,000	65,000	5.75	4.38	6.75	5.50	Directors	Dec 2022
45 Fulton Dr, Derrimut VIC	62,500	62,500	5.25	4.13	6.50	5.25	Directors	Dec 2022
1 International Dr, Westmeadows VIC (3)	-	56,500	-	5.25	-	6.00	JLL	Jun 2023
324-332 Frankston-Dandenong Rd, Dandenong South VIC	59,000	58,500	5.25	4.13	6.50	5.50	Directors	Jun 2022
102-128 Bridge Rd, Keysborough VIC	52,750	53,500	5.75	4.50	6.50	5.50	Savills	Jun 2023
95-105 South Gippsland Hwy, Dandenong Sth VIC (4)	51,650	65,125	4.75	-	6.25	-	Savills	Jun 2023
24-32 Stanley Dr, Somerton VIC	44,300	43,000	5.50	4.50	6.75	5.75	C&W	Jun 2023
110 Northcorp Boulevard, Broadmeadows VIC	42,000	42,000	5.00	3.88	6.25	5.50	Directors	Dec 2022
2 Keon Pde, Keon Park VIC	39,000	38,700	5.25	4.25	6.25	5.50	Directors	Dec 2022
14-17 Dansu Ct, Hallam VIC	37,500	37,500	5.25	4.00	6.50	5.25	Directors	Jun 2022
500 Princes Hwy, Noble Park VIC	36,500	36,500	5.75	4.75	6.50	5.50	Directors	Jun 2022
75-79 and 105 Corio Quay Rd, North Geelong VIC	36,000	36,000	6.25	5.00	7.50	6.25	Directors	Dec 2022
590 Heatherton Road, Port Melbourne VIC	27,500	27,550	5.00	4.00	6.25	5.50	Directors	Jun 2022
513 Mt Derrimut Rd, Derrimut VIC	27,500	27,000	5.50	4.13	6.50	5.25	Directors	Dec 2022
12-13 Dansu Ct, Hallam VIC	26,800	26,500	5.25	4.00	6.50	5.25	Directors	Jun 2022
140 Fulton Dr, Derrimut VIC	26,300	25,500	5.25	4.13	6.50	5.25	Directors	Jun 2022
49 Temple Dr, Thomastown VIC	23,250	23,000	5.25	4.50	6.25	5.75	Directors	Dec 2022
51-73 Lambeck Dr, Tullamarine VIC	22,400	17,900	5.50	4.75	6.75	5.75	m3	Jun 2023
30 Fulton Drive, Derrimut VIC	21,000	20,550	5.50	4.50	6.50	5.75	Colliers	Jun 2023
51-65 Wharf Road, Port Melbourne VIC	20,900	22,000	4.50	4.00	6.50	5.50	C&W	Jun 2023
179 Studley Crt, Derrimut VIC	20,600	20,000	5.50	4.25	6.50	5.50	Directors	Jun 2022
159 & 169 Studley Court, Derrimut VIC	19,000	18,500	5.25	4.25	6.50	5.25	Directors	Jun 2022
69 Studley Ct, Derrimut VIC (4)	18,500	40,000	5.25	4.25	6.50	5.50	Colliers	Jun 2023
870 Lorimer Street, Port Melbourne VIC	18,000	18,000	4.50	4.00	6.25	5.50	Directors	Oct 2022
119 Studley Court, Derrimut VIC (6)	12,350	-	5.50	-	6.50	-	Colliers	Jun 2023
95 Fulton Dr, Derrimut VIC	12,000	12,000	5.50	4.25	6.50	5.50	Colliers	Jun 2023
346 Boundary Road, Derrimut VIC	11,900	11,850	5.75	5.25	6.50	5.75	Directors	Jul 2022

Trust's assets and liabilities

C2 Investment properties (continued)

Property	Fair value		Capitalisation rate		Discount rate		Valuer	Last independent valuation date
	30 June 2023 \$'000	30 June 2022 \$'000	30 June 2023 %	30 June 2022 %	30 June 2023 %	30 June 2022 %		
43-49 Wharf Road, Port Melbourne VIC	11,500	11,450	4.50	4.25	6.50	5.75	C&W	Jun 2023
9 Fellowes Ct, Tullamarine VIC	10,850	6,850	5.50	4.75	6.75	5.75	m3	Jun 2023
40 Scanlon Dr, Epping VIC (4)	10,000	17,500	5.75	4.75	6.75	5.25	JLL	Jun 2023
85 Fulton Drive, Derrimut, VIC	7,350	7,350	5.50	4.75	6.75	5.50	Directors	May 2022
31-35 Hallam South Road, Hallam VIC	6,200	6,200	6.50	5.75	7.00	6.50	Directors	Jul 2022
NSW								
56-88 Lisbon Street, Fairfield NSW	200,500	200,200	4.75	3.88	6.25	5.50	KF	Jun 2023
2 Woolworths Way, Warnervale NSW	120,000	120,000	5.75	4.75	6.25	5.50	Directors	Dec 2022
67-69 Mandoon Rd, Girraween NSW	84,000	86,000	5.25	4.50	6.25	5.50	Directors	Jun 2022
92-98 Cosgrove Rd, Enfield NSW	73,400	73,300	5.25	3.88	6.75	5.25	KF	Jun 2023
12 Williamson Rd, Ingleburn NSW	72,000	75,000	4.75	3.50	6.50	5.25	JLL	Jun 2023
82 Rodeo Drive, Gregory Hills NSW	71,000	70,000	4.75	3.88	6.50	5.38	C&W	Jun 2023
10 Williamson Rd, Ingleburn NSW	71,000	67,000	5.25	4.25	6.50	5.50	JLL	Jun 2023
37-51 Scrivener St, Warwick Farm NSW	70,000	66,200	5.00	4.00	6.25	5.50	C&W	Jun 2023
457 Waterloo Rd, Chullora NSW	46,000	47,800	5.00	4.00	6.50	5.50	Directors	Dec 2022
160 Newton Road, Wetherill Park NSW	41,100	40,400	5.00	3.88	6.50	5.25	Directors	Dec 2022
164 Newton Road, Wetherill Park NSW	39,000	38,750	5.00	3.88	6.50	5.25	Directors	Dec 2022
74-94 Newton Rd, Wetherill Park NSW	39,000	39,000	5.50	4.75	6.50	5.75	Directors	Dec 2022
6 Macdonald Rd, Ingleburn NSW	33,500	33,500	5.00	4.00	6.00	5.50	Savills	Jun 2023
8 Penelope Cres, Arndell Park NSW	32,200	30,500	4.88	4.00	6.50	5.50	Directors	Dec 2022
29 Penelope Crescent, Arndell Park NSW	32,000	30,250	4.88	4.00	6.25	5.50	Colliers	Jun 2023
144 Hartley Rd, Smeaton Grange NSW	25,800	25,400	5.00	4.00	6.50	5.50	Directors	Jun 2022
75 Owen St, Glendenning NSW	17,100	17,100	5.00	3.75	6.50	5.00	Directors	Dec 2022
8 Hexham Place, Wetherill Park NSW	12,300	12,200	5.00	3.75	6.25	5.00	Directors	Dec 2022
29 Glendenning Rd, Glendenning NSW (5)	-	71,650	-	3.75	-	5.25	Savills	Jun 2023
8 Lexington Dr, Bella Vista NSW (5)	-	38,000	-	3.75	-	5.50	Savills	Jun 2023
52-74 Quarry Rd, Erskine Park NSW (5)	-	31,000	-	3.75	-	5.25	Colliers	Jun 2023
QLD								
46 Robinson Rd E, Virginia QLD	256,500	300,000	5.00	3.75	6.50	5.50	JLL	Jun 2023
60-80 Southlink St, Parkinson QLD	59,500	59,700	5.25	4.38	6.50	5.75	JLL	Jun 2023
1 Lahrs Rd, Ormeau QLD	55,000	55,000	5.25	4.38	6.50	5.50	Directos	Dec 2022

Trust's assets and liabilities

C2 Investment properties (continued)

Property	Fair value		Capitalisation rate		Discount rate		Valuer	Last independent valuation date
	30 June 2023 \$'000	30 June 2022 \$'000	30 June 2023 %	30 June 2022 %	30 June 2023 %	30 June 2022 %		
22 Hawkins Cres, Bundamba QLD	46,000	56,200	5.50	4.63	7.25	5.75	JLL	Jun 2023
33-37 Mica St, Carole Park QLD	39,500	39,500	5.75	5.00	7.25	6.00	Directors	Jun 2022
149 Kerry Rd, Archerfield QLD	38,750	38,000	5.38	4.75	6.25	5.75	Savills	Jun 2023
69 Rivergate Pl, Murarrie QLD	37,500	34,300	5.75	5.00	6.50	5.75	CBRE	Jun 2023
46 Gosport St, Hemmant QLD	32,200	32,200	6.00	5.00	6.75	5.50	Savills	Jun 2023
680 Boundary St, Richlands QLD	31,000	29,600	5.50	5.00	6.25	5.75	CBRE	Jun 2023
21 Jay St, Mount St John, Townsville QLD (1)	29,600	36,700	6.75	5.00	7.75	6.25	CBRE	Jun 2023
1 Ashburn Rd, Bundamba QLD (4)	26,650	59,200	5.50	4.50	6.50	5.50	Savills	Jun 2023
Lot 5 243 Bradman Street, Acacia Ridge QLD	26,500	26,600	5.00	4.25	6.25	5.75	Directors	Jun 2022
55 Musgrave Road, Coopers Plains QLD	22,300	22,000	6.00	5.00	7.25	5.75	Directors	Dec 2022
51 Depot St, Banyo QLD	21,800	21,800	5.00	4.25	6.25	5.25	Directors	Jun 2022
31 Gravel Pit Road, Darra QLD	19,100	19,100	5.50	4.75	6.75	5.75	Directors	Jun 2022
616 Boundary Rd, Richlands QLD	18,000	24,000	6.75	5.50	7.50	6.00	C&W	Jun 2023
35 Cambridge St, Coorparoo QLD	15,500	15,500	5.75	5.00	6.50	6.00	Directors	Dec 2022
42 Hoepner Rd, Bundamba QLD (4)	11,750	24,300	5.50	4.75	6.75	5.50	C&W	Jun 2023
24 West Link Pl, Richlands QLD	11,200	10,800	5.75	5.00	6.75	5.75	C&W	Jun 2023
43-45 Mica St, Carole Park QLD	2,100	2,100	5.75	5.00	-	-	Directors	Jun 2022
WA								
310 Spearwood Ave, Bibra Lake WA	76,500	75,000	6.50	5.75	7.50	6.50	Directors	Dec 2022
Lot 14 Sudlow Rd, Bibra Lake WA	45,500	45,000	6.50	5.75	7.50	6.50	Directors	Jun 2023
48-54 Kewdale Road, Welshpool WA	37,800	37,500	6.50	5.50	7.75	6.85	Directors	Dec 2022
23 Selkis Rd, Bibra Lake WA	31,100	30,300	6.00	5.00	7.50	5.75	Directors	Jun 2022
204-208 Bannister Road, Canning Vale WA (2)	25,500	10,050	-	-	-	-	JLL	Jun 2023
16-18 Baile Rd, Canning Vale WA	22,300	22,300	6.50	5.25	7.00	5.75	Colliers	Jun 2023
103 Stirling Cres, Hazelmere WA	20,500	20,600	6.25	5.50	7.25	6.75	Directors	Jun 2022
92 Robinson Rd, Belmont WA	13,750	13,750	6.75	5.75	7.75	6.50	Directors	Dec 2022
155 Lakes Rd, Hazelmere WA	11,500	11,500	6.00	5.25	7.25	6.50	Directors	Jun 2022

Trust's assets and liabilities

C2 Investment properties (continued)

Property	Fair value		Capitalisation rate		Discount rate		30 June 2023 Valuer	Last independent valuation date
	30 June 2023 \$'000	30 June 2022 \$'000	30 June 2023 %	30 June 2022 %	30 June 2023 %	30 June 2022 %		
SA								
23-41 Galway Ave, Marleston SA	40,500	40,500	5.25	4.75	7.00	6.25	JLL	Jun 2023
32-54 Kaurna Ave, Edinburgh Park SA	25,000	25,500	5.50	4.75	6.75	6.25	Savills	Jun 2023
27-30 Sharp Court, Caven SA	23,250	23,254	5.25	4.25	6.50	5.25	Directors	Jun 2022
9-13 Caribou Dr, Direk SA	12,750	12,700	6.00	5.25	7.00	6.00	Directors	Dec 2022
ACT								
54 Sawmill Cct, Hume ACT (1)	24,150	24,150	5.25	4.75	6.50	5.75	Directors	Dec 2022
Land holdings (7)								
50-64 Mirage Road, Direk SA (6)	8,400	-	-	-	-	-	KF	Jun 2023
15-19 Caribou Drive, Direk SA	2,500	2,297	-	-	-	-	Directors	Dec 2021
Consolidated investment properties	3,709,950	4,066,426						
29 Glendenning Rd, Glendenning NSW (5)	35,394	-	5.00	-	6.25	-	Savills	Jun 2023
8 Lexington Dr, Bella Vista NSW (5)	18,207	-	4.75	-	6.50	-	Savills	Jun 2023
52-74 Quarry Rd, Erskine Park NSW (5)	16,065	-	4.88	-	6.50	-	Colliers	Jun 2023
Investment properties equity accounted	69,666	-						
Investment properties portfolio	3,779,616	4,066,426						

Trust's assets and liabilities

C2 Investment properties (continued)

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

(2) These properties are under development and the value as at 30 June 2023 is based on fair value on completion less costs to complete.

(3) 1 International Dr, Westmeadows VIC was classified as investment property held for sale. Refer to Note C3 for more information.

(4) The Trust disposed 50% of these properties on 15 December 2022 and the combined value is \$115.6 million.

(5) The Trust disposed 49% of the ownership in the sub-trusts for these properties on 15 December 2022 for \$65.3 million. Due to the 49% owner sub-trust disposal, which resulting in a joint control over the sub-trusts, the accounting treatment of these sub-trusts has changed from consolidation to equity accounted investments. These properties are de-consolidated from the Trust's investment properties and the 51% ownership of the net assets is accounted for as Equity accounted investments (Note C4).

(6) Investment properties acquired by the Trust during the year.

(7) Land holdings for up coming developments.

The Trust's weighted average capitalisation rate for the year is 5.26% (2022: 4.19%).

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.

The current economic climate is uncertain. In response to this, the Trust independently valued 38 out of 89 assets at 30 June 2023.

All valuations were undertaken having regard to a best estimate of the information available at reporting date, noting there has been limited recent transactional evidence, and the valuations have been prepared in accordance with the fair value principles outlined in AASB13 Fair value measurement, which assumes a price that would be paid in an orderly transaction between market participants.

In the event that the current economic conditions are more prolonged, then there may be a more adverse impact on the value of the Trust's investment properties.

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 2023	30 June 2022
Market rent	Increase	Decrease	\$35 - \$1,503	\$25 - \$1,416
Capitalisation rate	Decrease	Increase	4.50% - 6.75%	3.13% - 5.75%
Discount Rate	Decrease	Increase	6.00% - 7.75%	5.00% - 6.85%

Trust's assets and liabilities

C2 Investment properties (continued)

Fair value measurement (continued)

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 values. The table below illustrates the impact on valuation of movements in capitalisation rates:

Fair Value at 30 June 2023 \$'000	Capitalisation rate impact	
	+0.25% \$'000	-0.25% \$'000
3,709,950	(168,300)	185,100

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 2023 \$'000	30 June 2022 \$'000
30 Clay PI, Eastern Creek NSW	-	34,500
1 International Dr, Westmeadows VIC	59,100	-
	59,100	34,500

The Trust sold 30 Clay PI, Eastern Creek NSW for a gross sale price of \$34.5 million on 30 November 2022.

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.

Trust's assets and liabilities

C4 Equity accounted investments

During the year, the Trust entered into a strategic partnership formed with an investment vehicle sponsored by Morgan Stanley Real Estate Investing (MSREI) to acquire 49% interest of three CIP controlling entities. The sale transaction was completed on 14 December 2022. As part of this transaction, 49% of the underlying interest in the sub trusts carrying these properties were disposed, resulting in the retention of a 51% non controlling stakes. Whilst these assets continue to be managed by the Responsible Entity, the need for joint decision making across a number of material financial and operating matters under the terms of the sale deeds and therefore equity accounting adopted as the most appropriate basis for reporting these equity stakes.

Set out below were the joint ventures of the Trust as at 30 June 2023 which, in the opinion of the Directors, were material to the Trust and were accounted for using the equity method. The entities listed below have share capital consisting solely of ordinary units, which are held directly by the Trust. The country of incorporation or registration is Australia which is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

	30 June 2023 %	30 June 2022 %	Principal activity	Carry amount	
				30 June 2023 \$'000	30 June 2022 \$'000
AIR Erskine Park Trust	51	-	Property investments	16,211	-
AIR Glendenning 2 Trust	51	-	Property investments	35,614	-
CIP Sub Trust No. 33	51	-	Property investments	18,276	-
				70,101	-

The below table shows the movement in carrying amounts of equity accounted investments for the year ended 30 June 2023.

Carrying amount of equity accounted investments	AIR Erskine Park Trust	AIR Glendenning 2 Trust	CIP Sub Trust No. 33	Total
	\$'000	\$'000	\$'000	\$'000
Opening balance as at 1 July 2022				
Investment	14,499	35,365	18,279	68,143
Share of profit	1,907	843	429	3,179
Distributions received/receivable	(195)	(594)	(432)	(1,221)
Closing balance as at 30 June 2023	16,211	35,614	18,276	70,101

Trust's assets and liabilities

C4 Equity accounted investments (continued)

The below table provide summarised financial information for equity accounted investments. The information disclosed reflects the amounts presented in the consolidated financial statements of the relevant investments and not the Trust's share of those amounts.

Summarised balance sheet	AIR Erskine	AIR	CIP Sub Trust	Total
	Park Trust	Glendenning	No. 33	
	\$'000	2 Trust	\$'000	\$'000
		\$'000		
Cash and other cash equivalents	575	2,208	474	3,257
Other current assets	152	255	183	590
Total current assets	727	2,463	657	3,847
Investment properties	31,500	69,400	35,700	136,600
Total non-current assets	31,500	69,400	35,700	136,600
Other current liabilities	439	2,031	523	2,993
Total current liabilities	439	2,031	523	2,993
Other non-current liabilities	1	-	-	1
Total non-current liabilities	1	-	-	1
Total tangible assets	31,787	69,832	35,834	137,453
Trust's share in %	51.00%	51.00%	51.00%	51.00%
Carry amount	16,211	35,614	18,276	70,101
Summarised statement of comprehensive income	AIR Erskine	AIR	CIP Sub Trust	Total
	Park Trust	Glendenning	No. 33	
	\$'000	2 Trust	\$'000	\$'000
		\$'000		
Revenue	426	1,386	755	2,567
Net gain on fair value of investment properties	1,654	20	(69)	1,605
Other expenses	(173)	(563)	(257)	(993)
Profit/(loss) for the year	1,907	843	429	3,179
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	-	-

Trust's assets and liabilities

C5 Trade and other payables

	30 June 2023 \$'000	30 June 2022 \$'000
Current		
Trade creditors and expenses payable	16,019	14,684
Other current creditors and accruals	27,775	32,345
	<u>43,794</u>	<u>47,029</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).

C6 Borrowings

	30 June 2023 \$'000	30 June 2022 \$'000
Non-current		
Unsecured		
Unsecured loan - variable	556,000	927,200
Unsecured medium term note (A\$MTN) - fixed	350,000	350,000
Unsecured loan - fixed	100,000	100,000
Borrowing costs	(3,346)	(4,171)
Unsecured borrowings at amortised cost	<u>1,002,654</u>	<u>1,373,029</u>
Exchangeable notes at fair value*	287,202	-
Total borrowings	<u>1,289,856</u>	<u>1,373,029</u>

* On 2 March 2023, the Trust issued five-year unsecured guaranteed exchangeable notes (Notes) with a face value of \$300.0 million. The Notes are listed on the Official List of the Singapore Exchange Securities Trading Limited (SGX-ST) and have received a rating of Baa2 from Moody's. At year end, the closing fair value of the Notes had decreased to \$287.2 million, representing the difference between the inception date face value of the notes and the fair market value of the Notes as traded in the SGX-ST. The notes attract a fixed coupon of 3.95% per annum calculated based on its face value, payable to Noteholders on a quarterly basis.

The Notes are exchangeable into the Trust's units at an initial exchange price of \$4.1625 (Exchange price). The Exchangeable Notes are embedded with option contracts which allow the Trust or Noteholders to redeem at 100% of the principal amount. The Trust can call for redemption to redeem all and not some only of the Notes, at their face value plus accrued and unpaid interest, if the closing price of the Trust's units at any time after 16 March 2026 to maturity is at least 130% of the applicable Exchange Price. Noteholders have an option to put the notes to the issuer for face value on or about 2 March 2026 or convert to units at any time commencing from 12 April 2023 to 10 days prior to the final maturity of the Notes on 2 March 2028. Under such a scenario, the Trust has the ability to Cash settle its obligations. It is expected that any notes that are not exchanged before maturity will be redeemed by the Trust at 100% of its face value at maturity date. The net financial obligations arising from these embedded derivatives along with the notes have been recognised and reported as a single obligation which are fair valued at each reporting date.

Trust's assets and liabilities

C6 Borrowings (continued)

Moody's Investor Services maintains the Trust with a Baa2 issuer rating with a stable outlook.

As at 30 June 2023, the Trust had the following debt facilities:

	30 June 2023 \$'000	30 June 2022 \$'000
Unsecured loan facility		
Facilities limit	1,310,000	1,610,000
Facilities unused	<u>(304,000)</u>	<u>(232,800)</u>
Unsecured loan facilities used	1,006,000	1,377,200
Exchangeable notes at fair value	<u>287,202</u>	<u>-</u>
Total loan facility	<u>1,293,202</u>	<u>1,377,200</u>

At the end of the year, the Trust had 87.9% of its drawn debt in fixed rate borrowings (2022: 61.7%).

As at 30 June 2023, the Trust had \$737.2 million (2022: \$450.0 million) of fixed rate borrowings of which \$350.0 million has been swapped into a floating rate exposure. At the end of the year, the Trust's drawn debt that is on a fixed interest basis is \$1,137.2 million (2022: \$850.0 million).

The Trust's loan has covenants in relation to Interest Coverage Ratio (ICR), Gearing Ratio, Priority Debt Ratio, Unencumbered Asset Ratio, Development Ratio and Guarantor Coverage which the Trust has complied with during the year.

Recognition and measurement

Exchangeable notes issued by the Trust which are traded on the SGX-ST are fair valued at each reporting date, with the resultant adjustment taken through the Consolidated statement of profit and loss.

All other borrowings of the trust 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 term 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.

C7 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 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 interest rate	Notional amount of contract \$'000	Fair value of contracts \$'000
Current assets				
30 June 2023				
Interest rate swap	28 Jun 2024	0.54%	50,000	1,974
Interest rate swap	30 Jun 2024	0.54%	<u>50,000</u>	<u>1,969</u>
			<u>100,000</u>	<u>3,943</u>

Trust's assets and liabilities

C7 Derivatives (continued)

Type of contract	Maturity date	Contracted interest rate	Notional amount of contract \$'000	Fair value of contracts \$'000
Non-current assets				
30 June 2023				
Interest rate swap	15 Dec 2025	3.29%	100,000	2,562
Interest rate swap	16 Jun 2025	3.05%	100,000	2,548
Interest rate swap	15 Jun 2026	3.39%	100,000	2,717
Interest rate swap*	16 Dec 2024	1.00%	350,000	18,096
			<u>650,000</u>	<u>25,923</u>
Non-current liabilities				
Interest rate swap*	16 Dec 2027	BBSY	<u>(350,000)</u>	<u>(36,593)</u>
			<u>(350,000)</u>	<u>(36,593)</u>

* Hedged against the \$350 million Australian Dollar Medium Term Note.

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

C8 Issued capital

	30 June 2023		30 June 2022	
	Units '000	\$'000	Units '000	\$'000
Opening balance	634,931	1,840,488	551,808	1,531,361
Units issued	-	-	79,642	302,611
Distribution reinvestment plan ('DRP')	-	-	3,481	13,141
Equity raising costs	-	-	-	(6,625)
Closing balance	634,931	1,840,488	634,931	1,840,488

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.

C9 Contingent assets, liabilities and commitments

The Trust has committed to two construction projects during the year:

- 204-208 Bannister Road, Canning Vale WA: Estimated total development cost of \$18.1 million plus GST. As at 30 June 2023, the Trust has spent \$13.7 million (plus GST) on this development project.
- 90 Bolinda Road, Campbellfield VIC: Estimated total development cost of \$71.1 million plus GST and the Trust has spent \$38.5 million (plus GST) on this development project at reporting date.

Unless otherwise stated in this report, the Trust has no contingent assets, liabilities or commitments as at 30 June 2023.

Trust's assets and liabilities

C10 Cash and cash equivalents

	30 June 2023 \$'000	30 June 2022 \$'000
Cash and cash equivalents	20,868	26,604
	<u>20,868</u>	<u>26,604</u>

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

Net profit for the year	(76,608)	367,480
Adjustments:		
Net gain on fair value of investment properties	183,300	(281,776)
(Gain)/loss on fair value of derivatives	(413)	11,938
Change in deferred rent and lease incentives	(9,788)	(9,859)
Change in capitalised leasing fees	2,452	1,738
Borrowing cost amortisation	945	4,030
Goodwill impairment expense	-	10,501
Changes in operating assets and liabilities:		
Increase in receivables	(610)	(7,993)
Decrease/(increase) in other assets	298	(584)
(Decrease)/increase in payables	(1,973)	16,454
Net cash generated by operating activities	97,603	111,929

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.

(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.

Name of entity	Country of domicile	Class of units	Equity interest	
			30 June 2023	30 June 2022
			%	%
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

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 2023 %	30 June 2022 %
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
AIR Erskine Park Trust*	Australia	Ordinary	-	100
AIR ST1 Trust	Australia	Ordinary	100	100
CIP Sub Trust No. 1	Australia	Ordinary	100	100
CIP Sub Trust No. 2	Australia	Ordinary	100	100
CIP Sub Trust No. 3	Australia	Ordinary	100	100
CIP Sub Trust No. 4	Australia	Ordinary	100	100
CIP Sub Trust No. 5	Australia	Ordinary	100	100
CIP Sub Trust No. 6	Australia	Ordinary	100	100
CIP Sub Trust No. 7	Australia	Ordinary	100	100
CIP Sub Trust No. 8	Australia	Ordinary	100	100
CIP Sub Trust No. 9	Australia	Ordinary	100	100
CIP Sub Trust No. 10	Australia	Ordinary	100	100
CIP Sub Trust No. 11	Australia	Ordinary	100	100
CIP Sub Trust No. 12	Australia	Ordinary	100	100
CIP Sub Trust No. 13	Australia	Ordinary	100	100
CIP Sub Trust No. 14	Australia	Ordinary	100	100
CIP Sub Trust No. 15	Australia	Ordinary	100	100
CIP Sub Trust No. 16	Australia	Ordinary	100	100
CIP Sub Trust No. 17	Australia	Ordinary	100	100
CIP Sub Trust No. 18	Australia	Ordinary	100	100
CIP Sub Trust No. 19	Australia	Ordinary	100	100
CIP Sub Trust No. 20	Australia	Ordinary	100	100
CIP Sub Trust No. 21	Australia	Ordinary	100	100
CIP Sub Trust No. 22	Australia	Ordinary	100	100
CIP Sub Trust No. 23	Australia	Ordinary	100	100
CIP Sub Trust No. 24	Australia	Ordinary	100	100
CIP Sub Trust No. 25	Australia	Ordinary	100	100
CIP Sub Trust No. 26	Australia	Ordinary	100	100
CIP Sub Trust No. 27	Australia	Ordinary	100	100
CIP Sub Trust No. 28	Australia	Ordinary	100	100
CIP Sub Trust No. 29	Australia	Ordinary	100	100
CIP Sub Trust No. 30	Australia	Ordinary	100	100
CIP Sub Trust No. 31	Australia	Ordinary	100	100
CIP Funding Pty Ltd	Australia	Ordinary	100	100
CIP Sub Trust No. 32	Australia	Ordinary	100	-
CIP Sub Trust No. 33*	Australia	Ordinary	-	-

Trust structure

D1 Interest in material subsidiaries (continued)

Recognition and measurement (continued)

(iii) Subsidiaries (continued)

* The Trust disposed 49% of the ownership of these subsidiaries on 15 December 2022. Due to the 49% owner sub-trust disposal, these subsidiaries have been reclassified as joint ventures investments and the accounting treatment of these sub-trusts has changed from consolidation to equity accounted investments. Refer to Note C4 for more details.

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
Natalie Collins
Jennifer Cook

No compensation is paid directly by the Trust to any 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 financial year.

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.

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 2023	30 June 2022
	\$'000	\$'000
Management fees	24,211	22,472
Development management fees	3,370	493
Property management fees	2,194	1,977
Custodian fees	1,931	1,764
Facility management fees	1,915	1,228
Leasing fees	1,346	2,425
Project management fees	226	380
Due diligence acquisition fees	50	625
	<u>35,243</u>	<u>31,364</u>

At reporting date an amount of \$1,078,756 (2022: \$3,347,802) 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 2023, the Trust did not hold any units in the related parties of the Responsible Entity (30 June 2022: nil).

Units in the Trust held by related parties

At 30 June 2023, the following related parties of the Responsible Entity hold units in the Trust:

Trust structure

D2 Related parties (continued)

Units in the Trust held by related parties (continued)

	Closing units held	Closing interest held
30 June 2023		
Centuria Capital No. 2 Industrial Fund	77,319,885	12.18%
Centuria Capital No. 5 Fund	21,593,800	3.40%
Centuria Property Funds No. 2 Limited	2,181,086	0.34%
Centuria Growth Bond Fund	895,191	0.14%
Centuria Balanced Fund	385,129	0.06%
Roger Dobson	70,703	0.01%
John McBain	13,404	-%
Simon Holt	6,535	-%
Jennifer Cook	5,729	-%
Natalie Collins	5,464	-%
	102,476,926	16.13%
30 June 2022		
Centuria Capital No. 2 Industrial Fund	77,319,885	12.18%
Centuria Capital No. 5 Fund	21,593,800	3.40%
Centuria Property Funds No. 2 Limited	2,181,086	0.34%
Centuria Growth Bond Fund	895,191	0.14%
Centuria Balanced Fund	385,129	0.06%
Roger Dobson	50,703	0.01%
Simon Holt	6,535	-%
Jennifer Cook	5,729	-%
Natalie Collins	5,464	-%
	102,443,522	16.13%

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.

Trust structure

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. This table does not include the financial position and performance of its subsidiaries and the parent entity's investment in underlying subsidiaries are measuring at fair value. Accordingly, the amounts reflected above may be different from the consolidated financial statements.

	30 June 2023 \$'000	30 June 2022 \$'000
Financial position		
Assets		
Current assets	12,011	19,124
Non-current assets	2,636,330	2,819,179
Total assets	2,648,341	2,838,303
Liabilities		
Current liabilities	22,486	40,541
Non-current liabilities	114,706	108,417
Total liabilities	137,192	148,958
Net assets	2,511,149	2,689,345
Equity		
Issued capital	1,840,488	1,840,488
Retained earnings	670,661	848,857
Total equity	2,511,149	2,689,345
Financial performance		
Profit for the year	(76,608)	367,480
Total comprehensive income for the year	(76,608)	367,480

E Other notes

E1 Auditor's remuneration

	30 June 2023 \$'000	30 June 2022 \$'000
KPMG:		
Audit and review of financials	353	330
Other services	117	-
Property due diligence services & advice	-	174
	<u>470</u>	<u>504</u>

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. The carrying value of fixed rate borrowings at 30 June 2023 is \$736.7 million (2022: 450.0 million) and the fair value is \$709.6 million (2022: \$416.2 million). 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.

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 2023		30 June 2022	
	Effective interest rate	Total \$'000	Effective interest rate	Total \$'000
Financial assets				
Cash and cash equivalents	3.95%	20,868	0.01%	26,604
		<u>20,868</u>		<u>26,604</u>
Financial liabilities				
Borrowings - fixed (excluding borrowing costs)	3.00%	100,000	3.00%	100,000
Medium term note (A\$MTN) - fixed (excluding borrowing costs)	3.03%	350,000	3.03%	350,000
Borrowings - variable (excluding borrowing costs)	3.28%	556,000	1.56%	927,200
Exchangeable notes - fixed (at fair value)	3.95%	287,202	-%	-
		<u>1,293,202</u>		<u>1,377,200</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 (2022: 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
30 June 2023			
Net (loss)/profit	100 bps	(1,582)	1,816
		<u>(1,582)</u>	<u>1,816</u>
30 June 2022			
Net (loss)/profit	100 bps	(4,298)	5,174
		<u>(4,298)</u>	<u>5,174</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 2023, the main financial assets exposed to credit risk are trade receivables. There were no significant concentrations of credit risk to counterparties at 30 June 2023. Refer to Note C1 for details of trade receivables.

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

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

Liquidity risk

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

E2 Financial instruments (continued)

Liquidity risk (continued)

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

	Effective interest rate	Total principal and interest \$'000	Less than 1 year \$'000	1 to 5 years \$'000	5+ years \$'000
30 June 2023					
Trade and other payables	-%	68,769	68,769	-	-
Borrowings	3.95%	1,515,613	54,906	1,355,709	104,998
Derivative financial instruments	3.46%	(6,727)	9,861	33	(16,621)
		1,577,655	133,536	1,355,742	88,377

30 June 2022

Trade and other payables	-%	74,490	74,490	-	-
Borrowings	1.53%	1,505,338	30,050	1,017,423	457,865
Derivative financial instruments	2.10%	(6,133)	9,685	(11,683)	(4,135)
		1,573,695	114,225	1,005,740	453,730

The principal amounts included in the above borrowings is \$1,306.0 million (2022: \$1,377.2 million), which is inclusive of the exchangeable note at its face value of \$300.0 million.

E3 Events subsequent to reporting date

On 25 July 2023, the Trust settled on the acquisition of 51 Musgrave Road, Coopers Plains QLD for \$10.8 million.

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

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 2023

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 8 to 42 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 2023 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.



Roger Dobson
Director



Peter Done
Director

Sydney
14 August 2023



Independent Auditor's Report

To the unitholders of Centuria Industrial REIT

Opinion

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

In our opinion, the accompanying Financial Report of the Trust 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 2023 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 2023;
- 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 Trust 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 these requirements.

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 (3,710.0m)

Refer to Note C2 to the Financial Report

The key audit matter

The valuation of investment properties is a key audit matter as they are significant in value (being 95.0% of total assets) and contain assumptions with estimation uncertainty.

The properties being valued at fair value increased the judgment applied by us when evaluating evidence available.

The Group approached the uncertainty risk, including consideration of the recent economic uncertainties, using internal methodologies and through the use of external valuation experts.

We focused on the significant forward-looking assumptions the Group applied in external and internal valuation models with a consideration to the impact of economic uncertainty including:

- 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: net market rent assumptions.

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.

We paid particular attention to knowledge and sources of information available regarding market conditions specific to year end.

How the matter was addressed in our audit

Our procedures included:

- Understanding the Group’s process regarding the valuations of investment property, including specific considerations of the impact of recent changes in interest rates and inflation 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.

Working with our real estate valuation specialists we:

- Gained an understanding of prevailing market conditions, including existence of market transactions, and
- Performed a risk assessment of the investment property portfolio by assessing key assumptions and metrics including the capitalisation rate, discount rate, weighted average lease expiry and market rents to identify investment properties with significant valuation movements and outliers in key assumptions.

For externally valued investment properties:

- Taking into account the asset classes, geographies and characteristics of individual investment properties, we assessed the appropriateness of adopted discount and cap rates 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.
- We also tested, on a sample basis, other key inputs to the investment property valuations such as net market rent, occupancy rate, lease

	<p>terms, for consistency to existing lease contracts.</p> <ul style="list-style-type: none"> • We assessed sources of information for what reasonable expectations existed at year end date versus those issues or observations emerging since year end, and their impact to the Group's investment properties values; • Enquired with the external valuers on a sample basis to challenge the investment property valuation methodology and the assumptions applied in the external valuations. <p>For internally valued investment properties:</p> <ul style="list-style-type: none"> • Taking into account the asset classes, geographies and characteristics of individual investment properties, we assessed the appropriateness of adopted discount and cap rates 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; • Compared the advice obtained from the external valuers on the weighted average change in capitalisation rates, including any outliers, to the capitalisation rates applied in the Directors' internal valuations of investment properties <p>For financial statement disclosure:</p> <ul style="list-style-type: none"> • Assessed 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 economic uncertainty that existed at balance date and up until issuance of our audit report.
--	---

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 Trusts 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 Director's Report, Corporate Governance Statement and Additional stock exchange Information. The Letter from the Chairman & Trust 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 and will 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 Trust's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Trust 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
KPMG


Peter Zabaks
Partner
Sydney
14 August 2023

Corporate Governance Statement

The corporate governance statement for the Trust was last updated on 29 September 2022 and is available on the Centuria website at <https://centuria.com.au/centuria-capital/corporate/sustainability/governance/>.

Additional stock exchange information

As at 1 August 2022

Distribution of units

Holding	Number of units	Number of holders	Percentage of total (%)
1 - 1000	648,554	1,544	0.10
1,001 - 5,000	11,182,915	3,659	1.76
5,001 - 10,000	21,700,047	2,913	3.42
10,001 - 100,000	83,996,546	3,565	13.23
100,001 and over	517,402,573	129	81.49
	634,930,635	11,810	100.00

Substantial unitholders

	Number of units	Percentage of total (%)
CENTURIA CAPITAL GROUP	102,375,091	16.12
VANGUARD GROUP	48,372,747	7.62
STATE STREET CORPORATE	41,594,661	6.55
BLACKROCK GROUP	38,410,975	6.05
Total	230,753,474	36.34

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	141,100,433	22.22
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	101,296,712	15.95
CITICORP NOMINEES PTY LIMITED	69,113,891	10.89
CENTURIA INVESTMENT HOLDINGS PTY LIMITED	45,136,934	7.11
CENTURIA INVESTMENT HOLDINGS PTY LIMITED	32,182,951	5.07
NATIONAL NOMINEES LIMITED	25,070,856	3.95
CENTURIA INVESTMENT HOLDINGS PTY LIMITED	21,593,800	3.40
BNP PARIBAS NOMS PTY LTD	19,339,387	3.05
CITICORP NOMINEES PTY LIMITED	5,394,017	0.85
BNP PARIBAS NOMINEES PTY LTD	3,570,474	0.56
BNP PARIBAS NOMINEES PTY LED HUB24 CUSTODIAL SERV LTD	2,748,611	0.43
NETWEALTH INVESTMENTS LIMITED	6,154,757	0.97
CHARTER HALL WHOLESALE MANAGEMENT LIMITED	3,725,147	0.58
CENTURIA PROPERTY FUNDS NO 2 LIMITED	2,181,086	0.34
BNP PARIBAS NOMINEES PTY LTD	1,844,134	0.29
ONE MANAGED INVESTMENT FUNDS LTD	1,465,000	0.23
ARTMAX INVESTMENTS LIMITED	1,441,299	0.22
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,927,686	0.30
CHARTER HALL WHOLESALE MANAGEMENT LTD	1,255,000	0.20
SAFECORP GROUP LTD	1,210,000	0.19
	487,752,175	76.80