

Centuria

**Centuria Office REIT
and its subsidiaries**

ARSN 124 364 718

**Annual financial report
for the year ended 30 June 2020**

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

Centuria Office REIT

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For the year ended 30 June 2020

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Directors' report

For the year ended 30 June 2020

The directors of Centuria Property Funds Limited ('CPFL'), the Responsible Entity of Centuria Office REIT ('COF') present their report, together with the consolidated financial statements of the Trust and its subsidiaries ('the Trust') for the year ended 30 June 2020 and the independent auditor's report thereon.

Directors of the Responsible Entity

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

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

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

Name	Appointed
Anna Kovarik	5 July 2018

Roger Dobson has resigned from the board of the Responsible Entity, Centuria Property Funds Limited effective 29 July 2020. His position will not be replaced.

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

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

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

Principal activities

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

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

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

Significant changes in the state of affairs

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

Review of operations

Results

The results of the operations of the Trust are disclosed in the consolidated statement of profit or loss and other comprehensive income of these financial statements. The Trust's profit from continuing operations for the year ended 30 June 2020 was \$23,053,000 (30 June 2019: \$53,572,000).

As at 30 June 2020, the Trust's Net Tangible Assets ('NTA') was \$2.49 per unit (30 June 2019: \$2.49 per unit).

Review of operations (continued)

Results (continued)

The current year results have been affected by the COVID-19 pandemic. On 7 April 2020, the government announced a National Cabinet Mandatory Code of Conduct ('the Code'). The Code applies to all qualifying tenancies that are suffering financial stress or hardship as a result of the COVID-19 pandemic. The Trust has applied the Code across all assets and granted applicable tenants rent relief packages to alleviate the impacts of the COVID-19 pandemic in the form of rent waivers or deferrals. The background and impact on the financial statements are outlined in Note A2. The impact of the rent relief granted and expected credit loss provided reduces the Funds From Operations ('FFO') by 0.7 cents per unit ('cpu').

Investment property valuations

The total value of the Trust's portfolio as at 30 June 2020 was \$2,086 million (30 June 2019: \$1,400 million), an increase of 49% year on year. Property acquisitions account for \$625 million of the increase in the portfolio valuation.

The weighted average capitalisation rate for the portfolio firmed 29 basis points year on year to 5.93% as at 30 June 2020 (30 June 2019: 6.22%).

The COVID-19 pandemic gives rise to uncertainty in the market and which may have an impact on key drivers of property valuations. For the year ended 30 June 2020, the Trust has engaged external valuers to assess the valuations of 13 of its properties across the portfolio.

Leasing and occupancy

The Trust secured 41 leases across 32,378 square metres ('sqm') representing 10.6% of the portfolio's Net Lettable Area ('NLA') in the year ended 30 June 2020. This comprised of 19 new leases across 5,392 sqm and 22 renewals across 26,987 sqm.

As at 30 June 2020, the Weighted Average Lease Expiry ('WALE') of the portfolio was 4.7 years (30 June 2019: 3.9 years) and the occupancy rate was 98.1% (30 June 2019: 98.4%).

Capital management

As at 30 June 2020, the Trust had a multi-bank debt facility totalling \$880.0 million (30 June 2019: \$555.0 million) with a weighted average expiry of 3.4 years (30 June 2019: 4.0 years). Drawn borrowings totalled \$749.0 million (30 June 2019: \$498.5 million), with an all in interest cost of 2.2% (30 June 2019: 3.2%) and 75% of the drawn debt hedged (30 June 2019: 58%). The Trust's gearing at 30 June 2020 was 34.5% (30 June 2019: 34.2%).

Outlook

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

Due to uncertainty arising from COVID-19 and the potential impact on business operating conditions, the Trust will not be providing the 2021 financial year FFO guidance at this point.

The 2021 financial year distribution guidance is 16.5 cpu which will be paid in equal quarterly instalments.

Distributions

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

	30 June 2020		30 June 2019	
	Cents per unit	\$'000	Cents per unit	\$'000
September quarter	4.450	15,855	4.525	10,987
December quarter	4.450	22,840	4.358	15,527
March quarter	4.450	22,896	4.358	15,527
June quarter	4.450	22,896	4.358	15,527
Total	17.800	84,487	17.600	57,568

Review of operations (continued)

Distributions (continued)

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

Event	Date
Ex-distribution date	29 June 2020
Record date	30 June 2020
Distribution payment date	10 August 2020

The Funds From Operations for the year ended 30 June 2020 was \$85.4 million, representing a 39.5% increase from prior year.

The Trust declared distributions of 17.8 cpu during the 2020 financial year which was in line with guidance provided as part of the June 2019 year end result. The table below provides a reconciliation from the consolidated statement of profit or loss and other comprehensive income to the FFO for the year:

	30 June 2020 \$'000	30 June 2019 \$'000
Net profit for the year	23,053	53,572
Adjustments		
Loss/(gain) on fair value of investment properties	37,698	(7,143)
Rent free and abatement	7,397	3,788
Goodwill impairment	6,356	-
One off refinancing costs	5,942	6,682
Realised/unrealised loss on fair value of derivatives	4,876	6,752
Straight-lining of rental income	(4,471)	(4,805)
Amortisation of incentives and leasing fees	4,122	1,955
Interest and depreciation expense adjustments for AASB 16	347	-
Transaction costs	48	403
Funds from operations	85,368	61,204

Distribution reinvestment plan

The Trust did not activate the Distribution Reinvestment Plan ('DRP') during the year ended 30 June 2020.

Environmental regulation

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

Options granted

No options were granted over unissued securities 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.

Related party transactions

On 20 November 2019, the Trust acquired a 50% share in 8 Central Avenue, Eveleigh NSW from an unlisted Centuria syndicate, Centuria 8 Central Avenue Fund. The settlement occurred after approval was obtained from the unitholders of Centuria 8 Central Avenue Fund and Centuria Office REIT. The acquisition was partly funded by a conditional placement issued to Centuria Capital Group which took place in November 2019.

Directors' report

Events subsequent to balance date

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

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

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

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

Indemnifying officers or auditors

Indemnification

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

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

Insurance premiums

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

Trust information in the directors' report

Responsible Entity interests

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

	30 June 2020 \$'000	30 June 2019 \$'000
Management fees	10,421	6,867
Property management fees	3,089	1,909
Facility management fees	1,799	817
Leasing fees	799	249
Custodian fees	798	372
Project management fees	449	147
Due diligence acquisition fees	100	150
	17,455	10,511

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

Other Trust information

The number of units in the Trust issued and redeemed 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.

Directors' report

Auditor's independence declaration

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

Rounding of amounts

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

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



Peter Done
Director



Matthew Hardy
Director

Sydney
5 August 2020



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

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

I declare that, to the best of my knowledge and belief, in relation to the audit of Centuria Office REIT for the financial year ended 30 June 2020 there have been:

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

KPMG

KPMG

Peter Zabaks

Partner

Sydney

5 August 2020

Centuria Office REIT

Annual Financial Report

For the year ended 30 June 2020

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Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2020

	Note	30 June 2020 \$'000	30 June 2019 \$'000
Revenue			
Rent and recoverable outgoings	B2	146,314	108,859
Total revenue from continuing operations		<u>146,314</u>	<u>108,859</u>
Other income			
Interest income		106	334
Other income		-	8
Total other income		<u>106</u>	<u>342</u>
Total revenue from continuing operations and other income		146,420	109,201
Expenses			
Rates, taxes and other property outgoings		35,638	25,498
Loss/(gain) on fair value of investment properties	C2	37,698	(7,143)
Finance costs	B3	22,719	22,110
Management fees	D2	10,421	6,867
Goodwill impairment expense	C4	6,356	-
Loss on fair value of derivative financial instruments		4,876	6,752
Other expenses		2,379	1,142
Expected credit loss expense	C1	1,694	-
Rental waivers expense		1,538	-
Transaction costs		48	403
Profit from continuing operations for the year		<u>23,053</u>	<u>53,572</u>
Net profit for the year		<u>23,053</u>	<u>53,572</u>
Other comprehensive income			
Other comprehensive income for the year		-	-
Total comprehensive income for the year		<u>23,053</u>	<u>53,572</u>
Basic and diluted earnings per unit			
Basic earnings per unit (cents per unit)	B4	5.0	16.3

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

Consolidated statement of financial position

As at 30 June 2020

	Note	30 June 2020 \$'000	30 June 2019 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	C10	28,809	17,546
Trade and other receivables	C1	3,263	4,080
Other assets		1,536	1,464
Investment properties held for sale	C3	-	78,500
Total current assets		33,608	101,590
Non-current assets			
Investment properties	C2	2,085,650	1,321,475
Intangibles	C4	-	6,356
Total non-current assets		2,085,650	1,327,831
Total assets		2,119,258	1,429,421
LIABILITIES			
Current liabilities			
Trade and other payables	C5	22,260	14,924
Distributions payable	B1	22,896	15,527
Total current liabilities		45,156	30,451
Non-current liabilities			
Borrowings	C6	746,372	497,222
Derivative financial instruments	C7	12,056	7,180
Lease liability	C2	32,722	-
Total non-current liabilities		791,150	504,402
Total liabilities		836,306	534,853
Net assets		1,282,952	894,568
EQUITY			
Issued capital	C8	1,283,138	833,320
(Accumulated losses)/Retained earnings		(186)	61,248
Total equity		1,282,952	894,568

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

Consolidated statement of changes in equity

For the year ended 30 June 2020

	Note	Issued capital \$'000	Retailed earnings/ (accumulated losses) \$'000	Total equity \$'000
Balance at 1 July 2018		545,228	65,244	610,472
Net profit for the year		-	53,572	53,572
Total comprehensive income for the year		-	53,572	53,572
Units issued		275,845	-	275,845
Equity raising costs		(7,753)	-	(7,753)
Distributions provided for or paid	B1	-	(57,568)	(57,568)
Contribution from manager		20,000	-	20,000
Balance at 30 June 2019		833,320	61,248	894,568
Balance at 1 July 2019		833,320	61,248	894,568
Net profit for the year		-	23,053	23,053
Total comprehensive income for the year		-	23,053	23,053
Units issued	C8	461,299	-	461,299
Equity raising costs	C8	(11,481)	-	(11,481)
Distributions provided for or paid	B1	-	(84,487)	(84,487)
Balance at 30 June 2020		1,283,138	(186)	1,282,952

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

Consolidated statement of cash flows

For the year ended 30 June 2020

	Note	30 June 2020 \$'000	30 June 2019 \$'000
Cash flows from operating activities			
Receipts from customers		159,963	117,752
Payments to suppliers		(60,711)	(41,382)
Interest received		106	334
Interest paid		(14,582)	(19,158)
Net cash generated by operating activities	C10	<u>84,776</u>	<u>57,546</u>
Cash flows from investing activities			
Payments for investment properties		(689,007)	(578,525)
Proceeds from sale of investment properties		-	56,038
Net cash used in investing activities		<u>(689,007)</u>	<u>(522,487)</u>
Cash flows from financing activities			
Distribution paid		(77,118)	(53,027)
Proceeds from borrowings		282,525	524,951
Repayment of borrowings		(32,000)	(294,000)
Payments for borrowing costs		(1,789)	(2,507)
Payments for derivative financial instruments		(5,942)	-
Proceeds from issue of units		461,299	275,845
Equity issue costs		(11,481)	(7,753)
Contribution from manager		-	20,000
Net cash generated by financing activities		<u>615,494</u>	<u>463,509</u>
Net increase/(decrease) in cash and cash equivalents		11,263	(1,432)
Cash and cash equivalents at beginning of financial period		<u>17,546</u>	<u>18,978</u>
Cash and cash equivalents at end of financial year	C10	<u>28,809</u>	<u>17,546</u>

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

Note to the financial statements

For the year ended 30 June 2020

A About the report

A1 General information

Centuria Office REIT is a registered managed investment scheme under the Corporations Act 2001 and domiciled in Australia. The principal activity of the Trust is disclosed in the directors' report. CPFL in its capacity as Responsible Entity of the Trust announced on 7 February 2020 that the Trust name had changed from Centuria Metropolitan REIT to Centuria Office REIT. The Trust ceased trading under the Australian Securities Exchange code "ASX:CMA" and commenced trading under "ASX:COF" on 10 February 2020.

Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

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

The financial report was authorised for issue in accordance with a resolution of the board of directors of Centuria Property Funds Limited, the Responsible Entity, on 5 August 2020.

Basis of preparation

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

(i) Going concern

The financial report has been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

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

(ii) Net current liability position

The directors of the Responsible Entity note that the Trust is in a net current liability position of \$11.5 million as at 30 June 2020. Given the Trust has the headroom in existing loan covenants and the ability to draw from the \$130 million of available funds in the facility to fund working capital requirements, has a 3.4 year weighted average debt expiry, and the future cash generating potential of the Trust, the directors of the Responsible Entity expect the Trust will be able to pay its debts as and when they fall due.

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

Rounding of amounts

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

A2 COVID-19 Pandemic

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

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

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

Processes applied

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

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

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

Consideration of the statements of financial position and further disclosures

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

(i) Trade and other receivables

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

(ii) Investment properties

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

(iii) Intangible assets

The Trust has tested goodwill and indefinite life intangible assets for impairment. Such assessment incorporated a consideration of COVID-19. Refer to Note C4.

(iv) Financial instruments

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

About the report

A3 Significant accounting policies

The accounting policies and methods of computation in the preparation of the consolidated financial statements are consistent with those adopted in the previous financial year ended 30 June 2019 unless specifically outlined below or in the relevant notes to the consolidated financial statements with the exception of the adoption of AASB 16 *Leases*.

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

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

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

AASB 16 Leases

AASB 16 was issued in February 2016 and has been adopted under the modified retrospective approach by the Trust from 1 July 2019 and, as permitted under the specific transitional provisions in the standard, the Trust has not restated comparatives for the 2019 reporting period. Under the new standard, leases are recognised on the balance sheet with no distinction between operating and finance leases. It also requires that a right of use asset and financial liability for future rental payments be recognised.

On adoption of AASB 16 on 1 July 2019, a lease liability reflecting the leasehold arrangement needs to be separately disclosed in the consolidated interim statement of financial position and the carrying value of the investment property will be grossed up to equal the fair value of the investment property. The lease liability is calculated as the net present value of future lease payments discounted at the incremental borrowing rate. A right of use asset is initially recognised as the present value of the minimum lease payments at inception of the lease.

At 1 July 2019, a right of use asset of \$32,779,000 within investment properties and a corresponding lease liability of \$32,779,000 was recognised in the consolidated statement of financial position for the ground lease at 46 Colin Street, Perth WA. Subsequent measurement of the lease liability will include adjustments for interest, lease payments and if applicable, remeasurement of the carrying value to reflect any lease modifications. Interest on the liability and any other variable lease payments not included in the measurement of the liability are recognised in the consolidated statement of profit or loss and other comprehensive income in the period in which they relate.

The right of use asset will be subsequently measured at fair value, with any changes in value recognised in profit or loss in line with AASB 140. Refer to Note C2 for further details.

Use of estimates and judgements

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period; or in the period of the revision and future periods if the revision affects both current and future periods. The key estimates and judgements in the financial report relate to the valuation of investment properties (Note C2), goodwill (Note C4) and derivative financial instruments (Note E2).

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

A3 Significant accounting policies (continued)

Segment reporting

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

B Trust performance

B1 Distribution

	30 June 2020		30 June 2019	
	Cents per unit	\$'000	Cents per unit	\$'000
September quarter	4.450	15,855	4.525	10,987
December quarter	4.450	22,840	4.358	15,527
March quarter	4.450	22,896	4.358	15,527
June quarter	4.450	22,896	4.358	15,527
Total	17.800	84,487	17.600	57,568

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

Event	Date
Ex-distribution date	29 June 2020
Record date	30 June 2020
Distribution payment date	10 August 2020

Distribution and taxation

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

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

B2 Revenue

	30 June 2020	30 June 2019
	\$'000	\$'000
Rental income	118,384	87,234
Recoverable outgoings	23,459	16,820
Straight-lining of lease revenue	4,471	4,805
	146,314	108,859

Recognition and measurement

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

(i) Rental income

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

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

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

Trust performance

B2 Revenue (continued)

Recognition and measurement (continued)

(ii) Recoverable outgoings

The Trust recovers the costs associated with general building and tenancy operation from lessees in accordance with specific clauses within lease agreements. These are invoiced monthly based on an annual estimate. The consideration is due 30 days from the invoice date. Should any adjustment be required based on actual costs incurred, this is recognised in the statement of profit or loss and other comprehensive income within the same reporting period and billed annually.

(iii) Interest revenue

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

(iv) Sale of properties

Any gain or loss arising on the sale of an investment property is recognised when the control of the asset is passed on to the buyer, which normally coincides with the settlement of the contract for sale.

B3 Expenses

Recognition and measurement

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

(i) Finance costs

Finance costs include interest expense and amortised borrowing costs.

	30 June 2020 \$'000	30 June 2019 \$'000
Interest expense	16,362	14,651
Derivative instrument break cost	5,942	4,642
Amortisation of borrowing costs	415	2,817
	22,719	22,110

(ii) Other expenses

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

(iii) Goods and services tax

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

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

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

B4 Earnings per unit

	30 June 2020	30 June 2019
Basic earnings per COF unit (cents per unit)	5.0	16.3
Earnings used in calculating basic earnings per unit (\$'000)	23,053	53,572
Weighted average number of COF units ('000)	459,257	327,683

C Trust's assets and liabilities

C1 Trade and other receivables

	30 June 2020 \$'000	30 June 2019 \$'000
Current		
Trade receivables	1,898	1,013
Expected credit loss provision	(1,694)	-
Other receivables	3,059	3,067
	3,263	4,080

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

Recognition and measurement

Loans and receivables are initially recognised at fair value and subsequently amortised cost using the effective interest rate method less any allowance under the expected credit loss ('ECL') model.

Refer to the policy application below for further details.

Recoverability of loans and receivables

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

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

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

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

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

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

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

As at 30 June 2020, the Trust had granted \$2.5m of rent relief made up of \$1.5 million in rental waivers and \$1.0 million of deferrals to applicable tenants. An ECL provision of \$1.7 million was recognised for the trade receivables in relation to rental income receivable and tenant outgoing recoveries.

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

Trust's assets and liabilities

C2 Investment properties

	30 June 2020 \$'000	30 June 2019 \$'000
Opening balance	1,321,475	836,300
Purchase price of investment properties	624,527	562,492
Stamp duty and other transaction costs	33,412	32,652
Capital improvements and associated costs	13,259	10,941
	671,198	606,085
(Loss)/gain on fair value	(37,698)	7,143
Change in deferred rent and lease incentives	19,415	4,108
Change in capitalised leasing fees	385	495
Disposal at fair value	-	(54,775)
Disposed deferred rent and lease incentives	-	619
Initial recognition of right of use asset	32,779	-
Less depreciation of right of use asset	(404)	-
Transfers from/(to) held for sale	78,500	(78,500)
Closing balance[^]	2,085,650	1,321,475

[^] The carrying amount of investment properties includes components related to deferred rent, capitalised lease incentives and leasing fees amounting to \$41,804,000 (30 June 2019: \$22,004,000) and a right of use asset of \$32,375,000 which has been recognised on the application of the new leasing standard. Refer to Note A3 for further details on AASB 16 Leases.

Leases as lessor

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

	30 June 2020 \$'000	30 June 2019 \$'000
Less than one year	115,016	85,741
Between one and five years	342,855	220,918
More than five years	176,829	53,620
	634,700	360,279

Trust's assets and liabilities

C2 Investment properties (continued)

Property	Fair value		Capitalisation rate		Discount rate		30 June 2020 Valuer	Last independent valuation date
	30 June 2020 \$'000	30 June 2019 \$'000	30 June 2020 %	30 June 2019 %	30 June 2020 %	30 June 2019 %		
NSW								
8 Central Ave, Eveleigh NSW*	189,000	-	5.38	-	6.75	-	C&W	Jun 2020
201 Pacific Hwy, St Leonards NSW*	106,500	101,500	5.63	5.75	6.63	6.75	Directors	Dec 2019
9 Help St, Chatswood NSW	86,000	84,000	5.75	5.75	6.75	7.00	Colliers	Jun 2020
203 Pacific Hwy, St Leonards NSW**	69,500	65,750	5.88	5.88	6.75	7.00	JLL	Jun 2020
465 Victoria Ave, Chatswood NSW**	41,875	41,625	5.75	5.75	6.75	7.00	C&W	Jun 2020
77 Market St, Wollongong NSW	35,500	36,200	7.25	7.25	7.75	8.00	MMJ	Jun 2020
ACT								
2 Phillip Law St, NewActon ACT^	253,000	-	5.13	-	6.00	-	Knight Frank	Jun 2020
60 Marcus Clarke St, Canberra ACT^	62,250	62,000	7.00	7.00	7.50	7.50	Directors	Jun 2019
54 Marcus Clarke St, Canberra ACT^	20,900	21,250	7.50	7.50	7.00	7.75	Colliers	Jun 2020
QLD								
825 Ann St, Fortitude Valley QLD	163,000	164,000	6.00	6.25	7.00	7.00	Directors	Dec 2019
154 Melbourne St, South Brisbane QLD	88,000	83,500	6.00	6.50	7.00	7.50	Directors	Dec 2019
100 Brookes St, Fortitude Valley QLD	78,500	79,500	6.25	6.25	7.00	7.25	Savills	Jun 2020
483-517 Kingsford Smith Dr, Hamilton QLD^^	77,500	-	6.13	-	7.00	-	Directors	Jun 2019
35 Robina Town Ctr Dr, Robina QLD#	52,000	54,000	7.25	7.25	6.75	6.75	Colliers	Jun 2020
555 Coronation Dr, Brisbane QLD	34,500	29,000	7.00	7.75	7.50	8.00	Directors	Dec 2019
VIC								
818 Bourke St, Docklands VIC	223,000	224,000	5.13	5.25	6.25	6.50	Directors	Dec 2019
576 Swan St, Richmond VIC	66,500	68,000	5.50	5.50	6.50	6.75	Directors	Jun 2019
2 Kendall St, Williams Landing VIC	64,500	64,300	6.00	5.88	7.00	7.00	Savills	Jun 2020
WA								
235 William St, Northbridge WA	188,000	-	6.50	-	7.00	-	JLL	Jun 2020
46 Colin St, Perth WA^~	67,375	35,250	7.25	7.25	7.25	7.50	JLL	Jun 2020
144 Stirling St, Perth WA	65,000	54,500	6.25	7.50	7.00	7.75	Directors	Dec 2019

Trust's assets and liabilities

C2 Investment properties (continued)

Property	Fair value		Capitalisation rate		Discount rate		30 June 2020 Valuer	Last independent valuation date
	30 June 2020 \$'000	30 June 2019 \$'000	30 June 2020 %	30 June 2019 %	30 June 2020 %	30 June 2019 %		
SA								
1 Richmond Rd, Keswick SA	36,000	36,100	7.25	7.50	8.00	7.75	Knight Frank Directors	Jun 2020
131-139 Grenfell St, Adelaide SA	17,250	17,000	7.75	7.75	8.00	8.00		Jun 2019
	2,085,650	1,321,475						

* The Trust owns 50% of these properties.

** The Trust owns 25% of 425 Victoria Avenue, Chatswood NSW.

^ The Trust holds a leasehold interest in these properties.

^^ At 31 December 2019, this property was transferred from investment property held for sale. Refer to C3 for further details.

~ Upon adoption of AASB 16, the Trust recognised a right of use asset on the ground lease at 46 Colin St which has been included in the fair value of the property. Under the modified retrospective approach, the Trust has not restated prior period comparatives. The carrying value of the lease liability as at 30 June 2020 was \$32,722,000. Refer to Note A3 for further details.

The Trust executed a deed of surrender with Foxtel, tenant at 35 Robina Town Centre Drive, Robina QLD. As part of the agreement, COF will receive a surrender payment which is the equivalent to the present value of the rent payable under the remaining Foxtel lease term. As at report date, the surrender payment has not been received.

During the year, the Trust acquired 235 William Street, Northbridge WA, 8 Central Avenue, Eveleigh NSW (50%) and 2 Phillip Law street, New Acton ACT.

The Trust's weighted average capitalisation rate for the year is 5.93% (2019: 6.22%).

Trust's assets and liabilities

C2 Investment properties (continued)

Recognition and measurement

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

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

Valuation techniques and significant unobservable inputs

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

Given the changing economic conditions as a result of the COVID-19 pandemic, there is uncertainty surrounding the potential impact on future cashflows and valuations. Rent relief allowances in accordance with the Code which sets out commercial leasing principles for businesses during the pandemic were taken into consideration when determining the cashflows for the property, however actual future cashflows may differ from this. The Trust factors additional considerations including increase in downtime, incentive allowances, reduction in rental growth and rental relief in line with the Code when determining property valuations. The Trust has externally valued 13 properties in its property portfolio at 30 June 2020.

The valuations were prepared by considering the following valuation methodologies:

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

The valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market's general perception of their credit-worthiness; the allocation of maintenance and insurance responsibilities between the lessor and lessee; and the remaining economic life of the property. It has been assumed that whenever rent reviews or lease renewals are pending with anticipated reversionary increases, all notices and, where appropriate, counter notices have been served validly and within the appropriate time.

Fair value measurement

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

Trust's assets and liabilities

C2 Investment properties (continued)

Fair value measurement (continued)

Significant unobservable inputs	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input	Range of inputs	
			30 June 2020	30 June 2019
Net market rent	Increase	Decrease	\$258 - \$667	\$250 - \$632
Capitalisation rate	Decrease	Increase	5.13% - 7.75%	5.25% - 7.75%
Discount rate	Decrease	Increase	6.00% - 8.00%	6.50% - 8.00%

Capitalisation and discount rates are considered significant Level 3 inputs. Refer to Note E2 for further information.

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

Fair Value at 30 June 2020 \$'000	Capitalisation rate impact	
	-0.25%	+0.25%
2,085,650	90,373	(83,061)

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

C3 Investment properties held for sale

Property	30 June 2020	30 June 2019
	Fair value \$'000	Fair value \$'000
483-517 Kingsford Smith Dr, Hamilton QLD	-	78,500
	-	78,500

During the financial year, 483-517 Kingsford Smith Dr, Hamilton QLD was transferred from investment properties classified as held for sale to investment properties after being withdrawn from sale.

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, and as such obtain a firm purchase commitment from the buyer along with a favourable resolution for the Trust. A favourable resolution for the Trust would be the right to receive rental income for the period, up until the date any sale was completed.

Trust's assets and liabilities

C4 Intangibles

	30 June 2020 \$'000	30 June 2019 \$'000
Goodwill	-	6,356
	-	6,356

Goodwill was generated on the merger with Centuria Urban REIT (CUA) on 29 June 2017. It is measured at cost less any impairment losses subsequently recognised. The cost represents the excess of the cost of a business combination over the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Impairment

The Trust has performed an impairment assessment around the carrying value of its intangibles. Negative market sentiments arising from the onset of the pandemic have resulted in a decline in the traded price of the Trust well below its Net Assets. This, when combined with other indicators of impairment such as uncertainties around the future direction of property valuations and operating income indicate the impairment of goodwill. As a result, the Trust's goodwill balance of \$6.4 million as at 30 June 2020 has been impaired and written off.

C5 Trade and other payables

	30 June 2020 \$'000	30 June 2019 \$'000
Current		
Trade creditors and expenses payable	4,775	5,759
Other current creditors and accruals	17,485	9,165
	22,260	14,924

Refer to Note D2 for amounts payable to related parties.

Recognition and measurement

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

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

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

Trust's assets and liabilities

C6 Borrowings

	30 June 2020 \$'000	30 June 2019 \$'000
Non-current		
Secured loan	749,029	498,504
Borrowing costs	(2,657)	(1,282)
	<u>746,372</u>	<u>497,222</u>

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

	30 June 2020 \$'000	30 June 2019 \$'000
Secured loan facility		
Facility limit	880,000	555,000
Facilities used - bank loans	(749,029)	(498,504)
Facilities used - bank guarantee	(1,496)	(1,496)
Facilities unused	<u>129,475</u>	<u>55,000</u>

As at 30 June 2020, the Trust had \$565.0 million (2019: \$290.0 million) of interest rate swaps hedged against its drawn debt. Refer to Note C7 for further details on interest rate swap contracts held at 30 June 2020.

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

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

Recognition and measurement

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

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

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 variable rate debt held. The following table details the specific instruments held at reporting date, showing the notional principal amounts and contracted fixed interest rate of each contract:

Trust's assets and liabilities

C7 Derivatives (continued)

Interest rate swap contracts (continued)

Type of contract	Maturity date	Contracted fixed interest rate	Notional amount of contract \$'000	Fair value of liabilities \$'000
30 June 2020				
Extendible interest rate swap	17 May 2021	1.27%	60,000	(2,216)
Extendible interest rate swap	28 May 2021	1.15%	70,000	(1,288)
Extendible interest rate swap	25 Sep 2021	0.70%	50,000	(754)
Extendible interest rate swap	20 Nov 2021	0.68%	50,000	(791)
Extendible interest rate swap	22 Nov 2021	0.69%	75,000	(851)
Extendible interest rate swap	16 May 2022	1.33%	60,000	(2,378)
Extendible interest rate swap	26 Sep 2022	0.93%	50,000	(1,206)
Extendible interest rate swap	20 Nov 2022	0.75%	50,000	(978)
Extendible interest rate swap	24 Feb 2023	0.64%	100,000	(1,594)
			565,000	(12,056)
30 June 2019				
Interest rate swap	30 Oct 2023	2.39%	50,000	(2,681)
Interest rate swap	30 Oct 2023	2.39%	50,000	(2,681)
Extendible interest rate swap	17 May 2021	1.27%	60,000	(710)
Extendible interest rate swap	28 May 2021	1.15%	70,000	(291)
Extendible interest rate swap	16 May 2022	1.33%	60,000	(817)
			290,000	(7,180)

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 2020		30 June 2019	
	Units '000	\$'000	Units '000	\$'000
Opening balance	356,291	833,320	242,792	545,228
Units issued	158,231	461,299	113,499	275,845
Equity raising costs	-	(11,481)	-	(7,753)
Contribution from manager	-	-	-	20,000
Closing balance	514,522	1,283,138	356,291	833,320

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

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

C9 Contingent assets, liabilities and commitments

Unless otherwise stated in this report, the Trust has no contingent assets, liabilities or commitments as at 30 June 2020.

C10 Cash and cash equivalents

	30 June 2020	30 June 2019
	\$'000	\$'000
Cash and bank balances	28,809	17,546
	28,809	17,546

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

Net profit for the year	23,053	53,572
Adjustments:		
Net loss/(gain) on fair value of investment properties	37,698	(7,143)
Goodwill impairment	6,356	-
Derivative break costs	5,942	-
Loss on fair value of derivatives	4,876	6,752
Change in deferred rent and lease incentives	3,024	1,240
Change in capitalised leasing fees	1,099	713
Borrowing cost amortisation	415	2,817
Changes in operating assets and liabilities:		
Decrease/(increase) in receivables	835	(1,192)
Increase in other assets	(32,446)	(524)
Increase in payables	33,924	1,311
Net cash generated by operating activities	84,776	57,546

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

D Trust structure

D1 Interest in material subsidiaries

Recognition and measurement

(i) Business combination

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

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

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

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

Goodwill is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised directly in profit or loss. Refer to Note C4 for details of management's assessment.

(ii) Basis of consolidation

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

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

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

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

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

(iii) Subsidiaries

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

Trust structure

D1 Interest in material subsidiaries (continued)

Recognition and measurement (continued)

(iii) Subsidiaries (continued)

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 2020	30 June 2019
			%	%
Centuria Urban REIT	Australia	Ordinary	100	100
Centuria Urban REIT Sub Trust	Australia	Ordinary	100	-
Centuria Urban REIT Sub Trust No. 2	Australia	Ordinary	100	-
Centuria Metropolitan REIT No. 2	Australia	Ordinary	100	100
Centuria Metropolitan Property Trust	Australia	Ordinary	100	100

D2 Related parties

Key management personnel

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

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

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

Key management personnel loan disclosures

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

Responsible entity fees and other transactions

The Responsible Entity is entitled to a management fee which is calculated at 0.60% of the gross value of assets held plus GST, however, the Responsible Entity has elected to charge a management fee calculated at 0.55% of the gross value of assets held plus GST.

Custodian fees are paid to the custodians. Custody fees paid to Centuria Property Funds Limited are calculated in relation to some of the Trust's assets and in accordance with the constitution at a rate of 0.05% of the Fund's gross assets.

At reporting date an amount of \$779,046 (2019: \$299,938) owing to the Responsible Entity and its related parties was included in trade and other payables. The payables are non-interest bearing with payment terms and conditions consistent with normal commercial practices. The following fees were paid and/or payable to the Responsible Entity and its related parties from the Trust and all subsidiaries during the financial year:

Trust structure

D2 Related parties (continued)

Responsible entity fees and other transactions (continued)

	30 June 2020	30 June 2019
Management fees	10,421,000	6,866,825
Property management fees	3,088,924	1,908,753
Facility management fees	1,799,498	816,807
Leasing fees	798,897	248,660
Custodian fees	798,000	372,268
Project management fees	448,518	146,991
Due diligence acquisition fees	100,000	150,000
	17,454,838	10,510,303

On 20 November 2019, the Trust acquired a 50% share in 8 Central Avenue, Eveleigh NSW from an unlisted Centuria syndicate, Centuria 8 Central Avenue Fund. The settlement occurred after approval was obtained from the unit holders of Centuria 8 Central Avenue Fund and Centuria Office REIT. The acquisition was partly funded by a conditional placement issued to Centuria Capital Group which took place in November 2019.

All transactions with related parties are conducted on normal commercial terms and conditions. From time to time Centuria Property Funds Limited, its directors or its director-related entities may buy or sell securities in the Trust. These transactions are on the same terms and conditions as those entered into by other Trust investors.

Related party investments held by the Fund

At 30 June 2020, the Fund did not hold any units in the related parties to the Responsible Entity (30 June 2019: nil).

Trust structure

D2 Related parties (continued)

Securities in the Trust held by related parties

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

	Closing units held	Closing interest held
30 June 2020		
Centuria Capital No. 2 Office Fund	72,633,773	14.12%
Over Fifty Guardian Friendly Society Limited	14,861,980	2.89%
Centuria Growth Bond Fund	8,408,906	1.63%
Centuria Capital No. 2 Fund	3,396,219	0.66%
Centuria Property Funds No. 2 Limited	2,263,375	0.44%
Centuria Balanced Bond Fund	975,493	0.19%
Nicholas Collishaw	153,217	0.03%
Peter Done	152,044	0.03%
John McBain	75,260	0.01%
Darren Collins	34,500	0.01%
Roger Dobson	135,828	0.03%
Matthew Hardy	32,316	0.01%
Jason Huljich	3,896	0.01%
Total	103,126,807	20.06%

30 June 2019

Centuria Capital No. 2 Office Fund	58,921,884	16.54%
Over Fifty Guardian Friendly Society Limited	14,861,980	4.17%
Centuria Growth Bond Fund	8,408,906	2.36%
Centuria Capital No. 2 Fund	3,396,219	0.95%
Centuria Property Funds No. 2 Limited	2,263,375	0.64%
Centuria Balanced Bond Fund	975,493	0.27%
Nicholas Collishaw	153,217	0.04%
Peter Done	128,994	0.04%
John McBain	75,057	0.02%
Darren Collins	30,000	0.01%
Roger Dobson	123,480	0.03%
Matthew Hardy	29,378	0.01%
Jason Huljich	3,542	0.01%
Total	89,371,525	25.09%

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.

D3 Parent entity disclosures

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

Trust structure

D3 Parent entity disclosures (continued)

30 June 2020	30 June 2019
\$'000	\$'000

Results of parent entity

Profit for the year	23,053	53,572
Total comprehensive income for the year	23,053	53,572

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

30 June 2020	30 June 2019
\$'000	\$'000

Financial position of parent entity at year end

Assets

Current assets	5,884	5,414
Non-current assets	478,988	445,015
Total assets	484,872	450,429

Liabilities

Current liabilities	1,843	1,814
Non-current liabilities	37,015	4,293
Total liabilities	38,858	6,107

Equity

Issued capital	420,264	420,540
Retained earnings	25,750	23,782
Total equity	446,014	444,322

E Other notes

E1 Auditor's remuneration

	30 June 2020 \$'000	30 June 2019 \$'000
KPMG:		
Audit and review of financials	151	155
Property due diligence services	-	8
	151	163

E2 Financial instruments

The directors of the Responsible Entity consider that the carrying amount of the financial assets and financial liabilities approximate their fair value in the financial statements. All financial instruments are measured at amortised cost with the exception of the derivative financial instruments. Derivative financial instruments are measured at fair value and have a level 2 designation in the fair value hierarchy. There were no transfers between levels of the fair value hierarchy during the period.

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

Valuation techniques

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

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

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

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

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

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

Capital management

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

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

Other notes

E2 Financial instruments (continued)

Financial risk management objectives

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

Market risk

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

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

Interest rate risk management

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

Note	30 June 2020		30 June 2019	
	Effective interest rate	Total \$'000	Effective interest rate	Total \$'000
Financial assets				
Cash and cash equivalents	0.01%	28,809	0.55%	17,546
Trade and other receivables	-%	3,263	-%	4,080
		<u>32,072</u>		<u>21,626</u>
Financial liabilities				
Borrowings (excluding borrowing costs)	1.58%	749,029	3.23%	498,504
Interest rate swaps	0.82%	12,056	0.54%	7,180
		<u>761,085</u>		<u>505,684</u>

Interest rate sensitivity

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

At reporting date, if variable interest rates had been 100 (2019: 100) basis points higher or lower and all other variables were held constant, the impact to the Trust would have been as follows:

		Sensitivity impact	
	Variable + / -	Rate increase \$'000	Rate decrease \$'000
30 June 2020			
Net profit/(loss)	100 bps	<u>13,904</u>	<u>(19,560)</u>
		<u>13,904</u>	<u>(19,560)</u>
30 June 2019			
Net profit/(loss)	100 bps	<u>5,536</u>	<u>(7,069)</u>
		<u>5,536</u>	<u>(7,069)</u>

E2 Financial instruments (continued)**Market risk (continued)****Interest rate sensitivity (continued)**

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

Credit risk

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

At 30 June 2020, the main financial assets exposed to credit risk are trade receivables. There were no significant concentrations of credit risk to counterparties at 30 June 2020. Refer to Note C1 for details of trade receivables.

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

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

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

Liquidity risk

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

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

	Effective interest rate	Total principal and interest \$'000	Less than 1 year \$'000	1 to 5 years \$'000	5+ years \$'000
30 June 2020					
Trade and other payables	-%	4,775	4,775	-	-
Borrowings	1.58%	814,863	12,265	767,485	35,113
Derivative financial instruments	0.82%	5,788	2,847	2,940	-
		825,426	19,887	770,425	35,113
30 June 2019					
Trade and other payables	-%	5,759	5,759	-	-
Borrowings	3.23%	516,365	14,815	456,542	45,008
Derivative financial instruments	0.54%	1,892	90	1,802	-
		524,016	20,664	458,344	45,008

The principal amounts included in the above borrowings is \$749.0 million (2019: \$455.0 million).

Other notes

E3 Events subsequent to reporting date

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

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

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

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

E4 Additional information

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

Registered office:
Level 41, Chifley Tower, 2 Chifley Square
Sydney NSW 2000

Principal place of business:
Level 41, Chifley Tower, 2 Chifley Square
Sydney NSW 2000

Directors' declaration

For the year ended 30 June 2020

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

- (a) the consolidated financial statements and notes set out on pages 7 to 36 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the Trust's financial position as at 30 June 2020 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

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

The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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



Peter Done
Director



Matthew Hardy
Director

Sydney
5 August 2020



Independent Auditor's Report

To the unitholders of Centuria Office REIT

Opinion

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

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

- giving a true and fair view of the **Group's** financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 30 June 2020
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

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

Basis for opinion

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

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

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

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

Valuation of investment property (\$2085.6m)	
Refer to Note C2 to the Financial Report	
The key audit matter	How the matter was addressed in our audit
The valuation of investment property is a key audit matter as they are significant in value (being 98% of total assets) and contain assumptions with estimation uncertainty. The properties being valued at fair value increased the judgment applied by us when evaluating evidence available. This was further heightened with the existence of the COVID-19 pandemic, decreasing depth of market transactions which are ordinarily strong sources of evidence regarding fair value, along with greater concerns of the ability of tenants to meet lease obligations. The Group approached the heightened uncertainty risk using internal methodologies and through the use of external valuation experts. This necessitated additional audit procedures and effort to evaluate the multiple methods and the amplified approach, including assessing the Group's properties using a COVID-19 lens, which included consideration of tenant covenant strength, weighted average lease expiries, incentives, letting up allowances and whether tenant relief has been requested. We focused on the significant forward looking assumption the Group applied in external and internal valuation models with particular considerations to the impact of COVID-19 including: • 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. COVID-19 has resulted in transactional evidence and other market data points being difficult to obtain; and • Forecast cash flows, including: market rental income, leasing and rental relief assumptions. These assumptions are more judgemental because the extent of the	Our procedures included: • Understanding the Group's process regarding the valuation of investment property, including specific considerations of the impact of COVID-19 and the resulting valuation approach; • Assessing the Group's methodologies used in the valuations of investment property for consistency with accounting standards and Group policies; • Assessing the scope, competence and objectivity of external experts engaged by the Group and internal valuers; • For the total portfolio, taking into account the asset classes, geographies and characteristics of individual investment properties, we assessed the appropriateness of adopted discount and cap rates and market rental income through comparison to market analysis published by industry experts, recent market transactions, other market data points available, inquiries with the Group and historical performance of the investment properties; • Assessing the appropriateness of the Group's leasing and rental relief assumptions against each property's actual rental income, the rental relief schedules maintained by management, weighted average lease expiry, actual vacancy levels, the Group's tenant credit risk assessment and expected rental relief arrangements with consideration of industry views; • Consulting with our real estate valuation specialists: - o To gain an understanding of prevailing market conditions, including existence of market transactions, - o Assess the appropriateness of the property valuation risk profiles and approach to evaluating the appropriateness of valuation

uncertainty of how COVID-19 may impact on future tenant cash flows and leasing activity. 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.	assumptions, and - o On a sample basis, assess the appropriateness of significant individual property valuations based on specific assumptions. • Held discussions with external valuers to gain further understanding of specific investment property valuations and underlying assumptions adopted and updated market conditions; • Assessing the disclosures in the financial report including checking the sensitivity analysis calculations, using our understanding obtained from our testing, against accounting standard requirements. This was considered in light of changes and uncertainties of COVID-19 that existed at balance date and up until issuance of our audit report.
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Other Information

Other Information is financial and non-financial information in Centuria Office REIT's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors of Centuria Property Funds Limited (the Responsible Entity) are responsible for the Other Information.

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

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

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of the Directors for the Financial Report

The Directors of the Responsible Entity are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error



- assessing the Group and Fund's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf This description forms part of our Auditor's Report.

KPMG

KPMG

Peter Zabaks

Partner

Sydney

5 August 2020

Corporate Governance Statement

The corporate governance statement for the Trust was last updated on 3 September 2019 and is available on the Centuria website at <https://centuria.com.au/metropolitan-reit/corporate/corporate-governance/>.

Additional stock exchange information

As at 31 July 2020

Distribution of securities

Holding	Number of securities	Number of holders	Percentage of total (%)
1 - 1000	440,997	1,066	0.1
1,001 - 5,000	5,649,703	1,884	1.1
5,001 - 10,000	10,470,921	1,378	2.0
10,001 - 100,000	60,067,345	2,316	11.7
100,001 and over	437,893,841	154	85.1
Total	514,522,807	6,798	100.0

Substantial security holders

	Number of units	Percentage of total (%)
CENTURIA CAPITAL GROUP	102,539,746	19.93
THE VANGUARD GROUP, INC.	38,052,200	7.40
MONDRIAN INVESTMENT PARTNERS LTD	35,722,063	6.94
LEDERER GROUP	30,454,502	5.92
MARTIN CURRIE AUSTRALIA	27,144,968	5.28
Total	233,913,479	45.47

Voting rights

All securities carry one vote per security without restriction.

Top 20 security holders

	Number of securities	Percentage of issued shares
HSBC CUSTODY NOMINEES	161,912,872	31.47
CENTURIA INVESTMENT HOLDINGS PTY LIMITED	72,103,608	14.01
J P MORGAN NOMINEES AUSTRALIA LIMITED	62,522,396	12.15
CITICORP NOMINEES PTY LIMITED	47,193,016	9.17
NATIONAL NOMINEES LIMITED	25,039,700	4.87
BNP PARIBAS NOMS PTY LTD <DRP>	5,080,799	0.99
THE TRUST COMPANY (AUSTRALIA) LIMITED	3,834,721	0.75
CENTURIA FUNDS MANAGEMENT LIMITED	3,396,219	0.66
BINET PTY LTD	3,379,593	0.66
CENTURIA PROPERTY FUNDS	2,263,375	0.44
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	2,079,309	0.40
BNP PARIBAS NOMS (NZ) LTD	2,006,045	0.39
ONE MANAGED INVESTMENT FUNDS	2,050,000	0.40
G C F INVESTMENTS PTY LTD	2,000,000	0.39
SOUTH CREEK INVESTMENTS PTY LTD	1,206,077	0.23
KOLL PTY LTD	1,100,000	0.21
BUTTONWOOD NOMINEES PTY LTD	1,069,420	0.21
WYLLIE GROUP PTY LTD	1,024,179	0.20
TRISTAR METALS PTY LTD	1,000,000	0.19
HORRIE PTY LTD	995,898	0.19
	401,257,227	77.98