

Centuria Property Funds Limited (CPFL) - Corporate Governance Statement for Centuria Metropolitan REIT No. 1 and Centuria Metropolitan REIT No. 2 (together, Fund) dated 5 October 2016

In accordance with ASX Listing Rule 4.10.3, set out below are the ASX Corporate Governance Council's eight principles of good corporate governance, and the extent to which CPFL, as the responsible entity of the Fund, has sought to comply with the associated recommendations for each (as modified by the Council when applied to externally managed listed trusts such as the Fund). While the Council has stated a number of recommendations do not apply to externally managed listed trusts, CPFL has put in place procedures in relation to a number of those recommendations as they relate to the Fund and CPFL as described below.

Further details of CPFL's corporate governance framework along with charters and governance document are available at www.centuria.com.au.

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PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT	
<p>Recommendation 1.1</p> <p>The responsible entity of an externally managed listed entity should disclose:</p> <ul style="list-style-type: none"> (a) the arrangements between the responsible entity and the listed entity for managing the affairs of the listed entity; and (b) the role and responsibility of the board of the responsible entity for overseeing those arrangements. 	<p>The Fund is under the supervision and direction of the CPFL Board, which comprises Mr Peter Done, Mr Matthew Hardy, Mr Darren Collins and Mr Jason Huljich.</p> <p>The primary function of the Board is to ensure that the Fund is managed in the best interests of unitholders. This involves monitoring the decisions and actions of the management team who are responsible for the day-to-day management of the Fund. The Board also monitors the governance and performance of the Fund through the committees established by the Board.</p> <p>The Board of CPFL has formalised its roles and responsibilities in the CPFL Board Charter. A copy of the CPFL Board Charter is available at www.centuria.com.au.</p>

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	<p>All matters not specifically reserved for the Board and necessary for the day-to-day management of the Fund are delegated by the Board to the Trust Manager and the Management Team. However, the Board retains overall responsibility for the overall activities and management of the Fund.</p> <p>The Board has formed an Audit, Risk Management and Compliance Committee (ARMCC) which is discussed in further detail below.</p>
<p>Recommendation 1.2</p> <p>A listed entity should:</p> <ul style="list-style-type: none"> (a) undertake appropriate checks before appointing a person, or putting forward to unitholders a candidate for election, as a director; and (b) provide unitholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director. 	<p>Not applicable, as the Fund is externally managed.</p> <p>However, prior to a person's appointment, or recommendation for appointment, as a director of CPFL, appropriate background checks including in relation to the candidate's character, experience, education, criminal record and bankruptcy history are undertaken by CPFL.</p>
<p>Recommendation 1.3</p> <p>A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.</p>	<p>Not applicable, as the Fund is externally managed. However, CPFL's policy is to provide a letter of appointment to each director and senior executive of CPFL setting out the key terms of their appointment.</p>
<p>Recommendation 1.4</p> <p>The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.</p>	<p>Not applicable, as the Fund is externally managed.</p> <p>However, the Company Secretary of CPFL is accountable directly to the Board on all matters to do with the proper functioning of the Board.</p>

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<p>Recommendation 1.5</p> <p>A listed entity should:</p> <ul style="list-style-type: none"> (a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them; (b) disclose that policy or a summary of it; and (c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either: <ul style="list-style-type: none"> (i) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or (ii) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act. 	<p>Not applicable, as the Fund is externally managed. However, Centuria Capital Limited, the parent entity of CPFL, has a Diversity Policy. Reporting against any diversity targets is available in the Centuria Capital Limited Corporate Governance Statement available on Centuria's website www.centuria.com.au.</p>
<p>Recommendation 1.6:</p> <p>A listed entity should:</p>	<p>Not applicable, as the Fund is externally managed. However, CPFL will institute a process of periodically evaluating its performance and report in</p>

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<p>(a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and</p> <p>(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p>	<p>future CMA corporate governance statements whether one has been performed.</p>
<p>Recommendation 1.7</p> <p>A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of its senior executives; and</p> <p>(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p>	<p>Not applicable, as the Fund is externally managed. However, all executives of Centuria Capital Limited (the parent entity of CPFL) are subject to performance reviews. Performance reviews are conducted each year by comparing performance against agreed measures, evaluating any efficiencies or improvements during the course of the year and deciding upon targets for the next year.</p> <p>A performance evaluation of all Senior Executives of CPFL, including the CEO, was undertaken in the 2015/16 financial year.</p>
PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE	
<p>Recommendation 2.1</p> <p>The board of a listed entity should:</p> <p>(a) have a nomination committee which:</p>	<p>Not applicable, as the Fund is externally managed. However, the parent entity of CPFL, Centuria Capital Limited, has a Nomination and Remuneration Committee that formulates criteria for appointment of directors to the Board of Centuria Capital and subsidiary entities (including CPFL), identifies potential candidates and recommends remuneration of directors and senior management.</p>

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<p>(i) has at least three members, a majority of whom are independent directors; and</p> <p>(ii) is chaired by an independent director,</p> <p>and disclose:</p> <p>(iii) the charter of the committee;</p> <p>(iv) the members of the committee; and</p> <p>(v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> <p>(b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.</p>	
<p>Recommendation 2.2</p> <p>A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.</p>	<p>Not applicable, as the Fund is externally managed.</p> <p>However, the independent directors of CPFL have a wide range of professional skills with particular experience in property and funds management, investment management and governance which are seen as the appropriate mix of skills required for their role as the independent directors of CPFL.</p>

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<p>Recommendation 2.3</p> <p>A listed entity should disclose:</p> <p>(a) the names of the directors considered by the board to be independent directors;</p> <p>(b) if a director has an interest, position, association or relationship of the type described in Box 2.3 of the Corporate Governance Principles and Recommendations but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and</p> <p>(c) the length of service of each director.</p>	<p>Peter Done, Matthew Hardy and Darren Collins are independent directors.</p> <p>In determining the independence of its directors, CPFL has had regard to the guidelines provided by the ASX Corporate Governance Council in Principle 2 of the Principles and section 601JA(2) of the Corporations Act.</p> <p>CPFL recognises its responsibilities in relation to conflicts of interest and related party transactions and has a conflicts of interest policy in place that governs the way in which CPFL manages such transactions or conflicts.</p> <p>Through the application of this policy, CPFL is committed to:</p> <ul style="list-style-type: none"> • identifying and monitoring all potential conflicts of interest; • avoiding conflicts of interests wherever this is the only way to properly protect unitholders' interests; • taking appropriate steps to ensure the fair treatment of all unitholders potentially affected by the conflict; and • dealing in an open manner and disclosing its conflicts of interest wherever this is likely to be relevant to unitholders.
<p>Recommendation 2.4</p> <p>A majority of the board of a listed entity should be independent directors.</p>	<p>The Board of CPFL comprises a majority of independent directors.</p> <p>The independent directors currently appointed to the Board are Peter Done, Matthew Hardy and Darren Collins.</p>
<p>Recommendation 2.5</p> <p>The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.</p>	<p>The Chair of the Board is Peter Done who is an independent director.</p>
<p>Recommendation 2.6</p>	<p>Not applicable, as the Fund is externally managed. However, upon commencement, all independent directors are briefed by the Chairman and</p>

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<p>A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.</p>	<p>have access to Management to develop knowledge of the business. On an ongoing basis independent directors are given presentations on the Fund's assets and developments affecting the Fund.</p> <p>Ongoing development and training needs of directors are agreed with the Chairman of the Board.</p>
PRINCIPLE 3: ACT ETHICALLY AND RESPONSIBLY	
<p>Recommendation 3.1</p> <p>A listed entity should:</p> <ul style="list-style-type: none"> (a) have a code of conduct for its directors, senior executives and employees; and (b) disclose that code or a summary of it. 	<p>Each director and Centuria Capital Limited employee involved in the management or operation of the Fund has agreed to comply with the Centuria Code of Conduct.</p> <p>To maintain and safeguard the trust and confidence of unitholders, regulators, partners, fellow employees, tenants and the public, the Centuria Code of Conduct aims to ensure that the directors and Centuria employees meet the highest ethical and professional standards.</p> <p>The Centuria Code of Conduct sets expectations for the maintenance of standards of honesty, integrity, care, diligence and fair dealing by directors and Centuria employees in the performance of their duties and responsibilities in relation to the Fund.</p> <p>A copy of the Centuria Code of Conduct is available on the Fund's website accessible at www.centuria.com.au.</p>
PRINCIPLE 4: SAFEGUARD INTEGRITY IN CORPORATE REPORTING	
<p>Recommendation 4.1</p> <p>The board of a listed entity should:</p>	<p>The CPFL Board has established an ARMCC to assist the Board in overseeing the integrity of the Fund's financial reporting, internal financial controls, financial procedures and policies, the risk management framework and the</p>

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<p>(a) have an audit committee which:</p> <ul style="list-style-type: none"> (i) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and (ii) is chaired by an independent director, who is not the chair of the board, <p>and disclose:</p> <ul style="list-style-type: none"> (iii) the charter of the committee; (iv) the relevant qualifications and experience of the members of the committee; and (v) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or <p>(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its financial reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.</p>	<p>independence of external auditors. The ARMCC will report to the Board on all matters relevant to the ARMCC's roles and responsibilities and ensures that the Board is aware of matters which may significantly affect the financial condition or affairs of the Fund.</p> <p>The Charter of the ARMCC requires a minimum of three members of the ARMCC all of whom must be non-executive directors, with a majority being independent directors. The chairperson is an independent director appointed by the Board who is not the Chairman of the Board. The ARMCC meets with external auditors where appropriate from time to time to review the existing external audit arrangements and the scope of the audit.</p> <p>The members of the ARMCC are Matthew Hardy (Chairman), Peter Done and Darren Collins. Details of each member's qualifications and experience can be found at www.centuria.com.au</p> <p>The ARMCC has a formal charter which sets out the ARMCC's responsibilities and functions. A copy of the ARMCC Charter is accessible at www.centuria.com.au.</p> <p>The ARMCC meets as necessary but at a minimum four times per year. At the end of each reporting period the number of times the committee met throughout the period will be disclosed, including the individual attendance of the members at those meetings.</p>
<p>Recommendation 4.2</p>	<p>In connection with the Board approving the financial statements of the Fund, the Fund Manager of CMA and the Chief Financial Officer of Centuria Capital</p>

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<p>The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.</p>	<p>Limited provide the declarations required by section 295A of the Corporations Act.</p>
<p>Recommendation 4.3</p> <p>A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from unitholders relevant to the audit.</p>	<p>As the Fund is a registered managed investment scheme it is not required to hold an AGM, however, it may hold unitholder meetings in accordance with the constitutions of the stapled funds. If financial statements are an agenda item of any unitholder meeting, the Fund's external auditor, KPMG, will attend and be available at to answer questions from unitholders relevant to the audit of the Fund.</p>
<p>PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE</p>	
<p>Recommendation 5.1</p> <p>A listed entity should:</p> <ul style="list-style-type: none"> (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and (b) disclose that policy or a summary of it. 	<p>CPFL is committed to fair and open disclosure and has adopted a policy to ensure CPFL meets its disclosure obligations under the Corporations Act and the ASX Listing Rules.</p> <p>The overriding principle of CPFL's Continuous Disclosure Policy is to ensure that disclosure is perceived by all to be both even and continuous, by providing timely, equal access to all relevant information.</p> <p>The company secretary has principal responsibility for managing CPFL's Continuous Disclosure Policy and communicating with the ASX. A summary of the CPFL Continuous Disclosure Policy is available on the Fund's website accessible at www.centuria.com.au.</p>
<p>PRINCIPLE 6: RESPECT THE RIGHTS OF UNITHOLDERS</p>	

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<p>Recommendation 6.1</p> <p>A listed entity should provide information about itself and its governance to unitholders via its website.</p>	<p>CPFL provides information about itself and the governance of the Fund at www.centuria.com.au.</p>
<p>Recommendation 6.2</p> <p>A listed entity should design and implement a unitholder relations program to facilitate effective two-way communication with unitholders.</p>	<p>CPFL recognises the importance of providing its unitholders and the broader investment community with facilities to provide avenues for two-way communication between CPFL, the Board and unitholders. CPFL has developed a program on unitholder engagement for engaging with unitholders, the media and the broader investment community. In addition, CMA's unitholders have the ability to elect to receive communications and other shareholding information electronically.</p> <p>The main mechanisms through which CPFL provides avenues for two-way unitholder engagement include:</p> <ul style="list-style-type: none"> • the release of CMA's Annual Report, and half and full-year financial reports; • the release of announcements made to the Australian Stock Exchange; • maintenance of Centuria's website, at www.centuria.com.au, which contains up-to-date information on the operations of CMA and CMA's Australian Stock Exchange announcements, stapled unit price and other relevant information for CMA unitholders as well as information on CPFL as the responsible entity of CMA including CPFL's Board, management and corporate governance structure; and • maintenance of various telephone lines that unitholders can use to contact Centuria or the share registry to ask questions directly.
<p>Recommendation 6.3</p>	<p>As the Fund is a registered managed investment scheme it is not required to hold an AGM, however, it may hold unitholder meetings in accordance with the constitutions of the stapled funds. Where a unitholder meeting is held, in</p>

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<p>A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of unitholders.</p>	<p>addition to formal business, the meeting will provide unitholders with an opportunity to be briefed about the activities of the Fund, and to ask questions of the CPFL Board and management of the Fund.</p> <p>A notice of meeting and explanatory memorandum in respect of the resolutions to be voted on by unitholders will be provided in accordance with the stapled Fund constitutions and the Corporations Act, and will also be available on the Fund's website accessible at www.centuria.com.au, and lodged with ASX.</p> <p>In accordance with the Stapled Fund constitutions, unitholders who are not able to attend the meeting are able to vote by proxy.</p>
<p>Recommendation 6.4</p> <p>A listed entity should give unitholders the option to receive communications from, and send communications to, the entity and its security registry electronically.</p>	<p>CPFL provides unitholders with the option of receiving communications from CPFL electronically.</p>
<p>PRINCIPLE 7: RECOGNISE AND MANAGE RISK</p>	
<p>Recommendation 7.1</p> <p>The board of a listed entity should:</p> <ul style="list-style-type: none"> (a) have a committee or committees to oversee risk, each of which: <ul style="list-style-type: none"> (i) has at least three members, a majority of whom are independent directors; and 	<p>The CPFL Board has established the ARMCC to assist the Board in overseeing and reviewing the effectiveness of CPFL's risk management framework for the Fund.</p> <p>The ARMCC's members are appointed by the Board and must comprise at least three members, the majority of whom are independent. The Chairperson of the ARMCC is required to be an independent director (but must not be the Chairman of the Board).</p>

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<p>(ii) is chaired by an independent director, and disclose:</p> <p>(iii) the charter of the committee;</p> <p>(iv) the members of the committee; and</p> <p>(v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> <p>(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.</p>	<p>The Board has adopted a formal charter setting out the main responsibilities and functions of the ARMCC. A copy of the ARMCC Charter is available at www.centuria.com.au.</p> <p>The ARMCC's key roles and responsibilities relating to risk management include reviewing:</p> <ul style="list-style-type: none"> • the financial reporting processes; • the system of internal financial controls; • the audit process ensuring that systems and procedures are in place for the Fund's compliance with relevant statutory and regulatory requirements; and • assessing risks arising from the Fund's operations and considering the adequacy of measures taken to moderate those risks. <p>The ARMCC meets as necessary but at a minimum, four times per year. In the Fund's annual report the number of times the Committee has met is disclosed along with individual director attendance.</p>
<p>Recommendation 7.2</p> <p>The board or a committee of the board should:</p> <p>(a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and</p> <p>(b) disclose, in relation to each reporting period, whether such a review has taken place.</p>	<p>The ARMCC's Charter requires members to oversee and review the integrity of the Fund's financial reporting, internal financial controls, financial procedures and policies and the independence of external auditors.</p> <p>The ARMCC is also responsible for overseeing the Fund's compliance and risk management frameworks and assessing risks arising from the Fund's operations and considering the adequacy of measures taken to moderate those risks.</p> <p>A review of the CPFL Risk Management Framework was undertaken in the 2015/16 financial year.</p>

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<p>Recommendation 7.3</p> <p>A listed entity should disclose:</p> <p>(a) if it has an internal audit function, how the function is structured and what role it performs; or</p> <p>(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.</p>	<p>CPFL does not have an internal audit function. As a wholly owned subsidiary of Centuria, CPFL and the Fund are incorporated into the annual internal Centuria audit program where applicable. The ARMCC receives and reviews reports regarding material business risk and any relevant assurance activity (including internal audit) undertaken as part of the CPFL risk management framework.</p>
<p>Recommendation 7.4</p> <p>A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.</p>	<p>The Fund is exposed to certain economic, environmental and social sustainability risks.</p> <p>Key risks include:</p> <ul style="list-style-type: none"> • Rental income risk • Tenant concentration risk • Re-Leasing and vacancy risk • Property Market valuation risk • Property liquidity risk • Capital expenditure risk • Asset risk • Third party risk • Funding risk • Covenant risk • Gearing risk

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	<ul style="list-style-type: none"> • Environmental risk <p>Those risks are managed in accordance with CPFL’s risk management framework.</p> <p>A summary of CPFL’s risk management framework is available at www.centuria.com.au</p>
PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY	
<p>Recommendations 8.1, 8.2 and 8.3</p> <p>An externally managed listed entity should clearly disclose the terms governing the remuneration of the manager.</p>	<p>In accordance with the Fund Constitutions, CPFL is entitled to a management fee of an amount equal to 0.55% per annum of the gross asset value of the Fund, calculated and paid monthly.</p> <p>In addition to the management fee:</p> <ul style="list-style-type: none"> • Under the Management Services Agreement between CPFL, the Fund’s custodian and Centuria Property Services Pty Limited (Centuria Property Services): <ul style="list-style-type: none"> (a) Centuria Property Services is entitled to receive a base property management fee and facilities management fee of: <ul style="list-style-type: none"> (i) \$6,051 plus GST per month for 555 Coronation Drive, Toowong; (ii) \$4,615 plus GST per month for 3 Carlingford, Road Epping;

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	<ul style="list-style-type: none"> <li data-bbox="1285 288 2029 352">(iii) \$4,485 plus GST per month for 14 Mars Road, Lane Cove; <li data-bbox="1285 392 1944 456">(iv) \$7,773 plus GST per month for 9 Help Street, Chatswood; <li data-bbox="1285 496 2007 560">(v) \$1,797 plus GST per month for 13 Ferndell Street, Granville; <li data-bbox="1285 600 2018 663">(vi) \$1,775 plus GST per month for 44 Hampden Road, Artarmon; and <li data-bbox="1285 703 1980 767">(vii) \$1,769 plus GST per month for 149 Kerry Road, Archerfield <li data-bbox="1285 807 2011 871">(viii) \$10,664 plus GST per month for 60 Marcus Clarke Street, Canberra <li data-bbox="1285 911 1995 975">(ix) \$4,234 plus GST per month for 54 Marcus Clarke Street, Canberra <li data-bbox="1285 1015 1980 1078">(x) \$9,901 plus GST per month for 35 Robina Town Centre, Robina <li data-bbox="1285 1118 1984 1182">(xi) \$5,028 plus GST per month for Richmond Road, Keswick <li data-bbox="1285 1222 2074 1286">(xii) \$1,229 plus GST per month for 131-139 Grenfell Street, Adelaide

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increased annually by 3% each 1 July.

- (b) Centuria Property Services is entitled to charge a Lease Administration Fee, which is based on the duration of lease entered into by the tenant in respect of various leasing activities, which is principally based on a scale which varies according to the duration of lease entered into by the tenant. The Leasing Administration Fee scale is as follows:

Lease term	Maximum fee payable to Centuria Property Services
Lease term of up to 3 years	11.0% of first year Gross Rental Income (plus GST)
Lease term of 3-4 years	12.0% of first year Gross Rental Income (plus GST)
Lease term of 4-5 years	13.0% of first year Gross Rental Income (plus GST)
Lease term of 5 years or more	13.0% + 0.5% for every year over five years (capped at 15.0%) of first year Gross Rental Income (plus GST)

- (c) If a new tenant is introduced and a new lease or license is negotiated other than a new lease over an area which is subject to a rental guarantee or a sublease or sub-license, the current market rate would be charged plus reimbursement of out of pocket expenses.
- (d) A Surrender Fee calculated as 5% of gross income surrender value.
- (e) A Project Management Fee calculated as 5% of the value of the building works (where the value is greater than \$5,000) and

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	<p>engineering/operation services charges as agreed in writing from time to time.</p> <p>(f) A Market Review Fee of \$1,000 (plus GST).</p> <ul style="list-style-type: none"> • Under the Development and Project Management Services Agreement, Centuria Property Services is entitled to: <ul style="list-style-type: none"> (a) A Development Planning Fee which is currently an hourly rate of \$275.80 (plus GST) per hour and is increased annually on 1 July by the greater of 3% or the rate of inflation. (b) A Development Services Fee, being 5% of the estimated project costs (as set out in the initial investment proposal), paid monthly in arrears during the term of the project. If the scope of the project is changed so that the revised costs exceed the initial estimated project costs, an additional Development Services Fee is payable which is equal to 5% of that excess.