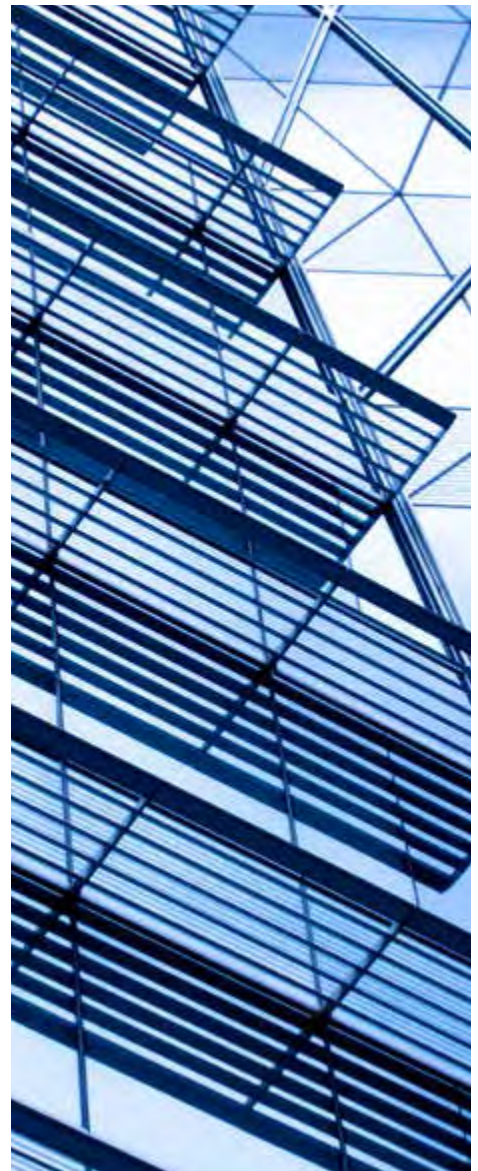


# Centuria Metropolitan REIT

## Annual Report 2015



# Centuria Metropolitan REIT

---

# Contents

About Us.....	2
Letter from Chairman.....	3
Fund update.....	4
Strategy & Objectives.....	8
FY15 Results.....	9
Portfolio Summary.....	10
Portfolio Overview.....	11
Capital Management.....	14
Directors' Report.....	15
Auditor's Independence Declaration.....	23
Statement of Profit or Loss.....	24
Notes to the Financial Statements.....	28
Directors' Declaration.....	54
Corporate Governance Statement.....	57
Additional ASX information.....	58
Contact Us.....	59

---

# About Us

## About Centuria Metropolitan REIT

**Centuria Metropolitan REIT (CMA)** successfully listed on the Australian Securities Exchange on 10 December 2014.

The Fund owns a portfolio of quality metropolitan real estate assets delivering stable and predictable rental income with opportunities for value uplift through diligent asset management and repositioning strategies. At 30 June 2015 the portfolio includes nine commercial assets and three industrial assets, and is diversified across Sydney, Brisbane, Canberra and Adelaide.

The portfolio is well positioned to meet the Fund's objectives to provide investors predictability and stability of income, through strong portfolio occupancy and weighted average lease expiry profile. Distributions to Fund securityholders are paid quarterly.



Predictable, stable  
income and quarterly  
distributions

## Centuria Capital Limited

**Centuria Capital Limited (CNI)** is an ASX-listed specialist investment manager with ~\$1.6 billion\* in funds under management and a 35 year track-record of delivering value for investors, advisers and shareholders. There are two divisions to our business; Centuria Investment Bonds and Centuria Property Funds.

Centuria Property Fund Limited (CPFL) currently owns and manages 27 individual properties with a combined value of approximately \$1.0 billion. In addition to Centuria's portfolio of 15 unlisted funds, we recently launched our first ASX-listed fund, the Centuria Metropolitan REIT (CMA) and our first residential development fund.

Centuria Investment Bonds offer a range of unit-linked, tax effective investment bonds which can be used to meet a range of personal and financial goals.

Centuria Investment Bonds may suit investors that are looking for:

- A tax effective alternative to complement superannuation
- A way to build wealth over the long term
- Certainty in estate planning
- A savings vehicle for children's education
- A strategy to help reduce aged care fees
- A way to fund a business succession plan
- An alternative to investing in a company structure

The range of unit-linked investment options offered within our investment bonds covers balanced to aggressive risk profiles.

Centuria has a track record of developing high quality investment products with the aim of delivering strong returns to investors.

\*As at June 2015



# Letter from the Chairman



**Peter Done**  
Non-Executive Chairman

Distribution guidance  
for **FY16** is **17.0** cents  
per stapled security

## Dear Investors

It is my pleasure to introduce the first annual report for the Centuria Metropolitan REIT which listed on the Australian Securities Exchange (ASX) on 10 December 2014. In respect of the return from listing to 30 June 2015 it is pleasing to note CMA has paid investors distributions totalling 9.2 cents per stapled security.

Since listing, CMA has enjoyed an active period in which it has delivered both on its Product Disclosure Statement (PDS) forecasts and the Fund's stated objectives. The key highlights from listing to 30 June 2015 include:

- Successfully completed the ASX listing at \$2.00 per stapled security
- Delivered the PDS distributable earnings forecast
- Completed the acquisition of four properties valued at \$129.3 million which was partially funded by an entitlement offer which raised approximately \$100 million
- Completed 12 lease transactions totalling 5.1 per cent of the portfolio's net lettable area
- Increased the Net Asset Backing (NTA) by 6 cents to \$1.97 per stapled security
- Maintained conservative gearing of 24.0 per cent

As manager, Centuria Property Funds Limited (CPFL) remains focussed on initiatives to generate income and value uplift through diligent asset management and repositioning strategies for the existing portfolio. Emphasis also remains on tenant retention to ensure occupancy and rental income are maximised.

CPFL continues to seek quality 'fit for purpose' metropolitan real estate assets delivering stable and secure income streams to further grow and diversify the Fund's portfolio.

I am pleased to report that the portfolio is well positioned to continue to deliver investors stable and predictable distributable earnings. Distribution guidance for FY16 is 17.0 cents per stapled security. As such, we expect to pay equal quarterly distributions of 4.25 cents per stapled security.

We appreciate your ongoing support of CMA.



**Peter Done**

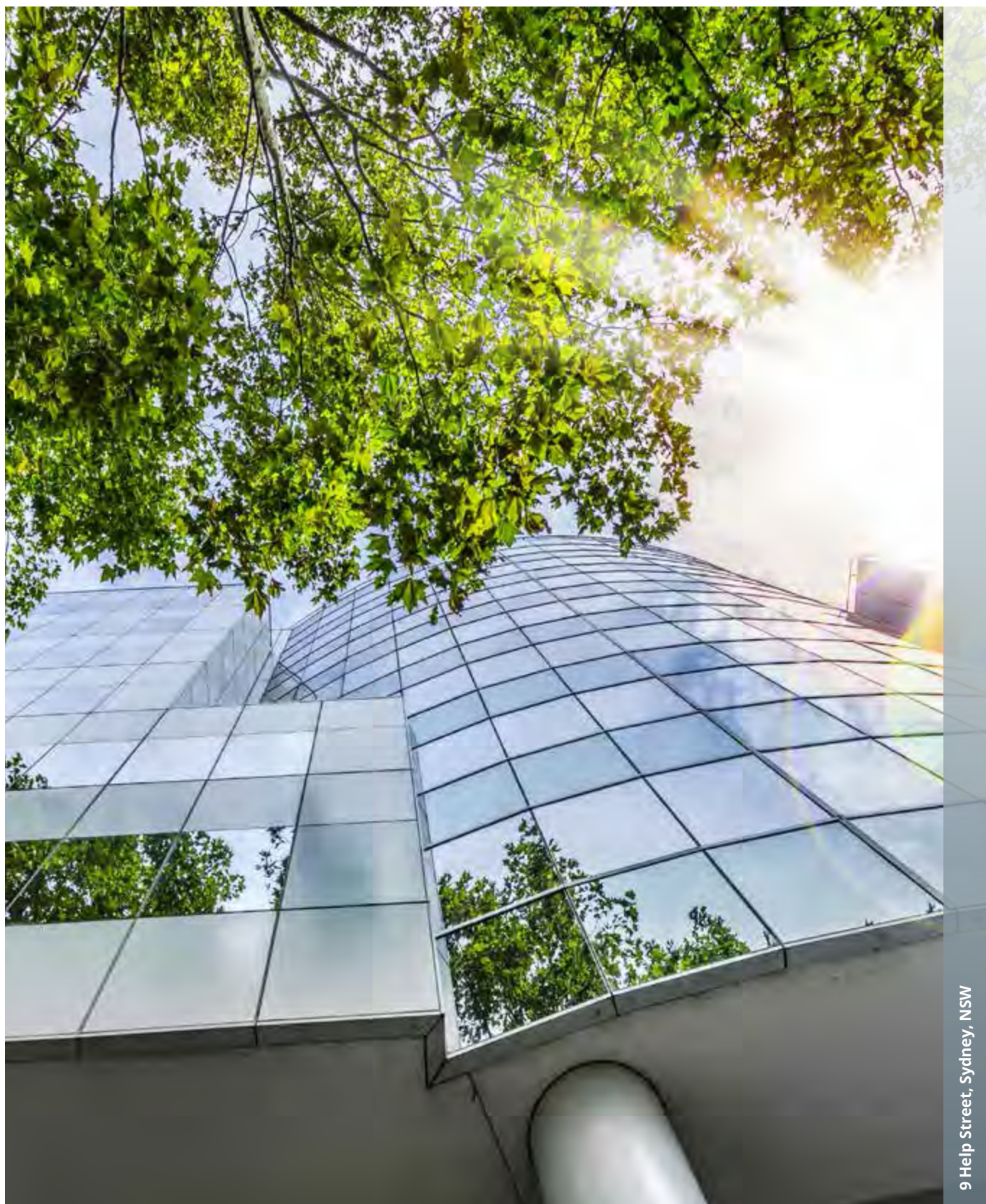
# Fund Update

## Financial Performance

From listing to 30 June 2015, Centuria Metropolitan REIT's distributable earnings were 10.5 cents per stapled security with quarterly distributions totalling 9.2 cents per stapled security, providing a distribution yield of 8.25 per cent, in line with previously issued guidance.

The statutory profit for the period was \$8.9 million, also in line with previously issued guidance.

From listing to 30 June 2015, the Fund's Net Asset Backing (NTA) increased by six cents per stapled security, a rise of 3 per cent to \$1.97 per stapled security.



9 Help Street, Sydney, NSW



---

## Investment Portfolio

The Fund's portfolio grew to \$323.1 million as at 30 June 2015, which can be contributed to acquisition and valuation uplift.

Valuation increases of \$11.0 million were delivered primarily from 9 Help Street, Chatswood NSW and 3 Carlingford Road, Epping NSW with a further \$129.3 million of value attributed to new acquisitions.

Individually, the progress achieved in lodging a development master plan proposal for 3 Carlingford Road contributed to a 27 per cent increase in the property's value to \$21.0 million and the targeted tenant retention and leasing campaign conducted at 9 Help Street, Chatswood delivered a 12.8 per cent increase in the property's valuation to \$48.5 million.

These increases, together with the acquisition of new assets, has increased the Fund's net asset backing by 3 per cent to \$1.97 per stapled security, whilst gearing has remained at 24 per cent. As at 30 June 2015, the weighted average capitalisation rate for the portfolio was 8.43 per cent.

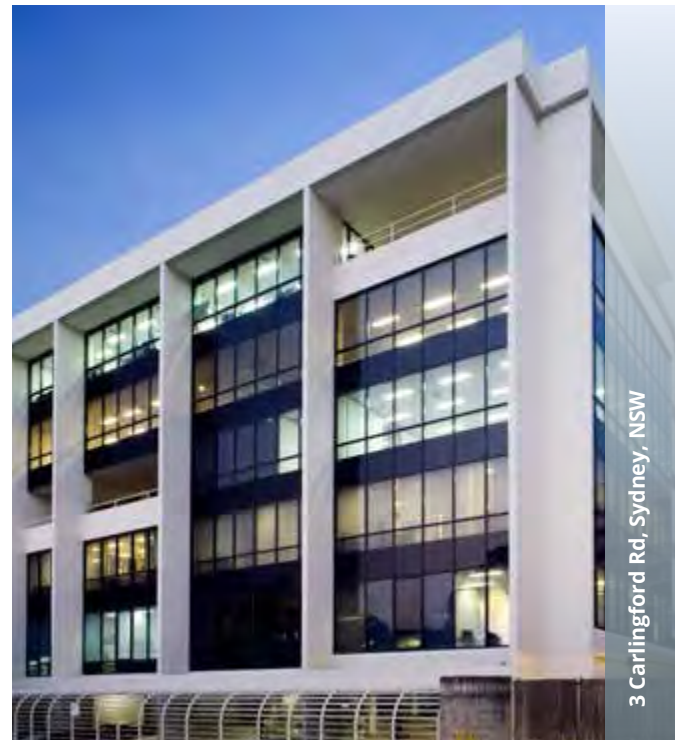
At 30 June 2015 the Fund's NTA has increased to **\$1.97** per stapled security and gearing was maintained at **24.0 per cent**.

---

The Fund asset valuations increased by **\$11.0 million** for the six months to 30 June 2015 for the initial portfolio of eight assets.

---

The total value of the Fund's portfolio at 30 June 2015 was **\$323.1 million**



# Fund Update (Continued)

## Acquisitions

Since listing to 30 June 2015, the Fund has completed four strategic acquisitions totalling \$129.3 million, funded through a combination of bank debt (\$29.3 million) and new equity raised via an entitlement offer (approximately \$100 million).

The assets acquired were;

- **54 Marcus Clarke Street, Canberra, ACT**
- **60 Marcus Clarke Street, Canberra, ACT**
- **131-139 Grenfell Street, Adelaide, SA**
- **35 Robina Town Centre Drive, Robina, QLD**

The four acquisitions reflect quality assets that position the Fund with a broader platform to support future growth. The assets provide a complementary mix of income streams

from long term leases to high quality tenants and the potential to deliver additional capital value through active asset management.

This is particularly the case with the two Canberra assets which were acquired on a combined passing yield of approximately 8.5 per cent with approximately 76 per cent occupancy. We believe that a modernisation of the lobby and street level refurbishment programme combined with active management will reposition the assets in the Canberra marketplace, substantially increasing the rental profile of the assets and in turn generating additional capital value. Fully leased, the assets are anticipated to have a passing yield in excess of ten per cent.

The assets provide a complementary mix of income streams from long term leases to high quality tenants and the potential to deliver additional capital value through active asset management.



555 Coronation Drive, Toowong, QLD



54 Marcus Clarke Street, Canberra, ACT



---

## Leasing

Since listing the Fund executed 12 leases across 5,116 square metres. This comprised 988 square metres of new leases and 4,128 square metres of renewals.

Initiatives designed to remove the near term expiry risk associated with the Fund's asset at 9 Help Street have been successful. During the year management agreed with CH2M Hill to extend their lease over 1,815 square metres for a further three years from March 2016 at passing rents. In addition, management accepted a partial surrender of 1,090 square metres of space surplus to CH2M Hill's requirements in exchange for a surrender payment. Management has since successfully leased this entire area to a combination of new and incumbent tenants.

At 30 June 2015, the portfolio WALE was 4.8 years and portfolio occupancy was 96.7 per cent.

Post 30 June 2015, the Fund has successfully secured additional lease commitments across a number of assets totalling 2,468 square metres, comprising 2,154 square metres of new leases and 314 square metres of renewals.



**4.8 years\***

Portfolio WALE

**96.7%\***

Portfolio occupancy

**5,116 sqm\***

Area of leases executed

\* as at 30 June 2015

---

## Outlook

The Fund is in an excellent financial position. It has delivered on its forecasts and has acquired four new assets in the period to 30 June 2015 since listing which further improve and diversify the source of portfolio earnings. Rental growth in the portfolio is supported by 92 per cent of leases containing average fixed rental reviews of 3.6 per cent per annum, providing confidence in the Fund's distribution guidance of 17.0 cents per stapled security for FY16.

The Fund is well positioned to deliver further capital appreciation as a result of our leasing and repositioning programme. With a highly engaged and experienced management team, and the benefits afforded by Centuria's integrated property management platform, we believe CMA is on track to become a leading performer in the A-REIT sector.

**CMA** is well positioned to deliver further capital appreciation as a result of our leasing and repositioning programme.

# Strategy & Objectives

## Strategy & Objectives

Actively managing the Fund's portfolio with an emphasis on tenant retention to ensure income and occupancy are maximised remains a key priority. The Fund will pursue acquisitions that complement CMA's existing portfolio and provide meaningful benefits to securityholders.

The Fund's objective is to own quality Australian office assets located in established suburban and fringe CBD markets, particularly those markets where competing supply is being withdrawn for alternate uses, and well located industrial, warehouse and business park assets with long dated leases to quality tenants.

The Fund seeks to acquire 'fit for purpose' Australian office and industrial assets with stable and secure income streams that can be further enhanced through active asset management and repositioning strategies. CMA continually assesses repositioning strategies that will deliver capital upside through the removal of leasing risk and subsequent income enhancement. This is in addition to specific initiatives involving asset refurbishment and enhancement, development planning and approvals, and zoning and use changes.

### The Fund is focussed on the following key deliverables for FY16:

- Leasing initiatives to reduce short term expiry risk and lengthen the WALE of the Fund's portfolio;
- Finalise leasing programme at 9 Help Street, Chatswood, NSW;
- Undertake lobby and street level refurbishments at 54 and 60 Marcus Clarke Street, Canberra, ACT coinciding with a renewed leasing campaign;
- Progress master plan approval with Parramatta City Council to secure increased development capacity to further enhance the value of the Fund's asset at 3 Carlingford Road, Epping, NSW; and
- Undertake lobby refurbishment and leasing initiatives in order to reposition 1 Richmond Road, Keswick, SA.





# FY15 Results

Balance Sheet Summary		Allotment to 30 June 2015	PDS Forecast <sup>2</sup>	Change
Investment Properties	\$m	323.1	182.9	▲
Total Assets	\$m	330.0	185.2	▲
Total Liabilities	\$m	94.7	49.0	▲
Net Assets	\$m	235.3	136.2	▲
Securities on Issue	m	119.2	71.5	▲
NTA per stapled security	\$	1.97	1.91	▲
Gearing	%	24.0	25.0	▼

Financial Snapshot <sup>1</sup>		Allotment to 30 June 2015	PDS Forecast <sup>2</sup>	Change
Statutory profit/(loss) <sup>3</sup>	\$m	8.9	4.8	▲
Distributable earnings <sup>4</sup>	\$m	8.2	7.5	▲
Distributable earnings per stapled security <sup>4,5</sup>	cents	10.5	10.5	▬
Annualised distributable earnings yield <sup>4,5</sup>	%	9.37	9.37	▬
Distribution	\$m	8.6	6.9	▲
Distribution per stapled security	cents	9.2	9.2	▬
Distribution yield	%	8.25	8.25	▬

1) As at 30 June 2015.

2) PDS forecast adjusted for actual listing date (10 December 2014) and the impact of CH2M Hill surrender payment as outlined in the CMA entitlement offer presentation dated 29 April 2015.

3) Includes the financial results of the previous stapled group (being Centuria Metropolitan REIT No.1 and Centuria Metropolitan REIT No. 2 formerly known as Centuria Diversified Property Fund) from 1 July 2014 – 9 December 2014 and Centuria Metropolitan REIT stapled group from 10 December 2014 to 30 June 2015.

4) Distributable earnings is a financial measure which is not prescribed by Australian Accounting Standards ("AAS") and represents the profit under AAS adjusted for specific non-cash and significant items. The Directors consider that distributable earnings reflect the core earnings of the Fund.

5) Based on the issue price at listing of \$2.00 per stapled security.





---

## Portfolio Summary\*

# 12

Number of assets

# \$323.1m

Portfolio value by book value

# 8.43%

Weighted average cap rate

# 101,085 sqm

NLA

# 96.7%

Occupancy

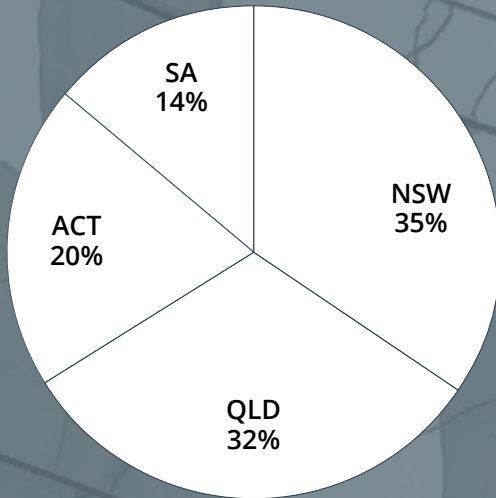
# 4.8 years

WALE

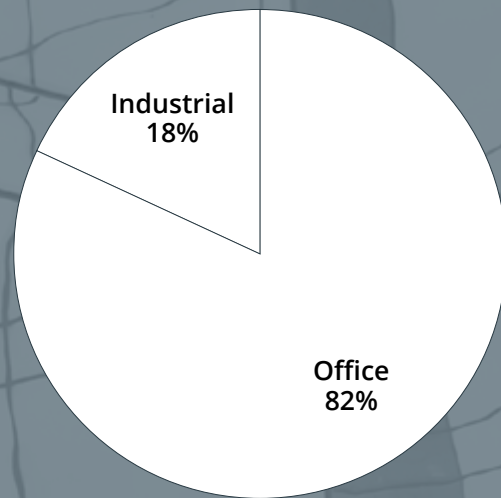
\*as at 30 June 2015

# Portfolio Overview\*

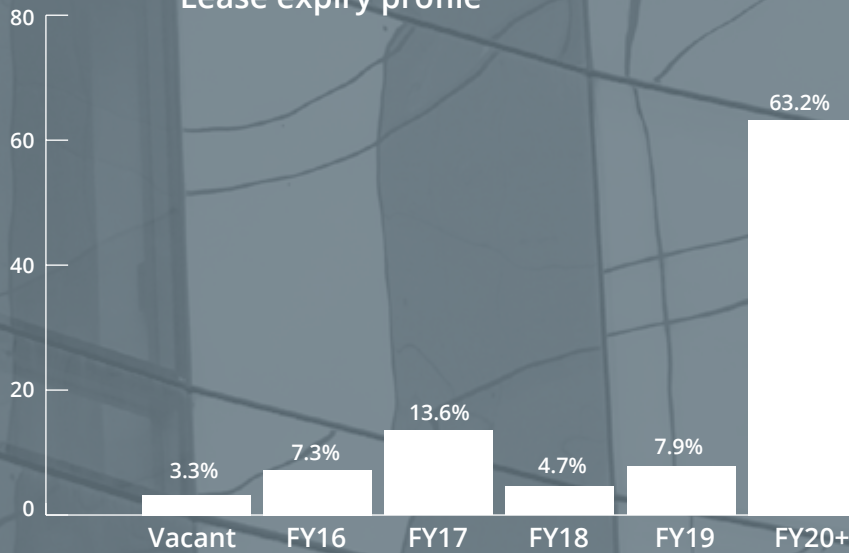
## Geographical diversification



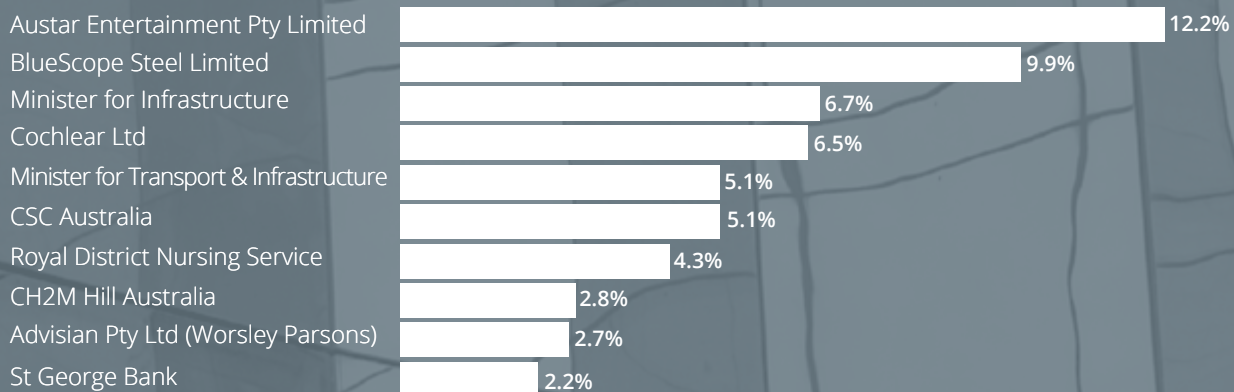
## Sector diversification



## Lease expiry profile



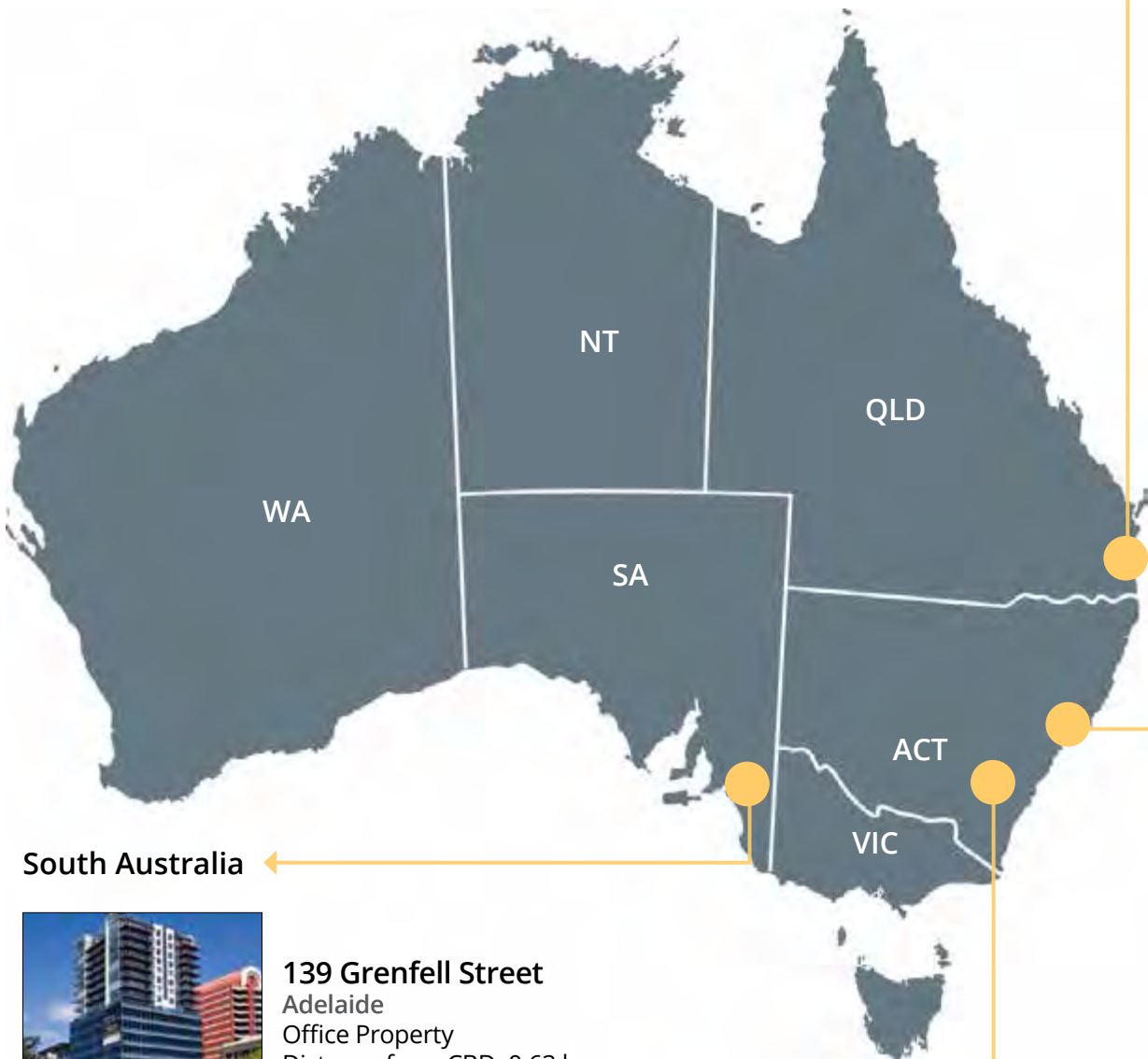
## Top ten tenants by income



\*as at 30 June 2015

# Portfolio Overview (Continued)

## Property profile



### South Australia



**139 Grenfell Street**  
Adelaide  
Office Property  
Distance from CBD: 0.63 km



**1 Richmond Road**  
Kew  
Office Property  
Distance from CBD: 2.22 km

### Australian Capital Territory



**54 Marcus Clarke St**  
Canberra  
Office Property  
Distance from CBD: 0.67 km



**60 Marcus Clarke St**  
Canberra  
Office Property  
Distance from CBD: 0.67 km



## → Queensland



**555 Coronation Drive**  
Brisbane  
Office Property  
Distance from CBD: 3.03 km



**149 Kerry Road**  
Archerfield  
Industrial Property  
Distance from CBD: 11.09 km



**35 Robina Town Centre**  
Robina  
Office Property  
Distance from CBD: 76.40 km

## → New South Wales



**3 Carlingford Road**  
Epping  
Office Property  
Distance from CBD: 15.96 km



**44 Hampden Road**  
Artarmon  
Office Property  
Distance from CBD: 6.70 km



**13 Ferndell Street**  
Granville  
Industrial Property  
Distance from CBD: 18.35 km



**9 Help Street**  
Chatswood  
Office Property  
Distance from CBD: 8.34 km



**14 Mars Road**  
Lane Cove  
Industrial Property  
Distance from CBD: 8.25 km

---

# Capital Management

At 30 June 2015, the Fund had two secured debt facilities from NAB, providing a total \$95.0 million, of which drawn borrowings totalled \$84.6 million at 30 June 2015, with a weighted average expiry of 4.7 years.

Subsequent to 30 June 2015, the Fund entered into additional interest rate hedging arrangements taking the amount of debt hedged to 99.3 per cent at a total interest cost of 4.0 per cent through to maturity in 2020.

The Fund's low gearing of 24.0 per cent and hedging profile reflect management's conservative capital management approach. Management will continue to target gearing below 35 per cent.

# 24.0%

---

The Fund's gearing as at  
30 June 2015

## Distribution Policy

The Fund pays quarterly distributions, within a 90% - 100% range of distributable earnings.

# Centuria Metropolitan REIT

## Directors' Report

### For the year ended 30 June 2015

The directors of Centuria Property Funds Limited, the Responsible Entity of Centuria Metropolitan REIT ('the Fund' or 'CMA'), formerly known as Centuria Diversified Property Fund, being a stapled scheme consisting of Centuria Metropolitan REIT No.1 ('the Parent' or 'CMR1') and Centuria Metropolitan REIT No. 2 ('CMR2') and its controlled entities, present their report together with the financial report of the Fund for the year ended 30 June 2015 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:

<b>Jason Huljich</b> (Executive Director)	Appointed 30 March 2001. Director of Centuria Capital Limited.
<b>Peter Done</b> (Non-Executive Chairman)	Appointed 5 December 2007. Director of Centuria Capital Limited.
<b>Matthew Hardy</b> (Non-Executive Director)	Appointed 4 July 2013.
<b>Edward Psaltis</b> (Non-Executive Director)	Appointed 4 July 2013. Resigned 2 September 2014.
<b>Darren Collins</b> (Non-Executive Director)	Appointed 10 March 2015.

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

<b>Matthew Coy</b>	Appointed 19 October 2009. Resigned effective 14 August 2015.
<b>Lucy Rowe</b>	Appointed 27 May 2014. Resigned 28 August 2014.
<b>James Lonie</b>	Appointed effective 14 August 2015.

The relevant interest of each director in the stapled securities in the Fund as at the date of this report are:

Director	Stapled securities held
<b>Jason Huljich</b>	3,174
<b>Peter Done</b>	75,000
<b>Matthew Hardy</b>	-
<b>Darren Collins</b>	17,660
	<b>95,834</b>

No director holds a right or option over interests in the Fund. No options over any issued or unissued stapled securities in the Fund 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 Fund.



# Centuria Metropolitan REIT

## Directors' Report (Continued)

**For the year ended 30 June 2015**

### **Directors of the Responsible Entity** (continued)

The following table sets out the directorships of other Australian listed companies held by the directors during the three years immediately before the end of the financial year:

Director	Company	Appointed	Resigned
Jason Huljich	Centuria Capital Limited	28 Nov 2007	Continuing
Peter Done	Centuria Capital Limited	28 Nov 2007	Continuing
Matthew Hardy	Mirvac Industrial Trust	04 Sep 2009	28 May 2013
Darren Collins	Not applicable		

### **Principal activities**

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

The principal activity of the Fund in the course of the financial year is to invest funds in accordance with its investment objectives and guidelines as set out in the current Product Disclosure Statement ('PDS') dated 11 November 2014, with the key asset category being investment property.

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

### **Significant change in the state of affairs**

During the year the Responsible Entity conducted a Public Offer which raised \$114.3 million through the issue of 57.15 million stapled securities in the Fund at \$2.00 per stapled security. The Public Offer concluded on 9 December 2014 and three new investment properties were acquired as a result (refer to Note 7 for further details on the investment properties acquired).

On 9 December 2014, prior to the allotment of the 57.15 million stapled securities resulting from the Public Offer, 26.7 million stapled securities were redeemed at \$0.51 per stapled security.

On 9 December 2014, prior to the allotment of the 57.15 million stapled securities resulting from the Public Offer, the remaining stapled securities on issue after the above redemption amounting to 56.1 million stapled securities were consolidated, whereby the security holders received 1 new stapled security for every 3.91 stapled securities held.

The Fund was admitted to the official list of ASX Limited and the official quotation of the stapled securities in the Fund commenced on 10 December 2014.

During the year the Responsible Entity conducted an Entitlement Offer which raised \$100.1 million through the issue of 47.67 million stapled securities in the Fund at \$2.10 per stapled security. Security holders were offered two new stapled securities for every three stapled securities held at the record date of 4 May 2015. The Entitlement Offer concluded on 21 May 2015 and four new investment properties were acquired as a result (refer to Note 7 for further details on the investment properties acquired).

---

# Centuria Metropolitan REIT

## Directors' Report (Continued)

### For the year ended 30 June 2015

#### Review of operations

##### Results

The results of the operations of the Fund are disclosed in the consolidated statement of profit or loss and other comprehensive income of these financial statements. The Fund's profit from continuing operations for the year ended 30 June 2015 was \$8,931,603 (2014: \$6,677,723 profit).

##### Investment property valuations

Valuations increased by \$11.0 million or 6.0% for the initial portfolio of eight assets for the six months to 30 June 2015. This was primarily driven by increases in the value of two of the Fund's assets, 9 Help Street, Chatswood NSW and 3 Carlingford Road, Epping NSW. The total value of the Fund's portfolio at 30 June 2015 was \$323.1 million.

The weighted average capitalisation rate ('WACR') for the portfolio was 8.43% at 30 June 2015.

At 30 June 2015, the Fund's Net Tangible Assets ('NTA') has increased to \$1.97 per stapled security and the Fund's gearing has reduced to 24.0%.

##### Leasing and occupancy

From the date of listing on the ASX to 30 June 2015, the Responsible Entity executed 12 leases across 5,116 square metres. This comprised 988 square metres of new leases and 4,128 square metres of renewals. Initiatives designed to remove the near term expiry risk associated with the Fund's asset at 9 Help Street, Chatswood NSW have been successful.

At 30 June 2015, the Weighted Average Lease Expiry ('WALE') was 4.8 years and occupancy in the portfolio was 96.7%.

##### Outlook

The Responsible Entity remains focused on actively managing the portfolio with a emphasis on tenant retention to ensure income and occupancy are maximised. The Responsible Entity will pursue acquisitions that fit the Fund's strategy and provide meaningful benefits to security holders.

The Fund's objective is to own quality Australian office assets located in established suburban and fringe CBD markets, particularly those markets where competing supply is being withdrawn for alternate uses, and well located industrial, warehouse and business park assets with long dated leases to quality tenants.

The Fund seeks to acquire 'fit for purpose' Australian office and industrial assets with stable and secure income streams that can be further enhanced through active asset management and repositioning strategies. The Responsible Entity continually assesses repositioning strategies that will deliver capital upside through the removal of leasing risk and subsequent income enhancement. This is in addition to initiatives involving asset refurbishment and enhancement, development planning and approvals, and zoning and use changes.

---

# Centuria Metropolitan REIT

## Directors' Report (Continued)

### For the year ended 30 June 2015

#### Review of operations (Continued)

##### Outlook (continued)

The Responsible Entity is focused on the following key deliverables for the 2016 financial year:

- Leasing initiatives to reduce short term expiry risk and lengthen the WALE of the Fund's portfolio;
- Finalise leasing programme at 9 Help Street, Chatswood NSW;
- Undertake lobby and street level refurbishments at 54 and 60 Marcus Clarke Street, Canberra ACT in readiness for launching a renewed leasing campaign;
- Progress draft master plan approval with Parramatta City Council to secure desired zoning to further enhance the value of the Fund's asset at 3 Carlingford Road, Epping NSW; and
- Undertake lobby refurbishment and leasing initiatives in order to reposition 1 Richmond Road, Keswick SA.

The Responsible Entity confirms distributable earnings guidance for the 2016 financial year of 17.9 cents per stapled security. The Fund's distribution guidance for the 2016 financial year is 17.0 cents per stapled security in line with previously announced guidance. This equates to a distribution yield of 8.25% on the 11 August 2015 closing price of \$2.06 per stapled security. Distributions will continue to be paid quarterly.



# Centuria Metropolitan REIT

## Directors' Report (Continued)

### For the year ended 30 June 2015

#### Review of operations (Continued)

### Distributions

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

	30 Jun 2015		30 Jun 2014	
	Cents per unit	\$	Cents per unit	\$
September quarter	0.76	626,285	0.55	459,143
1 Oct 2014 to 30 Nov 2014*	0.50	415,254	-	-
December quarter*	-	-	0.55	459,275
March quarter	5.06	3,617,908	0.54	449,291
June quarter^	4.16	4,957,361	0.55	454,284
	<b>10.48</b>	<b>9,616,808</b>	<b>2.19</b>	<b>1,821,993</b>
Allocation between stapled entities:				
CMR1 - pre-listing	0.63	520,770	1.10	910,997
CMR1 - post-listing	4.94	4,596,859	-	-
	<b>5.57</b>	<b>5,117,629</b>	<b>1.10</b>	<b>910,997</b>
CMR2 - pre-listing	0.63	520,769	1.09	910,996
CMR2 - post-listing	4.28	3,978,410	-	-
	<b>4.91</b>	<b>4,499,179</b>	<b>1.09</b>	<b>910,996</b>
	<b>10.48</b>	<b>9,616,808</b>	<b>2.19</b>	<b>1,821,993</b>

\* Prior to the Public Offer, the distributions for the Fund were generally declared quarterly. On 30 November 2014, a distribution was declared to the stapled security holders of the Fund relating to operating profits earned from the previous quarter to 30 November 2014.

^ On 18 June 2015, the Responsible Entity announced an estimated distribution for the June 2015 quarter of 4.16 cents per stapled security. This was later ratified by the directors of the Responsible Entity on 30 June 2015.

### Key dates in connection with the June 2015 distribution are:

Event	Date
Ex-distribution date	26 Jun 15
Record date	30 Jun 15
Distribution payment date	12 Aug 15

# Centuria Metropolitan REIT

## Directors' Report (Continued)

### For the year ended 30 June 2015

#### Review of operations (Continued)

#### Distributions (Continued)

The distributable earnings for the Fund are in line with the forecast distributable earnings presented in the PDS. The Fund will aim to distribute between 90% and 100% of its distributable earnings each year. The table below provides a reconciliation from the statement of profit or loss and other comprehensive income to the distributable earnings for the year:

	30 Jun 2015
	\$
<b>Net profit for the year</b>	<b>8,931,603</b>
<b>Adjustments:</b>	
Gain on fair value of investment properties before write-down of stamp duty and other transaction costs	(9,544,744)
Less: write-down of stamp duty and other transaction costs	9,996,046
<b>Net loss on fair value of investment properties</b>	<b>451,302</b>
Gain on fair value of derivative financial instruments	(498,147)
Incentive fees provision reversed	(122,943)
Straight-lining of rental income	(156,607)
Expensed break-fees for terminated interest rate swaps	413,171
Expensed Public Offer transaction costs	660,099
<b>Distributable earnings for the period</b>	<b>9,678,478</b>

#### Environmental regulation

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

#### Options granted

No options were granted over unissued stapled securities in the Fund during or since the end of the financial year.

No unissued stapled securities in the Fund were under option as at the date of this report.

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

#### Events subsequent to balance date

On 9 July 2015, the Responsible Entity executed an interest rate swap contract to hedge an additional \$36,000,000 of the secured debt facility at a fixed base rate of 2.55% plus margin and line fees. The interest rate swap will mature on 10 July 2020. As a result, the Fund has now hedged 99.3% of the drawn debt and 88.4% of the total debt facility.

# Centuria Metropolitan REIT

## Directors' Report (Continued)

### For the year ended 30 June 2015

#### Indemnifying officers or auditors

##### Indemnification

Under the Fund's constitution the Responsible Entity, including its officers and employees, is indemnified out of the Fund'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 Fund.

The Responsible Entity has not indemnified or agreed to indemnify any auditor or other officer of the Fund, 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.

The Responsible Entity and/or its related parties have held stapled securities in the Fund during the financial year as outlined in Note 19 to the financial statements.

##### Other Fund information

The number of stapled securities in the Fund issued and redeemed during the financial year, and the balance of issued stapled securities at the end of the financial year are disclosed in Note 13 to the financial statements.

The recorded value of the Fund'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 Note 3 to the financial statements.

#### Fund information in the directors' report

##### Responsible Entity interests

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

	30 Jun 2015	30 Jun 2014
	\$	\$
Finance costs on convertible note	47,950	132,030
Incentive fees (waived)/ expense	(122,943)	122,943
Leasing fees	165,456	250,342
Management fees	952,709	662,864
Property management fees	162,135	108,714
Development fees	61,050	-
Other professional fees	67,767	46,086
	<b>1,334,124</b>	<b>1,322,979</b>



---

# Centuria Metropolitan REIT


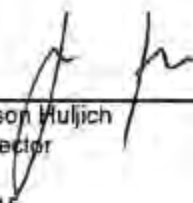
## Directors' Report (Continued)

### For the year ended 30 June 2015

#### Auditor's independence declaration

The auditor's independence declaration is set out on page 23 and forms part of the directors' report for year ended 30 June 2015.

Signed in accordance with a resolution of the board of directors of Centuria Property Funds Limited made pursuant to s.298(2) of the Corporations Act 2001.

  
Peter Done  
Director  
Dated at Sydney this 12<sup>th</sup> day of August  
Jason Muljich  
Director  
2015.

---

# Centuria Metropolitan REIT

## Auditor's Independence Declaration



### *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 Metropolitan REIT (a stapled entity comprising Centuria Metropolitan REIT No. 1 and Centuria Metropolitan REIT No. 2 and its controlled entities)

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2015 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.

A handwritten signature in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink that reads 'S Gatt'.

Steven Gatt  
*Partner*

Sydney

12 August 2015

# Centuria Metropolitan REIT

## Statement of Profit or Loss

### Consolidated statement of profit or loss and other comprehensive income

#### For the year ended 30 June 2015

	Note	30 Jun 2015	30 Jun 2014
		\$	\$
<b>Revenue</b>			
Rent and recoverable outgoings		18,757,117	12,289,991
<b>Other income</b>			
Interest income		104,446	41,542
Gain on fair value of investment properties	7	-	2,689,417
Gain on fair value of derivative financial instruments		498,147	1,502,518
<b>Expenses</b>			
Net loss on fair value of investment properties after write-down of stamp duty and other transaction costs	7	(451,302)	-
Rates, taxes and other property outgoings		(4,105,306)	(3,524,401)
Finance costs		(3,927,969)	(5,317,882)
Incentive fees waived/(expense)	12	122,943	(122,943)
Management fees	19	(952,709)	(662,864)
Professional fees		(318,217)	(190,301)
Public Offer transaction costs		(660,099)	-
Other expenses		(135,448)	(27,354)
<b>Profit from continuing operations for the year</b>		<b>8,931,603</b>	<b>6,677,723</b>
<b>Net profit for the year</b>		<b>8,931,603</b>	<b>6,677,723</b>
<b>Other comprehensive income for the year</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>8,931,603</b>	<b>6,677,723</b>
<b>Net profit attributable to:</b>			
Members of the Parent	14	7,091,485	3,829,710
Non-controlling interest - CMR2	15	1,840,118	2,848,013
		<b>8,931,603</b>	<b>6,677,723</b>
<b>Total comprehensive income attributable to:</b>			
Members of the Parent		7,091,485	3,829,710
Non-controlling interest - CMR2		1,840,118	2,848,013
		<b>8,931,603</b>	<b>6,677,723</b>
<b>Basic and diluted earnings per CMR1 unit</b>			
Units on issue (cents per unit)	17	<b>12.80</b>	<b>18.08</b>
<b>Basic and diluted earnings per CMA stapled security</b>			
Stapled securities on issue (cents per stapled security)	17	<b>16.12</b>	<b>31.53</b>

The notes on pages 28 to 53 form an integral part of these financial statements.



# Centuria Metropolitan REIT

## Consolidated statement of financial position

As at 30 June 2015

	Note	30 Jun 2015	30 Jun 2014
		\$	\$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	6,273,121	2,760,329
Trade and other receivables	6	231,676	119,476
Prepayments	8	378,919	233,656
<b>Total current assets</b>		<b>6,883,716</b>	<b>3,113,461</b>
<b>Non-current assets</b>			
Investment properties	7	323,110,000	110,450,000
<b>Total non-current assets</b>		<b>323,110,000</b>	<b>110,450,000</b>
<b>Total assets</b>		<b>329,993,716</b>	<b>113,563,461</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	9	10,092,241	1,131,064
Borrowings	10	-	67,911,490
Derivative financial instruments	11	-	1,230,881
<b>Total current liabilities</b>		<b>10,092,241</b>	<b>70,273,435</b>
<b>Non-current liabilities</b>			
Borrowings	10	83,912,381	-
Derivative financial instruments	11	732,734	-
Provisions	12	-	122,943
<b>Total non-current liabilities</b>		<b>84,645,115</b>	<b>122,943</b>
<b>Total liabilities</b>		<b>94,737,356</b>	<b>70,396,378</b>
<b>Net assets</b>		<b>235,256,360</b>	<b>43,167,083</b>
<b>Equity</b>			
Issued capital	13	129,110,151	29,255,257
Accumulated losses	14	(4,383,713)	(6,357,569)
Non-controlling interest - CMR2	15	110,529,922	20,269,395
<b>Total equity</b>		<b>235,256,360</b>	<b>43,167,083</b>

The notes on pages 28 to 53 form an integral part of these financial statements.

# Centuria Metropolitan REIT

## Consolidated statement of changes in equity For the year ended 30 June 2015

	Note	Issued capital	Accumulated losses	Non-controlling interest	Total equity
		\$	\$	\$	\$
Balance at 1 July 2013		29,255,257	(9,276,282)	18,332,378	38,311,353
Net profit for the year		-	3,829,710	2,848,013	6,677,723
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	3,829,710	2,848,013	6,677,723
Distributions to security holders	16	-	(910,997)	(910,996)	(1,821,993)
<b>Balance at 30 June 2014</b>		<b>29,255,257</b>	<b>(6,357,569)</b>	<b>20,269,395</b>	<b>43,167,083</b>
Net profit for the year		-	7,091,485	1,840,118	8,931,603
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		-	7,091,485	1,840,118	8,931,603
Applications	13&15	111,327,567	-	103,083,591	214,411,158
Redemptions	13&15	(7,307,648)	-	(6,324,505)	(13,632,153)
Equity raising costs	13&15	(4,165,025)	-	(3,839,498)	(8,004,523)
Distributions to security holders	16	-	(5,117,629)	(4,499,179)	(9,616,808)
<b>Balance at 30 June 2015</b>		<b>129,110,151</b>	<b>(4,383,713)</b>	<b>110,529,922</b>	<b>235,256,360</b>

The notes on pages 28 to 53 form an integral part of these financial statements.

# Centuria Metropolitan REIT

## Consolidated statement of cash flows

### For the year ended 30 June 2015

	Note	30 Jun 2015	30 Jun 2014
		\$	\$
<b>Cash flows from operating activities</b>			
Receipts from customers		20,130,134	14,179,338
Payments to suppliers		(7,656,718)	(5,923,371)
Interest received		100,912	41,542
Interest paid		(3,722,525)	(5,208,597)
<b>Net cash generated by operating activities</b>	5	<b>8,851,803</b>	<b>3,088,912</b>
<b>Cash flows from investing activities</b>			
Payments for investment properties		(209,606,107)	(1,074,296)
<b>Net cash used in investing activities</b>		<b>(209,606,107)</b>	<b>(1,074,296)</b>
<b>Cash flows from financing activities</b>			
Proceeds on issue of stapled securities		214,411,158	-
Payments to procure issued stapled securities		(7,742,661)	-
Payments for redemption of stapled securities		(13,632,153)	-
Distributions paid		(4,659,447)	(1,821,993)
Proceeds from borrowings		84,610,558	-
Repayment of borrowings		(67,943,990)	(69,918)
Payments to procure borrowings		(776,369)	(30,000)
<b>Net cash generated by/(used in) financing activities</b>		<b>204,267,096</b>	<b>(1,921,911)</b>
<b>Net increase in cash and cash equivalents</b>		<b>3,512,792</b>	<b>92,705</b>
Cash and cash equivalents at beginning of financial year		2,760,329	2,667,624
<b>Cash and cash equivalents at end of financial year</b>	5	<b>6,273,121</b>	<b>2,760,329</b>

The notes on pages 28 to 53 form an integral part of these financial statements.



---

# Centuria Metropolitan REIT

## Notes to the Financial Statements

### For the year ended 30 June 2015

1. General information	29
2. Application of new and revised accounting standards	29
3. Significant accounting policies	30
4. Auditor's remuneration	37
5. Cash and cash equivalents	37
6. Trade and other receivables	37
7. Investment properties	38
8. Prepayments	41
9. Trade and other payables	41
10. Borrowings	41
11. Derivatives	42
12. Provisions	43
13. Issued capital - CMR1	43
14. Accumulated losses	43
15. Non-controlling interest - CMR2	44
16. Distributions to stapled security holders	44
17. Earnings per unit/stapled security	45
18. Financial instruments	45
19. Related parties	50
20. Events subsequent to reporting date	52
21. Parent entity disclosures	52
22. Contingent assets, liabilities and commitments	53
23. Additional information	53

---

# Centuria Metropolitan REIT

## Notes to the Financial Statements

### For the year ended 30 June 2015

#### 1. General information

Centuria Metropolitan REIT is a registered managed investment scheme under the Corporations Act 2001 and domiciled in Australia. The principal activity of the Fund is disclosed in the directors' report.

#### 2. Application of new and revised accounting standards

##### (a) Adoption of new and revised accounting standards

In the current year, the Fund has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current reporting year. New and revised Standards and amendments thereof and Interpretations effective for the current period that are relevant to the Fund include:

- AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'. Effective for annual reporting periods beginning on or after 1 January 2014.
- AASB 2013-3 'Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets'. Effective for annual reporting periods beginning on or after 1 January 2014.
- AASB 2013-4 'Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting'. Effective for annual reporting periods beginning on or after 1 January 2014.
- AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities'. Effective for annual reporting periods beginning on or after 1 January 2014.
- AASB 1031 'Materiality (December 2013)'. Effective for annual reporting periods beginning on or after 1 January 2014.
- AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments Part B'. Effective for annual reporting periods beginning on or after 1 January 2014.

The adoption of these new and revised Standards and Interpretations has not had any significant impact on the disclosures or amounts reported in these financial statements.

##### (b) New standards and interpretations not yet adopted

At the date of this report, the Standards and Interpretations listed below were on issue but not yet effective. They are available for early adoption at 30 June 2015, but have not been applied in preparing these financial statements. The potential effect of the below Standards and Interpretations on the Fund's financial statements has not yet been determined:

- AASB 9 'Financial Instruments', AASB 2009-11, AASB 2010-7 and AASB 2014-7 'Amendments to Australian Accounting Standards arising from AASB 9'. Effective for annual reporting periods beginning on or after 1 January 2018.
- AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments Part C'. Effective for annual reporting periods beginning on or after 1 January 2018.
- AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15'. Effective for annual reporting periods beginning on or after 1 January 2017.

---

# Centuria Metropolitan REIT

## Notes to the Financial Statements

### 2. Application of new and revised accounting standards (continued)

#### (b) New standards and interpretations not yet adopted (continued)

- AASB 2014-9 'Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements'. Effective for annual reporting periods beginning on or after 1 January 2016.
- AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'. Effective for annual reporting periods beginning on or after 1 January 2016.

### 3. Significant accounting policies

#### (a) Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards including Interpretations, and complies with other requirements of the law.

The financial statements and notes of the Fund comply with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB').

For the purposes of preparing the financial statements, the Fund 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 12 August 2015.

#### (b) Basis of preparation

The financial statements have been prepared on the basis of historical cost, except for certain non-current assets and financial instruments that are measured at fair value, as explained in the accounting policies set out below.

#### Use of estimates and judgements

In the application of the Fund'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 estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if

the revision affects only that period; or in the period of the revision and future periods if the revision affects both current and future periods. The key estimates and judgements in the financial report relate to the valuation of investment properties (per Note 7) and derivative financial instruments (per Note 18).

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.



---

# Centuria Metropolitan REIT

## Notes to the Financial Statements

### For the year ended 30 June 2015

#### 3. Significant accounting policies (continued)

##### (b) Basis of preparation (continued)

###### 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.

At reporting date, the Fund has a net current asset deficiency of \$3,208,525 principally resulting from deferred consideration of \$3,212,427 in relation to the acquisition of investment properties being recognised in current payables (refer to Note 9).

The liabilities will be funded by drawing down on the secured debt facility as and when the amounts become due and payable (facility available as at 30 June 2015 amounts to \$10,389,442). Consequently, after settling the amounts payable for investment properties from the debt facility draw downs, the net current asset deficiency will be rectified.

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

##### (c) Reclassification of financial information

During the year, the Fund reclassified the consolidated statement of financial position presentation of deferred rent, lease incentives and capitalised leasing fees to include such amounts in investment properties. Previously, these balances were presented separately in trade and other receivables.

The reclassification was applied retrospectively resulting in comparative balances at 30 June 2014 for investment properties increasing by \$3,978,150 and current and non-current trade and other receivables decreasing by the same amount.

The reclassification did not result in any change to net assets as at 30 June 2014 or net profit for the year ended on that date.

##### (d) Functional and presentation currency

The financial statements are presented in Australian dollars, which is the Fund's functional currency.

---

# Centuria Metropolitan REIT

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

#### (e) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Fund and entities controlled by the Fund. Control is achieved where the Fund 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 Fund accounts for business combinations using the acquisition method when control is transferred to the Fund. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. When the Fund 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 Fund's security holders. Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

#### *i. Stapled scheme*

Centuria Metropolitan REIT was established for the purpose of facilitating a relationship between CMR1 and CMR2. The Fund was formed by stapling units in CMR1 and CMR2. Security holders in the Fund are entitled to an equal interest in each stapled entity within the Fund.

The Fund is required to appoint a parent under the stapling arrangement. CMR1 has been appointed parent of the Fund. On the basis that there is no ownership interest between the entities involved in the stapling arrangement, the net assets and profit or loss of CMR2 are disclosed separately as a non-controlling interest. The operations of CMR2 are merely to hold a 50% investment in another Trust vehicle (refer to Note 3(e)(ii) below).

ASX reserves the right (but without limiting its absolute discretion) to remove CMR1 and CMR2 from the official list of ASX if any of the units in each entity cease to be stapled together or any units are issued by a stapled entity in the Fund which are not stapled to the equivalent units in the other stapled entity.

The stapling arrangement includes a cross guarantee whereby CMR1 and CMR2 is liable to cover each other's shortfall should either entity not have sufficient funds to cover its liabilities.

The stapling arrangement will cease upon the earlier of the winding up of any of the stapled entities, or any of the entities terminating the stapling arrangement.

---

# Centuria Metropolitan REIT

## Notes to the Financial Statements

### For the year ended 30 June 2015

#### 3. Significant accounting policies (continued)

##### (e) Basis of consolidation (continued)

###### *ii. Subsidiaries*

In addition to CMR2, the consolidated financial statements include the assets, liabilities and results of Centuria Diversified Property Trust. This trust is 50% held by CMR1 and 50% by CMR2. As a result, 50% of the net assets and profit or loss of Centuria Diversified Property Trust are disclosed separately as a non-controlling interest.

##### (f) Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and cash in banks, net of outstanding bank overdrafts.

##### (g) Investments

###### *i. Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognised at fair value plus any directly attributable transaction costs and are subsequently stated at amortised cost using the effective interest rate method, less impairment losses.

###### *ii. Investment properties*

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.

##### (h) Assets classified as held for sale

Assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. The Responsible Entity must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Assets held for sale are measured at the lower of their previous carrying amount and fair value.

###### *(i) Impairment*

The carrying amounts of the Fund's assets, other than those recorded at fair value, are 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.

---

# Centuria Metropolitan REIT

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

#### (j) Financial instruments

##### *i. Derivative financial instruments*

The Fund holds derivative financial instruments to hedge its interest rate exposures.

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 Fund has not applied hedge accounting to its derivative financial instruments.

#### (k) Payables

Trade payables and other accounts payable are recognised when the Fund 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.

#### (l) Borrowings

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.

#### (m) Provisions

A provision is recognised if, as a result of a past event, the Fund 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).

#### (n) Equity instruments

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



---

# Centuria Metropolitan REIT

## Notes to the Financial Statements

**For the year ended 30 June 2015**

### **3. Significant accounting policies (continued)**

#### **(o) Revenue**

##### ***i. Rental income***

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

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

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

##### ***ii. Recoverable outgoings***

Recoverable outgoings are recognised on an accrual basis.

#### **(p) Expenses**

##### ***i. Finance costs***

Finance costs include interest expense and amortised borrowing costs. Interest expense is recognised in profit or loss as it accrues. Finance costs are recognised using the effective interest rate applicable to the financial liability.

##### ***ii. Other expenses***

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

#### **(q) Distribution and taxation**

Under current legislation the Fund is not subject to income tax when its taxable income (including assessable realised capital gains) is distributed in full to the security holders. The Fund ordinarily fully distributes its distributable income, calculated in accordance with the Fund constitution and applicable taxation legislation, to the security holders who are presently entitled to the income under the constitution.

Investments and financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised that portion of the gain that is subject to capital gains tax will be distributed to security holders so that the Fund is not subject to capital gains tax.

Realised capital losses are not distributed to security holders but are retained in the Fund to be offset against any future realised capital gains. If realised capital gains exceed realised capital losses the excess is distributed to the security holders.

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

---

# Centuria Metropolitan REIT

## Notes to the Financial Statements

### 3. Significant accounting policies (continued)

#### (r) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) 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 on a gross basis. 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.

#### (s) Segment reporting

The Fund operates in one segment, being investments in Australian industrial, metropolitan and business park office property. The Fund 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 Fund's chief operating decision maker.

# Centuria Metropolitan REIT

## Notes to the Financial Statements

### For the year ended 30 June 2015

#### 4. Auditor's remuneration

	30 Jun 2015	30 Jun 2014
	\$	\$
<b>KPMG:</b>		
Audit and review of financials	75,000	24,472
Investigating Accountants Report	300,000	-
Taxation and property due diligence services	119,671	-
	<b>494,671</b>	<b>24,472</b>

#### 5. Cash and cash equivalents

	30 Jun 2015	30 Jun 2014
	\$	\$
<b>Cash and bank balances</b>	6,273,121	2,760,329
	<b>6,273,121</b>	<b>2,760,329</b>

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

	30 Jun 2015	30 Jun 2014
	\$	\$
<b>Net profit for the year</b>	<b>8,931,603</b>	<b>6,677,723</b>
<b>Adjustments:</b>		
Net loss/(gain) on fair value of investment properties	451,302	(2,689,417)
Gain on fair value of derivatives	(498,147)	(1,502,518)
Change in deferred rent and lease incentives	(161,607)	497,513
Change in capitalised leasing fees	(164,961)	-
Borrowing cost amortisation	110,692	156,013
<b>Changes in operating assets and liabilities:</b>		
Increase in receivables	(112,200)	(74,454)
Increase in other assets	(145,263)	(32,691)
Increase/(decrease) in payables	563,327	(66,200)
(Decrease)/increase in provisions	(122,943)	122,943
<b>Net cash generated by operating activities</b>	<b>8,851,803</b>	<b>3,088,912</b>

#### 6. Trade and other receivables

	30 Jun 2015	30 Jun 2014
	\$	\$
<b>Current</b>		
Trade debtors	195,490	8,809
Interest receivable	3,534	-
Other current receivables	32,652	110,667
	<b>231,676</b>	<b>119,476</b>

Refer to **Note 18** for details on fair value measurement and the Fund's exposure to risks associated with financial assets (other receivables are not considered to be financial assets). The Fund expects to recover the total carrying amount of receivables.

# Centuria Metropolitan REIT

## Notes to the Financial Statements

### 7. Investment properties

	30 Jun 2015	30 Jun 2014
	\$	\$
<b>Opening balance</b>	<b>110,450,000</b>	<b>107,150,000</b>
Purchase price of investment properties	200,950,000	-
Stamp duty and other transaction costs	9,996,046	-
Capital improvements	1,838,688	1,108,096
<b>Total purchase costs</b>	<b>212,784,734</b>	<b>1,108,096</b>
Gain on fair value before write-down of stamp duty and other transaction costs	9,544,744	2,689,417
Write-down of stamp duty and other transaction costs	(9,996,046)	-
<b>(Loss)/gain on fair value</b>	<b>(451,302)</b>	<b>2,689,417</b>
Change in deferred rent and lease incentives	161,607	(497,513)
Change in capitalised leasing fees	164,961	-
<b>Closing balance<sup>^</sup></b>	<b>323,110,000</b>	<b>110,450,000</b>

<sup>^</sup> The carrying amount of investment properties includes components related to deferred rent, capitalised lease incentives and leasing fees amounting to \$4,304,718 (2014: \$3,978,150).

Property	30 Jun 2015 Valuer	30 Jun 2015 Capitalisation Rate	30 Jun 2015 Fair Value \$	Last Independent Valuation Date	Independent Valuer Capitalisation Rate	Independent Valuer Firm
3 Carlingford Rd, Epping NSW	Director	7.50%	21,000,000	Mar 2015	7.50%	CBRE
44 Hampden Rd, Artarmon NSW	Director	8.75%	7,600,000	Dec 2014	9.00%	DTZ
1 Richmond Rd, Kewick SA	Director	9.50%	25,150,000	Sep 2014	10.00%	JLL
9 Help St, Chatswood NSW	Independent	8.25%	48,500,000	Jun 2015	8.25%	DTZ
14 Mars Rd, Lane Cove NSW	Director	9.25%	18,500,000	Sep 2014	9.25%	Colliers
555 Coronation Dr, Brisbane QLD	Director	8.50%	33,800,000	Dec 2014	8.75%	DTZ
149 Kerry Rd, Archerfield QLD	Director	7.75%	22,700,000	Dec 2014	8.00%	DTZ
13 Ferndell St, Granville NSW	Director	8.25%	16,600,000	Sep 2014	8.25%	DTZ
35 Robina Town Ctr Dr, Robina QLD*	Director	7.75%	46,000,000	Mar 2015	7.75%	CBRE
54 Marcus Clarke St, Canberra ACT*	Director	10.00%	14,200,000	Mar 2015	10.00%	Savills
60 Marcus Clarke St, Canberra ACT*	Director	8.35%	49,060,000	Mar 2015	8.35%	Savills
131-139 Grenfell St, Adelaide SA*	Director	9.00%	20,000,000	Mar 2015	9.00%	Savills
			<b>323,110,000</b>			

\* Directors' valuations adopted at 30 June 2015 are consistent with the last independent valuations performed.



# Centuria Metropolitan REIT

## Notes to the Financial Statements

### For the year ended 30 June 2015

#### 7. Investment properties (continued)

During the year, the Fund acquired the following investment properties at the below contracted purchase price (excluding stamp duty and other transaction costs):

Property	Purchase price \$	Month Acquired
555 Coronation Dr, Brisbane QLD	33,400,000	Dec 2014
149 Kerry Rd, Archerfield QLD	22,172,000	Dec 2014
13 Ferndell St, Granville NSW	16,118,000	Dec 2014
35 Robina Town Ctr Dr, Robina QLD	46,000,000	May 2015
54 Marcus Clarke St, Canberra ACT	14,200,000	Jun 2015
60 Marcus Clarke St, Canberra ACT	49,060,000	Jun 2015
131-139 Grenfell St, Adelaide SA	20,000,000	Jun 2015
	<b>200,950,000</b>	

#### Leases as lessor

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

	30 Jun 2015	30 Jun 2014
	\$	\$
Less than one year	31,414,123	12,124,747
Between one and five years	88,004,853	29,744,620
More than five years	29,707,273	9,839,272
	<b>149,126,249</b>	<b>51,708,639</b>

#### Fair value measurement

The fair value measurement of investment property has been categorised as a Level 3 fair value based on the inputs to the valuation techniques (refer to Note 18A).

#### Reconciliation of Level 3 fair value measurement

Balance at 1 July 2014	110,450,000
Total purchase costs	212,784,734
Change in deferred rent, lease incentives and capitalised leasing fees	326,568
Total gains/(losses) recognised in profit or loss	(451,302)
<b>Balance at 30 June 2015</b>	<b>323,110,000</b>

#### Valuation techniques and significant unobservable inputs

The fair value 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.

# Centuria Metropolitan REIT

## Notes to the Financial Statements

### 7. Investment properties (continued)

#### Valuation techniques and significant unobservable inputs (continued)

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.

The following table outlines the significant unobservable inputs used in the above valuation techniques and their relationship with the fair value measurement:

Significant unobservable inputs	Relevant valuation method(s)	Range of inputs	Relationship with fair value
Discount rate	Capitalisation	8.00% to 11.50%	The higher/lower the rate, the lower/higher the fair value.
Terminal yield	Discounted Cash Flow	8.00% to 10.50%	The higher/lower the rate, the lower/higher the fair value.
Capitalisation rate	Capitalisation	7.50% to 10.00%	The higher/lower the rate, the lower/higher the fair value.
Vacancy period	Capitalisation & Discounted Cash Flow	9 to 18 months	The longer/shorter the period, the lower/higher the fair value.
Rental growth rate	Capitalisation & Discounted Cash Flow	1.00% to 6.00%	The higher/lower the rate, the higher/lower the fair value.
Rent per square metre	Direct Comparison	\$91 to \$576	The higher/lower the amount, the higher/lower the fair value.

# Centuria Metropolitan REIT

## Notes to the Financial Statements

### For the year ended 30 June 2015

#### 8. Prepayments

	30 Jun 2015	30 Jun 2014
	\$	\$
<b>Current</b>		
Prepaid interest	9,870	-
Prepaid rates, taxes and other property outgoings	369,049	233,656
	<b>378,919</b>	<b>233,656</b>

#### 9. Trade and other payables

	30 Jun 2015	30 Jun 2014
	\$	\$
<b>Current</b>		
Trade creditors and expenses payable	669,238	625,953
Interest payable	150,548	45,926
Distributions payable	4,957,361	-
Security deposits held	14,132	11,639
Deferred settlement on investment property	2,000,000	-
Accrued investment property costs	1,212,427	33,800
Accrued equity raising costs	261,862	-
Other current creditors and accruals	826,673	413,746
	<b>10,092,241</b>	<b>1,131,064</b>

Refer to **Note 19** for amounts payable to related parties.

#### 10. Borrowings

	30 Jun 2015	30 Jun 2014
	\$	\$
<b>Current</b>		
Convertible note - related party	-	1,281,398
Secured loan	-	66,662,592
Borrowing costs	-	(32,500)
	-	<b>67,911,490</b>
<b>Non-current</b>		
Secured loan	84,610,558	-
Borrowing costs	(698,177)	-
	<b>83,912,381</b>	-

At 30 June 2015, the Fund had the following secured debt facilities:

	Execution Date	Maturity Date	Debt Facility Limit \$	Drawn Amount \$	Hedged Amount* \$	Funds Available \$
Tranche A	09 Dec 14	31 Dec 19	55,000,000	53,463,000	48,000,000	1,537,000
Tranche B	28 May 15	31 May 20	40,000,000	31,147,558	-	8,852,442
			<b>95,000,000</b>	<b>84,610,558</b>	<b>48,000,000</b>	<b>10,389,442</b>

\* Refer to Note 11 for further details on interest rate swap contracts held at, and contracts executed subsequent to, 30 June 2015.

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

# Centuria Metropolitan REIT

## Notes to the Financial Statements

### 10. Borrowings (continued)

The variable interest rate on the secured loan has been swapped into a fixed rate of 2.85% on \$48,000,000 of the loan principal, resulting in an all-in cost of 3.70%.

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

At 30 June 2014, the Fund had an unsecured related party convertible note issued to Centuria Capital Limited of \$1,281,398 bearing interest at 10%. The note matured during the period and was repaid in full.

On 9 December 2014, the Fund refinanced its secured loan and terminated the interest rate swap contracts connected with the previous debt facility. All liabilities associated with the previous debt facility have been settled upon refinancing.

Refer to **Note 18** for details on the Fund's exposure to risks associated with financial liabilities.

### 11. Derivatives

#### Interest rate swap contracts

Under interest rate swap contracts, the Fund agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Fund 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:

On 9 July 2015, the Responsible Entity executed an interest rate swap contract to hedge an additional \$36,000,000 of the secured debt facility at a fixed base rate of 2.55% plus margin and line fees. The interest rate swap will mature on 10 July 2020. As a result, the Fund has now hedged 99.3% of the drawn debt and 88.4% of the total debt facility.

Refer to **Note 18** for details on the Fund's exposure to risks associated with financial liabilities.

Type of contract	Maturity Date	Contracted fixed interest rate	Notional amount of contract \$	Fair value of assets \$	Fair value of liabilities \$
<b>30 Jun 2015</b>					
Interest rate swap	09 Dec 19	2.85%	48,000,000	-	(732,734)
			48,000,000	-	(732,734)
<b>30 Jun 2014</b>					
Interest rate swap*	23 Mar 15	4.63%	4,843,750	-	(71,060)
Interest rate swap*	23 Mar 15	4.97%	13,068,750	-	(224,424)
Interest rate swap*	23 Mar 15	6.16%	23,875,000	-	(619,092)
Interest rate swap*	23 Mar 15	5.90%	13,170,000	-	(316,305)
			<b>54,957,500</b>	<b>-</b>	<b>(1,230,881)</b>

\* On 9 December 2014, the Fund terminated the interest rate swap contracts connected with the previous debt facility.

# Centuria Metropolitan REIT

## Notes to the Financial Statements

### For the year ended 30 June 2015

#### 12. Provisions

	30 Jun 2015	30 Jun 2014
	\$	\$
<b>Non-Current</b>		
Incentive fees	-	122,943
	-	122,943
<b>Incentive fees</b>		
Opening balance	122,943	-
Provisions (waived)/made during the year	(122,943)	122,943
<b>Closing balance</b>	<b>-</b>	<b>122,943</b>

Prior to listing on the ASX, the Responsible Entity was entitled to receive an incentive fee when an investment property is sold. If an investment property's net sale price exceeded 115% of the acquisition price, the Responsible Entity would have been entitled to an incentive fee amounting to 15% of that excess. Upon listing on the ASX, the Responsible Entity has permanently waived its entitlement to this incentive fee.

#### 13. Issued capital - CMR1

	30 Jun 2015		30 Jun 2014	
	Units	\$	Units	\$
Opening balance	82,823,960	29,255,257	82,823,960	29,255,257
Redemptions - 9 Dec 2014	(26,729,711)	(7,307,648)	-	-
Consolidation of units - 9 Dec 2014*	(41,749,153)	-	-	-
Public Offer applications - 9 Dec 2014	57,155,062	61,277,050	-	-
Entitlement issue - 4 May 2015	47,667,158	50,050,517	-	-
Equity raising costs	-	(4,165,025)	-	-
<b>Closing balance</b>	<b>119,167,316</b>	<b>129,110,151</b>	<b>82,823,960</b>	<b>29,255,257</b>

CMR1 has been designated parent of the Fund. All units in CMR1 are of the same class and carry equal rights to capital and income distributions.

\* The units in CMR1 were consolidated prior to the allotment of the 57.15 million stapled securities resulting from the Public Offer. Security holders received 1 new unit for every 3.91 units held.

#### 14. Accumulated Losses

	30 Jun 2015	30 Jun 2014
	\$	\$
Opening balance	(6,357,569)	(9,276,282)
Net profit attributable to members of CMR1	7,091,485	3,829,710
Distributions to members of CMR1	(5,117,629)	(910,997)
<b>Closing balance</b>	<b>(4,383,713)</b>	<b>(6,357,569)</b>



# Centuria Metropolitan REIT

## Notes to the Financial Statements

### 15. Non-controlling interest - CMR2

	30 Jun 2015		30 Jun 2014	
	Units	\$	Units	\$
Opening balance	82,823,960	20,269,395	82,823,960	18,332,378
Redemptions - 9 Dec 2014	(26,729,711)	(6,324,505)	-	-
Consolidation of units - 9 Dec 2014*	(41,749,153)	-	-	-
Public Offer applications - 9 Dec 2014	57,155,062	53,033,074	-	-
Entitlement issue - 4 May 2015	47,667,158	50,050,517	-	-
Equity raising costs	-	(3,839,498)	-	-
Distributions to members of CMR2	-	(4,499,179)	-	(910,996)
Net profit attributable to members of CMR2		1,840,118	-	2,848,013
<b>Closing balance</b>	<b>119,167,316</b>	<b>110,529,922</b>	<b>82,823,960</b>	<b>20,269,395</b>

On the basis that there is no ownership interest between the entities involved in the stapling arrangement, the net assets and profit or loss of CMR2 are disclosed separately as a non-controlling interest. All units in CMR2 are of the same class and carry equal rights to capital and income distributions.

\* The units in CMR2 were consolidated prior to the allotment of the 57.15 million stapled securities resulting from the Public Offer. Security holders received 1 new unit for every 3.91 units held.

### 16. Distributions to stapled security holders

	30 Jun 2015		30 Jun 2014	
	Cents per Unit	\$	Cents per Unit	\$
September quarter	0.76	626,285	0.55	459,143
1 Oct 2014 to 30 Nov 2014*	0.50	415,254	-	-
December quarter*	-	-	0.55	459,275
March quarter	5.06	3,617,908	0.54	449,291
June quarter^	4.16	4,957,361	0.55	454,284
	<b>10.48</b>	<b>9,616,808</b>	<b>2.19</b>	<b>1,821,993</b>
<b>Allocation between stapled entities:</b>				
CMR1 - pre-listing	0.63	520,770	1.10	910,997
CMR1 - post-listing	4.94	4,596,859	-	-
	<b>5.57</b>	<b>5,117,629</b>	<b>1.10</b>	<b>910,997</b>
CMR2 - pre-listing	0.63	520,769	1.09	910,996
CMR2 - post-listing	4.28	3,978,410	-	-
	<b>4.91</b>	<b>4,499,179</b>	<b>1.09</b>	<b>910,996</b>
	<b>10.48</b>	<b>9,616,808</b>	<b>2.19</b>	<b>1,821,993</b>

\* Prior to the Public Offer, the distributions for the Fund were generally declared quarterly. On 30 November 2014, a distribution was declared to the stapled security holders of the Fund relating to operating profits earned from the previous quarter to 30 November 2014.

^ On 18 June 2015, the Responsible Entity announced an estimated distribution for the June 2015 quarter of 4.16 cents per stapled security. This was later ratified by the directors of the Responsible Entity on 30 June 2015.

# Centuria Metropolitan REIT

## Notes to the Financial Statements

### For the year ended 30 June 2015

#### 16. Distributions to stapled security holders (continued)

Key dates in connection with the June 2015 distribution are:

Event	Date
Ex-distribution date	26 Jun 15
Record date	30 Jun 15
Distribution payment date	12 Aug 15

#### 17. Earnings per unit/stapled security

	30 Jun 2015	30 Jun 2014
Basic and diluted earnings per CMR1 unit (cents per unit)	12.80	18.08
Earnings used in calculating basic and diluted earnings per unit (\$)	7,091,485	3,829,710
Weighted average number of CMR1 units	55,424,243	21,179,886
Basic and diluted earnings per CMA stapled security (cents per stapled security)	16.12	31.53
Earnings used in calculating basic and diluted earnings per stapled security (\$)	8,931,603	6,677,723
Weighted average number of CMA stapled securities	55,424,243	21,179,886

#### 18. Financial instruments

##### A. Fair value

The fair values of financial assets and financial liabilities, together with the carrying amounts in the consolidated statement of financial position are as follows:

	Measurement	Fair Value Hierarchy	Carrying amount \$	Fair value \$
<b>30 Jun 2015</b>				
<b>Financial liabilities</b>				
Payables (excluding non-financial payables)	Amortised Cost	Not applicable	9,265,568	9,265,568
Borrowings (excluding borrowing costs)	Amortised Cost	Not applicable	84,610,558	84,610,558
Interest rate swaps	Fair Value	Level 2	732,734	732,734
			<b>94,608,860</b>	<b>94,608,860</b>
<b>30 Jun 2014</b>				
<b>Financial liabilities</b>				
Payables (excluding non-financial payables)	Amortised Cost	Not applicable	717,318	717,318
Borrowings (excluding borrowing costs)	Amortised Cost	Not applicable	67,943,990	67,943,990
Interest rate swaps	Fair Value	Level 2	1,230,881	1,230,881
			<b>69,892,189</b>	<b>69,892,189</b>

These financial assets and liabilities are recognised in accordance with the accounting policies described in **Note 3** to the financial statements.

The directors of the Responsible Entity consider that the carrying amount of the financial assets and financial liabilities recorded at amortised cost in the financial statements approximates their fair value.

---

# Centuria Metropolitan REIT

## Notes to the Financial Statements

### 18. Financial instruments (continued)

#### A. Fair value (continued)

##### 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 Fund 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 Fund 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.

# Centuria Metropolitan REIT

## Notes to the Financial Statements

### For the year ended 30 June 2015

#### 18. Financial instruments (continued)

##### A. Fair value (continued)

##### Fair value hierarchy

The table below sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy:

	Total	Level 1	Level 2	Level 3
<b>30 Jun 2015</b>				
<b>Financial liabilities held at fair value</b>				
Interest rate swaps	732,734	-	732,734	-
	<b>732,734</b>	<b>-</b>	<b>732,734</b>	<b>-</b>
<b>30 Jun 2014</b>				
<b>Financial liabilities held at fair value</b>				
Interest rate swaps	1,230,881	-	1,230,881	-
	<b>1,230,881</b>	<b>-</b>	<b>1,230,881</b>	<b>-</b>

There were no transfers between Level 1 and Level 2 during the period.

The Responsible Entity has an established control framework with respect to the measurement of fair values. This framework includes an internal team of experts who have been assigned the responsibility of all significant fair value measurements and who report directly to the directors on a regular basis.

The Responsible Entity regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair value, then the team assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of Accounting Standards, including the level in the fair value hierarchy that the resulting fair value estimate should be classified.

##### B. Financial risk management objectives

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

# Centuria Metropolitan REIT

## Notes to the Financial Statements

### 18. Financial instruments (continued)

#### C. 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 Fund's activities expose it primarily to the financial risks of changes in interest rates. The Fund enters into derivative financial instruments to manage its exposure to interest rate risk and these include interest rate swaps that the Fund has entered into to mitigate the risk of rising interest rates.

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

#### Interest rate risk management

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

30 June 2015						30 June 2014	
	Note	Effective interest rate	Total \$	Effective interest rate	Total \$		
Financial assets							
Cash and cash equivalents	5	1.28%	6,273,121	1.43%	2,760,329		
			6,273,121		2,760,329		
Financial liabilities							
Borrowings (excluding borrowing costs)	10	3.26%	84,610,558	4.03%	67,943,990		
Interest rate swaps	11	2.85%	732,734	5.68%	1,230,881		
			85,343,292		69,174,871		

The sensitivity analysis below has been determined based on the Fund'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 (2014: 100) basis points higher or lower and all other variables were held constant, the impact to the Fund would have been as follows:

	Sensitivity impact		
	Variable + / -	Rate Increase \$	Rate Decrease \$
<b>30 Jun 2015</b>			
Net profit/(loss)	1.00%	1,635,517	(1,688,324)
		<b>1,635,517</b>	<b>(1,688,324)</b>
<b>30 Jun 2014</b>			
Net profit/(loss)	1.00%	271,331	(275,070)
		<b>271,331</b>	<b>(275,070)</b>

The Fund'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.



# Centuria Metropolitan REIT

## Notes to the Financial Statements

### For the year ended 30 June 2015

#### 18. Financial instruments (continued)

##### D. Credit risk

The Fund 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 Fund's exposure and the credit ratings of its counterparties are continuously monitored by the Responsible Entity.

At 30 June 2015, the main financial assets exposed to credit risk are trade receivables. There were no significant concentrations of credit risk to counterparties at 30 June 2015. Refer to Note 6 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 Fund'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.

##### E. Liquidity risk

The Fund's strategy of managing liquidity risk is in accordance with the Fund's investment strategy. The Fund 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 Fund'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 Fund can be required to pay. The tables include both interest and principal cash flows:

	Effective interest rate	Total principal and interest	Less than 1 year	1 to 5 years	5+ years
<b>30 Jun 2015</b>					
Trade and other payables	0.00%	9,265,568	9,265,568	-	-
Borrowings	3.26%	96,874,292	2,761,421	94,112,871	-
Derivative financial instruments	2.85%	825,534	185,771	639,763	-
		<b>106,965,394</b>	<b>12,212,760</b>	<b>94,752,634</b>	<b>-</b>
<b>30 Jun 2014</b>					
Trade and other payables	0.00%	717,318	717,318	-	-
Borrowings	4.03%	67,976,288	67,976,288	-	-
Derivative financial instruments	5.68%	1,282,800	1,282,800	-	-
		<b>69,976,406</b>	<b>69,976,406</b>	<b>-</b>	<b>-</b>

The principal amounts included in the above borrowings is \$84,610,558 (2014: \$67,943,990).

# Centuria Metropolitan REIT

## Notes to the Financial Statements

### 19. Related parties

#### Key management personnel

The Fund does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Fund 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:

**Jason Huljich**

**Peter Done**

**Matthew Hardy**

**Edward Psaltis** Appointed 4 July 2013. Resigned 2 September 2014.

**Darren Collins** Appointed 10 March 2015.

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

#### Responsible entity fees and other transactions

The Responsible Entity is entitled to a management fee which is calculated at 0.55% of the gross value of assets held plus GST (up to 8 December 2014, the management fee was 0.60%).

At reporting date an amount of \$175,186 (2014: \$72,177) owing to the Responsible Entity 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 during the financial year:

	30 Jun 2015	30 Jun 2014
	\$	\$
Finance costs on convertible note	47,950	132,030
Incentive fees (waived)/expense	(122,943)	122,943
Leasing fees	165,456	250,342
Management fees	952,709	662,864
Property management fees	162,135	108,714
Development fees	61,050	-
Other professional fees	67,767	46,086
	<b>1,334,124</b>	<b>1,322,979</b>

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 stapled securities in the Fund. These transactions are on the same terms and conditions as those entered into by other Fund investors.

# Centuria Metropolitan REIT

## Notes to the Financial Statements

### For the year ended 30 June 2015

#### 19. Related parties (continued)

##### Stapled securities in the Fund held by related parties

At 30 June 2015, the following related parties of the Responsible Entity hold stapled securities in the Fund:

	Closing stapled securities held	Closing interest held
<b>30 Jun 2015</b>		
Over Fifty Guardian Friendly Society Limited	11,521,625	9.67%
Centuria Growth Bond Fund	4,739,200	3.98%
Centuria Capital Limited	2,539,382	2.13%
Centuria Balanced Bond Fund	357,143	0.30%
Roger Dobson	208,334	0.17%
CBF1 Investment Trust 1	161,391	0.14%
Peter Done	75,000	0.06%
John McBain	61,904	0.05%
Nicholas Collishaw	41,667	0.03%
Jason Huljich	3,174	0.003%
	<b>19,708,820</b>	<b>16.53%</b>
<b>30 Jun 2014</b>		
Centuria Growth Bond Fund	11,119,259	13.43%
CBF1 Investment Trust 1	2,636,754	3.18%
Centuria Capital Limited	80,000	0.10%
Jason Huljich	12,408	0.01%
	<b>13,848,421</b>	<b>16.72%</b>

No other related parties of the Responsible Entity held stapled securities in the Fund.

##### Loans with related entities

At 30 June 2014, the Fund had an unsecured related party convertible note issued to Centuria Capital Limited of \$1,281,398 bearing interest at 10%. The note matured during the period and was repaid in full.

##### Key management personnel loan disclosures

The Fund 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.

##### Other transactions within the Fund

During the year, the Fund acquired the investment property located at 131-139 Grenfell Street, Adelaide from Centuria 131-139 Grenfell Street Fund (a related party of the Responsible Entity) for a contracted purchase price of \$20,000,000 subsequent to the security holders of both the Fund and Centuria 131-139 Grenfell Street Fund passing resolutions to approve the transaction.

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

# Centuria Metropolitan REIT

## Notes to the Financial Statements

### 20. Events subsequent to reporting date

On 9 July 2015, the Responsible Entity executed an interest rate swap contract to hedge an additional \$36,000,000 of the secured debt facility at a fixed base rate of 2.55% plus margin and line fees. The interest rate swap will mature on 10 July 2020. As a result, the Fund has now hedged 99.3% of the drawn debt and 88.4% of the total debt facility.

### 21. Parent entity disclosures

	30 Jun 2015	30 Jun 2014
	\$	\$
<b>Financial position*</b>		
<b>Assets</b>		
Current assets	3,820,116	2,335,124
Non-current assets	128,258,517	32,063,015
<b>Total assets</b>	<b>132,078,633</b>	<b>34,398,139</b>
<b>Liabilities</b>		
Current liabilities	2,993,290	11,500,451
Non-current liabilities	4,358,905	-
<b>Total liabilities</b>	<b>7,352,195</b>	<b>11,500,451</b>
<b>Equity</b>		
Issued capital	129,110,151	29,255,257
Accumulated losses	(4,383,713)	(6,357,569)
<b>Total equity</b>	<b>124,726,438</b>	<b>22,897,688</b>
<b>Financial performance*</b>		
Profit for the year*	7,091,485	3,829,710
Other comprehensive income	-	-
<b>Total comprehensive income for the year</b>	<b>7,091,485</b>	<b>3,829,710</b>

At reporting date, CMR1 has not entered into any guarantees or commitments to purchase property plant and equipment.

As part of the stapling arrangement, CMR1 is liable to cover any shortfall should CMR2 not have sufficient funds to cover its liabilities.

\* The above table represents the stand alone financial position and performance of CMR1 and does not include the financial position or performance of its subsidiaries. Accordingly, the amounts reflected above may be different from the consolidated financial statements.

---

# Centuria Metropolitan REIT

## Notes to the Financial Statements

### For the year ended 30 June 2015

#### 22. Contingent assets, liabilities and commitments

Unless otherwise stated in this report, the Fund has no contingent assets, liabilities or commitments as at 30 June 2015.

#### 23. Additional information

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

##### Registered office:

Suite 39.01, Level 39, 100 Miller Street  
NORTH SYDNEY NSW 2060

##### Principal place of business:

Suite 39.01, Level 39, 100 Miller Street  
NORTH SYDNEY NSW 2060

---

# Centuria Metropolitan REIT

## Directors' Declaration

The directors of Centuria Property Funds Limited, the Responsible Entity of Centuria Metropolitan REIT ('the Fund'), declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable;
- (b) the attached financial statements and notes thereto are in compliance with International Financial Reporting Standards, as stated in Note 3(a) to the financial statements; and
- (c) in the directors' opinion, the attached financial statements and notes 1 to 23 are in accordance with the Corporations Act 2001, including compliance with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and giving a true and fair view of the Fund's financial position as at 30 June 2015 and of its performance for the financial year ended on that date.

Signed in accordance with a resolution of the board of directors of the Responsible Entity made pursuant to s.295(5) of the Corporations Act 2001.

  
\_\_\_\_\_  
Peter Dore  
Director  
\_\_\_\_\_  
Jason Huljich  
Director

Dated at Sydney this 12<sup>th</sup> day of August

2015.



# Centuria Metropolitan REIT

## Independent Auditor's Report



### **Independent auditor's report to the unitholders of Centuria Metropolitan REIT (a stapled entity comprising Centuria Metropolitan REIT No. 1 and Centuria Metropolitan REIT No. 2 and its controlled entities)**

We have audited the accompanying financial report of Centuria Metropolitan REIT (a stapled entity comprising Centuria Metropolitan REIT No.1 and Centuria Metropolitan REIT No.2 and its controlled entities) (the Stapled Entity), which comprises the consolidated statement of financial position as at 30 June 2015, and the 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 ended on that date, notes 1 to 23 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

#### *Directors' responsibility for the financial report*

The directors of the Centuria Property Funds Limited (the Responsible Entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 3(a), the directors of the Responsible Entity also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Stapled Entity's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*,

# Centuria Metropolitan REIT

## Independent Auditor's Report



### *Auditor's opinion*

In our opinion:

- (a) the financial report of Centuria Metropolitan REIT is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Stapled Entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report of the Stapled Entity also complies with International Financial Reporting Standards as disclosed in note 3(a).

A handwritten signature in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink that appears to read 'S. Gatt'.

Steven Gatt  
*Partner*

Sydney

12 August 2015

---

# **Centuria Metropolitan REIT**

## Corporate Governance Statement

### **For the year ended 30 June 2015**

The Corporate Governance Statement for the Fund can be found in the current Product Disclosure Statement dated 11 November 2014 and is also available on the Centuria website at:  
<http://www.centuria.com.au/listed-property/corporate-governance/>

# Centuria Metropolitan REIT

## Additional ASX Information

### As at 30 September 2015

#### Distribution of holders of stapled securities

	Number of securities	Number of Holders	Percentage of total %
<b>Holding range</b>			
1 to 1,000	12,054	26	0.01
1,001 to 5,000	575,727	153	0.48
5,001 to 10,000	2,122,836	272	1.78
10,001 to 100,000	21,595,604	659	18.09
100,001 and over	95,101,543	80	79.64
<b>Total</b>	<b>119,407,764</b>	<b>1,190</b>	<b>100.00</b>

#### Substantial security holders

	Number of securities	Percentage of total %
Citicorp Nominees Pty Limited	19,741,536	16.53
HSBC Custody Nominees (Australia) Limited	12,378,772	10.37
PEJR Investments Pty Ltd <Lederer Investment A/C>	11,666,667	9.77
UBS Wealth Management Australia Nominees Pty Ltd	7,395,507	6.19
RBC Investor Services Australia Nominees Pty Ltd <APN A/C>	6,508,424	5.45
<b>Total</b>	<b>57,690,906</b>	<b>48.31</b>

#### Voting rights

All stapled securities carry one vote per security without restriction.

#### Top 20 security holders

	Number of securities	Percentage of total %
Citicorp Nominees Pty Limited	19,741,536	16.53
HSBC Custody Nominees (Australia) Limited	12,378,772	10.37
PEJR Investments Pty Ltd <Lederer Investment A/C>	11,666,667	9.77
UBS Wealth Management Australia Nominees Pty Ltd	7,395,507	6.19
RBC Investor Services Australia Nominees Pty Ltd <APN A/C>	6,508,424	5.45
BNP Paribas Noms Pty Ltd <DRP>	3,204,746	2.68
J P Morgan Nominees Australia Limited	3,201,631	2.68
AMP Life Limited	2,784,149	2.33
Centuria Capital Limited	2,590,837	2.17
Sandhurst Trustees Ltd <SISF A/C>	2,000,000	1.67
G C F Investments Pty Ltd	1,666,667	1.40
RBC Investor Services Australia Nominees Pty Limited <BKCUST A/C>	1,333,333	1.12
Atkone Pty Ltd	1,133,334	0.95
National Nominees Limited	907,306	0.76
Navigator Australia Ltd <MLC Investment Sett A/C>	899,833	0.75
South Creek Investments Pty Ltd <The Giuffrida S/F A/C>	850,000	0.71
Comtemplator Pty Ltd <Arg Pension Fund A/C>	833,334	0.70
RBC Investor Services Australia Nominees Pty Limited <PISELECT>	758,721	0.64
Avanteos Investments Limited <1703553 Johnson A/C>	721,918	0.60
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	652,078	0.55
<b>Total</b>	<b>81,228,793</b>	<b>68.03</b>

---

# Contact Us

## Shareholder Enquiries

**Phone (within Australia):** 1300 855 080

**Phone (outside Australia):** +613 9415 4367

**Fax:** +613 9473 2500

**Website:** [www.computershare.com](http://www.computershare.com)

**Mail:** GPO Box 2975 Melbourne VIC 3001

## Investor Relations

Shalome Mielewska  
Investor Relations Coordinator  
Centuria Property Funds

**Direct Line:** (02) 89238962

**Email:** [shalome.mielewska@centuria.com.au](mailto:shalome.mielewska@centuria.com.au)

## Centuria Property Funds Limited – Sydney

### Street Address:

Suite 39.01, Level 39  
100 Miller Street  
North Sydney  
NSW 2060

### Postal Address:

PO Box 6274  
North Sydney  
NSW 2060

**Phone:** (02) 8923 8923

**Fax:** (02) 9460 2960

**Email:** [contactus@centuria.com.au](mailto:contactus@centuria.com.au)

## Centuria Property Funds Limited – Melbourne

### Street Address:

Level 32  
120 Collins Street  
Melbourne  
VIC 3000

### Postal Address:

GPO Box 695  
Melbourne  
VIC 3001

**Phone:** 1300 50 50 50

**Fax:** (03) 9629 3397

**Email:** [contactus@centuria.com.au](mailto:contactus@centuria.com.au)

**Website:** [www.centuria.com.au/listed-property](http://www.centuria.com.au/listed-property)







60 Marcus Clarke Street, Canberra, ACT

# Centuria Metropolitan REIT

Centuria®



[www.centuria.com.au/listed-property](http://www.centuria.com.au/listed-property)

ASX Stock Code: CMA