

**Centuria Metropolitan REIT**

**The consolidated entity comprises Centuria Metropolitan REIT  
and its subsidiaries**

**ARSN: 124 364 718**

**Annual Financial Report  
For the year ended 30 June 2017**

# Centuria Metropolitan REIT

## Table of contents

For the year ended 30 June 2017

	<b>Page</b>
Directors' report	1
Auditor's independence declaration	7
Consolidated statement of profit or loss and other comprehensive income	8
Consolidated statement of financial position	9
Consolidated statement of changes in equity	10
Consolidated statement of cash flows	11
Notes to the financial statements	12
Directors' declaration	42
Independent auditor's report	43
Corporate governance statement	46
Additional ASX information	47

# Centuria Metropolitan REIT

## Directors' report

For the year ended 30 June 2017

The directors of Centuria Property Funds Limited, the Responsible Entity of Centuria Metropolitan REIT ('CMA') present their report, together with the consolidated financial report of the Trust and its subsidiaries ('the Trust') for the year ended 30 June 2017 and the independent auditor's report thereon.

### Directors of the Responsible Entity

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

Name	Position	Appointed	Resigned
Peter Done	Non-Executive Chairman	05 Dec 2007	Continuing
Jason Huljich	Executive Director	30 Mar 2001	Continuing
Matthew Hardy	Non-Executive Director	04 Jul 2013	Continuing
Darren Collins	Non-Executive Director	10 Mar 2015	Continuing

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

Name	Appointed	Resigned
James Lonie	16 Jun 2017	Continuing
Charisse Nortje	21 Feb 2017	16 Jun 2017

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

Director	Securities held
Jason Huljich	3,174
Peter Done	75,000
Matthew Hardy	17,080
Darren Collins	20,000
	<u>115,254</u>

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

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

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	Not applicable		
Darren Collins	Not applicable		

# Centuria Metropolitan REIT

## Directors' report

**For the year ended 30 June 2017**

### Principal activities

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

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

### Significant change in the state of affairs

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

### Review of operations

#### **Results**

The results of the operations of the Trust are disclosed in the consolidated statement of profit or loss and other comprehensive income of these financial statements. The Trust's profit from continuing operations for the year ended 30 June 2017 was \$37,689,000 (2016: \$44,785,000 profit).

As at 30 June 2017, the Trust's Net Tangible Assets ('NTA') has increased by 14 cents per security ('cps'), or 6.4%, to \$2.32 per security.

#### **Investment property valuations**

The total value of the Trust's portfolio as at 30 June 2017 was \$610 million, an increase of 4.2% on a like for like basis.

The weighted average capitalisation rate for the portfolio firmed 40 basis points, on a like for like basis, excluding 14 Mars Road, Lane Cove, to 7.19% as at 30 June 2017.

#### **Leasing and occupancy**

The Trust secured 41 leases across 20,321 square metres ('sqm') representing 15.5% of the portfolio's Net Lettable Area ('NLA') in the year ended 30 June 2017. This comprised of 22 new leases across 9,979 sqm and 19 renewals across 10,342 sqm. The leasing and occupancy risk for the year ending 30 June 2018 has been substantially reduced with only 4.7% of the portfolio expiring in the next financial year.

As at 30 June 2017, the Weighted Average Lease Expiry ('WALE') of the portfolio was 3.9 years and the occupancy rate was 97.3%.

#### **Capital management**

As at 30 June 2017, the Trust had a multi-bank debt facility totalling \$260.0 million with a weighted average expiry of 3.4 years. Drawn borrowings totalled \$189.5 million, with an all in interest cost of 3.9% and 53% of the drawn debt hedged. The Trust's gearing at 30 June 2017 was 29.5%.

# Centuria Metropolitan REIT

## Directors' report

For the year ended 30 June 2017

### Review of operations (continued)

#### Merger with Centuria Urban REIT

On 3 March 2017, the Responsible Entity announced a merger proposal with Centuria Urban REIT ("CUA"), of which it already owned an 8.76% interest, by way of acquiring 100% of the remaining units. On 14 June 2017, the unitholders of CUA voted to approve the merger, from which point the Trust is taken to have control over CUA. The Trust completed the acquisition of the remaining units effective 29 June 2017.

#### Outlook

The Responsible Entity's strategy and ongoing focus remains unchanged. Management continue to focus on actively managing the Trust's portfolio, with an emphasis on tenant retention to ensure income and occupancy are maximised. This is coupled with the ongoing strategy to acquire quality 'fit for purpose' metropolitan real estate assets delivering stable and secure income streams.

The Trust's 2018 financial year distributable earnings guidance is approximately 18.6 cps. The 2018 financial year distribution guidance is 18.1 cps which will be paid in equal quarterly instalments.

#### Distributions

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

	30 Jun 2017		30 Jun 2016	
	Cents per unit	\$'000	Cents per unit	\$'000
September quarter	4.375	5,225	4.25	5,075
December quarter	4.375	5,224	4.25	5,075
March quarter	4.375	5,224	4.25	5,075
June quarter	4.375	5,224	4.25	5,074
	17.50	20,897	17.00	20,299
<u>Allocation between stapled entities:</u>				
CMR1	13.38	15,971	8.98	10,728
CMR2	4.12	4,926	8.98	10,728
	17.50	20,897	17.00	20,299

Key dates in connection with the 30 June 2017 distribution are:

Event	Date
Ex-distribution date	27 Jun 17
Record date	28 Jun 17
Distribution payment date	28 Jul 17

# Centuria Metropolitan REIT

## Directors' report

For the year ended 30 June 2017

### Review of operations (continued)

#### Distributions (continued)

The distributable earnings of 19.0 cps are at the upper end of the 2017 financial year guidance range of 18.7 - 19.0 cps. 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 2017 \$'000
Net profit for the year	37,689
Adjustments:	
Net (gain) on fair value of investment properties	(17,180)
Net (gain) on fair value of derivative financial instruments	(1,420)
Straight-lining of rental income	(1,366)
Net (gain) on fair value of investments in listed trusts	(884)
Lease incentives funded by vendors on property acquisitions	538
Business combination transaction costs	4,263
Corporate simplification costs	428
Amortisation of leasing fees	356
Amortisation of borrowing costs	367
Distributable earnings for the period	<u>22,791</u>

### Environmental regulation

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

### Options granted

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

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

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

### Events subsequent to balance date

On the 6th of July 2017, the Trust terminated its existing \$104,000,000 interest rate swaps and entered two new swap contracts for \$100,000,000 at a weighted average fixed rate of 2.18%. In addition, on the 28th of July 2017 a further \$40,000,000 swap contract was entered into at a rate of 2.22%.

On the 13th of July 2017, the Responsible Entity announced an Equity Raise of approximately \$90,000,000 comprising of a \$25,000,000 institutional placement and an offer to raise approximately \$65,000,000 through a non-renounceable entitlement offer. The issue price of \$2.35 per new security represented a 2.5% discount to CMA's closing price of \$2.41 on 12 July 2017. The new securities issued will rank equally with existing securities and will be entitled to the full distribution for the quarter ended 30 September 2017. All new equity has now been received and new securities allotted.

# Centuria Metropolitan REIT

## Directors' report

For the year ended 30 June 2017

### Events subsequent to balance date (continued)

On the 1st of August 2017, the Trust settled on two new commercial office assets in Perth, Western Australia. The properties are located at 42-46 Colin Street & 144 Stirling Street, and were acquired for \$33,600,000 and \$58,200,000 respectively.

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

### Indemnifying officers or auditors

#### *Indemnification*

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

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

#### *Insurance premiums*

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

### Trust information in the directors' report

#### *Responsible Entity interests*

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

	30 Jun 2017	30 Jun 2016
	\$	\$
Leasing fees	575,531	135,250
Management fees	2,385,042	1,984,964
Custodian fees	4,438	-
Fund recoveries	38,865	-
Property management fees	477,359	340,229
Development fees	134,915	205,931
Other professional fees	16,902	34,362
	<u>3,633,052</u>	<u>2,700,736</u>

The Responsible Entity and/or its related parties have held securities in the Trust during the financial year as outlined in Note 21 to the financial statements.

#### *Other Trust information*

The number of securities in the Trust issued and redeemed during the financial year, and the balance of issued securities at the end of the financial year are disclosed in Note 15 to the financial statements.

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

# Centuria Metropolitan REIT

## Directors' report

**For the year ended 30 June 2017**

### Auditor's independence declaration

The auditor's independence declaration is set out on page 7 and forms part of the directors' report for year ended 30 June 2017.

### Rounding off of amounts

The scheme is a scheme of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

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



Jason Huljich  
Director

Dated at Sydney this 14<sup>th</sup> day of August

2017.





## 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

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year  
ended 30 June 2017 there have been:

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

KPMG

Nigel Virgo

Partner

Sydney

14 August 2017

# Centuria Metropolitan REIT

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

For the year ended 30 June 2017

	Note	30 Jun 2017 \$'000	30 Jun 2016 \$'000
<b>Revenue</b>			
Rent and recoverable outgoings		41,385	39,536
<b>Other income</b>			
Interest income		115	77
Net gain on fair value of investment properties after write-down of stamp duty and other transaction costs	8	17,180	23,246
Gain on fair value of investments held at fair value through profit or loss	9	884	-
Gain on fair value of derivative financial instruments		1,420	-
Other income		14	
<b>Expenses</b>			
Net loss on fair value of listed investments held at fair value through profit or loss after transaction costs	9	-	(113)
Loss on fair value of derivative financial instruments		-	(2,373)
Rates, taxes and other property outgoings		(9,302)	(8,153)
Finance costs	4	(5,863)	(4,427)
Management fees	21	(2,385)	(1,985)
Professional fees		(787)	(657)
Transaction costs		(4,263)	-
Other expenses		(709)	(366)
<b>Profit from continuing operations for the year</b>		<b>37,689</b>	<b>44,785</b>
<b>Net profit for the year</b>		<b>37,689</b>	<b>44,785</b>
<b>Other comprehensive income</b>			
<b>Total comprehensive income for the year</b>		<b>37,689</b>	<b>44,785</b>
<b>Net profit attributable to:</b>			
Members of the Parent		27,309	26,676
Non-controlling interest - CMR2	16	10,380	18,109
		<b>37,689</b>	<b>44,785</b>
<b>Total comprehensive income attributable to:</b>			
Members of the Parent		27,309	26,676
Non-controlling interest - CMR2		10,380	18,109
		<b>37,689</b>	<b>44,785</b>
<b>Basic and diluted earnings per CMA security</b>			
Securities on issue (cents per security)	6	31.48	37.52
<b>Basic and diluted earnings per CMR1 unit</b>			
Units on issue (cents per unit)	6	22.81	22.35

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

# Centuria Metropolitan REIT

## Consolidated statement of financial position

As at 30 June 2017

	Note	30 Jun 2017 \$'000	30 Jun 2016 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	18	8,187	4,911
Trade and other receivables	7	1,127	377
Investments held at fair value through profit or loss	9	-	11,113
Prepayments		490	432
<b>Total current assets</b>		<b>9,804</b>	<b>16,833</b>
<b>Non-current assets</b>			
Investment properties	8	609,950	398,730
Goodwill	10	6,356	-
Other assets	11	2,912	-
<b>Total non-current assets</b>		<b>619,218</b>	<b>398,730</b>
<b>Total assets</b>		<b>629,022</b>	<b>415,563</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	12	18,753	11,225
Derivative financial instruments	14	1,988	-
<b>Total current liabilities</b>		<b>20,741</b>	<b>11,225</b>
<b>Non-current liabilities</b>			
Borrowings	13	187,742	141,090
Derivative financial instruments	14	-	3,106
<b>Total non-current liabilities</b>		<b>187,742</b>	<b>144,196</b>
<b>Total liabilities</b>		<b>208,483</b>	<b>155,421</b>
<b>Net assets</b>		<b>420,539</b>	<b>260,142</b>
<b>Equity</b>			
Issued capital	15	397,637	129,328
Retained earnings		22,902	11,564
Non-controlling interest - CMR2	16	-	119,250
<b>Total equity</b>		<b>420,539</b>	<b>260,142</b>

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

## Centuria Metropolitan REIT

### Consolidated statement of changes in equity

For the year ended 30 June 2017

	Note	Issued capital \$'000	Retained earnings/ (accumulated losses) \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 July 2015		129,110	(4,384)	110,530	235,256
Net profit for the year		-	26,676	18,109	44,785
Total comprehensive income for the year		-	26,676	18,109	44,785
Distributions reinvested	15 & 16	265	-	229	494
Equity raising costs	15 & 16	(47)	-	(47)	(94)
Distributions to security holders	5	-	(10,728)	(9,571)	(20,299)
<b>Balance at 30 June 2016</b>		<b>129,328</b>	<b>11,564</b>	<b>119,250</b>	<b>260,142</b>
Net profit for the year		-	27,309	10,380	37,689
Total comprehensive income for the year		-	27,309	10,380	37,689
CMR2 applications - 22 Mar 2017	15 & 16	124,704	-	-	124,704
CUA unitholder applications - 29 Jun 2017	15 & 16	144,142	-	-	144,142
Total applications for the year		268,846	-	-	268,846
Redemptions	15 & 16	-	-	(124,704)	(124,704)
Equity raising costs	15 & 16	(537)	-	-	(537)
Distributions to security holders	5	-	(15,971)	(4,926)	(20,897)
<b>Balance at 30 June 2017</b>		<b>397,637</b>	<b>22,902</b>	<b>-</b>	<b>420,539</b>

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

# Centuria Metropolitan REIT

## Consolidated statement of cash flows

For the year ended 30 June 2017

	Note	30 Jun 2017 \$'000	30 Jun 2016 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		43,150	41,310
Payments to suppliers		(16,158)	(14,310)
Distributions received		414	-
Interest received		115	81
Interest paid		(5,516)	(4,175)
<b>Net cash generated by operating activities</b>	18	22,005	22,906
<b>Cash flows from investing activities</b>			
Proceeds from sale of investment properties		26,000	-
Payments for investment properties		(8,863)	(49,916)
Proceeds from sale of investments held at fair value through profit or loss		11,202	-
Payments for investments held at fair value through profit or loss		(599)	(10,800)
Purchase of subsidiaries		(27,251)	-
Transaction costs		(587)	-
<b>Net cash used in investing activities</b>		(98)	(60,716)
<b>Cash flows from financing activities</b>			
Payments to procure issued units		-	(356)
Distributions paid		(20,748)	(20,181)
Proceeds from borrowings		3,675	57,417
Payments to procure borrowings		(1,214)	(432)
Payments for derivative financial instruments		(344)	-
<b>Net cash (used in)/generated by financing activities</b>		(18,631)	36,448
<b>Net increase/(decrease) in cash and cash equivalents</b>		3,276	(1,362)
Cash and cash equivalents at beginning of financial year		4,911	6,273
<b>Cash and cash equivalents at end of financial year</b>	18	8,187	4,911

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

# Centuria Metropolitan REIT

## Notes to the financial statements

For the year ended 30 June 2017

Note		Page
1.	General information	13
2.	Significant accounting policies	14
3.	Revenue	17
4.	Expenses	17
5.	Distributions	18
6.	Earnings per unit/stapled security	19
7.	Trade and other receivables	20
8.	Investment properties	21
9.	Investments held in listed trusts	24
10.	Acquisitions of subsidiaries	26
11.	Other assets	27
12.	Trade and other payables	28
13.	Borrowings	29
14.	Derivatives	30
15.	Issued capital - CMR1	31
16.	Non-controlling interest - CMR2	31
17.	Contingent assets, liabilities and commitments	31
18.	Cash and cash equivalents	32
19.	Auditor's remuneration	33
20.	Financial instruments	33
21.	Related parties	38
22.	Events subsequent to reporting date	40
23.	Parent entity disclosures	40
24.	Additional information	41

# Centuria Metropolitan REIT

## Notes to the financial statements

### About the report

For the year ended 30 June 2017

#### 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 Trust is disclosed in the directors' report.

##### Statement of compliance

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

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

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

The financial report was authorised for issue in accordance with a resolution of the board of directors of Centuria Property Funds Limited, the Responsible Entity, on 14 August 2017.

##### 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.

##### 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.

##### Net current liability position

The directors of the Responsible Entity note that the Trust is in a net current liability position of \$10,100,000 as at 30 June 2017. Given the Trust has the ability to drawdown funds from its available facility to fund working capital requirements and also the future cash generating potential of the Trust, the directors expect the Trust will be able to pay its debts as and when they fall due.

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

##### Rounding of amounts

The Trust is a scheme of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

##### Functional and presentation currency

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

# Centuria Metropolitan REIT

## Notes to the financial statements

### About the report

For the year ended 30 June 2017

## 2. Significant accounting policies

### (a) Basis of consolidation

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

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

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

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

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

#### i. Stapled scheme

Centuria Metropolitan REIT was established for the purpose of facilitating a relationship between Centuria Metropolitan REIT No.1 ("CMR1") and Centuria Metropolitan REIT No.2 ("CMR2"). The Trust was formed by stapling units in CMR1 and CMR2. Whilst stapled, security holders in the Trust were entitled to an equal interest in each stapled entity within the Trust.

As at 22 March 2017, the units in CMR1 were de-stapled to the units in CMR2 and CMR1 acquired the units in CMR2. Whilst stapled, the Trust was required to appoint a parent under the stapling arrangement. CMR1 was appointed parent of the Trust. On the basis that there was no ownership interest between the entities involved in the stapling arrangement for the period the units were stapled, the net assets and profit or loss of CMR2 are disclosed separately as a non-controlling interest during this period.

#### ii. Subsidiaries

The consolidated financial statements include the assets, liabilities and results of Centuria Metropolitan Property Trust, Centuria Urban REIT and CMR2. Subsidiaries are entities controlled by the Trust in accordance with AASB 10. Control exists when an investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the financial report from the date that control commences until the date that control ceases.



# Centuria Metropolitan REIT

## Notes to the financial statements

### About the report

For the year ended 30 June 2017

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

##### (a) Basis of consolidation (continued)

###### ii. Subsidiaries (continued)

The Trust uses the purchase method of accounting to account for the acquisition of subsidiaries. Intercompany transactions, balances and recognised gains on transactions between Trust entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Trust.

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

In the current year, the Trust 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 Trust include:

- 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.
- AASB 2015-2 'Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101'. Effective for annual reporting periods beginning on or after 1 January 2016.

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.

##### (c) 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 2017, but have not been applied in preparing these financial statements. The potential effect of the below Standards and Interpretations on the Trust's consolidated financial statements has been assessed and determined to be immaterial:

- 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 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 2018.
- AASB 16 'Leases'. Effective for annual reporting periods beginning on or after 1 January 2019.
- AASB 2016-2 'Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107'. Effective for annual reporting periods beginning on or after 1 January 2017.
- AASB 2017-1 'Amendments to Australian Accounting Standards - Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments'. Effective for annual reporting periods beginning on or after 1 January 2018.

# **Centuria Metropolitan REIT**

## **Notes to the financial statements**

### ***About the report***

For the year ended 30 June 2017

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

##### **(d) Use of estimates and judgements**

In the application of the Trust's accounting policies, the Responsible Entity is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The 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 8) and derivative financial instruments (per Note 20).

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.

##### **(e) Segment reporting**

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

# Centuria Metropolitan REIT

## Notes to the financial statements

### Fund performance

For the year ended 30 June 2017

#### 3. Revenue

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

##### (a) 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.

##### (b) Recoverable outgoings

Recoverable outgoings are recognised on an accrual basis.

##### (c) Interest revenue

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

##### (d) Sale of properties

Any gain or loss arising on the sale of an investment property is recognised when the significant risks and rewards of ownership have been transferred to the purchaser and where there is no continuing management involvement, which normally coincides with settlement of the contract for sale. The gain or loss is calculated as the difference between the net disposal proceeds and the carrying amount of the asset.

#### 4. Expenses

##### (a) 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.

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
Interest expense	5,496	4,232
Borrowing costs	367	195
	<u>5,863</u>	<u>4,427</u>

# Centuria Metropolitan REIT

## Notes to the financial statements

### Fund performance

For the year ended 30 June 2017

#### 4. Expenses (continued)

##### (b) 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.

##### (c) 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.

#### 5. Distributions

	30 Jun 2017		30 Jun 2016	
	Cents per unit	\$'000	Cents per unit	\$'000
September quarter	4.375	5,225	4.25	5,075
December quarter	4.375	5,224	4.25	5,075
March quarter	4.375	5,224	4.25	5,075
June quarter	4.375	5,224	4.25	5,074
	17.50	20,897	17.00	20,299
<u>Allocation between previously stapled entities:</u>				
CMR1	13.38	15,971	8.98	10,728
CMR2	4.12	4,926	8.02	9,571
	17.50	20,897	17.00	20,299

Key dates in connection with the 30 June 2017 distribution are:

Event	Date
Ex-distribution date	27 Jun 17
Record date	28 Jun 17
Distribution payment date	28 Jul 17

# Centuria Metropolitan REIT

## Notes to the financial statements

### Fund performance

For the year ended 30 June 2017

#### 5. Distributions (continued)

##### *Distribution and taxation*

Under current legislation the Trust is not subject to income tax when its taxable income (including assessable realised capital gains) is distributed in full to the security holders. The Trust ordinarily fully distributes its distributable income, calculated in accordance with the Trust 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 Trust is not subject to capital gains tax.

Realised capital losses are not distributed to security holders but are retained in the Trust 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.

	30 Jun 2017	30 Jun 2016
<b>6. Earnings per unit/stapled security</b>		
Basic and diluted earnings per CMA security (cents per security)	31.48	37.52
Earnings used in calculating basic and diluted earnings per security (\$'000)	37,689	44,785
Weighted average number of CMA securities ('000)	119,730	119,381
Basic and diluted earnings per CMR1 unit (cents per unit)	22.81	22.35
Earnings used in calculating basic and diluted earnings per unit (\$'000)	27,309	26,676
Weighted average number of CMR1 units ('000)	119,730	119,381

# Centuria Metropolitan REIT

## Notes to the financial statements

### Assets and liabilities

For the year ended 30 June 2017

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
<b>7. Trade and other receivables</b>		
<i>Current</i>		
Trade debtors	259	72
Distributions receivable	-	173
Other current receivables	868	132
	<u>1,127</u>	<u>377</u>

Refer to Note 20 for details on fair value measurement and the Trust's exposure to risks associated with financial assets (other receivables are not considered to be financial assets).

Trade receivables and other receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method, less an allowance for impairment. Due to the short-term nature of these financial rights, their carrying amounts are estimated to represent their fair values.

The carrying amounts of the Trust'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

### Assets and liabilities

For the year ended 30 June 2017

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
<b>8. Investment properties</b>		
Opening balance	398,730	323,110
Properties acquired on CUA acquisition	213,000	-
Purchase price of investment properties	-	43,025
Stamp duty and other transaction costs	-	2,491
Capital improvements	5,119	2,998
Total purchase costs	5,119	48,514
Gain on fair value before write-down of stamp duty and other transaction costs	17,180	25,737
Write-down of stamp duty and other transaction costs	-	(2,491)
Gain on fair value of investment properties	17,180	23,246
Change in deferred rent and lease incentives	428	3,263
Disposed deferred rent and lease incentives	938	-
Change in capitalised leasing fees	545	597
Disposals at fair value	(26,000)	-
Disposal costs	10	-
Closing balance <sup>^</sup>	609,950	398,730

<sup>^</sup> The carrying amount of investment properties includes components related to deferred rent, capitalised lease incentives and leasing fees amounting to \$9,138,000 (2016: \$8,165,000).

During the year, the Trust acquired 438-517 Kingsford Smith Drive, QLD, 154 Melbourne Street, QLD, and 567 Swan Street, VIC as part of the acquisition of CUA. In addition, the Trust disposed of 14 Mars Road, Lane Cove NSW for a gross sale price of \$26,000,000.

#### Leases as lessor

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

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
Less than one year	41,710	32,117
Between one and five years	104,726	88,856
More than five years	27,062	20,431
	173,498	141,404



# Centuria Metropolitan REIT

## Notes to the financial statements

### Assets and liabilities

For the year ended 30 June 2017

#### 8. Investment properties (continued)

Property	30 Jun 2017 Fair Value \$'000	30 Jun 2016 Fair Value \$'000	30 Jun 2017 Capitalisation Rate	30 Jun 2016 Capitalisation Rate	30 Jun 2017 Discount Rate	30 Jun 2016 Discount Rate	30 Jun 2017 Valuer	Last Independent Valuation Date
3 Carlingford Rd, Epping NSW	27,000	27,000	6.25%	6.25%	7.00%	7.50%	Independent	Jun 2017
44 Hampden Rd, Artarmon NSW ^	9,000	8,500	8.00%	8.50%	8.75%	9.00%	Director	May 2016
1 Richmond Rd, Keswick SA	28,500	26,700	8.50%	9.25%	8.75%	9.75%	Director	May 2016
9 Help St, Chatswood NSW	65,000	55,100	6.50%	7.25%	7.50%	8.50%	Independent	Jun 2017
14 Mars Rd, Lane Cove NSW	-	21,500	-	8.00%	-	8.00%	N/A	May 2016
555 Coronation Dr, Brisbane QLD	31,500	33,100	8.00%	8.25%	8.75%	8.75%	Director	May 2016
149 Kerry Rd, Archerfield QLD	25,500	24,500	7.25%	7.50%	8.25%	8.50%	Director	May 2016
13 Fernell St, Granville NSW	18,200	17,800	7.50%	7.75%	8.75%	9.25%	Director	May 2016
35 Robina Town Ctr Dr, Robina QLD	51,000	48,800	7.25%	7.50%	8.25%	8.50%	Director	May 2016
54 Marcus Clarke St, Canberra ACT	18,250	16,930	8.75%	9.25%	9.00%	9.00%	Director	May 2016
60 Marcus Clarke St, Canberra ACT	56,000	52,800	7.75%	8.25%	8.00%	8.25%	Director	May 2016
131-139 Grenfell St, Adelaide SA	19,500	20,500	8.50%	8.75%	8.75%	9.00%	Director	May 2016
203 Pacific Hwy, St Leonards NSW * ^	47,500	45,500	7.00%	7.50%	7.50%	8.00%	Independent	Jun 2017
438-517 Kingsford Smith Dr, Hamilton QLD	74,500	-	7.00%	-	8.00%	-	Director	Apr 2016
154 Melbourne St, South Brisbane QLD	77,500	-	7.00%	-	7.75%	-	Director	Mar 2015
567 Swan St, Richmond VIC	61,000	-	6.25%	-	7.25%	-	Director	May 2016
	609,950	398,730						

\* The Trust owns 50% of 203 Pacific Highway, St Leonards NSW.

^ The Trust holds a leasehold interest in 44 Hampden Road, Artarmon NSW and 203 Pacific Highway, St Leonards NSW.

During the year, the Trust acquired 438-517 Kingsford Smith Drive, QLD, 154 Melbourne Street, QLD, and 567 Swan Street, VIC as part of the acquisition of CUA. In addition, the Trust disposed of 14 Mars Road, Lane Cove NSW for a gross sale price of \$26,000,000.

The Trust's weighted average capitalisation rate for the year is 7.19% (2016: 7.86%).



# Centuria Metropolitan REIT

## Notes to the financial statements

### Assets and liabilities

For the year ended 30 June 2017

#### 8. Investment properties (continued)

##### Recognition and measurement

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

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

##### Valuation techniques and significant unobservable inputs

The fair 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.

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.

# Centuria Metropolitan REIT

## Notes to the financial statements

### Assets and liabilities

For the year ended 30 June 2017

#### 8. Investment properties (continued)

##### *Fair value measurement*

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

Significant unobservable inputs	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Net passing rent	Increase	Decrease
Gross market rent	Increase	Decrease
Net market rent	Increase	Decrease
Capitalisation rate	Decrease	Increase
Terminal Yield	Decrease	Increase
Discount Rate	Decrease	Increase

Capitalisation and discount rates are considered significant Level 3 inputs. Refer to Note 16 for further information.

#### 9. Investments held in listed trusts

##### *Current*

##### *Investment in GPT Metro Office Fund ('GMF')*

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
Opening balance	11,113	-
Acquisitions	-	10,755
Gain on fair value (excluding transaction costs)	89	358
Disposals at fair value	(11,202)	-
Closing balance of investment in GMF	-	11,113

##### *Net gain/(loss) on fair value of investment in GMF*

Gain on fair value (excluding transaction costs)	89	358
Brokerage and other transaction costs	-	(644)
Distribution income	-	173
Net gain/(loss) on fair value after transaction costs	89	(113)

# Centuria Metropolitan REIT

## Notes to the financial statements

### Assets and liabilities

For the year ended 30 June 2017

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
<b>9. Investments held in listed trusts (continued)</b>		
<i><b>Investment in Centuria Urban REIT ('CUA')</b></i>		
Opening balance	-	-
Acquisitions <sup>^</sup>	14,476	-
Gain on fair value (excluding transaction costs)	554	-
Disposals at fair value	(15,030)	-
Closing balance of investment in CUA	-	-
<i><b>Net gain/(loss) on fair value of investment in CUA</b></i>		
Gain on fair value (excluding transaction costs)	554	-
Distribution income	241	-
Net gain on fair value after transaction costs	795	-
<b>Total closing balance of investments held in listed trusts</b>	-	11,113
<b>Total net gain on fair value of investments held in listed trusts</b>	884	(113)

<sup>^</sup> On 23 November 2016 the Trust entered into a contract for the acquisition of 6,423,084 units (representing 8.76%) of Centuria Urban REIT (previously known as 360 Capital Office Fund), and the acquisition settled on 9 January 2017. On 14 June 2017, the unitholders of CUA voted to approve the merger, from which point the Trust is taken to have control over CUA. As such, the Trust no longer holds these units as an investment held at fair value through profit or loss as the units are eliminated on consolidation (refer to Note 10).

A financial asset is designated as at fair value through profit or loss upon initial recognition if:

- (a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- (b) The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Trust's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- (c) It forms part of a contract containing one or more embedded derivatives, and AASB 139 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as fair value through profit and loss.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. Fair value is determined in the manner described in Note 20.

# Centuria Metropolitan REIT

## Notes to the financial statements

### Assets and liabilities

For the year ended 30 June 2017

#### 10. Acquisitions of subsidiaries

##### **Centuria Metropolitan REIT No. 2 ('CMR2')**

On 9 February 2017, the Responsible Entity announced a proposal for a corporate simplification strategy which involved the de-stapling of CMR1 and CMR2, and acquisition of 100% of the units in CMR2 by CMR1. On 15 March 2017, the unitholders of CMA voted to approve the simplification strategy, with an implementation date of 22 March 2017. On the implementation date, all of the units on issue in CMR2 were transferred to CMR1 in exchange for the issue of additional units in CMR1. As such, from this date CMR1 has been recognised as a wholly owned subsidiary within the Trust's consolidated financial statements.

##### **Centuria Urban REIT ('CUA')**

On 3 March 2017, the Responsible Entity announced a merger proposal with CUA, of which it already owned an 8.76% interest, by way of acquiring 100% of the remaining units. On 14 June 2017, the unitholders of CUA voted to approve the merger, from which point the Trust is taken to have control over CUA. As such, from this date CUA's financial performance and financial position has been included within the Trust's consolidated financial statements. The Trust completed the acquisition of the remaining units effective 29 June 2017.

Details of the purchase consideration to acquire the controlling interest in CUA are as follows:

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
Cash paid	15,377	-
Units issued at fair value	144,142	-
Investments held at fair value through profit or loss	15,030	-
Total purchase consideration	174,549	-

The fair value of assets and liabilities assumed as a result of the acquisition are as follows:

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
<b>Assets</b>		
Cash and equivalents	2,602	-
Trade and other receivables	846	-
Investment properties	213,000	-
Total assets	216,448	-
<b>Liabilities</b>		
Trade and other payables	47,609	-
Derivatives	646	-
Total liabilities	48,255	-
Identifiable net assets acquired	168,193	-
Add: Consolidated goodwill	6,356	-
Less: Impairment of consolidated goodwill	-	-
Total purchase consideration	174,549	-

# Centuria Metropolitan REIT

## Notes to the financial statements

### Assets and liabilities

For the year ended 30 June 2017

#### 10. Acquisitions of subsidiaries (continued)

##### Recognition and measurement

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

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

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

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

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

#### 11. Other assets

##### Non-current

Investment property deposits<sup>^</sup>

30 Jun 2017 \$'000	30 Jun 2016 \$'000
2,912	-
2,912	-

<sup>^</sup> On 29 June 2017 the Trust entered into a contract for the acquisition of an investment property at 2 Kendall Street, Williams Landing. The Trust paid a 5% deposit, equivalent to \$2,912,000, with the balance of the purchase price of \$58,240,000 payable upon practical completion, which is expected to be in 2019.

# Centuria Metropolitan REIT

## Notes to the financial statements

### Assets and liabilities

For the year ended 30 June 2017

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
<b>12. Trade and other payables</b>		
<i>Current</i>		
Trade creditors and expenses payable	1,010	1,931
Interest payable	202	229
Distributions payable	5,224	5,075
Accrued investment property costs	988	1,810
Accrued investment transaction costs	-	599
Accrued subsidiary acquisition costs	3,676	-
Accrued equity raising costs	537	-
Other current creditors and accruals	7,116	1,581
	<u>18,753</u>	<u>11,225</u>

Refer to Note 21 for amounts payable to related parties.

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

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

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

# Centuria Metropolitan REIT

## Notes to the financial statements

### Assets and liabilities

For the year ended 30 June 2017

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
<b>13. Borrowings</b>		
<i>Non-current</i>		
Secured loan	189,526	142,027
Borrowing costs	(1,784)	(937)
	<u>187,742</u>	<u>141,090</u>

At 30 June 2017, the Trust had the following secured debt facilities:

Total facilities - bank loans	260,000	150,000
Facilities used at reporting date - bank loans	<u>(189,526)</u>	<u>(142,027)</u>
Facilities unused at reporting date - bank loans	<u>70,474</u>	<u>7,973</u>

As at 30 June 2017, the Trust had \$84,000,000 (2016: \$84,000,000) of interest rate swaps hedged against its drawn debt. Refer to Note 14 for further details on interest rate swap contracts held at, and contracts executed subsequent to, 30 June 2017.

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

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

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

Refer to Note 20 for details on the Trust's exposure to risks associated with financial liabilities.



# Centuria Metropolitan REIT

## Notes to the financial statements

### Assets and liabilities

For the year ended 30 June 2017

#### 14. Derivatives

##### *Interest rate swap contracts*

Under interest rate swap contracts, the Trust agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Trust to mitigate the risk of changing interest rates on the cash flow exposures on the variable rate debt held. The following table details the specific instruments held at reporting date, showing the notional principal amounts and contracted fixed interest rate of each contract:

Type of contract	Maturity Date	Contracted fixed interest rate	Notional amount of contract \$'000	Fair value of assets \$'000	Fair value of liabilities \$'000
<b>30 Jun 2017</b>					
Interest rate swap	10 Dec 19	2.85%	48,000	-	(1,053)
Interest rate swap	10 Jul 20	2.55%	36,000	-	(562)
Interest rate swap	21 Jan 20	2.61%	20,000	-	(373)
			104,000	-	(1,988)
<b>30 Jun 2016</b>					
Interest rate swap	10 Dec 19	2.85%	48,000	-	(1,889)
Interest rate swap	10 Jul 20	2.55%	36,000	-	(1,217)
			84,000	-	(3,106)

On the 6th of July 2017, the Trust entered into two new interest rate swap arrangements which totalled \$100,000,000, at a weighted average rate of 2.18%. Subsequent to this, on 28 July 2017 a further \$40,000,000 swap agreement was entered into at a fixed rate of 2.22%. This has given certainty to the financing costs of the Trust with approximately 56% of the current drawn debt hedged.

Derivatives are initially recognised at fair value and attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and the resulting gain or loss is recognised in profit or loss.

The fair value of interest rate swaps is the estimated amount that the entity would receive or pay to transfer the swap at reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

The Trust has not applied hedge accounting to its derivative financial instruments.

Refer to Note 20 for details on the Trust's exposure to risks associated with financial liabilities.



# Centuria Metropolitan REIT

## Notes to the financial statements

### Assets and liabilities

For the year ended 30 June 2017

	30 Jun 2017		30 Jun 2016	
	Units '000	\$'000	Units '000	\$'000
<b>15. Issued capital - CMR1</b>				
Opening balance	119,407	129,328	119,167	129,110
CMR2 applications - 22 Mar 2017	95,526	124,704	-	-
Consolidation - 22 Mar 2017	(95,526)	-	-	-
CUA unitholder applications - 29 Jun 2017	58,834	144,142	-	-
Distributions reinvested	-	-	240	265
Equity raising costs	-	(537)	-	(47)
Closing balance	178,241	397,637	119,407	129,328

CMR1 is the parent of the Trust. All units in CMR1 are of the same class and carry equal rights to capital and income distributions.

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

	30 Jun 2017		30 Jun 2016	
	Units '000	\$'000	Units '000	\$'000
<b>16. Non-controlling interest - CMR2</b>				
Opening balance	119,407	119,250	119,167	110,530
Redemptions - 22 Mar 2017	(119,407)	(124,704)	-	-
Distributions reinvested	-	-	240	229
Equity raising costs	-	-	-	(47)
Distributions to members of CMR2	-	(4,926)	-	(9,571)
Net profit attributable to members of CMR2	-	10,380	-	18,109
Closing balance	-	-	119,407	119,250

On 22 March 2017, the units in CMR1 were unstapled to the units in CMR2 and CMR1 acquired 100% of the units in CMR2. Accordingly, there is no non-controlling interest of the Trust following this date.

### 17. Contingent assets, liabilities and commitments

Unless otherwise stated in this report, the Trust has no contingent assets, liabilities or commitments as at 30 June 2017.

# Centuria Metropolitan REIT

## Notes to the financial statements

### Cash flow

For the year ended 30 June 2017

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
<b>18. Cash and cash equivalents</b>		
Cash and bank balances	8,187	4,911
	<u>8,187</u>	<u>4,911</u>
<b>Reconciliation of profit for the year to net cash flows from operating activities:</b>		
Net profit for the year	37,689	44,785
Adjustments:		
Net gain on fair value of investment properties	(17,180)	(23,246)
Net (gain)/loss on fair value of listed investments	(470)	113
(Gain)/loss on fair value of derivatives	(1,420)	2,373
Disposed deferred rent and lease incentives	(938)	-
Change in deferred rent and lease incentives	(428)	(3,263)
Change in capitalised leasing fees	(545)	(597)
Borrowing cost amortisation	367	193
Transaction costs	587	-
Changes in operating assets and liabilities:		
(Increase)/decrease in receivables	(142)	28
Decrease/(increase) in other assets	7	(53)
Increase in payables	4,478	2,573
Net cash generated by operating activities	<u>22,005</u>	<u>22,906</u>

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

# Centuria Metropolitan REIT

## Notes to the financial statements

### Other notes

For the year ended 30 June 2017

	30 Jun 2017 \$	30 Jun 2016 \$
<b>19. Auditor's remuneration</b>		
KPMG:		
Audit and review of financials	150,000	118,500
Taxation and property due diligence services	5,118	63,000
Financial due diligence services & advice	-	143,000
	<u>155,118</u>	<u>324,500</u>

## 20. 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 \$'000	Fair value \$'000
<b>30 Jun 2017</b>				
<b>Financial liabilities</b>				
Payables (excluding non-financial payables)	Amortised Cost	Not applicable	11,779	11,779
Borrowings (excluding borrowing costs)	Amortised Cost	Not applicable	189,526	189,526
Interest rate swaps	Fair Value	Level 2	1,988	1,988
			<u>203,293</u>	<u>203,293</u>
<b>30 Jun 2016</b>				
<b>Financial assets</b>				
Investments in listed trust		Level 2	11,113	11,113
			<u>11,113</u>	<u>11,113</u>
<b>Financial liabilities</b>				
Payables (excluding non-financial payables)	Amortised Cost	Not applicable	9,685	9,685
Borrowings (excluding borrowing costs)	Amortised Cost	Not applicable	142,027	142,027
Interest rate swaps	Fair Value	Level 2	3,106	3,106
			<u>154,818</u>	<u>154,818</u>

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

### Other notes

For the year ended 30 June 2017

#### 20. Financial instruments

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

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

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

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

# Centuria Metropolitan REIT

## Notes to the financial statements

### Other notes

For the year ended 30 June 2017

#### 20. Financial instruments (continued)

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

###### *Fair value hierarchy*

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

	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<b>30 Jun 2017</b>				
<b>Financial liabilities held at fair value</b>				
Interest rate swaps	1,988	-	1,988	-
	1,988	-	1,988	-
<b>30 Jun 2016</b>				
<b>Financial assets held at fair value</b>				
Investments in listed trusts	11,113	-	11,113	-
	11,113	-	11,113	-
<b>Financial liabilities held at fair value</b>				
Interest rate swaps	3,106	-	3,106	-
	3,106	-	3,106	-

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

The Responsible Entity obtains independent valuations to measure the fair value of financial instruments at each reporting date. The Responsible Entity assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of International Financial Reporting Standards, including the level in the fair value hierarchy that the resulting fair value estimate should be classified.

##### B. Financial risk management objectives

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

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

# Centuria Metropolitan REIT

## Notes to the financial statements

### Other notes

For the year ended 30 June 2017

#### 20. Financial instruments (continued)

##### C. Market risk (continued)

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

##### *Interest rate risk management*

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

	Note	30 Jun 2017		30 Jun 2016	
		Effective interest rate	Total \$'000	Effective interest rate	Total \$'000
<b>Financial assets</b>					
Cash and cash equivalents	18	1.00%	8,187	1.08%	4,911
			<u>8,187</u>		<u>4,911</u>
<b>Financial liabilities</b>					
Borrowings (excluding borrowing costs)	13	3.23%	189,526	3.09%	142,027
Interest rate swaps	14	2.70%	1,988	2.72%	3,106
			<u>191,514</u>		<u>145,133</u>

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

At reporting date, if variable interest rates had been 100 (2016: 100) basis points higher or lower and all other variables were held constant, the impact to the Trust would have been as follows:

	Variable + / -	Sensitivity impact	
		Rate increase \$'000	Rate decrease \$'000
<b>30 Jun 2017</b>			
Net profit/(loss)	1.00%	1,668	(1,730)
		<u>1,668</u>	<u>(1,730)</u>
<b>30 Jun 2016</b>			
Net profit/(loss)	1.00%	2,343	(2,467)
		<u>2,343</u>	<u>(2,467)</u>

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

# Centuria Metropolitan REIT

## Notes to the financial statements

### Other notes

For the year ended 30 June 2017

#### 20. Financial instruments (continued)

##### D. Credit risk

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

At 30 June 2017, the main financial assets exposed to credit risk are trade receivables. There were no significant concentrations of credit risk to counterparties at 30 June 2017. Refer to Note 7 for details of trade receivables.

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

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

##### E. Liquidity risk

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

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

	Effective interest rate	Total principal and interest \$'000	Less than 1 year \$'000	1 to 5 years \$'000	5+ years \$'000
<b>30 Jun 2017</b>					
Trade and other payables	-	11,779	11,779	-	-
Borrowings	3.23%	207,935	6,129	201,806	-
Derivative financial instruments	2.70%	1,988	1,988	-	-
		<b>221,702</b>	<b>19,896</b>	<b>201,806</b>	<b>-</b>
<b>30 Jun 2016</b>					
Trade and other payables	-	9,685	9,685	-	-
Borrowings	3.09%	167,647	4,631	163,016	-
Derivative financial instruments	2.72%	3,417	935	2,482	-
		<b>180,749</b>	<b>15,251</b>	<b>165,498</b>	<b>-</b>

The principal amounts included in the above borrowings is \$189,526,000 (2016: \$142,027,000).



# Centuria Metropolitan REIT

## Notes to the financial statements

### Other notes

For the year ended 30 June 2017

#### 21. Related parties

##### Key management personnel

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

Jason Huljich  
Peter Done  
Matthew Hardy  
Darren Collins

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

##### Key management personnel loan disclosures

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

##### Responsible entity fees and other transactions

The Responsible Entity is entitled to a management fee which is calculated at 0.55% of the gross value of assets held plus GST.

At reporting date an amount of \$247,384 (2016: \$188,802) owing to the Responsible Entity and its related parties was included in trade and other payables. The payables are non-interest bearing with payment terms and conditions consistent with normal commercial practices.

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

	30 Jun 2017	30 Jun 2016
	\$	\$
Leasing fees	575,531	135,250
Management fees	2,385,042	1,984,964
Custodian fees	4,438	-
Fund recoveries	38,865	-
Property management fees	477,359	340,229
Development fees	134,915	205,931
Other professional fees	16,902	34,362
	<u>3,633,052</u>	<u>2,700,736</u>

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



# Centuria Metropolitan REIT

## Notes to the financial statements

### Other notes

For the year ended 30 June 2017

#### 21. Related parties (continued)

##### Centuria Urban REIT merger

On 9 January 2017, the Responsible Entity for CUA was acquired by Centuria Capital Group. As Centuria Capital Group also hold an ownership interest in the Responsible Entity for the Trust, CUA is considered a related party to the Trust from this date. On 3 March 2017, the Responsible Entity announced a merger proposal with CUA, of which it already owned an 8.76% interest, by way of acquiring 100% of the remaining units. On 14 June 2017, the unitholders of CUA voted to approve the merger and the Trust completed the acquisition of the remaining units effective 29 June 2017. During the period from 9 January 2017 to 14 June 2017, the Trust received a distribution of \$240,866 from CUA.

##### Securities in the Trust held by related parties

At 30 June 2017, the following related parties of the Responsible Entity hold units in the Trust:

	Closing securities held	Closing interest held
<b>30 Jun 2017</b>		
Centuria Capital No. 2 Office Fund	12,890,787	7.23%
Over Fifty Guardian Friendly Society Limited	11,521,625	6.46%
Centuria Growth Bond Fund	4,739,200	2.66%
Centuria Capital No. 2 Fund	2,590,837	1.45%
Centuria Balanced Bond Fund	357,143	0.20%
Roger William Dobson	208,334	0.12%
Centuria High Growth Fund	150,000	0.08%
Nicholas Collishaw	132,511	0.07%
Peter Done	75,000	0.04%
John McBain	63,158	0.04%
Darren Collins	20,000	0.01%
Matthew Hardy	17,080	0.01%
Jason Huljich	3,174	0.002%
	<b>32,768,849</b>	<b>18.37%</b>
<b>30 Jun 2016</b>		
Over Fifty Guardian Friendly Society Limited	11,521,625	9.65%
Centuria Growth Bond Fund	4,739,200	3.97%
Centuria Capital Limited	2,590,837	2.17%
Centuria Balanced Bond Fund	357,143	0.30%
Roger William Dobson	208,334	0.17%
Nicholas Collishaw	132,511	0.11%
Peter Done	75,000	0.06%
John McBain	63,158	0.05%
Darren Collins	20,000	0.02%
Matthew Hardy	17,080	0.01%
Jason Huljich	3,174	0.003%
	<b>19,728,062</b>	<b>16.51%</b>

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

# Centuria Metropolitan REIT

## Notes to the financial statements

### Other notes

For the year ended 30 June 2017

#### 21. Related parties (continued)

##### Other transactions within the Trust

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

#### 22. Events subsequent to reporting date

On the 6th of July 2017, the Trust terminated its existing \$104,000,000 interest rate swaps and entered two new swap contracts for \$100,000,000 at a weighted average fixed rate of 2.18%. In addition, on the 28th of July 2017 a further \$40,000,000 swap contract was entered into at a rate of 2.22%.

On the 13th of July 2017, the Responsible Entity announced an Equity Raise of approximately \$90,000,000 comprising of a \$25,000,000 institutional placement and an offer to raise approximately \$65,000,000 through a non-renounceable entitlement offer. The issue price of \$2.35 per new security represented a 2.5% discount to CMA's closing price of \$2.41 on 12 July 2017. The new securities issued will rank equally with existing securities and will be entitled to the full distribution for the quarter ended 30 September 2017. All new equity has now been received and new securities allotted.

On the 1st of August 2017, the Trust settled on two new commercial office assets in Perth, Western Australia. The properties are located at 42-46 Colin Street & 144 Stirling Street, and were acquired for \$33,600,000 and \$58,200,000 respectively.

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

#### 23. Parent entity disclosures

##### Financial position\*

##### Assets

Current assets  
Non-current assets  
Total assets

##### Liabilities

Current liabilities  
Non-current liabilities  
Total liabilities

##### Equity

Issued capital  
Retained earnings  
Total equity

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
Current assets	10,650	5,352
Non-current assets	293,561	152,654
<b>Total assets</b>	<b>304,211</b>	<b>158,006</b>
Current liabilities	10,037	5,363
Non-current liabilities	4,293	4,293
<b>Total liabilities</b>	<b>14,330</b>	<b>9,656</b>
Issued capital	272,933	129,328
Retained earnings	16,948	19,022
<b>Total equity</b>	<b>289,881</b>	<b>148,350</b>

# Centuria Metropolitan REIT

## Notes to the financial statements

### Other notes

For the year ended 30 June 2017

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
<b>23. Parent entity disclosures (continued)</b>		
<i>Financial performance*</i>		
Profit for the year*	27,309	26,676
Total comprehensive income for the year	27,309	26,676

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

\* 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.

#### 24. Additional information

The registered office and principal place of business of the Trust 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

**For the year ended 30 June 2017**

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

- (a) in the directors' opinion, there are reasonable grounds to believe that the Trust 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 1 to the financial statements; and
- (c) in the directors' opinion, the attached financial statements and notes 1 to 24 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 Trust's financial position as at 30 June 2017 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 Done  
Director



Jason Huljich  
Director

Dated at Sydney this 14<sup>th</sup> day of August 2017.



# Independent Auditor's Report

To the unitholders of Centuria Metropolitan REIT

## Opinion

We have audited the **Financial Report** of Centuria Metropolitan REIT (the Group).

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

- giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 30 June 2017
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The **Group** consists of Centuria Metropolitan REIT and its controlled entities at the year-end or from time to time during the financial year.

## Basis for opinion

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

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

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

## Key Audit Matters

The **Key Audit Matter** we identified is:

- Valuation of Investment Properties

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

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Valuation of Investment Properties (\$610m)

Refer to Note 8 to the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>The valuation of investment properties is a key audit matter as they are significant in value to the Group and significant judgment is required in estimating their value.</p> <p>Investment properties are valued at fair value and the fair value is determined using internal methodologies or through the use of external valuation experts.</p> <p>The valuation methodology for investment properties require significant judgments on the following inputs used:</p> <ul style="list-style-type: none"> <li>- capitalisation rates;</li> <li>- discount rates;</li> <li>- market rents;</li> <li>- vacancy levels;</li> <li>- projections of capital expenditure;</li> <li>- leasing incentives.</li> </ul>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• Evaluating management's process regarding the preparation, review and approval of the valuation of investment properties;</li> <li>• Assessing whether the methodology used in the valuation of investment properties was consistent with accounting standards;</li> </ul> <p>For a sample of investment properties:</p> <ul style="list-style-type: none"> <li>• Assessing the competence and objectivity of external independent experts and internal valuers; and</li> <li>• Challenging key assumptions including capitalisation rates, discount rates, market rents, vacancy levels, projections of capital expenditure and leasing incentives by benchmarking to external market data and historical performance of the asset.</li> </ul>

## Other Information

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

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report, Corporate Governance Statement and Additional ASX Information. The remaining sections of the Group's annual reporting relating to Fund Update, Strategies and Objectives are expected to be made available to us after the date of the Auditor's Report.

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

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

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



### Responsibilities of the Directors for the Financial Report

The Directors of Centuria Property Funds Limited are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the Audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_files/ar2.pdf](http://www.auasb.gov.au/auditors_files/ar2.pdf). This description forms part of our Auditor's Report.

KPMG

Nigel Virgo

Partner

Sydney

14 August 2017



## **Centuria Metropolitan REIT**

### **Corporate governance statement**

**For the year ended 30 June 2017**

The Corporate Governance Statement for the Trust 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 1 August 2017

### Distribution of holders of securities

Holding range	Number of securities	Number of holders	Percentage of total (%)
1 to 1,000	72,991	302	0.04
1,001 to 5,000	2,414,344	700	1.18
5,001 to 10,000	5,861,998	743	2.86
10,001 to 100,000	35,457,800	1,318	17.29
100,001 and over	161,261,337	93	78.63
<b>Total</b>	<b>205,068,470</b>	<b>3,156</b>	<b>100.00</b>

### Substantial security holders

	Number of securities	Percentage of total (%)
CITICORP NOMINEES PTY LIMITED	37,231,191	18.16
J P MORGAN NOMINEES AUSTRALIA LIMITED	36,086,793	17.60
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	17,145,124	8.36
NATIONAL NOMINEES LIMITED	15,399,078	7.51
CENTURIA INVESTMENT HOLDINGS PTY LIMITED <CENTURIA CAPITAL NO2 O/F A/C>	14,904,973	7.27
<b>Total</b>	<b>120,767,159</b>	<b>58.90</b>

### Voting rights

All securities carry one vote per security without restriction.

### Top 20 security holders

	Number of securities	Percentage of total (%)
CITICORP NOMINEES PTY LIMITED	37,231,191	18.16
J P MORGAN NOMINEES AUSTRALIA LIMITED	36,086,793	17.60
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	17,145,124	8.36
NATIONAL NOMINEES LIMITED	15,399,078	7.51
CENTURIA INVESTMENT HOLDINGS PTY LIMITED <CENTURIA CAPITAL NO2 O/F A/C>	14,904,973	7.27
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	4,926,685	2.40
CENTURIA FUNDS MANAGEMENT LIMITED <CENTURIA CAPITAL NO2 FUND AC>	2,995,656	1.46
WYLLIE GROUP PTY LTD	2,200,000	1.07
G C F INVESTMENTS PTY LTD	1,817,227	0.89
CONTEMPLATOR PTY LTD <ARG PENSION FUND A/C>	1,452,779	0.71
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	1,348,168	0.66
AMP LIFE LIMITED	1,327,349	0.65
SANDHURST TRUSTEES LTD <SISF A/C>	1,155,000	0.56
TRISTAR METALS PTY LTD	970,000	0.47
HORRIE PTY LTD	891,912	0.43
PERSHING AUSTRALIA NOMINEES PTY LTD <NOMINEE A/C>	874,038	0.43
SOUTH CREEK INVESTMENTS PTY LTD <THE GIUFFRIDA S/F A/C>	850,000	0.41
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	703,982	0.34
PAKLITE HOLDINGS PTY LTD	689,939	0.34
AVANTEOS INVESTMENTS LIMITED <1703553 JOHNSON A/C>	678,139	0.33
<b>Total</b>	<b>143,648,033</b>	<b>70.05</b>