

Centuria

**Centuria Metropolitan REIT
and its subsidiaries**

ARSN 124 364 718

**Interim Financial Report
For the half-year ended 31 December 2019**

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

Centuria Metropolitan REIT

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Directors' report

For the half year ended 31 December 2019

The directors of Centuria Property Funds Limited, the Responsible Entity of Centuria Metropolitan REIT ('CMA') present their report, together with the consolidated interim financial report of the Trust and its subsidiaries ('the Trust') for the half year ended 31 December 2019 and the independent auditor's review report thereon.

Directors of the Responsible Entity

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

Name	Appointed	Directorship of other listed companies
Peter Done	5 Dec 2007	Centuria Capital Limited
Matthew Hardy	4 Jul 2013	
Darren Collins	10 Mar 2015	
Nicholas Collishaw	12 Oct 2017	Centuria Capital Limited Redcape Hotel Group Management Ltd
Roger Dobson	12 Oct 2017	

The company secretary of Centuria Metropolitan REIT during or since the end of the financial year is:

Name	Appointed
Anna Kovarik	5 Jul 2018

Refer to Note D2 of the interim financial report for director's units holding in the Trust.

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

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

Principal activities

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

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

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

Review of operations

Results

The results of the operations of the Trust are disclosed in the consolidated interim statement of profit or loss and other comprehensive income of this interim financial report. The Trust's profit for the half year ended 31 December 2019 was \$24,697,000 (31 December 2018: \$14,655,000 profit).

As at 31 December 2019, the Trust's Net Tangible Assets ('NTA') have increased 8 cents per unit ('cpu'), or 3.2%, to \$2.57 per unit since 30 June 2019.

Investment property valuations

The Trust's portfolio as at 31 December 2019 was valued at \$2,096.0 million (30 Jun 19: \$1,400.0 million) which included \$625.4 million of acquisitions from the first half.

The weighted average capitalisation rate for the portfolio firmed 28 basis points to 5.94% at 31 December 2019 (30 June 2019: 6.22%).

Review of operations (continued)

Leasing and occupancy

The Trust secured 28,721 sqm of leases across 24 transactions for the half year ended 31 December 2019. This represented 9.5% of the portfolio's net lettable area.

At 31 December 2019 the Trust's portfolio was 99.2% occupied with a WALE of 5.1 years. As at 31 December 2019, FY20 lease expiries represent 3.7% of portfolio income.

Capital management

As at 31 December 2019, the Trust had hedged 63% (30 June 2019: 58%) of its drawn borrowings of \$733.5 million (30 June 2019: \$498.5 million) and had a weighted average expiry of 3.8 years (30 June 2019: 4.0 years). The undrawn debt capacity was \$70.0 million as at 31 December 2019 (30 June 2019: \$55.0 million).

The Trust's gearing at 31 December 2019 was 33.2%.

Outlook

The Responsible Entity's strategy and ongoing focus remains unchanged. Management continues 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' office real estate assets delivering quality and sustainable income streams.

The Responsible Entity confirms Funds From Operations (FFO) guidance of 19.0 cpu for the year ending 30 June 2020. The distribution guidance for the year ending 30 June 2020 is 17.8 cpu which will be paid in equal quarterly instalments.

Distributions

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

	31 December 2019		31 December 2018	
	Cents per unit	\$'000	Cents per unit	\$'000
September quarter	4.45	15,855	4.525	11,000
December quarter	4.45	22,839	4.358	15,527
Total	8.90	38,694	8.883	26,527

Key dates in connection with the December quarter distribution are:

Event	Date
Ex-distribution date	30 Dec 2019
Record date	31 Dec 2019
Distribution payment date	24 Jan 2020

The Funds From Operations (FFO) for the half year ended 31 December 2019 was \$39.0 million. This was a 47.2% increase to the prior half year.

For the half-year ended 31 December 2019, a distribution of 8.90 cpu was declared, compared to 9.64 cents of FFO per weighted average unit, which represents a payout ratio of 92%.

The Trust issued 156.9 million units in the December quarter to assist with the acquisition of new properties. These units were entitled to a distribution for the full quarter, however as the properties acquired were not owned for the entire period, the income received from these properties was less than the distribution paid for these periods. Accordingly, this has resulted in total distributions for the year being higher than the distributable earnings.

The following table provides a reconciliation from the consolidated interim statement of profit or loss and other comprehensive income to the FFO for the half year:

Review of operations (continued)

Distributions (continued)

	31 December 2019	31 December 2018
	\$'000	\$'000
Net profit for the year	24,697	14,655
Adjustments:		
Loss/(gain) on fair value of investment properties	11,695	8,406
Realised/unrealised (gain)/loss on fair value of derivatives	448	2,561
Rent free and abatement	3,489	1,854
Straight-lining of rental income	(2,406)	(2,087)
Amortisation of incentives and leasing fees	879	803
Interest and depreciation expense adjustments for AASB 16	174	-
Transaction costs	46	319
Funds From Operations	39,022	26,511

Distribution reinvestment plan

The Trust did not activate the Distribution Reinvestment Plan ('DRP') during the half-year ended 31 December 2019.

Related party transactions

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

Events subsequent to balance date

No matters or circumstances have arisen since the end of the period which have significantly affected or may significantly affect the operations of the Trust, the results of those operations, or the state of affairs of the Trust in future financial years.

Auditor's independence declaration

The auditor's independence declaration required under Section 307C of the Corporations Act 2001 is set out on page 5 and forms part of the Directors' report for half year ended 31 December 2019.

Rounding of amounts

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

Directors' report

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



Matthew Hardy
Director



Darren Collins
Director

Sydney
5 February 2020



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

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

I declare that, to the best of my knowledge and belief, in relation to the review of Centuria Metropolitan REIT for the half-year ended 31 December 2019 there have been:

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

KPMG

KPMG

Peter Zabaks

Partner

Sydney

5 February 2020

Centuria Metropolitan REIT Interim Financial Report

For the half year ended 31 December 2019

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Consolidated interim statement of profit or loss and other comprehensive income

For the half year ended 31 December 2019

	Note	31 December 2019 \$'000	31 December 2018 \$'000
Revenue			
Rent and recoverable outgoings	B2	66,346	46,831
Total revenue		66,346	46,831
Other income			
Interest income		86	253
Other income		-	13
Total other income		86	266
Total revenue		66,432	47,097
Expenses			
Rates, taxes and other property outgoings		15,516	11,274
Loss on fair value of investment properties	C1	11,695	8,406
Finance costs	B3	8,733	6,354
Management fees	D2	4,142	2,986
Other expenses		953	542
Loss on fair value of derivative financial instruments		448	2,561
Depreciation expense		202	-
Transaction costs		46	319
Total expenses		41,735	32,442
Net profit for the period		24,697	14,655
Other comprehensive income			
Other comprehensive income for the period		-	-
Total comprehensive income for the period		24,697	14,655
Basic and diluted earnings per unit			
Units on issue (cents per unit)		4.81	5.19

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

Consolidated interim statement of financial position

As at 31 December 2019

	31 December 2019	30 June 2019
Note	\$'000	\$'000
Assets		
Current assets		
Cash and cash equivalents	36,692	17,546
Other assets	2,633	1,464
Trade and other receivables	2,641	4,080
Investment properties held for sale	-	78,500
Total current assets	41,966	101,590
Non-current assets		
Investment properties	2,095,977	1,321,475
Intangibles	6,356	6,356
Total non-current assets	2,102,333	1,327,831
Total assets	2,144,299	1,429,421
Liabilities		
Current liabilities		
Trade and other payables	29,201	14,924
Distributions payable	22,839	15,527
Total current liabilities	52,040	30,451
Non-current liabilities		
Borrowings	731,250	497,222
Lease liability	32,751	-
Derivative financial instruments	1,697	7,180
Total non-current liabilities	765,698	504,402
Total liabilities	817,738	534,853
Net assets	1,326,561	894,568
Equity		
Issued capital	1,279,310	833,320
Retained earnings	47,251	61,248
Total equity	1,326,561	894,568

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

Consolidated interim statement of changes in equity

For the half year ended 31 December 2019

	Note	Issued capital \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2018		545,228	65,244	610,472
Net profit for the period		-	14,655	14,655
Other comprehensive income		-	-	-
Total comprehensive income for the period		-	14,655	14,655
Units issued		275,845	-	275,845
Equity raising costs		(7,753)	-	(7,753)
Contribution from manager		20,000	-	20,000
Distributions provided for or paid	B1	-	(26,527)	(26,527)
Balance at 31 December 2018		833,320	53,372	886,692
Balance at 1 July 2019		833,320	61,248	894,568
Net profit for the period		-	24,697	24,697
Total comprehensive income for the period		-	24,697	24,697
Units issued	C4	457,503	-	457,503
Equity raising costs	C4	(11,513)	-	(11,513)
Distributions provided for or paid	B1	-	(38,694)	(38,694)
Balance at 31 December 2019		1,279,310	47,251	1,326,561

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

Consolidated interim statement of cash flows

For the half year ended 31 December 2019

	31 December 2019	31 December 2018
Note	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers	74,860	48,342
Payments to suppliers	(21,015)	(19,048)
Interest received	86	253
Interest paid	(7,432)	(5,021)
Net cash generated by operating activities	46,499	24,526
Cash flows from investing activities		
Proceeds from sale of investment properties	-	69,019
Payments for investment properties	(669,886)	(606,010)
Net cash used in investing activities	(669,886)	(536,991)
Cash flows from financing activities		
Distribution paid	(31,382)	(21,986)
Proceeds from borrowings	235,000	275,751
Repayment of borrowings	-	(28,000)
Payments for borrowing costs	(1,145)	(1,178)
Payments for derivative financial instruments	(5,930)	-
Proceeds from issue of units	457,503	275,845
Equity issue costs	(11,513)	(7,753)
Contribution from manager	-	20,000
Net cash generated by financing activities	642,533	512,679
Net increase in cash and cash equivalents	19,146	214
Cash and cash equivalents at beginning of financial period	17,546	18,978
Cash and cash equivalents at end of period	36,692	19,192

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

Condensed notes to the interim financial report

For the half year ended 31 December 2019

A About the report

A1 General information

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

Statement of compliance

The interim financial report is a general purpose financial report which have been prepared in accordance with AASB 134: Interim Financial Reporting and the Corporations Act 2001.

The interim financial report does not include all of the notes and information required for the annual financial report and should be read in conjunction with the annual financial report for the year ended 30 June 2019.

For the purposes of preparing the interim financial report, the Trust is a for profit entity.

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

Basis of preparation

The interim financial report have been prepared on the basis of historical cost, except for investment property and financial instruments that are measured at fair value. Historical cost is based on the fair value of the consideration given in exchange of assets.

Going concern

The interim 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 of \$10.1 million as at 31 December 2019. 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.

The principal accounting policies adopted in the preparation of the interim financial report are consistent with those of the previous financial year and corresponding interim reporting period.

Rounding of amounts

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

Functional and presentation currency

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

Additional information

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

Registered office:

Level 41, Chifley Tower, 2 Chifley Square
Sydney NSW 2000

Principal place of business:

Level 41, Chifley Tower, 2 Chifley Square
Sydney NSW 2000

A2 Significant accounting policies

The principal accounting policies adopted in the preparation of the interim financial report are consistent with those of the previous financial year and interim period with the exception of the adoption of AASB 16 *Leases*.

About the report

A2 Significant accounting policies (continued)

New and amended accounting standards and interpretations commencing 1 July 2019

The Trust has adopted AASB 16 *Leases* from 1 July 2019. The nature and key effects of the changes to the Trust's accounting policies resulting from the adoption of the new standards are summarised below.

A3 Changes in accounting policy

The nature and key effects of the changes to the Trust's accounting policies resulting from the adoption of the accounting policies are summarised below.

AASB 16 Leases

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

On adoption of AASB 16 on 1 July 2019, a lease liability reflecting the leasehold arrangement needs to be separately disclosed in the consolidated interim statement of financial position and the carrying value of the investment property will be grossed up to equal the fair value of the investment property. The lease liability is calculated as the net present value of future lease payments discounted at the incremental borrowing rate. A right of use asset is initially recognised as the present value of the minimum lease payments at inception of the lease. At 1 July 2019, a right of use asset of \$32,779,015 within investment property and lease liability of \$32,779,015 was recognised in the consolidated interim statement of financial position for the ground lease at 46 Colin Street, Perth WA.

Subsequent measurement of the lease liability will include adjustments for interest, lease payments and if applicable, remeasurement of the carrying value to reflect any lease modifications. Interest on the liability and other any variable lease payments not included in the measurement of the liability are recognised in the consolidated interim statement of profit or loss and other comprehensive income in the period in which they relate.

The right of use asset will be subsequently measured at cost less depreciation, impairment and adjustment for remeasurement in the lease liability. Depreciation will be calculated on a straight-line basis from the commencement date to the end of the lease term. The Trust will test the right of use asset for impairment if there are indicators that the asset may be impaired. The carrying amount is written down immediately to its recoverable amount if the carrying value is greater than the estimated recoverable amount.

A4 Segment reporting

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

B Trust performance

B1 Distributions

	31 December 2019		31 December 2018	
	Cents per unit	\$'000	Cents per unit	\$'000
September quarter	4.45	15,855	4.525	11,000
December quarter	4.45	22,839	4.358	15,527
Total	8.90	38,694	8.883	26,527

Key dates in connection with the December quarter distribution are:

Event	Date
Ex-distribution date	30 Dec 2019
Record date	31 Dec 2019
Distribution payment date	24 Jan 2020

B2 Rental income

	31 December 2019	31 December 2018
	\$'000	\$'000
Rental income	52,381	37,178
Recoverable outgoings	11,559	7,566
Straight-lining of lease revenue	2,406	2,087
	<u>66,346</u>	<u>46,831</u>

B3 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.

	31 December 2019	31 December 2018
	\$'000	\$'000
Interest expense	8,548	6,012
Borrowing costs	174	342
Derivative instrument break cost	11	-
	<u>8,733</u>	<u>6,354</u>

C Trust's assets and liabilities

C1 Investment properties

	31 December 2019 \$'000	30 June 2019 \$'000
Opening balance	1,321,475	836,300
Acquisitions of investment properties	625,353	562,492
Stamp duty and associated costs	33,220	32,652
Capital improvements and associated costs	5,756	10,941
	664,329	606,085
(Loss)/Gain on fair value	(11,695)	7,143
Change in deferred rent and lease incentives	10,300	4,108
Disposed deferred rent and lease incentives	-	619
Initial recognition of right of use asset	32,779	-
Less depreciation on right of use asset	(202)	-
Change in capitalised leasing fees	491	495
Disposals at fair value	-	(54,775)
	31,673	(42,410)
Transfers (to)/from held for sale	78,500	(78,500)
Closing balance	2,095,977	1,321,475

The carrying amount of investment properties includes components related to deferred rent, capitalised lease incentives and leasing fees amounting to \$32,933,000 (30 Jun 19: \$22,004,000) and a right of use asset of \$32,577,000. Refer to Note A3 for further details on the application of the new leasing standard, AASB 16.

Stamp duty and other associated costs incurred for property acquisitions are recognised and included in the initial measurement of the asset. However, these costs are written off on application of the fair value method through profit or loss. The Trust had written off \$33.2 million of such costs in relation to the three properties acquired during the half-year ended 31 December 2019.

Trust's assets and liabilities

C1 Investment properties (continued)

Property	Fair value		Capitalisation rate		Discount rate		31 Dec 19 Valuer	Last independent valuation date
	31 Dec 19 \$'000	30 Jun 19 \$'000	31 Dec 19 %	30 Jun 19 %	31 Dec 19 %	30 Jun 19 %		
NSW								
8 Central Ave, Eveleigh NSW	191,000	-	5.38%	-%	6.75%	-%	C&W	Dec 2019
201 Pacific Hwy, St Leonards NSW*	107,500	101,500	5.63%	5.75%	6.63%	6.75%	Colliers	Jun 2019
9 Help St, Chatswood NSW	86,500	84,000	5.75%	5.75%	7.00%	7.00%	Directors	Jun 2019
203 Pacific Hwy, St Leonards NSW**	69,500	65,750	5.88%	5.88%	6.75%	7.00%	M3	Dec 2019
465 Victoria Ave, Chatswood NSW**	42,000	41,625	5.75%	5.75%	7.00%	7.00%	Directors	Dec 2018
77 Market St, Wollongong NSW	36,400	36,200	7.25%	7.25%	8.00%	8.00%	Directors	Dec 2018
ACT								
2 Phillip Law St, NewActon ACT^	255,300	-	5.13%	-%	6.00%	-%	Knight Frank	Dec 2019
60 Marcus Clarke St, Canberra ACT^	62,750	62,000	7.00%	7.00%	7.50%	7.50%	Directors	Jun 2019
54 Marcus Clarke St, Canberra ACT^	21,500	21,250	7.50%	7.50%	7.75%	7.75%	Directors	Jun 2018
QLD								
825 Ann St, Fortitude Valley QLD	165,000	164,000	6.00%	6.25%	7.00%	7.00%	Savills	Dec 2019
154 Melbourne St, South Brisbane QLD	88,000	83,500	6.00%	6.50%	7.00%	7.50%	JLL	Dec 2019
100 Brookes St, Fortitude Valley QLD	80,700	79,500	6.25%	6.25%	7.00%	7.25%	Directors	Dec 2018
483-517 Kingsford Smith Dr, Hamilton QLD	78,500	-	6.25%	-%	7.00%	-%	Directors	Jun 2019
35 Robina Town Ctr Dr, Robina QLD	53,000	54,000	7.25%	7.25%	6.75%	6.75%	Directors	Jun 2019
555 Coronation Dr, Brisbane QLD	33,500	29,000	7.00%	7.75%	7.50%	8.00%	Savills	Dec 2019
VIC								
818 Bourke St, Docklands VIC	225,500	224,000	5.13%	5.25%	6.25%	6.50%	CBRE	Dec 2019
576 Swan St, Richmond VIC	68,000	68,000	5.50%	5.50%	6.75%	6.75%	Directors	Jun 2019
2 Kendall St, Williams Landing VIC	66,250	64,300	5.88%	5.88%	7.00%	7.00%	Directors	Dec 2018
SA								
1 Richmond Rd, Keswick SA	36,750	36,100	7.25%	7.50%	7.50%	7.75%	Directors	Jun 2018
131-139 Grenfell St, Adelaide SA	17,250	17,000	7.75%	7.75%	8.00%	8.00%	Directors	Jun 2019

Trust's assets and liabilities

C1 Investment properties (continued)

Property	Fair value		Capitalisation rate		Discount rate		31 Dec 19 Valuer	Last independent valuation date
	31 Dec 19 \$'000	30 Jun 19 \$'000	31 Dec 19 %	30 Jun 19 %	31 Dec 19 %	30 Jun 19 %		
WA								
235 William St, Northbridge WA	179,200	-	6.50%	-%	7.00%	-%	JLL	Dec 2019
144 Stirling St, Perth WA	64,000	54,500	6.25%	7.50%	7.00%	7.75%	JLL	Jun 2019
46 Colin St, Perth WA [~]	67,877	35,250	7.25%	7.25%	7.50%	7.50%	Directors	Jun 2019
	2,095,977	1,321,475						

* The Trust owns 50% of 201 and 203 Pacific Highway, St Leonards NSW and 8 Central Avenue, Eveleigh NSW.

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

[^] The Trust holds a leasehold interest in 46 Colin Street, Perth WA, 203 Pacific Highway, St Leonards NSW, 2 Phillip Law St, NewActon ACT, 60 Marcus Clarke St, Canberra ACT and 54 Marcus Clarke St ACT.

[~] Upon adoption of AASB 16, the Trust recognised a right of use asset on the ground lease at 46 Colin St which has been included in the fair value of the property. Under the modified retrospective approach, the Trust has not restated prior period comparatives. The carrying value of the lease liability as at 31 December 2019 was \$32,751,000. Refer to Note A3 for further details.

The Trust's weighted average capitalisation rate for the period is 5.94% (30 Jun 19: 6.22%).

Trust's assets and liabilities

C1 Investment properties (continued)

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.

C2 Investment properties classified as held for sale

	31 December 2019 \$'000	30 June 2019 \$'000
483-517 Kingsford Smith Dr, Hamilton QLD	-	78,500
	<u>-</u>	<u>78,500</u>

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

Investment properties are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. These investment properties are carried at fair value. The valuation techniques to determine the fair value of investment properties held for sale are same as the valuation techniques of investment properties described in Note C1.

Where sale completion is delayed by events outside the control of the Trust, and the sale is not completed within one year from the date of classification, the Trust may still classify the asset as held for sale. In this circumstance, there must be sufficient evidence the Trust is committed to sell the asset, and as such obtain a firm purchase commitment from the buyer along with a favourable resolution for the Trust, for the delay. A favourable resolution for the Trust would be the right to receive rental income for the period, up until the date any sale was completed.

Trust's assets and liabilities

C3 Borrowings

	31 December 2019 \$'000	30 June 2019 \$'000
Non-current		
Secured loan	733,504	498,504
Borrowing costs	(2,254)	(1,282)
	<u>731,250</u>	<u>497,222</u>
	31 December 2019 \$'000	30 June 2019 \$'000
Total facilities - bank loans	805,000	555,000
Facilities used at reporting date - bank loans	(733,504)	(498,504)
Facilities used at reporting date - bank guarantee	(1,496)	(1,496)
Facilities unused at reporting date - bank loans	<u>70,000</u>	<u>55,000</u>

As at 31 December 2019, the Trust had \$465 million (30 Jun 19: \$290 million) of interest rate swaps hedged against its drawn debt.

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

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

C4 Issued capital

	31 December 2019		30 June 2019	
	Units '000	\$'000	Units '000	\$'000
Opening balance	356,291	833,320	242,792	545,228
Units issued	156,948	457,503	113,499	275,845
Equity raising costs	-	(11,513)	-	(7,753)
Contribution from manager	-	-	-	20,000
Closing balance	<u>513,239</u>	<u>1,279,310</u>	<u>356,291</u>	<u>833,320</u>

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

D Other notes

D1 Fair value of financial instruments

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

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

Valuation techniques

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

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

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

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

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

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

D2 Related parties

Key management personnel

The Trust does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Trust which has been identified as key management personnel.

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

Key management personnel loan disclosures

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

Responsible entity fees and other transactions

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

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

Other notes

D2 Related parties (continued)

Responsible entity fees and other transactions (continued)

At reporting date an amount of \$1,038,779 (31 December 2018: \$684,394) owing to the Responsible Entity was included in trade and other payables. The payables are non-interest bearing with payment terms and conditions consistent with normal commercial practices.

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

	31 December 2019	31 December 2018
	\$	\$
Management fees	4,141,998	2,986,066
Property management fees	1,414,118	514,248
Facility management fees	813,572	307,229
Development fees	330,503	87,644
Custodian fees	319,397	124,515
Due diligence acquisition fees	150,000	200,000
Leasing fees	42,665	257,634
Project management fees	7,893	12,647
	<u>7,220,146</u>	<u>4,489,983</u>

Under the previous property management agreement, related party and external agent property management fees were billed and paid directly by the Trust. The revised agreement provides that Centuria Property Services Pty Limited ('CPS') as the manager, will pay all external agent property management fees on behalf of the Trust, and will recover these costs from the Trust as part of their billing process. As a result of this change, property management fees are higher compared to the prior period given it includes both external agent and related party property management fees.

Centuria Metropolitan REIT pay both external custodians and related party custodians for the custody services provided. Centuria Property Funds Limited ('CPFL') is the custodian for Centuria Urban REIT ('CUA') which is a subsidiary of Centuria Metropolitan REIT. The custodian fees above reflect the fees paid by the Trust to the related party custodian for the assets under their custody.

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

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

Other notes

D2 Related parties (continued)

Units in the Trust held by related parties

At 31 December 2019, the following related parties of the Responsible Entity hold units in the Trust:

	Closing units held	Closing interest held
31 December 2019		
Centuria Capital No. 2 Office Fund	72,633,773	14.15%
Over Fifty Guardian Friendly Society Limited	14,861,980	2.90%
Centuria Growth Bond Fund	8,408,906	1.64%
Centuria Capital No. 2 Fund	3,396,219	0.66%
Centuria Property Funds No. 2 Limited	2,263,375	0.44%
Centuria Balanced Bond Fund	975,493	0.19%
Roger Dobson	156,828	0.03%
Nicholas Collishaw	153,217	0.03%
Peter Done	141,894	0.03%
John McBain	75,260	0.01%
Darren Collins	34,500	0.01%
Matthew Hardy	32,316	0.01%
Jason Huljich	3,896	-%
	103,137,657	20.10%

30 June 2019

Centuria Capital No. 2 Office Fund	58,921,884	16.54%
Over Fifty Guardian Friendly Society Limited	14,861,980	4.17%
Centuria Growth Bond Fund	8,408,906	2.36%
Centuria Capital No. 2 Fund	3,396,219	0.95%
Centuria Property Funds No. 2 Limited	2,263,375	0.64%
Centuria Balanced Bond Fund	975,493	0.27%
Roger Dobson	123,480	0.03%
Nicholas Collishaw	153,217	0.04%
Peter Done	128,994	0.04%
John McBain	75,057	0.02%
Darren Collins	30,000	0.01%
Matthew Hardy	29,378	0.01%
Jason Huljich	3,542	-%
	89,371,525	25.08%

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

Other transactions within the Trust

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

D3 Events subsequent to reporting date

No other matters or circumstances have arisen since the end of the period which have significantly affected or may significantly affect the operations of the Trust, the results of those operations, or the state of affairs of the Trust in future financial years.

Directors' declaration

For the half year ended 31 December 2019

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 A1 to the financial statements; and
- (c) in the directors' opinion, the attached financial statements and notes A1 to D3 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 31 December 2019 and of its performance for the half year ended on that date.

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



Matthew Hardy
Director



Darren Collins
Director

Sydney
5 February 2020



Independent Auditor's Review Report

To the unitholders of Centuria Metropolitan REIT

Conclusion

We have reviewed the accompanying **Interim Financial Report** of Centuria Metropolitan REIT (the group).

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Centuria Metropolitan REIT is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Interim Financial Report** comprises:

- Consolidated interim statement of financial position as at 31 December 2019
- Consolidated interim statement of profit or loss and other comprehensive income, Consolidated interim statement of changes in equity and Consolidated interim statement of cash flows for the half-year ended on that date
- Notes A1 to D3 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The **Group** comprises Centuria Metropolitan REIT and the entities it controlled at the half year's end or from time to time during the half-year.

The **Interim Period** is the 6 months ended on 31 December 2019.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Centuria Property Funds Limited (the Responsible Entity) are responsible for:

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

Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Centuria Metropolitan REIT, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

KPMG

KPMG



Peter Zabaks

Partner

Sydney

5 February 2020