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

ARSN 124 364 718

Interim Financial Report
For the half-year ended 31 December 2018

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

Centuria Metropolitan REIT
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For the half year ended 31 December 2018

Directors' report

For the half year ended 31 December 2018

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 2018 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	Resigned	Directorship of other listed companies
Peter Done	5 Dec 2007	Continuing	Centuria Capital Limited
Matthew Hardy	4 Jul 2013	Continuing	
Darren Collins	10 Mar 2015	Continuing	
Nicholas Collishaw	12 Oct 2017	Continuing	Centuria Capital Limited
Roger Dobson	12 Oct 2017	Continuing	

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

Name	Appointed	Resigned
James Lonie	16/06/2017	05/07/2018
Anna Kovarik	05/07/2018	

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 continuing activity of the Trust in the course of the period 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. 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 from continuing operations for the half year ended 31 December 2018 was $14,655,000 (31 December 2017: $39,174,000 profit).

As at 31 December 2018, the Trust's Net Tangible Assets ('NTA') have decreased 2 cents per unit ('cpu'), or 0.8%, to $2.47 per unit since 30 June 2018.

Investment property valuations

The total value of the Trust's portfolio as at 31 December 2018 was $1,400.6 million representing an increase of 3.1% from 30 June 2018 on a like for like basis, excluding sold property and new acquisitions.

Review of operations (continued)

Investment property valuations (continued)

The weighted average capitalisation rate for the portfolio, on a like for like basis, has firmed 7 basis points to 6.69% at 31 December 2018 (30 June 2018: 6.76%). Following the acquisitions, the weighted average capitalisation rate for the portfolio was 6.32%.

Leasing and occupancy

The Trust secured 14,564 sqm of leases across 16 transactions for the half year ended 31 December 2018. This represented 6.7% of the portfolio's net lettable area.

At 31 December 2018 the Trust's portfolio was 98.8% occupied with a WALE of 4.3 years (excluding 13 Ferndell Street, Granville NSW which is held for sale). As at 31 December 2018, FY19 lease expiries represent 4.7% of portfolio income.

Capital management

As at 31 December 2018, the Trust had drawn borrowings of $515.3 million with a weighted average expiry of 2.9 years. The drawn debt was 70% hedged helping provide security over the interest rate exposure of the Trust.

The Trust's gearing at 31 December 2018 was 35.5%, and has decreased further upon the settlement of 13 Ferndell Street, Granville NSW in January 2019.

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' metropolitan real estate assets delivering stable and secure income streams.

Distributions

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

	31 December 2018		31 December 2017	
	Cents per unit	**$'000**	**Cents per unit**	**$'000**
September quarter	4.525	**11,000**	4.525	9,807
December quarter	4.358	**15,527**	4.525	10,961
Total	8.883	**26,527**	9.050	20,768

Key dates in connection with the December quarter distribution are:

Event	**Date**
Ex-distribution date	28 Dec 2018
Record date	31 Dec 2018
Distribution payment date	31 Jan 2019

The Funds From Operations (FFO) for the half year ended 31 December 2018 were $26.5 million. This was a 28.4% increase to the prior half year.

For the half-year ended 31 December 2018, a distribution of 8.883 cpu was declared, compared to 9.394 cents of FFO per weighted average unit, which represents a payout ratio of 95%.

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 2018 $'000	31 December 2017 $'000
Net profit for the year	**14,655**	39,174
Adjustments:		
Net loss/(gain) on fair value of investment properties	**8,406**	(18,600)
Loss/(gain) on fair value of derivative financial instruments	**2,561**	653
Straight-lining of rental income and amortisation of leasing commissions and tenant incentives	**570**	(787)
Business combination transaction costs	**319**	212
Funds From Operations	**26,511**	20,652

Distribution reinvestment plan

The Trust did not activate the Distribution Reinvestment Plan ('DRP') during the half-year ended 31 December 2018.

Related party transactions

On 21 December 2018, the Trust sold 149 Kerry Road, Archerfield QLD to Centuria Industrial REIT in an arms length transaction for $30,550,000 after an on market campaign.

During the period, the manager of the Trust contributed $20 million towards the acquisition of the Hines portfolio, consisting of 825 Ann Street, Fortitude Valley QLD, 100 Brookes Street, Fortitude Valley QLD, 465 Victoria Avenue, Chatswood NSW, and 818 Bourke Street, Docklands VIC. The contribution has been recognised as an equity injection by the manager in the half-year financial statements. There were no units issued in relation to this.

Events subsequent to balance date

13 Ferndell Street, Granville NSW was exchanged on 31 December 2018 for $24,220,000 and subsequently settled on 31 January 2018.

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.

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 2018.

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.

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

Peter Done
Director

Matthew Hardy
Director

Sydney
6 February 2019

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 2018 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

Nigel Virgo

Partner

Sydney

6 February 2019

Centuria Metropolitan REIT
Interim Financial Report

For the half year ended 31 December 2018

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Consolidated interim statement of profit or loss and other comprehensive income

For the half year ended 31 December 2018

	Note	31 December 2018 $'000	31 December 2017 $'000
Revenue			
Rent and recoverable outgoings	B2	**46,844**	36,162
Total revenue from continuing operations		**46,844**	36,162
Other income			
Interest income		**253**	96
Net gain on fair value of investment properties		**-**	18,600
Total other income		**253**	18,696
Total revenue from continuing operations and other income		**47,097**	54,858
Expenses			
Rates, taxes and other property outgoings		**11,274**	8,132
Net loss on fair value of investment properties		**8,406**	-
Finance costs	B3	**6,354**	4,019
Management fees	D2	**2,986**	1,959
Loss on fair value of derivative financial instruments		**2,561**	653
Other expenses		**542**	709
Transaction costs		**319**	212
Profit from continuing operations for the period		**14,655**	39,174
Net profit for the period		**14,655**	39,174
Other comprehensive income			
Total comprehensive income for the period		**14,655**	39,174
Basic and diluted earnings per unit			
Units on issue (cents per unit)		**5.19**	18.41

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 2018

	Note	31 December 2018 $'000	30 June 2018 $'000
Assets			
Current assets			
Cash and cash equivalents		**19,192**	18,978
Trade and other receivables		**3,902**	1,325
Investment properties held for sale	C2	**24,220**	36,000
Other assets		**2,848**	940
Total current assets		**50,162**	57,243
Non-current assets			
Investment properties	C1	**1,376,350**	836,300
Intangibles		**6,356**	6,356
Other non-current assets		**-**	2,912
Total non-current assets		**1,382,706**	845,568
Total assets		**1,432,868**	902,811
Liabilities			
Current liabilities			
Trade and other payables		**30,302**	25,950
Total current liabilities		**30,302**	25,950
Non-current liabilities			
Borrowings	C3	**512,875**	265,961
Derivative financial instruments	D1	**2,989**	428
Total non-current liabilities		**515,864**	266,389
Total liabilities		**546,166**	292,339
Net assets		**886,702**	610,472
Equity			
Issued capital	C4	**833,330**	545,228
Retained earnings		**53,372**	65,244
Total equity		**886,702**	610,472

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 2018

	Note	Issued capital $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2017		397,637	22,902	420,539
Net profit for the year		-	39,174	39,174
Other comprehensive income		-	-	-
Total comprehensive income for the period		**-**	**39,174**	**39,174**
Units issued		150,450	-	150,450
Redemptions		957	-	957
Equity raising costs		(4,949)	-	(4,949)
Distributions provided for or paid		-	(20,768)	(20,768)
Balance at 31 December 2017		**544,095**	**41,308**	**585,403**
Balance at 1 July 2018		545,228	65,244	610,472
Net profit for the year		-	14,655	14,655
Total comprehensive income for the period		**-**	**14,655**	**14,655**
Units issued	C4	275,845	-	275,845
Equity raising costs	C4	(7,743)	-	(7,743)
Contribution from manager	C4	20,000	-	20,000
Distributions provided for or paid	B1	-	(26,527)	(26,527)
Balance at 31 December 2018		**833,330**	**53,372**	**886,702**

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 2018

	Note	31 December 2018 $'000	31 December 2017 $'000
Cash flows from operating activities			
Receipts from customers		**48,342**	35,410
Payments to suppliers		**(19,058)**	(13,754)
Interest received		**253**	96
Interest paid		**(5,021)**	(6,431)
Net cash generated by operating activities		**24,516**	15,321
Cash flows from investing activities			
Proceeds from sale of investment properties		**69,019**	10,009
Payments for investment properties		**(606,010)**	(223,959)
Net cash used in investing activities		**(536,991)**	(213,950)
Cash flows from financing activities			
Distribution paid		**(21,986)**	(16,581)
Proceeds from borrowings		**275,751**	143,027
Repayment of borrowings		**(28,000)**	(35,000)
Payments for borrowing costs		**(1,178)**	(232)
Proceeds from issue of units		**275,845**	150,450
Equity issue costs		**(7,743)**	(4,949)
Contribution from manager		**20,000**	-
Net cash generated by financing activities		**512,689**	236,715
Net increase in cash and cash equivalents		**214**	38,086
Cash and cash equivalents at beginning of financial period		**18,978**	8,187
Cash and cash equivalents at end of period		**19,192**	46,273

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 2018

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 2018.

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 6 February 2019.

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.

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:
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

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 corresponding interim period with the exception of the adoption of AASB 9 *Financial Instruments: Recognition and Measurement* and AASB 15 *Revenue from Contracts with Customers*.

A2 Significant accounting policies (continued)

New and amended accounting standards and interpretations commencing 1 January 2018

The Trust has adopted AASB 9 and AASB 15 at 1 July 2018. AASB 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities. AASB 15 contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time.

There have been no significant changes to the Trust's financial performance and position as a result of the adoption of the new and amended accounting standards and interpretations effective for annual reporting periods beginning on or after 1 January 2018. There has been no financial impact as a result of adopting AASB 9 and AASB 15 and new disclosures have been included where required.

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 9 Financial Instruments

AASB 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces AASB 139 *Financial Instruments: Recognition and Measurement*.

(a) Classification - Financial assets and financial liabilities
AASB 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). The standard eliminates the existing AASB 139 categories of held to maturity, loans and receivables and available for sale. Loans and receivables are classified and measured at amortised cost. The Trust holds these assets in order to collect contractual cash flows, and the contractual terms are solely payments of outstanding principal and interest on the principal outstanding. The Trust's available for sale financial assets are already measured at FVTPL.

The standard requires all financial liabilities to be subsequently classified at amortised cost, except in certain circumstances, of which none apply to the Trust. Accordingly, there is no change in the classification of the Trust's payables and borrowings on adoption of AASB 9.

(b) Impairment - Receivables
AASB 9 replaces the 'incurred loss' model in AASB 139 with a forward-looking 'expected credit loss' (ECL) model. The new impairment model is only relevant to the Trust's financial assets measured at amortised cost. The new accounting policy in Note A4 outlines the probability-weighted model used to determine ECL amounts.

Based on its assessment, the Trust does not believe that the new impairment model will have a material impact on its equity upon transition as at 1 July 2018.

(c) Hedge accounting
The new hedge accounting rules generally allow for more hedge relationships to be eligible for hedge accounting, as the standard is aligned to a principles-based approach. The Trust's risk management strategies and hedging documentation are aligned with the requirements of AASB 9 and accordingly there is no impact with the adoption of AASB 9 on the Trust's derivatives and hedge accounting.

(d) Transition
Changes in the accounting policies resulting from the adoption of AASB 9 have been applied retrospectively.

There is no impact on the financial position previously reported as at 30 June 2018 and 31 December 2017 as a result of the adoption of AASB 9 and its retrospective application.

A3 Changes in accounting policy (continued)

AASB 15 Revenue from customers

AASB 15 applies to all contracts with customers to deliver goods or services as part of the entity's ordinary course of business excluding insurance contracts, financial instruments and leases, which are addressed by other standards. It replaces existing revenue recognition guidance, including AASB 118 *Revenue* and AASB 111 *Construction Contracts* and contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based give-step analysis of transactions to determine whether, how much and when revenue is recognised. It applies to all contracts with customers except leases, financial instruments and insurance contracts.

(a) Classification and measurement of revenue
Revenue is recognised over time if:
• The customer simultaneously receives and consumes the benefits as the entity performs;
• The customer controls the asset as the entity creates or enhances it; or
• The seller's performance does not create an asset for which the seller has an alternative use and there is a right to payment for the performance to date.
Where the above criteria are not met, revenue is recognised at a point in time.

In the notes to the financial statements, the Trust has disaggregated income for the current and comparative financial period to disclose recoveries revenue. Based on the Trust's assessment of when performance obligations are satisfied, there is no change in the timing of revenue recognition when comparing to the previous accounting policy, other than the change in terminology. Under AASB 15, recoveries revenue will be recognised over time.

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

(b) Transition
Changes in the accounting policies resulting from the adoption of AASB 15 have been applied retrospectively. There has been no impact on the Trust's previously reported financial position as a result of the adoption of AASB 15.

A4 New accounting policies

The Trust has introduced a new accounting policy as part of the adoption of changes to the accounting standard AASB 9, which is effective for the reporting period beginning 1 July 2018

Recoverability of loans and receivables

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

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

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

The Trust analyses the age of outstanding receivable balances and applies historical default percentages adjusted for other current observable data as a means to estimate lifetime ECL, including forecasts of interest rates and inflation, as well as the financial stress of counterparties and their ability to operate as a going concern.

Debts that are known to be uncollectable are written off when identified.

A5 Segment reporting

The Trust operates in one segment, being investments in Australian 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.

B Trust performance

B1 Distributions

	31 December 2018 Cents per unit	31 December 2018 $'000	31 December 2017 Cents per unit	31 December 2017 $'000
September quarter	4.525	**11,000**	4.525	9,807
December quarter	4.358	**15,527**	4.525	10,961
Total	8.883	**26,527**	9.050	20,768

Key dates in connection with the December quarter distribution are:

Event	**Date**
Ex-distribution date	28 Dec 2018
Record date	31 Dec 2018
Distribution payment date	31 Jan 2019

B2 Rental income

	31 December 2018 $'000	31 December 2017 $'000
Rental income	**37,191**	27,926
Straight-lining of lease revenue	**2,087**	2,659
Recoverable outgoings	**7,566**	5,577
	46,844	36,162

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 2018 $'000	31 December 2017 $'000
Interest expense	**6,012**	3,764
Borrowing costs	**342**	255
	6,354	4,019

C Trust's assets and liabilities

C1 Investment properties

	31 December 2018 $'000	30 June 2018 $'000
Opening balance	**836,300**	609,950
Acquisitions of investment properties	**562,492**	222,485
Stamp duty	**32,729**	-
Capital improvements and associated costs	**4,352**	9,279
	1,435,873	841,714
(Loss)/Gain on fair value	**(8,406)**	41,957
Change in deferred rent and lease incentives	**2,795**	(1,323)
Disposed deferred rent and lease incentives	**464**	(29)
Change in capitalised leasing fees	**394**	281
Disposals at fair value	**(30,550)**	(10,300)
Closing balance	**1,400,570**	872,300
Less: Investment properties held for sale	**(24,220)**	(36,000)
Closing balance^	**1,376,350**	836,300

^ The carrying amount of investment properties includes components related to deferred rent, capitalised lease incentives and leasing fees amounting to $13.1 million (30 Jun 2018: $9.5 million).

C1 Investment properties (continued)

Property	Fair value 31 Dec 2018 $'000	Fair value 30 Jun 2018 $'000	Capitalisation rate 31 Dec 2018 %	Capitalisation rate 30 Jun 2018 %	Discount rate 31 Dec 2018 %	Discount rate 30 Jun 2018 %	31 Dec 2018 Valuer	Last independent valuation date
NSW								
201 Pacific Hwy, St Leonards NSW*	**95,000**	85,000	**6.00%**	6.50%	**6.88%**	7.50%	Colliers	Dec 2018
9 Help St, Chatswood NSW	**76,500**	76,000	**6.00%**	6.00%	**7.50%**	7.50%	Directors	Jun 2018
203 Pacific Hwy, St Leonards NSW*^	**62,250**	57,000	**6.25%**	6.50%	**7.25%**	7.75%	M3	Dec 2018
465 Victoria Ave, Chatswood NSW**	**41,050**	-	**5.75%**	-%	**7.00%**	-%	C&W	Dec 2018
77 Market St, Wollongong NSW	**36,000**	34,600	**7.25%**	7.00%	**8.00%**	8.00%	CBRE	Dec 2018
13 Ferndell St, Granville NSW	**-**	20,700	**-%**	6.75%	**-%**	8.00%	Directors	Nov 2017
ACT								
60 Marcus Clarke St, Canberra ACT	**64,500**	63,500	**7.00%**	7.00%	**7.75%**	7.75%	Directors	Jun 2018
54 Marcus Clarke St, Canberra ACT	**21,250**	20,900	**7.50%**	7.50%	**7.75%**	7.75%	Directors	Jun 2018
QLD								
825 Ann St, Fortitude Valley QLD	**163,000**	-	**6.25%**	-%	**7.00%**	-%	Savills	Dec 2018
438-517 Kingsford Smith Dr, Hamilton QLD	**78,100**	78,000	**6.25%**	6.25%	**7.50%**	7.50%	Directors	Jun 2018
154 Melbourne St, South Brisbane QLD	**78,000**	78,500	**6.75%**	6.75%	**7.25%**	7.25%	Directors	Jun 2018
100 Brookes St, Fortitude Valley QLD	**77,550**	-	**6.25%**	-%	**7.25%**	-%	Savills	Dec 2018
35 Robina Town Ctr Dr, Robina QLD	**55,300**	55,250	**7.13%**	7.13%	**7.00%**	7.00%	Directors	Jun 2018
555 Coronation Dr, Brisbane QLD	**28,800**	32,500	**7.75%**	7.50%	**8.00%**	7.75%	Savills	Dec 2018
149 Kerry Rd, Archerfield QLD	**-**	28,100	**-%**	6.25%	**-%**	7.25%	Directors	Nov 2017
VIC								
818 Bourke St, Docklands VIC	**223,100**	-	**5.25%**	-%	**6.50%**	-%	Urbis	Dec 2018
567 Swan St, Richmond VIC	**66,000**	63,500	**5.75%**	5.75%	**6.75%**	6.75%	Directors	Jun 2018
2 Kendall St, Williams Landing VIC	**64,200**	-	**5.88%**	-%	**7.00%**	-%	Savills	Dec 2018
SA								
1 Richmond Rd, Keswick SA	**36,000**	33,000	**7.50%**	7.50%	**7.75%**	7.75%	Directors	Jun 2018
131-139 Grenfell St, Adelaide SA	**18,750**	19,250	**8.00%**	8.00%	**8.25%**	8.25%	Directors	Jun 2018

C1 Investment properties (continued)

Property	Fair value 31 Dec 2018 $'000	Fair value 30 Jun 2018 $'000	Capitalisation rate 31 Dec 2018 %	Capitalisation rate 30 Jun 2018 %	Discount rate 31 Dec 2018 %	Discount rate 30 Jun 2018 %	31 Dec 2018 Valuer	Last independent valuation date
WA								
144 Stirling St, Perth WA	**56,000**	56,000	**7.50%**	7.50%	**7.00%**	7.00%	Directors	Jun 2018
46 Colin St, Perth WA^	**35,000**	34,500	**7.50%**	7.50%	**7.00%**	7.00%	Directors	Jun 2018
	1,376,350	836,300						

* The Trust owns 50% of 201 and 203 Pacific Highway, St Leonards NSW.
** The Trust owns 25% of 425 Victoria Avenue, Chatswood NSW.
^ The Trust holds a leasehold interest in 46 Colin Street, Perth WA and 203 Pacific Highway, St Leonards NSW.

During the period, the acquisition of 2 Kendall Street, Williams Landing VIC was settled.

In addition, the Trust disposed of 149 Kerry Road, Archerfield QLD for a gross sale price of $30,550,000.

The Trust's weighted average capitalisation rate for the period is 6.32% (30 Jun 2018: 6.68%).

C2 Investment properties classified as held for sale

	31 December 2018 $'000	30 June 2018 $'000
13 Ferndell St, Granville NSW	**24,220**	-
3 Carlingford Rd, Epping NSW	**-**	36,000
	24,220	36,000

On 31 December 2018, the Trust exchanged unconditional contracts for the sale of 13 Ferndell Street, Granville NSW. The property settled on 31 January 2019.

The fair values listed above do not include estimated selling costs which are expected to be incurred upon disposal.

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.

C3 Borrowings

	31 December 2018 $'000	30 June 2018 $'000
Non-current		
Secured loan	**515,304**	267,553
Borrowing costs	**(2,429)**	(1,592)
	512,875	265,961

As at 31 December 2018, the Trust had $360 million (30 Jun 2018: $160 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 2018		30 June 2018	
	Units '000	$'000	Units '000	$'000
Opening balance	**242,792**	**545,228**	178,241	397,637
Units issued	**113,499**	**275,845**	63,594	150,450
Distributions reinvested	**-**	**-**	957	2,272
Equity raising costs	**-**	**(7,743)**	-	(5,131)
Contribution from manager	**-**	**20,000**	-	-
Closing balance	**356,291**	**833,330**	242,792	545,228

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

	Measurement	Fair value hierarchy	Carrying amount $'000	Fair value $'000
31 December 2018				
Financial assets				
Cash and cash equivalents	**Amortised cost**	**Not applicable**	**19,192**	**19,192**
Trade and other receivables	**Amortised cost**	**Not applicable**	**3,902**	**3,902**
			23,094	**23,094**
Financial liabilities				
Trade and other payables	**Amortised cost**	**Not applicable**	**30,302**	**30,302**
Borrowings (excluding borrowing costs)	**Amortised cost**	**Not applicable**	**515,304**	**515,304**
Interest rate swaps	**Fair Value**	**Level 2**	**2,989**	**2,989**
			548,595	**548,595**
30 June 2018				
Financial assets				
Cash and cash equivalents	Amortised cost	Not applicable	18,978	18,978
Trade and other receivables	Amortised cost	Not applicable	1,325	1,325
			20,303	20,303
Financial liabilities				
Trade and other payables	Amortised cost	Not applicable	25,950	25,950
Borrowings (excluding borrowing costs)	Amortised cost	Not applicable	267,553	267,553
Interest rate swaps	Fair Value	Level 2	428	428
			293,931	293,931

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 report approximates their fair value.

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).

D1 Fair value of financial instruments (continued)

Valuation techniques (continued)

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.

Fair value hierarchy

The following table 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
31 December 2018				
Financial liabilities held at fair value				
Interest rate swaps	**2,989**	**-**	**2,989**	**-**
	2,989	**-**	**2,989**	**-**
30 June 2018				
Financial liabilities held at fair value				
Interest rate swaps	428	-	428	-
	428	-	428	-

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.

D2 Related parties

Key management personnel

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

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 0.55% of the gross value of assets held plus GST, in accordance with the Trust's constitution.

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.

D2 Related parties (continued)

Responsible entity fees and other transactions (continued)

At reporting date an amount of $684,394 (31 December 2017: $217,651) 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 2018 $	31 December 2017 $
Management fees	**2,986,066**	1,959,000
Custodian fees	**124,515**	64,000
Leasing fees	**257,634**	360,000
Property management fees	**821,477**	472,000
Project management fees	**12,647**	273,000
Due diligence acquisition fees	**200,000**	100,000
Development fees	**87,644**	-
	4,489,983	3,228,000

During the period, the manager of the Trust contributed $20 million towards the acquisition of the Hines portfolio, consisting of 825 Ann Street, Fortitude Valley QLD, 100 Brookes Street, Fortitude Valley QLD, 465 Victoria Avenue, Chatswood NSW, and 818 Bourke Street, Docklands VIC. The contribution has been recognised as an equity injection by the manager in Note C4.

On 21 December 2018, the Trust sold 149 Kerry Road, Archerfield QLD to Centuria Industrial REIT in an arms length transaction for $30,550,000.

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 units in the Trust. These transactions are on the same terms and conditions as those entered into by other Trust investors.

Units in the Trust held by related parties

At 31 December 2018, the following related parties of the Responsible Entity hold units in the Trust:

	Closing units held	Closing interest held
31 December 2018		
Centuria Capital No. 2 Office Fund	**58,921,884**	**16.54%**
Over Fifty Guardian Friendly Society Limited	**14,861,981**	**4.17%**
Centuria Growth Bond Fund	**8,408,906**	**2.36%**
Centuria Capital No. 2 Fund	**3,396,219**	**0.95%**
Centuria Property Funds No. 2 Limited	**2,263,375**	**0.64%**
Centuria Balanced Bond Fund	**975,493**	**0.27%**
Nicholas Collishaw	**153,217**	**0.04%**
Peter Done	**128,994**	**0.04%**
Roger Dobson	**123,480**	**0.03%**
John McBain	**73,027**	**0.02%**
Darren Collins	**30,000**	**0.01%**
Matthew Hardy	**29,378**	**0.01%**
Jason Huljich	**3,542**	**-%**
	89,369,496	**25.08%**

D2 Related parties (continued)

Units in the Trust held by related parties (continued)

31 December 2017		
Centuria Capital No. 2 Office Fund	22,261,685	9.19%
Over Fifty Guardian Friendly Society Limited	14,861,981	6.14%
Centuria Growth Bond Fund	6,306,680	2.60%
Centuria Capital No. 2 Fund	4,244,695	1.75%
Centuria Property Funds No. 2 Limited	1,233,524	0.51%
Centuria Balanced Bond Fund	731,620	0.30%
Nicholas Collishaw	153,217	0.06%
Peter Done	96,745	0.04%
Roger Dobson	92,610	0.04%
John McBain	63,158	0.03%
Darren Collins	25,573	0.01%
Matthew Hardy	22,033	0.01%
Jason Huljich	3,542	-%
	50,097,063	20.68%

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

On 31 January 2019, the Trust settled the sale of the property at 13 Ferndell St, Granville NSW.

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 2018

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 2018 and of its performance for the half year ended on that date.

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

Peter Done
Director

Matthew Hardy
Director

Sydney
6 February 2019

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 the Group 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 2018 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 2018
- 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 2018.

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 2018 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

Nigel Virgo

Partner

Sydney

6 February 2019