Centuria

Centuria Office REIT
and its subsidiaries

ARSN 124 364 718

Interim Financial Report
For the half-year ended 31 December 2021

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

Centuria Office REIT
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For the half-year ended 31 December 2021

Directors' report

For the half-year ended 31 December 2021

The directors of Centuria Property Funds Limited, the Responsible Entity of Centuria Office REIT ('COF') 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 2021 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		Centuria Capital Limited
Matthew Hardy	4 Jul 2013		
Darren Collins	10 Mar 2015		
Nicole Green	2 Jul 2021	27 Jan 2022	
Nicholas Collishaw	1 Oct 2017	30 Aug 2021	

The company secretary of Centuria Property Funds Limited during or since the end of the financial year is:

Name	Appointed
Anna Kovarik	5 Jul 2018

Nicholas Collishaw resigned from the Board on 30 August 2021. Nicole Green was appointed to the Board on 2 July 2021 and resigned on 27 January 2022.

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 2021 was $63,630,000 (31 December 2020: $21,542,000 profit).

The Trust's Net Tangible Assets ('NTA') have increased 2 cents per unit or 0.8% to $2.50 as at 31 December 2021 (30 June 2021: $2.48 per unit).

Investment property valuations

The total value of the Trust's portfolio as at 31 December 2021 was $2,286 million (30 June 2021: $2,046 million).

The weighted average capitalisation rate for the portfolio is 5.65% 31 December 2021 (30 June 2021: 5.81%).

Review of operations (continued)

Investment property valuations (continued)

The COVID-19 pandemic has given rise to uncertainty in the market which may have an impact on key drivers of property valuations. For the half-year ended 31 December 2021, the Trust has engaged external valuers to assess the valuations of 11 of its properties across the portfolio representing 48% of the portfolio value.

Leasing and occupancy

The Trust secured 18,670 sqm of leases across 23 transactions for the half-year ended 31 December 2021. This represented 6.2% of the portfolio’s net lettable area.

At 31 December 2021 the Trust’s portfolio was 94.3% occupied with a WALE of 4.3 years. As at 31 December 2021, FY22 lease expiries represent 4.0% of portfolio income.

Capital management

As at 31 December 2021, the Trust had a multi-bank debt facility totalling $912.5 million (30 June 2021: $812.5 million) with a weighted average expiry of 3.9 years (30 June 2021: 4.5 years). Drawn borrowings totalled $812.0 million (30 June 2021: $704.3 million), with an all in cost of funds for the period of 2.3**%** (FY21: 2.4%), and 63% of the drawn debt hedged (30 June 2021: 80%). The Trust's gearing at 31 December 2021 was 31.2% (30 June 2021: 33.5%). The Trust's proforma gearing post the settlement of 203 Pacific Highway will increase to 33.1%.

Outlook

The Responsible Entity’s strategy and ongoing focus remains unchanged. The Responsible Entity 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 FFO guidance for the year ending 30 June 2022 is expected to be 18.3 cpu.

The 2022 financial year distribution guidance is 16.6 cpu which will be paid in equal quarterly instalments.

Distributions

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

	31 December 2021		**31 December 2020**	
	Cents per unit	**$'000**	**Cents per unit**	**$'000**
September quarter	4.150	**24,689**	4.125	21,224
December quarter	4.150	**24,719**	4.125	21,224
Total	8.300	**49,408**	8.250	42,448

Key dates in connection with the December quarter distribution are:

Event	**Date**
Ex-distribution date	30 Dec 2021
Record date	31 Dec 2021
Distribution payment date	28 Jan 2022

The Funds From Operations (FFO) for the half-year ended 31 December 2021 was $54.7 million. This was a 5.2% decrease to the prior half-year.

For the half-year ended 31 December 2021, total distributions of 8.3 cpu was declared which compared to 9.8 cents of FFO per weighted average unit, represents a payout ratio of 85%.

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 2021 $'000	31 December 2020 $'000
Net profit for the period	**63,630**	21,542
Adjustments:		
(Gain)/loss on fair value of investment properties	**(11,677)**	30,192
(Gain)/loss on fair value of derivatives	**(5,427)**	37
Rent free and abatement	**6,251**	4,746
Straight-lining of rental income	**(2,302)**	(1,948)
Amortisation of incentives and leasing fees	**4,233**	3,149
Adjustments for AASB 16	**(36)**	(30)
Funds From Operations	**54,672**	57,688

Distribution reinvestment plan

The Trust has activated the Distribution Reinvestment Plan ('DRP') for the September and December quarters, under which unitholders may elect to have all or part of their distribution entitlement reinvested by the issue of new units rather than distributions being paid in cash.

Events subsequent to balance date

Since balance date, the COVID-19 pandemic has continued to evolve and may have an impact on specific areas of judgement required for preparing these financial statements.

The Trust has continued to re-evaluate the significant inputs used to drive property valuations and recoverability of tenant arrears on a regular basis as detailed in Note C1.

Based on these evaluations, the Trust has determined there are no material events which would give rise to an adjustment.

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 2021.

Rounding of amounts

The Trust is an entity of the kind referred to in ASIC Corporations (Rounding in Financials/Directors’ Reports) Instrument 2016/191, related to the 'rounding off' of amounts in the Directors' report and interim financial report.

Amounts in the Directors' report and interim financial report have been rounded off, in accordance with the instrument, to the nearest thousand dollars, unless otherwise indicated.

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

Matthew Hardy
Director

Darren Collins
Director

Sydney
3 February 2022

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 Office REIT

I declare that, to the best of my knowledge and belief, in relation to the review of Centuria Office REIT for the half-year ended 31 December 2021 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

3 February 2022

Centuria Office REIT
Interim Financial Report

For the half-year ended 31 December 2021

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Consolidated interim statement of profit or loss and other comprehensive income

For the half-year ended 31 December 2021

	Note	31 December 2021 $'000	31 December 2020 $'000
Revenue			
Rent and recoverable outgoings	B2	**86,828**	92,008
Total revenue		**86,828**	92,008
Other income			
Net gain on fair value of investment properties		**11,677**	-
Gain on fair value of derivative financial instruments		**5,427**	-
Interest income		**1**	6
Total other income		**17,105**	6
Total revenue and other income		**103,933**	92,014
Expenses			
Loss/(gain) on fair value of investment properties		**-**	30,192
Rates, taxes and other property outgoings		**22,315**	20,665
Finance costs	B3	**9,433**	9,237
Management fees	D2	**6,092**	5,860
Other expenses		**1,123**	2,972
Rental waivers and ECL expense		**1,340**	1,509
Loss on fair value of derivative financial instruments		**-**	37
Total expenses		**40,303**	70,472
Net profit for the period		**63,630**	21,542
Other comprehensive income			
Other comprehensive income for the period		**-**	-
Total comprehensive income for the period		**63,630**	21,542
Basic and diluted earnings per unit			
Units on issue (cents per unit)		**10.68**	4.19

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 2021

	Note	31 December 2021 $'000	30 June 2021 $'000
Assets			
Current assets			
Cash and cash equivalents		**96,648**	15,644
Other assets		**3,418**	1,625
Trade and other receivables		**9,198**	5,369
Total current assets		**109,264**	22,638
Non-current assets			
Investment properties	C1	**2,285,719**	2,046,221
Other non-current assets		**3,736**	-
Total non-current assets		**2,289,455**	2,046,221
Total assets		**2,398,719**	2,068,859
Liabilities			
Current liabilities			
Trade and other payables		**44,071**	31,943
Distributions payable		**24,719**	21,224
Total current liabilities		**68,790**	53,167
Non-current liabilities			
Borrowings	C2	**808,405**	700,800
Lease liability		**32,624**	32,660
Derivative financial instruments	D1	**1,813**	7,240
Total non-current liabilities		**842,842**	740,700
Total liabilities		**911,632**	793,867
Net assets		**1,487,087**	1,274,992
Equity			
Issued capital	C3	**1,481,011**	1,283,138
Retained earnings/(Accumulated losses)		**6,076**	(8,146)
Total equity		**1,487,087**	1,274,992

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 2021

	Note	Issued capital $'000	Retained earnings/ (Accumulated losses) $'000	Total equity $'000
Balance at 1 July 2020		1,283,138	(186)	1,282,952
Net profit for the period		-	21,542	21,542
Total comprehensive income for the period		**-**	**21,542**	**21,542**
Distributions provided for or paid	B1	-	(42,448)	(42,448)
Balance at 31 December 2020		**1,283,138**	**(21,092)**	**1,262,046**
Balance at 1 July 2021		1,283,138	(8,146)	1,274,992
Net profit for the period		-	63,630	63,630
Total comprehensive income for the period		**-**	**63,630**	**63,630**
Units issued	C3	200,995	-	200,995
Dividend reinvestment plan ('DRP')	C3	1,736	-	1,736
Equity raising costs	C3	(4,858)	-	(4,858)
Distributions provided for or paid	B1	-	(49,408)	(49,408)
Balance at 31 December 2021		**1,481,011**	**6,076**	**1,487,087**

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 2021

	Note	31 December 2021 $'000	31 December 2020 $'000
Cash flows from operating activities			
Receipts from customers		**92,942**	105,446
Payments to suppliers		**(30,299)**	(36,409)
Interest received		**1**	6
Interest paid		**(7,886)**	(7,824)
Net cash generated by operating activities		**54,758**	61,219
Cash flows from investing activities			
Payments for investment properties		**(232,955)**	(13,590)
Net cash used in investing activities		**(232,955)**	(13,590)
Cash flows from financing activities			
Distribution paid		**(45,913)**	(44,120)
Proceeds from borrowings		**107,675**	-
Payments for borrowing costs		**(434)**	(44)
Proceeds from issue of units		**202,731**	-
Equity raising costs		**(4,858)**	-
Net cash generated by/(used in) financing activities		**259,201**	(44,164)
Net increase in cash and cash equivalents		**81,004**	3,465
Cash and cash equivalents at beginning of financial period		**15,644**	28,809
Cash and cash equivalents at end of period		**96,648**	32,274

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 2021

A About the report

A1 General information

Centuria Office 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 has 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 2021.

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 3 February 2022.

Basis of preparation

The interim financial report has been prepared on the basis of historical cost, except for investment property and financial instruments which have been measured at fair value at the end of the reporting period. Cost is based on the fair value of the consideration given in exchange of assets. All amounts are presented in Australian dollars, which is the Trust's functional currency, unless otherwise noted.

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 COVID-19 pandemic has created uncertainty on the global financial markets and has affected the ability of impacted tenants to meet their rental obligations. The Trust has completed an extensive assessment on trade receivables and the directors remain confident that the Trust will be able to continue as a going concern.

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, related to the 'rounding off' of amounts in the Directors' report and interim financial report. Amounts in the Directors' report and the interim financial report have been 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.

A3 Segment reporting

The Trust operates in one segment, being investment 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 2021 Cents per unit	31 December 2021 $'000	31 December 2020 Cents per unit	31 December 2020 $'000
September quarter	4.150	**24,689**	4.125	21,224
December quarter	4.150	**24,719**	4.125	21,224
Total	8.300	**49,408**	8.250	42,448

Key dates in connection with the December quarter distribution are:

Event	**Date**
Ex-distribution date	30 Dec 2021
Record date	31 Dec 2021
Distribution payment date	28 Jan 2022

B2 Rental income

	31 December 2021 $'000	31 December 2020 $'000
Rental income	**72,492**	77,285
Recoverable outgoings	**12,034**	12,775
Straight-lining of lease revenue	**2,302**	1,948
	86,828	92,008

Rental income for the comparative period included a lease surrender payment from Foxtel at 35 Robina Town Centre Drive, Robina QLD.

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 2021 $'000	31 December 2020 $'000
Interest expense	**9,069**	8,950
Borrowing costs	**364**	287
	9,433	9,237

C Trust's assets and liabilities

C1 Investment properties

	31 December 2021 $'000	30 June 2021 $'000
Opening balance	**2,046,221**	2,085,650
Purchase price of investment properties	**204,639**	-
Stamp duty and other transaction costs	**13,572**	-
Capital improvements and associated costs	**12,063**	15,357
	230,274	15,357
Net Gain/(loss) on fair value of investment properties	**11,677**	(15,137)
Change in capitalised leasing fees	**441**	3,065
Change in deferred rent and lease incentives	**(2,894)**	1,992
Disposals at fair value	**-**	(44,706)
	9,224	(54,786)
Closing balance	**2,285,719**	2,046,221

The carrying amount of investment properties includes components related to deferred rent, capitalised lease incentives and leasing fees amounting to $43,686,000 (30 Jun 21: $46,139,000) and a right of use asset of $31,769,000.

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.

C1 Investment properties (continued)

Property	Fair value		Capitalisation rate		Discount rate			
	31 Dec 21 $'000	30 Jun 21 $'000	31 Dec 21 %	30 Jun 21 %	31 Dec 21 %	30 Jun 21 %	31 Dec 21 Valuer	Last independent valuation date
NSW								
8 Central Ave, Eveleigh NSW*	**210,000**	200,000	**5.00%**	5.13%	**6.00%**	6.13%	CBRE	Dec 2021
201 Pacific Hwy, St Leonards NSW*	**107,500**	107,000	**5.50%**	5.63%	**6.38%**	6.38%	KF	Dec 2021
9 Help St, Chatswood NSW	**95,000**	92,500	**5.38%**	5.38%	**6.23%**	6.38%	Directors	Jun 2021
203 Pacific Hwy, St Leonards NSW*^	**68,000**	68,000	**5.75%**	5.75%	**6.25%**	6.63%	Directors	Jun 2021
77 Market St, Wollongong NSW	**37,000**	36,000	**6.50%**	6.75%	**6.75%**	7.75%	KF	Dec 2021
ACT								
2 Phillip Law St, Canberra ACT^	**252,000**	252,000	**5.00%**	5.00%	**5.75%**	5.75%	Directors	Jun 2021
60 Marcus Clarke St, Canberra ACT^	**62,000**	61,000	**6.50%**	6.75%	**6.75%**	7.00%	KF	Dec 2021
54 Marcus Clarke St, Canberra ACT^	**24,000**	22,800	**7.00%**	7.25%	**6.75%**	7.00%	Directors	Jun 2021
QLD								
825 Ann St, Fortitude Valley QLD	**158,500**	155,000	**5.75%**	6.00%	**5.88%**	6.75%	Colliers	Dec 2021
154 Melbourne St, South Brisbane QLD	**81,000**	80,500	**6.00%**	6.00%	**6.50%**	6.50%	Directors	Jun 2021
100 Brookes St, Fortitude Valley QLD	**85,000**	82,000	**5.88%**	6.00%	**6.25%**	6.50%	Directors	Jun 2021
438-517 Kingsford Smith Dr, Hamilton QLD	**79,500**	77,000	**6.00%**	6.25%	**6.50%**	7.00%	M3	Dec 2021
35 Robina Town Ctr Dr, Robina QLD	**44,500**	42,000	**7.00%**	7.50%	**7.25%**	7.75%	JLL	Dec 2021
555 Coronation Dr, Brisbane QLD	**45,500**	39,000	**6.00%**	6.75%	**6.50%**	7.25%	M3	Dec 2021
VIC								
818 Bourke St, Docklands VIC	**217,000**	220,000	**5.13%**	5.13%	**6.00%**	6.00%	CBRE	Dec 2021
576 Swan St, Richmond VIC	**70,000**	65,500	**5.25%**	5.50%	**6.00%**	6.50%	CBRE	Dec 2021
2 Kendall St, Williams Landing VIC	**71,000**	69,000	**5.75%**	5.75%	**6.75%**	6.75%	Directors	Jun 2021
101 Moray, South Melbourne VIC**	**198,400**	-	**5.00%**	-%	**5.88%**	-%	Directors	Oct 2021
SA								
1 Richmond Rd, Keswick SA	**40,300**	39,200	**7.00%**	7.00%	**7.50%**	7.75%	Directors	Jun 2021
131-139 Grenfell St, Adelaide SA	**19,000**	19,000	**7.00%**	7.00%	**6.75%**	6.50%	Directors	Jun 2021

C1 Investment properties (continued)

Property	Fair value 31 Dec 21 $'000	Fair value 30 Jun 21 $'000	Capitalisation rate 31 Dec 21 %	Capitalisation rate 30 Jun 21 %	Discount rate 31 Dec 21 %	Discount rate 30 Jun 21 %	31 Dec 21 Valuer	Last independent valuation date
WA								
235 William St, Northbridge WA	**180,000**	181,750	**6.50%**	6.50%	**6.75%**	6.75%	Directors	Jun 2021
144 Stirling St, Perth WA	**73,250**	70,000	**6.00%**	6.00%	**6.75%**	6.75%	C&W	Dec 2021
46 Colin St, Perth WA^~	**67,269**	66,971	**7.00%**	7.00%	**7.00%**	7.00%	Directors	Jun 2021
	2,285,719	2,046,221						

* The Trust owns 50% of 201 and 203 Pacific Highway, St Leonards NSW and 8 Central Avenue, Eveleigh NSW. During the year, the Trust paid a deposit to acquire the other 50% of 203 Pacific, St Leonards NSW which is expected to settle in the second half of FY22.
** During the year, The Trust acquired 101 Moray Street, South Melbourne VIC.
^ The Trust holds a leasehold interest in 46 Colin Street, Perth WA, 203 Pacific Highway, St Leonards NSW, 2 Phillip Law St, Canberra ACT, 60 Marcus Clarke St, Canberra ACT and 54 Marcus Clarke St ACT.
~ A right of use asset on the ground lease at 46 Colin St is included in the fair value of the property. The carrying value of the lease liability as at 31 December 2021 is $32.62 million.

The Trust's weighted average capitalisation rate for the period is 5.65% (30 Jun 21: 5.81%).

C1 Investment properties (continued)

Valuation techniques and significant unobservable inputs

The fair values 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.

Given the evolving economic conditions as a result of the COVID-19 pandemic, there is continuing uncertainty surrounding the potential impact on future cashflows and valuations. Rent relief allowances provided in accordance with the Code were taken into consideration when determining the cashflows for the property, however actual future cashflows may differ from this. The Responsible Entity has also considered additional factors such as changes in downtime, incentive allowances, rental growth and rental relief in line with the Code when determining property valuations. The Trust has externally valued 11 properties in its property portfolio at 31 December 2021.

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, as 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.

A further sensitivity analysis was undertaken by the Trust to assess the fair value of investment properties given the uncertain impact of the COVID-19 pandemic on property values. The table below illustrates the impact on valuation of movements in capitalisation rates:

Fair Value	**Capitalisation rate impact**	
at 31 December 2021	**+0.25%**	**-0.25%**
$'000	**$'000**	**$'000**
2,285,719	(95,523)	104,370

Given the unknown future impact that COVID-19 might have on the commercial real estate market and global market in general, coupled with a lower interest rate environment, a higher degree of judgement and consideration is required in assessing the significant inputs that determine property valuations. Management and external valuers acknowledge current valuations are subject to 'material valuation uncertainty' as a consequence of this. It can be challenging to determine the full impact on Net Passing Income for the property for future periods as the Trust continues to negotiate rent relief arrangements with tenants that fall within the Code. To date, there has been little evidence to suggest that capitalisation and discount rates have softened since the COVID-19. As the COVID-19 pandemic progresses, the Trust has continued to re-assess the valuation method to ensure appropriate consideration given to inputs used.

C2 Borrowings

	31 December 2021 $'000	30 June 2021 $'000
Non-current		
Secured loan	**812,004**	704,329
Borrowing costs	**(3,599)**	(3,529)
	808,405	700,800

	31 December 2021 $'000	30 June 2021 $'000
Facility limit	**912,500**	812,500
Facilities used - bank loans	**(812,004)**	(704,329)
Facilities used - bank guarantee	**(1,496)**	(1,496)
Facilities unused at reporting date - bank loans	**99,000**	106,675

As at 31 December 2021, the Trust had $515 million (30 Jun 21: $565 million), or 63.4% of interest rate swaps hedged against its drawn debt.

An additional $100 million loan facility with a new financier was established during the period.

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.

C3 Issued capital

	31 December 2021		30 June 2021	
	Units '000	$'000	Units '000	$'000
Opening balance	**514,522**	**1,283,138**	514,522	1,283,138
Units issued	**80,398**	**200,995**	-	-
Distributions reinvested	**722**	**1,736**	-	-
Equity raising costs	**-**	**(4,858)**	-	-
Closing balance	**595,642**	**1,481,011**	514,522	1,283,138

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.

At reporting date an amount of $1,593,860 (30 June 2021: $299,938) 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.

D2 Related parties (continued)

Responsible entity fees and other transactions (continued)

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

	31 December 2021 $'000	31 December 2020 $'000
Management fees	**6,092**	5,860
Property management fees	**1,624**	1,489
Facility management fees	**904**	794
Leasing fees	**581**	104
Custodian fees	**413**	380
Development fees	**363**	559
Due diligence acquisition fees	**50**	50
	10,027	9,236

During the period, the Trust exchanged contract for a 50% share in 203 Pacific Highway, St Leonards NSW for $68 million (excluding transaction costs) from an unlisted Centuria syndicate, Centuria 203 Pacific Highway Fund. Settlement is expected to occur in the second half of FY22.

All transactions with related parties are conducted on arms-length terms and conditions. From time to time CPFL, 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 2021, the following related parties of the Responsible Entity hold units in the Trust:

	Closing units held	Closing interest held
31 December 2021		
Centuria Capital No. 2 Office Fund	**85,433,773**	**14.34%**
Over Fifty Guardian Friendly Society Limited	**6,936,819**	**1.16%**
Centuria Growth Bond Fund	**5,808,906**	**0.98%**
Centuria Capital No. 2 Fund	**3,396,219**	**0.57%**
Centuria Property Funds No. 2 Limited	**2,263,375**	**0.38%**
Centuria Balanced Bond Fund	**1,127,913**	**0.19%**
Peter Done	**233,614**	**0.04%**
John McBain	**73,027**	**0.01%**
Darren Collins	**65,000**	**0.01%**
Matthew Hardy	**37,366**	**0.01%**
Jason Huljich	**3,896**	**0.01%**
	105,379,908	**17.70%**
30 June 2021		
Centuria Capital No. 2 Office Fund	75,233,773	14.62%
Over Fifty Guardian Friendly Society Limited	14,861,980	2.89%
Centuria Growth Bond Fund	5,808,906	1.13%
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%
Peter Done	202,044	0.04%
John McBain	73,027	0.01%
Darren Collins	34,500	0.01%
Matthew Hardy	32,316	0.01%
Jason Huljich	3,896	0.01%
	102,885,529	20.01%

D2 Related parties (continued)

Units in the Trust held by related parties (continued)

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

Since balance date, the COVID-19 pandemic has continued to evolve and may have an impact on specific areas of judgement required for preparing these interim financial statements.

The Trust has continued to re-evaluate the significant inputs used to drive property valuations and recoverability of tenant arrears on a regular basis as detailed in Note C1. Based on these evaluations, the Trust has determined there are no material events which would give rise to an adjustment.

There are no other matters or circumstances which have arisen since the end of the period and the date of this report, in the opinion of the Responsible Entity, which significantly affect the operations of the 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 2021

The directors of Centuria Property Funds Limited, the Responsible Entity of Centuria Office 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 2021 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
3 February 2022

KPMG

Independent Auditor's Review Report

To the Unitholders of Centuria Office REIT

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of Centuria Office 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 Office REIT does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2021 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 2021;
- 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; and
- The Directors' Declaration.

The ***Group*** comprises Centuria Office 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 2021.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with these requirements.

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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 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*.

A review of an Interim Period 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.

KPMG	
KPMG	Peter Zabaks
	Partner
	Sydney
	3 February 2022