

Centuria Urban REIT

(Formerly 360 Capital Office Fund)

**Condensed Interim Financial Report
For the half-year ended 31 December 2016**

ARSN 106 453 196

CENTURIA URBAN REIT

Table of contents

For the half year ended 31 December 2016

	Page
Responsible Entity report	3
Auditor's independence declaration	8
Consolidated interim statement of profit or loss and other comprehensive income	9
Consolidated interim statement of financial position	10
Consolidated interim statement of changes in equity	11
Consolidated interim statement of cash flows	12
Condensed notes to the interim financial report	13
Directors' declaration	24
Independent auditor's review report	25

Centuria Urban REIT and its controlled entities
Responsible Entity report
For the half year ended 31 December 2016

The Directors of Centuria Property Funds No. 2 Limited ("CPF2L") (formerly 360 Capital Investment Management Limited ("CIML")), the Responsible Entity, present their report together with the interim financial report of Centuria Urban REIT (formerly 360 Capital Office Fund (ASX: TOF)) (ARSN 106 453 196) and its controlled entities ("the Fund") (ASX: CUA) for the half year ended 31 December 2016.

Directors

The following persons were Directors of the Responsible Entity during the half year and up to the date of this report, unless otherwise stated:

Appointed on 9 January 2017

John Slater (Chairman)

Michael Figg

Robert Lloyd

Resigned on 9 January 2017

David van Aanholt

Tony Robert Pitt

William John Ballhausen

Graham Ephraim Lenzner

Andrew Graeme Moffat

Principal activities

During the half year, the principal activity of the Fund was investment in commercial office properties within Australia. There have been no significant changes to the principal activities during the period.

Operating and financial review

The statutory profit attributable to the unitholders of the Fund for the half year ended 31 December 2016 was \$7.8 million (December 2015: \$4.4 million). The operating profit (profit before specific non-cash items and significant items) was \$5.8 million (December 2015: \$7.2 million).

Operating profit is a financial measure which is not prescribed by Australian Accounting Standards ("AAS") and represents the profit under AAS adjusted for specific non-cash items and significant items. The Directors consider operating profit to reflect the core earnings of the Fund and it is used as a guide to assess the Fund's ability to pay distributions to unitholders.

The following table summarises key reconciling items between statutory profit attributable to the unitholders of the Fund and operating profit. The operating profit information in the table has not been subject to any specific review procedures by the Fund's auditor but has been extracted from Note 6: Segment reporting of the interim financial statements for the half year ended 31 December 2016, which have been subject to review, refer to page 25 for the auditor's review report on the interim financial statements.

Centuria Urban REIT and its controlled entities
Responsible Entity report
For the half year ended 31 December 2016

Operating and financial review (continued)

	31 December 2016 \$'000	31 December 2015 \$'000
Profit attributable to the unitholders of the Fund	7,811	4,366
Specific non-cash items		
Net (gain)/loss on fair value of investment properties	(2,596)	200
Gain on fair value of rental guarantee	(81)	(54)
(Gain)/loss on fair value of derivative financial instruments	(1,468)	648
Amortisation of capitalised borrowing costs on debt facilities	144	141
Straight-lining of lease revenue	(233)	(697)
Amortisation of incentives and leasing fees	267	672
Significant items		
Net loss on sale of investment property	-	1,278
Outstanding duty paid	-	134
Rental guarantee cash received	235	550
Investment transaction costs	662	-
Loss on termination of derivative financial instruments	1,052	-
Operating profit (profit before specific non-cash and significant items)	5,793	7,238

The key financial highlights for the half year ended 31 December 2016 include:

- Profit attributable to the unitholders of the Fund of \$7.8 million, representing 10.7 cents per unit ("cpu"), an increase of 78.3% on the prior period;
- Operating profit of \$5.8 million representing 7.9 cpu, down 20.2% on the prior period;
- Distributions of \$6.2 million, representing 8.5 cpu in line with full year base case guidance of 16.0 cpu;
- Gearing¹ has increased to 18.6% from 17.8% as at 30 June 2016;
- Net tangible assets ("NTA") of \$166.4 million (30 June 2016: \$164.8 million) representing \$2.27 per unit (30 June 2016: \$2.25); and
- The ASX closing price at 31 December 2016 of \$2.14 per unit reflected a discount to NTA of 5.7%.

The key operational highlights for the half year ended 31 December 2016 include:

- Portfolio property values increased by 1.2% on a like-for-like basis;
- Leased over 6,500 square meters ("sqm") and reduced FY17 expiries from 12.8% to Nil;
- Maintained strong occupancy² of 99.2%;
- Strong WALE³ of 4.6 years; and
- Portfolio WACR⁴ of 6.86%, a firming of 26 basis points from 30 June 2016;

1. Gearing: Borrowings less cash divided by total assets less cash

2. Occupancy by area

3. WALE: Weighted average lease expiry by income

4. WACR: Weighted average capitalisation rate by value.

Centuria Urban REIT and its controlled entities
Responsible Entity report
For the half year ended 31 December 2016

Financial Results

The Fund recorded a statutory net profit of \$7.8 million for the period, 78.9% above the results for the period ended 31 December 2015 driven by an increase in property valuations and an accretive movement in the Fund's derivative financial instruments. Decreased operating earnings of \$5.8 million (31 December 2015: \$7.2 million) are a result of the sale of 33 Allara Street, Canberra, with no subsequent reinvestment. Distributions per unit ("DPU") remained unchanged at 8.5 cpu for the period ended 31 December 2016 in line with guidance.

Property portfolio

At 31 December 2016, the value of CUA's portfolio increased to \$210.4 million, up 1.2 per cent from 30 June 2016. NTA has increased 2.0 cents to \$2.27 per security over the period.

Two assets, representing 65% of the portfolio's value, were independently valued at 31 December 2016 being 154 Melbourne Street, South Brisbane, and 576 Swan Street, Richmond. 154 Melbourne Street's value remained stable at \$77.5 million with forecast medium term expiries being taken into consideration. 576 Swan Street, Richmond increased in value by \$2.5 million (4.5%), to \$58.5 million, as a result of capitalisation rate compression and improving market rents. The value of 438-517 Kingsford Smith Drive, Brisbane, previously independently valued at April 2016, was reaffirmed by Directors as \$74.4 million.

The weighted average capitalisation rate of CUA's portfolio has firmed by 26 basis points to 6.86% at 31 December 2016.

Capital management

CUA's existing debt facilities mature in April 2017. As part of the transfer of management from 360 Capital Group Limited, Centuria is in advanced negotiations regarding CUA's future debt facility. Given CUA's low gearing, strong ICR, and the quality of its portfolio, CPF2L does not anticipate any difficulties refinancing its debt facilities prior to maturity.

CUA currently has hedging in place over 96% of its drawn debt facilities through to January 2020. CPF2L will review of CUA's hedge book as part of the refinancing process to ensure interest rate risk is appropriately mitigated.

CUA's Interest Cover Ratio was approximately 6.8 times as at 31 December 2016, relative to a bank covenant of 2.0 times demonstrating adequate covenant headroom. Similarly, CUA's loan to valuation covenant showed significant headroom with CUA's portfolio gearing significantly under the 50.0% bank covenant.

Outlook and guidance

CUA paid distributions totalling 8.5 cents per security for the six month period ending 31 December 2016 in line with guidance provided by the previous manager on 17 August 2016.

Management is focused on positioning CUA to deliver unitholders predictable distributions underpinned by tenants in quality fringe CBD and suburban office assets with strong rental covenants.

Centuria Urban REIT and its controlled entities
Responsible Entity report
For the half year ended 31 December 2016

Distributions

Distributions declared during the half year ended 31 December 2016 are as follows:

	31 December	31 December
	2016	2015
	\$'000	\$'000
September 2015 quarter 4.25 cents per unit paid 23 October 2015	-	3,115
December 2015 quarter 4.25 cents per unit paid 27 January 2016	-	3,114
September 2016 quarter 4.25 cents per unit paid 28 October 2016	3,115	-
December 2016 quarter 4.25 cents per unit paid 25 January 2017	3,114	-
Total distributions	6,229	6,229

Number of units on issue

The total number of units on issue in the Fund as at 31 December 2016 was 73,279,751 (30 June 2016: 73,279,751).

Fees, commissions or other charges by the Responsible Entity or Related Parties of the Responsible Entity

All fees payable to the Responsible Entity or its related parties are detailed in Note 12 to the interim financial statements.

Units held by the Responsible Entity or Related Parties of the Responsible Entity

As at 31 December 2016, related parties of the Responsible Entity held units in the Fund as detailed in Note 12 to the interim financial statements.

Significant changes in state of affairs

In the opinion of the Directors, there were no other significant changes in the state of affairs of the Fund that occurred during the half year under review other than those listed above or elsewhere in the Responsible Entity report.

Events subsequent to balance date

On 23 November 2016, the Centuria Capital Limited agreed with 360 Capital Group Limited to acquire all of the shares in CPF2L and associated management rights over the listed and unlisted property investment funds for which CPF2L is the Responsible Entity, which includes this Fund. On 30 December 2016, unitholders approved sale of 360 Capital Group's 28.8% investment in the Fund to Centuria Capital Group and its associates. This was the final condition precedents for 360 Capital Group to complete under the Responsible Entity sale transaction. The acquisition of shares in CPF2L was completed on 9 January 2017.

No other matters or circumstances apart from those already mentioned in the Responsible Entity Report have arisen since the end of the half year which have significantly affected or may significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial periods.

Rounding of amounts

The Fund is an entity of the kind referred to in Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission ("ASIC"). In accordance with that Instrument, amounts in the annual financial report and Responsible Entity report have been rounded to the nearest thousand dollars, unless otherwise stated.

Centuria Urban REIT and its controlled entities
Responsible Entity report
For the half year ended 31 December 2016

Auditor's independence declaration

The auditor's independence declaration required under Section 307C of the Corporations Act 2001 is set out on page 8 and forms part of the Responsible Entity report for the half year ended 31 December 2016.

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



Director

Sydney
9 February 2017



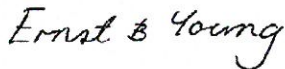
Secretary

Auditor's Independence Declaration to the Directors of Centuria Property Funds No. 2 Limited as Responsible Entity for Centuria Urban REIT

As lead auditor for the review of Centuria Urban REIT for the half-year ended 31 December 2016, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Centuria Urban REIT and the entities it controlled during the financial period.



Ernst & Young



Megan Wilson
Partner
9 February 2017

Centuria Urban REIT and its controlled entities
Consolidated interim statement of profit or loss and other comprehensive income
For the half year ended 31 December 2016

		31 December 2016 \$'000	31 December 2015 \$'000
	Note		
Revenue from continuing operations			
Rental income	3	8,924	10,689
Finance revenue		19	40
Total revenue from continuing operations		8,943	10,729
Other income			
Net gain on fair value of rental guarantee		81	54
Net gain on fair value of investment properties		2,596	-
Net gain on fair value of derivative financial instruments		1,468	-
Total other income		4,145	54
Total revenue from continuing operations and other income		13,088	10,783
Investment property expenses		1,554	1,775
Management fees	12	704	767
Other administration expenses		169	274
Transactions costs and unitholders voting expenses		662	-
Net loss on sale of investment properties		-	1,278
Net loss on fair value of investment properties		-	200
Net loss on fair value of derivative financial instruments		-	648
Loss on termination of derivative financial instruments		1,052	-
Finance costs	4	1,136	1,475
Net profit from continuing operations		7,811	4,366
Total comprehensive income for the half year		7,811	4,366
Earnings per unit - basic and diluted - cents per unit			
	5	10.7	6.0

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

Centuria Urban REIT and its controlled entities
Consolidated interim statement of financial position
As at 31 December 2016

		31 December	30 June
		2016	2016
	Note	\$'000	\$'000
Current assets			
Cash and cash equivalents		2,251	2,590
Receivables		639	489
Total current assets		2,890	3,079
Non-current assets			
Investment properties	7	210,400	207,900
Total non-current assets		210,400	207,900
Total assets		213,290	210,979
Current liabilities			
Trade and other payables		1,760	1,507
Distribution payable		3,114	3,114
Borrowings	8	41,389	39,445
Total current liabilities		46,263	44,066
Non-current liabilities			
Derivative financial instruments		639	2,107
Total non-current liabilities		639	2,107
Total liabilities		46,902	46,173
Net assets		166,388	164,806
Equity			
Issued units	9	329,817	329,817
Accumulated losses		(163,429)	(165,011)
Total equity		166,388	164,806

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

Centuria Urban REIT and its controlled entities
Consolidated interim statement of changes in equity
For the half year ended 31 December 2016

	Note	Issued units \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2016		329,817	(165,011)	164,806
Total comprehensive income for the half year		-	7,811	7,811
Transactions with unitholders in their capacity as unitholders				
Distributions paid and payable	2	-	(6,229)	(6,229)
		-	(6,229)	(6,229)
Balance at 31 December 2016		329,817	(163,429)	166,388
<hr/>				
Balance at 1 July 2015		329,817	(172,991)	156,826
Total comprehensive income for the half year		-	4,366	4,366
Transactions with unitholders in their capacity as unitholders				
Distributions paid and payable		-	(6,229)	(6,229)
		-	(6,229)	(6,229)
Balance at 31 December 2015		329,817	(174,854)	154,963

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

Centuria Urban REIT and its controlled entities
Consolidated interim statement of cash flows
For the year ended 31 December 2016

	Note	31 December 2016 \$'000	31 December 2015 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		10,143	13,353
Payments to suppliers (inclusive of GST)		(3,913)	(4,685)
Finance revenue		19	40
Finance costs		(992)	(1,510)
Net cash inflows from operating activities	11	5,257	7,198
Cash flows from investing activities			
Payments for additions to existing investment properties		(77)	(187)
Payments of leasing fees and incentives		(38)	(463)
Proceeds from disposal of investment properties		-	28,722
Net cash (outflows)/inflows from investing activities		(115)	28,072
Cash flows from financing activities			
Proceeds from borrowings		1,800	-
Repayment of borrowings	8	-	(28,815)
Payments for termination of derivative financial instruments		(1,052)	-
Payments for borrowing costs		-	(2)
Distributions paid to unitholders		(6,229)	(6,229)
Net cash outflows from financing activities		(5,481)	(35,046)
Net (decrease)/increase in cash and cash equivalents		(339)	224
Cash and cash equivalents at the beginning of the half year		2,590	3,421
Cash and cash equivalents at the end of the half year		2,251	3,645

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

Centuria Urban REIT and its controlled entities
Condensed notes to the interim financial report
For the half year ended 31 December 2016

Note 1: Basis of preparation of half year report

Basis of preparation

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 general purpose financial statements are for the entity Centuria Urban REIT (formerly 360 Capital Office Fund) and its controlled entities ("the Fund"). The Fund is a listed Fund established and domiciled in Australia. The Responsible Entity of the Fund is Centuria Property Funds No. 2 Limited (formerly 360 Capital Investment Management Limited). The registered office and the principal place of business is Suite 39.01, Level 39, 100 Miller Street, North Sydney NSW 2060 Australia. The nature of operations and principal activities of the Fund are disclosed in the Responsible Entity Report.

The interim financial report does not include all of the notes and information required for a full annual financial report and should be read in conjunction with the annual financial report for the year ended 30 June 2016.

The interim financial report was authorised for issue by the Board on 9 February 2017.

The financial report has been prepared on a going concern basis. The Directors of the Fund note that the Fund is in a net current liabilities position of \$43.4 million due to the classification of borrowings as current as a result of the upcoming facility expiry in April 2017. As part of the transfer of management from 360 Capital Group Limited, Centuria is in advanced negotiations regarding CUA's future debt facility. As at the date of this report there are no breaches of any of the loan covenants relating to the existing debt facility. Given the low gearing of the Fund and the quality property portfolio, the Fund expects to be able to refinance its debt facility prior to expiry in April 2017.

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.

Note 2: Distributions

Distributions declared during the half year ended 31 December 2016 are as follows:

	31 December 2016 \$'000	31 December 2015 \$'000
September 2015 quarter 4.25 cents per unit paid 23 October 2015	-	3,115
December 2015 quarter 4.25 cents per unit paid 27 January 2016	-	3,114
September 2016 quarter 4.25 cents per unit paid 28 October 2016	3,115	-
December 2016 quarter 4.25 cents per unit paid 25 January 2017	3,114	-
Total distributions	6,229	6,229

Note 3: Rental income

	\$'000	\$'000
Rent	8,958	10,664
Straight-lining of lease revenue	233	697
Amortisation of incentives and leasing fees	(267)	(672)
	8,924	10,689

Centuria Urban REIT and its controlled entities
Condensed notes to the interim financial report
For the half year ended 31 December 2016

Note 4: Finance costs

	31 December 2016 \$'000	31 December 2015 \$'000
Interest paid or payable on debt facilities	992	1,334
Amortisation of capitalised borrowing costs on debt facilities	144	141
	1,136	1,475

Note 5: Earnings per unit

	¢	¢
Basic and diluted earnings per unit	10.7	6.0
	\$'000	\$'000
Basic and diluted earnings		
Net profit attributable to unitholders	7,811	4,366
	000's	000's
Weighted average number of units		
Weighted average number of units	73,280	73,280

Note 6: Segment reporting

The Fund invests solely in office properties within Australia.

The Chief Operating Decision Maker, being the CEO – Listed Property Funds of the Responsible Entity, monitors the performance and results of the Fund at a total Fund level. As a result, the Fund has only one segment. Operating profit is a financial measure which is not prescribed by AAS and represents the profit under AAS adjusted for specific non-cash items and other significant items which management consider to reflect the core earnings of the Fund and is used as a guide to assess the Fund's ability to pay distributions to unitholders.

Centuria Urban REIT and its controlled entities
Condensed notes to the interim financial report
For the half year ended 31 December 2016

Note 6: Segment reporting (continued)

The following table summarises key reconciling items between statutory profit attributable to the unitholders of the Fund and operating profit.

	31 December	31 December
	2016	2015
	\$'000	\$'000
Profit attributable to the unitholders of the Fund	7,811	4,366
Specific non-cash items		
Net (gain)/loss on fair value of investment properties	(2,596)	200
Gain on fair value of rental guarantee	(81)	(54)
Rental guarantee cash received	235	550
Net (gain)/loss on fair value of derivative financial instruments	(1,468)	648
Amortisation of capitalised borrowing costs on debt facilities	144	141
Straight-lining of lease revenue	(233)	(697)
Amortisation of incentives and leasing fees	267	672
Significant items		
Net loss on sale of investment property	-	1,278
Outstanding duty paid	-	134
Investment transaction costs	662	-
Loss on termination of derivative financial instruments	1,052	-
Operating profit (profit before specific non-cash and significant items)	5,793	7,238
Weighted average number of units ('000)	73,280	73,280
Operating profit per unit (profit before specific non-cash and significant items) (EPU)		
– cents	7.9	9.9

Centuria Urban REIT and its controlled entities
Condensed notes to the interim financial report
For the half year ended 31 December 2016

Note 7: Investment properties

	Date of acquisition	Book value		Capitalisation rate		Discount rate		Date of last external valuation	Last external valuation \$'000
		31 December 2016 \$'000	30 June 2016 \$'000	31 December 2016 %	30 June 2016 %	31 December 2016 %	30 June 2016 %		
Investment property valuations									
485 Kingsford Smith Drive, Hamilton, QLD	Apr 14	74,400	74,400	7.00	7.00	8.00	8.00	Apr 16	74,400
154 Melbourne St, South Brisbane, QLD	Apr 14	77,500	77,500	7.00	7.50	7.75	8.50	Dec 16	77,500
Botanicka 8, 576 Swan Street, Richmond, VIC	Feb 15	58,500	56,000	6.50	6.75	7.50	7.75	Dec 16	58,500
Total		210,400	207,900						
Comprises:									
Fair value of Rental guarantee receivable ¹		917	1,072						
Investment Properties		209,483	206,828						
Total		210,400	207,900						

¹ The rental guarantee is measured as the present value of the expected future cash flows under the guarantee arrangements. The rental guarantee has been capitalised and relates to the agreement with the vendor of the property at 485 Kingsford Smith Drive, Hamilton Harbour, Brisbane.

Centuria Urban REIT and its controlled entities
Condensed notes to the interim financial report
For the half year ended 31 December 2016

Note 7: Investment properties (continued)

	31 December	30 June
	2016	2016
	\$'000	\$'000
Movement during the period:		
Opening balance as at 1 July	207,900	226,100
Sale of investment property	-	(30,000)
Additions to investment properties	54	259
Net gain on fair value of investment properties	2,596	11,750
Straight-lining of lease revenue	233	1,225
Loss on fair value of rental guarantee	81	(36)
Rental guarantee cash received	(235)	(1,111)
New incentives and leasing fees	38	640
Amortisation of incentives and leasing fees	(267)	(927)
Closing balance	210,400	207,900

Note 8: Borrowings

	31 December	30 June
	2016	2016
	\$'000	\$'000
Current		
Borrowings - secured	41,485	39,685
Capitalised borrowing costs	(96)	(240)
	41,389	39,445
Borrowings - banks		
Total facility limit	80,000	80,000
Used at end of reporting date	41,485	39,685
Unused at end of reporting date	38,515	40,315

Centuria Urban REIT and its controlled entities
Condensed notes to the interim financial report
For the half year ended 31 December 2016

Note 8: Borrowings (continued)

	31 December	30 June
	2016	2016
	\$'000	\$'000
Movement during the period:		
Opening balance	39,685	68,500
Repayment of facility	-	(28,815)
Drawdowns from facility	1,800	-
Closing balance	41,485	39,685

All loan facilities are subject to standard commercial covenants consistent with the type of loan including Loan Value Ratio, Interest Cover Ratio & Negative Variations. At the date of this report, the Fund complies with all debt covenants.

As at 31 December 2016 the debt facility was drawn to \$41.5 million, which represents a Loan to Value Ratio ("LVR") of 19.7% based on the most recent external valuations adopted, which complied with the bank covenant of less than 50.0%. The interest cover ratio was calculated to be 6.8 times, which complied with the bank covenant of no less than 2.0 times.

At balance date the Fund had two interest rate swap commercial hedge contracts with Bankwest and National Australia Bank for a total notional value of \$40.0 million and expiry in January 2020.

Note 9: Issued Units

(a) Issued units

	Half Year	Full Year
	31 December	30 June
	2016	2016
	000's	000's
Centuria Urban REIT - Ordinary units issued	73,280	73,280
	\$'000	\$'000
Centuria Urban REIT - Ordinary units issued	329,817	329,817

(b) Movements in issued units

There were no movements in issued units of the Fund for the half year ended 31 December 2016.

Centuria Urban REIT and its controlled entities
Condensed notes to the interim financial report
For the half year ended 31 December 2016

Note 10: Financial instruments

Fair values

The fair values of all financial instruments with the exception of borrowings approximate their carrying values. This is largely due to the short-term maturities of these instruments. The fair value of borrowings is categorised within the fair value hierarchy as a Level 2 input. Set out below is a comparison of the carrying amount and fair value of borrowings at balance date:

	Carrying amount		Fair value	
	31 December 2016	30 June 2016	31 December 2016	30 June 2016
	\$'000	\$'000	\$'000	\$'000
Financial liabilities				
Borrowings	41,389	39,445	41,485	39,685
Total non-current financial liabilities	41,389	39,445	41,485	39,685

As at 31 December 2016, the Fund held the following classes of financial instruments measured at fair value:

	Total	Level 1	Level 2	Level 3
	\$'000	\$'000	\$'000	\$'000
Financial liabilities measured at fair value				
Derivative financial instruments as at 31 December 2016	639	-	639	-
Derivative financial instruments as at 30 June 2016	2,107	-	2,107	-

Fair value hierarchy

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy. Described as follows, based on the lowest level input that is significant to the fair value measurements as a whole:

Level 1 – Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities

Level 2 – Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable)

Level 3 – Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable)

For financial instruments that are recognised at fair value on a recurring basis, the Fund determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

During the period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

Centuria Urban REIT and its controlled entities
Condensed notes to the interim financial report
For the half year ended 31 December 2016

Note 10: Financial instruments (continued)

Valuation techniques

Derivative financial instruments

For derivatives, as market prices are unavailable the Fund uses valuation models to derive fair value. The models are industry standard and mostly employ a Black–Scholes framework to calculate the expected future value of payments by derivative, which is discounted back to a present value. The models' interest rate inputs are benchmark interest rates such as the Bank Bill Swap reference rate ("BBSW") and active broker quoted interest rates in the swap, bond and futures markets. Interest rate volatilities are sourced through a consensus data provider. As such the input parameters into the models are deemed observable, thus these derivatives are categorised as Level 2 instruments.

Borrowings

The fair value of the borrowings is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Note 11: Reconciliation of net profit to net cash inflows from operating activities

	31 December 2016 \$'000	31 December 2015 \$'000
Profit for the half year	7,811	4,366
<u>Adjustment for:</u>		
Net (gain)/loss on fair value of investment properties	(2,596)	200
(Gain)/loss on fair value of derivative financial instruments	(1,468)	648
Loss on sale of properties	-	1,278
Gain on fair value of rental guarantee	(81)	(54)
Amortisation of capitalised borrowing costs on debt facilities	144	141
Loss on termination of derivative financial instruments	1,052	-
<u>Changes in assets and liabilities:</u>		
Decrease in receivables and prepayments	142	995
Increase/(decrease) in trade and other payables	253	(376)
Net cash inflows from operating activities	5,257	7,198

Centuria Urban REIT and its controlled entities
Condensed notes to the interim financial report
For the half year ended 31 December 2016

Note 12: Related party transactions

Responsible Entity

The Responsible Entity of Centuria Urban REIT is Centuria Property Funds No. 2 Limited, a wholly owned subsidiary of Centuria Capital Limited.

Responsible Entity's fees and other transactions

Under the terms of the constitution, the Responsible Entity is entitled to receive fees in accordance with the product disclosure statement.

Management fees	31 December 2016 \$	31 December 2015 \$
Fees for the half year paid/payable by the Fund:		
Management of the Fund	637,280	691,382
Custodian fees	53,087	57,617
Fund recoveries	13,944	17,959
	704,311	766,958
	31 December 2016 \$	30 June 2016 \$
Aggregate amounts due to the Responsible Entity at balance date:		
Management of the Fund	-	106,359
Fund recoveries	-	7,598
	-	113,957

The Responsible Entity is entitled to a management fee of 0.65% per annum of the gross asset value of the Fund calculated in accordance with the Fund's constitution. The Responsible Entity has elected to charge 0.6% per annum for the period ended 31 December 2016.

Custodian fees are paid to the custodian, also being Centuria Property Funds No. 2 Limited, and calculated in accordance with the constitution at a rate of 0.05% of the Fund's gross assets.

Centuria Urban REIT and its controlled entities
Condensed notes to the interim financial report
For the half year ended 31 December 2016

Note 12: Related party transactions (continued)

Unitholdings

Units held by the Responsible Entity and other Funds managed by and related to the Responsible Entity held units in the Fund as follows:

	31 December 2016	30 June 2016
360 Capital Diversified Property Fund¹		
Number of units held	1,895,944	1,895,944
Interest % held	2.59%	2.59%
Distributions paid/payable by the Fund (\$)	161,155	322,310
360 Capital Investment Trust¹		
Number of units held	16,675,762	16,675,762
Interest % held	22.76%	22.76%
Distributions paid/payable by the Fund (\$)	1,417,440	2,834,880
360 Capital Investment Management Limited¹		
Number of units held	2,500,000	2,500,000
Interest % held	3.41%	3.41%
Distributions paid/payable by the Fund (\$)	212,500	425,000
360 Capital AREIT Fund¹		
Number of units held	-	-
Interest % held	-	-
Distributions paid/payable by the Fund (\$)	-	2,367

¹ On 30 December 2016, unitholders approved the resolution for Centuria Capital Limited to acquire all of the shares in the Responsible Entity. Subsequent to the acquisition, these entities have ceased to be related party of the Fund. Refer to Note 13 for more information.

Centuria Urban REIT and its controlled entities
Condensed notes to the interim financial report
For the half year ended 31 December 2016

Note 12: Related party transactions (continued)

Remuneration of Directors and Key Management Personnel of the Responsible Entity

The Fund does not employ personnel in its own right. However, it is required to have an incorporated Responsible Entity to manage the activities of the Fund and this is considered the Key Management Personnel ("KMP"). The Directors of the Responsible Entity are KMP.

No compensation is paid directly by the Fund to Directors or to any KMP of the Responsible Entity.

Loans to Directors and Key Management Personnel of the Responsible Entity

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the Directors and KMP or their personally related entities at any time during the half year.

Other transactions with Directors and Specified Executives of the Responsible Entity

From time to time, Directors and KMP or their personally related entities may buy or sell units in the Fund. These transactions are subject to the same terms and conditions as those entered into by other Fund investors.

Note 13: Events subsequent to balance date

On 23 November 2016, the Centuria Capital Limited agreed with 360 Capital Group Limited to acquire all of the shares in Centuria Property Funds No. 2 Limited and associated management rights over the listed and unlisted property investment funds for which CPF2L is the responsible entity, which includes this Fund. The acquisition of shares in CPF2L was completed on 9 January 2017.

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

Note 14: Responsible Entity details

The registered office and the principal place of business of the Responsible Entity is:

Centuria Property Funds No. 2 Limited
Suite 39.01, Level 39, 100 Miller Street
North Sydney, NSW 2060

Centuria Urban REIT and its controlled entities
Directors' declaration
For the half year ended 31 December 2016

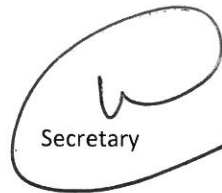
- 1) The Directors of Centuria Property Funds No. 2 Limited, the Responsible Entity, declare that:
- (a) The consolidated financial statements and notes that are set out on pages 9 to 23, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half year ended on that date; and
 - (ii) complying with AASB 134: *Interim Financial Reporting* and *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Director

Sydney
9 February 2017



Secretary



Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

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Fax: +61 2 9248 5959
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To the unitholders of Centuria Urban REIT

Report on the Interim Financial Report

We have reviewed the accompanying consolidated interim financial report of Centuria Urban REIT (the "Fund") which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Fund and the entities it controlled at the period end or from time to time during the period.

Directors' Responsibility for the Interim Financial Report

The directors of Centuria Property Funds No. 2 Limited, the Responsible Entity of the Fund, are responsible for the preparation of the consolidated interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the consolidated interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the consolidated 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 consolidated interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Fund's financial position as at 31 December 2016 and its performance for the period ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Centuria Urban REIT, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a consolidated interim 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.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Responsible Entity a written Auditor's Independence Declaration, a copy of which follows the Responsible Entity Report.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the consolidated interim financial report of Centuria Urban REIT is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated Fund's financial position as at 31 December 2016 and of its performance for the period ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Megan Wilson'.

Megan Wilson
Partner
Sydney
9 February 2017