Australian Unity Office Fund

(ASX: AOF)

Acquisition and $50 million Equity Raising

10 October 2017

150 Charlotte St, Brisbane, QLD

Transaction summary

Acquisition and capital raising

1 **Acquisition**	• **Australian Unity Investment Real Estate Limited (Responsible Entity) as responsible entity of the Australian Unity Office Fund (AOF or the Fund) has entered into an unconditional agreement to acquire 150 Charlotte Street, Brisbane for $105.75 million (Acquisition)** • 150 Charlotte Street is a quality, well located property in the Brisbane CBD • The asset has a WALE of 5.7 years[1], occupancy of 100% and covers 11,011 sqm of NLA • The acquisition price reflects an initial passing yield of 6.7% and capitalisation rate of 6.0%
2 **Funding**	• **The Fund is undertaking a fully underwritten 1 for 6.25 accelerated non-renounceable entitlement offer to raise approximately $50 million at a fixed issue price of $2.23 per unit (Equity Raising)** – Australian Unity corporate entities and funds managed by Australian Unity subsidiaries, AOF's largest unitholding group with approximately 13.8% of units on issue, have committed to maintain their pro rata holding through participation in the Equity Raising – Directors of the Responsible Entity that hold units will subscribe for their full entitlement • In conjunction with the Equity Raising, the Acquisition will be funded by a $70 million extension of AOF's existing debt facility through a new five year tranche
3 **Financial impact**	• **AOF reconfirms FY18 FFO guidance of 17.1 – 17.3 cpu[2] and FY18 distribution guidance of 15.6 cpu[2]** • The Fund will maintain its conservative capital structure, with pro forma gearing of 33.5%, within the Fund's target gearing level of below 40% • Pro-forma 30 June 2017 NTA is expected to be $2.19 per unit

1. As at 30 June 2017, by gross property income
2. Subject to no material change in market conditions

Transaction rationale

Strategic acquisition with strong cashflow in an improving market

1 Located in the heart of the Brisbane CBD

- Centre of Brisbane CBD adjacent to the 'Golden Triangle'
- Major bus, ferry and train networks and the Queen Street Mall shopping precinct are in close proximity to the asset
- Transport amenity is expected to further improve with the opening of the Albert Street station 200 metres from the asset as part of the new Cross River Rail

2 Quality A Grade property consistent with AOF's strategy

- Comprises over 11,000sqm of NLA across 17 floors with a largely column free floor plate
- Modern end of trip facilities and 102 car parking bays (including three basement floors of car parking)
- 4 star NABERS energy and 4 star NABERS water ratings
- Substantial $21 million repositioning was completed in 2012 resulting in minimal near-term capital expenditure requirement
- Dominant tenant building that further underpins AOF's ability to provide sustainable income returns to unitholders

3 100% occupied with a 5.7 year WALE[1]

- Major tenants include Boeing Defence Australia (Boeing) (64% of income) and the Commonwealth of Australia (DFAT) (13% of income)
- Boeing tenancy is the Australian headquarters with a significant custom fitout to accommodate Boeing's high security and operational requirements

4 Enhances AOF's portfolio WALE, occupancy and lease expiry profile

- Increase in portfolio occupancy to over 94% and WALE to 4.8 years[1]
- Rental reviews of 4.0% p.a. (relating to the acquisition)

5 Capitalises on an opportunity in the improving Brisbane market

- Over 50,000 sqm of positive net absorption in the Brisbane office market in the past 12 months
- 10 consecutive quarters of positive net absorption
- Limited new supply is expected across the Brisbane CBD in the near term
- Capitalisation rate spread between the Brisbane and Sydney CBD's is significant

Source: Public disclosures, JLL research, Savills

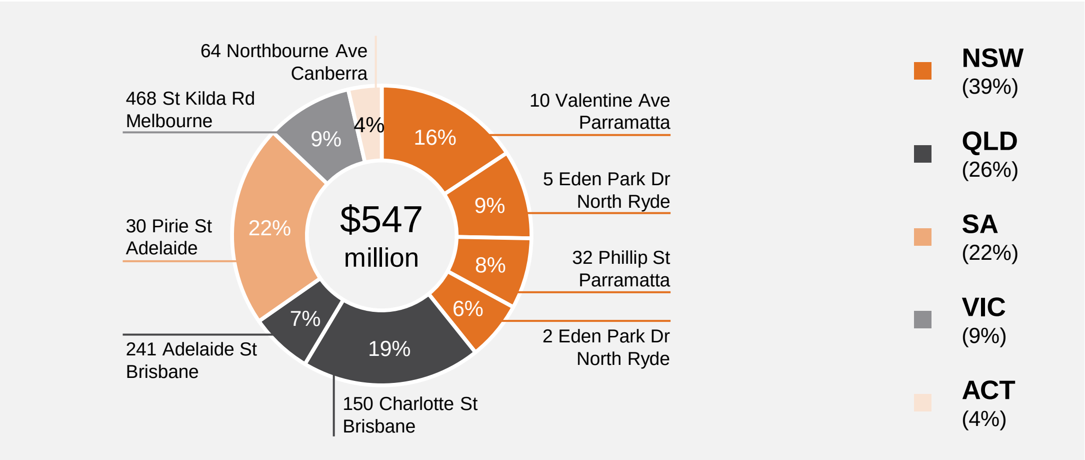
1. As at 30 June 2017, by gross property income

Portfolio impact

Improved portfolio occupancy, WALE and diversification

Key portfolio metrics	30 June 2017	150 Charlotte Street	Pro-forma
Assets	8	1	9
Occupancy[1]	93.5%	100%	94.2%
NLA (sqm)	97,580	11,011	108,591
Portfolio value ($m)	441.1	105.8	546.9
WACR	7.5%	6.0%	7.2%
WALE[2] (years)	4.6	5.7	4.8

Geographic diversification[3]



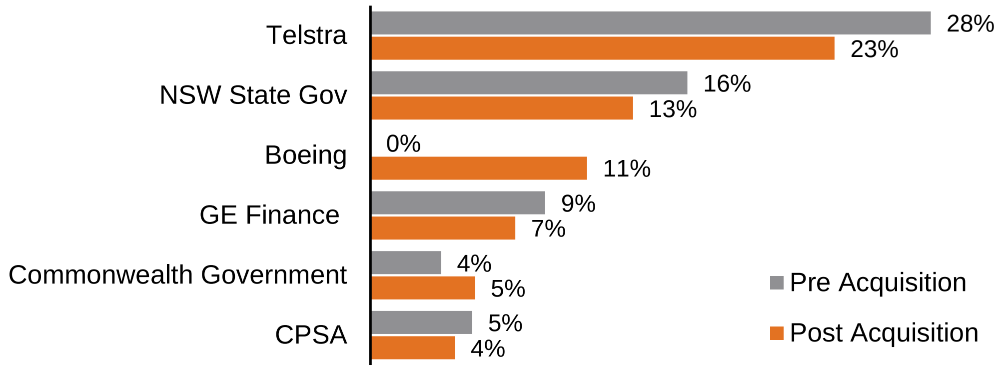
- Portfolio occupancy will improve by 0.7% and the WALE will increase from 4.6 years to 4.8 years[2]
- AOF's portfolio value will increase by 24%
- 150 Charlotte Street will be the Fund's second largest asset, comprising 19% of the portfolio, increasing the weighting to the improving Brisbane market from 8% pre acquisition to 26%

1. By Net Lettable Area as at 30 June 2017
2. By Gross Property Income as at 30 June 2017. Portfolio WALE excludes The Brisbane Club at 241 Adelaide Street, Brisbane as the tenant has approximately 45 years remaining on the lease and would distort the metric
3. By Book Value as at 30 June 2017

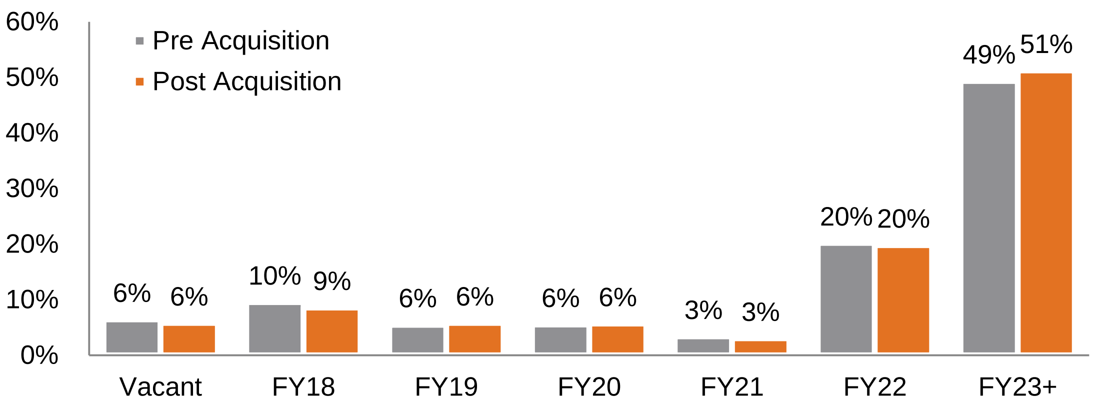
Portfolio impact

High quality tenant additions

Major tenants[1]



Lease expiry profile[2]



- Improves and further diversifies major tenant composition
  - Boeing will be 3rd largest tenant
  - Department of Foreign Affairs and Trade adds to AOF's existing relationship with the Commonwealth Government's various departments across the Australian Unity portfolio
- Reduces medium term lease expiry risk, enhancing AOF's ability to provide sustainable income distributions

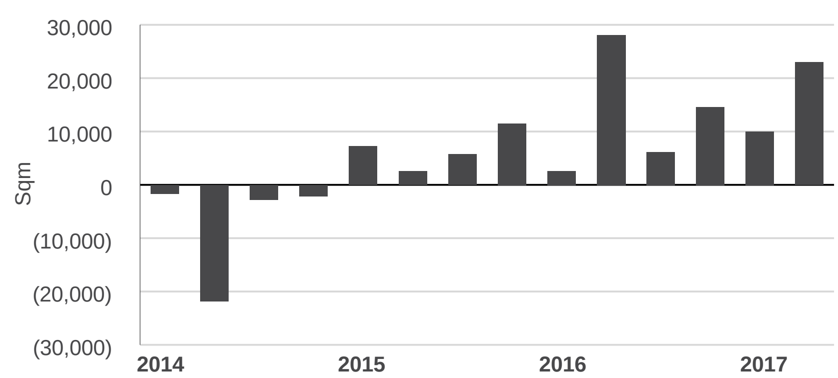
1. By Gross Property Income as at 30 June 2017
2. By Net Lettable Area as at 30 June 2017

Brisbane market overview

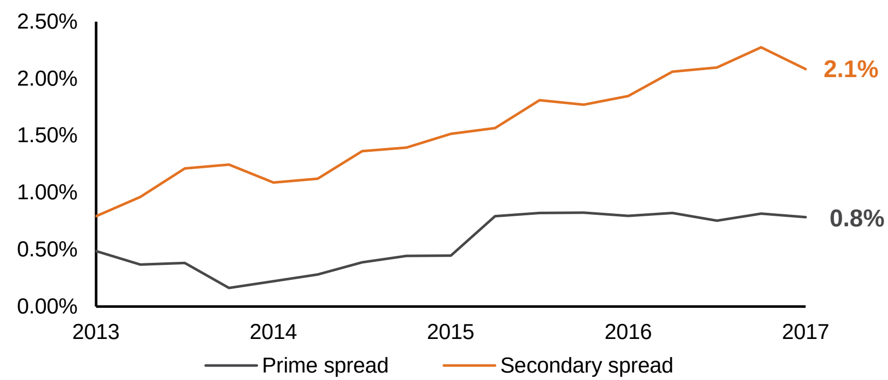
Low forecast supply, improving net absorption and high yield spread

- The Brisbane market has recorded ten successive quarters of positive net absorption
- Minimal supply additions (and some withdrawals) are expected to maintain and eventually reduce vacancy, leading to an improvement in effective rent growth
- Capitalisation rate spreads to Sydney at cyclical highs

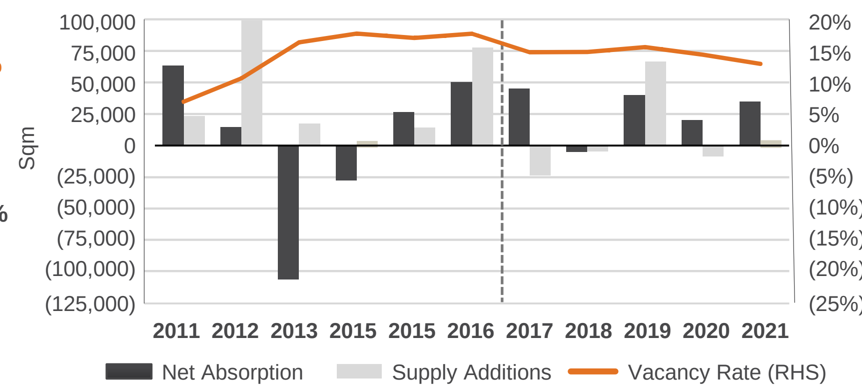
Brisbane CBD net absorption: 2014 – 2017[1]



Spread of Brisbane cap rates to Sydney cap rates[2]



Vacancy, net absorption and supply: historic & forecast



Source: JLL research, CBRE

1. As at June 2017
2. This spread represents Brisbane prime and secondary capitalisation rates less the equivalent Sydney prime and Secondary capitalisation rates. As at 30 June 2017, the Brisbane prime capitalisation rate was 6.2% and the Sydney prime capitalisation rate was 5.4% resulting in a spread of 0.8%

150 Charlotte Street, Brisbane

Asset overview

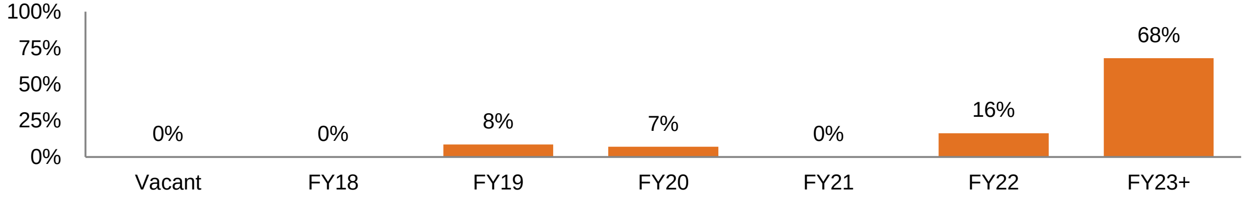
Property information

Independent valuation	$105.75m
Capitalisation Rate	6.0%
Passing Yield	6.7%
Net Lettable Area (sqm)	11,011
Occupancy (by NLA)	100%
WALE[1]	5.7 years
Building constructed	1988
Latest refurbishment	2012

Property overview and strategy

- A Grade office building centrally located in Brisbane's CBD, comprising 16 levels of office space plus ground floor retail
- The Midtown precinct location will benefit from some of Brisbane's largest projects including Queen's Wharf and the Cross River Rail, including the construction of a new train station 200 metres from the asset
- Underwent an extensive $21 million refurbishment in 2012 of all floors and bathrooms including a foyer refurbishment with meeting rooms and a cafe, modernising the lifts, introducing end of trip facilities and installing new air handling units, chillers and a building management system
- Three levels of basement parking providing 102 car parking bays and 13 motorbike bays
- **Strategy**:
  - Maintain strong tenant relations with Boeing Defence Australia and the Commonwealth of Australia to understand changes to their businesses which may alter ongoing or future tenancy requirements

Lease expiry profile (by NLA)[1]



Summary of major tenants[1]

Level	Tenant	NLA (sqm)	NLA (%)	Expiry (date)	Gross passing income ($m)	Review
5–14	Boeing Defence Australia	7,459	68%	June 2024[2]	$5.5m	Fixed 4% p.a.
16–17	Department of Foreign Affairs and Trade (DFAT)[3]	1,492	14%	June 2022	$1.2m	Fixed 4% p.a.

1. As at 30 June 2017, by gross property income
2. Boeing is entitled to hand back up to two whole floors of its tenancy at any time after 1 July 2017 with 12 months prior written notice
3. Commonwealth of Australia

150 Charlotte Street, Brisbane

Asset overview

Map

Stack plan

Level	Tenant	
18	Walker Corporation	
17	Commonwealth of Australia (DFAT)	
16	Commonwealth of Australia (DFAT)	
15	Zurich Financial Services Australia	
14	Boeing Defence Australia	
13	Boeing Defence Australia	
12	Boeing Defence Australia	
11	Boeing Defence Australia	
10	Boeing Defence Australia	
9	Boeing Defence Australia	
8	Boeing Defence Australia	
7	Boeing Defence Australia	
6	Boeing Defence Australia	
5	Boeing Defence Australia	
4	Energex Limited	
3	Plant	
2	Plant	
1	Walker Corporation	
G	ZWH Essence	Stirling Christof
B1	Carpark	
B2	Carpark	
B3	Carpark	

2018 | 2018 | 2019 | 2020 | 2021 | 2022 | 2024

Lease expiry (calendar year)

Health | Wealth | Living

Funding

Sources and uses

- The Fund has increased its existing debt facilities by $70 million
  - 1 new tranche, 5 year tenor
- The Fund's total debt facility limit will increase to $210 million post the Transaction
  - Pro forma headroom in excess of $22 million
- On completion of the Transaction the Fund's gearing is 33.5% on a pro forma 30 June 2017 basis
  - Within the target level of below 40%
- Other transaction costs include equity raising fees, debt establishment costs and legal and other advisor fees

Sources of funds	$m
Equity Raising	50.1
Drawdown of debt facility	63.9
Total sources	**114.0**

Uses of funds	$m
Acquisition of 150 Charlotte Street	105.8
Stamp duty	6.1
Other transaction costs	2.2
Total uses	**114.0**

Equity Raising

Overview

Structure and size	• 1 for 6.25 accelerated, non-renounceable entitlement offer to raise approximately $50 million – Record date is 7pm (Sydney time) on 12 October 2017 – Comprises an accelerated Institutional Entitlement Offer and a Retail Entitlement Offer – Retail Entitlement Offer opens on 16 October 2017 and closes on 30 October 2017
Pricing	• Fixed issue price of $2.23 per unit represents a: – 1.8% discount to the last close price of $2.27 on 9 October 2017 – 2.2% discount to the 5 day VWAP of $2.28 on 9 October 2017 – 1.5% discount to the theoretical ex-rights price (TERP) of $2.26[1]
Ranking	• Units issued under the Equity Raising will rank equally with existing AOF units and be fully entitled to the distribution for the three months to 31 December 2017
Underwriting	• The Equity Raising is fully underwritten by Credit Suisse (Australia) Limited and UBS AG, Australia Branch
Directors and major unitholder intentions	• Australian Unity corporate entities and funds managed by Australian Unity subsidiaries, AOF's largest unitholding group with approximately 13.8% of units on issue, have committed to maintain their pro rata holding through participation in the Equity Raising • Directors of the Responsible Entity that hold units will subscribe for their full entitlement

1. The theoretical ex-rights price (TERP) is the theoretical price at which units should trade after the ex-date for the Equity Raising. TERP is a theoretical calculation only and the actual price at which units trade immediately after the ex-date for the Equity Raising will depend on many factors and may not be equal to TERP

Equity Raising

Timetable

Event	Date 2017
Trading halt and announcement of the Transaction	Tuesday, 10 October
Institutional Entitlement Offer Bookbuild	Tuesday, 10 October
Trading of securities recommences on the ASX on an 'ex-entitlement' basis	Wednesday, 11 October
Entitlement Offer Record Date	7:00pm, Thursday, 12 October
Retail Entitlement Offer Booklet is despatched and Retail Entitlement Offer opens	9:00am, Monday, 16 October
Early Retail Acceptance Due Date	5:00pm, Wednesday, 18 October
Settlement of units issued under the Institutional Entitlement Offer and Retail Entitlement Offer for applications received by the Early Retail Acceptance Due Date	Thursday, 19 October
Allotment and normal trading of units issued under the Institutional Entitlement Offer and Retail Entitlement Offer for applications received by the Early Retail Acceptance Due Date	Friday, 20 October
Retail Entitlement Offer closes	5:00pm, Monday, 30 October
Allotment of remaining units issued under the Retail Entitlement Offer	Tuesday, 7 November
Normal trading of remaining securities issued under the Retail Entitlement Offer	Wednesday, 8 November

All dates and times are indicative only and subject to change. Unless otherwise specified, all times and dates refer to AEDT. Any changes to the timetable will be posted on AOF's website at www.australianunityofficefund.com.au

Conclusion

Executing on strategy

- ✓ A quality, A Grade property located in Brisbane's CBD
- ✓ Complementary to AOF's portfolio and strategy
- ✓ Capitalises on an opportunity in the improving Brisbane market
- ✓ Enhanced scale and trading liquidity, improving the potential for S&P/ASX300 index inclusion
- ✓ Conservative capital structure maintained
- ✓ AOF re-affirms FY18 FFO and distribution guidance

Appendix A

Pro forma balance sheet

Pro forma balance sheet

$'000	30 June 2017	Equity raising	Acquisition	Pro forma 30 June 2017
Assets				
Cash and cash equivalents	4,118	48,408	(48,408)	4,118
Receivables	432	-	-	432
Financial assets	232	-	-	232
Other assets	361	-	-	361
Investment properties	441,067	-	105,750	546,817
Total assets	**446,210**	**48,408**	**57,342**	**551,960**
Liabilities				
Distributions payable	5,334	-	-	5,334
Payables	4,332	-	-	4,332
Borrowings	122,817	-	63,549	186,366
Total Liabilities	**132,483**	**-**	**63,549**	**196,032**
Net Assets	**313,727**	**48,408**	**(6,207)**	**355,928**
Number of units on issue (million)	140.4	22.5	-	162.8
Net Tangible Assets per unit ($)	**2.23**			**2.19**
Gearing[1]	**27.0%**			**33.5%**

1. Calculated as interest bearing liabilities, excluding unamortised establishment costs ($683,000 as at 30 June 2017 and $1,083,000 pro forma for the Acquisition) less cash divided by total tangible assets less cash

Appendix B

Property portfolio

Property portfolio

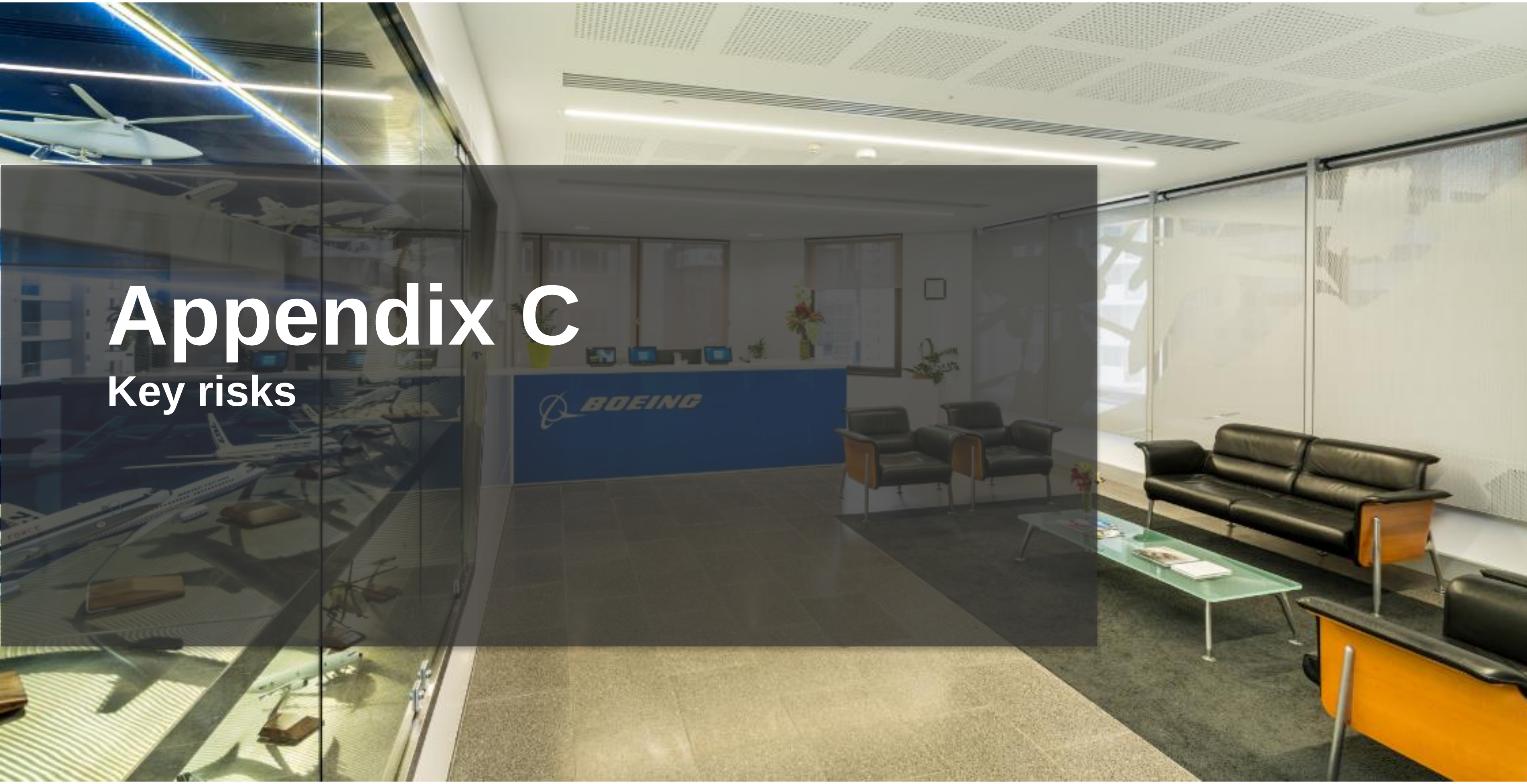
As at 30 June 2017

Property	State	Book value ($m)	Cap rate	NLA (sqm)	WALE[1] (years)	Occupancy (By NLA)
Single or Dominant tenant assets						
30 Pirie Street, Adelaide	SA	119.0	7.50%	24,781	5.7	91.7%
10 Valentine Avenue, Parramatta	NSW	86.0	7.75%	15,995	4.8	100.0%
5 Eden Park Drive, North Ryde	NSW	52.4	6.75%	11,018	6.6	89.9%
32 Phillip Street, Parramatta	NSW	41.7	7.00%	6,759	6.0	100.0%
Multi Tenant Assets						
468 St Kilda Road, Melbourne	VIC	51.0	6.75%	11,186	3.1	90.8%
241 Adelaide Street, Brisbane	QLD	36.8	8.50%	11,078	2.5	85.3%
2 Eden Park Drive, North Ryde	NSW	34.5	8.00%	10,345	2.7	100.0%
64 Northbourne Ave, Canberra	ACT	19.7	9.00%	6,418	3.7	92.6%
Total / weighted average		**441.1**	**7.5%**	**97,580**	**4.6**	**93.5%**
150 Charlotte Street, Brisbane	QLD	105.8	6.00%	11,011	5.7	100.0%
Pro-forma total / weighted average		**546.9**	**7.2%**	**108,591**	**4.8**	**94.2%**

1. Pro forma as at 30 June 2017, by Gross Property Income. This excludes The Brisbane Club at 241 Adelaide Street, Brisbane as the tenant has approximately 45 years remaining on the lease and would thus distort the metric

Appendix C

Key risks



Key risks

Summary of key risks

There are a number of risks, of general and specific nature, which may affect the future operating and financial performance of AOF, its investment returns and the value of its units. Many of the circumstances giving rise to these risks are beyond the control of Australian Unity Investment Real Estate (**AUIRE**).

AUIRE has an Audit and Risk Committee to, among other things, oversee the risk management framework for identifying, assessing, mitigating and monitoring material risks arising from the activities of the Fund.

This section describes certain specific areas that are believed to be the major risks associated with an investment in AOF. Broadly, these risks include:

(a) risks associated with the Acquisition;

(b) risks specific to AOF and the industry in which AOF operates;

(c) general risks relating to investments in property; and

(d) general risks associated with an investment in AOF, including (among other things), liquidity risk, economic conditions and changes in legislation or regulatory policies.

Each of the risks described below could, if they eventuate, have a material adverse effect on AOF's operating and financial performance. You should note that the risks in this section are not exhaustive. There may be other risks which AUIRE is not presently aware of or may arise in the future, which may also have a material impact on AOF's performance. You should consider carefully the risks described in this section, as well as other information in this presentation, and consult your financial or other professional adviser before making an investment decision.

Acquisition risks

Due diligence and reliance on information provided

AUIRE undertook a due diligence process in respect of the Acquisition, which relied in part on the review of financial and other information provided by the vendor of the Brisbane property. Despite taking reasonable efforts, there is a risk that AUIRE has not been able to verify the accuracy, reliability or completeness of all the information which was provided to it against independent data.

If any of the data or information provided to (and relied upon) by AUIRE in its due diligence processes proves to be incomplete, incorrect or misleading, there is a risk that the actual financial position and performance of the Fund may be materially different to the financial position and performance expected by AUIRE.

Over-rented property

The property located at 150 Charlotte Street, Brisbane (Property) is slightly over-rented. The difference between the rent paid by the tenants and the market rent of the property (as assessed by the valuer) has been calculated and a present value amount of ~$3.5 million has been determined. This present value amount has been added to the core value of the Property which, over time, and all other things being equal, will reduce the assessed fair market value of the Property to its core value.

Concentration risk

The property located at 150 Charlotte Street, Brisbane, has one key tenant, being Boeing (which provides approximately 61% of the income). In recent years, Boeing has won a large number of Australian Government Department of Defence contracts and, as a result, has had to take additional space in buildings surrounding the Brisbane property to deal with increased staff levels.

Under the Boeing lease, the landlord must not lease any other space within the building without first giving Boeing a written offer to lease those premises on the same terms and conditions as the existing Boeing lease. This may add further to the concentration of Boeing at this Property.

Alternatively, if Boeing's future growth business conditions continue and the Fund is not able to accommodate Boeing’s growth aspirations, there is a risk that Boeing will be required to vacate the Property in 2024 and find an office property more suitable to their needs.

If Boeing defaults or leaves, particularly if the tenancy cannot be relet on equivalent terms within the estimated timeframes or at all, then distributions and the unit price may be negatively impacted.

Key risks

Summary of key risks

Acquisition risks

Contraction rights

Boeing is entitled to hand back up to two whole floors (approximately 12% of the gross property income of the Property) of its tenancy at any time after 1 July 2017 with 12 months prior written notice. As at the date of this document, AOF has not received any notice to this effect. This represents approximately 2% of the gross property income of the Fund (assuming the Acquisition of the Property completes). If Boeing chooses to exercise this right, there is a risk that this space cannot be relet on equivalent terms within the estimated timeframes or at all, then distributions and the unit price may be negatively impacted.

Maintenance risk

The Fund will be responsible for capital repairs in respect of the Property and may incur capital expenditure costs for alterations required due to changes in statutory and compliance requirements (such as changes to environmental, building or safety regulations and standards). There is a risk that this capital expenditure may be higher than anticipated.

Equity funding risk

AUIRE has entered into an underwriting agreement under which the underwriters have agreed to fully underwrite the Equity Raising, subject to the terms and conditions of the underwriting agreement including customary conditions precedent.

If certain events occur, the underwriter may terminate the underwriting agreement. Such "termination events" include, among others, misleading or deceptive disclosure documents, AOF ceasing to be listed or its units ceasing to trade, timetable delays, regulatory action, insolvency, or a change in an independent director of AUIRE or a member of senior management of AOF. In addition, a breach of the underwriting agreement, hostilities commencing (or a major escalation of existing hostilities) in certain jurisdictions, or a disruption in certain financial markets may entitle the underwriters to terminate if the event has a materially adverse effect on the success of the entitlement offer or will give rise to a liability of, or contravention of an applicable law by, the underwriters.

Termination of the underwriting agreement would have an adverse impact on the availability of the proceeds of the Equity Raising. In such a case, AUIRE may not have sufficient equity funding for the Acquisition or have sufficient funding to repay the tranche. (see "Debt funding risk").

Debt funding risk

AUIRE has received a credit approved commitment from an existing financier to provide an additional tranche of funding under the Fund's existing debt facility.

The proposed additional tranche comprises a $70 million, 5 year tranche with, if required, an additional $20 million tranche also available for a period of four weeks to provide funds for the settlement of the Acquisition which will occur prior to funds from the retail component of the Equity Raising being received. The funds received from the retail component of the Equity Raising will be used to fully repay the tranche.

The proposed additional debt tranche will only be available on finalisation and execution of full-form financing documents and satisfaction of each condition precedent in the documents associated with the proposed additional debt tranche (which will include customary conditions precedent such as receipt of legal opinions, verification certificates and due diligence reports in respect of the Property and payment fees). If full form financing documents are not entered into or there is a failure to satisfy the applicable conditions precedent, funds would not be available under the additional tranche. In such a case, AUIRE may not have sufficient funding for the Acquisition and may be required to seek alternative funding and if not available would not be able to complete the Acquisition.

Key risks

Summary of key risks

AOF specific risks

Reliance on key tenants

Distributions made by the Fund are largely dependent on the rents received from tenants across the property portfolio. A number of the Fund's properties have significant or key tenants.

If any tenant defaults in performing their obligations under the lease or leaves, particularly if that tenancy cannot be re-let on equivalent terms within the estimated timeframes or at all, then distributions made pursuant to the Fund's distribution policy (**Distributions**) and the unit price of the Fund may be negatively affected. This risk is heightened where it is a key tenant whose rent represents a significant proportion of the Fund's net operating income.

Further, if a property remains wholly or materially vacant for any significant period of time, this may impact adjoining tenancies, may impact the Fund's ability to achieve market rents or may require higher incentives to be paid to secured tenants. Any negative impact on net operating income (or consequential impacts on asset valuation) has the potential to impact on Distributions and the unit price.

Funding and refinancing risk

To fund further acquisitions, capital expenditure and other material capital events, the Fund intends to rely on a combination of funding options including equity and debt. Gearing magnifies gains and losses in the Fund.

An inability to attract funding may adversely affect the Fund's ability to make future acquisitions or to meet future capital expenditure needs that in turn could adversely affect the growth prospects of the Fund, the unit price or even the Fund's ability to maintain its properties to the requisite standard (which in turn may affect its ability to retain existing, or to attract new, tenants). An inability to refinance any debt (either on acceptable terms or at all) or any increase in the cost of such funding, may also adversely impact the performance and the financial position of the Fund.

Breach of debt covenants

The Fund's debt facility (**Debt Facility**) contains financial covenants which are based on the principal amount of debt outstanding, the properties' valuations and net income tests. A breach of these covenants may be caused by many factors including a material and adverse event relating to a property (such as the loss of a key tenant), reduced valuations or by market conditions including interest rate increases. A covenant breach may result in the Fund paying higher interest rates or the lenders choosing to enforce their security over one or a number of properties and/or requiring the Fund to repay the Fund's Debt Facility immediately or on short notice. Alternative financing may not be available, or may only be available on less favourable terms. The Fund may be required to sell properties or reduce or suspend Distributions in order to repay debt. If a forced sale occurs, it could result in a less than optimal price or a capital loss, dilution through further equity raising, or suspension of Distributions to repay the Debt Facility.

Interest rates

Interest payable on the Fund's Debt Facility will depend on the interest rate (which is comprised of a and variable base interest rate plus a margin) and the principal amount of debt outstanding. Fluctuations in interest rates will affect the financial performance of the Fund.

To the extent that interest rates are not hedged or fixed, the financial position including the cost of debt will be affected, and could result in decreased Distributions. If hedged through fixed rates or interest rate swaps and interest rates increase from current levels, similar interest rates may not be available upon extension/refinancing of that debt or the implementation of new hedging strategies. A change in variable interest rates over time may require the Fund to mark to market the fair value of its interest rate swaps and this may result in an asset or liability being recognised on the Fund's balance sheet, thereby changing the net tangible assets (**NTA**) per unit.

Management conflicts

In addition to managing the assets of the Fund, Australian Unity Funds Management Limited ABN 60 071 497 115 (**AUFML**) is also the manager of three other commercial property funds. The management of properties for different funds may lead to conflicts of interest. The Fund has sought to mitigate this risk by making it a term of the agreement between AUIRE and AUFML (**Investment Management Agreement**) that AUFML must consider investment opportunities which are relevant to the Fund and other clients of AUFML in accordance with the management of conflicts and related party transactions policy of Australian Unity Limited ABN 23 087 648 888 (**Australian Unity**).

Key risks

Summary of key risks

AOF specific risks

Responsible Entity and management performance

By investing in the Fund, unitholders have delegated investment decisions to AUIRE and its officers. AUIRE has delegated the day to day management of the Fund and the portfolio to AUFML and Australian Unity Property Management Pty Limited ABN 76 073 590 600 (**AUPM**), as well as to other external service providers. Accordingly, the Fund is reliant on the management expertise, support, experience and strategies of the key executives of Australian Unity and other third parties, which cannot be assured. If Australian Unity (and its subsidiaries) and other third parties do not perform as service providers this could have an adverse impact on the management and performance of the Fund and therefore Distributions and the unit price.

If AUIRE is replaced as responsible entity of the Fund by an entity that is not a related body corporate of Australian Unity, there is potential for adverse effects to be experienced by the Fund due to the loss of the services of AUFML (as the Investment Management Agreement will terminate automatically), and AUPM under the property management Agreement (including the obligation to pay AUPM management fees in this event). Replacement of AUIRE as the responsible entity of the Fund is also an event of default under the Debt Facility (unless the lenders otherwise consent to the change).

Acquisitions and divestments

The Fund has a strategy to provide further diversification of properties and net operating income through new acquisitions. This strategy would be undertaken to increase and preserve forecast returns and, as a result, new acquisitions may affect forecast Distributions and any tax deferred portion of income Distributions. For new acquisitions, the Fund will rely upon, among other things, the advice of independent property valuation experts. In relying on this advice, there is the risk that the fair value for a property is less than the purchase price, which may cause write-downs and capital losses in the future. Conversely, the Fund may undertake to dispose of a property to preserve forecast returns or to satisfy covenants in the Fund's Debt Facility, which carries the risk that the realised value of a property might be less than the purchase price or its current book value.

It is possible that suitable new acquisitions cannot be identified, or that the Fund may not be able to secure their purchase or otherwise complete. It is also possible that due diligence undertaken in connection with new acquisitions does not reveal issues that could later have a materially adverse impact on Distributions and the unit price. For example, if due diligence has failed to reveal latent defects in the construction of a property or necessary capital expenditure, the additional requirements could reduce the value of or future returns on that property. The Fund may be unable to identify suitable investment opportunities, thereby restricting the Fund’s ability to add properties to its existing portfolio. This may adversely impact the ability to secure additional investment or funding, and also the returns to unitholders.

Contraction rights

Tenants may have the right under their lease to hand back part of the NLA covered by their leases during the terms of the lease. If the tenant chooses to exercise this right, there is a risk that if the space cannot be re-let on equivalent terms or at all, then Distributions and the unit price of the Fund may be negatively affected. Further, if the space remains wholly or materially vacant for any significant period of time, this may impact adjoining tenancies which may impact the Fund’s ability to achieve market rents or may require higher incentives to be paid to secured tenants. Any negative impact on rental income has the potential to impact on Distributions and the unit price.

In addition to the Boeing lease, the NSW State Government also has the right to hand back up to five floors (approximately 34% of the gross property income of the property) under the terms of its lease at 10 Valentine Avenue, Parramatta between December 2019 and December 2020. This represents approximately 5% of the gross property income of the Fund (assuming the Acquisition of the Brisbane property completes).

Leasehold interests

The Fund’s portfolio includes two properties that are not owned by the Fund but in respect of which the Fund has a leasehold interest (in which a third party holds freehold title to the property). Other than as noted below, leasehold title is different from freehold title in a number of ways but most importantly it relies solely on the existence of a lease (such that if the lease is terminated or not renewed on expiry this would deprive the Fund of its right to occupy the leased premises and it would lose its right to sub-lease and earn rent from the premises).

Key risks

Summary of key risks

AOF specific risks

Leasehold interests (continued)

The expiry dates for each of these leasehold interests is:

241 Adelaide Street, Brisbane, QLD: 26 March 2063; and

64 Northbourne Avenue, Canberra, ACT: 10 September 2097 (noting that most land in the Australian Capital Territory is leased to private lessees under long term Crown leases. Subject to some exceptions, a Crown lease is akin to ownership and is governed by the *Land Titles Act 1925* (ACT) and the *Planning and Development Act 2007* (ACT)).

The Fund may also purchase further assets in the future which are held under third party lease arrangements. There is no guarantee that any such leases will be able to be renewed (at all, or on suitable terms) and the leases are subject to certain termination rights, including a right for the landlord to terminate the Fund's lease for a breach by the Fund of the lease. The nature of the leasehold interest may adversely affect the valuation of that property, particularly as the term of the leasehold interest reduces.

Concentration by sector

The portfolio currently comprises, and the Fund intends to continue to invest in, office properties located in Australian metropolitan and CBD office markets. The performance of the Fund will largely depend on the performance of this specific property sector, in the specific geographies where its portfolio is located.

Compliance risk

AUIRE is subject to strict regulatory and compliance arrangements under the *Corporations Act 2001* (Cth) (**Corporations Act**) and ASIC policy. If AUIRE breaches the Corporations Act or the terms of its AFSL, ASIC may take action to suspend or revoke the licence, which in turn would adversely impact the ability of AUIRE to manage the Fund. In order to ensure compliance with the constitution of the Fund, the Corporations Act and the ASX Listing Rules, AUIRE has adopted a compliance plan which sets out the key processes AUIRE will apply in complying with its compliance obligations.

General risks relating to an investment in property

Revenue and lease default risk

Distributions made by the Fund are largely dependent on the amount of rent received from tenants of the Fund's properties, and those tenants paying rent in accordance with their lease terms (as well as on the expenses incurred conducting the operations of the Fund).

AUIRE has made a number of assumptions in relation to the level of rental income that the Fund will receive, however, rental income may differ from those assumptions and may be affected by a number of factors, including:

- Overall economic conditions;
- The financial condition of tenants (which may increase the risk of default);
- The Fund's ability to extend leases or to replace outgoing tenants with new tenants;
- Increases in rental arrears and vacancy periods;
- An increase in non-recoverable outgoings; and
- Supply and demand in the property market.

In particular, tenants may default on their lease obligations, resulting in potential capital losses and/or a reduction in income to the Fund. The amount of any capital loss or loss of income may not be covered in full or at all by bank or personal guarantees (if held).

Any negative impact on rental income has the potential to adversely impact on Distributions and the unit price of the Fund.

Key risks

Summary of key risks

General risks relating to an investment in property

The risk of non-renewal and vacancy
The portfolio's leases come up for renewal on a periodic basis and there is a risk that if the Fund is unable to negotiate a lease extension with an existing tenant at the end of their lease, or replace a tenant on expiry with leases to new tenants on at least equivalent rental rates and other key terms, in either case, within the estimated timeframes or at all, there may be an impact on Distributions and a negative impact of the valuation for that property. It may also reduce the weighted average lease expiry, which may affect marketability of the property and the units, and will affect the forecasts of the Fund. The Fund could also incur additional costs associated with re-leasing any properties.

Incentives
The ability of the Fund to secure lease renewals or to obtain replacement tenants may be influenced by any tenant incentives granted. AUIRE has made a number of assumptions in relation to the level of incentives that the Fund may grant. The Fund may not be able to secure actual rental income at or near the 'market' rental rates, which are usually expressed without incentives. Incentives may result in a material outlay or reduced actual income initially or over the term of the lease, which may have significant impacts on both the cash flow generated from that property and the valuation of that property. The availability and extent of incentives are a market-driven issue and arise due to competition for the same tenants within a local market. They are inherent in the property sector and largely outside the control of the Fund. Furthermore, any unwillingness of the Fund to provide incentives required (due to market competition) to secure lease renewals or replacement tenants, or to some tenants on a different basis to others, may result in extended periods of vacancy for a property. Such vacancies may have an adverse impact on existing tenant sentiment, Distributions and the unit price of the Fund.

Property valuation risk
The ongoing valuation and revaluation of a property (or a new acquisition) is largely influenced by changes in the factors that affect overall property market performance including supply, demand, capitalisation rates, occupancy levels, lease expiries, incentives, capital expenditure and nearby amenities. There is no guarantee that a property will achieve a market or sale price equal to the current valuation, or that the valuation upon which the Fund purchases a property can be achieved in a subsequent sale.
There is no guarantee that a property's valuation will increase, or that it will not decrease, as a result of the assumptions in the valuation proving to be incorrect.
Different valuers may value the same property differently, depending on their own internal criteria, research and experience. The same property may have a different valuation amount when a new independent valuer is appointed to a property. The properties will generally have different valuations depending on the stage of the broader economic cycle, and valuations may change depending on the risks outlined in this section. A reduction in the value of any property may adversely affect the value of units in the Fund. It may also impact on the Fund's financing arrangements. As changes of valuations of investment properties are recorded in the income statement, any decreases in value will have a negative impact on the Fund's financial performance.

Property liquidity
Real property is, by its nature, an illiquid form of investment, and the properties may take a long time to sell. In the event that the Fund needs to divest a property (for example to achieve a debt reduction to lower gearing), time constraints may mean the Fund is not able to realise the book value of the property or achieve an optimal sales price. There is no guarantee that the time a property is put onto the market coincides with an optimal time to sell, particularly when the sale is driven by a factor other than receipt of a favourable third party offer. This may adversely affect the unit price of the Fund.

Capital expenditure and development risks
The Fund is responsible for capital repairs and reinvestment at its properties (including at its properties where it has a leasehold interest). The Fund may incur capital expenditure costs for unforeseen structural problems arising from a defect in a property or alterations required due to changes in statutory and compliance requirements (such as changes to environmental, building or safety regulations and standards). Over time, capital expenditure will be required to maintain the properties, and also to improve the properties or to install market-standard equipment, technologies and systems to retain and attract tenants. The risk that capital expenditure could exceed forecast spend may result in increased funding costs, lower Distributions and property valuation write-downs.

Key risks

Summary of key risks

General risks relating to an investment in property

Capital expenditure and development risks (continued)

Additionally, the Fund might in the future undertake material refurbishments, property works or extensions and additions. The Fund will not undertake speculative developments but may undertake, or acquire properties subject to, development activities. These developments or acquisitions may involve tenant pre-commitments or other risk mitigation strategies before any commencement of development activities. Committed tenants may not ultimately take up a lease on the terms contemplated, or at all. Development may expose the Fund to risks associated with development including counterparty risk, contract and sub-contract risk, default risk and market risk. Standards applied to properties when an issue becomes apparent may not be standards which applied when the property was constructed. The Fund may need to make claims under warranties, and defective construction may not be covered under statutory or contractual warranties, and may not be insured or may involve litigation and delays.

Litigation and disputes

In the ordinary course of operations, the Fund may be involved in disputes and possible litigation. AUIRE is subject to a duty to act in the best interests of unitholders, and may be compelled to enter into dispute or litigation processes in circumstances where another entity without that duty might not, or might otherwise settle for a different commercial result. AUIRE also has a duty to protect the value of the properties and may necessarily have to be involved in disputes in respect of the properties such as for warranty or defects claims against developers and their subcontractors or against tenants in the event of any default of a tenant's obligations under their lease. The results of dispute processes and litigation are often uncertain, and are subject to appeal. There is always a possibility that general business operations may be affected both financially and through the diversion of significant management time in running those proceedings. Disputes may adversely affect Distributions and the unit price of the Fund.

Competition

The Fund faces competition from new and existing property investors. Some of these competitors have significantly greater scale, and may have an advantage in acquiring properties relative to the Fund due to more readily available sources of capital and a lower return threshold. Competition for new acquisitions in the sector in which the Fund operates may make it difficult for the Fund to acquire properties and to increase its scale or its level of diversification. Additionally, the existence of competition for tenants may have a materially adverse impact on the ability of the Fund to secure new tenants or retain existing tenants on satisfactory rates over an acceptable period. This may impact the Fund's rental revenue and possibly capital values which may adversely affect Distributions and the unit price of the Fund.

Health and safety

The Fund may attract liability for health and safety matters which occur on or around the properties as the landlord, whether or not a tenant is also involved. In extreme circumstances, penalties may be levied against AUIRE or its associates. These may not be covered by insurance, or there may be a dispute between insurers as to liability. Any material health and safety incident may generate adverse publicity, and is likely to impact upon the performance of the Fund and the return on your units.

Insurance

AUIRE insures the properties in line with industry practice. However, no assurance can be given that a particular risk or combination of risks is insurable or, even if insured, the insurance policy will respond in full or at all. Insurance may only cover direct causation events and no other indirect effects such as loss of rent while a property is being repaired. Any losses due to uninsured risks may adversely affect the performance of the Fund.

Environmental risks

Property income, Distributions or property valuations could be adversely affected by discovery of an environmental contaminant and the costs of property preservation associated with environmental contamination. This risk may occur whether or not the contamination was accidental, caused by the Fund, or by prior owners or third parties. It may not be possible to ascertain in due diligence on a new acquisition. Remediation costs may be significant, and there may be consequential effects such as property closure and loss of rent (including potential costs of relocation of tenants in some circumstances) which could adversely affect Distributions and the unit price of the Fund. It may also potentially hinder the ability to dispose of the property. In addition, new or more stringent environmental laws or regulations introduced in the future, for example, in order to combat climate change, may require the Fund to undertake material expenditure to ensure that the relevant standards are met.

Key risks

Summary of key risks

General investment risks

Trading price and volatility of units
The trading price of any listed security may change, depending on matters inherent to the Fund itself (such as its portfolio and any material litigation it might become involved in), but also due to external factors such as property prices generally, market sentiment or takeover offers. Securities on the ASX may be thinly or heavily traded, and can be very volatile, irrespective of any change in the underlying value of the properties in the Fund. Units may trade at a discount to NTA per unit. There can be no guarantee that the number of buyers at any point in time in the market will match or exceed the number of sellers, or that unitholders will be able to sell for a price which they or AUIRE believe fairly reflects the value of their units. Some classes of securities or segments such as property are countercyclical, and may not demonstrate market price increases when other securities in other classes are performing well.

Liquidity risk
The units available under the entitlement offer are intended to be listed on the ASX. Although liquidity generally exists in this secondary market, there are no guarantees that an active trading market with sufficient liquidity will develop, or should it develop after the entitlement offer, that such a secondary market will sustain a price level at or around the offer price or representative of the NTA per unit.

Ranking on an insolvency
In the event of any liquidation or winding up of the Fund, the claims of the Fund's creditors will rank ahead of those of its unitholders. Under such circumstances the Fund will first repay or discharge all claims of its creditors. Any surplus assets will then be distributed to the Fund's unitholders. All unitholders will rank equally in their claim and will be entitled to an equal share per unit.

Natural phenomena (force majeure)
Some natural events are unable to be foreseen and are beyond the control of the Fund. Acts of God such as cyclones and storms, flooding and water ingress, fires, earthquakes and acts of terrorism, wars and strikes may affect one or more properties. Some force majeure events are effectively non-insurable or are commercially too expensive to insure, and some events may not be covered by a relevant Fund insurance policy. If a property was to be affected by an event that has no insurance coverage for a significant event, this would affect the value of the property and have a materially adverse impact on the Fund resulting in capital losses, a reduction in the NTA per unit, and reduce unitholder returns. It is also likely that there would be indirect consequences, such as damage to services and potential loss of rent. Such events would likely lead to increased premiums.

Economic and market conditions
There is the risk that changes in economic and market conditions may affect asset returns and values and may decrease the unit price of the Fund. The overall performance of units may be affected by changing economic or property market conditions. These may include movements in interest rates, exchange rates, securities markets, inflation, consumer spending, employment and the performance of individual local, state, national and international economies. A general economic downturn may have a significant negative impact on the unit price of the Fund.

Taxation
Changes in general taxation law and, in particular, income tax, GST or stamp duty legislation, case law in Australia, rulings and determinations issued by the Australian Commissioner of Taxation or other practices of tax authorities, particularly in regard to property investment, may adversely affect the Fund's returns. Any changes to the tax regime applicable to the Fund, or AUIRE's ability to make tax deferred Distributions, may adversely affect the tax treatment of Distribution in the hands of investors. Tax considerations may differ between investors. Therefore, investors are encouraged to seek professional tax advice in connection any investments in units. There are particular taxation rules that apply to offshore investors in managed investment schemes. Offshore investors should obtain their own taxation advice in relation to those rules.

Key risks

Summary of key risks

General investment risks

Accounting standards
Changes in accounting standards may affect the reported earnings and the financial position of the Fund in future financial periods.

Legal, regulatory and policy changes
Changes in law, government legislation, regulation and policy in jurisdictions in which the Fund operates may adversely affect the value of the portfolio and/or the Fund’s future earnings and performance, as well as the value of units quoted on the ASX.

Appendix D

Offer Jurisdictions

Offer jurisdictions

This document does not constitute an offer of new units ("New Units") of the Fund in any jurisdiction in which it would be unlawful. In particular, this document may not be distributed to any person, and the New Units may not be offered or sold, in any country outside Australia except to the extent permitted below.

Hong Kong

WARNING: This document has not been, and will not be, authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the "SFO"). No action has been taken in Hong Kong to authorise this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the New Units have not been and will not be offered or sold in Hong Kong other than to “professional investors" (as defined in the SFO).

No advertisement, invitation or document relating to the New Units has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the New Units which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors as defined in the SFO and any rules made under that ordinance.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

New Zealand

This document has not been registered, filed with or approved by any New Zealand regulatory authority under the Financial Markets Conduct Act 2013 (the "FMC Act").

The New Units are not being offered to the public within New Zealand other than to existing unitholders of the Fund with registered addresses in New Zealand to whom the offer of these securities is being made in reliance on the FMC Act and the Financial Markets Conduct (Incidental Offers) Exemption Notice 2016.

Other than in the entitlement offer, the New Units may only be offered or sold in New Zealand (or allotted with a view to being offered for sale in New Zealand) to a person who:

- is an investment business within the meaning of clause 37 of Schedule 1 of the FMC Act;
- meets the investment activity criteria specified in clause 38 of Schedule 1 of the FMC Act;
- is large within the meaning of clause 39 of Schedule 1 of the FMC Act;
- is a government agency within the meaning of clause 40 of Schedule 1 of the FMC Act; or
- is an eligible investor within the meaning of clause 41 of Schedule 1 of the FMC Act.

Singapore

This document has not been registered as a prospectus with the Monetary Authority of Singapore ("MAS") and, accordingly, statutory liability under the Securities and Futures Act, Chapter 289 (the "SFA") in relation to the content of prospectuses does not apply, and you should consider carefully whether the investment is suitable for you. The issuer is not authorised or recognised by the MAS and the New Units are not allowed to be offered to the retail public. This document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the New Units may not be circulated or distributed, nor may the New Units be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except to "institutional investors" (as defined in the SFA), or otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

This document has been given to you on the basis that you are an "institutional investor" (as defined under the SFA). In the event that you are not an institutional investor, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the New Units being subsequently offered for sale to any other party. You are advised to acquaint yourself with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

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Summary information

This presentation contains summary information about AUIRE, AOF and their associated entities and their activities current as at the date of this presentation. The information provided in this presentation is general information only. It does not purport to include or summarise all information that an investor should consider when making an investment decision nor does it contain all the information which would be required in a product disclosure statement or other disclosure document prepared in accordance with the requirements of the *Corporations Act 2001* (Cth). It is to be read in conjunction with the 'Australian Unity Office Fund Annual Financial Report for the year ended 30 June 2017' lodged with the ASX on 8 August 2017 and AUIRE's other periodic and continuous disclosure announcements lodged with the ASX which are available at www.asx.com.au.

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Investment risk

An investment in units in the Fund is subject to known and unknown risks, some of which are beyond the control of AUIRE, including possible loss of income and principal invested. AUIRE does not guarantee any particular rate of return or the performance of the Fund, nor does it guarantee any particular tax treatment. Investors should have regard to (amongst other things) the risk factors outlined in this presentation when making their investment decision. See the "Key Risks" section of this presentation for certain risks relating to an investment in the Fund.

No investment or financial product advice

The information contained in this presentation does not constitute investment or financial product advice (nor taxation, accounting or legal advice) and is not a recommendation to acquire units in the Fund. This presentation has been prepared without taking into account the investment objectives, financial position or needs of any particular individual. Before making an investment decision, prospective investors should consider the appropriateness of the information (including but not limited to the assumptions, uncertainties and contingencies which may affect future operations of the Fund and the values and the impact that different future outcomes may have on the Fund) having regard to their own investment objectives, financial situation and needs and should seek legal, accounting and taxation advice appropriate to their jurisdiction. AUIRE is not licensed to provide investment or financial product advice in respect of the units in the Fund. Cooling off rights do not apply to the acquisition of New Units pursuant to the Entitlement Offer.

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Certain statements in this presentation may constitute forward-looking statements or statements about future matters (including forecast financial information) that are based upon information known and assumptions made as of the date of this presentation. These statements are subject to internal and external risks and uncertainties that may have a material effect on future business. Actual results may differ materially from any future results or performance expressed, predicted or implied by the statements contained in this presentation. As such, undue reliance should not be placed on any forward looking statement. A number of important factors could cause AOF's actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements, including the risk factors described in the "Key Risks" section of this presentation. Nothing contained in this presentation nor any information made available to investors or potential investors is, or shall be relied upon as, a promise, representation, warranty or guarantee, whether as to the past, present or future by the Fund, AUIRE or any other person (including any director, officer or any related body corporate of AUIRE), except as required by law.

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Past performance and pro-forma historical information in this presentation is given for illustrative purposes only and should not be relied upon (and is not) an indication of future performance. Historical information in this presentation relating to AUIRE or the Fund is information that has been released to the market. For further information, please see past announcements released to ASX.

Financial data
All dollar values are in Australian dollars ($ or AUD) unless stated otherwise. All references starting with “FY” refer to the financial year for AUIRE, ending 30 June. For example, “FY17” refers to the financial year ending 30 June 2017.

Effect of Rounding
A number of figures, amounts, percentages, estimates, calculations of value and fractions in this presentation are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this presentation.

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Investors acknowledge and agree that determination of eligibility of investors for the purposes of the Entitlement Offer is determined by reference to a number of matters, including legal and regulatory requirements, logistical and registry constraints and the discretion of AUIRE and/or the Limited Parties, and each of AUIRE and the Limited Parties disclaim any duty or liability (including for negligence) in respect of that determination and the exercise or otherwise of that discretion, to the maximum extent permitted by law. The Limited Parties may rely on information provided by or on behalf of institutional investors in connection with managing, conducting and underwriting the Entitlement Offer and without having independently verified that information and the Limited Parties do not assume any responsibility for the accuracy or completeness of that information.

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