

# ASX Announcement – Australian Unity Office Fund

6 February 2018

## Appendix 4D Australian Unity Office Fund (AOF) Results for the Half Year Ended 31 December 2017

### Results for announcement to the market

1.0	<b>Reporting period</b>  Current reporting period  Prior reporting period	6 months to 31 December 2017  6 months to 31 December 2016			
2.0	<b>Results for announcement to the market</b>	<b>31 Dec 2017</b> <b>\$'000</b>	<b>31 Dec 2016</b> <b>\$'000</b>	<b>Movement</b> <b>\$'000</b>	<b>Movement</b> <b>%</b>
2.1	Total revenues and other income (Note 1)	24,898	22,079	2,819	12.77%
2.2	Profit from ordinary activities after tax attributable to members	26,269	27,824	(1,555)	(5.59)%
2.3	Net profit for the period attributable to members	26,269	27,824	(1,555)	(5.59)%
2.3A	Directors assessment of Funds From Operations (Note 2)	13,078	12,740	338	2.65%
2.3B	Distributions declared from Funds From Operations	11,825	10,389	1,436	13.82%
2.4	<b>Distributions</b>  Distribution declared for the quarter to 30 September 2017  Distribution declared for the quarter to 31 December 2017	<b>Amount per unit</b> 3.90 cents 3.90 cents	<b>Record date</b> 29 Sept 2017 29 Dec 2017		
2.5	Record date for determining entitlement to the distributions	Refer section 2.4			
2.6	Brief explanation of any figures in 2.1 to 2.4 necessary to enable the figures to be understood.	Refer to the financial report for the half year ended 31 December 2017 attached to this Appendix 4D for further information.			
3	Net tangible assets per security (Note 3)	<b>31 Dec 2017</b> \$2.31	<b>31 Dec 2016</b> \$2.08		
4	Details of entities over which control has been gained or lost during the period, including the following.	Not applicable			
5	Details of individual and total distributions and distribution payments.	<b>Date Paid</b>	<b>Amount Per Unit</b>	<b>Foreign Sourced Income</b>	
	Distribution for the quarter to 30 September 2017	13 Oct 2017	3.90 cents	n/a	
	Distribution for the quarter to 31 December 2017	16 Jan 2018	3.90 cents	n/a	
6	Details of any distribution reinvestment plans in operation and the last date for the receipt of an election notice for participation in any distribution reinvestment plan.	The AOF Distribution Reinvestment Plan is not yet active.			
7	Details of associates and joint venture entities including the following.	Not applicable			
8	For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Financial Reporting Standards).	Not applicable			
9	If the accounts have been audited and contain an independent audit report that is subject to a modified opinion, emphasis of matter or other matter paragraph, a description of the modified opinion, emphasis of matter or other matter paragraph.	Not applicable.			

Note (1): Total revenues and other income comprises rental income and interest income.

Note (2): Directors use Property Council of Australia's definition of Funds From Operations ("FFO") as a key determinant of the level of distributions to pay and aims to distribute between 80% and 100% of AOF's FFO each year. FFO is a Property Council of Australia definition which adjusts statutory Australian Accounting Standards net profit for non-cash changes in investment properties, non-cash impairment of goodwill, non-cash fair value adjustments to financial instruments, amortisation of incentives and leasing costs, rental straight-line adjustments and other unrealised or one-off items.

#### ASX code:

AOF

#### Issuer

Australian Unity Investment Real Estate Limited

ABN 86 606 414 368

AFSL 477434

#### Enquiries:

Australian Unity Office Fund Investor Services

1300 721 637 or

+61 2 8016 2890

(outside Australia)

#### Contact details:

Australian Unity Limited

114 Albert Road

South Melbourne VIC 3205

Tel: 13 29 39

# **Australian Unity Office Fund**

ARSN 113 369 627

## **Interim financial report for the half-year ended 31 December 2017**

# Australian Unity Office Fund

ARSN 113 369 627

## Interim financial report for the half-year ended 31 December 2017

<b>Contents</b>	<b>Page</b>
Directors' report	2
Auditor's independence declaration	7
Consolidated statement of comprehensive income	8
Consolidated statement of financial position	9
Consolidated statement of changes in net assets attributable to unitholders	10
Consolidated statement of cash flows	11
Notes to the consolidated financial statements	12
Directors' declaration	19
Independent auditor's review report to the unitholders of Australian Unity Office Fund	20

## Directors' report

The directors of Australian Unity Investment Real Estate Limited (ABN 86 606 414 368), the Responsible Entity of Australian Unity Office Fund ("the Scheme"), present their report together with the consolidated financial statements of the Scheme for the half-year ended 31 December 2017.

### 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):

Peter Day	Independent Non-Executive Director and Chairman
Don Marples	Independent Non-Executive Director and Chairman of the Audit & Risk Committee
Eve Crestani	Non-Executive Director
Greg Willcock	Non-Executive Director
Kirsty Dullahide	Executive Director

### Company secretary

The company secretaries of the Responsible Entity during the half-year and up to the date of this report are Emma Rodgers and Liesl Petterd.

## Operating and financial review

### Principal activities

The Scheme is an ASX-listed REIT that wholly owns a diversified portfolio of nine office properties located across Australian metropolitan and CBD office markets.

### Investment objective and strategy

The Scheme's objective is to provide unitholders with sustainable income returns via quarterly distributions and the potential for capital growth over the long-term by investing in a diversified portfolio of Australian office properties.

The Scheme's strategy is to:

- Focus predominantly on owning Australian office properties in metropolitan and CBD markets
- Grow net property income and enhance capital values through active asset management
- Deliver investors sustainable and growing income returns via quarterly distributions
- Maintain a capital structure which has target gearing below 40%
- Construct a portfolio that maintains diversification of geography, tenants and lease expiry profile through:
  - (i) investments in existing properties (which may include undertaking refurbishment and alterations to meet changing tenant requirements, and where income risk can be substantially mitigated, undertaking redevelopment of a property); and
  - (ii) potential future acquisitions.

The Responsible Entity will review this strategy from time to time when it considers it in the best interests of unitholders to do so.

The appointed Investment Manager of the Scheme's assets is Australian Unity Funds Management Limited (ABN 60 071 497 115).

Australian Unity Property Management Pty Ltd (ABN 76 073 590 600) has been appointed to provide a number of property related services to the Scheme.

### Financial result

The following tables summarise the statutory profit for the half-year ended 31 December 2017 and provides a comparison to the statutory profit for the half-year ended 31 December 2016 and to the Product Disclosure Statement issued on 23 May 2016 ("PDS") as part of the Initial Public Offering.

Statutory profit for the half-year ended 31 December 2017 and comparison to the half-year ended 31 December 2016:

\$'000	Actual 1HFY18	Actual 1HFY17
Rental Income *	24,219	22,073
Property Expenses **	(6,131)	(5,505)
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	(1,368)	(2,056)
<b>Net property income</b>	<b>16,720</b>	<b>14,512</b>
Interest income	16	6
Net (loss)/gain on financial instruments held at fair value	(317)	1,353
Net fair value increment of investment properties	14,876	15,787
Responsible Entity and Investment Manager fees	(1,534)	(1,217)
Borrowing costs	(2,970)	(2,138)
Other expenses	(522)	(479)
<b>Profit before finance costs attributable to unitholders</b>	<b>26,269</b>	<b>27,824</b>

Statutory profit for the half-year ended 31 December 2017 and comparison to PDS forecast:

\$'000	Actual 1HFY18	PDS Forecast 1HFY18^
Rental Income *	24,219	22,000
Property Expenses **	(6,131)	(5,600)
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	(1,368)	(2,400)
<b>Net property income</b>	<b>16,720</b>	<b>14,100</b>
Interest income	16	-
Net (loss)/gain on financial instruments held at fair value***	(317)	-
Net fair value increment of investment properties***	14,876	-
Responsible Entity and Investment Manager fees	(1,534)	(1,300)
Borrowing costs	(2,970)	(2,600)
Other expenses	(522)	(500)
<b>Profit before finance costs attributable to unitholders</b>	<b>26,269</b>	<b>9,800</b>

^Differences may exist due to rounding.

\* Rental Income does not include the impact of straight lining of rental income

\*\* Property Expenses does not include the amortisation of leasing commissions and tenant incentives

\*\*\* As disclosed in the PDS, the PDS did not forecast any potential fair value adjustments of investment properties and derivative financial instruments on the basis that such amounts could not be reliably determined at the date of the PDS.

As at 31 December 2017, the Scheme's net assets attributable to unitholders per unit was \$2.31 (30 June 2017: \$2.23).

### Funds From Operations

The Scheme uses Property Council of Australia's definition of Funds From Operations ("FFO") as a key determinant of the level of distributions to pay and aims to distribute between 80% and 100% of the Scheme's FFO each year.

FFO is a Property Council of Australia definition which adjusts statutory Australian Accounting Standards net profit for non-cash changes in investment properties, non-cash impairment of goodwill, non-cash fair value adjustments to financial instruments, amortisation of incentives and leasing costs, rental straight-line adjustments and other unrealised or one-off items.

A reconciliation of the statutory profit to FFO and distributions is set out below for the half-year ended 31 December 2017 and provides a comparison to the statutory profit for the half-year ended 31 December 2016 and to the Product Disclosure Statement issued on 23 May 2016 ("PDS") as part of the Initial Public Offering.

Statutory profit to FFO for the half-year ended 31 December 2017 and comparison to the half-year ended 31 December 2016:

\$'000	Actual 1HFY18	Actual 1HFY17
Net profit	26,269	27,824
Adjusted for:		
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	1,368	2,056
Net (loss)/gains on financial instruments held at fair value	317	(1,353)
Net fair value increment of investment properties	(14,876)	(15,787)
<b>Funds From Operations</b>	<b>13,078</b>	<b>12,740</b>
<b>Distributions declared</b>	<b>11,825</b>	<b>10,389</b>

Cents per unit	Actual 1HFY18	Actual 1HFY17
Funds From Operations	8.6	9.1
Distributions declared	7.8	7.4
Payout ratio (Distributions declared/Funds From Operations)	90.7%	81.3%

Statutory profit to FFO for the half-year ended 31 December 2017 and comparison to PDS forecast:

\$'000	Actual 1HFY18	PDS Forecast 1HFY18^
Net profit	26,269	9,800
Adjusted for:		
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	1,368	2,400
Net gains on financial instruments held at fair value	317	-
Net fair value increment of investment properties	(14,876)	-
<b>Funds From Operations</b>	<b>13,078</b>	<b>12,100</b>
<b>Distributions declared</b>	<b>11,825</b>	<b>10,900</b>

^Differences may exist due to rounding.

Cents per unit	Actual 1HFY18	PDS Forecast 1HFY18
Funds From Operations	8.6	8.6
Distributions declared	7.8	7.8
Payout ratio (Distributions declared/Funds From Operations)	90.7%	90.7%

### **Property portfolio**

At 31 December 2017, the Scheme wholly owned a diversified portfolio of nine office properties located across Australian metropolitan and CBD markets. The portfolio is valued at \$574,784,000 (30 June 2017: \$441,067,000) and has a total net lettable area of 108,626 sqm (30 June 2017: 97,580 sqm).

### **a) Leasing and occupancy**

Since 1 July 2017, the Scheme has completed approximately 6,150 sqm of leasing across 16 separate transactions. This represents approximately 5.7% of the portfolio by area. Approximately 3,000 sqm of the completed leasing related to space that was previously vacant.

At 31 December 2017, the Scheme's investment properties weighted average lease expiry was 4.5 years (30 June 2017: 4.6 years) and occupancy rate was 94.4% (30 June 2017: 93.5%).

### **b) Acquisition and entitlement offer**

On 20 October 2017, the Scheme completed the purchase of 150 Charlotte Street, Brisbane, QLD for a purchase price of \$105,750,000 and acquisition costs of \$6,558,000. The acquisition was funded via a \$50,085,000 accelerated, non-renounceable entitlement offer and a \$70,000,000 increase in the Scheme's debt facilities. Immediately post acquisition 150 Charlotte Street was revalued to its valuation of \$105,750,000.

### **c) Valuations**

Four properties were externally valued as at 31 December 2017; namely, 10 Valentine Ave, Parramatta, NSW; 468 St Kilda Rd, Melbourne, VIC; 2 Eden Park Dr, North Ryde, NSW; and 64 Northbourne Ave, Canberra, ACT. Combined these valuations have resulted in an increase of \$20,067,000 or 10.23% over the preceding book value for those properties externally valued.

### **d) 32 Phillip Street, Parramatta, NSW**

During the half year the NSW State Government advised the Investment Manager that it wishes to enter into negotiations to acquire 32 Phillip Street, Parramatta. The Investment Manager is working through negotiations to ensure the best possible outcome for unitholders and customers. If an agreement is not reached via negotiation the NSW State Government may seek to compulsorily acquire the property. An update will be provided when further information is available.

### **Outlook and guidance**

The Scheme will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Scheme and in accordance with the provisions of the Scheme's Constitution.

The Responsible Entity is focused on leasing current vacancy and reducing short-to-medium term lease expiry risk.

The Responsible Entity confirms Funds From Operations guidance for the 2018 financial year of 17.1 cents per unit to 17.3 cents per unit and distribution guidance for the 2018 financial year of 15.6 cents per unit. This guidance is subject to no material change in current market conditions and no unforeseen events. Distributions will continue to be paid quarterly.

### **Significant changes in state of affairs**

In the opinion of the directors, there were no significant changes in the state of affairs of the Scheme that occurred during the half-year, except those mentioned elsewhere in the report.

### **Events occurring after end of the half-year**

No other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the operations of the Scheme, the results of operations, or the state of the Scheme's affairs in the future reporting periods.

### **Indemnification and insurance of officers and auditors**

While insurance cover is in place, no insurance premiums are paid for out of the assets of the Scheme in regards to insurance cover provided to either the officers of Australian Unity Investment Real Estate Limited or the auditors of the Scheme. So long as the officers of Australian Unity Investment Real Estate Limited act in accordance with the Scheme's Constitution and the *Corporations Act 2001*, the officers remain indemnified out of the assets of the Scheme against losses incurred while acting on behalf of the Scheme. The auditors of the Scheme are in no way indemnified out of the assets of the Scheme.

**Environmental regulation**

The property operations within the Scheme are subject to environmental regulations under Australian law. There have been no known reportable breaches of these regulations.

**Rounding of amounts to the nearest thousand dollars**

The Scheme is an entity of a kind referred to in ASIC Corporations Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report and financial statements. Amounts in the directors' report and financial statements have been rounded to the nearest thousand dollars.

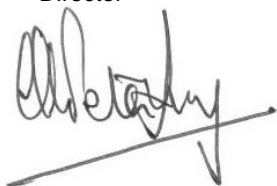
**Auditor's independence declaration**

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

Signed in accordance with a resolution of the directors of Australian Unity Investment Real Estate Limited.



Don Marples  
Director



Peter Day  
Chairman

5 February 2018





## Auditor's Independence Declaration

As lead auditor for the review of Australian Unity Office Fund for the half-year 31 December 2017, I declare that 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 Australian Unity Office Fund and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'G. Sagonas'.

George Sagonas  
Partner  
PricewaterhouseCoopers

Melbourne  
5 February 2018

Australian Unity Office Fund  
Consolidated statement of comprehensive income  
For the half-year ended 31 December 2017

**Consolidated statement of comprehensive income**

		Half-year	
	Notes	2017 \$'000	2016 \$'000
<b>Income</b>			
Rental income		24,882	22,073
Property expenses		(8,162)	(7,561)
<b>Net property income</b>		<b>16,720</b>	14,512
Interest income		16	6
Net (losses)/gains on financial instruments held at fair value through profit or loss	3	(317)	1,353
Net fair value increment of investment properties	7(b)	14,876	15,787
<b>Total income net of property expenses</b>		<b>31,295</b>	31,658
<b>Expenses</b>			
Responsible Entity and Investment Manager fees		1,534	1,217
Borrowing costs		2,970	2,138
Other expenses		522	479
<b>Total expenses, excluding property expenses</b>		<b>5,026</b>	3,834
<b>Profit attributable to unitholders</b>		<b>26,269</b>	27,824
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive income attributable to unitholders</b>		<b>26,269</b>	27,824
<b>Basic and diluted earnings per unit attributable to unitholders</b>		<b>16.13</b>	19.82

*The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.*

**Australian Unity Office Fund**  
**Consolidated statement of financial position**  
**As at 31 December 2017**

**Consolidated statement of financial position**

		<b>31 December 2017</b>	30 June 2017
	Notes	<b>\$'000</b>	\$'000
<b>Assets</b>			
Cash and cash equivalents		<b>4,087</b>	4,118
Receivables		<b>1,154</b>	432
Other assets		<b>428</b>	361
Financial assets held at fair value through profit or loss	6	-	232
Investment properties	7	<b>574,784</b>	441,067
<b>Total assets</b>		<b>580,453</b>	446,210
<b>Liabilities</b>			
Distributions payable	5	<b>6,350</b>	5,334
Payables		<b>3,897</b>	4,332
Financial liabilities held at fair value through profit or loss	6	<b>85</b>	-
Borrowings	8	<b>193,524</b>	122,817
<b>Total liabilities</b>		<b>203,856</b>	132,483
<b>Net assets attributable to unitholders</b>	4	<b>376,597</b>	313,727

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

Australian Unity Office Fund  
**Consolidated statement of changes in net assets attributable to unitholders**  
**For the half-year ended 31 December 2017**

---

**Consolidated statement of changes in net assets attributable to unitholders**

	<b>Half-year</b>	
	<b>2017</b>	2016
	<b>\$'000</b>	\$'000
<b>Balance at the beginning of the half-year</b>	<b>313,727</b>	274,146
Profit attributable to unitholders	<b>26,269</b>	27,824
Distributions to unitholders	<b>(11,825)</b>	(10,389)
Issue of units net of transaction costs	<b>48,426</b>	-
<b>Balance at the end of the half-year</b>	<b>376,597</b>	291,581

*The above consolidated statement of changes in net assets attributable to unitholders should be read in conjunction with the accompanying notes.*

Australian Unity Office Fund  
Consolidated statement of cash flows  
For the half-year ended 31 December 2017

**Consolidated statement of cash flows**

	Half-year	
	2017	2016
	\$'000	\$'000
<b><i>Cash flows from operating activities</i></b>		
Interest received	16	6
Rental income received	23,496	22,330
Payments to suppliers	(8,689)	(7,719)
<b>Net cash inflow from operating activities</b>	<b>14,823</b>	<b>14,617</b>
<b><i>Cash flows from investing activities</i></b>		
Payments for additions to owned investment properties	(7,901)	(6,320)
Purchase of an investment property	(105,750)	-
Acquisition costs on purchase	(6,558)	-
<b>Net cash outflow from investing activities</b>	<b>(120,209)</b>	<b>(6,320)</b>
<b><i>Cash flows from financing activities</i></b>		
Proceeds from issue of units	50,085	-
Units issued transaction costs	(1,658)	-
Proceeds from/(repayment of) borrowings	71,000	(1,000)
Borrowing costs paid	(3,263)	(2,023)
Payment of swap break costs	-	(7,987)
Distributions paid	(10,809)	(5,700)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>105,355</b>	<b>(16,710)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(31)</b>	<b>(8,413)</b>
Cash and cash equivalents at the beginning of the half-year	4,118	10,589
<b>Cash and cash equivalents at the end of the half-year</b>	<b>4,087</b>	<b>2,176</b>

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

**Notes to the consolidated financial statements**

	<b>Page</b>
1 General information	13
2 Basis of preparation	13
3 Net (losses)/gains on financial instruments held at fair value through profit or loss	14
4 Net assets attributable to unitholders	14
5 Distributions to unitholders	15
6 Financial (liabilities)/assets held at fair value through profit or loss	15
7 Investment properties	15
8 Borrowings	16
9 Fair value measurement of financial instruments	17
10 Events occurring after end of the half-year	18
11 Contingent assets and liabilities and commitments	18

## **1 General information**

These consolidated financial statements cover Australian Unity Office Fund and its subsidiaries ("the Scheme"). The Scheme was constituted on 23 March 2005. The Scheme will terminate on the 80th anniversary unless terminated earlier in accordance with the provisions of the Scheme's Constitution.

The Responsible Entity of the Scheme is Australian Unity Investment Real Estate Limited ("AUIREL") (ABN 86 606 414 368) (the "Responsible Entity"), a wholly owned subsidiary of Australian Unity Limited (ABN 23 087 648 888). The Responsible Entity's registered office is Level 14, 114 Albert Road, South Melbourne, VIC 3205.

The Responsible Entity is incorporated and domiciled in Australia.

The consolidated financial statements are for the period 1 July 2017 to 31 December 2017.

The consolidated financial statements were authorised for issue by the directors of the Responsible Entity on 5 February 2018. The directors of the Responsible Entity have the power to amend and reissue the consolidated financial statements.

The Scheme's assets are managed by Australian Unity Funds Management Limited (ABN 60 071 497 115) ("the Investment Manager"), a related party of the Responsible Entity.

## **2 Basis of preparation**

These consolidated interim financial statements for the half-year ended 31 December 2017 have been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standard AASB 134 *Interim Financial Reporting*.

This consolidated interim financial report does not include all the notes of the type normally included in a set of annual financial statements. Accordingly, this report is to be read in conjunction with the annual financial statements for the year ended 30 June 2017 and any public announcements made in respect of the Scheme during the reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The significant accounting policies have been consistently applied in the current financial period and the comparative period, unless otherwise stated. Where necessary, comparative information has been re-presented to be consistent with current period disclosures.

The consolidated financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The consolidated statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are generally expected to be recovered or settled within 12 months, except for investment properties, financial assets (liabilities) held at fair value through profit or loss, borrowings and net assets attributable to unitholders, where the amount expected to be recovered or settled within 12 months after the end of the reporting period cannot be reliably determined.

The Scheme is an entity of a kind referred to in ASIC Corporations Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the consolidated financial statements. Amounts in the consolidated financial statements have been rounded to the nearest thousand dollars.

### *Compliance with International Financial Reporting Standards*

Compliance with AASB 134 ensures that the interim consolidated financial report of the Scheme, comprising the consolidated financial statements and notes thereto, complies with the International Accounting Standard IAS 34 *Interim Financial Reporting*.

## 2 Basis of preparation (continued)

### *New accounting standards amendment adopted by the Scheme*

The Scheme applied the following accounting standard amendment that became mandatory for the first time during the reporting period:

*AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107*  
AASB 2016-2 amends AASB 107 *Statements of Cash Flows* to require entities to provide disclosure that enable users of financial statements to evaluate cash and non-cash changes in their financing activities. The adoption of the new disclosure requirement did not have a material impact on the Scheme's financial statements.

## 3 Net (losses)/gains on financial instruments held at fair value through profit or loss

	Half-year	
	2017	2016
	\$'000	\$'000
Net unrealised (loss)/gain on derivatives	(317)	9,340
Net realised loss on derivatives - swap break costs	-	(7,987)
<b>Total net (losses)/gains on financial instruments held at fair value through profit or loss</b>	<b>(317)</b>	<b>1,353</b>

## 4 Net assets attributable to unitholders

As stipulated within the Scheme's Constitution, each unit represents a right to an individual share in the Scheme and does not extend to a right to the underlying assets of the Scheme.

Movements in the number of units and net assets attributable to unitholders during the half-year were as follows:

	Notes	Movement in no. of units		Movement in net assets	
		Half-year		Half-year	
		2017	2016	2017	2016
<b>Contributed equity</b>		No. '000	No. '000	\$'000	\$'000
Opening balances		140,372	140,372	322,343	322,343
Issue of units		22,460	-	50,085	-
Units issued transaction costs		-	-	(1,659)	-
<b>Closing balance</b>		<b>162,832</b>	<b>140,372</b>	<b>370,769</b>	<b>322,343</b>

### **Undistributed income**

Opening balance	(8,616)	(48,197)
Increase in net assets attributable to unitholders	14,444	17,435
<b>Closing balance</b>	<b>5,828</b>	<b>(30,762)</b>

<b>Total net assets attributable to unitholders</b>	<b>376,597</b>	<b>291,581</b>
---	----------------	----------------



## 5 Distributions to unitholders

The distributions declared for the half-year were as follows:

	Half-year			
	2017	2017	2016	2016
	\$'000	CPU	\$'000	CPU
30 September	5,475	3.9000	5,195	3.7000
31 December (payable)	6,350	3.9000	5,194	3.7000
	<u>11,825</u>		<u>10,389</u>	

## 6 Financial (liabilities)/assets held at fair value through profit or loss

	31 December 2017 \$'000	30 June 2017 \$'000
Derivative assets	-	232
<b>Total financial assets held at fair value through profit or loss</b>	<u>-</u>	<u>232</u>
Derivative liabilities	(85)	-
<b>Total financial liabilities held at fair value through profit or loss</b>	<u>(85)</u>	<u>-</u>

## 7 Investment properties

### (a) Property details

	Type	Ownership	Acquisition date	Valuation date	Valuation amount	Valuer	Carrying value 31 December 2017	30 June 2017
		(%)			\$'000		\$'000	\$'000
30 Pirie Street, Adelaide, SA	Office/ Freehold	100%	11/02/2014	30/06/2017	119,000	Jones Lang Lasalle	119,172	119,000
150 Charlotte Street, Brisbane, QLD	Office/ Freehold	100%	20/10/2017	31/10/2017	105,750	Knight Frank	105,752	
10 Valentine Ave, Parramatta, NSW	Office/ Freehold	100%	07/12/2007	31/12/2017	95,000	Knight Frank	95,000	86,000
468 St Kilda Rd, Melbourne, VIC	Office/ Freehold	100%	03/07/2007	31/12/2017	61,500	CBRE	61,500	50,973
5 Eden Park Drive, North Ryde, NSW	Commercial/ Freehold	100%	11/02/2014	30/06/2017	52,400	Savills	53,684	52,400
32 Phillip Street, Parramatta, NSW*	Office/ Freehold	100%	01/06/2007	31/12/2016	41,700	Savills	41,703	41,700
2 Eden Park Drive, North Ryde, NSW	Commercial/ Freehold	100%	20/06/2013	31/12/2017	40,000	CBRE	40,000	34,452
241 Adelaide Street, Brisbane, QLD	Office/ Leasehold	100%	01/06/2007	30/06/2017	36,800	Savills	38,173	36,800
64 Northbourne Avenue, Canberra, ACT	Office/ Leasehold	100%	01/06/2005	31/12/2017	19,800	Savills	19,800	19,742
<b>Total</b>					571,950		574,784	441,067

\*During the half year the NSW State Government advised the Investment Manager that it wishes to enter into negotiations to acquire 32 Phillip Street, Parramatta. The Investment Manager is working through negotiations to ensure the best possible outcome for unitholders and customers. If an agreement is not reached via negotiation the NSW State Government may seek to compulsorily acquire the property. An update will be provided when further information is available.

## 7 Investment properties (continued)

### (a) Property details (continued)

The carrying value of an investment property may vary from the independent valuation of the property due to capital expenditure and the accounting treatment of leasing commissions and lease incentives.

### (b) Movements in carrying amount

Reconciliations of the carrying amounts of investment properties for the reporting period are set out below:

	31 December 2017 \$'000	30 June 2017 \$'000
Opening balance	441,067	392,772
Acquisitions	112,308	-
Additions	7,901	12,831
Lease commissions and incentives amortisation	(2,031)	(4,001)
Straight-lining of rental income	663	472
Revaluation movements	14,876	38,993
<b>Closing balance</b>	<b>574,784</b>	<b>441,067</b>

On 20 October 2017, the Scheme completed the purchase of 150 Charlotte Street, Brisbane, QLD for a purchase price of \$105,750,000 and acquisition costs of \$6,558,000.

## 8 Borrowings

	31 December 2017 \$'000	30 June 2017 \$'000
Bank loan	194,500	123,500
Unamortised borrowing costs	(976)	(683)
	<b>193,524</b>	<b>122,817</b>

The bank loan comprises of three tranches:

- Tranche A is a \$70,000,000 facility expiring on 21 June 2019,
- Tranche B is a \$70,000,000 facility expiring on 21 June 2021, and
- Tranche C is a \$70,000,000 facility expiring on 19 October 2022.

The Scheme had access to:

	31 December 2017 \$'000	30 June 2017 \$'000
<b>Credit facilities</b>		
Cash advance facilities	210,000	140,000
Drawn balance	(194,500)	(123,500)
<b>Undrawn balance</b>	<b>15,500</b>	<b>16,500</b>

The facility is secured against the assets of the Scheme and is non-recourse to unitholders.

## 8 Borrowings (continued)

Reconciliations of the net debt are set out below:

	31 December 2017 \$'000	30 June 2017 \$'000
<b>Analysis of changes in consolidated net debt</b>		
Opening balance	119,382	108,411
Proceeds from borrowings	71,000	4,500
Other cash movements	31	6,471
<b>Closing balance</b>	<b>190,413</b>	<b>119,382</b>
Bank loan	194,500	123,500
Cash and cash equivalents	(4,087)	(4,118)
<b>Consolidated net debt</b>	<b>190,413</b>	<b>119,382</b>

## 9 Fair value measurement of financial instruments

This note provides an update on the judgements and estimates made in determining the fair values of the financial instruments since the last annual financial report. The Scheme measures and recognises financial assets/(liabilities) held at fair value through profit or loss on a recurring basis.

### (a) Fair value hierarchy

The Scheme is required to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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

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

The table below sets out the Scheme's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at the reporting date.

All fair value measurements disclosed are recurring fair value measurements.

## 9 Fair value measurement of financial instruments (continued)

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>31 December 2017</b>				
<b>Financial liabilities</b>				
Financial liabilities held at fair value through profit or loss				
<i>Derivatives</i>	-	85	-	85
<b>Total financial liabilities</b>	-	85	-	85

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>30 June 2017</b>				
Financial assets held at fair value through profit or loss				
<i>Derivatives</i>	-	232	-	232
<b>Total financial assets</b>	-	232	-	232

The Scheme's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. There were no transfers between levels 1, 2 and 3 for fair value hierarchy during the half-year (30 June 2017: \$nil).

### (b) Valuation techniques

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations, or alternative pricing sources supported by observable inputs are classified within level 2. These include over-the-counter derivatives.

The fair value of interest rate swaps is calculated using a discounted cash flow model as the present value of the estimated future cash flows based on observable yield curves. The model incorporates various inputs including both credit and debit valuation adjustments for counterparty and own credit risk, and interest rate curves.

The stated fair value of each financial instruments at the end of the reporting period represents the Responsible Entity's best estimate at the end of the reporting period.

### (c) Fair value of other financial instruments

Due to their short-term nature, the carrying amounts of the receivables and payables are assumed to approximate their fair values.

Borrowings are measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. The fair value of borrowings approximates the carrying amount.

## 10 Events occurring after end of the half-year

The directors of the Responsible Entity are not aware of any matter or circumstance arising since 31 December 2017 which has significantly affected or may significantly affect the financial position of the Scheme disclosed in the consolidated statement of financial position as at 31 December 2017 or on the results and cash flows of the Scheme for the half-year ended on that date.

## 11 Contingent assets and liabilities and commitments

There are no outstanding contingent assets or liabilities as at 31 December 2017 and 30 June 2017.

Commitments arising from contracts principally relating to capital expenditure on investment properties which are contracted for at reporting date but not recognised on the consolidated statement of financial position are \$1,950,000 (30 June 2017: \$5,945,000).

## Directors' declaration

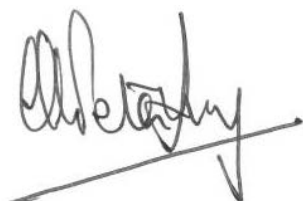
In the opinion of the directors of the Responsible Entity:

- (a) The consolidated financial statements and notes set out on pages 8 to 18 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Australian Accounting Standards as it relates to AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the consolidated Scheme's financial position as at 31 December 2017 and of its performance, as represented by the results of its operations and cash flows for the financial reporting period ended on that date.
- (b) There are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable, and
- (c) The consolidated financial statements are in accordance with the Scheme's Constitution.

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



Don Marples  
Director



Peter Day  
Chairman

5 February 2018



## **Independent auditor's review report to the unitholders of Australian Unity Office Fund**

### ***Report on the Half-Year Financial Report***

We have reviewed the accompanying half-year financial report of Australian Unity Office Fund (the Registered Scheme), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in net assets attributable to unitholders and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors of the Responsible Entity's declaration for Australian Unity Office Fund (the consolidated entity). The consolidated entity comprises the Registered Scheme and the entities it controlled during that half-year.

### ***Directors of the Responsible Entity's responsibility for the half-year financial report***

The directors of Australian Unity Investment Real Estate Limited (the Responsible Entity) are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors of the Responsible Entity determine is necessary to enable the preparation of the half-year 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 half-year financial report based on our review. We conducted our review in accordance with Australian 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 half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Australian Unity Office Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

### ***Independence***

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

---

**PricewaterhouseCoopers, ABN 52 780 433 757**  
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001  
T: 61 3 8603 1000, F: 61 3 8603 1999, [www.pwc.com.au](http://www.pwc.com.au)



### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Australian Unity Office Fund is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in cursive script, appearing to be 'George Sagonas'.

George Sagonas  
Partner

Melbourne  
5 February 2018