

ASX Announcement – Australian Unity Office Fund

6 February 2019

Appendix 4D Australian Unity Office Fund (AOF) Results for the Half Year Ended 31 December 2018

Results for announcement to the market

1.0	Reporting period				
	Current reporting period			6 months to 31 December 2018	
	Prior reporting period			6 months to 31 December 2017	
2.0	Results for announcement to the market	31 Dec 2018	31 Dec 2017	Movement	Movement
		\$'000	\$'000	\$'000	%
2.1	Total revenues and other income (Note 1)	30,274	24,898	5,376	21.59%
2.2	Profit from ordinary activities after tax attributable to members	13,094	26,269	(13,175)	(50.15)%
2.3	Net profit for the period attributable to members	13,094	26,269	(13,175)	(50.15)%
2.3A	Directors assessment of Funds From Operations (Note 2)	14,209	13,078	1,131	8.65%
2.3B	Distributions declared from Funds From Operations	12,864	11,825	1,039	8.79%
2.4	Distributions	Amount per unit	Record date		
	Distribution declared for the quarter to 30 September 2018	3.95 cents	28 Sep 2018		
	Distribution declared for the quarter to 31 December 2018	3.95 cents	31 Dec 2018		
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 2018 attached to this Appendix 4D for further information.			
3	Net tangible assets per security	31 Dec 2018	31 Dec 2017		
		\$2.67	\$2.31		
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.	Date Paid	Amount Per Unit	Foreign Sourced Income	
	Distribution for the quarter to 30 September 2018	15 Oct 2018	3.95 cents	n/a	
	Distribution for the quarter to 31 December 2018	15 Jan 2019	3.95 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 Funds From Operations ("FFO") as a key determinant of the level of distributions to pay and aims to distribute between 80% and 100% of its 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

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Australian Unity Office Fund

ARSN 113 369 627

Interim financial report for the half-year ended 31 December 2018

Australian Unity Office Fund

ARSN 113 369 627

Interim financial report for the half-year ended 31 December 2018

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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 2018.

Directors

The following persons were directors of the Responsible Entity during the half-year and up to the date of this report:

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 were Emma Rodgers and Liesl Petterd.

Operating and financial review

Principal activities

The Scheme is an ASX-listed Real Estate Investment Trust 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 is 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 table summarises the statutory profit for the half-year ended 31 December 2018 and provides a comparison to the statutory profit for the half-year ended 31 December 2017.

\$'000	1HFY19	1HFY18
Rental Income *	27,934	24,219
Property Expenses **	(7,324)	(6,131)
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	67	(1,368)
Net property income	20,677	16,720
Interest income	15	16
Net losses on financial instruments held at fair value	(1,151)	(317)
Net fair value increment of investment properties	171	14,876
Responsible Entity and Investment Manager fees	(1,958)	(1,534)
Borrowing costs	(3,954)	(2,970)
Other expenses	(706)	(522)
Profit attributable to unitholders	13,094	26,269

* 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 at 31 December 2018, the Scheme's net assets attributable to unitholders per unit was \$2.67 (30 June 2018: \$2.67).

Funds From Operations

The Scheme uses the 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 2018 and 31 December 2017.

\$'000	1HFY19	1HFY18
Net profit	13,094	26,269
Adjusted for:		
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	(67)	1,368
Net losses on financial instruments held at fair value	1,151	317
Net fair value increment of investment properties	(171)	(14,876)
Once off adjustment***	202	-
Funds From Operations	14,209	13,078
Distributions declared	12,864	11,825

***The Scheme incurred costs in relation to the aborted Starwood transaction. As these costs are one off in nature, and not part of the underlying and recurring earnings of the Scheme, the directors have excluded them from the FFO calculation

Cents per unit	1HFY19	1HFY18
Funds From Operations	8.7	8.6
Distributions declared	7.9	7.8
Payout ratio (Distributions declared/Funds From Operations)	90.5%	90.7%

Property portfolio

At 31 December 2018, the Scheme wholly owned a diversified portfolio of nine office properties located across Australian metropolitan and CBD markets. The portfolio is valued at \$640,987,000 (30 June 2018: \$635,550,000) and has a total net lettable area of 107,604 sqm (30 June 2018: 107,647 sqm).

a) Leasing and occupancy

Since 1 July 2018, the Scheme has completed approximately 4,600 sqm of leasing across 19 separate transactions. This represents approximately 4.2% of the portfolio by area. Approximately 3,000 sqm of the completed leasing relates to space that was vacant on 30 June 2018.

At 31 December 2018, the Scheme's investment properties weighted average lease expiry was 3.8 years (30 June 2018: 4.1 years) and occupancy rate was 95.1% (30 June 2018: 95.0%).

b) Valuations

Four properties were externally valued as at 31 December 2018; namely, 30 Pirie Street, Adelaide, SA; 32 Phillip Street, Parramatta, NSW; 2 Eden Park Drive, North Ryde, NSW; and 150 Charlotte Street, Brisbane, QLD. Combined these valuations have resulted in an increase of \$238,000 or 0.07% over the preceding book value for those properties externally valued.

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, reducing short-to-medium term lease expiry risk and growing FFO.

The Responsible Entity reconfirms Funds From Operations guidance for the 2019 financial year of 17.2 cents per unit to 17.4 cents per unit and distribution guidance for the 2019 financial year of 15.8 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.

Other significant events during the half-year

During the half-year the Responsible Entity announced that it had received an unsolicited, indicative and non-binding all cash offer from Starwood Capital Asia Limited (Starwood) to acquire all units in the Scheme. Starwood subsequently provided a revised, lower, proposal, which was rejected by the Responsible Entity.

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 2018 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 6.

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



Don Marples
Director and Chairman of the Audit & Risk Committee



Eve Crestani
Director
6 February 2019



Auditor's Independence Declaration

As lead auditor for the review of Australian Unity Office Fund for the half-year ended 31 December 2018, 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', with a large, stylized 'G' and a long horizontal stroke.

George Sagonas
Partner
PricewaterhouseCoopers

Melbourne
6 February 2019

Australian Unity Office Fund
Consolidated statement of comprehensive income
For the half-year ended 31 December 2018

Consolidated statement of comprehensive income

		Half-year	
	Notes	2018	2017
		\$'000	\$'000
Income			
Rental income		30,259	24,882
Property expenses		(9,582)	(8,162)
Net property income		20,677	16,720
Interest income		15	16
Net losses on financial instruments held at fair value through profit or loss	3	(1,151)	(317)
Net fair value increment of investment properties	6(b)	171	14,876
Total income net of property expenses		19,712	31,295
Expenses			
Responsible Entity's fees		1,958	1,534
Borrowing costs		3,954	2,970
Other expenses		706	522
Total expenses, excluding property expenses		6,618	5,026
Profit attributable to unitholders		13,094	26,269
Other comprehensive income		-	-
Total comprehensive income attributable to unitholders		13,094	26,269
Basic and diluted earnings per unit attributable to unitholders		8.04	16.13

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 2018

Consolidated statement of financial position

		31 December 2018	30 June 2018
	Notes	\$'000	\$'000
Assets			
Cash and cash equivalents		6,215	6,177
Receivables		1,877	820
Other assets		446	586
Investment properties	6	640,987	635,550
Total assets		649,525	643,133
Liabilities			
Distributions payable	5	6,432	6,350
Payables		5,211	4,402
Financial liabilities held at fair value through profit or loss	7	1,448	297
Borrowings	8	201,295	197,175
Total liabilities		214,386	208,224
Net assets attributable to unitholders	4	435,139	434,909

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 equity
For the half-year ended 31 December 2018

Consolidated statement of changes in equity

	Half-year	
	2018	2017
	\$'000	\$'000
Balance at the beginning of the half-year	434,909	313,727
Comprehensive income for the half-year		
Profit attributable to unitholders	13,094	26,269
Other comprehensive income attributable to unitholders	-	-
Total comprehensive income attributable to unitholders	13,094	26,269
Transactions with unitholders		
Distributions to unitholders	(12,864)	(11,825)
Issue of units net of transaction costs	-	48,426
Total transactions with unitholders	(12,864)	36,601
Balance at the end of the half-year	435,139	376,597

The above consolidated statement of changes in equity 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 2018

Consolidated statement of cash flows

	Half-year	
	2018	2017
	\$'000	\$'000
<i>Cash flows from operating activities</i>		
Interest received	15	16
Rental income received	26,877	23,496
Payments to suppliers	(9,039)	(8,689)
Net cash inflow from operating activities	17,853	14,823
<i>Cash flows from investing activities</i>		
Payments for additions to owned investment properties	(5,199)	(7,901)
Purchase of an investment property	-	(105,750)
Acquisition costs on purchase	-	(6,558)
Net cash outflow from investing activities	(5,199)	(120,209)
<i>Cash flows from financing activities</i>		
Proceeds from issue of units	-	50,085
Units issued transaction costs	-	(1,658)
Proceeds from borrowings	4,000	71,000
Borrowing costs paid	(3,834)	(3,263)
Distributions paid	(12,782)	(10,809)
Net cash (outflow)/inflow from financing activities	(12,616)	105,355
Net increase/(decrease) in cash and cash equivalents	38	(31)
Cash and cash equivalents at the beginning of the half-year	6,177	4,118
Cash and cash equivalents at the end of the half-year	6,215	4,087

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

Notes to the consolidated financial statements

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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 2018 to 31 December 2018.

The consolidated financial statements were authorised for issue by the directors of the Responsible Entity on 6 February 2019. 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 2018 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 2018 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 amendments adopted by the Scheme

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

AASB 9 *Financial Instruments* addresses the classification, measurement, recognition and derecognition of financial assets and financial liabilities. It has also introduced revised rules for hedge accounting and impairment. AASB 9 has been applied retrospectively by the Scheme and did not result in a change to the classification or measurement of the Scheme's financial instruments. The Scheme's derivatives continue to be classified as fair value through profit or loss and borrowings continue to be measured at amortised cost. The derecognition rules have not been changed from the previous requirements and the Scheme does not apply hedge accounting. There was no material impact on the Scheme's consolidated financial statements from application of the new impairment model.

AASB 15 *Revenue from Contracts with Customers* sets out the requirements for recognising revenue that applies to all contracts with customers, except for contracts that are within the scope of the accounting standards for leases, insurance contracts and financial instruments. The Scheme's main source of income includes rental income, interest and gains on financial instruments held at fair value through profit or loss. All of these are outside the scope of the Revenue standard. Consequently, the application of AASB 15 has no material impact on the Scheme's consolidated financial statements.

3 Net losses on financial instruments held at fair value through profit or loss

	Half-year	
	2018	2017
	\$'000	\$'000
Net unrealised losses on derivatives	(1,151)	(317)
Total net losses on financial instruments held at fair value through profit or loss	(1,151)	(317)

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:

	Movement in no. of units Half-year		Movement in net assets Half-year	
	2018 No. '000	2017 No. '000	2018 \$'000	2017 \$'000
Contributed equity				
Opening balances	162,832	140,372	370,757	322,343
Issue of units	-	22,460	-	50,085
Units issued transaction costs	-	-	-	(1,659)
Closing balance	162,832	162,832	370,757	370,769
Undistributed income				
Opening balance			64,152	(8,616)
Increase in net assets attributable to unitholders			230	14,444
Closing balance			64,382	5,828
Total net assets attributable to unitholders			435,139	376,597

5 Distributions to unitholders

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

	Half-year			
	2018 \$'000	2018 CPU	2017 \$'000	2017 CPU
30 September	6,432	3.9500	5,475	3.9000
31 December (payable)	6,432	3.9500	6,350	3.9000
	12,864	7.9000	11,825	7.8000

6 Investment properties

(a) Property details

	Type	Ownership (%)	Acquisition date	Valuation date	Valuation amount \$'000	Valuer	Carrying value	
							31 December 2018 \$'000	30 June 2018 \$'000
30 Pirie Street, Adelaide, SA	Office/ Freehold	100%	11/02/2014	31/12/2018	121,500	Jones Lang Lasalle	121,500	121,500
10 Valentine Ave, Parramatta, NSW	Office/ Freehold	100%	07/12/2007	30/06/2018	115,000	Savills	115,497	115,000
150 Charlotte Street, Brisbane, QLD	Office/ Freehold	100%	20/10/2017	31/12/2018	105,750	Savills	105,750	105,750
468 St Kilda Rd, Melbourne, VIC	Office/ Freehold	100%	03/07/2007	30/06/2018	71,250	CBRE	71,736	71,250
5 Eden Park Drive, North Ryde, NSW	Commercial/ Freehold	100%	11/02/2014	30/06/2018	61,500	Knight Frank	62,084	61,500
32 Phillip Street, Parramatta, NSW	Office/ Freehold	100%	01/06/2007	31/12/2018	56,750	CBRE	56,750	56,500
2 Eden Park Drive, North Ryde, NSW	Commercial/ Freehold	100%	20/06/2013	31/12/2018	45,000	CBRE	45,000	44,250
241 Adelaide Street, Brisbane, QLD	Office/ Leasehold	100%	01/06/2007	30/06/2018	37,500	CBRE	39,837	37,500
64 Northbourne Avenue, Canberra, ACT	Office/ Leasehold	100%	01/06/2005	30/06/2018	22,300	CBRE	22,833	22,300
Total					636,550		640,987	635,550

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 2018 \$'000	30 June 2018 \$'000
Opening balance	635,550	441,067
Acquisitions	-	112,347
Capitalised borrowing cost	58	67
Additions	5,141	11,270
Lease commissions and incentives amortisation	(2,258)	(4,553)
Straight-lining of rental income	2,325	1,635
Revaluation movements	171	73,717
Closing balance	640,987	635,550

7 Financial liabilities held at fair value through profit or loss

	31 December 2018 \$'000	30 June 2018 \$'000
Derivative liabilities	1,448	297
Total financial liabilities held at fair value through profit or loss	1,448	297

8 Borrowings

	31 December 2018 \$'000	30 June 2018 \$'000
Bank loan	202,300	198,300
Unamortised borrowing costs	(1,005)	(1,125)
	<u>201,295</u>	<u>197,175</u>

The bank loan comprises of three tranches:

- \$70,000,000 facility expiring on 21 June 2021,
- \$70,000,000 facility expiring on 19 October 2022, and
- \$80,000,000 facility expiring on 28 June 2023.

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

The Scheme had access to:

	31 December 2018 \$'000	30 June 2018 \$'000
Credit facilities		
Cash advance facilities	220,000	255,000
Drawn balance	(202,300)	(198,300)
Undrawn balance	<u>17,700</u>	<u>56,700</u>

Reconciliations of the net debt are set out below:

	31 December 2018 \$'000	30 June 2018 \$'000
Analysis of changes in consolidated net debt		
Opening balance	192,123	119,382
Proceeds from borrowings	4,000	74,800
Other cash movements	(38)	(2,059)
Closing balance	<u>196,085</u>	<u>192,123</u>
Bank loan	202,300	198,300
Cash and cash equivalents	(6,215)	(6,177)
Consolidated net debt	<u>196,085</u>	<u>192,123</u>

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.

	Level 1	Level 2	Level 3	Total
31 December 2018	\$'000	\$'000	\$'000	\$'000
Non-financial assets				
Investment properties	-	-	640,987	640,987
Total non-financial assets	-	-	640,987	640,987
Financial liabilities				
<i>Financial liabilities held at fair value through profit or loss</i>				
Derivatives	-	1,448	-	1,448
Total financial liabilities	-	1,448	-	1,448

9 Fair value measurement of financial instruments (continued)

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
30 June 2018				
Non-financial assets				
Investment properties	-	-	635,550	635,550
Total non-financial assets	-	-	635,550	635,550
Financial liabilities				
<i>Financial liabilities held at fair value through profit or loss</i>				
Derivatives	-	297	-	297
Total financial liabilities	-	297	-	297

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 2018: \$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 other matter or circumstance arising since 31 December 2018 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 2018 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 2018 and 30 June 2018.

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 \$1,641,000 (30 June 2018: \$2,217,000).

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) The consolidated financial statements and notes set out on pages 7 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 2018 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 and Chairman of the Audit & Risk Committee



Eve Crestani
Director

6 February 2019



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 Scheme), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors of the Responsible Entity's declaration for Australian Unity Office Fund (the Group). The Group comprises the 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 Group's financial position as at 31 December 2018 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

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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 Group's financial position as at 31 December 2018 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*.


PricewaterhouseCoopers


George Sagonas
Partner

Melbourne
6 February 2019