

# ASX Announcement – Australian Unity Office Fund ('AOF')

25 August 2019

## Appendix 4E Australian Unity Office Fund ('AOF') Preliminary Final Report For the Year Ended 30 June 2019

### Results for announcement to the market

1.0	<b>Reporting period</b> Current reporting period Prior reporting period	12 months to 30 June 2019 12 months to 30 June 2018			
2.0	<b>Results for announcement to the market</b>	<b>30 June 2019</b>	<b>30 June 2018</b>	<b>Movement</b>	<b>Movement</b>
		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>%</b>
2.1	Total revenues and other income (Note 1)	58,924	53,402	5,522	10.3%
2.2	Profit from ordinary activities after tax attributable to unitholders	44,828	97,293	(52,465)	(53.9)%
2.3	Net profit for the period attributable to unitholders	44,828	97,293	(52,465)	(53.9)%
2.3A	Directors assessment of Funds From Operations (Note 2)	28,173	27,023	1,150	4.3%
2.4	<b>Distributions</b>	<b>Amount per unit</b>	<b>Record date</b>		
	Distribution for the quarter to 30 September 2018	3.95 cents	28 Sept 18		
	Distribution for the quarter to 31 December 2018	3.95 cents	31 Dec 18		
	Distribution for the quarter to 31 March 2019	3.95 cents	29 Mar 19		
	Distribution for the quarter to 30 June 2019	3.95 cents	28 June 19		
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 annual financial report for the year ended 30 June 2019 attached to this Appendix 4E for further information.			
3-6	A statement of comprehensive income, statement of financial position, a statement of changes in equity and a statement of cash flows.	Refer to the annual financial report for the year ended 30 June 2019 attached to this Appendix 4E for further information.			
7	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 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	
	Distribution for the quarter to 31 March 2019	16 Apr 2019	3.95 cents	n/a	
	Distribution for the quarter to 30 June 2019	16 July 2019	3.95 cents	n/a	
8	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.			

**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 8016 2890

(outside Australia)

**Contact details:**

Australian Unity Limited

271 Spring Street

Melbourne VIC 3000

Tel: 13 29 39

## ASX Announcement – Australian Unity Office Fund (‘AOF’)

		<b>30 June 2019</b>	<b>30 June 2018</b>
9	Net tangible assets per security	\$2.79	\$2.67
10	Details of entities over which control has been gained or lost during the period.	Not applicable	
11	Details of associates and joint venture entities.	Not applicable	
12	Any other significant information needed by an investor to make an informed assessment of the entity’s financial performance and financial position.	Refer to the annual financial report for the year ended 30 June 2019 attached to this Appendix 4E for further information.	
13	For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Financial Reporting Standards).	Not applicable	
14	A commentary on the results for the period.	Refer to the annual financial report for the year ended 30 June 2019 attached to this Appendix 4E for commentary on the results for the period.	
15	A statement as to whether the report is based on accounts which have been audited or subject to review, are in the process of being audited or reviewed, or have not yet been audited or reviewed	The 2019 Annual financial report has been audited and contains an unqualified audit opinion.	
16	If the accounts have not yet been audited and are likely to 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	
17	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.	No modified opinion, emphasis of matter or other matter.	

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

Note (2): Directors use Property Council of Australia’ 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 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.

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# **Australian Unity Office Fund**

ARSN 113 369 627

## **Annual financial report and directors' report for the year ended 30 June 2019**

# Australian Unity Office Fund

ARSN 113 369 627

## Annual financial report and directors' report for the year ended 30 June 2019

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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 year ended 30 June 2019.

### Directors

The following persons were directors of the Responsible Entity of the Scheme during the 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	Independent Non-Executive Director (Independent from 15 May 2019)
Greg Willcock	Non-Executive Director
Kirsty Dullahide	Executive Director

### Company secretary

The company secretaries of the Responsible Entity during the 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 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 year ended 30 June 2019 and provides a comparison to the statutory profit for the year ended 30 June 2018.

\$'000	FY19	FY18
Rental Income *	55,909	51,740
Property Expenses **	(14,993)	(13,697)
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	(1,562)	(2,918)
<b>Net property income</b>	<b>39,354</b>	<b>35,125</b>
Interest income	28	27
Net losses on financial instruments held at fair value	(5,847)	(529)
Net fair value increment of investment properties	24,282	73,717
Responsible Entity's fees	(3,907)	(3,287)
Borrowing costs	(7,850)	(6,705)
Other expenses	(1,232)	(1,055)
<b>Profit for the year</b>	<b>44,828</b>	<b>97,293</b>

\* 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 30 June 2019, the Scheme's net assets attributable to unitholders per unit was \$2.79 (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 profit for the year 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 year ended 30 June 2019 and 30 June 2018.

\$'000	FY19	FY18
Profit for the year	44,828	97,293
Adjusted for:		
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	1,562	2,918
Net losses on financial instruments held at fair value	5,847	529
Net fair value increment of investment properties	(24,282)	(73,717)
Once off adjustment***	218	-
<b>Funds From Operations</b>	<b>28,173</b>	<b>27,023</b>
<b>Distributions declared</b>	<b>25,727</b>	<b>24,525</b>

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

**Funds From Operations (continued)**

Cents per unit	FY19	FY18
Funds From Operations	17.3	17.2
Distributions declared	15.8	15.6
Payout ratio (Distributions declared/Funds From Operations)	91.3%	90.7%

**Property portfolio**

At 30 June 2019, the Scheme wholly owned a diversified portfolio of nine office properties located across Australian metropolitan and CBD markets. The portfolio is valued at \$668,400,000 (2018: \$635,550,000) and has a total net lettable area of 107,667 sqm (2018: 107,647 sqm).

**a) Leasing and occupancy**

Since 1 July 2018, the Scheme has completed approximately 12,200 sqm of leasing across 35 separate transactions. This represents approximately 11.4% of the portfolio by area. Approximately 7,300 sqm of the completed leasing relates to new tenants.

At 30 June 2019, the Scheme's investment properties weighted average lease expiry was 3.5 years (2018: 4.1 years) and occupancy rate was 95.3% (2018: 95.0%).

**b) Valuations**

Under the Scheme's Valuation Policy, all properties were independently revalued during the year, ensuring values are reflective of current market conditions.

The weighted average capitalisation rate for the portfolio firmed by approximately 30 basis points to 6.2% as at 30 June 2019 (2018: 6.5%).

**Capital management**

As at 30 June 2019, drawn borrowings totalled \$204,800,000 with an all in interest cost of 3.7% and 97.7% of debt hedged. The Scheme's gearing (calculated as interest bearing liabilities, excluding unamortised establishment costs, less cash, divided by total tangible assets less cash) was 29.5% (2018: 29.9%).

During the year the Scheme implemented the following new interest rate swaps with a total nominal value of \$120,000,000:

- interest rate swap expiring on 23 April 2021 with a total nominal value of \$30,000,000;
- interest rate swap expiring on 22 August 2023 with a total nominal value of \$40,000,000;
- interest rate swap expiring on 23 April 2024 with a total nominal value of \$30,000,000; and
- interest rate swap expiring on 23 April 2024 with a total nominal value of \$20,000,000.

**Outlook and guidance**

The Responsible Entity as responsible entity of the Scheme has received an unsolicited, indicative and non-binding proposal from an entity associated with Abacus Property Group (ASX: ABP) and Charter Hall Group (ASX: CHC) (together, the Consortium) to acquire, by way of a trust scheme, all of the issued units in the Scheme that the Consortium does not already hold for \$3.04 cash per unit, reduced by any distribution announced or paid in respect of the Scheme other than the 3.95 cent per unit distribution announced on 21 June 2019 (Proposal).

The independent board committee (IBC) established by the Responsible Entity to consider the Proposal, along with its advisers, is negotiating a Scheme Implementation Agreement with the Consortium in relation to the Proposal. Any further developments in relation to the Proposal or the Scheme Implementation Agreement under negotiation between the IBC and the Consortium will be disclosed to ASX in the ordinary course.

Subject to the matters described above, 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.

**Outlook and guidance (continued)**

The Responsible Entity provides Funds From Operations guidance for the 2020 financial year of 17.3 cents per unit to 17.7 cents per unit and distribution guidance for the 2020 financial year of 16.0 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 unless the Responsible Entity and the Consortium do enter into a Scheme Implementation Agreement in relation to the Proposal (or any similar transaction), in which case, the Responsible Entity may not proceed with payment of the distribution for the quarter ended 30 September 2019 (or any subsequent quarter) pending implementation of the Trust Scheme or termination of the Scheme Implementation Agreement.

**Matters subsequent to the end of the financial year**

No matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the operations of the Scheme, the result of operations, or the state of the Scheme's affairs in the future years, except those already mentioned elsewhere in the report.

**Significant changes in the state of affairs**

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

**Environmental regulation**

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

**Fees paid to and interests held in the Scheme by the Responsible Entity or its associates**

Fees paid to the Responsible Entity and its associates out of Scheme property during the year are disclosed in note 21 to the consolidated financial statements.

No Directors' fees were paid out of the assets of the Scheme to the directors of the Responsible Entity, except for independent directors who receive their fees from the Scheme. Eve Crestani became an independent director on 15 May 2019. The Scheme will pay her directors' fees from 1 July 2019. Directors' fees paid during the year was \$227,900 (2018: \$227,900).

The number of interests in the Scheme held by the Responsible Entity or its associates as at the end of the year are disclosed in note 21 to the consolidated financial statements.

The number of units held by directors in the Scheme are:

Director	Units at 30 June 2019
Peter Day	58,000

At the date of this report, none of the other current directors of the Responsible Entity hold any units in the Scheme.

The following table sets out the directorships of Australian listed companies held by the directors of the Responsible Entity during the three years immediately before the end of the financial year:

Director	Listed Entity	Appointed	Resigned
Peter Day	Alumina Limited	January 2014	Not applicable
	Ansell Limited	August 2007	Not applicable
	Boart Longyear Limited	February 2014	September 2017



### Units in the Scheme

The movement in units on issue in the Scheme during the year is disclosed in note 8 to the consolidated financial statements.

The value of the Scheme's assets and liabilities is disclosed in the consolidated statement of financial position and derived using the basis set out in note 2 to the consolidated financial statements.

### 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.

### Provision of non-audit services by auditor

The Scheme may decide to employ the auditor (PricewaterhouseCoopers) on assignments in addition to their statutory audit duties. Details of the amounts paid to the auditor, which includes amounts paid for non-audit services and other assurance services, are set out in note 6 to the financial statements.

The Directors have considered the non-audit services and other assurance services provided by the auditor during the financial year. In accordance with advice received from the Audit and Risk Committee, the Directors are satisfied that the provision of non-audit services is compatible with, and did not compromise, the general standard of auditor independence imposed by the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in *APES 110 Code of Ethics for Professional Accountants*.

### 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. 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  
Independent Non-Executive Director and Chairman of the Audit & Risk Committee



Peter Day  
Independent Non-Executive Director and Chairman

25 August 2019



## *Auditor's Independence Declaration*

As lead auditor for the audit of Australian Unity Office Fund for the year ended 30 June 2019, 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 audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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 'George Sagonas', with a horizontal line underneath.

George Sagonas  
Partner  
PricewaterhouseCoopers

Melbourne  
25 August 2019

Australian Unity Office Fund  
Consolidated statement of comprehensive income  
For the year ended 30 June 2019

**Consolidated statement of comprehensive income**

	Notes	2019 \$'000	2018 \$'000
<b>Income</b>			
Rental income	3	58,896	53,375
Property expenses	4	<u>(19,542)</u>	<u>(18,250)</u>
<b>Net property income</b>		<b>39,354</b>	35,125
Interest income		28	27
Net losses on financial instruments held at fair value through profit or loss	5	(5,847)	(529)
Net fair value increment of investment properties	14(b)	<u>24,282</u>	<u>73,717</u>
<b>Total income net of property expenses</b>		<b><u>57,817</u></b>	<u>108,340</u>
<b>Expenses</b>			
Responsible Entity's fees	21	3,907	3,287
Borrowing costs		7,850	6,705
Other expenses	7	<u>1,232</u>	<u>1,055</u>
<b>Total expenses, excluding property expenses</b>		<b><u>12,989</u></b>	<u>11,047</u>
<b>Profit for the year</b>		<b><u>44,828</u></b>	<u>97,293</u>
<b>Other comprehensive income</b>		<u>-</u>	<u>-</u>
<b>Total comprehensive income attributable to unitholders</b>		<b><u>44,828</u></b>	<u>97,293</u>
<b>Basic and diluted earnings per unit attributable to unitholders (cents per unit)</b>	10	<u>27.53</u>	<u>62.58</u>

*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 30 June 2019**

**Consolidated statement of financial position**

	Notes	2019 \$'000	2018 \$'000
<b>Assets</b>			
Cash and cash equivalents	11	7,481	7,851
Receivables	12	1,117	641
Other assets		458	586
Investment properties	14	<u>668,400</u>	<u>635,550</u>
<b>Total assets</b>		<u>677,456</u>	<u>644,628</u>
<b>Liabilities</b>			
Distributions payable	9	6,432	6,350
Payables	15	6,932	5,897
Financial liabilities held at fair value through profit or loss	13	6,143	297
Borrowings	16	<u>203,940</u>	<u>197,175</u>
<b>Total liabilities</b>		<u>223,447</u>	<u>209,719</u>
<b>Net assets attributable to unitholders</b>	8	<u>454,009</u>	<u>434,909</u>

*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 year ended 30 June 2019**

**Consolidated statement of changes in equity**

	<b>2019</b>	2018
	<b>\$'000</b>	\$'000
<b>Balance at the beginning of the year</b>	<b>434,909</b>	313,727
<b>Comprehensive income for the year</b>		
Profit for the year	<b>44,828</b>	97,293
Other comprehensive income	-	-
<b>Total comprehensive income attributable to unitholders</b>	<b>44,828</b>	97,293
<b>Transactions with unitholders</b>		
Distributions paid and payable	<b>(25,728)</b>	(24,525)
Issue of units net of transaction costs	-	48,414
<b>Total transactions with unitholders</b>	<b>(25,728)</b>	23,889
<b>Balance at the end of the year</b>	<b>454,009</b>	<b>434,909</b>

*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 year ended 30 June 2019

**Consolidated statement of cash flows**

	Notes	2019 \$'000	2018 \$'000
<b><i>Cash flows from operating activities</i></b>			
Interest received		28	27
Rental income received		55,447	53,893
Payments to suppliers		<u>(18,984)</u>	<u>(19,060)</u>
<b>Net cash inflow from operating activities</b>	22	<u>36,491</u>	<u>34,860</u>
<b><i>Cash flows from investing activities</i></b>			
Payments for additions to owned investment properties		(10,130)	(11,336)
Purchase of an investment property		-	(105,750)
Acquisition costs on purchase		<u>-</u>	<u>(6,597)</u>
<b>Net cash outflow from investing activities</b>		<u>(10,130)</u>	<u>(123,683)</u>
<b><i>Cash flows from financing activities</i></b>			
Proceeds from issue of units		-	50,085
Units issued transaction costs		-	(1,671)
Proceeds from borrowings		6,500	74,800
Borrowing costs paid		(7,586)	(7,149)
Distributions paid		<u>(25,645)</u>	<u>(23,509)</u>
<b>Net cash (outflow)/inflow from financing activities</b>		<u>(26,731)</u>	<u>92,556</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(370)</b>	3,733
Cash and cash equivalents at the beginning of the year		<u>7,851</u>	4,118
<b>Cash and cash equivalents at the end of the year</b>	11	<u>7,481</u>	<u>7,851</u>

*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 ("the Scheme") and its subsidiaries. The Scheme was constituted on 23 March 2005 and 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 (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 15, 271 Spring Street, Melbourne, VIC 3000.

The Responsible Entity is incorporated and domiciled in Australia.

The consolidated financial statements are for the year 1 July 2018 to 30 June 2019.

The consolidated financial statements were authorised for issue by the directors of the Responsible Entity on 25 August 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.

The controlled entities of the Scheme comprise:

- Australian Unity Holding Trust which was constituted on 31 May 2005;
- Australian Unity Second Industrial Trust which was constituted on 28 September 2001;
- Australian Unity Fourth Commercial Trust which was constituted on 27 September 2002;
- Australian Unity Fifth Commercial Trust which was constituted on 31 July 2002;
- Australian Unity Sixth Commercial Trust which was constituted on 2 October 2003; and
- Pirie Street Trust which was established by Trust Deed dated 31 July 2002.

## **2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. Where appropriate, comparatives have been reclassified to enhance comparability with current year disclosures.

### **(a) Basis of preparation**

These general purpose consolidated financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

The Scheme is a for-profit entity for the purposes of preparing the consolidated financial statements.

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 and borrowings, where the amount expected to be recovered or settled within 12 months after the end of the year cannot be reliably determined.

#### *(i) Compliance with Australian Accounting Standards and International Financial Reporting Standards*

The consolidated financial statements of the Scheme comply with Australian Accounting Standards as issued by AASB and also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board. The consolidated financial statements of the Scheme have been prepared on a consolidated basis to provide the end users of the financial information with the most appropriate information in making financial decisions.



## 2 Summary of significant accounting policies (continued)

### (a) Basis of preparation (continued)

#### *(ii) New accounting standards and amendments adopted by the Scheme*

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

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 expected credit loss (ECL) 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.

#### *(iii) New accounting standards, amendments and interpretations not yet adopted*

Certain new accounting standards, amendments and interpretations have been published that are not mandatory for the 30 June 2019 reporting period and have not been early adopted by the Scheme. The directors' assessment of the impact of these new standards (to the extent relevant to the Scheme) and interpretations is set out below:

- AASB 16 *Leases* (effective 1 January 2019)

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. AASB 16 substantially carries forward the lessor accounting requirements in AASB 17 and require enhanced disclosures to be provided by the lessor that will improve information disclosed about the lessor's risk exposure, particularly to residual value risk. The standard will be effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted provided AASB 15 has been applied, or is applied at the same date as AASB 16. Based on the existing recognition of leases, the Scheme does not expect a material impact from the application of this standard. The Scheme is currently assessing the effects of applying AASB 16 on the financial statement disclosures. The Scheme does not intend to early adopt AASB 16. The Scheme will apply AASB 16 in its financial statements for the year commencing 1 July 2019.

### (b) Principles of consolidation

#### *(i) Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries controlled by the Scheme as at 30 June 2019 and their results for the year then ended. The Scheme and its subsidiaries together are referred to in these consolidated financial statements as the consolidated entity.

Subsidiaries are all entities over which the Scheme is exposed, or has rights, to variable returns from its involvement with the subsidiary and the ability to affect those returns through its powers over the subsidiaries.

Consolidation of subsidiaries begins from the date the Scheme obtains control of the subsidiary and ceases when the Scheme loses control of the subsidiary.

The acquisition method of accounting is used to account for business combinations by the Scheme.

All transactions (including gains and losses) and balances between entities in the consolidated group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Scheme.

## 2 Summary of significant accounting policies (continued)

### (b) Principles of consolidation (continued)

#### (i) Subsidiaries (continued)

Investments in subsidiaries are accounted for at fair value through profit or loss in the individual financial statements of the parent entity.

#### (c) Investment properties

Initially, investment properties are measured at the cost of acquisition, being the purchase consideration determined at the date of acquisition plus costs incidental to the acquisition. Costs incidental to acquisition may include legal fees, stamp duty and other government charges, professional fees preceding acquisition and where applicable financing charges incurred during the construction or development of an asset.

Subsequent to initial recognition investment properties are stated at fair value. Gains or losses arising from changes in the fair value of investment properties are included in the consolidated statement of comprehensive income in the year in which they arise.

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the derecognition of an investment property are recognised in the consolidated statement of comprehensive income in the year of derecognition.

Independent valuations of investment properties are obtained from suitably qualified valuers generally at least once in every 18 months if the property is in a construction phase; otherwise once in any 12 month period from the date of the last valuation; or in exceptional circumstances once in a financial year or calendar year as determined necessary; or as soon as practicable, but not later than within two months after the directors of the Responsible Entity form a view that there is reason to believe that the fair value of the investment property is materially different from its current carrying value. Such valuations are reflected in note 14. Notwithstanding, the directors of the Responsible Entity determine the carrying value of each investment property at each reporting date to ensure that its carrying value does not materially differ from its fair value. Where the carrying value differs from fair value, that asset is adjusted to its fair value.

Where assets have been revalued, the potential effect of the capital gains tax on disposal has not been taken into account in the determination of the revalued carrying amount because the Scheme does not expect to be ultimately liable for capital gains tax in respect of the assets.

Expenditure capitalised to properties includes the cost of acquisition, capital and refurbishment additions, lease commissions and incentives, related professional fees incurred and other directly attributable transaction costs.

### (d) Financial instruments

#### (i) Classification

The classification depends on the Scheme's business model for managing the financial instruments and the contractual terms of the relevant cash flows. The Scheme classifies its financial instruments into the following measurement categories:

- *Financial instruments designated at fair value through profit or loss*

The consolidated entity's and the Scheme's investments are classified as held at fair value through profit or loss. These may include investments in listed property trust, unlisted property trust and other unlisted trust.

Financial assets and liabilities designated at fair value through profit or loss are those that are managed and their performance evaluated on a fair value basis in accordance with the consolidated entity's and the Scheme's documented investment strategy. The consolidated entity's and the Scheme's policy is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

The information on the fair value basis is provided internally to the Scheme's key management personnel. In addition, the designation of financial assets and financial liabilities at fair value through profit or loss will reduce any measurement or recognition inconsistencies and any accounting mismatch that would otherwise arise.

## 2 Summary of significant accounting policies (continued)

### (d) Financial instruments (continued)

#### (i) Classification (continued)

- *Amortised cost*

A financial asset is measured at amortised cost only if both of the following conditions are met:

- (a) it is held within a business model with the objective of holding assets in order to collect contractual cash flows, and
- (b) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

#### (ii) Recognition/derecognition

The consolidated entity and the Scheme recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Scheme retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' agreement; or
- the Scheme has transferred its rights to receive cash flows from the asset and either:
  - (a) has transferred substantially all the risks and rewards of the asset; or
  - (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Any gains or losses arising on derecognition of the asset (calculated as the difference between the disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income in the year the asset is derecognised as realised gains or losses on financial instruments.

#### (iii) Measurement

Financial assets and financial liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities held at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the consolidated statement of comprehensive income.

For further details on how the fair values of financial instruments are determined please see Note 19 to the consolidated financial statements.

Borrowings and receivables/payables are measured initially at fair value plus transaction costs and are carried at amortised cost using the effective interest method.

#### (iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when, and only when, there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### (e) Derivatives

In order to minimise exposure to fluctuations in interest rates, the Scheme may use a combination of interest rate swaps and options to ensure that the rate of interest on debt is predominantly fixed. Derivative financial instruments are not held for speculative purposes and are carried on the consolidated statement of financial position at fair value. Changes in fair value are recognised in the consolidated statement of comprehensive income.

Interest payments and receipts under interest rate swap contracts are recognised on an accrual basis in the consolidated statement of comprehensive income, as an adjustment to interest expense when the hedge transaction occurs.

## 2 Summary of significant accounting policies (continued)

### (f) Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts, if any, are shown within borrowings in the consolidated statement of financial position.

### (g) Investment income

Interest income is recognised in the consolidated statement of comprehensive income for all financial instruments using the effective interest method. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(d).

Trust distributions (including distributions from cash management trusts) are recognised on an entitlements basis.

Net gains/(losses) on financial assets and liabilities held at fair value through profit or loss arising on a change in fair value are calculated as the difference between the fair value at the end of the year and the fair value at the previous valuation point. Net gains/(losses) do not include interest or dividend/distribution income. Realised and unrealised gains/(losses) are shown in the notes to the consolidated financial statements.

### (h) Expenses

All expenses, including property expenses, Responsible Entity's fees and custodian fees, are recognised in the consolidated statement of comprehensive income on an accruals basis.

### (i) Income tax

Under current legislation, the Scheme is not subject to income tax provided it attributes the entirety of its taxable income to its unitholders.

### (j) Distributions

In accordance with the Scheme's Constitution, the Scheme distributes income adjusted for amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. Distributions are recognised in the consolidated statement of changes in equity as transaction with unitholders.

### (k) Receivables

Receivables may include amounts for interest, rental income arrears, trust distributions and securities sold where settlement has not yet occurred. Trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in note 2(g) above. Amounts are generally received within 30 days of being recorded as receivables.

Receivables include such items as Reduced Input Tax Credits (RITC) and application monies receivable from unitholders.

The Scheme applies the simplified expected credit loss approach in replacement of the incurred credit loss approach. Under the expected credit loss approach, the Scheme estimates the expected lifetime losses to be recognised from initial recognition of the receivables.

The amount of the impairment loss is recognised in the consolidated statement of comprehensive income within other expenses or property expenses, if related to rental income. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against property expenses in the consolidated statement of comprehensive income.

### (l) Payables

Payables include liabilities and accrued expenses owed by the Scheme which are unpaid as at the end of the reporting period. These payables, which are generally settled on 30-90 day terms and are unsecured, are carried at amortised cost.

The distribution amount payable to unitholders as at the end of each reporting period is recognised separately in the consolidated statement of financial position when unitholders are presently entitled to the distributable income under the Scheme's Constitution.

## 2 Summary of significant accounting policies (continued)

### (l) Payables (continued)

Liabilities for trade creditors are carried at original invoice amount which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Scheme.

Payables to related parties are recognised and carried at the nominal amount due. They are carried at the nominal amount due to the short term nature of the payable. Interest is taken up as an expense on an accrual basis.

Provisions are recognised when the Scheme has a present obligation as a result of the past event and it is probable that the Scheme will be requested to settle the obligation and a reliable estimate can be made of the amount of the obligation.

### (m) Applications

Units issued through ASX are recognised at the fair value of the consideration received. Transaction costs arising from the issue of units are recognised directly as a reduction of the proceeds received.

### (n) Borrowings and borrowing costs

All loans are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with borrowings.

After initial recognition, loans are subsequently 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. Gains and losses are recognised in the consolidated statement of comprehensive income when liabilities are derecognised or impaired.

### (o) Goods and Services Tax (GST)

The consolidated statement of comprehensive income is shown exclusive of GST, unless the GST incurred (or part thereof) on expenses that are not recoverable. Expenses of various services provided to the Scheme by third parties, such as custodial services and investment management fees, may have non-recoverable GST components, as applicable. In these cases, the non-recoverable GST component is recognised as part of the particular expense in the consolidated statement of comprehensive income.

Accounts payable and receivable are stated inclusive of the GST receivable and payable, respectively. The net amount of GST recoverable, or payable, is included in receivables or payables in the consolidated statement of financial position.

Cash flows relating to GST are included in the consolidated statement of cash flows on a gross basis.

## 2 Summary of significant accounting policies (continued)

### (p) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Revenue brought to account but not received at the end of the reporting period is recognised as a receivable. The following specific recognition criteria must also be met before revenue is recognised:

#### **Rental revenue**

Rental income is recognised on a straight line basis over the lease term.

Contingent rentals, such as turnover rent and market rent adjustments, are recognised as income in the financial reporting period in which they are earned.

Fixed rental increases which do not represent direct compensation for underlying cost increases or capital expenditure are recognised on a straight line basis over the term of the lease.

The rental adjustments resulting from this policy are disclosed in the consolidated financial statements for financial reporting presentation purposes only.

Incidental income (costs) derived from an investment property undergoing construction or development but not directly related to bringing the assets to the working condition, are recognised in profit for the reporting period.

Rent not received at the end of the reporting period is reflected in the consolidated statement of financial position as a receivable or if paid in advance, as a liability.

#### **Interest revenue**

Interest income is recognised in the consolidated statement of comprehensive income as it accrues.

### (q) Leases

#### **Leasing costs**

Lease costs are costs that are directly associated with negotiating and arranging an operating lease (including commissions, legal fees and costs of preparing and processing documentation for new leases). These costs, if material, are capitalised and are amortised on a straight-line basis over the term of the lease as property expenses. The carrying amount of the leasing cost is reflected in the carrying value of investment properties.

#### **Lease incentives**

Incentives such as cash, rent-free periods, lessee or lessor owned fitouts may be provided to lessees to enter into an operating lease. These incentives are capitalised and are amortised on a straight-line basis over the term of the lease as a reduction of rental income or as property expenses. The carrying amount of the lease incentives is reflected in the carrying value of investment properties.

### (r) Use of judgements and estimates

The preparation of the Scheme's consolidated financial statements requires it to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. However, estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgements are made by the Scheme in respect of the fair values of investment properties. These investments are reviewed regularly by reference to external independent property valuations and market conditions, using generally accepted market practices.

The key weighted average assumptions used by the external independent property valuers in the latest valuations have been used by the Scheme for the investment properties and the weighted average total for all properties, including the weighted average lease expiry ("WALE"), have been disclosed in note 19.

## 2 Summary of significant accounting policies (continued)

### (r) Use of judgements and estimates (continued)

The Scheme's financial instruments are valued primarily based on the prices provided by independent pricing services.

When the fair values of the reported financial instruments cannot be derived from active markets, they are determined using prices obtained from inactive or unquoted markets and/or other valuation techniques. The inputs to these valuation techniques (if applicable) are taken from observable markets to the extent practicable. Where observable inputs are not available, the inputs may be estimated based on a degree of judgements and assumptions in establishing fair values.

Where appropriate, the outcomes of the valuation techniques that are used in establishing fair values are validated using prices from observable current market transactions for similar instruments (without modification or repackaging) or based on relevant available observable market data.

The determination of what constitutes 'observable' requires significant judgement by the Scheme. The Scheme considers observable data to be 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.

In addition, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates and judgements. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

For certain other financial instruments, including amounts due from/to brokers, accounts payable and the carrying amounts approximate fair value due to the immediate or short term nature of these financial instruments.

### (s) Rounding of amounts

The consolidated entity and the Scheme is an entity of the 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 off to the nearest thousand dollars.

### (t) Functional and presentation currency

Items included in the financial statements of each of the Scheme's operations are measured using the currency of the primary economic environment in which it operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is the Scheme's functional and presentation currency.

### (u) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors of the Responsible Entity ("the Board") for the achievement of the business strategic and operational plans.

## 3 Rental income

	2019 \$'000	2018 \$'000
Rental income	48,583	43,139
Outgoings income	10,313	10,236
	<u>58,896</u>	<u>53,375</u>

Rental income includes an adjustment for the straight lining of rental income of \$2,987,000 (2018: \$1,635,000).

#### 4 Property expenses

	2019	2018
	\$'000	\$'000
Recoverable outgoings	13,818	12,720
Non recoverable outgoings	1,012	986
Bad debts expense	163	(9)
Amortisation of lease commissions & lease incentives	4,549	4,553
	19,542	18,250

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

	2019	2018
	\$'000	\$'000
Net unrealised losses on derivatives	5,847	529
Total net losses on financial instruments held at fair value through profit or loss	5,847	529

#### 6 Auditors' remuneration

During the year the following fees were paid or payable for services provided by the auditors of the consolidated entity and the Scheme:

	2019	2018
	\$	\$
<i>PricewaterhouseCoopers</i>		
Audit and review of financial statements	78,090	84,268
Audit of compliance plan	2,790	2,711
	80,880	86,979

#### 7 Other expenses

	2019	2018
	\$'000	\$'000
Directors fees	228	228
Administration	564	514
Sundry*	440	313
	1,232	1,055

\* The Scheme incurred \$218,000 legal costs in relation to the Starwood transaction which did not proceed.



## 8 Net assets attributable to unitholders

As stipulated within the Scheme's Constitution, each unit represents a right to an individual unit 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 year were as follows:

	Movements in no. of units		Movements in net assets	
	2019 '000	2018 '000	2019 \$'000	2018 \$'000
<b>Contributed equity</b>				
Opening balances	162,832	140,372	370,757	322,343
Issue of units	-	22,460	-	50,085
Units issued transaction costs	-	-	-	(1,671)
Closing balance	162,832	162,832	370,757	370,757
<b>Undistributed income</b>				
Opening balance			64,152	(8,616)
Increase in net assets attributable to unitholders			19,100	72,768
Closing balance			83,252	64,152
<b>Total net assets attributable to unitholders</b>			454,009	434,909

## Capital risk management

The Responsible Entity considers net assets attributable to unitholders of the Scheme to be equity.

The Scheme utilises a mixture of debt and equity to finance its activities, with target gearing of below 40%. Gearing ratio at 30 June 2019 was 29.5% (2018: 29.9%).

## 9 Distributions to unitholders

The distributions for the year were as follows:

	2019 \$'000	2019 CPU	2018 \$'000	2018 CPU
30 September	6,432	3.95	5,475	3.90
31 December	6,432	3.95	6,350	3.90
31 March	6,432	3.95	6,350	3.90
30 June (payable)	6,432	3.95	6,350	3.90
	25,728	15.80	24,525	15.60

## 10 Earnings per unit

The earnings and weighted average number of units used in the calculation of basic and diluted earnings per unit are as follows:

	<b>2019</b>	2018
Profit attributable to unitholders (\$'000)	<b>44,828</b>	97,293
Weighted average number of units used as the denominator in calculating basic and diluted earnings per unit ('000)	<b>162,832</b>	155,469
Basic and diluted earnings per unit attributable to unitholders (cents per unit)	<u><b>27.53</b></u>	<u>62.58</u>

## 11 Cash and cash equivalents

	<b>2019</b>	2018
	<b>\$'000</b>	\$'000
Cash at bank	<u><b>7,481</b></u>	<u>7,851</u>
	<u><b>7,481</b></u>	<u>7,851</u>

## 12 Receivables

	<b>2019</b>	2018
	<b>\$'000</b>	\$'000
Trade receivables	<b>1,063</b>	498
GST receivables	<b>217</b>	143
Provision for impairment loss	<u><b>(163)</b></u>	<u>-</u>
	<u><b>1,117</b></u>	<u>641</u>

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

	<b>2019</b>	2018
	<b>\$'000</b>	\$'000
Derivative liabilities	<u><b>(6,143)</b></u>	<u>(297)</u>
Total financial liabilities held at fair value through profit or loss	<u><b>(6,143)</b></u>	<u>(297)</u>

An overview of the risk exposures and fair value measurements relating to financial assets and liabilities at fair value through profit or loss is included in note 18.

Refer to note 17 for details of the derivative financial instruments.

## 14 Investment properties

### (a) Property details

	Type	Ownership (%)	Acquisition date	Valuation date	Valuation amount \$'000	Valuer	Carrying value	
							2019 \$'000	2018 \$'000
30 Pirie Street, Adelaide, SA	Office/ Freehold	100%	11/02/2014	30/06/2019	124,500	Jones Lang Lasalle	<b>124,500</b>	121,500
10 Valentine Ave, Parramatta, NSW	Office/ Freehold	100%	07/12/2007	30/06/2019	120,000	Savills	<b>120,000</b>	115,000
150 Charlotte Street, Brisbane, QLD	Office/ Freehold	100%	20/10/2017	30/06/2019	102,000	Savills	<b>102,000</b>	105,750
468 St Kilda Rd, Melbourne, VIC	Office/ Freehold	100%	03/07/2007	30/06/2019	80,500	CBRE	<b>80,500</b>	71,250
5 Eden Park Drive, North Ryde, NSW	Commercial/ Freehold	100%	11/02/2014	30/06/2019	66,000	Cushman & Wakefield	<b>66,000</b>	61,500
32 Phillip Street, Parramatta, NSW	Office/ Freehold	100%	01/06/2007	30/06/2019	65,000	CBRE	<b>65,000</b>	56,500
2 Eden Park Drive, North Ryde, NSW	Commercial/ Freehold	100%	20/06/2013	30/06/2019	47,400	CBRE	<b>47,400</b>	44,250
241 Adelaide Street, Brisbane, QLD	Office/ Leasehold	100%	01/06/2007	30/06/2019	39,000	CBRE	<b>39,000</b>	37,500
64 Northbourne Avenue, Canberra, ACT	Office/ Leasehold	100%	01/06/2005	30/06/2019	24,000	CBRE	<b>24,000</b>	22,300
<b>Total</b>					<b>668,400</b>		<b>668,400</b>	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.

The investment properties valuation policy is included in note 19.

### (b) Movements in carrying amount

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

	2019 \$'000	2018 \$'000
Opening balance	<b>635,550</b>	441,067
Acquisitions	-	112,347
Capitalised borrowing cost	<b>124</b>	67
Additions	<b>10,006</b>	11,270
Lease commissions and incentives amortisation	<b>(4,549)</b>	(4,553)
Straight-lining of rental income	<b>2,987</b>	1,635
Revaluation movements	<b>24,282</b>	73,717
Closing balance	<b>668,400</b>	635,550

## 14 Investment properties (continued)

### (c) Contractual obligations

Capital expenditure contracted for at the reporting date but not recognised as liabilities:

	<b>2019</b>	2018
	<b>\$'000</b>	\$'000
Within one year	<b>3,874</b>	2,217
	<b>3,874</b>	2,217

The Scheme's share of capital commitments will be funded using the Scheme's cash and cash equivalents and debt facility. Refer to notes 11 and 16, respectively.

## 15 Payables

	<b>2019</b>	2018
	<b>\$'000</b>	\$'000
Trade payables	<b>1,963</b>	1,531
Accrued expenses	<b>2,091</b>	1,546
Rent received in advance	<b>2,375</b>	2,359
GST payables	<b>503</b>	461
	<b>6,932</b>	5,897

## 16 Borrowings

	2019 \$'000	2018 \$'000
Bank loan	204,800	198,300
Unamortised borrowing costs	(860)	(1,125)
	<u>203,940</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:

	2019 \$'000	2018 \$'000
<b>Credit facilities</b>		
Cash advance facilities	220,000	255,000
Drawn balance	(204,800)	(198,300)
Undrawn balance	<u>15,200</u>	<u>56,700</u>

Reconciliations of the net debt are set out below:

	2019 \$'000	2018 \$'000
<b>Analysis of changes in consolidated net debt</b>		
Opening balance	190,449	119,382
Proceeds from borrowings	6,500	74,800
Other cash movements	370	(3,733)
Closing balance	<u>197,319</u>	<u>190,449</u>
Bank loan	204,800	198,300
Cash and cash equivalents	(7,481)	(7,851)
Consolidated net debt	<u>197,319</u>	<u>190,449</u>

## 17 Derivative financial instruments

2019	Contract/notional \$'000	Fair values	
		Assets \$'000	Liabilities \$'000
<b>Interest rate swaps</b>			
Maturing on 7 August 2019 at a fixed rate of 1.8700%	20,000	-	13
Maturing on 7 August 2019 at a fixed rate of 1.8700%	20,000	-	13
Maturing on 21 October 2019 at a fixed rate of 2.0500%	20,000	-	46
Maturing on 21 August 2021 at a fixed rate of 2.0600%	20,000	-	455
Maturing on 21 August 2021 at a fixed rate of 2.0600%	20,000	-	455
Maturing on 20 October 2022 at a fixed rate of 2.4800%	20,000	-	913
Maturing on 23 April 2021 at a fixed rate of 1.5700%	30,000	-	295
Maturing on 23 April 2024 at a fixed rate of 1.7085%	30,000	-	800
Maturing on 23 April 2024 at a fixed rate of 2.0400%	20,000	-	838
	<b>200,000</b>	<b>-</b>	<b>3,828</b>
<b>Forward dated interest swap contracts</b>			
Commencing 8 August 2019 maturing on 8 February 2022 at a fixed rate of 2.5200%	30,000	-	1,101
Commencing 23 August 2021 maturing on 22 August 2023 at a fixed rate of 2.7700%	40,000	-	1,214
	<b>70,000</b>	<b>-</b>	<b>2,315</b>
2018	Contract/notional \$'000	Fair values	
		Assets \$'000	Liabilities \$'000
<b>Interest rate swaps</b>			
Maturing on 7 August 2019 at a fixed rate of 1.8700%	20,000	4	-
Maturing on 7 August 2019 at a fixed rate of 1.8700%	20,000	4	-
Maturing on 21 October 2019 at a fixed rate of 2.0500%	20,000	-	4
Maturing on 21 August 2021 at a fixed rate of 2.0600%	20,000	2	-
Maturing on 21 August 2021 at a fixed rate of 2.0600%	20,000	2	-
Maturing on 20 October 2022 at a fixed rate of 2.4800%	20,000	-	156
	<b>120,000</b>	<b>12</b>	<b>160</b>
<b>Forward dated interest swap contracts</b>			
Commencing 8 August 2019 maturing on 8 February 2022 at a fixed rate of 2.5200%	30,000	-	149

## 17 Derivative financial instruments (continued)

An interest rate swap is an agreement between two parties to exchange their interest obligations (payments) or receipts at set intervals on a notional principal amount over an agreed time period.

The fair value of interest rate swaps is the estimated amount that the entity would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The valuation policy is included in note 19.

The Scheme has entered into interest rate swap contracts to hedge future interest payments on the Scheme's borrowings.

An unrealised loss of \$5,847,000 (2018: \$529,000) relating to the change in the fair value of the Scheme's interest rate swap contracts was recognised in the consolidated statement of comprehensive income during the year ended 30 June 2019.

## 18 Financial risk management

### (a) Objectives, strategies, policies and processes

The Scheme's activities expose it to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk.

The Scheme's overall risk management program focuses on ensuring compliance with the Scheme's disclosure documents and seeks to maximise the returns derived for the level of risk to which the Scheme is exposed. Financial risk management is carried out by the Investment Manager under policies approved by the Board.

The Scheme uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rates, other price risks, and ratings analysis for credit risk.

As part of its risk management strategy, the Scheme uses interest rate swaps to manage exposures resulting from changes in interest rates.

### (b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: price risk and interest rate risk. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandates and investment strategies.

The market risk disclosures are prepared on the basis of the Scheme's direct investments and not on a look through basis for investments held in the Scheme.

#### (i) Price risk

Price risk is the risk that the fair value or future cash flows of equities will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Scheme has no exposures to price risk.

## 18 Financial risk management (continued)

### (b) Market risk (continued)

#### (ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Scheme is exposed to interest rate risk predominantly through borrowings. The Scheme applies hedging across its differing interest rate exposures and utilises interest rate swaps, to exchange floating interest rates to fixed interest rates, to manage its exposure. Compliance with policy is reviewed regularly by management and is reported to the Audit and Risk Committee meetings.

The Scheme has exposure to interest rate risk on its monetary assets and liabilities, mitigated by the use of interest rate swaps, as shown in the table below:

	2019 \$'000	2018 \$'000
<b>Floating rate</b>		
Cash and cash equivalents	7,481	7,851
Borrowings*	<u>(204,800)</u>	<u>(198,300)</u>
	<u>(197,319)</u>	<u>(190,449)</u>
<b>Derivative financial instruments</b>		
Interest rate swaps - floating to fixed*	<u>200,000</u>	<u>120,000</u>
	<u>200,000</u>	<u>120,000</u>
<b>Net exposure</b>	<u>2,681</u>	<u>(70,449)</u>

\* Represents the notional principal amounts.

The table below demonstrates the sensitivity to reasonably possible changes in year end interest rates, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit and net assets attributable to unitholders, while a positive amount reflects a potential net increase.

Drawn borrowings were 97.7% hedged as at 30 June 2019 (2018: 60.5%).

	<b>Impact on profit and net assets attributable to unitholders</b>	
<b>Sensitivity</b>	2019 \$'000	2018 \$'000
Interest rate + 0.50%	13	(352)
Interest rate - 0.50%	(13)	352

The above calculation ignores the impact of any changes to the valuation of interest rate swaps.



## 18 Financial risk management (continued)

### (c) Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause the Scheme to make a financial loss. The Scheme has exposure to credit risk on all of its financial assets included in the Scheme's consolidated statement of financial position.

The Scheme manages this risk by performing credit reviews of prospective tenants, obtaining tenant collateral where appropriate and performing detailed reviews on tenant arrears. The Scheme reviews the aggregate exposures of tenant debtors and tenancies across its portfolio.

The Scheme applies the simplified expected credit loss (ECL) approach to estimate the amount of impairment loss. Under the simplified ECL approach, the Scheme estimates the expected lifetime losses to be recognised from initial recognition of the receivables. In estimating the lifetime ECL, the Scheme conducts an internal credit review that takes into account the historical loss experience, current observable data and reasonable forward-looking information as available, which include the significant changes in the performance and payment status of the debtors and anticipated significant adverse changes in business, financial or economic conditions that may impact the debtors' ability to meet its obligations. The additional provision during the current financial year was immaterial.

The Scheme is exposed to credit risk on financial instruments and derivatives. There is only a credit risk where the contracting entity is liable to pay the Scheme in the event of a close out.

### (d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. This risk is controlled through the Scheme's maintaining an adequate amount of committed credit facilities. In addition, the Scheme maintains sufficient cash and cash equivalents to meet normal operating requirements.

### Maturities analysis of financial liabilities

The table below analyses the consolidated entity's and the Scheme's financial liabilities into relevant maturity groupings based on the remaining period at the end of the year to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Financial liabilities such as trade payables, where there are no specific contractual settlement dates, have been grouped into the 'less than 1 year' maturity grouping as such liabilities are typically settled within 30 days.

	Less than 1 year \$'000	1-2 years \$'000	2-3 years \$'000	3+ years \$'000
<b>2019</b>				
Distributions payables	6,432	-	-	-
Payables	6,932	-	-	-
Financial liabilities held at fair value through profit or loss	1,451	1,414	1,505	1,246
Borrowings	-	68,000	-	136,800
Total financial liabilities	<u>14,815</u>	<u>69,414</u>	<u>1,505</u>	<u>138,046</u>

## 18 Financial risk management (continued)

### (d) Liquidity risk (continued)

*Maturities analysis of financial liabilities (continued)*

	Less than 1 year \$'000	1-2 years \$'000	2-3 years \$'000	3+ years \$'000
2018				
Distributions payables	6,350	-	-	-
Payables	5,897	-	-	-
Financial liabilities held at fair value through profit or loss	51	192	215	174
Borrowings	35,000	-	70,000	93,300
Total financial liabilities	<u>47,298</u>	<u>192</u>	<u>70,215</u>	<u>93,474</u>

As disclosed above, the Scheme manages its liquidity risk by investing predominantly in liquid assets that it expects to be able to liquidate within seven days or less. Liquid assets include cash and cash equivalents. As at 30 June 2019, these assets amounted to \$7,481,000 (2018: \$7,851,000).

### (e) Estimation of fair values of financial assets and financial liabilities

The carrying amounts of the consolidated entity's and the Scheme's assets and liabilities at the end of the year approximate their fair values.

The Scheme values its investments in accordance with the accounting policies set out in note 19.

### (f) Instruments used by the Scheme

The Scheme is party to derivative financial instruments in the normal course of business in order to manage exposure to fluctuations in interest rates in accordance with the Scheme's financial risk management policies.

The details of the Scheme's interest rate management activities are detailed in note 17.

## 19 Fair value hierarchy

The Scheme measures and recognises the financial assets/(liabilities) held at fair value through profit or loss and investment properties at fair value 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.

## 19 Fair value hierarchy (continued)

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.

2019	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Non-financial assets</b>				
Investment properties	-	-	668,400	668,400
<b>Total non-financial assets</b>	<b>-</b>	<b>-</b>	<b>668,400</b>	<b>668,400</b>

### Financial liabilities

*Financial liabilities held at fair value through profit or loss*

Derivatives	-	6,143	-	6,143
<b>Total financial liabilities</b>	<b>-</b>	<b>6,143</b>	<b>-</b>	<b>6,143</b>

2018	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Non-financial assets</b>				
Investment properties	-	-	635,550	635,550
<b>Total non-financial assets</b>	<b>-</b>	<b>-</b>	<b>635,550</b>	<b>635,550</b>

### Financial liabilities

*Financial liabilities held at fair value through profit or loss*

Derivatives	-	297	-	297
<b>Total financial liabilities</b>	<b>-</b>	<b>297</b>	<b>-</b>	<b>297</b>

The Scheme's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the year. There are no transfers between levels 1, 2 and 3 for fair value measurements during the year (2018: \$nil).

## (b) Valuation techniques

### (i) Financial instruments

The pricing for the majority of the Scheme's investments is generally sourced from independent pricing sources, the relevant Investment Managers or reliable brokers' quotes.

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed property trusts and exchange traded derivatives.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices or alternative pricing sources supported by observable inputs are classified within level 2. These include unlisted property trusts and 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 year represents the Responsible Entity's best estimate at the end of the year.

## 19 Fair value hierarchy (continued)

### (ii) Investment properties

The investment property valuation policy is to have independent valuations conducted regularly, typically annually, to aid with the determination of the assets fair value. In determining the fair value of an investment property, the primary appropriate method of assessment is considered to be via reconciliation between the discounted cash flow and income capitalisation methods. Direct comparison may also be used as a secondary assessment method.

- Discounted cash flow method - this methodology involves formulating a projection of net income over a specified time horizon, normally 10 years, and discounting this cash flow including the projected terminal value at the end of the projection period at an appropriate market-derived discount rate. The present value of this discounted cash flow provides a guide to the fair value of the property;
- Income capitalisation method - this methodology involves the assessment of a net market income for the various components of the subject property. The net market income is capitalised at a rate derived from the analysis of comparable sales evidence to derive a capital value. Appropriate capital adjustments are then made where necessary to reflect the adopted cash flow profile and the general risk characteristic of the property; and
- Direct comparison method - this methodology identifies comparable sales on a dollar per square metre of lettable area and compares the equivalent rates to the subject property to establish the property's market value. This approach is somewhat subjective given the fact that specific items of income and expenditure are difficult to directly reflect and compare when adopting a rate per metre.

At each reporting date the appropriateness of those valuations is assessed by the Responsible Entity.

The stated fair value of each investment property at the end of the year represents the Responsible Entity's best estimate as at the end of the year. However, if an investment property is sold in the future the price achieved may be higher or lower than the most recent valuation, or higher or lower than the fair value recorded in the consolidated financial statements if that differs from the valuation.

The fair value estimates for investment properties are included in level 3 as explained in section (c) below.

### (c) Fair value measurements using significant unobservable input (level 3)

The changes in fair value of investment properties for the year are set out in note 14(b).

#### (i) Valuation inputs and relationship to fair value

The following are the key valuation assumptions used in the determination of the investment properties fair value using the discounted cash flows and income capitalisation valuation methodologies:

- Current net market rental - the estimated amount for which a property or space within a property should be leased between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and wherein the parties have each acted knowledgeably, prudently and without compulsion. In the calculation of net rent, the owner recovers outgoings from the tenant on a pro-rata basis (where applicable);
- Adopted capitalisation rate - the rate at which net market income is capitalised to determine the value of the property. This rate is determined with regards to market evidence;
- Adopted terminal yield - the capitalisation rate used to convert income into an indication of the anticipated value of the property at the end of a holding period when carrying out a discounted cash flow calculation. This rate is determined with regards to market evidence; and
- Adopted discount rate - the rate of return to convert a monetary sum, payable or receivable in the future, into present value. Theoretically, it should reflect the opportunity cost of capital, that is, the rate of return the capital can earn if put to other uses having similar risk. This rate is determined with regards to market evidence.

## 19 Fair value hierarchy (continued)

The ranges of the key valuation inputs to measure the fair value of the Scheme's investment properties are shown in the table below:

Valuation inputs	30 June 2019	30 June 2018
Current net market rental (\$ per sqm)	296 - 575	262 - 475
Adopted capitalisation rate (%)	5.25% - 7.50%	5.50% - 7.75%
Adopted terminal yield (%)	5.50% - 7.75%	5.75% - 8.00%
Adopted discount rate (%)	6.50% - 7.75%	6.50% - 8.00%
Occupancy rate by area (%)	86.40% - 100.00%	85.90% - 100.00%
Weighted average lease expiry (years)	1.90 - 5.00	2.10 - 6.00

At 30 June 2019, the Scheme's investment properties weighted average lease expiry was 3.5 years (2018: 4.1 years) and occupancy rate was 95.3% (2018: 95.0%).

### (ii) Valuation processes

Independent valuations of investment properties are obtained from suitably qualified valuers generally at least once in every 18 months if the property is in a construction phase; otherwise once in any 12 month period from the date of the last valuation; or in exceptional circumstances once in a financial year or calendar year as determined necessary; or as soon as practicable, but not later than within two months after the directors of the Responsible Entity form a view that there is reason to believe that the fair value of the investment property is materially different from its current carrying value. Such valuations are reflected in note 14. Notwithstanding, the directors of the Responsible Entity determine the carrying value of each investment property at each reporting date to ensure that its carrying value does not materially differ from its fair value. Where the carrying value differs from fair value, that asset is adjusted to its fair value.

### (iii) Sensitivity information

The table below details the movement in the fair value when each of the significant inputs either increase or decrease, with all other inputs remaining constant:

Significant inputs	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Current net market rental	Increase	Decrease
Adopted capitalisation rate	Decrease	Increase
Adopted terminal yield	Decrease	Increase
Adopted discount rate	Decrease	Increase
Occupancy rate by area	Increase	Decrease
Weighted average lease expiry	Increase	Decrease

It is often the case that multiple significant inputs change simultaneously, on these occasions the impact of the changes in the individual inputs can be reduced or vice versa can magnify the movement in the fair value.

When assessing the discounted cash flow, the adopted discount rate and adopted terminal yield have a strong interrelationship because the discount rate will determine the rate at which the terminal value is discounted to the present value. In theory, an increase (softening) in the adopted discount rate and a decrease (tightening) in the adopted terminal yield could potentially offset the impact on fair value, and vice versa. The impact on fair value may be magnified if both the discount rate and terminal yield move in the same direction.

When calculating the income capitalisation, the net market rent has a strong interrelationship with the adopted capitalisation rate. This is because the methodology involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value. In theory, an increase in the net market rent and an increase (softening) in the adopted capitalisation rate could potentially offset the impact to the fair value. The same can be said for a decrease in the net market rent and a decrease (tightening) in the adopted capitalisation rate. The impact on fair value may be magnified if the net market rent is increasing while the capitalisation rate is decreasing (or vice versa).

## 19 Fair value hierarchy (continued)

### (d) 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.

## 20 Segment information

The Scheme operates as one business segment being investment in office properties, and in one geographic segment being Australia.

The Scheme's segments are based on reports used by the Board in making strategic decisions about the Scheme, assessing the financial performance and financial position, determining the allocation of resources, and risk management.

## 21 Related party transactions

### Responsible entity

The Responsible Entity of Australian Unity Office Fund is Australian Unity Investment Real Estate Limited (ABN 86 606 414 368).

### Key management personnel

#### (a) Directors

Key management personnel include persons who were directors of the Australian Unity Investment Real Estate Limited at any time during the year as follows:

Peter Day	Independent Non-Executive Director and Chairman
Don Marples	Independent Non-Executive Director and Chairman of the Audit & Risk Committee
Eve Crestani	Independent Non-Executive Director (Independent from 15 May 2019)
Greg Willcock	Non-Executive Director
Kirsty Dullahide	Executive Director

#### Company secretary

The company secretaries of the Responsible Entity during the year were Emma Rodgers and Liesl Petterd.

No Directors' fees were paid out of the Scheme property to the directors of the Responsible Entity, except for independent directors who receive their fees from the Scheme. Eve Crestani became an independent director on 15 May 2019. The Scheme will pay her directors' fees from 1 July 2019. Directors' fees paid during the year was \$227,900 (2018: \$227,900).

As at 30 June 2019, Peter Day held 58,000 units (2018: Peter Day held 58,000 units). None of the other current directors of the Responsible Entity held any units in the Scheme.

#### (b) Other key management personnel

There were no other persons with responsibility for planning, directing and controlling the activities of the Scheme, directly or indirectly during the year.

### Other transactions within the Scheme

From time to time directors of the Responsible Entity, or their director related entities, may buy or sell units of the Scheme. These transactions are on the same terms and conditions as those entered into by other Scheme unitholders.

## 21 Related party transactions (continued)

### Responsible Entity's fees and other transactions

Under the terms of the Scheme's Constitution, the Responsible Entity is entitled to receive fees monthly calculated:

- 0.60% per annum of the gross asset value of the Scheme up to and including \$750,000,000; plus
- 0.55% per annum of the gross asset value of the Scheme that exceeds \$750,000,000.

Australian Unity Funds Management Limited (ABN 60 071 497 115) ("AUFML") is the appointed provider of investment management services to the Scheme effective 17 June 2016. Under the Investment Management Agreement, the Investment Manager is engaged to provide a number of services including:

- Investment management services;
- Fund analyst services; and
- Transactional services.

The fees for providing these services are included in the Responsible Entity's fees.

Additionally AUFML is entitled to a fees for providing accounting services of \$140,000 per annum, adjusted upwards by CPI each year from 17 June 2016.

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

- Property management services;
- Financial management services;
- Leasing services;
- Rent review services; and
- Project supervision services (in relation to capital works).

The Responsible Entity, AUFML and AUPMPL are wholly owned subsidiaries of Australian Unity Limited (ABN 23 087 648 888). All related party transactions are under normal commercial terms and conditions and at market rates. The fees payable to the Responsible Entity, AUFML and AUPMPL were approved by unitholders of the Scheme on 17 June 2016.

The AUPMPL fees were subsequently reviewed in July 2019 in line with the terms of the Property Management Services Agreement with new fees applicable from 1 July 2019. Further information on the Property Management Services Agreement is available in the Corporate Governance section of the Australian Unity Office Fund website at [www.australianunityofficefund.com](http://www.australianunityofficefund.com)

The transactions during the year between the Scheme and the Responsible Entity and its related parties were as follows:

	2019	2018
	\$	\$
Responsible Entity's fees	<u>3,906,738</u>	<u>3,287,374</u>
Property management, other property related services fees and accounting fees	<u>654,825</u>	<u>796,370</u>

During the year the Scheme paid \$750,894 (2018: \$791,645) to the Responsible Entity for administration expenses incurred on behalf of the Scheme. These expenses, which are reimbursed in accordance with the Scheme's Constitution, include custodian fees, directors' fees, auditors' fees, accounting fees, registry fees and other expenses incurred in the day to day running of the Scheme.

As at 30 June 2019, an amount of \$816,384 (2018: \$478,609) owing to the Responsible Entity and its related parties was included in payables.

The Scheme charged Australian Unity Group Services Pty Ltd (ABN 29 006 803 069) ("AUGSPL"), a wholly owned subsidiary of Australian Unity Limited, total rent of \$484,263 (2018: \$233,509) during the year, of which \$116,460 (2018: \$nil) remains receivable as at 30 June 2019. The leases were entered into under normal commercial terms and conditions and at market rates.

## 21 Related party transactions (continued)

### Related party unitholdings

Parties related to the Scheme (including Australian Unity Investment Real Estate Limited, its related parties and other schemes managed by Australian Unity Investment Real Estate Limited), held units in the Scheme as follows:

2019	No. of units held opening '000	No. of units held closing '000	Fair value of investment \$'000	Interest held (%)*	No. of units acquired '000	No. of units disposed '000	Distributions paid/payable by the Scheme \$'000
Unitholders							
Australian Unity Diversified Property Fund	9,534	9,534	28,031	5.86	-	-	1,506
Lifeplan Australia Friendly Society Limited	3,800	3,800	11,171	2.33	-	-	600
Australian Unity Health Limited	3,258	3,258	9,580	2.00	-	-	515
Australian Unity Property Income Fund	2,632	2,632	7,737	1.62	-	-	416
Australian Unity Funds Management Limited	1,483	1,483	4,359	0.91	-	-	234
Australian Unity A-REIT Fund	216	642	1,887	0.39	770	(344)	56
Australian Unity Property Securities Fund	870	500	1,470	0.31	-	(370)	123
Australian Unity Real Estate Securities Fund	111	171	502	0.10	60	-	20
<b>Total</b>	<b>21,904</b>	<b>22,020</b>	<b>64,737</b>	<b>13.52</b>	<b>830</b>	<b>(714)</b>	<b>3,470</b>

\* AUFML and its related parties are the appointed investment manager for a number of third-party entities. As at 30 June 2019, these entities hold 823,600 units (0.52% of total units on issue in the scheme).



## 21 Related party transactions (continued)

### Related party unitholdings (continued)

2018	No. of units held opening '000	No. of units held closing '000	Fair value of investment \$'000	Interest held (%)*	No. of units acquired '000	No. of units disposed '000	Distributions paid/payable by the Scheme \$'000
Unitholders							
Australian Unity Diversified Property Fund	8,637	9,534	23,835	5.86	1,382	(485)	1,452
Lifeplan Australia Friendly Society Limited	2,000	3,800	9,502	2.34	1,800	-	559
Australian Unity Health Limited	2,724	3,258	8,145	2.00	534	-	487
Australian Unity Property Income Fund	2,269	2,632	6,580	1.62	363	-	396
Australian Unity Funds Management Limited	2,316	1,483	3,708	0.91	443	(1,276)	227
Australian Unity A-REIT Fund	186	216	540	0.13	90	(60)	30
Australian Unity Property Securities Fund	750	870	2,175	0.53	120	-	131
Australian Unity Real Estate Securities Fund	-	111	278	0.07	111	-	13
<b>Total</b>	<b>18,882</b>	<b>21,904</b>	<b>54,763</b>	<b>13.46</b>	<b>4,843</b>	<b>(1,821)</b>	<b>3,295</b>

\* AUFM and its related parties are the appointed investment manager for a number of third-party entities. As at 30 June 2018, these entities hold 823,600 units (0.52% of total units on issue in the scheme).

## 22 Reconciliation of profit to net cash inflow from operating activities

	2019 \$'000	2018 \$'000
Profit for the year	44,828	97,293
Add back interest expenses and debt establishment costs	7,850	6,705
Increase in receivables	(477)	(208)
Increase in payables/liabilities	1,035	1,565
Change in fair value of the investment properties - revaluation increment	(24,282)	(73,717)
Adjustments to net lease incentives and straight line rental	1,562	2,918
Unrealised losses on financial instruments held at fair value through profit or loss	5,847	529
Decrease/(Increase) in other assets/prepayments	128	(225)
<b>Net cash inflow from operating activities</b>	<b>36,491</b>	<b>34,860</b>

## 23 Parent entity financial information

	2019 \$'000	2018 \$'000
<b>Statement of financial position</b>		
Cash and cash equivalents	4,312	5,059
Receivables	253	276
Other assets	68	68
Investment properties	126,000	128,050
Investment in subsidiaries	558,558	533,029
<b>Total assets</b>	<b>689,191</b>	<b>666,482</b>
Distributions payable	6,432	6,350
Financial liabilities held at fair value through profit or loss	6,143	297
Payables	18,667	27,751
Borrowings	203,940	197,175
<b>Total liabilities</b>	<b>235,182</b>	<b>231,573</b>
<b>Net assets attributable to unitholders</b>	<b>454,009</b>	<b>434,909</b>

### Statement of comprehensive income

Profit for the year	44,828	97,293
Other comprehensive income	-	-
<b>Total comprehensive income for the year</b>	<b>44,828</b>	<b>97,293</b>

## **24 Events occurring after the end of the financial year**

The Responsible Entity as responsible entity of the Scheme has received an unsolicited, indicative and non-binding proposal from an entity associated with Abacus Property Group (ASX: ABP) and Charter Hall Group (ASX: CHC) (together, the Consortium) to acquire, by way of a trust scheme, all of the issued units in the Scheme that the Consortium does not already hold for \$3.04 cash per unit, reduced by any distribution announced or paid in respect of the Scheme other than the 3.95 cent per unit distribution announced on 21 June 2019 (Proposal).

The independent board committee (IBC) established by the Responsible Entity to consider the Proposal, along with its advisers, is negotiating a Scheme Implementation Agreement with the Consortium in relation to the Proposal. Any further developments in relation to the Proposal or the Scheme Implementation Agreement under negotiation between the IBC and the Consortium will be disclosed to ASX in the ordinary course.

Subject to the matters described above, 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 directors of the Responsible Entity are not aware of any other matter or circumstance arising since 30 June 2019 which has significantly affected or may significantly affect the financial position of the Scheme disclosed in the consolidated statement of financial position as at 30 June 2019 or on the results and cash flows of the Scheme for the year ended on that date.

## **25 Contingent assets and liabilities and commitments**

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2019 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 \$3,874,000 (2018: \$2,217,000).

## Directors' declaration

In the opinion of the directors of Australian Unity Investment Real Estate Limited, as the Responsible Entity of the Scheme:

- (a) the consolidated financial statements and notes set out on pages 8 to 40 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, 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 30 June 2019 and of its performance, as represented by the results of its operations and cash flows for the year 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,
- (c) the consolidated financial statements are in accordance with the Scheme's Constitution, and
- (d) Note 2(a) confirms that the consolidated financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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



Don Marples  
Director and Chairman of the Audit & Risk Committee



Peter Day  
Chairman

25 August 2019



## *Independent auditor's report*

To the unitholders of Australian Unity Office Fund

### *Report on the audit of the financial report*

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#### *Our opinion*

In our opinion:

The accompanying financial report of Australian Unity Office Fund (the Scheme) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### *What we have audited*

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2019
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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#### *Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

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

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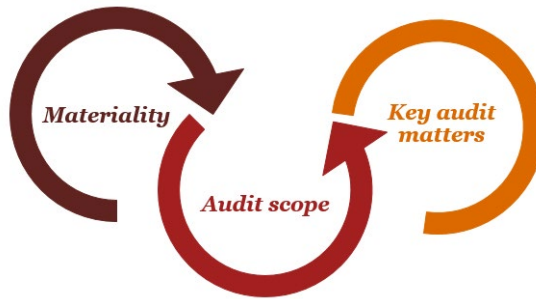
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2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001  
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## Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality	Audit scope
<ul style="list-style-type: none"> <li>For the purpose of our audit we used overall Group materiality of \$1.40 million, which represents approximately 5% of the Group's adjusted profit (Funds from Operations).</li> <li>We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.</li> <li>We chose adjusted Group profit because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. We adjusted Group profit for fair value movements in investment properties and derivatives, straight lining of rental income and amortisation of leasing commissions and tenant incentives.</li> <li>We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.</li> </ul>	<ul style="list-style-type: none"> <li>Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.</li> <li>The Group's investment property portfolio comprises Australian metropolitan and CBD office properties. The investment manager for the Group is Australian Unity Funds Management Limited. The Group's accounting processes and controls are performed by Australian Unity Funds Management Limited at its Melbourne head office, where we predominately performed our audit procedures.</li> </ul>



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## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matter was addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matter to the Audit and Risk Committee.

Key audit matter	How our audit addressed the key audit matter
<p><b>Valuation of investment properties</b> (Refer to note 14) \$668m</p> <p>The Group's investment properties are carried at fair value adjusted for capital expenditure, leasing commissions and lease incentives. The determination of the valuation of investment properties by the Group is considered a key audit matter as:</p> <ol style="list-style-type: none"><li>Investment property valuation is highly judgemental as minor changes in the underlying assumptions can significantly impact the valuation results.</li><li>Investor returns and the net assets of the Group are significantly affected by changes in the valuation of investment properties. Investment properties comprised 99% of total assets of the Group at 30 June 2019. Furthermore, 54% of the Group's profit for the year ended 30 June 2019 is contributed by changes in fair value of investment properties.</li></ol> <p>The valuation of investment properties is dependent on the valuation methodology adopted and the inputs used. Certain assumptions made in the valuation of investment properties are key in establishing fair value, particularly the capitalisation rate and discount rate.</p>	<p>We performed the following audit procedures amongst others:</p> <ul style="list-style-type: none"><li>We checked that the Group's valuation policy for investment properties (refer note 2c) is in accordance with Australian Accounting Standards and that the policy was complied with.</li><li>Where the Group was assisted in their determination of value by external valuers we:<ul style="list-style-type: none"><li>Assessed the competency and capabilities of the external valuer.</li><li>Read the valuer's terms of engagement – we did not identify any terms that might affect their objectivity or impose limitations on their work relevant to the valuation.</li><li>Inspected the final valuation reports and agreed the fair value to the Group's accounting records, noting no material differences.</li></ul></li><li>For a sample of investment property leases, we compared the rental income and lease terms used in the external valuations to the tenancy schedule and lease agreement, with no material differences noted.</li><li>We compared key valuation assumptions (capitalisation rate and discount rate) to a range we determined to be reasonable based on benchmark market data, and obtained evidence to support material assumptions where they fell outside our anticipated range. Typically, variances related to the specific location, tenants and lease terms of the property. In the context of the specific properties identified, we considered the reasons for variances to be appropriate.</li></ul>

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### *Other information*

The directors of Australian Unity Investment Real Estate Limited, as the Responsible Entity for Australian Unity Office Fund (the directors), are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the directors' report. We expect the remaining other information to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors of the Responsible Entity and use our professional judgement to determine the appropriate action to take.

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### *Responsibilities of the directors for the financial report*

The directors are responsible for the preparation of the 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 determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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### *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.





A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:  
[http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers' in a cursive script.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to be 'George Sagonas', written in a cursive style.

George Sagonas  
Partner

Melbourne  
25 August 2019