

ASX Announcement – Australian Unity Office Fund

28 February 2022

Appendix 4D

Australian Unity Office Fund ('AOF') Results for the Year Ended 31 December 2021

Results for announcement to the market

Results for announcement to the market					
1.0	Reporting period				
	Current reporting period	6 months to 31 December 2021			
	Prior reporting period	6 months to 31 December 2020			
2.0	Results for announcement to the market	31 Dec 2021	31 Dec 2020	Movement	Movement
		\$'000	\$'000	\$'000	%
2.1	Total revenues and other income (Note 1)	23,846	24,157	(311)	(1.3)%
2.2	Profit from ordinary activities after tax attributable to unitholders	6,834	20,109	(13,275)	(66.0)%
2.3	Net profit for the period attributable to unitholders	6,834	20,109	(13,275)	(66.0)%
2.3A	Directors' assessment of Funds From Operations (Note 2)	15,643	15,103	540	3.6%
2.4	Distributions	Amount per unit	Record date		
	Distribution for 1 July 2021 to 30 September 2021	3.80 cents	30 Sep 21		
	Distribution for 1 October 2021 to 31 December 2021	3.80 cents	31 Dec 21		
2.5	Record date for determining entitlement to the distributions	Refer section 2.4			
2.6	Brief explanation of any figures in 2.1 to 2.4 necessary to enable the figures to be understood.	Refer to the financial report and directors' report for the half-year ended 31 December 2021 attached to this Appendix 4D for further information.			
3	Net tangible assets per security	31 Dec 2021	31 Dec 2020		
		\$2.67	\$2.77		
4	Details of entities over which control has been gained or lost during the period, including the following.	Not applicable.			

ASX Announcement – Australian Unity Office Fund

5	Details of individual and total distributions and distribution payments.	Date Paid	Amount Per Unit	Foreign Sourced Income
	Distribution for 1 July 2021 to 30 September 2021	19 Oct 2021	3.80 cents	n/a
	Distribution for 1 October 2021 to 31 December 2021	28 Jan 2022	3.80 cents	n/a
6	Details of any distribution reinvestment plans in operation and the last date for the receipt of an election notice for participation in any distribution reinvestment plan.	Not applicable.		
7	Details of associates and joint venture entities including the following.	Not applicable.		
8	For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Financial Reporting Standards).	Not applicable.		
9	If the accounts have been audited and contain an independent audit report that is subject to a modified opinion, emphasis of matter or other matter paragraph, a description of the modified opinion, emphasis of matter or other matter paragraph.	Not applicable.		

Note (1): Total revenues and other income comprises rental income, interest income and amortisation of lease commissions & lease incentives

Note (2): 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. FFO is a Property Council of Australia definition which adjusts statutory Australian Accounting Standards 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. When assessing FFO, Directors also add back rental abatement incentives to ensure consistency with the treatment of rent free incentives and fitout incentives. The Scheme aims to distribute between 80% and 100% of Directors' assessment of FFO each year.

About AOF

AOF is an ASX-listed REIT that wholly owns a diversified portfolio of properties located across Australian metropolitan and CBD markets in Sydney, Adelaide, Melbourne, Brisbane and Canberra.

This announcement is issued by Australian Unity Investment Real Estate Limited ABN 86 606 414 368 AFSL 477434 (AUIREL). AUIREL is owned equally by subsidiaries of Australian Unity Limited ABN 23 087 648 888 and Keppel Capital Holdings Pte Ltd CRN 201302079N, the asset management arm of Singapore-based Keppel Capital Limited CRN 196800351N.

Issuer:

Australian Unity Investment Real Estate Limited
271 Spring Street
Melbourne VIC 3000
ABN 86 606 414 368
AFSL: 477434

Registry Enquiries:

Australian Unity Office Fund Investor Services
1300 737 760 or
+61 2 9290 9600
(outside Australia)

Australian Unity Office Fund

ARSN 113 369 627

Interim report for the half-year ended 31 December 2021

Australian Unity Office Fund

ARSN 113 369 627

Interim report for the half-year ended 31 December 2021

Contents	Page
Directors' report	2
Auditor's independence declaration	8
Consolidated statement of comprehensive income	9
Consolidated statement of financial position	10
Consolidated statement of changes in equity	11
Consolidated statement of cash flows	12
Notes to the consolidated financial statements	13
Directors' declaration	25
Independent auditor's review report to the unitholders of Australian Unity Office Fund	26

Directors' report

The directors of Australian Unity Investment Real Estate Limited (ABN 86606414368), the Responsible Entity of Australian Unity Office Fund ("the Scheme"), present their report together with the consolidated financial statements of the Scheme for the half-year ended 31 December 2021.

Directors

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

W 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
Erle Spratt	Non-Executive Director
Greg Willcock	Non-Executive Director

* Member of the Audit & Risk Committee

Company secretary

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

Liesl Petterd
Emma Rodgers (resigned 5 November 2021)

Operating and financial review

Principal activities

The Scheme is an ASX-listed Real Estate Investment Trust that wholly owns a diversified portfolio of properties located across Australian metropolitan and CBD 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 properties.

The Scheme's strategy is to:

- focus on owning Australian office properties in metropolitan and CBD markets, complemented by a targeted and diversified portfolio of Australian real estate assets;
- deliver unitholders sustainable and growing income returns via quarterly distributions;
- maximise returns to unitholders through value-add initiatives including developments, asset repositioning strategies, divestments and acquisitions;
- target inclusion in additional ASX and global indices; and
- maintain a capital structure which has target gearing below 40%.

The Scheme's three largest tenants, representing approximately 51% of the Scheme's net lettable area and 59% of the Scheme's gross income at 31 December 2021 have lease expiries between 30 June 2022 and 30 June 2024. In light of this, the Responsible Entity is reviewing the Scheme's objective and strategy in the context of the Scheme's future income profile and asset refurbishment and repositioning strategies. Any decision to change the Scheme's objective and strategy will be based on what is in the best interests of unitholders and will be disclosed accordingly.

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

Review of operations

Acquisition of 96 York Street, Beenleigh, QLD

On 21 July 2021, the Scheme announced the acquisition of 96 York Street, Beenleigh, QLD for \$33,520,000 excluding acquisition costs. The building has a net lettable area of 4,650 sqm, with 4,011 sqm of office space leased to Logan City Council for 10 years with two 5-year options and annual rent increases of the greater of 3.0% or CPI. Settlement occurred on 25 February 2022.

Sale of 32 Phillip Street, Parramatta, NSW

On 6 December 2021, the Scheme entered into an unconditional contract for the sale of 32 Phillip Street, Parramatta, NSW. The sale price of \$66.0 million (excluding transaction costs) reflected a 5% premium to the asset's independent valuation of \$62.75 million as at 30 June 2021. Settlement occurred on 23 December 2021 with the proceeds used to repay the Scheme's borrowings and reduce gearing.

Merger proposal with Australian Unity Diversified Property Fund

On 4 October 2021, the Scheme announced that it had entered into a merger implementation deed ("MID") with Australian Unity Diversified Property Fund ("DPF") to create Australian Unity Property Fund.

The proposed merger was to be implemented by way of a DPF trust scheme subject to various conditions, including obtaining the approval of unitholders at meetings of the Scheme unitholders and DPF unitholders.

Following release of the proposed merger notice of meeting and explanatory memorandum, a small number of the Scheme's largest unitholders provided feedback that they were not supportive of the proposed merger.

The Responsible Entity formed the view that further engagement with unitholders and other stakeholders was required to understand their feedback and to determine if there were opportunities to make refinement to the proposed merger. The unitholder meeting to consider the proposed merger was deferred.

Following a period of engagement, the Responsible Entity determined that it was not possible to make sufficient refinements to the proposed merger, in an appropriate time-frame, to obtain the support necessary from the small number of the Scheme's largest unitholders, which was required for the meeting resolutions to be passed.

Accordingly, the Scheme and DPF mutually terminated the MID on 17 January 2022, with the proposed merger no longer being pursued.

Impact of COVID-19

The COVID-19 pandemic was declared a worldwide pandemic by the World Health Organisation in March 2020. The pandemic, and the measures to slow the spread of the virus, has significantly impacted the global and local economies.

The Scheme has also been impacted with large tenants delaying leasing decisions and eligible tenants requesting rent relief. Valuation uncertainty increased.

During the six months to 31 December 2021, approximately 3% of the Scheme's tenants, by average monthly gross income, have requested rent relief. The Scheme is in "good faith" negotiations with these tenants.

Financial result

The following table summarises the statutory profit for the half-year ended 31 December 2021 and provides a comparison to the statutory profit for the half-year ended 31 December 2020.

\$'000	Half-year ended 31 December 2021	Half-year ended 31 December 2020
Rental income *	26,376	28,182
Property expenses **	(6,021)	(8,184)
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	(2,530)	(4,026)
Net property income	17,825	15,972
Interest income	-	1
Net gains/(losses) on financial instruments held at fair value	3,041	(313)
Net gain on disposal of investment property	1,931	-
Net fair value (decrement)/increment of investment properties	(7,827)	10,483
Responsible Entity's fees	(1,939)	(2,069)
Borrowing costs	(2,742)	(3,360)
Other expenses ***	(3,455)	(605)
Profit attributable to unitholders	6,834	20,109

* Rental income includes the amortisation of leasing commissions and tenant incentives but does not include the impact of straight lining of rental income.

** Property expenses includes the provision for doubtful debts.

*** Other expenses for the half-year ended 31 December 2021 include \$2,626,000 of costs in relation to the proposed merger with the Australian Unity Diversified Property Fund that did not proceed.

As at 31 December 2021, the Scheme's net assets per unit attributable to unitholders was \$2.67 (30 June 2021: \$2.71).

Funds From Operations

The Scheme uses the Property Council of Australia's definition of 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 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.

When assessing FFO, Directors also add back rental abatement incentives to ensure consistency with the treatment of rent free incentives and fitout incentives.

A reconciliation of the statutory profit to FFO and distributions is set out below for the half-years ended 31 December 2021 and 31 December 2020.

\$'000	Half-year ended 31 December 2021	Half-year ended 31 December 2020
Net profit	6,834	20,109
Adjusted for:		
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	2,530	4,026
Net (gains)/losses on financial instruments held at fair value	(3,041)	313
Net gain on disposal of investment property	(1,931)	-
Net fair value decrement/(increment) of investment properties	7,827	(10,483)
Amortisation of borrowing costs	142	135
Once off adjustments *	2,626	-
Add back: Rental abatement incentives	656	1,003
Directors' assessment of Funds from Operations	15,643	15,103
Distributions declared	12,493	12,236

Funds From Operations (continued)

* The Scheme incurred costs, for the half year ended 31 December 2021, in relation to the proposed merger with the Australian Unity Diversified Property Fund that did not proceed. As these costs are one off in nature, and not part of the underlying and recurring earnings of the Scheme, the directors have excluded them from the FFO calculation.

Cents per unit	Half-year ended 31 December 2021	Half-year ended 31 December 2020
Directors' assessment of Funds From Operations	9.5	9.2
Distributions declared	7.6	7.5
Payout ratio (Distributions declared/Funds From Operations)	80.0%	81.5%

Property portfolio

At 31 December 2021, the Scheme wholly owned a diversified portfolio of 7 properties (30 June 2021: 8 properties) located across Australian metropolitan and CBD markets. The portfolio is valued at \$572,500,000 (30 June 2021: \$638,850,000) and has a total net lettable area of 91,254 sqm (30 June 2021: 98,067 sqm).

a) Leasing and occupancy

Since 1 July 2021, the Scheme has completed approximately 4,500 sqm of leasing across 10 separate transactions. This represents approximately 5.0% of the portfolio by area.

At 31 December 2021, the Scheme's investment properties weighted average lease expiry was 2.1 years (30 June 2021: 2.4 years) and occupancy rate was 96.9% (30 June 2021: 95.7%).

b) Valuations

All properties were independently revalued at 31 December 2021 ensuring valuations reflect current market conditions.

Subsequent to 31 December 2021, the Scheme was informed by the major tenant at 150 Charlotte Street, Brisbane, Boeing Defence Australia, that it had entered into a non-binding heads of agreement for occupancy at another property. In the event the non-binding heads of agreement leads to the execution of an unconditional lease agreement, Boeing Defence Australia will not exercise their 5-year option and will vacate the premises at lease expiry, on 30 June 2024. Considering this new information regarding Boeing Defence Australia's tenancy, the Scheme commissioned a new independent valuation for 150 Charlotte Street, Brisbane, dated 15 February 2022. The Scheme has adopted this new independent valuation in the financial statements as this represents the fair value of 150 Charlotte Street, Brisbane at the reporting date.

The weighted average capitalisation rate for the portfolio firmed by 7 basis points to 5.77% as at 31 December 2021 (30 June 2021: 5.84%), including the impact of the 15 February 2022 independent valuation of 150 Charlotte Street, Brisbane.

Capital management

As at 31 December 2021, drawn borrowings totalled \$131,300,000 (30 June 2021: \$190,800,000) with a weighted average all-in interest cost of 3.8% and 129.5% of drawn debt hedged. As at the date of this Directors report, the drawn borrowings increased to \$167,300,000 and drawn debt hedged reduced to 101.6%, with the increased borrowings predominately used to fund the settlement of 96 York St, Beenleigh. The quantum of interest rate swaps is expected to reduce in May 2022 when an interest rate swap with a contract/notional value of \$40,000,000 expires, which will reduce the amount of drawn debt which is hedged. The Scheme's gearing (calculated as interest bearing liabilities, excluding unamortised establishment costs, less cash, divided by total tangible assets less cash) was 21.1% (30 June 2021: 28.4%).

The Scheme has a \$250,000,000 bank loan facility comprised of three tranches: \$70,000,000 facility expiring on 19 October 2022; \$80,000,000 facility expiring on 29 June 2023 and \$100,000,000 facility expiring on 31 March 2025. The Scheme is currently in the process of refinancing the \$70,000,000 facility and has received credit approved term sheets from a number of financiers.

In the event the Scheme is unable to refinance the \$70,000,000 facility, the Scheme has sufficient headroom within its overall debt facility to enable the \$70,000,000 facility to be cancelled.

The Distribution Reinvestment Plan (DRP) was not active for the half-year ended 31 December 2021.

Outlook and guidance

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

The Responsible Entity will continue to focus on active portfolio management, including progressing asset management and refurbishment and repositioning initiatives at 10 Valentine Avenue, Parramatta and 30 Pirie Street, Adelaide. The Scheme will also continue to explore and implement other initiatives to maximise value for the Scheme's unitholders.

The Responsible Entity reconfirms Funds From Operations guidance for the 2022 financial year of 18.0 cents per unit to 18.5 cents per unit and distribution guidance of 15.2 cents per unit, excluding the impact of any special distributions. This guidance is subject to no material change in AOF's portfolio, no material change in current market conditions and no unforeseen events. Distributions will continue to be paid quarterly.

The Responsible Entity will continue to review the Scheme's financial position, including its income profile, balance sheet position, debt facilities and associated covenants and will update the market should circumstances materially change.

Matters subsequent to the end of the half-year

On 25 February 2022, the Scheme settled on the purchase of 96 York St, Beenleigh QLD for \$33.52 million excluding acquisition costs.

On 4 October 2021, the Scheme announced that it had entered into a merger implementation deed ("MID") with Australian Unity Diversified Property Fund ("DPF") to create Australian Unity Property Fund. The Scheme and DPF mutually terminated the MID on 17 January 2022, with the merger no longer being pursued.

Subsequent to 31 December 2021, the Scheme was informed by the major tenant at 150 Charlotte Street, Brisbane, Boeing Defence Australia, that it had entered into a non-binding heads of agreement for occupancy at another property. In the event the non-binding heads of agreement leads to the execution of an unconditional lease agreement, Boeing Defence Australia will not exercise their 5-year option and will vacate the premises at lease expiry, on 30 June 2024. Considering this new information regarding Boeing Defence Australia's tenancy, the Scheme commissioned a new independent valuation for 150 Charlotte Street, Brisbane, dated 15 February 2022. The Scheme has adopted this new independent valuation in the financial statements as this represents the fair value of 150 Charlotte Street, Brisbane at the reporting date.

Uncertainty remains regarding how the COVID-19 pandemic will evolve, including the duration of the pandemic and impact on the Scheme's operations and financial performance. The economic and operating environment is subject to rapid change and will continue to be closely monitored by the Scheme.

Other than the above matters, no other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the operations of the Scheme, the results of operations, or the state of the Scheme's affairs in the future reporting periods.

Significant changes in state of affairs

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

Indemnification and insurance of officers and auditors

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

Environmental regulation

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

Rounding of amounts to the nearest thousand dollars

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

Auditor's independence declaration

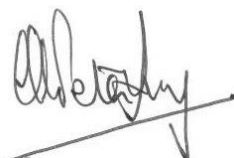
A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 8.

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



W Peter Day

Independent Non-Executive Director and Chairman

28 February 2022



Auditor's Independence Declaration

As lead auditor for the review of Australian Unity Office Fund for the half-year ended 31 December 2021, I declare that to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Australian Unity Office Fund and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'Britt Hawkins'.

Britt Hawkins
Partner
PricewaterhouseCoopers

Melbourne
28 February 2022

Australian Unity Office Fund
Consolidated statement of comprehensive income
For the half-year ended 31 December 2021

Consolidated statement of comprehensive income

		Half-year	
	Notes	2021	2020
		\$'000	\$'000
Income			
Rental income	3	23,846	24,156
Property expenses	4	(6,021)	(8,184)
Net property income		17,825	15,972
Interest income		-	1
Net gains/(losses) on financial instruments held at fair value through profit or loss	6	3,041	(313)
Net fair value (decrement)/increment of investment properties	10(b)	(7,827)	10,483
Realised gain on disposal of investment property		1,931	-
Total income net of property expenses		14,970	26,143
Expenses			
Responsible Entity's fees		1,939	2,069
Borrowing costs		2,742	3,360
Other expenses	5	3,455	605
Total expenses, excluding property expenses		8,136	6,034
Profit attributable to unitholders		6,834	20,109
Other comprehensive income		-	-
Total comprehensive income attributable to unitholders		6,834	20,109
Basic and diluted earnings per unit attributable to unitholders		4.16	12.33

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

Australian Unity Office Fund
Consolidated statement of financial position
As at 31 December 2021

Consolidated statement of financial position

		31 December 2021	30 June 2021
	Notes	\$'000	\$'000
Assets			
Cash and cash equivalents		9,663	8,935
Receivables		112	592
Other assets	9	1,936	999
Financial assets held at fair value through profit or loss	11	2,050	-
Investment properties	10	572,500	638,850
Total assets		586,261	649,376
Liabilities			
Distributions payable	8	6,247	6,164
Payables		10,050	7,232
Financial liabilities held at fair value through profit or loss	11	-	991
Borrowings	12	130,791	190,157
Total liabilities		147,088	204,544
Net assets attributable to unitholders	7	439,173	444,832

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

Australian Unity Office Fund
Consolidated statement of changes in equity
For the half-year ended 31 December 2021

Consolidated statement of changes in equity

	Half-year	
	2021	2020
	\$'000	\$'000
Balance at the beginning of the half-year	444,832	442,830
Comprehensive income for the half-year		
Profit attributable to unitholders	6,834	20,109
Other comprehensive income for the half-year	-	-
Total comprehensive income attributable to unitholders	6,834	20,109
Transactions with unitholders		
Distributions paid and payable	(12,493)	(12,236)
Units issued upon reinvestment of distributions	-	1,353
Total transactions with unitholders	(12,493)	(10,883)
Balance at the end of the half-year	439,173	452,056

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

Australian Unity Office Fund
Consolidated statement of cash flows
For the half-year ended 31 December 2021

Consolidated statement of cash flows

	Half-year	
	2021	2020
	\$'000	\$'000
<i>Cash flows from operating activities</i>		
Rental income received	26,727	28,119
Payments to suppliers	(10,105)	(9,969)
Interest received	-	1
Net cash inflow from operating activities	16,622	18,151
<i>Cash flows from investing activities</i>		
Payments for additions to owned investment properties	(4,965)	(4,733)
Deposits paid & transactions costs in relation to acquisition of 96 York Street	(1,799)	-
Proceeds from sale of investment property	66,000	-
Disposal costs paid from sale of investment property	(43)	-
Net cash inflow/(outflow) from investing activities	59,193	(4,733)
<i>Cash flows from financing activities</i>		
Proceeds from borrowings	5,500	4,000
Repayment of borrowings	(65,000)	-
Interest paid	(3,176)	(3,229)
Distributions paid*	(12,411)	(9,638)
Net cash outflow from financing activities	(75,087)	(8,867)
Net increase in cash and cash equivalents	728	4,551
Cash and cash equivalents at the beginning of the half-year	8,935	5,798
Cash and cash equivalents at the end of the half-year	9,663	10,349

* Distributions paid for the half-year ended 31 December 2020 includes the impact of the distribution reinvestment plan which reduced payments by \$1,353,000 with 632,000 new units being issued.

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

Notes to the consolidated financial statements

	Page
1 General information	14
2 Basis of preparation	14
3 Rental income	15
4 Property expense	15
5 Other operating expenses	16
6 Net gains/(losses) on financial instruments held at fair value through profit or loss	16
7 Net assets attributable to unitholders	17
8 Distributions to unitholders	17
9 Other assets	18
10 Investment properties	18
11 Financial liabilities held at fair value through profit or loss	20
12 Borrowings	20
13 Fair value measurement of financial instruments	21
14 Events occurring after end of the half-year	24
15 Contingent assets and liabilities and commitments	24

1 General information

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

The Responsible Entity of the Scheme is Australian Unity Investment Real Estate Limited ("AUIREL") (ABN 86606414368) ("the Responsible Entity"), a wholly owned subsidiary of Australian Unity Keppel Capital Pty Ltd (ABN 67 637 410 505), a joint venture company owned equally by subsidiaries of Australian Unity Limited (ABN 23 087 648 888) and Keppel Capital Holdings Pte Ltd (CRN 201302079N), the asset management arm of Singapore-based Keppel Capital Limited (CRN 196800351N). 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 period 1 July 2021 to 31 December 2021.

The consolidated financial statements were authorised for issue by the directors of the Responsible Entity on 28 February 2022. The directors of the Responsible Entity have the power to amend and reissue the consolidated financial statements.

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

2 Basis of preparation

These consolidated interim financial statements for the half-year ended 31 December 2021 have been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standard AASB 134 *Interim Financial Reporting*.

This consolidated interim financial report does not include all the notes of the type normally included in a set of annual financial statements. Accordingly, this report is to be read in conjunction with the annual financial statements for the year ended 30 June 2021 and any public announcements made in respect of the Scheme during the reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

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

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

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

Compliance with International Financial Reporting Standards

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

2 Basis of preparation (continued)

New accounting standards and amendments adopted by the Scheme

There are no new accounting standards, interpretations or amendments to existing standards that are effective for the first time for the reporting period that have a material impact on the amounts recognised in prior periods or will affect the current or future periods.

New accounting standards, amendments and interpretations not yet adopted

Certain new accounting standards, amendments and interpretations have been published that are not mandatory for 31 December 2021 reporting period and have not yet been applied in the financial statements. None of these are expected to have a material effect on the financial statements of the Scheme.

3 Rental income

	Half-year	
	2021	2020
	\$'000	\$'000
Rental income	21,689	21,229
Outgoings income	4,122	5,150
Amortisation of lease commissions & lease incentives	(1,965)	(2,223)
Total rental income	23,846	24,156

Rental income includes an adjustment for the straight lining of rental income of (\$564,000) (2020: (\$1,803,000)).

During the period the Scheme identified that amortisation of lease commissions & lease incentives had been incorrectly classified in the half-year ended 31 December 2020, resulting in an overstatement of rental income by \$2,223,000 and an equivalent overstatement of property expenses. The Scheme has restated rental income and property expenses for the half-year ended 31 December 2020 accordingly. There is no impact to the Scheme's profit, net assets or funds from operations.

4 Property expense

	Half-year	
	2021	2020
	\$'000	\$'000
Recoverable outgoings	5,621	7,197
Non recoverable outgoings	479	514
Doubtful debts provision and bad debt expense	(79)	473
	6,021	8,184

5 Other operating expenses

	Half-year	
	2021	2020
	\$'000	\$'000
Directors fees	181	167
Sundry*	2,919	125
Administration	355	313
	<u>3,455</u>	<u>605</u>

*During the half-year, the Scheme incurred \$2,626,000 of costs in relation to the proposed merger with the Australian Unity Diversified Property Fund, which did not proceed.

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

	Half-year	
	2021	2020
	\$'000	\$'000
Net unrealised gains/(losses) on derivatives	3,041	(313)
Total net gains/(losses) on financial instruments held at fair value through profit or loss	<u>3,041</u>	<u>(313)</u>

7 Net assets attributable to unitholders

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

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

	Movement in no. of units Half-year		Movement in net assets Half-year	
	2021 No. '000	2020 No. '000	2021 \$'000	2020 \$'000
Contributed equity				
Opening balances	164,383	162,832	374,067	370,757
Units issued through the DRP	-	632	-	1,353
Closing balance	164,383	163,464	374,067	372,110
Undistributed income				
Opening balance			70,765	72,073
Increase in net assets attributable to unitholders			(5,659)	7,873
Closing balance			65,106	79,946
Total net assets attributable to unitholders			439,173	452,056

8 Distributions to unitholders

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

	Half-year			
	2021 \$'000	2021 CPU	2020 \$'000	2020 CPU
30 September	6,247	3.8000	6,106	3.7500
31 December (payable)	6,247	3.8000	6,130	3.7500
	12,494	7.6000	12,236	7.5000

9 Other assets

The following table details the other assets by the consolidated entity and the Scheme during the half-year:

	31 December 2021 \$'000	30 June 2021 \$'000
Deposits paid & transactions costs in relation to acquisition of 96 York Street	1,799	-
Prepaid expenses	137	999
	1,936	999

10 Investment properties

(a) Property details

	Type	Ownership	Acquisition date	Valuation date	Valuation amount	Valuer	Carrying value 31 December 2021	30 June 2021
		(%)			\$'000		\$'000	\$'000
2-10 Valentine Ave, Parramatta, NSW	Office/ Freehold	100%	07/12/2007	31/12/2021	149,500	Jones Lang LaSalle	149,500	147,800
30 Pirie Street, Adelaide, SA	Office/ Freehold	100%	11/02/2014	31/12/2021	89,000	Savills	89,000	90,000
468 St Kilda Rd, Melbourne, VIC	Office/ Freehold	100%	03/07/2007	31/12/2021	81,000	CBRE	81,000	79,000
5 Eden Park Drive, Macquarie Park, NSW	Commercial/ Freehold	100%	11/02/2014	31/12/2021	80,000	CBRE	80,000	73,500
150 Charlotte Street, Brisbane, QLD	Office/ Freehold	100%	20/10/2017	15/02/2022*	79,000	Savills	79,000	97,000
2 Eden Park Drive, Macquarie Park, NSW	Commercial/ Freehold	100%	20/06/2013	31/12/2021	62,500	Cushman & Wakefield	62,500	62,500
64 Northbourne Avenue, Canberra, ACT	Office/ Leasehold	100%	01/06/2005	31/12/2021	31,500	Knight Frank	31,500	26,300
32 Phillip Street, Parramatta, NSW	Office/ Freehold	100%	01/06/2007	SOLD			-	62,750
Total					572,500		572,500	638,850

*Subsequent to 31 December 2021, the Scheme commissioned a new independent valuation for 150 Charlotte Street, Brisbane, dated 15 February 2022. The Scheme has adopted this new independent valuation in the financial statements as this represents the fair value of 150 Charlotte Street, Brisbane at the reporting date. Refer to Note 14.

10 Investment properties (continued)

(b) Movements in carrying amount

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

	31 December 2021 \$'000	30 June 2021 \$'000
Opening balance	638,850	669,650
Capitalised borrowing cost	163	633
Additions	6,820	7,882
Disposal	(62,977)	(31,714)
Lease commissions and incentives amortisation	(1,965)	(4,358)
Straight-lining of rental income	(564)	(1,586)
Revaluation movements	(7,827)	(1,657)
Closing balance	572,500	638,850

(c) Leasing arrangements

The Scheme leases out its investment properties to tenants under operating leases with rentals payable monthly. The future minimum lease payments receivable under non-cancellable lease are as follows:

	31 December 2021 \$'000	30 June 2021 \$'000
Within one year	34,551	43,128
Later than one year but not later than 5 years	37,339	51,550
Later than 5 years	3,997	3,682
	75,887	98,360

(d) Sensitivity information

A sensitivity analysis was undertaken to assess the impact of capitalisation rates and discount rates on the fair value of the investment properties. The estimated impact of a change in these significant unobservable inputs is illustrated in the table below:

	31 December 2021 \$'000
Adopted capitalisation rate (+0.25%)	(28,208)
Adopted capitalisation rate (-0.25%)	30,015
Adopted discount rate (+0.25%)	(8,884)
Adopted discount rate (-0.25%)	9,181
Adopted terminal yield (+0.25%)	(17,878)
Adopted terminal yield (-0.25%)	19,321

11 Financial liabilities held at fair value through profit or loss

	31 December 2021 \$'000	30 June 2021 \$'000
Derivative assets	2,050	-
Total financial assets held at fair value through profit or loss	2,050	-
Derivative liabilities	-	991
Total financial liabilities held at fair value through profit or loss	-	991

12 Borrowings

	31 December 2021 \$'000	30 June 2021 \$'000
Bank loan	131,300	190,800
Unamortised borrowing costs	(509)	(643)
	130,791	190,157

The \$250,000,000 bank loan facility comprises of three tranches:

- \$70,000,000 facility expiring on 19 October 2022,
- \$80,000,000 facility expiring on 29 June 2023, and
- \$100,000,000 facility expiring on 31 March 2025.

The Scheme is currently in the process of refinancing the \$70,000,000 facility and has received credit approved term sheets from a number of financiers.

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

The Scheme had access to:

	31 December 2021 \$'000	30 June 2021 \$'000
Credit facilities		
Cash advance facilities	250,000	250,000
Drawn balance	(131,300)	(190,800)
Undrawn balance	118,700	59,200

12 Borrowings (continued)

Reconciliations of the net debt are set out below:

	31 December 2021 \$'000	30 June 2021 \$'000
Analysis of changes in consolidated net debt		
Opening balance	181,865	210,002
Repayment from borrowings	(59,500)	(25,000)
Other cash movements	(728)	(3,137)
Closing balance	121,637	181,865
 Bank loan	 131,300	 190,800
Cash and cash equivalents	(9,663)	(8,935)
Consolidated net debt	121,637	181,865

13 Fair value measurement of financial instruments

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

(a) Fair value hierarchy

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

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

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

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

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

All fair value measurements disclosed are recurring fair value measurements.

13 Fair value measurement of financial instruments (continued)

	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
31 December 2021				
Financial assets				
<i>Financial assets held at fair value through profit or loss</i>				
Derivatives	-	2,050	-	2,050
Total financial assets	-	2,050	-	2,050
Non-financial assets				
Investment properties	-	-	572,500	572,500
Total non-financial assets	-	-	572,500	572,500
	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
30 June 2021				
Non-financial assets				
Investment properties	-	-	638,850	638,850
Total non-financial assets	-	-	638,850	638,850
Financial liabilities				
<i>Financial liabilities held at fair value through profit or loss</i>				
Derivatives	-	991	-	991
Total financial liabilities	-	991	-	991

The Scheme's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. There were no transfers between levels 1, 2 and 3 for fair value hierarchy during the half-year ended 31 December 2021 (30 June 2021: \$nil).

(b) Valuation techniques

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

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

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

(i) 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.

13 Fair value measurement of financial instruments (continued)

- 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 Responsible Entity elected to independently revalue all properties at or near the reporting date to reflect fair value at the reporting date, to ensure valuations reflect current market conditions.

Independent valuers use a number of assumptions when valuing a property. Whilst valuers have considered the impact of the COVID-19 pandemic on their assumptions in arriving at a valuation, less weight can be attached to previous market evidence for comparison purposes when forming an opinion of value.

The stated fair value of each investment property at the end of the reporting period represents the Responsible Entity's best estimate as at the end of the reporting period. 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.

(c) Fair value of other financial instruments

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

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

14 Events occurring after end of the half-year

On 25 February 2022, the Scheme settled on the purchase of 96 York St, Beenleigh QLD for \$33.52 million excluding acquisition costs.

On 4 October 2021, the Scheme announced that it had entered into a merger implementation deed ("MID") with Australian Unity Diversified Property Fund ("DPF") to create Australian Unity Property Fund. The Scheme and DPF mutually terminated the MID on 17 January 2022, with the merger no longer being pursued.

Subsequent to 31 December 2021, the Scheme was informed by the major tenant at 150 Charlotte Street, Brisbane, Boeing Defence Australia, that it had entered into a non-binding heads of agreement for occupancy at another property. In the event the non-binding heads of agreement leads to the execution of an unconditional lease agreement, Boeing Defence Australia will not exercise their 5-year option and will vacate the premises at lease expiry, on 30 June 2024. Considering this new information regarding Boeing Defence Australia's tenancy, the Scheme commissioned a new independent valuation for 150 Charlotte Street, Brisbane, dated 15 February 2022. The Scheme has adopted this new independent valuation in the financial statements as this represents the fair value of 150 Charlotte Street, Brisbane at the reporting date.

Uncertainty remains regarding how the COVID-19 pandemic will evolve, including the duration of the pandemic and impact on the Scheme's operations and financial performance. The economic and operating environment is subject to rapid change and will continue to be closely monitored by the Scheme. The Scheme is required to provide rent waivers and rent deferrals for those tenants that qualify under the relevant Code legislation and continues to hold those discussions.

Other than the matters identified above, the Directors of the Responsible Entity are not aware of any other matter or circumstance arising since 31 December 2021 which has significantly affected or may significantly affect the financial position of the Scheme disclosed in the consolidated statement of financial position as at 31 December 2021 or on the results and cash flows of the Scheme for the half-year ended on that date.

15 Contingent assets and liabilities and commitments

There are no outstanding contingent assets or liabilities as at 31 December 2021 and 30 June 2021.

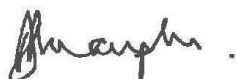
Commitments arising from contracts principally relating to capital expenditure on investment properties which are contracted for at reporting date but not recognised on the consolidated statement of financial position are \$4,263,000 (30 June 2021: \$1,677,000).

Directors' declaration

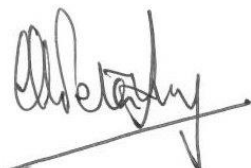
In the opinion of the directors of the Responsible Entity:

- (a) The consolidated financial statements and notes set out on pages 9 to 24 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards as it relates to AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated Scheme's financial position as at 31 December 2021 and of its performance, as represented by the results of its operations and cash flows for the financial reporting period ended on that date.
- (b) There are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable, and
- (c) The consolidated financial statements are in accordance with the Scheme's Constitution.

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



Don Marples
Independent Non-Executive Director and Chairman of the Audit & Risk Committee



W Peter Day
Independent Non-Executive Director and Chairman

28 February 2022



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

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Australian Unity Office Fund (the Scheme) and the entities it controlled during the half-year (together the Group), which comprises the consolidated statement of financial position as at 31 December 2021, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, significant accounting policies and explanatory notes and the directors' declaration.

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

1. giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the half-year ended on that date
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

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 & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the directors of the Responsible Entity for the half-year financial report

The directors of Australian Unity Investment Real Estate Limited, the Responsible Entity of the Scheme, are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors of the Responsible Entity determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.



Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Britt Hawkins

Britt Hawkins
Partner

Melbourne
28 February 2022