

ASX Announcement – Australian Unity Office Fund

23 February 2024

Appendix 4D

Australian Unity Office Fund ('AOF') Preliminary Final Report For the Half-Year Ended 31 December 2023

Results for announcement to the market

| | | | | | |
|------|--|--|-----------------------------|----------------------------|-----------------------|
| 1.0 | Reporting period | | | | |
| | Current reporting period | 6 months to 31 December 2023 | | | |
| | Prior reporting period | 6 months to 31 December 2022 | | | |
| 2.0 | Results for announcement to the market | 31 December 2023 | 31 December 2022 | Movement \$'000 | Movement % |
| | | \$'000 | \$'000 | | |
| 2.1 | Total revenues and other income (Note 1) | 10,841 | 21,367 | (10,526) | (49)% |
| 2.2 | Profit from ordinary activities after tax attributable to unitholders | (26,392) | 979 | (27,371) | (2,796)% |
| 2.3 | Net profit for the period attributable to unitholders | (26,392) | 979 | (27,371) | (2,796)% |
| 2.3A | Directors assessment of Funds From Operations (Note 2) | 6,513 | 12,138 | (5,625) | (46)% |
| 2.4 | Distributions | Amount per unit | | Record date | |
| | Distribution for 1 July 2023 to 30 September 2023 | 1.30 cents | | 29 September 2023 | |
| | Distribution for 1 October 2023 to 31 December 2023 | 1.50 cents | | 29 December 2023 | |
| 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 interim financial report and directors' report for the half-year ended 31 December 2023 attached to this Appendix 4D for further information. | | | |
| 3 | Net tangible assets per security | 31 December 2023 | | 31 December 2022 | |
| | | \$1.72 | | \$2.22 | |
| 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. Distribution for 1 July 2023 to 30 September 2023 Distribution for 1 October 2023 to 31 December 2023 | Date Paid | Amount per unit | Foreign sourced income |
| | | 26 October 2023 | 1.30 cents | n/a |
| | | 31 January 2024 | 1.50 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 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. | | |

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

Note (2): The Scheme uses the Property Council of Australia' 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 portfolio of properties located across Australian metropolitan and CBD markets.

This announcement is issued by Australian Unity Investment Real Estate Limited ABN 86 606 414 368 AFSL 477434 (AUIREL) as responsible entity of Australian Unity Office Fund. AUIREL is a wholly owned subsidiary of Australian Unity Limited ABN 23 087 648 888.

Issuer:

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Australian Unity Office Fund

ARSN 113 369 627

Interim report for the half-year ended 31 December 2023

Australian Unity Office Fund

ARSN 113 369 627

Interim report for the half-year ended 31 December 2023

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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 interim financial statements of the Scheme for the half-year ended 31 December 2023 and the auditor's review report thereon.

Directors

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

| | |
|---------------|--|
| W Peter Day | Independent Non-Executive Director and Chairman |
| Eve Crestani | Independent Non-Executive Director and Chairman of the Audit & Risk Committee |
| Greg Willcock | Non-Executive Director (appointed to the Audit & Risk Committee 20 September 2023) |

Company secretary

The company secretary of the Responsible Entity during the half-year and up to the date of this report is Liesl Petterd.

Operating and financial review

Principal activities

The Scheme is an ASX-listed Real Estate Investment Trust that wholly owns a portfolio of properties across Australian metropolitan and Central Business District (CBD) markets.

Investment objective and strategy

The Scheme's investment objective is to maximise returns for unitholders through:

- owning Australian real estate assets in metropolitan and CBD markets;
- generating income by delivering and maintaining sustainable occupancy levels, including through repositioning assets;
- as appropriate, divesting assets and returning capital to unitholders.

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.

Review of operations

Results

The Scheme incurred a statutory loss for the half-year ended 31 December 2023 of \$26,392,000 (31 December 2022: \$979,000 profit) driven by a net fair value decrement of investment properties of \$30,830,000.

The Scheme revalued all its investment properties at 31 December 2023, except 96 York Street, Beenleigh, QLD which was held for sale at 31 December 2023. The value of the Scheme's properties, including 96 York Street, Beenleigh, QLD was \$284,650,000 at 31 December 2023 (30 June 2023: \$310,400,000). The change in value reflects a 0.6% expansion in the weighted average capitalisation rate of the portfolio.

The Scheme's Net Tangible Assets (NTA) per unit was \$1.72 per unit at 31 December 2023 (30 June 2023: \$1.91 per unit).

96 York Street Sale

On 25 January 2024, the Scheme entered into a contract to sell 96 York Street, Beenleigh, QLD for \$29,700,000, excluding settlement adjustments. Settlement is expected over the coming months, with net proceeds used to repay debt and held as cash. Following settlement the debt facility limit is expected to reduce from \$81,000,000 to \$60,000,000.

Refurbishment works and leasing

Refurbishment works are progressing at 10 Valentine Avenue, Parramatta, NSW. The objective of the works is to upgrade the 1980s building, which had been occupied by the NSW Government for over 30 years, into a regenerated A-grade office building providing enhanced tenant amenity, including contemporary and flexible workspace solutions and a new primary entry off Valentine Avenue creating an activated street presence and end-of-trip and wellness centre.

To date, the on-floor tower works which involve stripping the floors back to a cold shell, new ceiling grid, painting, services tiles, lights and new disability amenities on levels 7 and 13, have been completed. Foyer upgrade works are well progressed with the existing fitout stripped out, new services roughed in and tiling completed. The new end of trip facilities have been constructed with hydraulic and electrical works installed. Services works, including air conditioning and fire protections are underway. Completion of the refurbishment is expected in April 2024.

At 150 Charlotte Street, Brisbane, the concept plans for the refurbishment works have been finalised with detailed design progressing. The tender process has been concluded and early engagement with the preferred contractor has commenced.

Leasing opportunities have progressed across the portfolio, including agreeing a new short-term lease over two floors with Boeing Defence Australia at 150 Charlotte Street, Brisbane.

Financial result

The following table summarises the statutory profit for the half-year ended 31 December 2023 and provides a comparison to the statutory profit for the half-year ended 31 December 2022.

| \$'000 | Half-year ended 31 December 2023 | Half-year ended 31 December 2022 |
|--|-------------------------------------|-------------------------------------|
| Rental income * | 11,887 | 23,229 |
| Property expenses | (4,056) | (6,418) |
| Straight lining of rental income and amortisation of leasing commissions and tenant incentives | (1,151) | (1,896) |
| Net property income | 6,680 | 14,915 |
| Interest income | 105 | 34 |
| Net losses on financial instruments held at fair value | (249) | (810) |
| Net fair value decrement of investment properties | (30,830) | (5,775) |
| Disposal costs ** | - | (1,506) |
| Management fees | (947) | (1,625) |
| Borrowing costs | (426) | (2,916) |
| Other expenses | (725) | (1,338) |
| (Loss)/profit attributable to unitholders | (26,392) | 979 |

* Rental income excludes the impact of straight lining of rental income and amortisation of leasing commissions and amortisation of tenant incentives.

** Disposal costs for the half-year ended 31 December 2022 relate to costs incurred on the disposal of 30 Pirie Street, Adelaide and 2 Eden Park Drive, Macquarie Park.

As at 31 December 2023, the Scheme's net assets per unit attributable to unitholders was \$1.72 (30 June 2023: \$1.91).

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.

FFO 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 result to FFO and distributions is set out below for the half-year ended 31 December 2023 and 31 December 2022.

| \$'000 | Half-year ended 31 December 2023 | Half-year ended 31 December 2022 |
|--|-------------------------------------|-------------------------------------|
| (Loss/profit) attributable to unitholders | (26,392) | 979 |
| Adjusted for: | | |
| Straight lining of rental income and amortisation of leasing commissions and tenant incentives | 1,151 | 1,896 |
| Net losses on financial instruments held at fair value | 249 | 810 |
| Net fair value decrement of investment properties | 30,830 | 5,775 |
| Amortisation of borrowing costs | 69 | 306 |
| Disposal costs * | - | 1,506 |
| Add back: Rental abatement incentives | 606 | 866 |
| Directors' assessment of Funds From Operations | 6,513 | 12,138 |
| Distributions declared | 4,603 | 8,219 |

Funds From Operations (continued)

*The Scheme incurred \$1,506,000 of disposal costs for the half-year ended 31 December 2022. 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 2023 | Half-year ended 31 December 2022 |
|---|-------------------------------------|-------------------------------------|
| Directors' assessment of Funds From Operations | 4.0 | 7.4 |
| Distributions declared | 2.8 | 5.0 |
| Payout ratio (Distributions declared/Funds From Operations) | 70.0% | 67.6% |

Property portfolio

At 31 December 2023, the Scheme wholly owned a portfolio of five properties (30 June 2023: five properties) across Australian metropolitan and CBD markets, of which one, 96 York Street, Beenleigh, QLD, was held for sale. The portfolio was valued at \$284,650,000 (30 June 2023: \$310,400,000) and has a total net lettable area of 48,939 sqm (30 June 2023: 48,854 sqm).

Excluding 96 York Street, Beenleigh, QLD which was held for sale at 31 December 2023, with settlement expected in the coming months, the portfolio was valued at \$254,950,000 and has a total net lettable area of 44,289 sqm.

a) Leasing and occupancy

At 31 December 2023, the Scheme's investment properties weighted average lease expiry (WALE) expiry was 2.4 years (30 June 2023: 2.8 years) and occupancy rate was 62.7% (30 June 2023: 63.0%).

The above occupancy rate and WALE includes 10 Valentine Avenue, Parramatta, NSW, which was vacant and under refurbishment for the entirety of the half year, and 96 York Street, Beenleigh, QLD, which was held for sale at 31 December 2023. Excluding these two properties, occupancy was 93.0% and WALE 1.7 years.

b) Valuations

All investment properties were independently valued at 31 December 2023, with the exception of 96 York Street, Beenleigh, QLD, which was held for sale.

The weighted average capitalisation rate for the portfolio, excluding 96 York Street, Beenleigh, QLD which was held for sale, expanded to 7.1% at 31 December 2023 (30 June 2023: 6.5%).

Capital management

As at 31 December 2023, drawn borrowings totalled \$5,000,000 (30 June 2023: \$nil).

The Scheme's gearing (calculated as interest bearing liabilities, excluding unamortised establishment costs, less cash, divided by total tangible assets less cash) was 0.3% (30 June 2023: 0.0%).

The Scheme did not breach its debt covenants during the half-year ended 31 December 2023.

The Distribution Reinvestment Plan (DRP) was not active for the half-year ended 31 December 2023.

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, NSW and 150 Charlotte Street, Brisbane, QLD. The Scheme will also continue to explore and implement other initiatives to maximise returns for the Scheme's unitholders including, where appropriate, divesting assets.

The Responsible Entity provides distribution guidance of 1.50 cents per unit for the March 2024 quarter. This guidance is subject to no material change in the Scheme's portfolio, no material change in current market conditions and no unforeseen events. The Responsible Entity will provide distribution guidance on a quarterly basis.

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 January 2024, the Scheme entered into a contract to sell 96 York Street, Beenleigh, QLD for \$29,700,000, excluding settlement adjustments. Settlement is expected over the coming months, with net proceeds used to repay debt and held as cash. Following settlement the debt facility limit is expected to reduce from \$81,000,000 to \$60,000,000.

Other than the above matter, the Directors of the Responsible Entity are not aware of any other matter or circumstance arising since 31 December 2023 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 2023 or on the results and cash flows of the Scheme for the half-year ended on that date.

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

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.



Eve Crestani
Independent Non-Executive Director and Chairman of the Audit & Risk Committee



W Peter Day
Independent Non-Executive Director and Chairman

22 February 2024



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Australian Unity Real Estate Investment Limited as
Responsible Entity for Australian Unity Office Fund

I declare that, to the best of my knowledge and belief, in relation to the review of Australian Unity Office Fund for the half-year ended 31 December 2023 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

David Kells

Partner

Sydney

22 February 2024

Australian Unity Office Fund
Consolidated statement of comprehensive income
For the half-year ended 31 December 2023

Consolidated statement of comprehensive income

| | | Half-year | |
|---|-------|------------------|---------|
| | Notes | 2023 | 2022 |
| | | \$'000 | \$'000 |
| Income | | | |
| Rental income | 4 | 10,736 | 21,333 |
| Property expenses | 5 | (4,056) | (6,418) |
| Net property income | | 6,680 | 14,915 |
| Interest income | | 105 | 34 |
| Net loss on financial instruments held at fair value through profit or loss | | (249) | (810) |
| Net fair value decrement of investment properties | 10(b) | (30,830) | (5,775) |
| Total income net of property expenses | | (24,294) | 8,364 |
| Expenses | | | |
| Management fees | | 947 | 1,625 |
| Borrowing costs and other related costs | | 426 | 2,916 |
| Disposal costs | | - | 1,506 |
| Other expenses | 6 | 725 | 1,338 |
| Total expenses, excluding property expenses | | 2,098 | 7,385 |
| (Loss)/profit attributable to unitholders | | (26,392) | 979 |
| Other comprehensive income | | - | - |
| Total comprehensive (loss)/income attributable to unitholders | | (26,392) | 979 |
| Basic and diluted earnings per unit attributable to unitholders (cents per unit) | | (16.06) | 0.60 |

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 2023

Consolidated statement of financial position

| | | 31 December 2023 | 30 June 2023 |
|--|-------|---------------------|-----------------|
| | Notes | \$'000 | \$'000 |
| Assets | | | |
| Cash and cash equivalents | | 4,179 | 43,864 |
| Financial assets held at fair value through profit or loss | 11 | 2,107 | 2,356 |
| Receivables | | 1,536 | 899 |
| Other assets | 9 | 433 | 707 |
| Property held for sale | | 29,700 | - |
| Investment properties | 10 | 254,950 | 310,400 |
| Total assets | | 292,905 | 358,226 |
| Liabilities | | | |
| Distributions payable | 8 | 2,466 | 41,096 |
| Payables | | 2,812 | 3,508 |
| Borrowings | 12 | 5,000 | - |
| Total liabilities | | 10,278 | 44,604 |
| Net assets attributable to unitholders | 7 | 282,627 | 313,622 |

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 2023

Consolidated statement of changes in equity

| | Half-year | |
|--|-----------------------|----------------|
| | 2023 | 2022 |
| | \$'000 | \$'000 |
| Balance at the beginning of the half-year | 313,622 | 371,491 |
| Comprehensive (loss)/income for the half-year | | |
| (Loss)/profit attributable to unitholders | <u>(26,392)</u> | <u>979</u> |
| Total comprehensive (loss)/income attributable to unitholders | (26,392) | 979 |
| Transactions with unitholders | | |
| Distributions paid and payable | <u>(4,603)</u> | <u>(8,219)</u> |
| Total transactions with unitholders | (4,603) | (8,219) |
| Balance at the end of the half-year | <u>282,627</u> | <u>364,251</u> |

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 2023

Consolidated statement of cash flows

| | Half-year | |
|--|------------------|----------|
| | 2023 | 2022 |
| | \$'000 | \$'000 |
| <i>Cash flows from operating activities</i> | | |
| Rental income received | 11,967 | 24,849 |
| Payments to suppliers | (6,226) | (9,361) |
| Interest received | 105 | 34 |
| Net cash inflow from operating activities | 5,846 | 15,522 |
| <i>Cash flows from investing activities</i> | | |
| Payments for additions to investment properties | (6,873) | (3,764) |
| Net proceeds from sale of investment properties | - | 72,188 |
| Net cash (outflow)/inflow from investing activities | (6,873) | 68,424 |
| <i>Cash flows from financing activities</i> | | |
| Proceeds from borrowings | 5,000 | 6,701 |
| Repayment of borrowings | - | (74,000) |
| Borrowings costs and other related costs paid | (426) | (2,774) |
| Distributions paid | (43,232) | (10,357) |
| Proceeds from terminating interest rate swaps | - | 1,378 |
| Net cash outflow from financing activities | (38,658) | (79,052) |
| Net (decrease)/increase in cash and cash equivalents | (39,685) | 4,894 |
| Cash and cash equivalents at the beginning of the half-year | 43,864 | 3,261 |
| Cash and cash equivalents at the end of the half-year | 4,179 | 8,155 |

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

The Responsible Entity of the Scheme is Australian Unity Investment Real Estate Limited ("AUIREL") (ABN 86 606 414 368) (the "Responsible Entity"), a wholly owned subsidiary of Australian Unity Limited (ABN 23 087 648 888). The Responsible Entity's registered office is Level 15, 271 Spring Street, Melbourne, VIC 3000.

The Responsible Entity is incorporated and domiciled in Australia.

These interim financial statements are for the period 1 July 2023 to 31 December 2023.

These interim financial statements were authorised for issue by the directors of the Responsible Entity on 22 February 2024. The directors of the Responsible Entity have the power to amend and reissue the interim financial statements.

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

The Scheme's property manager is Australian Unity Property Management Pty Ltd (ABN 76 073 590 600), a related party of the Responsible Entity.

2 Basis of preparation

These interim financial statements for the half-year ended 31 December 2023 have been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standard AASB 134 *Interim Financial Reporting*.

These interim financial statements do 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 2023 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 accounting policies have been consistently applied in the current financial period and the comparative period, unless otherwise stated.

The interim 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 interim financial statements. Amounts in the interim financial statements have been rounded to the nearest thousand dollars.

Compliance with International Financial Reporting Standards

As a for-profit entity, compliance with AASB 134 ensures that the interim financial report of the Scheme, comprising the interim 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

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

AASB 2021-2 Disclosure of Accounting Policies and Definition of Accounting Estimates: This amends AASB Standards to improve accounting policy disclosures and clarify the distinction between accounting policies and accounting estimates.

The application of this accounting standard is not expected to have a material impact on the Scheme's condensed interim financial statements.

The accounting policies have been consistently applied in the current financial period and the comparative period, unless otherwise stated.

3 Segment Reporting

The Scheme operates in one business segment being investment in real estate, and in one geographic segment being Australia. The Scheme's segments are based on the Scheme's operating activities being investing into real property.

The Scheme derives its income from investment in properties located in Australia and is deemed to have one operating segment which is consistent with the reporting reviewed by the chief operating decision makers, being the Directors of the Responsible Entity.

The Directors consider net assets attributable to unitholders (NTA) per unit, distributions per unit and the Directors' assessment of Property Council of Australia's definition of Funds from Operations (FFO) per unit to be key measures that reflect the underlying performance of the Scheme. A reconciliation of assets and liabilities to NTA per unit and the Scheme's net loss to FFO per unit for the period are tabled below:

| \$'000 | 31 December 2023 | 30 June 2023 |
|---|------------------|----------------|
| Total assets | 292,905 | 358,226 |
| Total liabilities | 10,278 | 44,604 |
| Net assets attributable to unitholders (NTA) | 282,627 | 313,622 |
| Units on issue ('000) | 164,383 | 164,383 |
| NTA per unit | \$1.72 | \$1.91 |

| \$'000 | Half-year ended 31 December 2023 | Half-year ended 31 December 2022 |
|--|-------------------------------------|-------------------------------------|
| (Loss)/profit attributable to unitholders | (26,392) | 979 |
| Adjusted for: | | |
| Straight lining of rental income and amortisation of leasing | 1,151 | 1,896 |
| Net loss on financial instruments held at fair value | 249 | 810 |
| Net fair value decrement of investment properties | 30,830 | 5,775 |
| Disposal costs | - | 1,506 |
| Amortisation of borrowing costs | 69 | 306 |
| Add back: Rental abatement incentives | 606 | 866 |
| Directors' assessment of Funds from Operations | 6,513 | 12,138 |
| Distributions declared | 4,603 | 8,219 |
| Units on issue ('000) | 164,383 | 164,383 |
| Distributions declared per unit | 2.8 | 5.0 |
| Directors' assessment of FFO per unit | 4.0 | 7.4 |

4 Rental income

| | Half-year | |
|--|---------------|---------------|
| | 2023 | 2022 |
| | \$'000 | \$'000 |
| Rental income | 9,418 | 19,076 |
| Outgoings income | 1,828 | 3,994 |
| Amortisation of lease commissions & lease incentives | (510) | (1,737) |
| Total rental income | 10,736 | 21,333 |

Rental income includes an adjustment for the straight lining of rental income of (\$641,206) (2022: (\$159,000)).

5 Property expense

| | Half-year | |
|---|--------------|--------------|
| | 2023 | 2022 |
| | \$'000 | \$'000 |
| Recoverable outgoings | 3,290 | 5,787 |
| Non recoverable outgoings | 398 | 841 |
| Impairment loss/(reversal) on receivables | 368 | (210) |
| Total property expenses | 4,056 | 6,418 |

6 Other operating expenses

| | Half-year | |
|-----------------------------|------------|--------------|
| | 2023 | 2022 |
| | \$'000 | \$'000 |
| Other expenses | 725 | 1,338 |
| Total other expenses | 725 | 1,338 |

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 | | Movement in net assets | |
|---|--------------------------|----------|------------------------|---------|
| | Half-year | | Half-year | |
| | 2023 | 2022 | 2023 | 2022 |
| | No. '000 | No. '000 | \$'000 | \$'000 |
| Contributed equity | | | | |
| Opening balances | 164,383 | 164,383 | 374,067 | 374,067 |
| Closing balance | 164,383 | 164,383 | 374,067 | 374,067 |
| Undistributed income | | | | |
| Opening balance | | | (60,445) | (2,576) |
| Increase/(decrease) in net assets attributable to unitholders | | | (30,995) | (7,240) |
| Closing balance | | | (91,440) | (9,816) |
| Total net assets attributable to unitholders | | | 282,627 | 364,251 |

8 Distributions to unitholders

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

| | Half-year | | | |
|-----------------------|--------------|---------------|--------|--------|
| | 2023 | 2023 | 2022 | 2022 |
| | \$'000 | CPU | \$'000 | CPU |
| 30 September | 2,137 | 1.3000 | 4,109 | 2.5000 |
| 31 December (payable) | 2,466 | 1.5000 | 4,110 | 2.5000 |
| | 4,603 | 2.8000 | 8,219 | 5.0000 |

9 Other assets

| | 31 December 2023 \$'000 | 30 June 2023 \$'000 |
|-------------------------------|-------------------------------|---------------------------|
| Project costs | 104 | - |
| Prepaid expenses | 329 | 241 |
| Total Prepaid expenses | 433 | 241 |

10 Investment properties

(a) Property details

| | Type | Ownership (%) | Acquisition date | Independent Valuation date | Independent Valuation amount \$'000 | Valuer | Carrying Value | |
|---|------------------|------------------|---------------------|----------------------------------|--|------------------------|-------------------------------|----------------|
| | | | | | | | 31 December 2023 \$'000 | 30 June 2023 |
| 2-10 Valentine Ave, Parramatta, NSW | Office/Freehold | 100% | 07/12/2007 | 31/12/2023 | 95,500 | Cushman & Wakefield | 95,500 | 104,750 |
| 468 St Kilda Rd, Melbourne, VIC | Office/Freehold | 100% | 03/07/2007 | 31/12/2023 | 70,000 | Cushman & Wakefield | 70,000 | 78,000 |
| 150 Charlotte Street, Brisbane, QLD | Office/Freehold | 100% | 20/10/2017 | 31/12/2023 | 62,000 | Cushman & Wakefield | 62,000 | 66,250 |
| 96 York Street, Beenleigh, QLD | Held for sale | 100% | 25/02/2022 | - | - | - | 29,700 | 31,900 |
| 64 Northbourne Avenue, Canberra | Office/Leasehold | 100% | 01/06/2005 | 31/12/2023 | 27,450 | Knight Frank | 27,450 | 29,500 |
| Less: property held for sale | | | | | | | (29,700) | |
| Total investment properties | | | | | | | 254,950 | 310,400 |

At 31 December 2023, the property at 96 York Street, Beenleigh, QLD has been reclassified to property held for sale due to the Scheme's intention to dispose of the asset. On 25 January 2024, the Scheme executed a contract for the sale of the asset for \$29,700,000 excluding settlement adjustments and management expects the property to settle in the coming months, with net proceeds used to repay debt and held as cash.

(b) Movements in carrying amount

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

| | 31 December 2023 \$'000 | 30 June 2023 \$'000 |
|---|-------------------------------|---------------------------|
| Opening balance | 310,400 | 539,820 |
| Additions | 6,231 | 5,720 |
| Disposals | - | (217,599) |
| Lease commissions and incentives amortisation | (510) | (4,729) |
| Straight-lining of rental income | (641) | (600) |
| Reclassification as property held for sale | (29,700) | - |
| Revaluation movements | (30,830) | (12,212) |
| Investment properties | 254,950 | 310,400 |

10 Investment properties (continued)

(c) Movements in property held for sale

| | 31 December | 30 June |
|--------------------------------------|--------------------|---------|
| | 2023 | 2023 |
| | \$'000 | \$'000 |
| Opening balance | - | - |
| Transfers from investment properties | 29,700 | - |
| Closing balance | 29,700 | - |

(d) Leasing arrangements

| | 31 December | 30 June |
|--|--------------------|---------|
| | 2023 | 2023 |
| | \$'000 | \$'000 |
| Within one year | 13,323 | 17,831 |
| Later than one year but not later than 5 years | 21,013 | 23,278 |
| Later than 5 years | 9,931 | 11,569 |
| | 44,267 | 52,678 |

10 Investment properties (continued)

(e) Sensitivity information

A sensitivity analysis was undertaken to assess the impact of capitalisation rates, discount rates and terminal yields 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. The sensitivity analysis excludes 96 York Street, Beenleigh, QLD which was held for sale at 31 December 2023.

| | 31 December 2023 \$'000 | 30 June 2023 \$'000 |
|--|-------------------------------|---------------------------|
| Adopted capitalisation rate (+0.25%) (June 2023: +0.25%) | (11,562) | (15,071) |
| Adopted capitalisation rate (-0.25%) (June 2023: -0.25%) | 12,419 | 15,765 |
| Adopted discount rate (+0.25%) (June 2023: +0.25%) | (5,482) | (6,885) |
| Adopted discount rate (-0.25%) (June 2023: -0.25%) | 5,583 | 7,056 |
| Adopted terminal yield (+0.25%) (June 2023: +0.25%) | (6,724) | (9,296) |
| Adopted terminal yield (-0.25%) (June 2023: -0.25%) | 7,056 | 10,014 |

11 Financial assets held at fair value through profit or loss

| | 31 December 2023 \$'000 | 30 June 2023 \$'000 |
|---|-------------------------------|---------------------------|
| Derivative assets | 2,107 | 2,356 |
| Total financial assets held at fair value through profit or loss | 2,107 | 2,356 |

12 Borrowings

| | 31 December 2023 \$'000 | 30 June 2023 \$'000 |
|-----------|-------------------------------|---------------------------|
| Bank loan | 5,000 | - |
| | 5,000 | - |

The Scheme's \$81,000,000 debt facility (\$81,000,000 at 30 June 2023), of which \$5,000,000 was drawn at 31 December 2023 (nil at 30 June 2023), is expected to reduce to \$60,000,000 following the settlement of 96 York Street, Beenleigh QLD and expires on 17 March 2025. The facility is secured against the assets of the Scheme and is non-recourse to unitholders. The Scheme did not breach its debt covenants during the half-year ended 31 December 2023.

12 Borrowings (continued)

The Scheme had access to:

| | 31 December 2023 \$'000 | 30 June 2023 \$'000 |
|---|--|---------------------------|
| Credit facilities | | |
| Cash advance facilities | 81,000 | 81,000 |
| Drawn balance | (5,000) | - |
| Undrawn balance | 76,000 | 81,000 |
| | | |
| | 31 December 2023 \$'000 | 30 June 2023 \$'000 |
| Analysis of changes in consolidated net debt | | |
| Opening balance | (43,864) | 167,039 |
| Net drawdown/(repayment) of borrowings | 5,000 | (170,300) |
| Other cash movements | 39,685 | (40,603) |
| Closing balance | 821 | (43,864) |
| | | |
| Bank loan | 5,000 | - |
| Cash and cash equivalents | (4,179) | (43,864) |
| Consolidated net debt | 821 | (43,864) |

Refer to the Consolidated statement of cash flows for further information on cash flow movements.

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).

13 Fair value measurement of financial instruments (continued)

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

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

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

All fair value measurements disclosed are recurring fair value measurements.

| | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|---|-------------------|-------------------|-------------------|-----------------|
| 31 December 2023 | | | | |
| Financial assets | | | | |
| <i>Financial assets held at fair value through profit or loss</i> | | | | |
| Derivatives | - | 2,107 | - | 2,107 |
| Total financial assets | - | 2,107 | - | 2,107 |
| Non-financial assets | | | | |
| Investment properties | | | | |
| Property held for sale | - | - | 254,950 | 254,950 |
| Total non-financial assets | - | - | 29,700 | 29,700 |
| | - | - | 284,650 | 284,650 |
| | | | | |
| 30 June 2023 | | | | |
| Financial assets | | | | |
| <i>Financial assets held at fair value through profit or loss</i> | | | | |
| Derivatives | - | 2,356 | - | 2,356 |
| Total financial assets | - | 2,356 | - | 2,356 |
| Non-financial assets | | | | |
| Investment properties | | | | |
| Total non-financial assets | - | - | 310,400 | 310,400 |
| | - | - | 310,400 | 310,400 |

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 2023 (30 June 2023: \$nil).

13 Fair value measurement of financial instruments (continued)

(b) Valuation techniques

(i) Derivatives

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.

(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 responsible entity elected to independently revalue all investment properties at 31 December 2023, other than 96 York Street, Beenleigh, QLD which was held for sale, with the independent valuation considered by the Responsible Entity to represent the best estimate of fair value as at the end of the reporting period.

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 January 2024, the Scheme entered into a contract to sell 96 York Street, Beenleigh, QLD for \$29,700,000, excluding settlement adjustments. Settlement is expected over the coming months, with net proceeds used to repay debt and held as cash. Following settlement the debt facility limit is expected to reduce from \$81,000,000 to \$60,000,000.

Other than the above matter, the Directors of the Responsible Entity are not aware of any other matter or circumstance arising since 31 December 2023 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 2023 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, liabilities or commitments as at 31 December 2023 (30 June 2023: \$nil).

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 \$10,714,065 (30 June 2023: \$130,000).

Directors' declaration

In the opinion of the directors of Australian Unity Investment Real Estate Limited, the Responsible Entity of Australian Unity Office Fund (the Scheme):

- (a) The condensed consolidated interim financial statements and notes set out on pages 9 to 24 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated Scheme's financial position as at 31 December 2023 and of its performance, as represented by the results of its operations and cash flows for the financial reporting period ended on that date.
 - (ii) complying with Australian Accounting Standards as it relates to AASB 134 Interim Financial Reporting and the Corporations Regulations 2001 and
- (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.



Eve Crestani
Independent Non-Executive Director and Chairman of the Audit & Risk Committee



W Peter Day
Independent Non-Executive Director and Chairman

22 February 2024



Independent Auditor's Review Report

To the unitholders of Australian Unity Office Fund

Conclusion

We have reviewed the accompanying **Half-year Financial Report** of Australian Unity Office Fund.

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

- giving a true and fair view of the **Group's** financial position as at 31 December 2023 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Half-year Financial Report** comprises:

- Consolidated statement of financial position as at 31 December 2023
- 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
- Notes 1 to 15 including selected explanatory notes
- The Directors' declaration.

The **Group** comprises Australian Unity Office Fund (the Scheme) and the entities it controlled at the Half year's end or from time to time during the Half-year.

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



Responsibilities of the Directors of the Responsible Entity for the Half-year Financial Report

The Directors of Australian Unity Real Estate Investment Limited, the Responsible Entity of the Registered 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
- such internal control as the Directors 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 does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2023 and its performance for the Half-Year ended on that date, and complying with *Australian 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.

KPMG

David Kells

Partner

Sydney

22 February 2024