ASX Announcement – Australian Unity Office Fund

23 February 2021

Appendix 4D

Australian Unity Office Fund ('AOF')
Results for the Half Year Ended 31 December 2020

Results for announcement to the market

1.0	**Reporting period**				
	Current reporting period	6 months to 31 December 2020			
	Prior reporting period	6 months to 31 December 2019			
2.0	**Results for announcement to the market**	**31 Dec 2020 $'000**	**31 Dec 2019 $'000**	**Movement $'000**	**Movement %**
2.1	Total revenues and other income (Note 1)	26,380	29,467	(3,087)	(10)%
2.2	Profit from ordinary activities after tax attributable to members	20,109	23,017	(2,908)	(13)%
2.3	Net profit for the period attributable to members	20,109	23,017	(2,908)	(13)%
2.3A	Directors assessment of Funds From Operations (Note 2)	15,103	15,328	(225)	(1)%
2.3B	Distributions declared from Funds From Operations	12,236	13,026	(790)	(6)%
2.4	**Distributions**	**Amount per unit**	**Record date**		
	Distribution declared for the period to 30 September 2020	3.75 cents	30 Sep 2020		
	Distribution declared for the period to 31 December 2020	3.75 cents	31 Dec 2020		
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 report for the half-year ended 31 December 2020 attached to this Appendix 4D for further information.			
3	Net tangible assets per security	**31 Dec 2020** $2.77	**31 Dec 2019** $2.85		
4	Details of entities over which control has been gained or lost during the period, including the following.	Not applicable			
5	Details of individual and total distributions and distribution payments.	**Date Paid**	**Amount Per Unit**	**Foreign Sourced Income**	
	Distribution for the period to 30 September 2020	27 Oct 2020	3.75 cents	n/a	
	Distribution for the period to 31 December 2020	29 Jan 2021	3.75 cents	n/a	

Issuer:
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AFSL: 477434

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(outside Australia)

ASX Announcement – Australian Unity Office Fund

6	Details of any distribution reinvestment plans in operation and the last date for the receipt of an election notice for participation in any distribution reinvestment plan.	The distribution reinvestment plan (DRP) was activated for the distribution for the quarter ending 30 September 2020 onwards. The units issued under the DRP were at a 1% discount to the market price calculated for the purposes of the DRP.
7	Details of associates and joint venture entities including the following.	Not applicable
8	For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Financial Reporting Standards).	Not applicable
9	If the accounts have been audited and contain an independent audit report that is subject to a modified opinion, emphasis of matter or other matter paragraph, a description of the modified opinion, emphasis of matter or other matter paragraph.	Not applicable

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

Note (2): Directors use Property Council of Australia Funds From Operations ("FFO") as a key determinant of the level of distributions to pay and aims to distribute between 80% and 100% of its FFO each year. FFO is a Property Council of Australia definition which adjusts statutory Australian Accounting Standards net profit for non-cash changes in investment properties, non-cash impairment of goodwill, non-cash fair value adjustments to financial instruments, amortisation of incentives and leasing costs, rental straight-line adjustments and other unrealised or one-off items. From 1 July 2020, Directors also add back rental abatement incentives to ensure consistency with the treatment of rent free incentives and fitout incentives when assessing FFO. The prior year comparative was restated on the same basis.

About AOF

AOF is an ASX-listed REIT that wholly owns a diversified portfolio of nine office 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 Corporation Limited CRN 196800351N.

Australian Unity Office Fund

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Interim report
for the half-year ended 31 December 2020

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Directors' report

The directors of Australian Unity Investment Real Estate Limited (ABN 86 606 414 368), the Responsible Entity of Australian Unity Office Fund ("the Scheme"), present their report together with the consolidated financial statements of the Scheme for the half-year ended 31 December 2020.

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

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

Operating and financial review

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

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

The Scheme's strategy is to:

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

The Responsible Entity will review this strategy from time to time when it considers it is in the best interests of unitholders to do so. Directors are currently undertaking a strategic assessment.

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

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. Demand for vacant space has reduced, a number of existing tenants have requested rent relief and there is increased valuation uncertainty.

The current half-year profit and Funds from Operations ("FFO") were impacted. On 7 April 2020, the National Cabinet announced a Mandatory Code of Conduct ("the Code"). The Code was subsequently legislated by all states and territories and stipulates how landlords and tenants should co-operate during this period. Under the Code, eligible small and medium sized commercial tenants that are suffering financial stress or hardship are entitled to proportionate rent relief in the form of a rent waiver and rent deferral.

As at 31 December 2020, approximately 16% of the Scheme's tenants, by average monthly gross income, have requested proportionate rent relief under the Code (11% as at 30 June 2020).

The Scheme has held “good faith” discussions with those tenants and finalised a number of rent relief requests. Tenants representing approximately 5% of the Scheme’s average monthly gross income had outstanding rent relief requests at 31 December 2020.

At 31 December 2020, rent waivers totalling $451,000 have been provided and the Scheme has also agreed to defer $298,000 of tenants’ rental payments. The doubtful debts provision and bad debt expense against recognised rental income in the consolidated statement of comprehensive income increased by $473,000 during the half-year ended 31 December 2020.

The Responsible Entity elected to externally revalue all of its investment properties at 31 December 2020 to ensure valuations reflect current market conditions.

Financial result

The following table summarises the statutory profit for the half-year ended 31 December 2020 and provides a comparison to the statutory profit for the half-year ended 31 December 2019.

$'000	Half-Year Ended 31 December 2020	Half-Year Ended 31 December 2019
Rental income *	28,182	29,133
Property expenses **	(8,184)	(8,328)
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	(4,026)	(1,940)
Net property income	**15,972**	**18,865**
Interest income	1	3
Net (losses)/gains on financial instruments held at fair value	(313)	249
Net fair value increment of investment properties	10,483	12,342
Responsible Entity's fees	(2,069)	(2,057)
Borrowing costs	(3,360)	(3,840)
Other expenses	(605)	(2,545) ***
Profit attributable to unitholders	**20,109**	**23,017**

* Rental income does not include the impact of straight lining of rental income.
** Property expenses includes the provision for doubtful debts but does not include the amortisation of leasing commissions and tenant incentives.
***Other expenses for the half-year ended 31 December 2019 includes $1,900,000 of costs the Scheme incurred in relation to the CHAB transaction. The Responsible Entity as responsible entity of the Scheme entered into a Scheme Implementation Agreement (SIA) dated 2 September 2019 with CHAB Office Pty Limited as trustee for the CHAB Office Trust (CHAB), an entity associated with Abacus Property Group (ASX: ABP) and Charter Hall Group (ASX: CHC), whereby CHAB proposed to acquire all the units in the Scheme that it did not already own for $3.04 cash per unit (Proposal). The Proposal was conditional upon a number of matters set out in the SIA, including being approved by the requisite majority of the Scheme's unitholders. At the Scheme meeting held on 18 November 2019, the resolution to amend the Scheme's Constitution was not passed by the requisite majority of unitholders and therefore the Proposal did not proceed.

As at 31 December 2020, the Scheme's net assets per unit attributable to unitholders was $2.77 (30 June 2020: $2.72).

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 2020 and 31 December 2019.

Funds From Operations (continued)

$'000	Half-Year Ended 31 December 2020	Half-Year Ended 31 December 2019
Net profit	20,109	23,017
Adjusted for:		
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	4,026	1,940
Net losses/(gains) on financial instruments held at fair value	313	(249)
Net fair value increment of investment properties	(10,483)	(12,342)
Amortisation of borrowing costs	135	147
One off adjustment*	-	1,900
Add back: Rental abatement incentives^	1,003	915
Directors' assessment of Funds from Operations	**15,103**	**15,328****
Distributions declared	**12,236**	**13,026**

*The Scheme incurred costs in relation to the CHAB transaction for the half year-ended 31 December 2019 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.

**From 1 July 2020, the Directors' assessment of Funds from Operations includes the add back of rental abatement incentives.
^Incentives paid to tenants generally take three forms; rental abatement incentives, rent free incentives and fitout incentives. Whilst the amortisation of rent free and fitout incentives are added back in the Property Council of Australia definition of FFO, Directors have also elected to add back rental abatement incentives to ensure consistency of treatment.

Cents per unit	Half-Year Ended 31 December 2020	Half-Year Ended 31 December 2019
Directors' assessment of Funds from Operations	**9.2**	**9.4***
Distributions declared	**7.5**	**8.0**
Payout ratio (Distributions declared/Funds From Operations)	**81.5%**	**85.1%**

*From 1 July 2020, the Directors' assessment of Funds from Operations includes the add back of rental abatement incentives.

Property portfolio
At 31 December 2020, the Scheme wholly owned a diversified portfolio of nine office properties located across Australian metropolitan and CBD markets. The portfolio is valued at $681,050,000 (30 June 2020: $669,650,000) and has a total net lettable area of 108,172 sqm (30 June 2020: 107,614 sqm).

a) Leasing and occupancy
Since 1 July 2020, the Scheme has completed approximately 11,200 sqm of leasing across 17 separate transactions. This represents approximately 10.4% of the portfolio by area. Approximately 2,100 sqm of the completed leasing relates to space that was vacant on 30 June 2020.

At 31 December 2020, the Scheme's investment properties weighted average lease expiry was 2.6 years (30 June 2020: 2.9 years) and occupancy rate was 95.3% (30 June 2020: 93.7%).

b) Valuations
All properties were independently revalued at 31 December 2020 ensuring valuations reflect current market conditions.

The weighted average capitalisation rate for the portfolio firmed by approximately 7 basis points to 6.0% as at 31 December 2020 (30 June 2020: 6.1%).

Capital management

As at 31 December 2020, drawn borrowings totalled $219,800,000 with a weighted average all-in interest cost of 3.0% and 77.3% of debt hedged. The Scheme's gearing (calculated as interest bearing liabilities, excluding unamortised establishment costs, less cash, divided by total tangible assets less cash) was 30.7% (30 June 2020: 31.2%).

The Distribution Reinvestment Plan (DRP) was activated for the distribution for the quarter ending 30 September 2020 onwards. The units issued under the DRP were at a 1% discount to the market price calculated for the purposes of the DRP. The participation rate by number of units, expressed as a percentage, for the DRP was 22% for the 30 September 2020 distribution and 32% for the 31 December 2020 distribution.

Outlook and guidance

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

The Responsible Entity is focused on mitigating the impact of the COVID-19 pandemic on the Scheme, leasing current vacancy, reducing short-to-medium term lease expiry risk, developing 2 Valentine Avenue and growing FFO.

The Responsible Entity provides Funds From Operations guidance for the 2021 financial year of 18.3 cents per unit to 18.7 cents per unit and reconfirms distribution guidance for the 2021 financial year of 15.0 cents per unit. This guidance is subject to no material change in current market conditions and no unforeseen events. Distributions will continue to be paid quarterly.

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.

Events occurring after end of the half-year

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.

The Scheme has continued to re-evaluate the significant inputs used to drive property valuations and recoverability of tenants’ arrears on a regular basis. Based on these evaluations, the Scheme has determined that as at the date of the report there have been no further material events which would give rise to an adjustment.

No other matter or circumstance has arisen since 31 December 2020 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

22 February 2021

Auditor's Independence Declaration

As lead auditor for the review of Australian Unity Office Fund for the half-year ended 31 December 2020, 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.

George Sagonas
Partner
PricewaterhouseCoopers

Melbourne
22 February 2021

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Consolidated statement of comprehensive income

		Half-year	
		2020	2019
	Notes	**$'000**	$'000
Income			
Rental income	3	**26,379**	29,464
Property expenses	4	**(10,407)**	(10,599)
Net property income		**15,972**	18,865
Interest income		**1**	3
Net (losses)/gains on financial instruments held at fair value through profit or loss	5	**(313)**	249
Net fair value increment of investment properties	8(b)	**10,483**	12,342
Total income net of property expenses		**26,143**	31,459
Expenses			
Responsible Entity's fees		**2,069**	2,057
Borrowing costs		**3,360**	3,840
Other expenses		**605**	2,545
Total expenses, excluding property expenses		**6,034**	8,442
Profit attributable to unitholders		**20,109**	23,017
Other comprehensive income		**-**	-
Total comprehensive income attributable to unitholders		**20,109**	23,017
Basic and diluted earnings per unit attributable to unitholders		**12.33**	14.14

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

Consolidated statement of financial position

	Notes	**31 December 2020 $'000**	30 June 2020 $'000
Assets			
Cash and cash equivalents		**10,349**	5,798
Receivables		**1,055**	1,818
Other assets		**645**	784
Investment properties	8	**681,050**	669,650
Total assets		**693,099**	678,050
Liabilities			
Distributions payable	7	**6,130**	4,885
Payables		**6,356**	6,225
Financial liabilities held at fair value through profit or loss	9	**9,533**	9,221
Borrowings	10	**219,024**	214,889
Total liabilities		**241,043**	235,220
Net assets attributable to unitholders	6	**452,056**	442,830

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

Consolidated statement of changes in equity

	Half-year	
	2020	2019
	$'000	$'000
Balance at the beginning of the half-year	**442,830**	454,009
Comprehensive income for the half-year		
Profit attributable to unitholders	**20,109**	23,017
Other comprehensive income for the half-year	**-**	-
Total comprehensive income attributable to unitholders	**20,109**	23,017
Transactions with unitholders		
Distributions paid and payable	**(12,236)**	(13,026)
Units issued upon reinvestment of distributions	**1,353**	-
Total transactions with unitholders	**(10,883)**	(13,026)
Balance at the end of the half-year	**452,056**	**464,000**

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

Consolidated statement of cash flows

	Half-year	
	2020	2019
	$'000	$'000
Cash flows from operating activities		
Interest received	**1**	3
Payments to suppliers	**(9,969)**	(13,276)
Rental income received	**28,119**	28,751
Net cash inflow from operating activities	**18,151**	15,478
Cash flows from investing activities		
Payments for additions to owned investment properties	**(4,733)**	(6,957)
Net cash outflow from investing activities	**(4,733)**	(6,957)
Cash flows from financing activities		
Proceeds from borrowings	**4,000**	6,000
Borrowing costs paid	**(3,229)**	(3,693)
Distributions paid	**(9,638)**	(12,945)
Net cash outflow from financing activities	**(8,867)**	(10,638)
Net increase/(decrease) in cash and cash equivalents	**4,551**	(2,117)
Cash and cash equivalents at the beginning of the half-year	**5,798**	7,481
Cash and cash equivalents at the end of the half-year	**10,349**	5,364

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

Notes to the consolidated financial statements

1 General information

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

The Responsible Entity of the Scheme is Australian Unity Investment Real Estate Limited ("AUIREL") (ABN 86 606 414 368) ("the Responsible Entity"), a wholly owned subsidiary of Australian Unity 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 Corporation 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 2020 to 31 December 2020.

The consolidated financial statements were authorised for issue by the directors of the Responsible Entity on 22 February 2021. 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 2020 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 2020 and any public announcements made in respect of the Scheme during the reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

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

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

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

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

2 Basis of preparation (continued)

New accounting standards amendments adopted by the Scheme
There are no new accounting standard amendments and interpretations that became mandatory for the first time for the reporting period that were relevant to the Scheme.

3 Rental income

	Half-year	
	2020	2019
	$'000	$'000
Rental Income	**21,229**	23,742
Outgoings income	**5,150**	5,722
Total rental income	**26,379**	29,464

Rental income includes an adjustment for the straight lining of rental income of -$1,803,000 (2019: $331,000).

4 Property expense

	Half-year	
	2020	2019
	$'000	$'000
Recoverable outgoings	**7,197**	7,463
Non Recoverable Outgoings	**514**	865
Doubtful debts provision and bad debts expense	**473**	-
Amortisation of lease commissions & lease incentives	**2,223**	2,271
	10,407	10,599

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

	Half-year	
	2020	2019
	$'000	$'000
Net unrealised (losses)/gains on derivatives	**(313)**	249
Total net (losses)/gains on financial instruments held at fair value through profit or loss	**(313)**	249

6 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**	
	2020	2019	**2020**	2019
Contributed equity	**No. '000**	No. '000	**$'000**	$'000
Opening balances	**162,832**	162,832	**370,757**	370,757
Units issued upon reinvestment of distributions	**632**	-	**1,353**	-
Closing balance	**163,464**	162,832	**372,110**	370,757

Undistributed income		
Opening balance	**72,073**	83,252
Increase in net assets attributable to unitholders	**7,873**	9,991
Closing balance	**79,946**	93,243
Total net assets attributable to unitholders	**452,056**	464,000

7 Distributions to unitholders

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

	Half-year			
	2020	**2020**	2019	2019
	$'000	**CPU**	$'000	CPU
30 September	**6,106**	**3.7500**		**-**
30 November	**-**	**-**	6,513	4.0000
31 December (payable)	**6,130**	**3.7500**	6,513	4.0000
	12,236	**7.5000**	13,026	8.0000

8 Investment properties

(a) Property details

	Type	Ownership	Acquisition date	Valuation date	Valuation amount	Valuer	Carrying value 31 December 2020	Carrying value 30 June 2020
		(%)			$'000		$'000	$'000
2-10 Valentine Ave, Parramatta, NSW	Office/ Freehold	100%	07/12/2007	31/12/2020	152,650	Jones Lang LaSalle	**152,650**	134,500
30 Pirie Street, Adelaide, SA	Office/ Freehold	100%	11/02/2014	31/12/2020	108,000	Savills	**108,000**	112,000
150 Charlotte Street, Brisbane, QLD	Office/ Freehold	100%	20/10/2017	31/12/2020	97,000	CBRE	**97,000**	100,000
468 St Kilda Rd, Melbourne, VIC	Office/ Freehold	100%	03/07/2007	31/12/2020	76,500	Savills	**76,500**	79,000
5 Eden Park Drive, Macquarie Park, NSW	Commercial/ Freehold	100%	11/02/2014	31/12/2020	70,000	CBRE	**70,000**	66,000
32 Phillip Street, Parramatta, NSW	Office/ Freehold	100%	01/06/2007	31/12/2020	65,500	Savills	**65,500**	65,500
2 Eden Park Drive, Macquarie park, NSW	Commercial/ Freehold	100%	20/06/2013	31/12/2020	54,500	Cushman & Wakefield	**54,500**	50,000
241 Adelaide Street, Brisbane, QLD	Office/ Leasehold	100%	01/06/2007	31/12/2020	31,500	Savills	**31,500**	36,750
64 Northbourne Avenue, Canberra, ACT	Office/ Leasehold	100%	01/06/2005	31/12/2020	25,400	Knight Frank	**25,400**	25,900
Total					681,050		**681,050**	669,650

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

(b) Movements in carrying amount

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

	31 December 2020	30 June 2020
	$'000	$'000
Opening balance	**669,650**	668,400
Capitalised borrowing cost	**129**	178
Additions	**4,814**	9,021
Lease commissions and incentives amortisation	**(2,223)**	(4,765)
Straight-lining of rental income	**(1,803)**	(284)
Revaluation movements	**10,483**	(2,900)
Closing balance	**681,050**	669,650

8 Investment properties (continued)

(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 2020 $'000	30 June 2020 $'000
Within one year	**46,650**	44,965
Later than one year but not later than 5 years	**75,658**	92,862
Later than 5 years	**5,231**	3,067
	127,539	140,894

9 Financial liabilities held at fair value through profit or loss

	31 December 2020 $'000	30 June 2020 $'000
Derivative liabilities	**9,533**	9,221
Total financial liabilities held at fair value through profit or loss	**9,533**	9,221

10 Borrowings

	31 December 2020 $'000	30 June 2020 $'000
Bank loan	**219,800**	215,800
Unamortised borrowing costs	**(776)**	(911)
	219,024	214,889

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

10 Borrowings (continued)

The Scheme had access to:

	31 December 2020 $'000	30 June 2020 $'000
Credit facilities		
Cash advance facilities	**250,000**	250,000
Drawn balance	**(219,800)**	(215,800)
Undrawn balance	**30,200**	34,200

Reconciliations of the net debt are set out below:

	31 December 2020 $'000	30 June 2020 $'000
Analysis of changes in consolidated net debt		
Opening balance	**210,002**	197,319
Proceeds from borrowings	**4,000**	11,000
Other cash movements	**(4,551)**	1,683
Closing balance	**209,451**	210,002
Bank loan	**219,800**	215,800
Cash and cash equivalents	**(10,349)**	(5,798)
Consolidated net debt	**209,451**	210,002

11 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).

11 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.

31 December 2020	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Non-financial assets				
Investment properties	**-**	**-**	**681,050**	**681,050**
Total non-financial assets	**-**	**-**	**681,050**	**681,050**
Financial liabilities				
Financial liabilities held at fair value through profit or loss				
Derivatives	**-**	**9,533**	**-**	**9,533**
Total financial liabilities	**-**	**9,533**	**-**	**9,533**

30 June 2020	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Non-financial assets				
Investment properties	-	-	669,650	669,650
Total non-financial assets	-	-	669,650	669,650
Financial liabilities				
Financial liabilities held at fair value through profit or loss				
Derivatives	-	9,221	-	9,221
Total financial liabilities	-	9,221	-	9,221

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 2020 (30 June 2020: $nil).

11 Fair value measurement of financial instruments (continued)

(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.

• 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; 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 31 December 2020 due to increased valuation uncertainty following the COVID-19 pandemic.

• 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 31 December 2020 due to increased valuation uncertainty following the COVID-19 pandemic.

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 independent valuations were therefore stated on the basis of "material valuation uncertainty" as per VPS3 and VPGA10 of the Royal Institution of Chartered Surveyors Valuation - Global Standards (Red Book Global) and "Valuation Protocol - Significant Valuation Uncertainty" as per the Australian Property Institute.

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.

11 Fair value measurement of financial instruments (continued)

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.

12 Events occurring after end of the half-year

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.

The Scheme has continued to re-evaluate the significant inputs used to drive property valuations and recoverability of tenants' arrears on a regular basis. Based on these evaluations, the Scheme has determined that as at the date of the report there have been no further material events which would give rise to an adjustment.

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 2020 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 2020 or on the results and cash flows of the Scheme for the half-year ended on that date.

13 Contingent assets and liabilities and commitments

There are no outstanding contingent assets or liabilities as at 31 December 2020 and 30 June 2020.

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 $2,362,000 (30 June 2020: $2,519,000).

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 22 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 2020 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

22 February 2021

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 2020, 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 2020 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 our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibility 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 responsibility 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 2020 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

George Sagonas
Partner

Melbourne
22 February 2021