

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

8 February 2017

Appendix 4D Australian Unity Office Fund (‘AOF’) 2017 Half year results

Results for announcement to the market

1.0	Reporting period Current reporting period Prior reporting period	6 months to 31 December 2016 6 months to 31 December 2015			
2.0	Results for announcement to the market	31 Dec 2016	31 Dec 2015	Movement	Movement
		\$’000	\$’000	\$’000	%
2.1	Total revenues and other income (Note 1)	22,079	21,924	155	0.71%
2.2	Profit from ordinary activities after tax attributable to members	27,824	6,451	21,373	331.31%
2.3	Net profit for the period attributable to members	27,824	6,451	21,373	331.31%
2.3A	Directors assessment of Funds From Operations (Note 2)	12,740	n/a	n/a	n/a
2.3B	Distributions declared	10,389	7,819	2,570	32.87%
2.4	Distributions Distribution declared for the quarter to 30 September 2016 Distribution declared for the quarter to 31 December 2016	Amount per unit 3.70 cents 3.70 cents	Record date 30 Sept 16 30 Dec 16		
2.5	Record date for determining entitlement to the distributions	Refer section 2.4			
2.6	Brief explanation of any figures in 2.1 to 2.4 necessary to enable the figures to be understood.	Refer to the financial report for the half year ended 31 December 2016 attached to this Appendix 4D for further information.			
3	Net tangible assets per security (Note 3)	31 Dec 2016 \$2.08	31 Dec 2015 \$0.81		
4	Details of entities over which control has been gained or lost during the period, including the following.	Not applicable			
5	Details of individual and total distributions and distribution payments.	Date Paid	Amount Per Unit	Foreign Sourced Income	
	Distribution for the quarter to 30 September 2016	14 Oct 2016	3.70 cents	n/a	
	Distribution for the quarter to 31 December 2016	16 Jan 2017	3.70 cents	n/a	
6	Details of any distribution reinvestment plans in operation and the last date for the receipt of an election notice for participation in any distribution reinvestment plan.	The AOF Distribution Reinvestment Plan is not yet active.			
7	Details of associates and joint venture entities including the following.	Not applicable			
8	For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Financial Reporting Standards).	Not applicable			
9	If the accounts have been audited and contain an independent audit report that is subject to a modified opinion, emphasis of matter or other matter paragraph, a description of the modified opinion, emphasis of matter or other matter paragraph.	Not applicable.			

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

Note (2): Directors use Property Council of Australia Funds From Operations (FFO) as a key determination 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, rental straight-line adjustments and other unrealised or one-off items.

Note (3): The units of AOF were consolidated on 20 June 2016 on the basis of 0.4165 unit for every 1 unit held.

ASX code:

AOF

Issuer

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Australian Unity Office Fund

ARSN 113 369 627

Interim financial report for the half-year ended 31 December 2016

Australian Unity Office Fund

ARSN 113 369 627

Interim financial report for the half-year ended 31 December 2016

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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 2016.

Directors

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

Peter Day (Independent Non-Executive Director and Chairman)
Don Marples (Independent Non-Executive Director)
Eve Crestani (Non-Executive Director)
Greg Willcock (Non-Executive Director)
Kirsty Dullahide (Executive Director)

Company secretary

The company secretaries of the Responsible Entity during the half-year and up to the date of this report (unless otherwise stated) are:

Emma Rodgers
Liesl Petterd (appointed 3 October 2016)

Operating and financial review

Principal activities

The Scheme is an ASX-listed REIT that wholly owns a diversified portfolio of eight office properties located across Australian metropolitan and CBD office markets.

Investment objective and strategy

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

The Scheme's strategy is to:

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

The Responsible Entity will review this strategy from time to time when it considers it in the best interests of unitholders to do so.

Financial result

The following table summarises the statutory profit before finance costs attributable to unitholders for the half-year ended 31 December 2016 and provides a comparison to the Product Disclosure Statement issued on 23 May 2016 ("PDS") as part of the Initial Public Offering.

\$'000	Actual 1HFY17	PDS Forecast 1HFY17
Rental Income *	22,073	21,000
Property Expenses **	(5,505)	(5,400)
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	(2,056)	(2,700)
Net property income	14,512	12,900
Interest income	6	-
Net gains on financial instruments held at fair value	1,353	-
Net fair value increment of investment properties	15,787	-
Responsible Entity fees	(1,217)	(1,200)
Borrowing costs	(2,138)	(2,300)
Other expenses	(479)	(500)
Profit before finance costs attributable to unitholders	27,824	8,900

* Rental Income does not include the impact of straight lining of rental income

** Property Expenses does not include the amortisation of leasing commissions and tenant incentives

As at 31 December 2016, the Scheme's net assets attributable to unitholders per unit was \$2.08 (30 June 2016: \$1.95).

Funds From Operations

The Scheme uses 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, rental straight-line adjustments and other unrealised or one-off items.

A reconciliation of the statutory profit to FFO and distributions is set out below for the half-year ended 31 December 2016.

\$'000	Actual 1HFY17	PDS Forecast 1HFY17
Net profit	27,824	8,900
Adjusted for:		
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	2,056	2,700
Net gains on financial instruments held at fair value	(1,353)	-
Net fair value increment of investment properties	(15,787)	-
Funds From Operations	12,740	11,600
Distributions declared	10,389	10,500

Cents per unit	Actual 1HFY17	PDS Forecast 1HFY17
Funds From Operations	9.1	8.3
Distributions declared	7.4	7.5

The Responsible Entity has declared distributions based on the Scheme's FFO and its desire to provide consistent distributions throughout the year in line with the full year PDS forecast.

Investment property valuations

At 31 December 2016, the Scheme wholly owned a diversified portfolio of eight office properties located across Australian metropolitan and CBD markets with a total net lettable area of 97,595 sqm. Four properties were externally valued as at 31 December 2016; namely, 468 St Kilda Rd, Melbourne, VIC; 32 Phillip St, Parramatta, NSW; 2 Eden Park Dr, North Ryde, NSW; and 64 Northbourne Ave, Canberra, ACT. Combined these valuations have resulted in an increase of \$13,730,525 or 10.47% over the preceding book value for those properties externally valued.

Leasing and occupancy

Since listing the Scheme on 20 June 2016, the Scheme has completed approximately 5,700 sqm of leasing across 13 separate transactions. This represents approximately 6% of the portfolio by area. Approximately 1,300 sqm of the completed leasing related to space that was previously vacant.

At 31 December 2016, the Scheme's investment properties weighted average lease expiry was 4.45 years (30 June 2016: 4.77 years) and occupancy rate was 94.66% (30 June 2016: 94.73%).

Outlook and guidance

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

The Responsible Entity is focused on leasing current vacancy and reducing short-medium term lease expiry risk.

The Responsible Entity provides updated Funds From Operations guidance for the 2017 financial year of 16.8 cents per unit to 17.1 cents per unit (PDS forecast: 16.4 cents per unit) and updated distribution guidance for the 2017 financial year of 15.0 cents per unit (PDS forecast: 14.8 cents per unit). Distributions will be paid quarterly.

Significant changes in state of affairs

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

Events occurring after the end of the half-year

No other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the operations of the Scheme, the results of operations, or the state of the Scheme's affairs in the future reporting periods.

Indemnification and insurance of officers and auditors

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, where indicated.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

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



Don Marples
Director



Peter Day
Chairman

8 February 2017



Auditor's Independence Declaration

As lead auditor for the review of Australian Unity Office Fund for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in black ink, appearing to read 'G Sagonas', is written over a horizontal line.

George Sagonas
Partner
PricewaterhouseCoopers

Melbourne
8 February 2017

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Australian Unity Office Fund
Consolidated statement of comprehensive income
For the half-year ended 31 December 2016

Consolidated statement of comprehensive income

	Notes	Half-year	
		2016 \$'000	2015 \$'000
Income			
Rental income		22,073	21,917
Property expenses		<u>(7,561)</u>	<u>(7,681)</u>
Net property income		14,512	14,236
Interest income		6	7
Net gain/(loss) on financial instruments held at fair value through profit or loss	3	1,353	(1,114)
Net fair value increment of investment properties	7(b)	<u>15,787</u>	<u>3,482</u>
Total income net of property expenses		<u>31,658</u>	<u>16,611</u>
Expenses			
Responsible Entity's fees		1,217	4,199
Borrowing costs		2,138	4,811
Other expenses		<u>479</u>	<u>1,150</u>
Total expenses, excluding property expenses		<u>3,834</u>	<u>10,160</u>
Profit before finance costs attributable to unitholders		<u>27,824</u>	<u>6,451</u>
Finance costs attributable to unitholders			
Distributions to unitholders	5	(10,389)	(7,819)
(Increase)/decrease in net assets attributable to unitholders	4	<u>(17,435)</u>	<u>1,368</u>
Total comprehensive income attributable to unitholders		<u>-</u>	<u>-</u>
Basic and diluted earnings per unit attributable to unitholders pre consolidation of units		<u>0.00</u>	<u>2.89</u>
Basic and diluted earnings per unit attributable to unitholders post consolidation of units *		<u>19.82</u>	<u>0.00</u>

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

* On 20 June 2016, the units of the Scheme were consolidated on the basis of 0.4165 units for every 1 unit held.

Australian Unity Office Fund
Consolidated statement of financial position
As at 31 December 2016

Consolidated statement of financial position

	31 December 2016	30 June 2016
Notes	\$'000	\$'000
Assets		
Cash and cash equivalents	2,176	10,589
Receivables	1,032	1,553
Other assets	142	314
Financial assets held at fair value through profit or loss	6 409	-
Investment properties	7 412,826	392,772
Total assets	416,585	405,228
Liabilities		
Distributions payable	5,194	505
Payables	2,604	3,555
Financial liabilities held at fair value through profit or loss	6 -	8,931
Borrowings	8 117,206	118,091
Total liabilities (excluding net assets attributable to unitholders)	125,004	131,082
Net assets attributable to unitholders	4 291,581	274,146

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 net assets attributable to unitholders
For the half-year ended 31 December 2016

Consolidated statement of changes in net assets attributable to unitholders

	Half-year	
	2016 \$'000	2015 \$'000
Balance at the beginning of the half-year	274,146	184,771
Profit before finance costs attributable to unitholders	27,824	6,451
Distributions to unitholders	(10,389)	(7,819)
Applications	-	28
Redemptions	-	(4,503)
Units issued upon re-investment of distributions	-	1,355
Balance at the end of the half-year	291,581	180,283

The above consolidated statement of changes in net assets attributable to unitholders 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 2016

Consolidated statement of cash flows

	Half-year	
	2016 \$'000	2015 \$'000
<i>Cash flows from operating activities</i>		
Interest received	6	7
Rental income received	22,330	21,303
Payments to suppliers	(7,719)	(7,701)
Net cash inflow from operating activities	14,617	13,609
<i>Cash flows from investing activities</i>		
Payments for additions to owned investment properties	(6,320)	(3,871)
Net cash outflow from investing activities	(6,320)	(3,871)
<i>Cash flows from financing activities</i>		
(Repayment of)/proceeds from borrowings	(1,000)	3,852
Borrowing costs paid	(2,023)	(4,614)
Payment of swap break costs	(7,987)	-
Proceeds from applications by unitholders	-	28
Payments for redemptions by unitholders	-	(4,503)
Distributions paid	(5,700)	(6,532)
Net cash outflow from financing activities	(16,710)	(11,769)
Net decrease in cash and cash equivalents	(8,413)	(2,031)
Cash and cash equivalents at the beginning of the half-year	10,589	3,144
Cash and cash equivalents at the end of the half-year	2,176	1,113

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

Notes to the consolidated financial statements

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1 General information

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

The Responsible Entity of the Scheme is Australian Unity Investment Real Estate Limited ("AUIREL") (ABN 86 606 414 368) (the "Responsible Entity"), a wholly owned subsidiary of Australian Unity Limited (ABN 23 087 648 888). The Responsible Entity's registered office is Level 14, 114 Albert Road, South Melbourne, VIC 3205.

The Responsible Entity is incorporated and domiciled in Australia.

The consolidated financial statements are for the period from 1 July 2016 to 31 December 2016.

The consolidated financial statements were authorised for issue by the directors of the Responsible Entity on 8 February 2017. The directors of the Responsible Entity have the power to amend and reissue the consolidated financial statements.

2 Basis of preparation

These consolidated interim financial statements for the half-year ended 31 December 2016 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 2016 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 consolidated financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The consolidated statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are generally expected to be recovered or settled within 12 months, except for investment properties, financial assets (liabilities) held at fair value through profit or loss and 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, where indicated.

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*.

New accounting standards amendment adopted by the Scheme

There are no new major accounting standard amendments that became mandatory for the first time for the reporting period.

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.

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

	Half-year	
	2016 \$'000	2015 \$'000
Net unrealised gain/(loss) on derivatives	9,340	(1,114)
Net realised loss on derivatives - swap break costs	(7,987)	-
Total net gain/(loss) on financial instruments held at fair value through profit or loss	1,353	(1,114)

4 Net assets attributable to unitholders

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

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

	Notes	Half-year			
		2016 No. '000	2015 No. '000	2016 \$'000	2015 \$'000
Contributed equity					
Opening balances		140,372	227,691	322,343	235,987
Applications		-	31	-	28
Redemptions		-	(5,568)	-	(4,503)
Units issued upon reinvestment of distributions		-	1,676	-	1,355
Closing balance		140,372	223,830	322,343	232,867
Undistributed income					
Opening balance				(48,197)	(51,216)
Increase/(decrease) in net assets attributable to unitholders				17,435	(1,368)
Closing balance				(30,762)	(52,584)
Total net assets attributable to unitholders				291,581	180,283

5 Distributions to unitholders

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

	Half-year			
	2016 \$'000	2016 CPU	2015 \$'000	2015 CPU
30 September	5,195	3.7000	3,902	1.7500
31 December (payable)	5,194	3.7000	3,917	1.7500
	10,389		7,819	

As unitholders are presently entitled to the distributable income of the Scheme, no income tax is payable by the Responsible Entity.

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

	31 December 2016 \$'000	30 June 2016 \$'000
Derivative assets	409	-
Total financial assets held at fair value through profit or loss	409	-
Derivative liabilities	-	(8,931)
Total financial liabilities held at fair value through profit or loss	-	(8,931)

7 Investment properties

(a) Property details

	Type	Ownership (%)	Acquisition date	Valuation date	Valuation amount \$'000	Valuer	Carrying value 31 December 2016 \$'000	Carrying value 30 June 2016 \$'000
30 Pirie Street, Adelaide, SA	Office/ Freehold	100%	11/02/2014	30/04/2016	117,000	Savills	118,345	117,187
10 Valentine Ave, Parramatta, NSW	Office/ Freehold	100%	07/12/2007	30/04/2016	69,500	Knight Frank	70,489	69,523
5 Eden Park Drive, North Ryde, NSW	Commercial/ Freehold	100%	11/02/2014	30/04/2016	40,800	Savills	40,928	40,840
468 St Kilda Rd, Melbourne, VIC	Office/ Freehold	100%	03/07/2007	31/12/2016	50,000	CBRE	50,000	44,330
241 Adelaide Street, Brisbane, QLD	Office/ Leasehold	100%	01/06/2007	30/04/2016	35,500	Knight Frank	38,164	35,766
32 Phillip Street, Parramatta, NSW	Office/ Freehold	100%	01/06/2007	31/12/2016	41,700	Savills	41,700	37,750
2 Eden Park Drive, North Ryde, NSW	Commercial/ Freehold	100%	20/06/2013	31/12/2016	34,000	Knight Frank	34,000	28,856
64 Northbourne Avenue, Canberra, ACT	Office/ Leasehold	100%	01/06/2005	31/12/2016	19,200	Savills	19,200	18,520
Total					407,700		412,826	392,772

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.

7 Investment properties (continued)

(b) Movements in carrying amount

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

	31 December 2016	30 June 2016
	\$'000	\$'000
Opening balance	392,772	374,750
Additions	6,323	7,903
Lease commissions and incentives amortisation	(2,055)	(4,177)
Straight-lining of rental income	(1)	(117)
Revaluation movements	15,787	14,413
Closing balance	<u>412,826</u>	<u>392,772</u>

8 Borrowings

	31 December 2016	30 June 2016
	\$'000	\$'000
Bank loan	118,000	119,000
Unamortised borrowing costs	(794)	(909)
	<u>117,206</u>	<u>118,091</u>

The bank loan comprises of two tranches:

- Tranche A is a \$70,000,000 facility expiring on 21 June 2019, and
- Tranche B is a \$70,000,000 facility expiring on 21 June 2021.

The Scheme had access to:

	31 December 2016	30 June 2016
	\$'000	\$'000
Credit facilities		
Cash advance facilities	140,000	140,000
Drawn balance	(118,000)	(119,000)
Undrawn balance	<u>22,000</u>	<u>21,000</u>

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

9 Fair value measurement of financial instruments

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

(a) Fair value hierarchy

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

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

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

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

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

All fair value measurements disclosed are recurring fair value measurements.

31 December 2016	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Financial assets				
<i>Financial assets held at fair value through profit or loss</i>				
Derivatives	-	409	-	409
Total financial assets	-	409	-	409

30 June 2016	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Financial liabilities				
<i>Financial liabilities held at fair value through profit or loss</i>				
Derivatives	-	8,931	-	8,931
Total financial liabilities	-	8,931	-	8,931

9 Fair value measurement of financial instruments (continued)

The Scheme's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. There were no transfers between levels 1, 2 and 3 for fair value hierarchy during the half-year (30 June 2016: \$nil).

(b) Valuation techniques

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

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

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 unlisted property trusts and over-the-counter derivatives.

The fair value of interest rate swaps is calculated using a discounted cash flow model as the present value of the estimated future cash flows based on observable yield curves. The model incorporate 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.

Specific valuation techniques used to value financial instruments include:

- for listed trust, disclosed in level 1, the use of quoted market prices or dealer for similar instruments;
- for unlisted trust, the use of the relevant Investment Managers' quoted unit prices using the net asset value; and
- for 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.

(c) Fair value of other financial instruments

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

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

10 Events occurring after end of the half-year

The directors of the Responsible Entity are not aware of any matter or circumstance arising since 31 December 2016 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 2016 or on the results and cash flows of the Scheme for the half-year ended on that date.

11 Contingent assets and liabilities and commitments

There are no outstanding contingent assets or liabilities as at 31 December 2016 and 30 June 2016.

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 \$2,150,134 (30 June 2016: \$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 7 to 17 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 2016 and of its performance, as represented by the results of its operations and cash flows for the financial reporting period ended on that date.
- (b) There are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable, and
- (c) The consolidated financial statements are in accordance with the Scheme's Constitution.

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



Don Marples
Director



Peter Day
Chairman

8 February 2017



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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Australian Unity Office Fund (the registered scheme), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, consolidated statement of changes in net assets attributable to unitholders and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Australian Unity Office Fund. The consolidated entity comprises the registered scheme and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Australian Unity Office Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Conclusion

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

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.


PricewaterhouseCoopers



George Sagonas
Partner

Melbourne
8 February 2017