Australian Unity Limited

ABN 23 087 648 888

Interim financial report for the half-year ended 31 December 2013

Australian Unity Limited ABN 23 087 648 888
Interim financial report - 31 December 2013

Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Australian Unity Limited (Parent entity or Company) and the entities it controlled at the end of, or during, the half-year ended 31 December 2013.

Directors
The following persons were directors of Australian Unity Limited during the whole of the financial period and up to the date of this report, unless otherwise stated:

Glenn Barnes, Chairman
Rohan Mead, Group Managing Director & CEO
John Butler, Director (ceased 29 October 2013)
Eve Crestani, Director
Ian Ferres, Director
Stephen Maitland, Director
Peter Promnitz, Director
Warren Stretton, Director
Greg Willcock, Director
Amanda Hagan, Acting Group Managing Director (appointed alternate for the period 1 September 2013 to 27 October 2013)

Company secretaries
Kirsten Mander and Catherine Visentin were company secretaries of Australian Unity Limited at 31 December 2013.

Operating and financial review
Revenue and other income of $586,738,000 during the six months to 31 December 2013 increased slightly from $585,461,000 on the corresponding prior period. Overall the Group's business segments experienced revenue growth, partially offset by lower investment returns on the Group's investible funds, while benefit fund revenue was down.

Costs, particularly health insurance claims, were 3 percent higher at $563,306,000. The Group also incurred a number of one-off costs associated with implementing legislative changes.

The Group achieved a profit after income tax of $6,070,000 which, although lower than the $11,288,000 for the equivalent period last year, represents an improved position for the overall Group's trading operations compared to the same period last year but for the effects of increased claims in the Healthcare business, the costs associated with legislative changes and materially reduced income from the company's investment portfolio.

Considering the historical experience of the Group, where it receives more of its earnings in the second half of the year, we are positive about the position of the Group at the half-year.

The Group continues to be focused on organic growth and pursuing its strategy of serving the wellbeing needs of Australians while developing longer term plans to extend the reach of services and products to enable millions to enjoy wellbeing. This strategy requires us to continue to build a commercial, sustainable portfolio of businesses that foster wellbeing.

The Group's operations are conducted through four business segments: Healthcare, Retirement Living, Investments and Personal Financial Services. Healthcare provides private health insurance, dental and other healthcare services, such as preventative health and chronic disease management services. Retirement Living is a provider of aged care facilities, home care services and independent living units. Investments manage investment funds in property, Australian and international equities, fixed interest and bonds. Through Big Sky Building Society it also provides banking products, investment advice and insurance services. Personal Financial Services provides financial planning and finance broking services.

Key aspects of the operating, financial and strategic performance of each Group business during the half-year are set out below.

Operating and financial review (continued)

In assessing the performance of its operating business segments the Group uses a measure of adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (adjusted EBITDA). As the name indicates, this measure excludes the effects of depreciation and amortisation, interest on external borrowings and investment income. It also excludes other non-recurring expenditure.

A reconciliation between adjusted EBITDA and profit after income tax is disclosed in note 2 to the consolidated financial statements.

Healthcare

A combined total of 223,512 retail fund and corporate fund policyholders makes Australian Unity one of Australia's largest private health insurance providers. Services are delivered almost entirely by telephone and online, which helps the funds operate with a lower administrative cost structure.

Building on retail and corporate health insurance policyholder growth and activity in the preventative and allied healthcare business, total segment revenue for the combined Healthcare business was $389.42 million for the six months ended 31 December 2013 (2012: $362.50 million).

Australian Unity Healthcare's adjusted EBITDA was $16.68 million for the half-year compared to $22.12 million in 2012. EBITDA was impacted by higher claims costs and additional one-off costs associated with legislative change. To a significant degree, higher claims were the result of higher rates of growth in policyholders over recent years that have anticipated later year effects on claims levels.

The relentless cost of legislative compliance and administration was a continued burden for both the retail fund and for GU Health.

Notwithstanding, Australian Unity Healthcare is positive about continued growth in its customer base underpinned by its investments in high quality, innovative services, including market-leading preventative health programs.

Retail health insurance
The number of retail health fund policyholders increased by 0.3 percent to 197,468 at 31 December 2013 (30 June 2013: 196,796).

The Federal Health Minister announced the approval of all insurers' 2014 premium round applications on 23 December 2013. The average premium increase for Australian Unity customers will be 6.62 percent, slightly above the industry average of 6.20 percent. In 10 out of the last 13 years the retail health fund has lifted premiums at a lower rate than the industry average.

The retail health insurance business continued to deliver industry-leading claims processing turnaround times for customers and continues to make the significant investments in customer care and operational efficiencies to support service quality.

Corporate health insurance - GU Health
GU Health, Australian Unity's corporate health insurance provider, is the only fund in Australia that caters exclusively for the corporate market. The fund experienced challenging market conditions driven by the slowdown in the resources sector on top of the direct and adverse impact of legislative changes as outlined above.

The number of GU Health's policyholders decreased by 1.7 percent to 26,044 in the six months to 31 December 2013 (30 June 2013: 26,483).

Preventative and allied healthcare
Australian Unity is a leader in preventative healthcare programs that help clients stay healthy, speed recovery and better manage disease and illness.

Australian Unity's preventative health expertise is in strong demand from other health insurers and is made available by commercial arrangement through Australian Unity's preventative health business, Remedy Healthcare, which provides health coaching for primary prevention and chronic disease, maternity support, early discharge services, hospital care at home, and in-home rehabilitation.

Operating and financial review (continued)
Healthcare (continued)

In August, Rehability, Remedy Healthcare's home care service joint venture became wholly owned by Remedy Healthcare. This acquisition will help accelerate the achievement of our strategic growth objectives to build scale and facilitate the development of new and differentiated programs through integrated rehabilitation, coaching and telehealth services.

Australian Unity operates four dental clinics, located in the Melbourne CBD, South Melbourne, Box Hill and Rowville. The number of patient visits during the half-year increased by 2.6 percent to 27,823 compared to the same period last year.

Healthcare's strategies and outlook
Australian Unity Healthcare's strategy is to empower customers to improve their health and change the way healthcare is delivered. To do so it must compete with other healthcare participants by providing product benefits and customer service of a higher quality. Our approach supplements the traditional insurance business with evidence-based chronic disease and preventative health services that are designed to improve health outcomes and reduce the pressures of claims inflation.

Despite the challenges facing the sector, Australian Unity believes its strategic approach of focusing on value, product and service expansion and innovation is the appropriate and best response in a period when increasing pressure on government budgets means that consumers will be forced to fund more and more of their healthcare costs.

Investments

Australian Unity Investments offers a wide range of high quality managed investment opportunities and provides banking products such as home loans, savings accounts and term deposits together with investment advice and insurance services through Big Sky Building Society.

Australian Unity Investments experienced a 10.7 percent decrease in total segment revenue to $49.96 million. Reduced revenue in the current period reflects timing differences and one-off revenues in the prior period. A reduction in market interest rates also led to lower interest revenue in the Big Sky business.

Adjusted EBITDA reduced to $4.93 million for the half-year ended 31 December 2013 (2012: $7.63 million). The reduction in EBITDA from the prior period is primarily due to one-off revenues in the prior corresponding period and reduced interest margins.

Funds under management increased slightly during the half-year to $7.32 billion at 31 December 2013 (30 June 2013: $7.11 billion), as a result of the strong performance of international and Australian share markets and continued support for Investments' Healthcare Property Trust and Wingate's Global Equity Fund.

Australian Unity Investments provides investors with access to a diverse range of expert investment managers, each focused on a different sector or investment style. This is achieved through its in-house expertise as well as with its joint venture partnerships. Its investment offering currently includes: Australian Unity Property, microcap equities in Australia and small cap equities in Asia managed by Acorn Capital, fixed interest managed by Altius Asset Management, Australian equities managed by Platypus Asset Management, international equities managed by Wingate Asset Management and Asian equities managed by Seres Asset Management.

Equities
<u>Acorn Capital</u>
The Acorn Asia Small Cap Fund celebrated its one year anniversary at the end of November 2013 and posted a strong return of 24.87 percent for the 12 months to 31 December 2013. This was ahead of the 24.04 percent benchmark return from the MSCI AC Asia (ex Japan) small cap index AUD net dividends reinvested.

The Acorn Microcap Trust (wholesale) fund returned -2.98 percent compared to its benchmark of -2.31 percent for the calendar year. The benchmark is the Acorn Capital/SIRCA Microcap Accumulation Index. SIRCA is the securities industry research centre of Asia Pacific.

Acorn Funds under management increased by $90 million during the half-year to $1.07 billion reflecting the strong performance of both Asian small caps and Australian microcaps in the second half of the calendar year.

Operating and financial review (continued)
Investments (continued)

Platypus Asset Management
Australian equities manager Platypus Asset Management experienced a $277 million increase in funds under management and advice to $1.76 billion.

The Platypus Australian Equities Trust (wholesale) returned 20.76 percent for the year to 31 December 2013 which was ahead of the benchmark return of 19.68 percent for the S&P ASX 300 Accumulation Index.

Wingate Asset Management
International equities manager Wingate increased funds under management by $30 million to $108 million during the half-year. Wingate's global equity fund-wholesale units-performed in line with its objectives, providing investors with a less volatile, smoother return profile. The performance of Wingate's global equity fund also benefited towards the end of the half-year from the lower Australian dollar as the fund is unhedged.

For the year to 31 December the Wingate Global Equity Fund returned 35.48 percent versus the MSCI Index return of 48.03 percent. This is in line with the fund's approach to provide investors with most of the market's gains and exposure to less of its downside.

Seres Asset Management
Asian equities manager Seres saw funds under management decrease by 2.0 percent to $50 million. The Seres Asian Equities Opportunity Fund returned 26.77 percent for the year to 31 December 2013 which was below the MSCI ACFM Asia Index return of 31.64 percent.

Fixed interest
Altius Asset Management
Altius' funds under management was steady at $524 million.

The Altius bond fund returned 2.62 percent for the year ended 31 December 2013. This compared favourably with the fund's bond benchmark, which returned 1.99 percent, but was slightly behind its cash benchmark of 2.87 percent.

The Strategic Fixed Interest Trust returned 2.71 percent for the calendar year, ahead of its benchmark of 1.99 percent.

Australian Unity Real Estate Investment
The Healthcare Property Trust reached $500 million funds under management and posted a solid return of 8.83 percent for the year to 31 December 2013.

The Retail Property Fund achieved a 6.77 percent return for investors in the year to 31 December 2013, a strong result in light of the continued challenges facing the Australian retail sector.

Investors in the Australian Unity Fifth Commercial Trust voted in favour of merging the trust with the Australian Unity Office Property Fund in early December. The merger will create a $360 million property fund holding office properties in Sydney, Parramatta, Melbourne, Adelaide, Brisbane and Canberra.

Total funds under management in Australian Unity Investments' unlisted property portfolio remained steady at $1.5 billion.

Mortgages
Investors in Australian Unity's mortgage trusts continue to receive their scheduled six-monthly payments in line with the decision to wind up the Mortgage Income Trust and High Yield Mortgage Trust, and return capital to investors.

Operating and financial review (continued)
Investments (continued)

Lifeplan
Lifeplan Australia Friendly Society is Australia's largest provider of investment bonds and education savings plans. The Australian Unity Investment Bond business was merged with the Lifeplan business on 3 July 2013. Combining these businesses has allowed the delivery of more efficient, streamlined and improved services to members of both friendly societies.

Funds under management and administration were steady at $1.9 billion (30 June 2013: $1.9 billion).

Big Sky Building Society
Big Sky Building Society serves more than 34,000 customers in metropolitan, regional and remote Australia. It became part of the Australian Unity Group on 1 March 2012.

Big Sky Building Society performed well in the half-year to 31 December 2013. Loan funding was positive, with $87 million in new loans written in the period, a new level of new business, leading to a new level of net loan growth, with a $34 million increase in the loan portfolio. Big Sky's net growth compared favourably with that of the major banks, regional banks and other mutual ADI's over the period. On-balance sheet assets grew to $664 million at 31 December 2013 (30 June 2013: $618 million).

Deposit growth was similarly positive, with net deposits increasing by $48 million during the period. This also compared favourably with industry growth. Net interest margin was lower, reflecting the increased competition for deposits.

Big Sky also has $621 million in funds under advice (FUA) through its financial planning arm, Big Sky Financial Planning (30 June 2013: $569 million).

Investments' strategies and outlook
Australian Unity Investments' strategy is to build and manage an "all-weather" portfolio of products for long term personal and institutional investors, supporting the establishment of social infrastructure and increasing retirement savings.

While there are a number of risks inherent in operating investment businesses, Australian Unity Investments remains confident that its diversified business model, strongly focused on portfolio performance will continue to offer value for investors.

Personal Financial Services

Australian Unity's financial advice business, Personal Financial Services, continued to record strong growth in the six months to 31 December 2013 and built on its first annual surplus achieved in 2013.

Year-to-date segment revenue increased by 22.3 percent to $19.01 million as a result of increased productivity from existing practices and funds under advice growing to $3.21 billion (30 June 2013: $3.09 billion).

During the half-year the business continued to incur costs and invest significant resources in complying with a range of regulatory reforms, including the Future of Financial Advice (FoFA) reforms; the Stronger Super reforms; the Tax Agents Services Act; and the Accountants' licensing reforms.

Advisers
The number of advisers reduced marginally to 117 from 118 at 30 June 2013. Adviser numbers did not grow in the period under review because of the inability of advisers to change licensees as a result of changes to revenue grandfathering legislation under the Future of Financial Advice reforms, which took effect on 1 July 2013.

On 20 December 2013, the Federal Government announced that the restrictive grandfathering legislation will be changed and ASIC have subsequently confirmed they will take a "no action" position between now and when the changes become law.

This will assist recruitment in the second half of the 2014 financial year. The stagnant adviser number has not, however, impacted revenue growth due to increased productivity from existing advisers.

Operating and financial review (continued)
Personal Financial Services (continued)

Accountants
Recruiting accountants as advisers and referrers continues to be a core growth strategy. The number of accounting firms in the referral partner program increased to 287 (30 June 2013: 277).

Finance broking
Finance broking achieved significant growth with loans under advice reaching $733 million at 31 December 2013, compared to $492 million at 30 June 2013. This increase is associated with acquisition and improved settlements from employed brokers. Finance broker numbers remained stable at 21.

General Insurance
In January 2013 Personal Financial Services assumed responsibility for Australian Unity's retail general insurance and car insurance services. A key distribution agreement has recently been renegotiated which provides improved revenue terms and greater control over the marketing spend. Its current focus is on improving online sales capabilities, conversion rates and implementing new marketing initiatives.

Personal Financial Services' strategies and outlook
Looking ahead, the business plans to grow revenue in the second half of the year through continued strong growth in funds under advice, loan books, life and general insurance sales and premiums.

The outlook for the business in the medium to long term is encouraging. We will continue to monitoring potential risks to achieving growth objectives and these include a sharp downturn in global financial markets, loss of business and investor confidence or further impacts on industry revenues from legislative change. Considering the work already undertaken, the business is well positioned to respond to these and likely future legislative changes.

Retirement Living

Australian Unity Retirement Living continued to increase its financial contribution to the group through improved performance, organic growth and acquisition during the half-year.

Segment revenue was $39.43 million compared to $32.83 million for the same period last year. Adjusted EBITDA increased significantly to $7.84 million in the six months to 31 December 2013 (2012: $4.15 million). These results were driven by ongoing growth in our home care business and continuing progress in our development activities.

Occupancy rates across the portfolio of properties continued to meet or exceed industry levels, with an average occupancy of 95.6 percent at Australian Unity retirement villages and 98.0 percent at aged care facilities.

Retirement communities
The business owns and operates 18 retirement communities, including four aged care facilities, in Victoria and New South Wales and has four active development sites.

The total number of home units increased from 1,931 to 1,955 during the half-year with the construction of another 24 units at Mornington and Vermont South in Victoria, and Port Macquarie in New South Wales. The number of operating aged care beds was unchanged at 451, with a further 264 under development across two sites.

Home care
Home care was a key growth area of the business during the six months to December through both organic and acquisition growth. Total home care revenue increased during the half-year to $3.62 million (2012: $1.99 million) while the number of home care staff increased to 218 from 162 at 30 June 2013.

In December the business acquired a 50 percent share in KNS Essential Care, a home care provider based in Bowral NSW. This acquisition, combined with organic growth achieved through the allocation of 99 Home Care Packages in New South Wales and Victoria and numerous tenders won during the half-year, positions the business for further growth in the second half of this year.

Operating and financial review (continued)
Retirement Living (continued)

Aged care-Better Together
Australian Unity Retirement Living's innovative model of care, *Better Together*, which has been trialling at our Wahroonga Aged Care facility during the year, received the prestigious national 2013 HESTA Aged Care Awards for Team Innovation in August.

This award recognised *Better Together* as a unique initiative aimed at establishing and enabling partnerships between residents and staff, and presenting a relaxed, domestic environment for residents where they have greater control and choice over their activities, as well as excellence in delivering better outcomes for aged care residents.

Development
The final stage of the development at Victoria Grange in Vermont South has commenced with construction of independent living apartments, which will complement the villa housing and residential care accommodation options on site. These works are due to be completed early in 2015.

The first stage at the $180 million landmark Carlton Wellbeing Precinct development is approaching completion with the 162 bed aged care facility due for completion at the end of March 2014. The first stage also includes a public cafe, medical and allied health services, gym, hydrotherapy pool, and a day respite centre.

Construction of a 102-bed aged care facility at Peninsula Grange in Mornington is progressing to schedule where 63 independent living units have been completed to December 2013. In addition, construction continued on the retirement community, Sienna Grange, in Port Macquarie, New South Wales, where 35 units have been completed.

Retirement Living's strategies and outlook
Australian Unity Retirement Living aims to provide an integrated response to the accommodation and care needs of an ageing population through the creation of service-rich communities that allow older Australians to age in the community of their choosing.

The Federal Government's *Living Longer, Living Better* aged care reforms were passed during 2013 and the business has dedicated significant resources to be well placed to accommodate these changes, the majority of which are due to commence on 1 July 2014.

Matters subsequent to the end of the half-year
The board is not aware of any matter or circumstance arising since 31 December 2013 which has significantly affected or may significantly affect the financial status or results of the Group and which has not been separately disclosed in this report.

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 9.

Rounding of amounts
The Company is of a kind referred to in Class Order 98/100, 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 off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of directors.

Glenn Barnes
Chairman

Rohan Mead
Group Managing Director & CEO

South Melbourne
25 February 2014

Building a better
working world

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Auditor's Independence Declaration to the Directors of Australian Unity Limited

In relation to our review of the financial report of Australian Unity Limited for the half-year ended 31 December 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst + Young

Ernst & Young

Brett Kallio

Brett Kallio
Partner
Melbourne
25 February 2014

Australian Unity Limited ABN 23 087 648 888
Interim financial report - 31 December 2013

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2013 and any public announcements made by Australian Unity Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Australian Unity Limited is a company limited by shares and guarantee, however no shares have been issued. The company is incorporated and domiciled in Australia and its registered office and principal place of business is:

114 Albert Road
South Melbourne VIC 3205

The financial statements were authorised for issue by the directors on 25 February 2014.

	Notes	Half-year 2013 $'000	2012 $'000
Revenue and other income	4	**586,738**	585,461
Expenses, excluding finance costs	5	**(563,306)**	(545,500)
Finance costs	5	**(9,164)**	(9,743)
Share of net profit of associates and joint ventures		**1,487**	1,808
Profit before income tax		**15,755**	32,026
Income tax expense		**(9,685)**	(20,738)
Profit after income tax for the half-year		**6,070**	11,288
Other comprehensive income			
Items that may be reclassified to profit or loss			
Cash flow hedges		**276**	(470)
Income tax relating to components of other comprehensive income		**(82)**	141
Other comprehensive income for the half-year, net of tax		**194**	(329)
Total comprehensive income for the half-year		**6,264**	10,959
Profit for the half-year is attributable to:			
Members of Australian Unity Limited		**6,070**	11,237
Non-controlling interest		**-**	51
		6,070	11,288
Total comprehensive income for the half-year is attributable to:			
Members of Australian Unity Limited		**6,264**	10,908
Non-controlling interest		**-**	51
		6,264	10,959

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes, specifically the allocation of the consolidated income statement between Members' Funds and Benefit Funds outlined in note 16.

Australian Unity Limited
Consolidated balance sheet
As at 31 December 2013

	Notes	31 December 2013 $'000	30 June 2013 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**945,616**	1,017,336
Trade and other receivables		**96,134**	89,632
Inventories		**495**	619
Loans and advances		**23,889**	23,626
Current tax assets		**436**	2,556
Financial assets at fair value through profit or loss	7	**1,241,206**	1,213,034
Held-to-maturity investments		**74,652**	69,736
Total current assets		**2,382,428**	2,416,539
Non-current assets			
Financial assets at fair value through profit or loss	7	**59,381**	43,466
Loans and advances		**551,642**	517,740
Investments in associates and joint ventures		**43,682**	42,783
Other financial assets		**308**	268
Investment properties	8	**652,252**	617,109
Property, plant and equipment	9	**112,793**	93,492
Deferred tax assets		**-**	8,672
Intangible assets		**94,991**	92,449
Other non-current assets		**350**	20
Total non-current assets		**1,515,399**	1,415,999
Total assets		**3,897,827**	3,832,538
LIABILITIES			
Current liabilities			
Trade and other payables		**62,403**	79,782
Interest bearing liabilities		**622,179**	586,194
Provisions		**73,203**	68,543
Other current liabilities		**527,876**	546,064
Benefit fund policy liabilities		**194,422**	221,513
Total current liabilities		**1,480,083**	1,502,096
Non-current liabilities			
Interest bearing liabilities		**248,055**	204,372
Deferred tax liabilities		**24,791**	28,215
Provisions		**3,497**	3,421
Other non-current liabilities		**2,725**	2,808
Benefit fund policy liabilities		**1,653,737**	1,611,718
Total non-current liabilities		**1,932,805**	1,850,534
Total liabilities		**3,412,888**	3,352,630
Net assets		**484,939**	479,908
EQUITY			
Members' balances		**255,919**	255,919
Reserves		**1,932**	1,681
Retained earnings		**227,088**	221,075
Members' balances and reserves attributable to members of Australian Unity Limited		**484,939**	478,675
Non-controlling interest	12	**-**	1,233
Total equity		**484,939**	479,908

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

	Attributable to members of Australian Unity Limited					
	Members' balances $'000	Reserves $'000	Retained earnings $'000	Total $'000	Non - controlling interest $'000	Total equity $'000
Balance at 1 July 2012	255,919	1,188	191,886	448,993	1,229	450,222
Profit for the half-year	-	-	11,237	11,237	51	11,288
Other comprehensive income	-	(329)	-	(329)	-	(329)
Total comprehensive income	-	(329)	11,237	10,908	51	10,959
Transactions with owners in their capacity as owners:						
Transfers within equity	-	141	(141)	-	-	-
Balance at 31 December 2012	255,919	1,000	202,982	459,901	1,280	461,181
Balance at 1 July 2013	255,919	1,681	221,075	478,675	1,233	479,908
Profit for the half-year	-	-	6,070	6,070	-	6,070
Other comprehensive income	-	194	-	194	-	194
Total comprehensive income	-	194	6,070	6,264	-	6,264
Transactions with owners in their capacity as owners:						
Increase in ownership of majority owned subsidiary	-	-	-	-	(1,233)	(1,233)
Transfers within equity	-	57	(57)	-	-	-
	-	57	(57)	-	(1,233)	(1,233)
Balance at 31 December 2013	255,919	1,932	227,088	484,939	-	484,939

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

	Half-year 2013 $'000	Half-year 2012 $'000
Cash flows from operating activities		
Receipts from customers	**559,254**	585,965
Payments to suppliers and employees	**(363,301)**	(359,549)
Claims and benefits paid	**(304,211)**	(278,777)
Net receipts/(payments) of loans asset	**(34,071)**	2,908
Net receipts/(payments) of deposits liability	**48,315**	(13,672)
Interest received	**19,859**	20,680
Dividends and distributions received	**2,265**	4,124
Interest and finance charges paid	**(16,616)**	(19,590)
Income tax refunds/(payments)	**249**	(10,723)
Net cash outflow from operating activities	**(88,257)**	(68,634)
Cash flows from investing activities		
Payments for business combination	**(856)**	(2,694)
Payments for investments	**(315,539)**	(422,356)
Payments for property, plant and equipment	**(30,360)**	(8,141)
Payments for investment properties	**(24,261)**	(17,569)
Payments for intangible assets	**(6,314)**	(4,329)
Payments for investments in associates and joint ventures	**(8,237)**	(6,512)
Payments for the remaining non-controlling interest in a subsidiary	**(2,358)**	-
Payments for loans to related entities	**(94)**	(104)
Receipts from investments	**347,343**	471,987
Proceeds from sale of investment properties	**1,143**	7,742
Dividends received from associates and joint ventures	**3,603**	2,283
Proceeds from sale of property, plant and equipment	**19**	356
Net cash inflow/(outflow) from investing activities	**(35,911)**	20,663
Cash flows from financing activities		
Receipts from borrowings	**30,677**	5,864
Receipts from refundable lease deposits and resident liabilities	**21,771**	14,348
Net cash inflow from financing activities	**52,448**	20,212
Net decrease in cash and cash equivalents	**(71,720)**	(27,759)
Cash and cash equivalents at the beginning of the half-year	**1,017,336**	1,125,181
Cash and cash equivalents at the end of the half-year	**945,616**	1,097,422

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

Notes to the consolidated financial statements

1 Basis of preparation of half-year report

The interim financial report for the half-year reporting period ended 31 December 2013 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2013 and any public announcements made by Australian Unity Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

(a) Accounting policies

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below.

Changes in accounting policy
As the result of the implementation of AASB 10 which became effective for the annual reporting period commencing on 1 July 2013, the Group had to change its accounting policy in relation to the principles of consolidation.

Principles of consolidation
AASB 10 was issued in August 2011 and has replaced the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements* and in Interpretation 112 Consolidation - Special Purpose Entities. Under the new principles, the group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group has reviewed its investments in other entities to assess whether the consolidation conclusion in relation to these entities is different with the application of AASB 10. Investments in other entities potentially impacted by AASB 10 were confined to the Group's investments in associates and joint ventures and investments in public offer managed investment schemes where Group entities act as the responsible entity. The Group also considered its relationship with two registered charitable organisations which it established.

In the case of the Group's investments in associates and joint ventures, it was apparent that the Group does not have the power to individually control the investee as it does not have voting control of any of these entities. As such, these entities cannot be consolidated and will continue to be equity accounted under AASB 128 *Investments in Associates and Joint Ventures*.

Group investments in managed investment schemes where Group entities act as the responsible entity may be held by corporate entities of the Group and/or by benefit funds. Corporate entities are owned by Australian Unity Limited while benefit funds are beneficially owned by the policyholders of those funds. The activities and financial position of benefit funds are included in the Group's financial statements in accordance with AASB 1038 *Life Insurance Contracts*. Narrow decision-making authority over the managed investment schemes is held and a market-based fee for services commensurate with the funds management services provided is received.

In reviewing the provisions of AASB 10 and its requirements for control, with particular regard to the links between power and exposure to variable returns, the Group assessed its position with regard to investments in managed investment schemes where Group entities act as the responsible entity. Returns normally arise through management and, sometimes, performance fees and, if applicable, through the holding of units. It was concluded that the Group's relationship with the managed investment schemes is, in most instances, that of an agent rather than a principal, and consequently the Group does not have the power to control where this is the case. With regard to those managed investment schemes where the Group most probably acts as a principal, the impact on the 31 December 2013 interim financial report is not material.

With regard to the two registered charitable organisations established by the Group, as the Group does not, and can never, have any right to the income or assets of the charities it has no exposure to returns from its involvement with those charities and cannot consolidate them under AASB 10.

1 Basis of preparation of half-year report (continued)

(b) Application of new accounting standards that have no impact on accounting policy

Other new standards that are applicable for the first time for the December 2013 half-year report are:

- AASB 11 *Joint Arrangements*
- AASB 12 *Disclosures of Interest in Other Entities*
- AASB 13 *Fair Value Measurement*
- AASB 2012-2 *Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities*
- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*

The application of AASB 11 and AASB 13 may result in different recognition and measurement. However, these have no impact to the Group's accounting policies or any of the amounts in the financial statements. The other new accounting standards noted above introduced additional disclosures for the financial report. These also have no impact to the Group's financial statements.

AASB 11 *Joint Arrangements*
The standard requires investments in joint arrangements to be classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangements and determined that they are joint ventures. The Group's accounting for joint ventures has not changed as a result of the adoption of AASB 11. The Group continues applying the equity method in the accounting for its investments in joint ventures.

AASB 13 *Fair Value Measurement*
This standard establishes a single source of guidance for determining the fair value of assets and liabilities. The standard does not change when an entity is required to use fair value, but rather provides guidance on how to determine fair value when fair value is required or permitted. The Group has assessed the determination of fair value of assets and liabilities and found no impact of AASB 13 application on the accounting policies or any amounts in the financial statements.

AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. These disclosures are provided in note 6.

2 Segment information

(a) Description of segments

Management has determined the operating segments based on the reports reviewed by the Group Executive Committee that are used to make strategic decisions including the allocation of resources and to assess the performance of an operating segment.

For management reporting purposes the Group is organised into six reportable operating segments based on their products and services. The Group's reportable operating segments are as follows:

Corporate Functions	Provision of shared services, fraternal activities and management of properties and other strategic investments and group liquidity.
Allied Health	Provision of dental and other healthcare services, including preventative health and chronic disease management services.
Health Insurance	Provision of private health insurance and management of the customer service centre.
Investments	Management of investment funds in property, mortgages, Australian equities, international equities, fixed interest and bonds. Operation of Approved Deposit-taking Institution.
Personal Financial Services	Provision of financial planning and finance broking services.
Retirement Living	Provision of aged care facilities, support services and independent living units.

Although the Allied Health, Personal Financial Services and Corporate Functions segments do not meet the quantitative thresholds required by AASB 8 *Operating Segments*, the board has concluded that these segments should be reported, as they are closely monitored by management.

2 Segment information (continued)

(b) Segment information

The segment information provided to the Group Executive Committee for the reportable operating segments for the half-year ended 31 December 2013 is as follows:

Half-year ended 31 December 2013	Corporate Functions and Eliminations $'000	Allied Health $'000	Health Insurance $'000	Investments $'000	Personal Financial Services $'000	Retirement Living $'000	Total $'000
Total segment revenue	(7,345)	16,361	373,060	49,958	19,018	39,427	490,479
Inter-segment revenue	4,836	(4,506)	-	-	(330)	-	-
Revenue from external customers	(2,509)	11,855	373,060	49,958	18,688	39,427	490,479
Adjusted EBITDA	(12,061)	1,460	15,222	4,932	279	7,835	17,667
Depreciation and amortisation							(8,264)
Interest expense							(10,483)
Investment income							8,012
Income tax expense							(862)
Profit after income tax							6,070
Share of profit after tax from associates and joint ventures (included in adjusted EBITDA)							1,487
Total segment assets include:							
Income producing assets	29,888	1,460	274,305	704,952	1,978	13,502	1,026,085
Working capital assets	15,150	1,853	51,816	36,446	4,736	3,952	113,953
Non-interest bearing assets	101,851	1,502	9,582	50,373	23,138	324,480	510,926
Total segment assets	146,889	4,815	335,703	791,771	29,852	341,934	1,650,964
Total segment liabilities include:							
Borrowings and net inter segment lending	171,519	-	20,000	580,232	-	101,540	873,291
Working capital liabilities	26,536	1,087	159,856	21,525	3,327	10,036	222,367
Non-interest bearing liabilities	25,509	-	7,826	3,371	1	33,655	70,362
Total segment liabilities	223,564	1,087	187,682	605,128	3,328	145,231	1,166,020

2 Segment information (continued)

(b) Segment information (continued)

The segment information provided to the Group Executive Committee for the reportable segments for the comparative period is as follows:

Half-year ended 31 December 2012	Corporate Functions and Eliminations $'000	Allied Health $'000	Health Insurance $'000	Investments $'000	Personal Financial Services $'000	Retirement Living $'000	Total $'000
Total segment revenue	(6,531)	13,368	349,128	55,970	15,556	32,827	460,318
Inter-segment revenue	4,361	(3,259)	(1,102)	-	-	-	-
Revenue from external customers	(2,170)	10,109	348,026	55,970	15,556	32,827	460,318
Adjusted EBITDA	(13,028)	1,977	20,141	7,626	463	4,147	21,326
Depreciation and amortisation							(8,308)
Interest expense							(11,052)
Investment income							12,598
Income tax expense							(3,276)
Profit after income tax							11,288
Share of profit after tax from associates and joint ventures (included in adjusted EBITDA)							1,808
30 June 2013							
Total segment assets include:							
Income producing assets	13,033	1,395	319,842	677,887	2,067	15,208	1,029,432
Working capital assets	14,027	1,744	52,528	25,478	2,675	2,458	98,910
Non-interest bearing assets	100,716	745	8,876	51,824	24,805	307,760	494,726
Total segment assets	127,776	3,884	381,246	755,189	29,547	325,426	1,623,068
Total segment liabilities include:							
Borrowings and net inter segment lending	168,281	-	15,000	539,908	-	71,115	794,304
Working capital liabilities	24,015	1,095	193,621	28,397	9,126	12,665	268,919
Non-interest bearing liabilities	22,451	-	7,969	2,685	-	46,821	79,926
Total segment liabilities	214,747	1,095	216,590	570,990	9,126	130,601	1,143,149

(c) Other segment information

Management reviews monthly reports for the purposes of assessing the performance of an operating segment and to make decisions regarding allocation of resources and plans for the segment.

Management monthly reports exclude information relating to the benefit funds that are managed by the Group, as the revenues, expenses, assets and liabilities of benefit funds are not attributable to the members of the Group. In accordance with AASB 1038 *Life Insurance Contracts* the revenues, expenses, assets and liabilities of benefit funds managed by the Group are included in the consolidated financial statements.

Management monthly reports present investment property on a net basis with resident liabilities and refundable lease deposits of the retirement village residents. In accordance with AASB 101 *Presentation of Financial Statements* investment property assets, resident liabilities and refundable lease deposit liabilities are disclosed on a gross basis within the consolidated financial statements.

2 Segment information (continued)

(c) Other segment information (continued)

Hence, the primary reconciling differences between operating segment results and the financial statements relates to the treatment of investment property assets, resident liabilities, refundable lease deposit liabilities and benefit funds.

Adjusted EBITDA
Management assesses the performance of the operating segments based on a measure of adjusted EBITDA. This measurement basis excludes the effects of depreciation and amortisation, interest on external borrowings and investment income. It also excludes other non-recurring expenditure.

A reconciliation of adjusted EBITDA to operating profit before income tax is provided as follows:

	Half-year	
	2013	2012
	$'000	$'000
Adjusted EBITDA	**17,667**	21,326
Depreciation and amortisation expense:		
Depreciation and amortisation expense (note 5)	**(7,693)**	(7,650)
Net loss on disposal of assets (note 5)	**(6)**	(253)
Fair value amortisation adjustment on non-interest bearing asset	**(180)**	(205)
Merger and acquisition expenses	**(325)**	(42)
Other	**(60)**	(158)
	(8,264)	(8,308)
Interest expense		
Finance costs (note 5)	**(9,164)**	(9,743)
Accomodation bond interest reclassification	**(1,315)**	(1,369)
Other	**(4)**	60
	(10,483)	(11,052)
Investment income:		
Dividends and distributions (note 4)	**2,265**	4,124
Other net investment gains (note 4)	**4,499**	13,234
Impairment reversals/(losses) of investment in associates and joint ventures (note 5)	**1,301**	(1,538)
Net investment impairment losses included in adjusted EBITDA	**-**	(2,390)
Building society investment losses in adjusted EBITDA	**(53)**	(267)
Non-building society loan impairment provision	**-**	(565)
	8,012	12,598
Profit before income tax attributable to members of Australian Unity Limited (note 16)	**6,932**	14,564
Profit before income tax of benefit funds (note 16)	**8,823**	17,462
Profit before income tax	**15,755**	32,026

3 Business combination

(a) Remedy Healthcare Group Pty Ltd (Remedy)

On 30 August 2013, Remedy, a wholly-owned entity of the Group, acquired the remaining 50% of issued shares in Health Providers Australia Pty Ltd (trading as Rehability) for $855,700. This acquisition has increased Remedy's ownership interest from 50% to 100% of the investee's issued shares.

(b) Finalisation of accounting for the acquisition in the previous reporting year

In November 2012, Better Home Care Pty Ltd (BHC) acquired the business assets of Ultima Services (Aust) Pty Ltd (trading as Better at Home Seniors Care) for $2,503,000, including $753,000 contingent consideration. From the acquisition, BHC reported an intangible asset of $2,475,000 in the Group's financial statements for the year ended 30 June 2013. In November 2013 the contingent consideration was waived resulting in a reduction in the respective liability and intangible asset of $753,000 each. The acquisition accounting was finalised in the current financial period and the adjusted intangible asset of $1,722,000 was recognised as goodwill of $472,000 and management rights of $1,250,000 with a finite life of 10 years.

4 Revenue and other income

	Half-year	
	2013	2012
	$'000	$'000
Commission income	**20,145**	17,242
Dental sales	**10,632**	9,882
Dividends and distributions	**2,265**	4,124
Fair value gains on investment property	**3,265**	3,842
Health insurance premium revenue	**373,060**	347,663
Interest income of building society	**15,502**	18,566
Investment income	**4,499**	13,234
Management fees revenue	**29,908**	30,703
Rental income	**1,403**	871
Retirement village fees and subsidies	**32,973**	25,999
Revenue of benefit funds	**91,057**	112,398
Other income	**2,029**	937
	586,738	585,461

5 Expenses

	Half-year 2013 $'000	Half-year 2012 $'000
Expenses, excluding finance costs, included in the profit or loss classified by nature:		
Bank charges	1,014	989
Claims expense	323,827	294,091
Commission expense	23,053	21,839
Communication costs	2,521	2,521
Computer and equipment costs	5,870	5,251
Depreciation and amortisation expense	7,693	7,650
Employee benefits expense	74,583	70,694
Expenses in relation to benefit funds	82,234	94,936
Financial and insurance costs	1,956	1,793
Fund manager and administration fees	5,376	7,318
Impairment losses/(reversal) of investment in associates and joint ventures	(1,301)	1,538
Interest expense of building society	7,798	10,592
Legal and professional fees	5,034	4,962
Marketing expenses	7,834	6,304
Net loss on disposal of assets	6	253
Net risk equalisation trust fund recoveries	(13,883)	(11,500)
Occupancy costs	5,280	5,219
Other direct expenses	15,621	12,727
Other expenses	8,790	8,323
	563,306	545,500
Profit before income tax includes the following specific expenses:		
Depreciation		
Buildings	535	514
Leasehold improvements	836	1,180
Plant and equipment	984	1,047
Total depreciation	2,355	2,741
Amortisation		
Software	4,638	4,272
Management rights	700	637
Total amortisation	5,338	4,909
Total depreciation and amortisation expense	7,693	7,650
Finance costs		
Interest and finance charges	10,598	10,605
Amounts capitalised	(1,434)	(862)
Finance costs expensed	9,164	9,743

6 Fair value measurements

The Group measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets at fair value through profit or loss
- Derivative financial instruments
- Available-for-sale financial assets (if any)
- Investment properties
- Land and buildings
- Life investment contract policy liabilities

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2013.

(a) Fair value hierarchy

AASB 13 requires disclosure of fair value measurements according to the following hierarchy:

- 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 or indirectly, and
- level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table presents the Group's financial assets and liabilities measured and recognised at fair value at 31 December 2013 and 30 June 2013 on a recurring basis:

31 December 2013	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring fair value measurement				
Financial assets				
Financial assets at fair value through profit or loss				
Fixed interest securities	343,833	-	-	343,833
Equities	791,615	-	-	791,615
Mortgage trusts	699	39,292	-	39,991
Property syndicates and trusts	48,203	33,174	-	81,377
Debt securities	43,771	-	-	43,771
Other financial assets	308	-	-	308
Total financial assets	1,228,429	72,466	-	1,300,895
Non-financial assets				
Investment properties	-	-	652,252	652,252
Land and buildings	-	-	99,497	99,497
Total non-financial assets	-	-	751,749	751,749
Financial liabilities				
Interest rate swaps	-	2,881	-	2,881
Life investment contract policy liabilities	-	682,585	-	682,585
Total financial liabilities	-	685,466	-	685,466

6 Fair value measurements (continued)

30 June 2013	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring fair value measurement				
Financial assets				
Financial assets at fair value through profit or loss				
Fixed interest securities	334,094	-	-	334,094
Equities	743,028	-	-	743,028
Mortgage trusts	2,019	43,687	-	45,706
Property syndicates and trusts	65,159	16,312	-	81,471
Debt securities	52,201	-	-	52,201
Other financial assets	-	-	268	268
Total financial assets	1,196,501	59,999	268	1,256,768
Non-financial assets				
Investment properties	-	-	-	-
Land and buildings	-	-	-	-
Total non-financial assets	-	-	-	-
Financial liabilities				
Interest rate swaps	-	3,157	-	3,157
Life investment contract policy liabilities	-	633,905	-	633,905
Total financial liabilities	-	637,062	-	637,062

The Group'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 measurements during the financial period.

(b) Valuation techniques used to derive level 2 and level 3 fair values

(i) Financial instruments
The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

All of the resulting fair value estimates are included in level 2 except for unlisted equity securities which are included in level 3 as disclosed in section (c) below.

6 Fair value measurements (continued)

(b) Valuation techniques used to derive level 2 and level 3 fair values (continued)

(ii) Investment properties
Investment properties comprise the Group's interests in retirement village independent living units, the aged care facility at Victoria Grange in Victoria that is leased to a related party, development sites and other non-owner occupied investment properties.

At the end of each reporting period, the directors update their assessment of the fair value of each property, taking into account the most recent valuations. The directors determine a property's value using a reasonable fair value estimate as applicable to each type of investment property.

Fair value for completed retirement villages is determined using a financial model which calculates the net present value of future cash flows. The major inputs used in the financial models include:

- current prices in an active market for properties of a similar nature;
- resident turnover rates based on business experience, including the expected average length of residence based on mortality assumptions and voluntary turnover, average incoming ages and distributions;
- property growth rates based on analysis of property markets, historical experience and retirement village outlook; and
- discount rates appropriately set based on the view of risk and by reference to market transactions and conditions.

Fair value of the Victoria Grange aged care facility and other non-owner occupied property is based on periodic, but at least triennial, valuations by external accredited independent valuers.

Development sites are initially recorded at cost. Subsequently the carrying value is measured against the present value of future cash flows, being the final estimated development value less the remaining cost of development, using a value in use calculation in order to determine fair value.

This comparison is reassessed at specific milestones during the development process. In the event that carrying value is greater than the present value of future cash flows, an impairment charge is made.

All of the resulting fair value estimates of the investment properties are included in level 3 as explained in section (c) below.

(iii) Land and buildings
The Group assigns the accredited independent valuers to obtain independent valuation for its land and buildings at least every three years. The most recent valuations were done in 2013 by CB Richard Ellis (V) Pty Ltd and in 2012 by Savills Valuations Pty Ltd. Fair value is determined using the capitalisation of adjusted net profit approach, discounted cash flows and direct reference to recent market transactions on arm's length terms for land and buildings comparable in size and location to those held by the Group. The independent valuations support the Group's carrying value as at 31 December 2013. All of the resulting fair value estimates are included in level 3 as explained in section (c) below.

6 Fair value measurements (continued)

(c) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 instruments for the half-year ended 31 December 2013:

	Other financial assets $'000	Investment properties $'000	Land and buildings $'000	Total $'000
Opening balance 1 July 2012	7,271	-	-	7,271
Disposals	(8,163)	-	-	(8,163)
Transfers to level 1 fair value hierarchy	1,160	-	-	1,160
Closing balance 30 June 2013	268	-	-	268
Opening balance 1 July 2013	268	-	-	268
Adoption of AASB 113	-	617,109	80,518	697,627
Acquisitions	-	24,261	28,274	52,535
Disposals	-	(1,143)	-	(1,143)
Depreciation	-	-	(535)	(535)
Transfers from owner-occupied properties	-	8,760	-	8,760
Transfers to investment properties	-	-	(8,760)	(8,760)
Transfers to level 1 fair value hierarchy	(268)	-	-	(268)
Gain recognised in other income*	-	3,265	-	3,265
Closing balance 31 December 2013	-	652,252	99,497	751,749

*Included in the gain recognised in other income is:

Unrealised gain recognised in the profit or loss attributable to assets held at the end of the reporting period	-	3,208	-	3,208

6 Fair value measurements (continued)

(c) Fair value measurements using significant unobservable inputs (level 3) (continued)

(i) Valuation inputs and relationships to fair value
The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements:

Description	Fair value at 31 December 2013 $'000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Investment properties	652,252	Discount rate	10.0% - 14.0%	The higher the discount rate, the lower the fair value
		Capitalisation rate	12.7% - 12.8%	The higher the capitalisation rate, the lower the fair value
		Property growth rate	0.0% - 4.5%	The higher the property growth rate, the higher the fair value
Land and buildings	99,497	Discount rate	9.5% - 14.0%	The higher the discount rate, the lower the fair value
		Terminal yield	9.2% - 9.3%	The higher the terminal yield, the lower the fair value
		Capitalisation rate	9.0% - 13.5%	The higher the capitalisation rate, the lower the fair value
		Rental growth rate	3.6% - 3.7%	The higher the rental growth rate, the higher the fair value

(ii) Valuation processes
The Group's Retirement Living Services business unit includes a team that performs the valuations of the retirement village independent living units required for financial reporting purposes, including level 3 fair values. This team reports valuation recommendations to the CEO Retirement Living, the Chief Financial Officer and the Audit & Compliance Committee. Discussions of valuation processes and results are held between the valuation team, the Audit & Compliance Committee, the Chief Financial Officer and the CEO Retirement Living every six months in line with the Group's half-yearly reporting timelines. The results of the valuations are subject to audit verification every six months. The valuation method used in determining the fair value of these investment properties is drawn upon an actuarial model for property valuation. The main level 3 inputs used in measuring the fair value of investment properties, which include resident turnover rates, property growth rates and discount rates, are estimated by management based on comparable transactions and industry data. The key assumptions used in the valuation are reviewed by an independent qualified valuer on a yearly basis.

The Group engages independent accredited valuers at least every three years to determine the fair value of the land and buildings classified as property, plant and equipment, the aged care facility at Victoria Grange and other non-owner occupied investment properties.

6 Fair value measurements (continued)

(d) Fair values of other financial instruments

The Group also has a number of financial instruments which are not measured at fair value in the balance sheet. These had the following fair values as at 31 December 2013:

	Carrying amount $'000	Fair value $'000
Current and non-current assets		
Loans and advances	575,531	575,456
	575,531	**575,456**
Current and non-current borrowings		
Australian Unity Notes	120,000	124,320
Australian Unity Notes establishment costs	(3,062)	(3,062)
Call deposits	313,913	313,913
Development finance loans	47,140	43,949
Lease liabilities	9	9
Loan payable to related entity	5,100	5,100
Mortgage offset savings accounts	46,712	46,712
Retirement Village Investment Notes	60,494	61,268
Subordinated capital notes	30,000	29,719
Term deposits	249,928	249,669
	870,234	**871,597**

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

7 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are all held for trading and include the following:

	31 December 2013 $'000	30 June 2013 $'000
Securities held by benefit funds	**1,141,847**	1,092,225
Securities held in funds managed by related entities	**158,740**	164,275
	1,300,587	1,256,500

Changes in fair values of financial assets at fair value through profit or loss are recorded in investment income in the profit or loss.

(a) Securities held by benefit funds comprise the following:

	31 December 2013 $'000	30 June 2013 $'000
Fixed interest securities	**294,156**	286,042
Equities	**755,176**	707,937
Mortgage trusts	**27,348**	31,351
Property syndicates and trusts	**52,993**	50,925
Debt securities	**12,174**	15,970
	1,141,847	1,092,225

(b) Securities held in funds managed by related entities comprise the following:

	31 December 2013 $'000	30 June 2013 $'000
Fixed interest securities	**49,677**	48,052
Equities	**36,440**	35,091
Mortgage trusts	**12,643**	14,355
Property syndicates and trusts	**28,383**	30,546
Debt securities	**31,597**	36,231
	158,740	164,275

7 Financial assets at fair value through profit or loss (continued)

(c) Current and non-current split

The carrying amounts of the above financial assets have been designated at fair value on initial recognition and are classified as follows:

	31 December 2013 $'000	30 June 2013 $'000
Current	**1,241,206**	1,213,034
Non-current	**59,381**	43,466
	1,300,587	1,256,500

8 Non-current assets - Investment properties

	31 December 2013 $'000	30 June 2013 $'000
At fair value		
Balance at the beginning of the financial period	**617,109**	586,565
Acquisitions	**24,261**	31,773
Disposals	**(1,143)**	(11,810)
Net fair value movements	**3,265**	10,281
Transfers from owner-occupied property	**8,760**	-
Transfer from intangible assets	**-**	300
Balance at the end of the financial period	**652,252**	617,109

(a) Amounts recognised in profit or loss for investment properties

	Half-year	
	2013 $'000	2012 $'000
Revenue	**19,140**	17,192
Expenses	**(11,702)**	(12,395)
Changes in fair value recognised in profit or loss	**3,265**	3,842
	10,703	8,639

8 Non-current assets - Investment properties (continued)

(b) Summarised information of investment properties

Investments in properties are held as follows:

	31 December 2013 $'000	30 June 2013 $'000
Retirement village independent living units	**401,562**	392,189
Retirement village property funds	**55,069**	52,373
Residential aged care facilities	**23,076**	23,041
Development sites	**167,934**	144,895
Non-owner occupied property	**4,611**	4,611
	652,252	617,109

Retirement village development sites are built in stages and usually take several years to complete. After each stage is built the developer operates it during the village's remaining construction phases and earns rentals and may earn capital appreciation from the completed stages during this period. Upon completion and initial occupancy of the entire village, the property will be sold to a retirement village operator.

9 Non-current assets - Property, plant and equipment

	Land $'000	Buildings $'000	Plant and equipment $'000	Leasehold improvements $'000	Total $'000
At 30 June 2013					
Cost or fair value	25,512	64,891	28,470	23,021	141,894
Accumulated depreciation	-	(9,885)	(19,498)	(19,019)	(48,402)
Net book amount	25,512	55,006	8,972	4,002	93,492
Half-year ended 31 December 2013					
Opening net book amount	**25,512**	**55,006**	**8,972**	**4,002**	**93,492**
Additions	**-**	**28,274**	**1,341**	**745**	**30,360**
Acquisition of subsidiary	**-**	**-**	**33**	**30**	**63**
Disposals	**-**	**-**	**(25)**	**-**	**(25)**
Net transfers from intangible assets	**-**	**-**	**18**	**-**	**18**
Transfers to investment properties	**(7,941)**	**(819)**	**-**	**-**	**(8,760)**
Other transfers	**-**	**-**	**(771)**	**771**	**-**
Depreciation charge	**-**	**(535)**	**(984)**	**(836)**	**(2,355)**
Closing net book amount	**17,571**	**81,926**	**8,584**	**4,712**	**112,793**
At 31 December 2013					
Cost or fair value	**17,571**	**92,346**	**28,846**	**24,567**	**163,330**
Accumulated depreciation	**-**	**(10,420)**	**(20,262)**	**(19,855)**	**(50,537)**
Net book amount	**17,571**	**81,926**	**8,584**	**4,712**	**112,793**

10 Australian Unity Notes

Australian Unity Limited issued 1.2 million unsecured redeemable notes at a face value of $100 each (Australian Unity Notes) on 14 April 2011 pursuant to the prospectus dated 11 March 2011, raising $120 million (excluding issue costs). The Australian Unity Notes are listed on the Australian Securities Exchange and will mature on 14 April 2016. The notes bear interest at the three month bank bill rate (BBSW) plus a margin of 3.55% per annum. The interest is payable quarterly in arrears on 14 January, 14 April, 14 July and 14 October each year. The notes are redeemable by the issuer at the face value and any interest payable plus an early redemption payment (if applicable) pursuant to the prospectus.

Under the terms of the notes, Australian Unity Limited is required to maintain a Gearing Ratio of less than 45% as at 30 June and 31 December each year. The Gearing Ratio represents the aggregate of interest bearing liabilities and guarantees divided by the aggregate of interest bearing liabilities and guarantees plus total equity. The Gearing Ratio is calculated based on the financial position of the Group, excluding Big Sky Building Society Limited. As at 31 December 2013, the Gearing Ratio was 38.4% (30 June 2013: 35.9%).

Given the exposure to interest rate movements, the Company has entered into arrangements to hedge the variable interest component of the majority of the notes. On 9 August 2011, the Company swapped the variable interest component of $60 million of the notes at 4.65% per annum maturing on 14 April 2016. On 7 December 2011, the Company swapped the variable interest rate of $30 million of the notes at 3.8092% per annum maturing on 14 January 2014.

11 Subordinated capital notes

On 11 July 2013, the Group repaid the existing $25,000,000 subordinated capital notes and issued $30,000,000 of new subordinated capital notes. The new notes have a maturity of 10 years with a non-call 5 year period and bear a floating interest rate equal to the 90-day BBSW rate plus a margin of 3.00% per annum. The interest rate is set quarterly on 11 July, 11 October, 11 January and 11 April. As at 31 December 2013, the interest rate applicable to the quarter commencing 11 October 2013 was 5.59% (30 June 2013: 7.99%).

On the same day, the Group entered into a hedge contract for five years to swap the variable component of the interest rate at 3.71% per annum. With the hedge contract, the effective interest rate of the new notes is fixed at 6.71% per annum until 11 July 2018.

12 Related party transactions

(a) Transactions and balances with related parties

Transactions between the Group and related parties for the half-years ended 31 December 2013 and 2012 were as follows:

- Commission, director fees and occupancy costs charged to associates and joint ventures, $763,247 (2012: $665,722).
- Dividends received from associates and joint ventures, $3,602,850 (2012: $2,283,154).
- Rental income from related entity, $267,852 (2012: $nil).
- Investment management fees charged by associates and joint ventures, $2,469,726 (2012: $2,946,777).
- Health insurance claims made by a related entity, $nil (2012: $1,180,784).
- Loans provided to related entities, $296,753 (2012: $nil).
- In August 2013, the Group purchased the remaining 9.75% non-controlling interest in a subsidiary from a related party for $2,358,138. The fair value of net assets acquired was $1,239,017 and the share purchase resulted in goodwill of $1,119,121.

Balances with related parties as at 31 December 2013 with comparative amounts as at 30 June 2013 were as follows:

- Trade and other receivables from related entities, $463,133 (30 June 2013: $430,337).
- Trade and other payables to related entities, $1,070,279 (30 June 2013: $2,305,263).
- Loans receivable from associates and joint ventures, $nil (30 June 2013: $203,255).
- Loans receivable from related entities, $29,889,714 (30 June 2013: $29,592,961).
- Loan payable to related entity, $5,100,000 (30 June 2013: $2,800,000).

(b) Terms and conditions

All transactions with related entities are entered into on normal commercial terms and conditions and at market rates as applicable.

(c) Other transactions with key management personel

At 30 June 2013, Big Sky Building Society Limited, a subsidiary, had a loan receivable from Mr John Butler of $464,050. Mr Butler ceased being a director of the Company on 29 October 2013. There are no loans to key management personnel at 31 December 2013.

13 Commitments

Capital commitments

Capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	31 December 2013 $'000	30 June 2013 $'000
Payable within one year:		
Investment properties	50,899	23,774
Total capital commitments	50,899	23,774

14 Contingencies

Contingent liabilities

Contingent liabilities exist in relation to future anticipated calls on shares held by the Group in the joint ventures, Wingate Asset Management Pty Limited, Seres Asset Management Limited and Altius Asset Management Pty Ltd.

As at 31 December 2013, the contingent liabilities are as follows:

- Wingate Asset Management Pty Limited amounted to $807,300 for 6,210,000 shares at 13.0 cents each (30 June 2013: $931,500 for 6,210,000 shares at 15.0 cents each);
- Seres Asset Management Limited amounted to $1,445,000 for 12,500,000 shares at 11.6 cents each (30 June 2013: $1,410,100 for 12,500,000 shares at 11.3 cents each); and
- Altius Asset Management Pty Ltd amounted to $339,575 for 425,000 shares at 79.9 cents each (30 June 2013: $339,575 for 425,000 shares at 79.9 cents each).

There have been legal claims lodged for damages against the Group for which no provision has been raised, due to the belief it is not probable that these claims will succeed and that it is not practical to estimate the potential effect of these claims. The Directors are of the view that none of these claims are likely to result in material exposure.

Guarantees

Guarantee for computer equipment
The Parent entity provides a financial guarantee of up to $5 million for computer equipment lease transactions entered into by a wholly owned subsidiary company. As at 31 December 2013 there was $2,481,000 (2012: $3,228,000) of liabilities covered by this guarantee. The guarantee will expire in October 2017.

Bank guarantee
The Group has entered into bank guarantee arrangements totalling $7,585,222 (30 June 2013: $7,604,222) as part of its normal operations in order to secure the Group's performance under contracts. The bank guarantees only become payable upon non-performance by the Group.

14 Contingencies (continued)

Contingent liabilities (continued)

Liquidity support scheme
Big Sky Building Society Limited (BSBS), a wholly owned subsidiary of the Group, is a party to the Credit Union Financial Support Scheme (CUFSS). CUFSS is a voluntary scheme in which all credit unions who are affiliated with Cuscal Limited have agreed to participate. CUFSS is a company limited by guarantee, each credit union's guarantee being $100.

As a CUFSS member, BSBS:

- may be required to advance funds of up to 3 percent (excluding permanent loans) of total assets to another credit union requiring financial support;
- may be required to advance permanent loans of up to 0.2 percent of total assets per financial year to another credit union requiring financial support; and
- agrees, in conjunction with other members, to fund the operating costs of CUFSS.

At 31 December 2013, no funding was required by and paid to CUFSS (2012: $nil).

The Group had no other contingent assets or liabilities at 31 December 2013.

15 Events occurring after the reporting period

The board is not aware of any matter or circumstance arising since 31 December 2013 which has significantly affected or may significantly affect the financial status or results of the Group and which has not been separately disclosed in this report.

16 Reconciliation of profit attributable to members of Australian Unity Limited

	Half-year ended 31 December 2013		
	Attributable to members of Australian Unity Limited $'000	Attributable to benefit fund policyholders $'000	Consolidated Profit or Loss $'000
Revenue and other income	495,681	91,057	586,738
Expenses, excluding finance costs	(481,072)	(82,234)	(563,306)
Finance costs	(9,164)	-	(9,164)
Share of net profits of associates and joint ventures	1,487	-	1,487
Profit before income tax	6,932	8,823	15,755
Income tax expense	(862)	(8,823)	(9,685)
Profit after income tax	6,070	-	6,070
Non-controlling interest	-	-	-
Profit after income tax and non-controlling interest	6,070	-	6,070

	Half-year ended 31 December 2012		
	Attributable to members of Australian Unity Limited $'000	Attributable to benefit fund policyholders $'000	Consolidated Profit or Loss $'000
Revenue and other income	473,063	112,398	585,461
Expenses, excluding finance costs	(450,564)	(94,936)	(545,500)
Finance costs	(9,743)	-	(9,743)
Share of net profits of associates and joint ventures	1,808	-	1,808
Profit before income tax	14,564	17,462	32,026
Income tax expense	(3,276)	(17,462)	(20,738)
Profit after income tax	11,288	-	11,288
Non-controlling interest	(51)	-	(51)
Profit after income tax and non-controlling interest	11,237	-	11,237

In the directors' opinion:

(a) the financial statements and notes set out on pages 11 to 37 are in accordance with the *Corporations Act 2001*, including:

 (i) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

 (ii) giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

(b) there are reasonable grounds to believe that the Parent entity will be able to pay its debts as and when they become due and payable.

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

Glenn Barnes
Chairman

Rohan Mead
Group Managing Director & CEO

South Melbourne
25 February 2014

Building a better working world

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To the members of Australian Unity Limited

Report on the Interim Financial Report

We have reviewed the accompanying interim financial report of Australian Unity Limited, which comprises the consolidated balance sheet as at 31 December 2013, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the interim period ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half year.

Directors' Responsibility for the Interim Financial Report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the interim 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 interim financial report based on our review. We conducted our review in accordance with 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 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 at31 December 2013 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 Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim 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*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

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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 interim financial report of Australian Unity Limited is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst + Young

Ernst & Young

Brett Kallio

Brett Kallio
Partner
Melbourne
25 February 2014