

Australian Unity Limited

ABN 23 087 648 888

Interim financial report for the half-year ended 31 December 2014

Australian Unity Limited ABN 23 087 648 888
Interim financial report - 31 December 2014

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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 2014.

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
Melinda Cilento, Director
Eve Crestani, Director
Stephen Maitland, Director
Peter Promnitz, Director
Greg Willcock, Director
Ian Ferres, Director (ceased 1 August 2014)
Warren Stretton, Director (ceased 31 December 2014)

Company secretaries

Verran Fehlberg and Catherine Visentin were company secretaries of Australian Unity Limited at 31 December 2014.

Operating and financial review

During the half-year ended 31 December 2014, the Group achieved a profit after income tax of \$12,039,000 compared to \$6,070,000 for the same period last year.

The result includes an increase in revenue and other income of \$61,628,000 to \$648,366,000 with revenue growth across all the Group's businesses, improved investment returns and higher benefit fund revenue. While costs increased to \$610,062,000 (2013: \$563,306,000), including higher health insurance claims and benefit fund expenses, the outcome represents a solid improvement in the overall trading operations compared to the previous corresponding half-year.

Historically the Group has generated more of its earnings in the second half of the financial year.

The Group has made acquisitions across all its businesses during the half-year as detailed in note 3 to the consolidated financial statements. Notwithstanding, the Group continues to be focused on organic growth and pursuing its strategy of serving the wellbeing needs of Australians, while implementing 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' manages investment funds in property, Australian and international equities, fixed interest and bonds. Through Big Sky Building Society the Investments' business 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.

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.

Operating and financial review (continued)
Healthcare

Australian Unity's retail and corporate health funds make it one of Australia's largest private health insurance providers, with 225,370 policyholders throughout Australia.

Total segment revenue for the combined Healthcare business was \$410.31 million for the half-year ended 31 December 2014 (2013: \$389.42 million).

Australian Unity Healthcare's adjusted EBITDA increased to \$25.72 million for the half-year (2013: \$16.68 million).

Fund profitability remains under pressure from rapidly rising medical and healthcare costs, an ageing population and recent government imposed rule changes, which have added to the complexity of fund administration. These changes have also made product offers increasingly difficult for customers to understand creating an additional risk to growth.

Retail health insurance

The number of retail health fund policyholders decreased marginally by 0.6 percent to 198,082 at 31 December 2014 (30 June 2014: 199,367).

As expected, the fund continues to experience higher claims costs, exacerbated by an increase in policy downgrades and attrition linked to the raft of regulatory changes that have impacted private health insurance over recent years. Despite this, a reduction in management expenses has led to an improved half-year result for the retail fund.

Australian Unity joined with 14 other health funds to launch Members Own Health Funds on 2 February 2015. Members Own Health Funds has commenced a nationwide public awareness campaign to highlight the choices they have beyond health funds run primarily to benefit shareholders and overseas owners.

Australian Unity continued to make significant investments in customer care and operational efficiencies to ensure customers receive the best service possible.

Corporate health insurance

GU Health, Australian Unity's corporate health insurance provider, is the only fund in Australia that caters exclusively for the corporate market.

GU Health continues to experience challenging market conditions but managed to increase policyholders in the half-year under review by 2.1 percent to 27,288 (30 June 2014: 26,738).

Allied healthcare

Remedy Healthcare

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

Remedy Healthcare provides health coaching for primary prevention and chronic disease, maternity support, early discharge services, hospital care at home, and in-home rehabilitation.

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. The number of patients who have enrolled in, or completed, a Remedy program since its inception, passed the 50,000 mark during the period.

Operating and financial review (continued)

Healthcare (continued)

Dental

The Dental business expanded its network in September 2014 with the acquisition of a dental clinic in Hughesdale, Victoria. There are now five Australian Unity Dental clinics operating in Australia.

The additional clinic aided a 7.5 percent increase in patient visits during the half-year with 29,908 visits recorded (2013: 27,823).

Australian Unity's dental clinics are continuing to invest in technology to improve patient experience and now offer patients an integrated dental health assessment based on evidence regarding oral health as a leading indicator of overall health.

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 Australian Unity Healthcare must compete with other health insurers by providing a higher quality of product benefits and customer service and to supplement 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.

Retirement Living

Australian Unity Retirement Living's results for the half-year ended 31 December 2014 reflected continued growth across all four integrated components of the Retirement Living business.

The business recorded total segment revenue of \$51.86 million compared to \$39.43 million for the corresponding period last year. This increase in activity resulted in a 33.6 percent increase in the Retirement Living segment adjusted EBITDA, rising to \$10.47 million from \$7.84 in the previous half-year.

Retirement Communities

During the half-year under review, village occupancy rose to 97 percent which represents an increase of more than a full percentage point since 30 June 2014. Settlement on 78 existing units was the significant contributing factor to this outcome.

A further 14 new home units were delivered across the development portfolio, increasing the total portfolio of home units to 2,000 at 31 December 2014. A further 78 home units are forecast to be delivered in the second half of the year at our developments at Peninsula Grange in Mornington, Victoria, Sienna Grange in Port Macquarie, NSW and Victoria Grange in Vermont South in Victoria.

Aged Care

The half-year also saw occupancy at our recently completed aged care facility, Rathdowne Place, grow to 99 new residents, and the site receiving full accreditation.

Resources were also dedicated to the completion of Peninsula Grange aged care in Mornington, Victoria. This 102-bed facility has been designed to support Retirement Living's award-winning Better Together® model of service and is scheduled open in March 2015.

Many components of the Federal government's regulatory regime - Living Longer, Living Better - took effect on 1 July 2014. The business' ability to adapt to these legislative changes without undue disruption is evidence of the preparation undertaken during the 2014 financial year.

Operating and financial review (continued)

Retirement Living (continued)

Home Care

The Home Care business continued to provide significant growth for the Retirement Living business. Revenue for the half-year was \$8.35 million, an increase of \$4.73 million from the same period last year. This growth was achieved organically and via strategic acquisitions, with the completion of the acquisition of INS Health Care in September 2014 and the remaining 50 percent of KNS Essential Care in October 2014. These acquisitions added service capability as well as providing the Home Care business with a significant consolidated presence in the Illawarra and Southern Highland regions of NSW.

Developments

The half-year saw the commencement of construction of the second stage of the Lifestyle Manor retirement community in Bondi NSW, which has received significant pre-sales support. Pre-construction activity for Rathdowne Place, The Residences, was substantially progressed during the period with planning and debt finance approvals obtained. Construction is scheduled to commence before the end of the financial year.

The business continued to progress a number of development projects including Peninsula Grange and Victoria Grange in Victoria and Sienna Grange in NSW.

Only five completed retirement units remained unsold at 31 December 2014, providing encouraging levels of market support for our new communities.

Retirement Living Outlook

Retirement Living continues to invest in the development of sought-after accommodation and services for our ageing population. Our vision is to provide a continuum of care to our customers, in the form of home care, retirement communities and aged care, built around the concept of ageing in place; supporting older Australians to age in the community of their choosing.

Investments

Australian Unity's Investments business offers a comprehensive range of financial products and services designed to enhance the financial wellbeing of our customers.

Australian Unity offers expertise in fixed interest, and Australian, global, Asian and microcap equity investments through joint venture partnerships. Expertise in managing real estate, market-leading tax-effective investment bonds (Lifeplan Australia Friendly Society), and comprehensive banking services (Big Sky Building Society) is provided by in-house teams.

Interest rates in Australia remained at record lows during the half-year and in December the Reserve Bank of Australia (RBA) kept rates on hold for an unprecedented 15th straight period. Inflation remained steady and the Australian dollar, which was trading at US95 cents in July 2014, fell to US82 cents at 31 December 2014 - dropping by close to 14 percent over the period.

Taking markets by surprise was the significant drop in the oil price, down nearly 50 percent from US\$98 a barrel at the beginning of the calendar year to US\$53 a barrel by 31 December 2014. This, coupled with the dramatic decline in the iron ore price, wiped out a significant portion of the gains the Australian share market made in the second half of the 2014 calendar year.

For the year ending 31 December 2014 Australian equities posted a return of 5.30 percent (as measured by the S&P ASX 300).

International equity funds (unhedged) returned 15.01 percent over the same period (measured by the MSCI World ex Aust \$A net dividends reinvested). Asian equities also posted strong returns for the twelve month period to 31 December 2014 returning 9.95 percent as measured by the MSCI ACFM Asia Index.

Funds under management remained steady at \$7.37 billion at 31 December 2014 (30 June 2014: \$7.36 billion), including funds from the Owenlaw Mortgage acquisition (detailed below).

Operating and financial review (continued)

Investments (continued)

In addition to funds under management, the Investments business has funds under administration and funds under advice in each of the Platypus, Federation Alliance and Big Sky Financial Planning businesses. Funds under management, administration and advice were \$8.6 billion at 31 December 2014 (30 June 2014: \$8.5 billion).

Federation Managed Accounts - an investment platform that allows financial advisers to select a portfolio of complementary investments - continued its strong growth trajectory increasing funds under administration to more than \$214 million at 31 December 2014 (30 June 2014: \$173 million). The platform continues to be well received by independent dealer groups and financial advisers looking for an alternative investment platform.

Australian Unity Investments experienced a 2.1 percent increase in total segment revenue to \$50.98 million and a 6.5 percent increase in adjusted EBITDA to \$5.25 million for the half-year ended 31 December 2014. Much of the increase in revenue arose in banking services, reflecting growth in lending assets, while expense reductions from operating model efficiencies contributed to adjusted EBITDA growth during the period.

The Investments team also manages the investment portfolio of the Australian Unity Group, which achieved an overall return of 5.35 percent on the Group's investment assets for the year ended 31 December 2014. This result was above its benchmark return of 4.83 percent.

The Investments business continues to focus on the efficiency of its capital structure and operating model. During the half-year, the business announced its intention to appoint a new custody and administration service provider, BNP Paribas Securities Services. This appointment will see both parties working to optimise operational processes, minimise risk and enhance performance.

Equities

Acorn Capital

The Acorn Capital Asia Small Cap Fund posted a strong return of 11.40 percent for the year to 31 December 2014. For the period the benchmark return from the MSCI AC Asia (ex Japan) small cap index AUD net dividends reinvested was 11.80 percent.

The Acorn Capital Microcap Fund (wholesale) returned -9.39 percent, compared to the benchmark return of -8.42 percent for the year. This follows a period of volatility for the microcap sector which has been adversely impacted by the sharp falls in commodity prices during the period.

Acorn Capital's funds under management decreased to \$916 million at 31 December 2014 (30 June 2014: \$1.09 billion) largely as a result of negative share market movements.

Platypus Asset Management

Australian equities manager Platypus Asset Management's funds under management decreased slightly during the period to be \$1.28 billion at 31 December 2014 (30 June 2014: \$1.33 billion).

The Platypus Australian Equities Trust (wholesale) returned 6.89 percent for the year to 31 December 2014 compared to the benchmark return of 5.30 percent for the S&P ASX 300 Accumulation Index.

Wingate Asset Management

International equities manager Wingate increased funds under management by \$29 million to \$190 million during the half-year. Wingate's global equity fund performed broadly in line with its objective - to provide investors with a less volatile, smoother return profile than the market. 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 2014 the Wingate Global Equity Fund (wholesale) returned 12.07 percent versus the Index (MSCI World (ex Australia) \$A net dividends reinvested) return of 15.01 percent.

Seres Asset Management

Asian equities manager Seres increased funds under management to \$54 million (30 June 2014: \$46 million). The Seres Asian Equities Opportunity Fund returned 8.13 percent for the year to 31 December 2014 compared to the MSCI ACFM Asia Index return of 9.95 percent.

Operating and financial review (continued)

Investments (continued)

Fixed interest

Altius Asset Management

Altius' funds under management increased to \$579 million at 31 December 2014 (30 June 2014: \$549 million).

This growth can be largely attributed to market demand for the Altius Sustainable Bond Fund which was launched in late November 2014. The fund is a diversified fixed interest portfolio designed to align with investors' personal and social values without compromising returns over the long term.

The Altius Bond Fund returned 6.12 percent for the year ended 31 December 2014 which trailed the bond benchmark (Bloomberg AusBond Composite 0+ Year Index) of 9.81 percent. The fund's short term underperformance was the result of duration management, with Altius seeing increased risk to capital at the longer end of the interest rate curve. The fund outperformed its cash benchmark (the RBA cash rate) which returned 2.50 percent over the period.

Australian Unity Real Estate Investment

The Healthcare Property Trust increased funds under management to \$638 million (30 June 2014: \$548 million) and posted a return of 9.78 percent for the year to 31 December 2014.

The fund continues to enjoy strong support from the adviser and investor community as a result of its stable returns, long lease terms and strong research ratings. The fund grew its asset base during the half-year and acquired three properties during the half-year, a building in Townsville, Queensland, the Brisbane Waters Private Hospital on the Central Coast of NSW and a two-storey pathology laboratory in Kent Town, South Australia.

The Retail Property Fund achieved a 9.49 percent return for investors in the year to 31 December 2014. This follows completion of the \$90 million re-development of the Waurn Ponds Shopping Centre in Geelong, Victoria.

The Diversified Property Fund acquired one of Melbourne's most environmentally sustainable office buildings - 200 Victoria Street in Carlton, Victoria - for \$42 million in the half-year.

During the year to 31 December 2014 the Diversified Property Fund achieved a return of 8.09 percent and the Office Property Fund achieved a return of 7.66 percent. Total funds under management in Australian Unity's Real Estate Investment portfolio increased to \$1.5 billion (30 June 2014: \$1.4 billion).

Mortgages

Investors in Australian Unity's mortgage trusts continue to receive regular payments in line with the decision to wind up the Trusts and return capital to investors. The next payments are scheduled for March 2015 (High Yield Mortgage Trust) and June 2015 (Mortgage Income Trust).

Owenlaw Trust Limited - acquisition

In December 2014 Australian Unity Real Estate Investment acquired Australian Unity Mortgage Investments Limited (formerly Owenlaw Trust Limited), the manager of the Australian Unity Select Mortgage Income Fund (formerly the Owenlaw First Mortgage Income Fund) and the Australian Unity Pooled Mortgage Fund (formerly the Owenlaw Mortgage Trust).

The Australian Unity Select Mortgage Income Fund is a 'contributory fund' where investors can invest in individual mortgages with different terms (up to a maximum of two years) and different interest rates payable.

Lifeplan

Lifeplan is Australia's largest provider of investment bonds and funeral bonds, and a leading provider of education savings plans.

Lifeplan continues to focus on innovation and during the half-year launched an online application process which has strengthened its service proposition to financial advisers. Lifeplan's products are now on the approved product lists of three major banks. Funds under management and administration increased to \$1.95 billion at 31 December 2014 (30 June 2014: \$1.92 billion).

Operating and financial review (continued)

Investments (continued)

Big Sky Building Society

Big Sky continues to focus on its core expertise: building a strong and sustainable banking, advice and insurance business.

During the half-year, Big Sky has continued to receive recognition for its products and was a finalist for the 'Best Mutual' in the Retail Finance Intelligence Australian Lending Awards.

Big Sky opened a new service centre in Brisbane in December 2014 bringing all of Big Sky's retail banking and financial advice services in one convenient location in Queensland. Customers will now have access to a 20-strong team including banking and home loan specialists, and financial advisers.

Big Sky had total on-balance sheet assets of \$731 million at 31 December 2014 (30 June 2014: \$701 million). Big Sky also has \$662 million in funds under advice through Big Sky Financial Planning (30 June 2014: \$639 million).

Strategy and outlook

The strategy of Australian Unity's Investments business is to build and manage an all-weather portfolio of financial products and services for a range of customers, and to support the establishment of social infrastructure for the benefit of investors and users.

The Investments business remains confident that its diversified business model, strongly focused on promoting financial wellbeing - by providing investors with a range of savings and investment alternatives - continues to be a compelling proposition over the medium to long-term.

Personal Financial Services

Australian Unity's financial advice business, Personal Financial Services, continued to record positive growth in the first half of the 2015 financial year.

Total segment revenue increased by 16.4 percent to \$22.14 million as a result of the recruitment of new practices and increased productivity from existing practices. Adjusted EBITDA for the half-year to 31 December 2014 was \$478,000 compared to \$279,000 for the prior corresponding period.

Personal Financial Services completed a significant strategic acquisition in December 2014 when it took control of close to 97 percent of Premium Wealth Management. Premium Wealth Management is an independent financial advisory licensee which was primarily owned by its advisers and contains a significant number of accounting practices. The acquisition increases Personal Financial Services financial advice capability and its exposure in the accountant's space.

Funds under advice increased to \$5.85 billion across 106 financial planning practices after the acquisition of Premium Wealth Management (30 June 2014: \$3.48 billion).

Advisers

The number of advisers increased to 191 from 125 at 30 June 2014 which includes 60 Premium Wealth Management advisers. Several practices were recruited during the half-year and strong recruitment is anticipated to continue in the second half of the year due to proposed new regulations that permit the transferring of grandfathered revenue between licensees, allowing continued recruitment of practices.

Financial advice revenue grew by 17 percent in the half-year due to growth of existing practices and the recruitment of new practices.

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 322 from 314 at 30 June 2014.

Operating and financial review (continued)

Personal Financial Services (continued)

Finance broking

Finance broking revenue for the half-year was \$1.2 million which represents an increase of 26 percent on the previous corresponding period and is largely attributable to higher settlements from employed brokers and increased broker numbers.

Revenue growth was achieved despite loans under advice reducing to \$762 million compared to \$778 million at 30 June 2014 as a result of attrition associated with acquired loan books.

General Insurance

General Insurance achieved significant revenue growth \$760,000 representing an increase of 83 percent attributable to the renegotiation of a key distribution agreement which provides improved revenue terms and greater control over the marketing spend.

Although general insurance sales have been lower than expected due to significant competition in the personal lines insurance space, revenue has continued to grow. The business will focus in the second half of the year on entering the general insurance broking market via the acquisition of several broking practices and marketing these services to our network of advisers and accountants.

Regulatory reforms

The business has continued to invest significant time and effort in complying with a range of regulatory reforms, including the Future of Financial Advice reforms; the Stronger Super reforms; the Tax Agents Services Act; and the Accountants' licensing reforms.

The proposed new regulations that permit the transferring of grandfathered revenue between licensees will ultimately assist the business with the recruitment of practices. Personal Financial Services is well positioned to take advantage of opportunities arising from the regulatory changes, which has led to consolidation of the industry and in increasing focus by accountants of their approach to financial services for their clients and in particular their self-managed superannuation clients.

Personal Financial Services' strategies and outlook

Working closely with other professional advisers, Australian Unity Personal Financial Services provide professional strategic advice to help our clients improve their current financial position and ultimately achieve their long term lifestyle goals. Clients are offered regular financial mentoring and ongoing guidance (in all aspects of their personal finances) to set, and keep them, on the path to financial wellbeing.

The business creates a compliant, resource-rich and thought-leading environment for its Australia-wide network of experienced self-employed and employed financial advisers to enable them to efficiently and confidently provide each of their clients a detailed, robust and tailored blueprint for financial success.

Looking ahead, the business has planned further growth 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 medium to long term is encouraging. There are risks to achieving growth objectives, such as a sharp downturn in global financial markets, loss of business and investor confidence or unforeseen impacts on industry revenues from the introduction of the federal government's legislative changes to the industry.

However, diversifying revenue streams into finance broking and general insurance broking helps cushion the potential impact of both a market downturn and regulatory change. It is likely the competitive advantages of the Australian Unity Personal Financial Services business model will be strengthened as a result of these potential challenges.

Matters subsequent to the end of the half-year

On 2 February 2015, the Group obtained control over the Certainty Financial joint ventures through the acquisition of the remaining 30 percent ownership interests with 50 percent of voting rights for a consideration of \$11,007,000. Following the acquisition, the Group owns 100% of Certainty Financial.

Matters subsequent to the end of the half-year (continued)

As at the date of this report, the valuation and financial statements of Certainty Financial are pending completion. Based on the preliminary assessment, the fair value of Certainty Financial is estimated at \$34 million. The carrying amount of the previously held investment as at the acquisition date was \$20 million. In the accounting for business acquisition achieved in stages, the previously held investment will be remeasured. This remeasurement may result in a fair value gain of approximately \$2 million to \$3 million. The accounting for this acquisition will be finalised within 12 months of the purchase.

The board is not aware of any other matter or circumstance arising since 31 December 2014 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 10.

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 2015

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 2014, 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 2015

Australian Unity Limited ABN 23 087 648 888
Interim financial report - 31 December 2014

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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 2014 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 2015.

Australian Unity Limited
Consolidated statement of comprehensive income
For the half-year ended 31 December 2014

		Half-year	
	Notes	2014 \$'000	2013 \$'000
Revenue and other income	4	648,366	586,738
Expenses, excluding finance costs	5	(610,062)	(563,306)
Finance costs	5	(11,074)	(9,164)
Share of net profit of associates and joint ventures		881	1,487
Profit before income tax		28,111	15,755
Income tax expense		(16,072)	(9,685)
Profit after income tax for the half-year		12,039	6,070
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Cash flow hedges		(146)	276
Income tax relating to components of other comprehensive income		44	(82)
Other comprehensive income for the half-year, net of tax		(102)	194
Total comprehensive income for the half-year		11,937	6,264
Profit for the half-year is attributable to:			
Members of Australian Unity Limited		12,039	6,070
		12,039	6,070
Total comprehensive income for the half-year is attributable to:			
Members of Australian Unity Limited		11,937	6,264
		11,937	6,264

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 15.

Australian Unity Limited
Consolidated balance sheet
As at 31 December 2014

	31 December 2014	30 June 2014
Notes	\$'000	\$'000
ASSETS		
Current assets		
Cash and cash equivalents	911,292	974,413
Trade and other receivables	91,623	103,122
Inventories	606	545
Loans and advances	25,925	24,061
Current tax assets	-	2,428
Financial assets at fair value through profit or loss	7 1,416,256	1,326,143
Held-to-maturity investments	84,571	80,467
Total current assets	2,530,273	2,511,179
Non-current assets		
Financial assets at fair value through profit or loss	7 21,880	34,587
Loans and advances	616,266	588,996
Investments in associates and joint ventures	36,378	46,740
Property, plant and equipment	8 161,539	153,510
Investment properties	9 704,391	674,275
Intangible assets	119,388	101,801
Other non-current assets	7,245	603
Total non-current assets	1,667,087	1,600,512
Total assets	4,197,360	4,111,691
LIABILITIES		
Current liabilities		
Trade and other payables	63,664	72,668
Interest bearing liabilities	684,442	661,298
Current tax liabilities	2,742	-
Provisions	81,002	77,476
Benefit fund policy liabilities	194,090	185,822
Other current liabilities	605,058	596,046
Total current liabilities	1,630,998	1,593,310
Non-current liabilities		
Interest bearing liabilities	260,486	260,529
Deferred tax liabilities	52,499	43,984
Provisions	2,899	3,294
Benefit fund policy liabilities	1,726,315	1,699,106
Other non-current liabilities	3,886	3,128
Total non-current liabilities	2,046,085	2,010,041
Total liabilities	3,677,083	3,603,351
Net assets	520,277	508,340
EQUITY		
Members' balances	255,919	255,919
Reserves	1,823	1,866
Retained earnings	262,535	250,555
Members' balances and reserves attributable to members of Australian Unity Limited	520,277	508,340
Total equity	520,277	508,340

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

Australian Unity Limited
Consolidated statement of changes in equity
For the half-year ended 31 December 2014

	Attributable to members of Australian Unity Limited				Non - controlling interest	Total equity
	Members' balances \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000	\$'000	\$'000
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
Balance at 1 July 2014	255,919	1,866	250,555	508,340	-	508,340
Profit for the half-year	-	-	12,039	12,039	-	12,039
Other comprehensive income	-	(102)	-	(102)	-	(102)
Total comprehensive income	-	(102)	12,039	11,937	-	11,937
Transactions with owners in their capacity as owners:						
Transfers within equity	-	59	(59)	-	-	-
	-	59	(59)	-	-	-
Balance at 31 December 2014	255,919	1,823	262,535	520,277	-	520,277

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

Australian Unity Limited
Consolidated statement of cash flows
For the half-year ended 31 December 2014

	Half-year	
	2014	2013
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers	634,108	559,254
Claims and benefits paid	(324,418)	(304,211)
Payments to suppliers and employees	(373,406)	(363,301)
Net payments of loans asset	(28,240)	(34,071)
Net receipts of deposits liability	27,213	48,315
Interest received	20,501	19,859
Dividends and distributions received	4,557	2,265
Interest and finance charges paid	(17,249)	(16,616)
Income tax refunds/(payments)	(106)	249
Net cash outflow from operating activities	(57,040)	(88,257)
Cash flows from investing activities		
Payments for business combination, net of cash receipt	(11,417)	(856)
Payments for investments	(354,199)	(315,539)
Payments for property, plant and equipment	(11,067)	(30,360)
Payments for investment properties	(23,011)	(24,261)
Payments for intangible assets	(8,570)	(6,314)
Payments for investments in associates and joint ventures	(2,121)	(8,237)
Payments for the remaining non-controlling interest in a subsidiary	-	(2,358)
Payments for loans to related entities	(854)	(94)
Receipts from investments	354,757	347,343
Proceeds from sale of investment properties	-	1,143
Dividends received from associates and joint ventures	4,329	3,603
Proceeds from disposal of investment in joint ventures	12,509	-
Proceeds from disposal of property, plant and equipment	32	19
Proceeds from disposal of intangible assets	130	-
Net cash outflow from investing activities	(39,482)	(35,911)
Cash flows from financing activities		
Receipts from/(payments of) borrowings	(6,380)	30,677
Receipts from refundable lease deposits and resident liabilities	39,781	21,771
Net cash inflow from financing activities	33,401	52,448
Net decrease in cash and cash equivalents	(63,121)	(71,720)
Cash and cash equivalents at the beginning of the half-year	974,413	1,017,336
Cash and cash equivalents at the end of the half-year	911,292	945,616

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 Basis of preparation of half-year report

The interim financial report for the half-year reporting period ended 31 December 2014 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 2014 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*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period. Where applicable, the Group has also adopted new or amended accounting standards which have become mandatory for the interim reporting period since its previous financial year as set out below. These standards have been implemented prospectively from 1 July 2014.

AASB	Title
AASB 2012-3	Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities [AASB 132]
AASB 2013-3	Amendments to AASB 136 – Recoverable amount disclosure for non-financial assets
AASB 2013-4	Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting [AASB 139]
AASB 2013-5	Amendments to Australian Accounting Standards – Investment Entities
AASB 2013-6	Amendments to AASB 136 arising from Reduced Disclosure Requirements
AASB 2013-7	Amendments to AASB 1038 arising from AASB 10 in relation to consolidation and interests of policy holders
Revised AASB 1031	Materiality
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments
AASB 2014-1 (Parts A-C)	Amendments to Australian Accounting Standards
AASB 2014-2	Amendments to AASB 1053 - Transition to and between Tiers, and related Tier 2 Disclosure Requirements

AASB 2013-7 removed specific requirements in relation to consolidation from AASB 1038 *Life Insurance Contracts* which has left AASB 10 *Consolidation* as the sole source for consolidation requirements applicable to life insurer entities. The Group did not experience a material impact from the application of AASB 2013-7.

There was no significant impact on the interim financial statements from the application of the other standards noted in the above table.

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 2014 is as follows:

Half-year ended 31 December 2014	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	(8,018)	14,105	396,204	50,983	22,137	51,866	527,277
Inter-segment revenue	4,804	(4,491)	-	-	(313)	-	-
Revenue from external customers	(3,214)	9,614	396,204	50,983	21,824	51,866	527,277
Adjusted EBITDA	(17,754)	2,326	23,390	5,253	478	10,468	24,161
Depreciation and amortisation							(9,708)
Interest expense							(13,021)
Investment income							15,326
Income tax expense							(4,719)
Profit after income tax							12,039
Share of profit after tax from associates and joint ventures (included in adjusted EBITDA)							881
Total segment assets include:							
Income producing assets	31,240	2,224	298,803	775,764	3,286	14,332	1,125,649
Working capital assets	15,777	2,863	60,451	21,582	6,092	2,767	109,532
Non-interest bearing assets	101,252	3,072	10,804	52,283	27,795	395,874	591,080
Total segment assets	148,269	8,159	370,058	849,629	37,173	412,973	1,826,261
Total segment liabilities include:							
Borrowings and net inter-segment lending	127,356	-	20,000	676,100	1,622	119,850	944,928
Working capital liabilities	33,740	1,384	173,280	16,858	5,676	44,029	274,967
Non-interest bearing liabilities	28,254	39	10,793	3,624	4,417	38,962	86,089
Total segment liabilities	189,350	1,423	204,073	696,582	11,715	202,841	1,305,984

2 Segment information (continued)

(b) Segment information (continued)

The segment information provided to the Group Executive Committee for the reportable operating segments for the comparative period 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

As at 30 June 2014

Total segment assets include:							
Income producing assets	15,186	2,319	327,930	761,104	2,090	13,805	1,122,434
Working capital assets	9,487	3,489	53,355	33,461	5,804	4,902	110,498
Non-interest bearing assets	111,093	2,162	9,224	49,157	26,041	351,453	549,130
Total segment assets	135,766	7,970	390,509	843,722	33,935	370,160	1,782,062
Total segment liabilities include:							
Borrowings and net inter-segment lending	130,704	-	20,000	647,584	-	125,936	924,224
Working capital liabilities	22,001	1,105	204,140	25,815	3,235	13,402	269,698
Non-interest bearing liabilities	24,413	203	9,474	3,042	2,826	39,836	79,794
Total segment liabilities	177,118	1,308	233,614	676,441	6,061	179,174	1,273,716

(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 relate 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	
	2014	2013
	\$'000	\$'000
Adjusted EBITDA	24,161	17,667
Depreciation and amortisation expense:		
Depreciation and amortisation expense (note 5)	(8,746)	(7,693)
Net gain/(loss) on disposal of assets	(158)	(6)
Fair value amortisation adjustment on non-interest bearing asset	(227)	(180)
Merger and acquisition expenses	(413)	(325)
Other	(164)	(66)
	(9,708)	(8,270)
Interest expense		
Finance costs (note 5)	(11,074)	(9,164)
Accommodation bond interest classification	(1,956)	(1,315)
Other	9	(4)
	(13,021)	(10,483)
Investment income:		
Dividends and distributions (note 4)	4,557	2,265
Investment income (note 4)	6,537	4,499
Impairment reversal of investments in associates and joint ventures (note 5)	4,137	1,301
Building society investment losses/(gains) in adjusted EBITDA	95	(53)
	15,326	8,012
Profit before income tax attributable to members of Australian Unity Limited (note 15)	16,758	6,926
Profit before income tax of benefit funds (note 15)	11,353	8,823
Profit before income tax	28,111	15,749

3 Business combination

(a) Healthcare

Summary of acquisition

In July 2014, Australian Unity Healthcare Limited (AUHCL) acquired the business of 98 Dental The Art of Smile in South Melbourne (98 Dental), a dental practice with dental surgery facilities. The business assets acquired included goodwill, business records, material contracts, intellectual property, stock, plant and equipment. As part of the agreement, 80% of the employees were transferred to the acquirer. AUHCL also assumed the leave liability in relation to the transferring employees. The acquisition is expected to grow the Group's allied health business through expansion of its dental practices.

Details of the purchase consideration, the assets acquired and goodwill recognised in the accounting for the business combination are as follows:

	\$'000
Purchase consideration	
Cash payment	944

The assets recognised as a result of the acquisition are as follows:

	\$'000
Net assets acquired	
Stock	48
Equipment	186
Goodwill	734
Leave liability	(24)
	944

(b) Retirement Living

Summary of acquisition

In September 2014, Australian Unity Retirement Management Pty Ltd (AURLM) acquired INS Health Care (INS), the home care business of the INS Group, a family owned health care business based in Wollongong, NSW. INS Health Care is the dominant home care provider throughout the Illawarra, Southern Highlands and South West Sydney regions. It operated government funded home care packages and provided home care services for a number of major health organisations as well as private clients. The business assets acquired included 126 government funded home care packages, intellectual property, business records and customer contracts. As part of the agreement, the key personnel and the majority of care staff of INS were transferred to the acquirer. AURLM also assumed the leave liability in relation to the transferring employees. The acquisition is expected to provide benefits for the Group's home care business, including having access to a variety of new government funding sources, a strengthened platform for further growth and synergy created with the existing Retirement Living business operations of the Group.

Details of the purchase consideration, the assets acquired, management rights and goodwill recognised in the preliminary accounting for the business combination are as follows:

	\$'000
Purchase consideration	
Cash payment	5,829

3 Business combination (continued)

(b) Retirement Living (continued)

The assets recognised as a result of the acquisition are as follows:

	\$'000
Net assets acquired	
Equipment and vehicle	128
Management rights with an indefinite life	3,711
Management rights with a finite life	886
Goodwill	1,275
Leave liability	(171)
	<u>5,829</u>

The acquisition accounting will be finalised within 12 months of the purchase.

(c) Investments

Summary of acquisition

In December 2014, Australian Unity Funds Management Limited acquired 100% of the issued shares in Owenlaw Trust Limited for \$3,680,000. The principal activities of the acquired entity are the management of two retail mortgage trusts with approximately \$80 million of funds under management and acting as the responsible entity for the two trusts. The acquisition is expected to increase the Group's market share through new product initiatives and to reduce costs through economies of scale.

Details of the purchase consideration, the assets acquired and management rights recognised in the preliminary accounting for the business combination are as follows:

	\$'000
Purchase consideration	
Cash payment	2,887
Deferred payment	793
	<u>3,680</u>

The assets recognised as a result of the acquisition are as follows:

	\$'000
Net assets acquired	
Cash	447
Receivables	61
Management rights with an indefinite life	3,172
	<u>3,680</u>

The acquisition accounting will be finalised within 12 months of the purchase.

(d) Personal Financial Services

Summary of acquisition

In December 2014, Australian Unity Advice Pty Ltd (AUA) entered into an agreement to acquire over 96.5% of the issued shares of Premium Wealth Management Ltd (PWM). PWM is an independent financial advisory licensee primarily owned by its advisers. It provides financial services to clients throughout the east coast region of Australia. The acquisition is intended to grow the financial services business.

As at the date of this report, the agreement with the remaining 3.5% of PWM shareholders has yet to be finalised.

3 Business combination (continued)

(d) Personal Financial Services (continued)

Details of the purchase consideration, the assets acquired and management rights recognised in the preliminary accounting for the business combination are as follows:

	\$'000
Purchase consideration	
Cash consideration	1,680
Deferred payment	776
Contingent consideration	720
	<u>3,176</u>

The assets recognised as a result of the acquisition are as follows:

	\$'000
Net assets acquired	
Cash	1,094
Term deposit	61
Prepayments	113
Management rights with a finite life	2,400
Payables	(492)
	<u>3,176</u>

The acquisition accounting will be finalised within 12 months of the purchase.

(e) Acquisition of joint venture entities

In September 2014, Australian Unity Funds Management Ltd acquired the remaining 50% of units in Vianova Unit Trust for \$64,361. This acquisition has increased the Group's ownership interest in Vianova Unit Trust to 100%.

In October 2014, Australian Unity Retirement Living Management Pty Ltd acquired the remaining 50% of issued shares in KNS Essential Care Pty Ltd (KNS) for \$513,854. This acquisition has increased the Group's ownership interest in KNS to 100%.

(f) Acquisition related costs

The costs related to the above business acquisitions totalling \$492,154 are included in expenses in the profit or loss.

(g) Cash flow information

	\$'000
Outflow of cash to acquire the businesses, net of cash acquired	
Cash payments	11,860
Less: cash acquired	(1,652)
Direct costs related to the acquisition	400
Cash outflow - investing activities	<u>10,608</u>

4 Revenue and other income

	Half-year	
	2014	2013
	\$'000	\$'000
Commission income	22,967	20,145
Dental sales	7,501	10,632
Dividends and distributions	4,557	2,265
Fair value gains on investment property	7,105	3,265
Health insurance premium revenue	396,186	373,060
Interest income of building society	16,556	15,502
Investment income	6,537	4,499
Management fees revenue	32,754	29,908
Rental income	1,194	1,403
Retirement village fees and subsidies	40,729	32,973
Revenue of benefit funds	110,398	91,057
Other income	1,882	2,029
	648,366	586,738

5 Expenses

	Half-year	
	2014	2013
	\$'000	\$'000
Expenses, excluding finance costs, included in the profit or loss classified by nature:		
Bank charges	1,165	1,014
Claims expense	341,248	323,827
Commission expense	24,456	23,053
Communication costs	1,855	2,521
Computer and equipment costs	6,467	5,870
Depreciation and amortisation expense	8,746	7,693
Employee benefits expense	91,308	74,583
Expenses in relation to benefit funds	99,045	82,234
Financial and insurance costs	1,058	1,956
Fund manager and administration fees	7,370	5,376
Impairment reversal of investment in associates and joint ventures*	(4,137)	(1,301)
Interest expense of building society	8,624	7,798
Legal and professional fees	5,785	5,034
Marketing expenses	6,676	7,834
Net risk equalisation trust fund recoveries	(15,718)	(13,883)
Occupancy costs	6,168	5,280
Other direct expenses	9,607	15,621
Other expenses	10,339	8,796
	610,062	563,306

* On 23 December 2014, the Group sold its investment in Calliden Group Limited, an associate, for \$12,509,283. The sale resulted in a reversal of impairment provision recognised in prior years of \$4,137,433.

Profit before income tax includes the following specific expenses:

<i>Depreciation</i>		
Buildings	1,477	535
Leasehold improvements	618	836
Plant and equipment	1,225	984
Total depreciation	3,320	2,355
<i>Amortisation</i>		
Software	4,622	4,638
Management rights	804	700
Total amortisation	5,426	5,338
Total depreciation and amortisation expense	8,746	7,693
<i>Finance costs</i>		
Interest and finance charges	12,522	10,598
Amounts capitalised	(1,448)	(1,434)
Finance costs expensed	11,074	9,164

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 2014.

(a) Fair value hierarchy

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurement 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 2014 and 30 June 2014 on a recurring basis:

31 December 2014	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				
Debt securities	-	66,827	-	66,827
Equities	-	931,912	-	931,912
Fixed interest securities	-	329,129	-	329,129
Mortgage trusts	-	22,248	-	22,248
Property syndicates and trusts	-	88,020	-	88,020
Other financial assets	-	-	314	314
Total financial assets	-	1,438,136	314	1,438,450
Non-financial assets				
Investment properties	-	-	704,391	704,391
Land and buildings	-	-	146,718	146,718
Total non-financial assets	-	-	851,109	851,109
Financial liabilities				
Interest rate swaps	-	3,275	-	3,275
Life investment contract policy liabilities	-	759,077	-	759,077
Total financial liabilities	-	762,352	-	762,352

6 Fair value measurements (continued)

30 June 2014	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				
Debt securities	-	73,223	-	73,223
Equities	-	861,116	-	861,116
Fixed interest securities	-	318,645	-	318,645
Mortgage trusts	-	47,276	-	47,276
Property syndicates and trusts	-	60,470	-	60,470
Other financial assets	-	-	302	302
Total financial assets	-	1,360,730	302	1,361,032
Non-financial assets				
Investment properties	-	-	674,275	674,275
Land and buildings	-	-	140,302	140,302
Total non-financial assets	-	-	814,577	814,577
Financial liabilities				
Interest rate swaps	-	3,128	-	3,128
Life investment contract policy liabilities	-	719,881	-	719,881
Total financial liabilities	-	723,009	-	723,009

The majority of the financial assets at fair value through profit or loss are held through unlisted managed investment schemes operated by related entities. These unlisted managed investment schemes also hold investments from external investors.

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, 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 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 2014 and 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 2014 which 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 assets for the half-year ended 31 December 2014:

	Other financial assets \$'000	Investment properties \$'000	Land and buildings \$'000	Total \$'000
Opening balance 1 July 2014	302	674,275	140,302	814,879
Additions	12	23,011	7,942	30,965
Transfers from/(to) other assets	-	-	(49)	(49)
Depreciation	-	-	(1,477)	(1,477)
Gains recognised in other income*	-	7,105	-	7,105
Closing balance 31 December 2014	314	704,391	146,718	851,423

*Included in the gains recognised in other income are:

Unrealised gains recognised in the profit or loss
attributable to assets held at the end of the
financial year

-	7,105	-	7,105
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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 2014 \$'000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Investment properties	704,391	Discount rate	10.0% - 15.0%	The higher the discount rate, the lower the fair value
		Resident turnover rate	6.0% - 14.0%	The higher the resident turnover 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	146,718	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 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 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 2014:

	Carrying amount \$'000	Fair value \$'000
31 December 2014		
Current and non-current assets		
Loans to related entities	31,507	31,507
Mortgage loans	582,327	582,726
Personal loans	24,205	24,205
Advances	4,152	3,797
Total loans and advances	<u>642,191</u>	<u>642,235</u>
Current and non-current borrowings		
Australian Unity Notes	120,000	124,080
Loan establishment costs	-	-
Call deposits	306,430	306,430
Development finance loans	46,367	43,501
Lease liabilities	4	4
Loan payable to related entity	5,100	5,100
Mortgage offset savings accounts	59,148	59,148
Retirement Village Investment Notes	70,244	69,909
Subordinated capital notes	30,000	28,237
Term deposits	307,635	307,142
Total interest bearing liabilities	<u>944,928</u>	<u>943,551</u>
30 June 2014		
Current and non-current assets		
Loans to related entities	30,653	30,653
Mortgage loans	551,609	552,188
Personal loans	26,683	26,683
Advances	4,112	3,709
Total loans and advances	<u>613,057</u>	<u>613,233</u>
Current and non-current borrowings		
Australian Unity Notes	120,000	124,320
Loan establishment costs	(2,398)	(2,398)
Call deposits	304,533	304,533
Development finance loans	52,736	48,236
Lease liabilities	15	15
Loan payable to related entity	5,100	5,100
Mortgage offset savings accounts	50,224	50,224
Retirement Village Investment Notes	70,374	70,472
Subordinated capital notes	30,000	27,906
Term deposits	291,243	290,823
Total interest bearing liabilities	<u>921,827</u>	<u>919,231</u>

6 Fair value measurements (continued)

(d) Fair values of other financial instruments (continued)

The carrying amounts of trade receivables, held-to-maturity investments and trade payables are assumed to approximate their fair values due to their short term nature. The fair values of loans, advances and borrowings disclosed above are estimated by discounting the future contractual cash flows at the current applicable market interest rate. These assets and liabilities are categorised under level 3 in the fair value hierarchy.

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 2014 \$'000	30 June 2014 \$'000
Securities held by benefit funds	1,275,006	1,200,836
Securities held in funds managed by related entities	163,130	159,894
	<u>1,438,136</u>	<u>1,360,730</u>

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 2014 \$'000	30 June 2014 \$'000
Debt securities	36,489	36,136
Equities	888,764	825,855
Fixed interest securities	277,225	267,986
Mortgage trusts	14,168	38,739
Property syndicates and trusts	58,360	32,120
	<u>1,275,006</u>	<u>1,200,836</u>

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

	31 December 2014 \$'000	30 June 2014 \$'000
Debt securities	30,338	37,087
Equities	43,148	35,261
Fixed interest securities	51,904	50,659
Mortgage trusts	8,080	8,537
Property syndicates and trusts	29,660	28,350
	<u>163,130</u>	<u>159,894</u>

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 2014 \$'000	30 June 2014 \$'000
Current	1,416,256	1,326,143
Non-current	21,880	34,587
	<u>1,438,136</u>	<u>1,360,730</u>

8 Non-current assets - Property, plant and equipment

	Land \$'000	Buildings \$'000	Plant and equipment \$'000	Leasehold improvements \$'000	Total \$'000
At 30 June 2014					
Cost or fair value	16,433	135,060	30,561	24,484	206,538
Accumulated depreciation	-	(11,191)	(21,203)	(20,634)	(53,028)
Net book amount	<u>16,433</u>	<u>123,869</u>	<u>9,358</u>	<u>3,850</u>	<u>153,510</u>

Half-year ended 31 December 2014

Opening net book amount	16,433	123,869	9,358	3,850	153,510
Additions	-	10,544	345	178	11,067
Acquisition of businesses	-	-	314	-	314
Disposals	-	-	(25)	(7)	(32)
Other transfers	-	(2,651)	2,651	-	-
Depreciation charge	-	(1,477)	(1,225)	(618)	(3,320)
Closing net book amount	<u>16,433</u>	<u>130,285</u>	<u>11,418</u>	<u>3,403</u>	<u>161,539</u>

At 31 December 2014

Cost or fair value	16,433	142,952	33,728	24,357	217,470
Accumulated depreciation	-	(12,667)	(22,310)	(20,954)	(55,931)
Net book amount	<u>16,433</u>	<u>130,285</u>	<u>11,418</u>	<u>3,403</u>	<u>161,539</u>

9 Non-current assets - Investment properties

	31 December 2014 \$'000	30 June 2014 \$'000
At fair value		
Balance at the beginning of the financial period	674,275	617,109
Additions	23,011	61,369
Disposals	-	(1,580)
Net fair value movements	7,105	11,705
Transfers to owner-occupied property	-	(14,328)
Balance at the end of the financial period	<u>704,391</u>	<u>674,275</u>

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

	Half-year 2014 \$'000	2013 \$'000
Revenue	16,509	35,336
Expenses	(10,410)	(24,413)
Changes in fair value recognised in profit or loss	7,105	11,705
	<u>13,204</u>	<u>22,628</u>

(b) Summarised information of investment properties

Investments in properties are held as follows:

	31 December 2014 \$'000	30 June 2014 \$'000
Retirement village independent living units	425,829	412,297
Retirement village property funds	62,885	60,953
Development sites	211,063	196,411
Non-owner occupied property	4,614	4,614
	<u>704,391</u>	<u>674,275</u>

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 reclassified as a held for sale asset in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* and sold to a retirement village operator.

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 2014, the Gearing Ratio was 37.3% (30 June 2014: 38.3%).

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.

11 Related party transactions

(a) Transactions and balances with related parties

Transactions between the Group and related parties for the half-years ended 31 December 2014 and 2013 were as follows:

- Commission, director fees and occupancy costs charged to associates and joint ventures, \$1,103,963 (2013: \$763,247).
- Dividends received from associates and joint ventures, \$4,328,571 (2013: \$3,602,850).
- Investment management fees charged by associates and joint ventures, \$2,323,731 (2013: \$2,469,726).
- Loans provided to related entities, \$854,681 (2013: \$296,753).

Balances with related parties as at 31 December 2014 with comparative amounts as at 30 June 2014 were as follows:

- Trade and other receivables from related entities, \$656,396 (30 June 2014: \$283,980).
- Trade and other payables to related entities, \$721,082 (30 June 2014: \$642,054).
- Loans receivable from related entities, \$31,507,318 (30 June 2014: \$30,652,637).
- Loan payable to related entity, \$5,100,000 (30 June 2014: \$5,100,000).

(b) Terms and conditions

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

12 Commitments

Capital commitments

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

	31 December 2014 \$'000	30 June 2014 \$'000
<i>Payable within one year:</i>		
Investment properties	16,536	31,789
Total capital commitments	<u>16,536</u>	<u>31,789</u>

13 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, Altius Asset Management Pty Ltd, FedInvest Pty Ltd and Certainty Financial.

As at 31 December 2014, the contingent liabilities are as follows:

- Wingate Asset Management Pty Limited amounted to \$248,400 for 6,210,000 shares at 4.0 cents each (30 June 2014: \$621,000 for 6,210,000 shares at 10.0 cents each);
- Seres Asset Management Limited amounted to \$629,222 for 9,500,000 shares at 6.62 cents each (30 June 2014: \$549,120 for 12,500,000 shares at 4.39 cents each);
- Altius Asset Management Pty Ltd amounted to \$339,575 for 425,000 shares at 79.9 cents each (30 June 2014: \$339,575 for 425,000 shares at 79.9 cents each);
- FedInvest Pty Ltd amounted to \$105,000 for 560,000 shares at 18.75 cents each (30 June 2014: \$245,000 for 560,000 shares at 43.8 cents each); and
- Certainty Financial amounted to \$11,007,000 for the remaining 30% ownership interest (refer to note 14).

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.

13 Contingencies (continued)

Contingent liabilities (continued)

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 2014 there was \$1,032,587 (30 June 2014: \$1,292,413) of liabilities covered by this guarantee. The guarantee will expire in October 2017.

Bank guarantee

The Group has entered into bank guarantee arrangements totalling \$6,274,784 (30 June 2014: \$6,075,622) as part of its normal operations in order to secure the Group's performance under contracts. The bank guarantees only become payable upon the non-performance of the Group.

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 CUFSS participants who are affiliated with Cuscal Limited have agreed to participate. CUFSS is a company limited by guarantee, each guarantee being \$100.

As a CUFSS member, BSBS:

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

At 31 December 2014, no funding was required by and paid to CUFSS (30 June 2014: \$nil).

The Group had no other contingent assets or liabilities at 31 December 2014.

14 Events occurring after the reporting period

On 2 February 2015, the Group obtained control over the Certainty Financial joint ventures through the acquisition of the remaining 30 percent ownership interests with 50 percent of voting rights for a consideration of \$11,007,000. Following the acquisition, the Group owns 100% of Certainty Financial.

As at the date of this report, the valuation and financial statements of Certainty Financial are pending completion. Based on the preliminary assessment, the fair value of Certainty Financial is estimated at \$34 million. The carrying amount of the previously held investment as at the acquisition date was \$20 million. In the accounting for business acquisition achieved in stages, the previously held investment will be remeasured. This remeasurement may result in a fair value gain of approximately \$2 million to \$3 million. The accounting for this acquisition will be finalised within 12 months of the purchase.

The board is not aware of any other matter or circumstance arising since 31 December 2014 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.

15 Reconciliation of profit attributable to members of Australian Unity Limited

Half-year ended 31 December 2014

	Attributable to members of Australian Unity Limited \$'000	Attributable to benefit fund policyholders \$'000	Consolidated Profit or Loss \$'000
Revenue and other income	537,968	110,398	648,366
Expenses, excluding finance costs	(511,017)	(99,045)	(610,062)
Finance costs	(11,074)	-	(11,074)
Share of net profits of associates and joint ventures	881	-	881
Profit before income tax	16,758	11,353	28,111
Income tax expense	(4,719)	(11,353)	(16,072)
Profit after income tax	12,039	-	12,039

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

Australian Unity Limited
Directors' declaration
31 December 2014

In the directors' opinion:

- (a) the financial statements and notes set out on pages 12 to 39 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 2014 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 2015

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 2014, 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 at 31 December 2014 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 2014 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*.

A handwritten signature in cursive script that reads 'Ernst + Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Brett Kallio'.

Brett Kallio
Partner
Melbourne
25 February 2015