180 YEARS

Australian Unity Real Wellbeing

ASX Announcement

26 February 2020

Australian Unity Limited – Interim Financial Report

Please find **attached** Australian Unity Limited's Interim financial report for the half-year ended 31 December 2019.

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This announcement has been authorised for distribution to the ASX by:

Melinda Honig

General Counsel and Company Secretary

T: +61 3 8682 6819

If bondholders or other interested parties require further information please contact:

Michael Moore

General Manager – Public Affairs & Communications

T: 1300 408 776

E: media@australianunity.com.au

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Issuer:
Australian Unity Limited ACN 087 648 888

Enquiries:
Australian Unity Registry
1300 554 474

Contact details:
Australian Unity Limited
271 Spring Street
Melbourne VIC 3000
Tel: 13 29 39

The listing of Australian Unity Securities on the ASX does not affect Australian Unity Limited's status as a mutual organisation

Australian Unity Limited

ABN 23 087 648 888

Interim financial report and directors' report for the half-year ended 31 December 2019

Australian Unity Limited ABN 23 087 648 888
Interim financial report and directors' report - 31 December 2019

Directors' report	1
Interim financial statements	10
Consolidated statement of comprehensive income	10
Consolidated balance sheet	11
Consolidated statement of changes in equity	12
Consolidated statement of cash flows	13
Notes to the consolidated financial statements	14
Directors' declaration	41
Independent auditor's review report to the members	42

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 2019 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:

271 Spring Street
Melbourne VIC 3000

The financial statements were authorised for issue by the directors on 26 February 2020.

Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as Australian Unity or 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 2019.

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:

Peter Promnitz, Chair
Rohan Mead, Group Managing Director & CEO
Lisa Chung, Non-executive Director
Melinda Cilento, Non-executive Director
Paul Kirk, Non-executive Director
Su McCluskey, Non-executive Director
Julien Playoust, Non-executive Director (appointed 1 February 2020)
Greg Willcock, Non-executive Director

Company secretaries

Melinda Honig and Catherine Visentin were company secretaries of Australian Unity Limited as at the date of this report.

Operating and financial review

In the six months to 31 December 2019, Australian Unity furthered its strategy of building a commercially sustainable portfolio of businesses that provides member, customer and community value and is supportive of personal and community wellbeing.

Australian Unity continued to make strong progress on its key strategic priorities during the half-year under review and achieved overall underlying earnings growth. The focus remained on developing and delivering contemporary, evidence-based and person-centred services to market segments where our strategy identifies there is most scope to contribute to wellbeing and community value. Notwithstanding heightened external uncertainty and volatility, the Group continued to advance its longstanding strategy of building a diversified portfolio, with extended participation in the higher-growth human services and social infrastructure sectors.

Significant improvements made in the Group's Home Care Services business continued to show results during the half-year, as did the Group's longstanding work on patient and outcome-focused healthcare services. The Group seeks to support the development of improved and sustainable operating models to address the long-term challenges confronting these human services sectors.

Another priority for the Group was the maintenance of a solid balance sheet position in support of operational resilience and agility. To this end, in October 2019 the Group took advantage of capital market and investor support, along with attractive market settings, and acted to spread the tenor of its borrowings through the issue of $322 million of Series C and D Australian Unity Bonds. Of this amount, $178.7 million was used to refinance previously-issued Series B Australian Unity Bonds.

In the area of social infrastructure, the Herston Quarter project in Brisbane, Queensland continued to progress positively, as did other elements of the social infrastructure development portfolio and pipeline.

Total revenue and other income increased to $764.9 million (31 December 2018: $699.4 million). Overall revenue growth generated by the Group's operating businesses, up $17.8 million on the prior corresponding period, and solid investment returns, up $3.2 million, were supported by a $44.5 million increase in benefit fund revenue.

Total expenses, excluding financing costs, were $731.1 million (31 December 2018: $689.1 million). A 2.8 percent or $18.5 million increase in overall operating expenses included higher health insurance net claims (up $8.6 million), while benefit fund expenses were $23.5 million higher than in the prior corresponding period.

The Group delivered a profit of $8.4 million for the half-year under review, compared to $13.3 million in the prior corresponding period. Each of the business platforms made a positive contribution to the result. The result was impacted by some $2.0 million in additional, timing-related costs due to the inception of the new accounting standard on leases, as well as costs associated with the relocation of the Group's head office premises. Further, there was no equivalent this half-year to the legal settlement received in the Life & Super business in the prior corresponding period.

The overall outcome represented a significant improvement in the aggregate trading position, with operating earnings for the half-year of $18.5 million representing an increase of $2.8 million over the prior corresponding period.

Operating and financial review (continued)

At 31 December 2019, the Group was in a sound position to realise the opportunities and respond to challenges expected to arise from an external environment that presents considerable uncertainty and market disruption - particularly the affordability pressures and changing demography impacting margins in the Private Health Insurance sector. In relation to the recent reports of salary discrepancies by large and small enterprises, the Group has initiated a review of its remuneration operations. The review is in its early stages and it is not possible to reasonably estimate potential outcomes. Notwithstanding the pressure arising in the context of individual businesses, the Group plans to develop continuing, sustainable returns from its investments in its diversified but thematically linked portfolio. The Group will also continue to focus on member, customer and employee value propositions together with community value, for which it is progressing work on the implementation of meaningful and reportable measurement.

Significantly, at the 2019 Annual General Meeting, Australian Unity's members voted to extend the Group's options for raising funds - through the issue of Mutual Capital Instruments. The opportunity to issue these financial instruments was provided by legislative amendments that passed through the Australian Parliament in 2019, which allow mutual organisations to raise permanent capital without compromising their mutual status.

In the context of continuing industry and broader market volatility in key sectors of the Group's operations, Australian Unity will seek to maintain balance sheet resilience and operational flexibility as it continues to pursue the development of the business portfolio and the realisation of strategic ambitions.

The Group's operations are conducted through three business platforms: Independent & Assisted Living; Retail; and Wealth & Capital Markets. Key aspects of the operating, financial and strategic performance of each platform during the half-year to 31 December 2019 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 tax, depreciation and amortisation, interest expense and investment income. It also excludes material non-recurring expenditure and shared services costs. A reconciliation between adjusted EBITDA and profit before income tax from continuing operations is set out in note 3 to the consolidated financial statements.

Independent & Assisted Living

The Independent & Assisted Living (IAL) platform operates retirement communities and provides aged care, allied health and disability services. The platform offers preventative health and chronic disease management services through a wholly owned subsidiary Remedy Healthcare, and direct healthcare services through dental clinics. These businesses are interconnected, seeking to deliver a continuum of care and service that addresses the daily needs of its customers.

Financial performance - Independent & Assisted Living

	Half-year to 31/12/19 $million	Half-year to 31/12/18 $million	Variance
Total segment revenue	**$251.0**	$221.5	13.3%
Operating expenses	**$221.9**	$212.2	(4.6%)
Adjusted EBITDA	**$29.1**	$9.3	212.0%

The IAL platform recorded total segment revenue of $251.0 million for the half-year, representing an increase of 13.3 percent compared to the prior corresponding period (31 December 2018: $221.5 million).

Home Care Services experienced a 10.6 percent increase in revenue to $163.2 million, Health Services was in line with the prior corresponding period at $18.9 million, and Residential Communities increased 21.6 percent to $59.0 million, while Developments increased 57.0 percent to $9.9 million.

IAL's adjusted EBITDA of $29.1 million represented an increase of $19.8 million on the prior corresponding period. In large measure, this increase reflected the continued focus on improving the sustainability of the Home Care Services business.

Home Care Services

Home Care Services continued its financial performance improvement, with an EBITDA gain of $13.6 million over the prior corresponding period. This was achieved through a mix of growth and operational efficiency initiatives. Approximately 1.4 million hours of care were delivered to about 49,000 clients by 3,400 care workers in a challenging operating environment, which included bush fires in NSW and Victoria that affected service delivery throughout November and December.

Operating and financial review (continued)

Independent & Assisted Living (continued)

The business continued to transition some of its disability (predominantly NDIS) customers to alternative service providers during the half-year to 31 December 2019 under a program that was regrettable, but necessary, to ensure the sustainability of the business. In parallel to the reduction of the disability business footprint, there was solid growth in the Home Care Services business, with total Home Care Packages under management reaching 5,258-an increase of 1,097 package clients in the half-year to 31 December 2019.

During the half-year under review the Aboriginal Home Care business unit also delivered strong growth, with approximately 144,000 hours of care delivered to 3,299 clients by 229 care workers. There were 509 Home Care Packages under management, which was an increase of 158 packages in the half-year to 31 December 2019.

Remedy Healthcare

During the half-year under review Remedy Healthcare further extended its allied health 'continuum of care' strategy, consolidating its integration with Home Care Services to deliver more than 8,000 service hours to NSW Home Care Package clients - an increase of 5,559 hours on the prior corresponding period. This helped Remedy Healthcare adapt to an evolving market where its health fund customers in the Private Health Insurance market focused on cost reduction measures to offset high claims volumes, resulting in Health Coaching volume declining 14.9 percent to 1,276 to 31 December 2019 (December 2018: 1,500) and hospital substitution program volumes growing 10.3 percent to 2,211 to 31 December 2019 (December 2018: 2,005).

Dental

Australian Unity continued to operate six dental clinics during the half-year under review. Overall patient visits declined by 2.2 percent from 27,623 in the half-year to 31 December 2018 to 27,008 in the half-year to 31 December 2019, which was primarily due to the disruption caused by the relocation of the South Melbourne clinic to Spring Street, Melbourne in June 2019.

Residential Communities

IAL owns and operates 20 retirement communities across Victoria and NSW, comprising 2,460 independent living units (December 2018: 2,368) following the opening of The Grace Albert Park Lake, South Melbourne in June 2019. Occupancy levels across the portfolio's mature facilities remained high at above 96.0 percent in the half-year under review.

IAL owns and operates seven aged care facilities in Victoria and NSW, incorporating 786 aged care beds (December 2018: 591), following the opening of Sienna Grange in Port Macquarie, NSW in April 2019 and Racecourse Grange, Mornington, Victoria in May 2019. The mature aged care portfolio continued to achieve top-quartile occupancy at 96.5 percent for the half-year to 31 December 2019, led by Campbell Place, Glen Waverley, Victoria, and Peninsula Grange, Mornington, Victoria, which achieved 98.9 percent and 99.1 percent average occupancy respectively.

Development

IAL continued to focus on its development pipeline of aged care and retirement communities during the half-year under review. Three facilities opened during 2019 - Sienna Grange Aged Care in Port Macquarie, NSW; Racecourse Grange Aged Care in Mornington, Victoria, and The Grace Albert Park Lake, South Melbourne, Victoria - and continued to progress through the initial fill stages. In addition to developments underway across the eastern states, IAL is reviewing acquisition opportunities that would provide an immediate growth avenue for both the retirement community and aged care portfolios.

Outlook

IAL continues to orientate the platform around the needs of its customers and the key stakeholders in its customers' health and wellbeing- families, primary carers, communities and government agencies.

In the second half of the financial year, Home Care Services will continue to transition disability customers outside of the Sydney metropolitan area to alternative service providers, while seeking to grow its Home Care Package business.

Home Care Services will continue to collaborate with Remedy Healthcare to expand the allied health service offering across its network. Remedy Healthcare will also seek to expand its hospital-in-the-home services.

Residential Communities will seek to maintain high occupancy levels in a challenging residential aged care market. New sales initiatives, and the resurgent property market in NSW and Victoria, are expected to underpin sales growth in retirement communities.

IAL will continue to actively and constructively participate in the Royal Commission into Aged Care Quality and Safety.

Operating and financial review (continued)

Retail

The Retail platform brings together Australian Unity's private health insurance, banking, broking and general insurance businesses. Focusing on the needs of members and customers and broader community value, the Retail business seeks to provide packages and solutions that contribute to solving affordability challenges and meet the contemporary needs of Australians.

Financial performance - Retail

	Half-year to 31/12/19 $million	Half-year to 31/12/18 $million	Variance
Total segment revenue	**$360.9**	$361.5	(0.2%)
Operating expenses	**$328.4**	$321.1	(2.3%)
Adjusted EBITDA	**$32.5**	$40.4	(19.4%)

The Retail business had a challenging half-year in mixed operating conditions, with adjusted EBITDA down by $7.9 million or 19.4 percent to $32.5 million compared to the prior corresponding period. This result was driven by higher health insurance claims expenses principally due to an under estimation of claims in the prior year. This reflected experience across the sector and resulted in an unfavourable impact to adjusted EBITDA totalling $8.6 million when compared to the prior corresponding period. The banking business continued its strong growth increasing its loan book by 13.8 percent and achieving $1.01 billion in total assets during the half-year.

Total operating expenses were $328.4 million, which was $7.3 million or 2.3 percent higher than the prior corresponding period. This increase reflected an $8.6 million increase in health insurance claims net of risk equalisation, and a $1.3 million decrease in other operating expenses across the Retail platform.

Health insurance

Health insurance offers Australians a vital level of certainty in managing their health over time. Australian Unity's policyholders are insured against a range of costs, including, depending on the cover held, hospital accommodation, theatre fees, prostheses and more, with extras cover extending to treatments such as dental, optical, physiotherapy and chiropractic.

Health fund policyholders (including overseas visitor cover) decreased by 2.6 percent over the half-year to 181,085 at 31 December 2019. This reflected lower industry growth, together with a deliberate strategy to limit distribution through unprofitable channels and further simplification of the product range in line with Federal Government reforms that reduce complexity and are hoped to provide operating cost benefits into the future.

During December 2019, the Minister for Health approved Australian Unity Health Limited's (AUHL) 2020 Premium Round submission with an average increase of 2.79 percent. This was below the announced sector average of 2.92 percent and the lowest average AUHL increase in 19 years. This increase was driven by the growing use of health cover by members; rises in medical device, procedure and supply prices; and increases in the variety of procedures available to policyholders. Additionally, AUHL's commitment to keeping health insurance affordable while delivering value to its members meant it has not passed on all the increase in the underlying healthcare claims costs.

Effective 1 January 2020, AUHL completed the implementation of the mandatory aspects of the Federal Government's reforms of the health insurance sector-the largest in more than a decade. The reforms aimed to increase consumer understanding of, and ability to make the best use of health insurance products. This undertaking required significant resources in the half-year under review, with most private health insurance products altered as a result.

Banking

As at 31 December 2019, Australian Unity Bank had 24,433 customers and its total assets grew by $125.0 million to $1.01 billion (30 June 2019: $886.0 million) during the half-year under review.

Australian Unity Bank continued to focus on delivering quality products and services, with an emphasis on digital delivery. The Gross Loan Portfolio grew by $101.6 million to $852.7 million (30 June 2019: $751.1 million), with annualised growth of 27 percent compared to 13 percent in the prior year and significantly ahead of industry growth of ~3 percent (based on 12 months growth to September 2019).

Operating and financial review (continued)

Retail (continued)

Australian Unity Bank Limited's Issuer Credit Rating was upgraded to 'BBB+' by Standard & Poor's during the reporting period. The bank also implemented a program to comply with the new Banking Executive Accountability Regime, and remained responsive to government, regulatory and community expectations arising from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

Outlook

The outlook for the Retail platform is cautiously positive, notwithstanding headwinds facing the private health insurance sector.

With one of the fastest growing loan books of any Authorised Deposit-Taking Institution (ADI) provider, Australian Unity Bank has established a solid platform for the delivery of customer growth and member value-and with national issues such as trust and affordability concerning the community, there are several opportunities arising from the health insurance and banking adjacencies. The banking business's rebranding, expansion of its distribution footprint and strengthened general insurance offering are elements in Australian Unity's business development strategy. This includes packages of banking and insurance products; innovative solutions to tackling health and housing affordability; and customer-centred digital platforms that assist the co-ordination of essential financial and health insurance related services.

In private health insurance, affordability pressures and changing demography will remain key challenges for the sector. The political environment and the desire of major political parties to lower premiums will require significant consideration and response. Australian Unity would welcome a reform package that meaningfully addressed the underlying drivers of healthcare inflation and the confused incentives in the system. While insurers and some other market participants can, and no doubt will take some action, the sector's ultimate sustainability demands structural and policy reform. Such intervention can only be the domain of legislators; given the millions of healthcare interventions that are funded each year by private insurance, they will have to confront the sustainability of the sector in the medium term.

Wealth & Capital Markets

The Wealth & Capital Markets (W&CM) platform comprises the following business units: Advice; Investments; Life & Super; Property; and Trustees.

The strategic purpose of the W&CM platform is to link Australian Unity's valuable efforts in helping Australians secure their financial wellbeing with the capital and social infrastructure needs of communities.

Financial performance - Wealth & Capital Markets

	Half-year to 31/12/19 $million	Half-year to 31/12/18 $million	Variance
Total segment revenue	**$84.2**	$88.4	(4.7%)
Operating expenses	**$66.0**	$68.3	3.2%
Adjusted EBITDA	**$18.2**	$20.1	(9.7%)

The W&CM platform recorded a 4.7 percent decrease in total segment revenue to $84.2 million for the half-year to 31 December 2019 (31 December 2018: $88.4 million). After adjusting for one-off revenue related to legal settlements in the Life & Super business included in the prior corresponding period, the platform recorded revenue growth across each of its core business streams. Likewise, adjusted EBITDA decreased to $18.2 million, although after adjusting for prior corresponding period one-off revenue and related costs, showed growth of 54.5 percent compared to the prior corresponding period.

The W&CM business manages investments, property assets and developments (and associated debt facilities) and provides advice and trustee services totaling $21.91 billion as at 31 December 2019 (30 June 2019: $20.71 billion).

Investments

The Investments business unit, including its joint venture partners, had funds under management (FUM) of $6.59 billion as at 31 December 2019 (30 June 2019: $6.00 billion). During the half-year, the business experienced positive net flows from retail, middle and institutional markets, with strong inflows for Platypus Asset Management and the Australian Unity Property Income Fund.

The Investments business continued to refine its focus on its core areas of cash, fixed interest, Australian equities and property securities, along with further developing its socially responsible investment platform, with Altius Sustainable Bond Fund achieving five years since inception during the half-year under review.

Operating and financial review (continued)

Wealth & Capital Markets (continued)

Platypus Asset Management outperformed the Australian share market with its flagship portfolio returning 27.4 percent for the year to 31 December 2019 compared to the benchmark return of 23.8 percent for the S&P ASX 300 Accumulation Index. It has returned 16.7 percent per annum for the three years to 31 December 2019 exceeding the benchmark by 6.4 percentage points per annum.

Property

During the half-year under review, the Property business continued to extend its capabilities across the key sectors of commercial and healthcare property, social infrastructure and mortgages, with assets under management (including completed investments) increasing to $3.37 billion at 31 December 2019 (30 June 2019: $2.99 billion). As at 31 December 2019 its multi-year development pipeline stood at $1.00 billion (June 2019: $1.26 billion), and lending and debt facilities managed on behalf of investors (through property funds and its commercial property activities) of $1.54 billion (30 June 2019: $1.59 billion).

The $1.1 billion Herston Quarter development in Brisbane is a key example of the Group's contribution to social infrastructure. Construction of the $390.0 million Surgical, Treatment and Rehabilitation Service building by the Healthcare Property Trust continued during the half-year, with commercial acceptance expected in late 2020. Planning also continued for the other stages of the integrated health precinct to deliver health services and aged care, along with supporting and complementary uses.

Australian Unity's Healthcare Property Trust increased FUM to $1.98 billion (30 June 2019: $1.63 billion) and posted a return of 11.1 percent (wholesale units) for the year to 31 December 2019. During the half-year the fund celebrated 20 years since its establishment and successfully conducted a capital raising of approximately $291.0 million to fund acquisition opportunities. Recent acquisitions by the fund include the purchase of a portfolio of six Queensland aged care properties.

During the half-year the Australian Unity Retail Property Fund completed the sale of its 50.0 percent interest in the Waurn Ponds shopping centre. In addition, investors in the Retail Property Fund and Australian Unity Diversified Property Fund voted to merge the two funds to become the Diversified Property Fund, creating a diversified commercial property fund that is expected to deliver investors greater diversification, lower risk, greater liquidity and increased capacity to raise equity for future developments. As at 31 December 2019, the fund had FUM of $559.7 million and one-year performance of 7.3 percent, as compared to its benchmark of 5.2 percent.

The ASX-listed Australian Unity Office Fund (AOF) made further announcements regarding a cash offer to acquire all units in AOF that had been received from a consortium formed by the Charter Hall and Abacus Groups. Following the initial offer, the offer price increased to $3.04 per unit, with units to be acquired under a trust scheme subject to the approval of unitholders. At the unitholder meeting held on 18 November 2019, the resolutions were not passed by the requisite majority of unitholders and therefore the proposed scheme did not proceed.

Support for the Australian Unity Select Income Fund, a contributory mortgage fund, continued to grow, with the lending portfolio increasing to $232.1 million at 31 December 2019 (30 June 2019: $212.7 million).

During the half-year under review, the Property business worked closely with the IAL platform on the Retirement Communities and Aged Care portfolio. (Refer to the Developments section under IAL for information on properties in that portfolio.)

Life & Super

The Life & Super business continued to be Australia's market leader in investment and funeral bonds and a leading provider of education investment funds, with $2.39 billion in assets under management and administration at 31 December 2019 (30 June 2019: $2.34 billion). Sales for the half-year remained strong at $124.6 million compared to $117.1 million in the prior corresponding period. Based on data from market researchers Plan for Life, as at 30 September 2019 the business remained number one in terms of FUM in the investment bond sector with 27.2 percent of funds under management and in sector inflows for the year to 30 September 2019 with 32.2 percent of inflows. FUM for education solutions increased to $239.5 million (30 June 2019: $229.2 million).

The Life & Super business launched 10Invest - a low-cost investment bond available to direct investors during the period under review. Initial support for this innovative product has been very positive.

Support for Life & Super's broader investment and funeral bond products continued to be received from financial advisers, particularly from the independent financial adviser network. In addition, the business continued to work with industry superannuation funds to broaden the availability of its products through this large and growing network.

With more than $689.4 million in FUM (30 June 2019: $699.5 million) and 90,000 customers, Australian Unity also has a leading position in the pre-paid funeral market via its specialised business, Funeral Plan Management.

Operating and financial review (continued)

Wealth & Capital Markets (continued)

Trustees

Significant work continued to further extend the range of trustee services and solutions provided to clients nationally with new tribunal and court appointments across various states, and growing referral networks. Funds under management and trusteeship increased to $343.8 million (30 June 2019: $325.2 million) and included $130.9 million invested in three common investment funds established for the benefit of trustee clients.

Demand for estate planning, protected person, and taxation services was strong during the half-year as the support for these services through the network of advisers, accountants and other centres of influence continued to increase. Growth was also seen in the Residents Trust Fund (RTF) business, with strong relationships with providers across this area.

The Trustees business continues to focus on its business-to-business capabilities, particularly the evolution of national legal partnerships and philanthropic opportunities, and the business's strong reputation for consistently positive client experience nationally.

Advice

The Advice business helps clients improve their financial position and ultimately achieve their long-term lifestyle goals. The continued change in the regulatory regime for advice services and resulting increased complexity, continued to reinforce the growing need in the community for valued providers of quality advice services. The Advice business seeks growth in this context as a differentiated provider within a mutual organisation.

The number of advisers (including limited authorised representatives) at 31 December 2019 was 191 (30 June 2019: 184), with the increase including recently recruited self-employed practices, with a strong recruitment pipeline in place. Funds under advice for the half-year increased to $6.68 billion (30 June 2019 $6.20 billion), with this including strong growth in separately managed accounts to $280.0 million (30 June 2019 $201.0 million).

As part of the review of non-core businesses, the Group chose to exit the Corporate Risk Insurance business, with the business sold to the former joint venture partner.

Outlook

With a broad yet focused range of businesses, and a material and growing presence in the funding, development and management of Australia's social infrastructure, the period ahead should continue to provide opportunities for the W&CM platform to offer customers valuable investment and financial opportunities, and to deliver important benefits to many areas of the community.

The Herston Quarter project will continue as a key focus of the platform as it unfolds this unique example of a response to Australia's social infrastructure challenge. Other areas of social infrastructure need and asset management are also being explored. The platform's ability to identify assets and partnerships, and access debt and equity from a more diverse range of sources, will be important as it looks to launch further initiatives in social infrastructure, sustainable and responsible investing.

The W&CM platform is well positioned to benefit from the need for better-planned wealth accumulation, the challenges and opportunities presented by Australia's ageing population, and the ongoing changes to the regulatory landscape and community expectations.

Matters subsequent to the end of the half-year

After the end of the reporting period, the Group sold the assets (mainly customer contracts) of its general insurance broking services business to PSC Insurance Brokers for $1,564,000. The Group also sold the assets of its finance broking services business, being the rights to received trailing commissions, to Trail Homes for $1,792,000. Total gain on sale of these assets before tax was $3,198,000.

The board is not aware of any other matter or circumstance arising since 31 December 2019 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 *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, issued by the Australian Securities and Investments Commission. Unless otherwise stated, amounts in the Directors' report and Financial statements have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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

Peter Promnitz
Chair

Rohan Mead
Group Managing Director & CEO

Melbourne
26 February 2020

Auditor's Independence Declaration

As lead auditor for the review of Australian Unity Limited for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Andrew Cronin
Partner
PricewaterhouseCoopers

Melbourne
26 February 2020

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

	Notes	Half-year 2019 $'000	Half-year 2018 $'000
Revenue and other income	4	**764,954**	699,440
Expenses, excluding finance costs	5	**(731,099)**	(689,120)
Operating profit		**33,855**	10,320
Finance costs	5	**(20,810)**	(9,000)
Share of net profit of joint ventures		**141**	165
Profit before income tax		**13,186**	1,485
Income tax benefit/(expense)	6	**(4,794)**	11,799
Profit for the half-year		**8,392**	13,284
Other comprehensive income			
Items that may be reclassified to profit or loss			
Cash flow hedges		**4,407**	(847)
Income tax relating to this item		**(1,322)**	280
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations		**422**	(163)
Other comprehensive income for the half-year, net of tax		**3,507**	(730)
Total comprehensive income for the half-year		**11,899**	12,554
Profit for the half-year is attributable to:			
Members of Australian Unity Limited	15	**8,392**	13,284
Total comprehensive income for the half-year is attributable to:			
Members of Australian Unity Limited		**11,899**	12,554

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 2019

	Notes	31 December 2019 $'000	30 June 2019 $'000
ASSETS			
Current assets			
Cash and cash equivalents	7	**1,008,231**	944,767
Trade and other receivables		**115,369**	111,821
Current tax assets		**16,683**	-
Loans and advances	8	**20,002**	14,977
Financial assets at fair value through profit or loss	9	**2,081,762**	1,982,707
Other financial assets at amortised cost		**64,837**	56,904
Other current assets		**38,097**	31,316
Total current assets		**3,344,981**	3,142,492
Non-current assets			
Loans and advances	8	**822,178**	725,820
Financial assets at fair value through profit or loss	9	**6,990**	21,446
Investments in associates and joint ventures		**14,870**	15,409
Investment properties	13	**1,391,612**	1,327,551
Property, plant and equipment		**277,900**	250,568
Right-of-use assets	14	**121,627**	-
Intangible assets		**312,733**	323,764
Other non-current assets		**11,127**	9,566
Total non-current assets		**2,959,037**	2,674,124
Total assets		**6,304,018**	5,816,616
LIABILITIES			
Current liabilities			
Trade and other payables		**182,864**	190,409
Borrowings	10	**1,039,433**	815,568
Lease liabilities	14	**17,869**	-
Current tax liabilities		**-**	19,457
Provisions		**113,161**	119,929
Other current liabilities	11	**1,325,566**	1,275,843
Benefit fund policy liabilities		**364,890**	364,276
Total current liabilities		**3,043,783**	2,785,482
Non-current liabilities			
Borrowings	10	**348,398**	303,285
Lease liabilities	14	**115,080**	-
Deferred tax liabilities		**97,058**	86,048
Provisions		**5,129**	4,825
Other non-current liabilities		**1,236**	6,042
Benefit fund policy liabilities		**1,968,446**	1,912,541
Total non-current liabilities		**2,535,347**	2,312,741
Total liabilities		**5,579,130**	5,098,223
Net assets		**724,888**	718,393
EQUITY			
Members' balances		**255,919**	255,919
Reserves		**6,438**	2,931
Retained earnings		**462,531**	459,543
Equity attributable to members of Australian Unity Limited		**724,888**	718,393
Total equity		**724,888**	718,393

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

	Notes	Members' balances $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2018		255,919	5,409	412,229	673,557
Adjustment on adoption of AASB 15, net of tax		-	-	(4,511)	(4,511)
Profit for the half-year		-	-	13,284	13,284
Other comprehensive income					
- Cash flow hedges		-	(567)	-	(567)
- Post-employment benefits		-	(163)	-	(163)
Total comprehensive income		-	(730)	8,773	8,043
Balance at 31 December 2018		255,919	4,679	421,002	681,600
Balance at 1 July 2019		**255,919**	**2,931**	**459,543**	**718,393**
Adjustment on adoption of AASB 16, net of tax	2(b)	**-**	**-**	**(5,404)**	**(5,404)**
Profit for the half-year		**-**	**-**	**8,392**	**8,392**
Other comprehensive income					
- Cash flow hedges		**-**	**3,085**	**-**	**3,085**
- Post-employment benefits		**-**	**422**	**-**	**422**
Total comprehensive income		**-**	**3,507**	**2,988**	**6,495**
Balance at 31 December 2019		**255,919**	**6,438**	**462,531**	**724,888**

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

	Notes	Half-year 2019 $'000	2018 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**1,083,083**	1,021,323
Payments to suppliers and employees (inclusive of goods and services tax)		**(815,770)**	(721,353)
Health insurance claims and benefits paid		**(287,256)**	(271,118)
Net payments of loans asset		**(101,499)**	(48,204)
Net receipts of deposits liability		**124,573**	56,858
Interest received		**18,835**	19,828
Dividends and distributions received		**3,766**	10,398
Interest and finance charges paid		**(22,188)**	(14,355)
Income tax payments		**(25,003)**	(29,013)
Net cash inflow/(outflow) from operating activities		**(21,459)**	24,364
Cash flows from investing activities			
Payments for investments		**(563,650)**	(404,706)
Payments for investment properties		**(48,728)**	(68,793)
Payments for property, plant and equipment		**(44,338)**	(13,910)
Payments for intangible assets		**(8,635)**	(9,750)
Payments for investments in associates and joint ventures		**-**	(2,850)
Receipts from investments		**558,437**	367,392
Receipts from joint venture's capital returns		**-**	7,284
Dividends received from joint ventures		**578**	470
Net cash outflow from investing activities		**(106,336)**	(124,863)
Cash flows from financing activities			
Receipts from borrowings		**171,184**	2,861
Payments of borrowings		**(21,728)**	(31,288)
Net receipts from refundable lease deposits and resident liabilities		**41,803**	31,348
Net cash inflow from financing activities		**191,259**	2,921
Net increase/(decrease) in cash and cash equivalents		**63,464**	(97,578)
Cash and cash equivalents at the beginning of the half-year		**944,767**	1,011,024
Cash and cash equivalents at the end of the half-year	7	**1,008,231**	913,446

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

Notes to the consolidated financial statements

		Page
Basis of preparation of half-year report		15
1	Accounting policies	15
2	The Impacts of AASB 16 adoption	17
How numbers are calculated		19
3	Segment information	19
4	Revenue and other income	22
5	Expenses	25
6	Income tax	25
Financial assets and liabilities		26
7	Financial assets - Cash and cash equivalents	26
8	Financial assets - Loans and advances	27
9	Financial assets at fair value through profit or loss	28
10	Financial liabilities - Borrowings	29
11	Other current liabilities	31
12	Fair value measurements	32
Non-financial assets and liabilities		36
13	Non-financial assets - Investment properties	36
14	Leases	37
Group structure		38
15	Reconciliation of profit attributable to members of Australian Unity Limited	38
Unrecognised items		39
16	Commitments	39
17	Contingencies	39
18	Events occurring after the reporting period	40
Other information		40
19	Related party transactions	40

Basis of preparation of half-year report

The interim financial report for the half-year reporting period ended 31 December 2019 has been prepared in accordance with Australian 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 2019 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*.

1 Accounting policies

(a) Implementation of new and amended accounting standards which are mandatory for the first time

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 and amended accounting standards which have become mandatory for the interim reporting period since its previous financial year as set out below. The application of these standards has no impact to the amounts reported in the Group's financial statements, except for AASB 16 as disclosed in notes 1(b) and 2.

AASB	Title
AASB 16	Leases
AASB 2017-4	Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments
AASB 2017-6	Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation
AASB 2017-7	Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures
AASB 2018-1	Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle
AASB 2018-2	Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement
AASB 2018-3	Amendments to Australian Accounting Standards – Reduced Disclosure Requirements

(b) Implementation of AASB 16 Leases

AASB 16 primarily impacts accounting by lessees, while accounting by lessors is not significantly changed. AASB 16 requires the recognition of right-of-use assets and lease liabilities on balance sheet with the amortisation of the assets and finance costs of the liabilities to be charged to profit or loss. The Group has implemented AASB 16 from 1 July 2019 and the relevant accounting policies have been amended to comply with the new requirements as described below.

Group as a lessee
The Group leases commercial buildings, computer equipment and motor vehicles under non-cancellable lease contracts. While lease contracts are typically made for fixed periods, they have varying terms and renewal rights. On renewal, the terms of the leases can be renegotiated.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Initial measurement
Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option; and
- lease payments to be made under reasonably certain extension options.

1 Accounting policies (continued)

(b) Implementation of AASB 16 Leases (continued)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the Group's incremental borrowing rate is used. The incremental borrowing rate is the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. The Group considers any recent external borrowing received by the Group's entities, including any changes in financing conditions since the borrowing is received. The Group applies a three-month bank bill swap curve plus a margin that reflects the credit risk to determine the incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets mainly consist of computer equipment.

Subsequent measurement
Subsequent to the initial recognition, lease liabilities are adjusted by the interest charges, lease payments made and any re-measurement to reflect reassessment or lease modifications.

When the Group is exposed to potential future increases in variable lease payments based on an index or rate, these are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Subsequent to the initial recognition, right-of-use assets are measured at cost less accumulated depreciation and any accumulated impairment losses, and adjusted for any re-measurement of the lease liability.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Extension and termination options
Extension and termination options are included in a number of leases. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term for accounting, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Factors to be considered include, but are not limited to, historical lease duration, costs and business disruption required to replace the leased assets, the amount of termination penalties and remaining value of any leasehold improvements. Extension options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The extension options in buildings and motor vehicles leases, if any, have not been included in the lease liability as the Group could replace the leases without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and is within the control of the lessee.

Group as a lessor
As lessor, leases are classified as either an operating lease or a finance lease. Income from operating leases is recognised on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature. Assets held under a finance lease are initially recognised on the balance sheet at an amount equal to the net investment in the lease. Finance income is recognised over the lease term, based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the lease.

1 Accounting policies (continued)

(b) Implementation of AASB 16 Leases (continued)

Where the Group is an intermediate lessor in a sublease transaction, the sublease is accounted for by reference to the respective head lease. If the head lease is a short-term lease, the sublease income is recognised as operating lease income over the lease term. For an asset that is subleased, the head lease does not qualify to be a lease of a low-value asset.

Accounting prior to 1 July 2019

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Group as a lessee
Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight line basis over the period of the lease.

Group as a lessor
Income from operating leases is recognised on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

(c) Comparative information

To enhance comparability with current year disclosures, certain comparative amounts in the financial statements have been reclassified. These reclassifications have no impact on the Group's profit or net assets.

2 The Impacts of AASB 16 adoption

(a) Changes in accounting policy

As disclosed in note 1(b), the Group has adopted AASB 16 *Leases* from 1 July 2019, but has not restated comparatives for the previous reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the requirements of AASB 16 are therefore recognised in the opening balance sheet on 1 July 2019.

The following section summarises the impacts of the adoption of AASB 16 to the Group's accounting policies and its recognition and measurement of assets and liabilities related to the leases.

(i) Practical expedients applied

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review - there were no onerous contracts as at 1 July 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made in applying AASB 117 *Leases* and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

(ii) Recognition and measurement of lease liabilities

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of AASB 117. These liabilities were measured at the present value of the outstanding lease payments, discounted using the Group's incremental borrowing rates. For the initial application, the weighted average of the Group's incremental borrowing rates applied to the lease liabilities on 1 July 2019 over a variety of terms was 4.99% per annum.

2 The Impacts of AASB 16 adoption (continued)

(a) Changes in accounting policy (continued)

The following table is a reconciliation of the Group's lease commitments and liabilities following the application of AASB 16 as at 1 July 2019:

	1 July 2019 $'000
Operating lease commitments disclosed as at 30 June 2019	201,734
Less: short-term and low-value leases not recognised as a liability	(11,014)
Leases for which the liabilities are recognised	190,720
Discounted using the lessee's incremental borrowing rates at the date of initial application	(53,941)
Lease liabilities recognised as at 1 July 2019	136,779
Maturity profile of the lease liabilities:	
Current	17,620
Non-current	119,159
	136,779

(iii) Recognition and measurement of right-of-use assets

The associated right-of-use assets were recognised and measured at the amount equal to the lease liabilities as if AASB 16 had been applied since the commencement of the leases but discounted using the Group's incremental borrowing rate as of 1 July 2019. The right-of-use assets, by asset class, is disclosed in note 14.

(b) Impacts on the accounts as at 1 July 2019

(i) Reconciliation of accounts impacted by AASB 16

The following table is a reconciliation of the carrying amount of the accounts in the Group's balance sheet which were impacted by the application of AASB 16 as at 1 July 2019:

Accounts	Carrying amount 30 June 2019 $'000	Net assets Addition/(deduction) $'000	Carrying amount 1 July 2019 $'000	Retained earnings Addition/(deduction) 1 July 2019 $'000
Increase in assets				
Right-of-use assets	-	127,208	127,208	127,208
Sublease receivable	-	1,850	1,850	1,850
Deferred tax assets	114,643	41,034	155,677	41,034
Total		170,092		170,092
Increase in liabilities				
Lease liabilities	-	(136,779)	(136,779)	(136,779)
Deferred tax liabilities	(200,691)	(38,717)	(239,408)	(38,717)
Total		(175,496)		(175,496)
Reduction to Net Assets and Retained earnings		(5,404)		(5,404)

How numbers are calculated

This section provides additional information about those individual line items in the financial statements that the directors consider most relevant in the context of the operations of Australian Unity Limited and the entities it controlled (the Group).

3 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 business platforms and the Group's corporate functions.

During the 2018 financial year, the Group implemented a number of organisational changes as part of a Group-wide transformation program aimed at reorientation of the front-line operations toward customer and member-facing service delivery alongside the mobilisation of central strategic capabilities (including but not limited to digital, business insights, safety and risk management) to enable sustainable growth and innovation across the Group portfolio.

Specifically, from January 2018, the Group operated three customer-facing platforms which are Independent & Assisted Living, Retail and Wealth & Capital Markets. This was followed during the 2019 financial year with the transfer of a number of business support activities from individual business lines to, and continued investment in new strategic capabilities in, the Corporate functions segment where they can be better leveraged across the integrated portfolio. Consequently, the Corporate functions adjusted EBITDA includes the operating costs of the transferred business support activities.

The table below summarises the reportable operating segments.

Independent & Assisted Living	Provision of retirement communities, aged care facilities, home care and disability services and health services.
Retail	Provision of health insurance, operation of Approved Deposit-taking Institution, and finance and general insurance broking services.
Wealth & Capital Markets	Management of investment funds in property, mortgages, Australian equities, international equities, fixed interest and bonds. Provision of financial planning, estate planning and trustee services.
Corporate functions	Provision of shared services, fraternal activities, management of properties and other strategic investments and group liquidity.

3 Segment information (continued)

(b) Segment information

The segment information provided to the Group Executive Committee for the reportable segments for the half-year ended 31 December 2019 is as follows:

Half-year ended 31 December 2019	Independent & Assisted Living $'000	Retail $'000	Wealth & Capital Markets $'000	Corporate functions $'000	Total $'000
Total segment revenue	251,042	360,906	84,244	(7,572)	688,620
Inter-segment revenue	(4,256)	-	-	4,256	-
Revenue from external customers	246,786	360,906	84,244	(3,316)	688,620
Adjusted EBITDA	29,154	32,543	18,172	(37,225)	42,644
Depreciation and amortisation					(24,102)
Interest expense					(21,001)
Investment income					6,116
Income tax benefit					4,735
Profit from operations					8,392
Share of profit after tax from joint ventures (included in adjusted EBITDA)					141
Total segment assets include:					
Income producing assets	128,836	1,286,996	63,852	207,517	1,687,201
Working capital assets	(28,708)	57,634	57,690	47,847	134,463
Non-interest bearing assets	652,488	9,581	158,505	216,728	1,037,302
Total segment assets	752,616	1,354,211	280,047	472,092	2,858,966
Total segment liabilities include:					
Borrowings and net inter-segment lending	175,731	938,678	49,741	362,347	1,526,497
Working capital liabilities	156,401	163,693	36,434	60,595	417,123
Non-interest bearing liabilities	129,813	16,183	23,239	21,223	190,458
Total segment liabilities	461,945	1,118,554	109,414	444,165	2,134,078

3 Segment information (continued)

(b) Segment information (continued)

The segment information provided to the Group Executive Committee for the reportable segments for the half-year ended 31 December 2018 is as follows:

Half-year ended 31 December 2018	Independent & Assisted Living $'000	Retail $'000	Wealth & Capital Markets $'000	Corporate functions $'000	Total $'000
Total segment revenue	221,507	361,484	88,391	(7,055)	664,327
Inter-segment revenue	(4,678)	-	-	4,678	-
Revenue from external customers	216,829	361,484	88,391	(2,377)	664,327
Adjusted EBITDA	9,344	40,395	20,126	(39,547)	30,318
Depreciation and amortisation					(14,605)
Interest expense					(9,005)
Investment income					6,330
Income tax benefit					246
Profit from operations					13,284
Share of profit after tax from joint ventures (included in adjusted EBITDA)					165
As at 30 June 2019					
Total segment assets include:					
Income producing assets	56,398	1,221,357	60,327	148,729	1,486,811
Working capital assets	2,046	50,455	54,222	20,490	127,213
Non-interest bearing assets	614,076	11,180	149,955	101,019	876,230
Total segment assets	672,520	1,282,992	264,504	270,238	2,490,254
Total segment liabilities include:					
Borrowings and net inter-segment lending	148,291	811,161	13,851	131,267	1,104,570
Working capital liabilities	110,215	209,938	52,861	113,213	486,227
Non-interest bearing liabilities	118,916	14,846	26,432	20,870	181,064
Total segment liabilities	377,422	1,035,945	93,144	265,350	1,771,861

(c) Other segment information

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 10 *Consolidated Financial Statements* 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,* these items are disclosed on a gross basis within the consolidated financial statements.

Adjusted EBITDA

Management assesses the performance of the operating segments based on a measure of adjusted EBITDA. This measurement basis excludes the effects of tax, depreciation and amortisation, interest expense and investment income. It also excludes material non-recurring expenditure and shared services costs.

3 Segment information (continued)

(c) Other segment information (continued)

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

	Half-year 2019 $'000	Half-year 2018 $'000
Adjusted EBITDA	**42,644**	30,318
Depreciation and amortisation expense:		
Depreciation and amortisation expense (note 5)	**(23,956)**	(14,485)
Merger and acquisition expenses	**(2)**	(2)
Other	**(144)**	(118)
	(24,102)	(14,605)
Interest expense		
Finance costs (note 5)	**(20,810)**	(9,000)
Other	**(191)**	(5)
	(21,001)	(9,005)
Investment income:		
Dividends and distributions (note 4)	**3,788**	10,816
Loss on investments in financial instruments (note 4)	**(606)**	(3,364)
Other interest income (note 4)	**2,776**	3,777
Property development distributions included in adjusted EBITDA	**-**	(4,962)
Other	**158**	63
	6,116	6,330
Profit before income tax attributable to members of Australian Unity Limited (note 15)	**3,657**	13,038
Profit/(loss) before income tax of benefit funds (note 15)	**9,529**	(11,553)
Profit before income tax	**13,186**	1,485

4 Revenue and other income

The Group operates in Australia and generates revenue through its business platforms that operate private health insurance, banking services, finance and general insurance broking services, retirement communities, aged care facilities, home care and disability services, health services, investment funds management, financial planning, estate planning and trustee services. As the Group operates diverse businesses, it applies a number of accounting standards for the revenue recognition.

The Group applied AASB 15 *Revenue from contracts with customers* for its recognition of revenue, except for revenue generated from insurance contracts, government grants and subsidies, financial instruments and lease contracts that are accounted for under the other accounting standards. Revenue recognised under AASB 15 is presented under Revenue from services in the below table, except for government grants and subsidies which revenue is accounted for under AASB 120.

4 Revenue and other income (continued)

The following is revenue and other income from operations:

	Half-year 2019 $'000	2018 $'000
Health insurance net premium revenue	**342,579**	342,775
Revenue from services		
Government grants and subsidies funding aged care, home and disability services	**88,421**	88,358
Independent and assisted living services and other fees	**126,408**	99,401
Management and performance fees revenue	**42,394**	40,829
Brokerage and commission	**31,607**	31,758
Healthcare services revenue	**14,610**	14,423
	303,440	274,769
Interest income of bank	**15,991**	15,864
Investment earnings		
Other interest income	**2,776**	3,777
Dividends and distributions	**3,788**	10,816
Loss on investments in financial instruments	**(606)**	(3,364)
Fair value gains on investment property	**15,333**	6,833
	21,291	18,062
Benefit funds income	**71,450**	26,907
Other income	**10,203**	21,063
	764,954	699,440

Disaggregation of revenue from contracts with customers is prepared based on the customer type and contract type for each of the operating segments, as this is considered to depict how the nature, timing and uncertainty of the Group's revenue and cash flows are affected by economic factors. The majority of the Group's revenue is fee for service and is recognised over the time when the services are rendered. Certain types of revenue, such as performance fees, commission and success fees, are recognised at a point in time, but the amount is immaterial.

4 Revenue and other income (continued)

Disaggregation of revenue from services for each business segment for the half-year ended 31 December 2019 and reconciliation of Revenue and other income to Revenue from external customers in segment reporting are presented in the below table:

	Independent & Assisted Living $'000	Retail $'000	Wealth & Capital Markets $'000	Corporate Functions $'000	Total $'000
Health insurance net premium revenue	-	342,579	-	-	342,579
Revenue from services					
Government grants and subsidies funding aged care, home and disability services	88,421	-	-	-	88,421
Independent & assisted living services and other fees	127,411	-	(15)	(988)	126,408
Management and performance fees revenue	-	-	44,713	(2,319)	42,394
Brokerage and commission	1,623	2,016	27,968	-	31,607
Healthcare services revenue	14,619	-	-	(9)	14,610
	232,074	2,016	72,666	(3,316)	303,440
Interest income of bank	-	15,991	-	-	15,991
Investment earnings					
Other interest income	762	324	132	1,558	2,776
Dividends and distributions	(451)	3,637	595	7	3,788
Gain/(loss) on investments in financial instruments	(672)	(60)	374	(248)	(606)
Fair value gains on investment property	13,333	-	2,000	-	15,333
	12,972	3,901	3,101	1,317	21,291
Benefit funds income	-	-	71,450	-	71,450
Other income	1,654	479	7,626	444	10,203
Revenue and other income	246,700	364,966	154,843	(1,555)	764,954
Reconciliation to revenue from external customers in segment reporting					
Items added to/(excluded from) the segment revenue					
Dividends and distributions	451	(3,637)	(595)	(7)	(3,788)
Other investment income	(90)	(264)	(506)	(1,310)	(2,170)
Other items included in adjusted EBITDA	(275)	(159)	1,952	(444)	1,074
Revenue from benefit funds	-	-	(71,450)	-	(71,450)
	86	(4,060)	(70,599)	(1,761)	(76,334)
Revenue from external customers in segment reporting	246,786	360,906	84,244	(3,316)	688,620

5 Expenses

Expenses, excluding finance costs, classified by nature are as follows:

	Half-year 2019 $'000	2018 $'000
Commission expense	**26,402**	28,930
Communication costs	**3,636**	4,924
Computer and equipment costs	**15,482**	15,174
Depreciation and amortisation expense	**23,956**	14,485
Employee benefits expense	**251,302**	249,041
Expenses in relation to benefit funds	**61,921**	38,460
Fund manager and administration fees	**10,141**	11,199
Health insurance claims expense	**320,688**	304,653
Health insurance claims recoveries - Net Risk Equalisation Special Account	**(41,883)**	(34,476)
Interest expense of bank	**6,242**	6,038
Legal and professional fees	**8,467**	8,569
Marketing expenses	**6,356**	5,749
Occupancy costs	**10,106**	10,951
Other expenses	**28,283**	25,423
	731,099	689,120
Depreciation and amortisation		
Depreciation of property, plant and equipment	**5,859**	3,534
Depreciation of right-of-use assets	**7,290**	-
Amortisation of intangible assets	**10,807**	10,951
	23,956	14,485
Finance costs		
Interest and finance charges on borrowings	**11,627**	9,266
Notional interest on leases and related accounts	**9,902**	-
Total interest and finance charges	**21,529**	9,266
Capitalisation of borrowing interest	**(719)**	(266)
Finance costs expensed	**20,810**	9,000

6 Income tax

(a) Income tax expense/(benefit)

	Half-year 2019 $'000	2018 $'000
Current tax	**(6,613)**	(1,471)
Current tax - benefit funds	**5,083**	14,374
Deferred tax	**9,885**	2,270
Deferred tax - benefit funds	**7,242**	(24,704)
Adjustments for current tax of prior periods	**(6,500)**	(1,045)
Adjustments for current tax of prior periods - benefit funds	**(2,796)**	(1,223)
Other	**(1,507)**	-
	4,794	(11,799)
Deferred income tax expense/(benefit) included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	**3,545**	(25,532)
Increase in deferred tax liabilities	**13,582**	3,098
	17,127	(22,434)

6 Income tax (continued)

(b) Reconciliation of income tax expense/(benefit) to prima facie tax payable

	Half-year 2019 $'000	2018 $'000
Profit before income tax	**13,186**	1,485
Less: loss/(profit) in benefit funds	**(9,529)**	11,553
Profit before income tax for the period	**3,657**	13,038
Tax at the Australian tax rate of 30% (2019: 30%)	**1,097**	3,911
Non-assessable income	**(3,945)**	(3,786)
Other assessable amounts	**113**	-
Non-deductible expenditures	**608**	409
Other deductible expenditures	**(1,092)**	(177)
Under/(over) provision in prior years	**265**	(352)
Tax credits	**(194)**	(251)
Tax in benefit funds	**9,529**	(11,553)
Other	**(1,587)**	-
Income tax expense/(benefit)	**4,794**	(11,799)

The income tax results for the six months to 31 December 2019 and comparative period included favourable non-temporary differences arising from the Group's retirement community loans received from village residents which is non-assessable for tax purposes.

Financial assets and liabilities

7 Financial assets - Cash and cash equivalents

	31 December 2019 $'000	30 June 2019 $'000
Cash at bank and on hand	**28**	66
Bank balances	**35,144**	67,694
Deposits at call	**973,059**	877,007
	1,008,231	944,767

The balance of cash and cash equivalents as at 31 December 2019 included the Parent Entity's accounts totalling $214,376,000 (30 June 2019: $151,757,000) and amounts held by benefit funds totalling $393,998,000 (30 June 2019: $411,724,000).

8 Financial assets - Loans and advances

	31 December 2019 $'000	30 June 2019 $'000
Current		
Mortgage loans	**22,119**	19,442
Personal loans	**4,939**	6,053
Provision for impairment	**(11,056)**	(10,518)
Advances	**4,000**	-
Total - current	**20,002**	14,977
Non-current		
Mortgage loans	**820,977**	724,004
Personal loans	**4,647**	1,996
Provision for impairment	**(3,446)**	(4,180)
Advances	**-**	4,000
Total - non-current	**822,178**	725,820
Total loans and advances	**842,180**	740,797

(a) Mortgage loans

The mortgage loans are receivable by a controlled entity and by benefit funds managed by a controlled entity and are secured on real property. These loans mature at various dates up to 31 December 2049 and earn interest at annual interest rates between 2.94% and 7.00% (2019: between 3.59% and 7.00%).

(b) Personal loans

The personal loans mature at various dates up to 30 November 2025 and earn interest at annual rates between 4.57% and 15.18% (2019: between 4.57% and 15.19%).

(c) Provision for impairment

The provision for impairment is related to the mortgage and personal loans provided by the Group's authorised deposit-taking institution.

(d) Past due but not impaired

At 31 December 2019, the current portion of loans and advances that were past due but not impaired amounted to $18,344,000 (30 June 2019: $26,935,000). These relate to a number of borrowers with no recent history of default.

(e) Fair value

The fair value of current and non-current loans and advances are provided in note 12.

9 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss consist of the following:

	31 December 2019 $'000	30 June 2019 $'000
Securities held by benefit funds	**1,917,817**	1,837,874
Securities held by subsidiaries	**170,935**	166,279
	2,088,752	2,004,153

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 2019 $'000	30 June 2019 $'000
Equity trusts	**1,330,467**	1,242,599
Fixed interest and other debt security trusts	**516,901**	506,747
Mortgage trusts	**19,245**	25,743
Property syndicates and trusts	**51,204**	62,785
	1,917,817	1,837,874

(b) Securities held by subsidiaries comprise the following:

	31 December 2019 $'000	30 June 2019 $'000
Equity trusts	**25,124**	22,425
Fixed interest and other debt security trusts	**128,284**	123,931
Mortgage trusts	**3,386**	3,283
Property syndicates and trusts	**14,141**	16,640
	170,935	166,279

(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 2019 $'000	30 June 2019 $'000
Current	**2,081,762**	1,982,707
Non-current	**6,990**	21,446
	2,088,752	2,004,153

10 Financial liabilities - Borrowings

	31 December 2019 $'000	30 June 2019 $'000
Current		
Secured interest bearing liabilities		
Mortgage offset savings accounts	**119,646**	95,494
Retirement Village Investment Notes	**19,961**	5,423
	139,607	100,917
Secured non-interest bearing liabilities		
Retirement Village Investment Notes	**15**	16,320
Unsecured interest bearing liabilities		
Series B Australian Unity Bonds		
Face value	**71,326**	-
Valuation at amortised cost	**(387)**	-
At amortised cost	**70,939**	-
Call deposits	**450,540**	419,173
Term deposits	**345,835**	274,058
Development finance loans	**27,397**	-
Loan payable to related entity	**5,100**	5,100
Total unsecured interest bearing liabilities	**899,811**	698,331
Total current borrowings	**1,039,433**	815,568
Non-current		
Secured interest bearing liabilities		
Retirement Village Investment Notes	**18,401**	19,961
Unsecured interest bearing liabilities		
Series B Australian Unity Bonds		
Face value	**-**	250,000
Valuation at amortised cost	**-**	(2,036)
At amortised cost	**-**	247,964
Series C Australian Unity Bonds		
Face value	**115,019**	-
Valuation at amortised cost	**(2,771)**	-
At amortised cost	**112,248**	-
Series D Australian Unity Bonds		
Face value	**207,000**	-
Valuation at amortised cost	**(3,929)**	-
At amortised cost	**203,071**	-
Term deposits	**14,678**	17,401
Development finance loans	**-**	17,959
Total unsecured interest bearing liabilities	**329,997**	283,324
Total non-current borrowings	**348,398**	303,285
Total borrowings	**1,387,831**	1,118,853

10 Financial liabilities - Borrowings (continued)

(a) Series B Australian Unity Bonds

On 15 December 2015, the Company issued 2,500,000 Series B Australian Unity Bonds - Tranche 1 of $100 each pursuant to the prospectus dated 9 November 2015, raising $250,000,000. Series B Australian Unity Bonds are unsubordinated and unsecured simple corporate bonds that are listed on the Australian Securities Exchange (code: AYUHB). The bonds have a five-year term maturing on 15 December 2020 and bear interest at the three month bank bill rate (BBSW) plus a margin of 2.80% per annum. The interest is payable quarterly in arrears on 14 January, 14 April, 14 July and 14 October each year.

As specified in the prospectus, the proceeds from the issue were used to refinance the $120,000,000 Australian Unity Notes previously issued, partly finance the acquisition of Home Care NSW and for general corporate purposes.

The bonds are redeemable by the Company prior to their maturity date for certain reasons related to taxation, a change of control or when less than 10% of the bonds remain on issue. An early redemption payment is applied pursuant to the prospectus. Bond holders have the right to require early redemption through a resolution only on the occurrence of a change of control.

Under the terms of the Series B Australian Unity Bonds, the Company is required to maintain a Covenant Gearing Ratio of less than 50% as at 30 June and 31 December each year. The Covenant 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 ratio is calculated based on the financial position of the Group, excluding the Group's authorised deposit-taking institution and benefit funds. Interest bearing liabilities and guarantees are further reduced by the Company's unencumbered cash and cash equivalents. Junior Ranking Obligations, if any, also reduce interest bearing liabilities and guarantees but increase total equity in the calculation. Junior Ranking Obligations represent equity or subordinated debt of the Company which would, in a winding up situation, rank behind the Company's obligations under the Series B Australian Unity Bonds. The Covenant Gearing Ratio is determined by reference to the accounts prepared on the basis of the Australian Accounting Standards in place as at the date of the Base Prospectus. Therefore, the impact of the newly-adopted AASB 16 *Leases* in the 2019 financial year is excluded from the calculation of Covenant Gearing Ratio. As at 31 December 2019, the Covenant Gearing Ratio was 31% (30 June 2019: 22%).

In September 2019, a reinvestment offer was made to all eligible holders of Series B Australian Unity Bonds to subscribe for the Series C and Series D Australian Unity Bonds issued by the Company on 15 October 2019 (refer to the below note) and fund their subscriptions by selling their Series B Australian Unity Bonds to the Company. As a result of the reinvestment offer, 1,786,743 Series B Australian Unity Bonds were sold to the Company.

The remaining 713,257 Series B Australian Unity Bonds will be redeemed for cash on their maturity date of 15 December 2020.

(b) Series C and Series D Australian Unity Bonds

On 15 October 2019, the Company issued 1,150,192 Series C and 2,070,000 Series D Australian Unity Bonds - Tranche 1 of $100 each pursuant to the prospectus dated 9 September 2019, raising $322,019,200 in total. Series C and Series D Australian Unity Bonds are unsubordinated and unsecured simple corporate bonds that are listed on the Australian Securities Exchange (code: AYUHC and AYUHD respectively). Series C Australian Unity Bonds have a five-year term maturing on 15 October 2024 and bear interest at the three month BBSW rate plus a margin of 2% per annum. Series D Australian Unity Bonds have a seven-year term maturing on 15 October 2026 and bear interest at the three month BBSW rate plus a margin of 2.15% per annum. The interest of both series of bonds is payable quarterly in arrears on 14 January, 14 April, 14 July and 14 October each year.

As specified in the prospectus, the net proceeds from the issue of the bonds (after deducting the bonds issuance costs) were used to refinance the Series B Australian Unity Bonds that participate in the reinvestment offer and for general corporate purposes.

The bonds are redeemable by the Company prior to their maturity date for certain reasons related to taxation, a change of control or when less than 10% of the bonds remain on issue. An early redemption payment is applied pursuant to the prospectus. Bond holders have the right to require early redemption through a resolution only on the occurrence of a change of control.

10 Financial liabilities - Borrowings (continued)

(b) Series C and Series D Australian Unity Bonds (continued)

Under the terms of the Series C and Series D Australian Unity Bonds, the Company is required to maintain a Covenant Gearing Ratio of less than 50% as at 30 June and 31 December each year. The Covenant 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 ratio is calculated based on the financial position of the Group, excluding the Group's authorised deposit-taking institution and benefit funds. Interest bearing liabilities and guarantees are further reduced by lease liabilities and the Company's unencumbered cash and cash equivalents. Junior Ranking Obligations, if any, also reduce interest bearing liabilities and guarantees but increase total equity in the calculation. Junior Ranking Obligations represent equity or subordinated debt of the Company which would, in a winding up situation, rank behind the Company's obligations under the Series C and Series D Australian Unity Bonds. The Covenant Gearing Ratio is determined by reference to the accounts prepared on the basis of the Australian Accounting Standards in place as at the date of the Base Prospectus. As at 31 December 2019, the Covenant Gearing Ratio was 31%.

(c) Development finance loans

The development finance loans represented loan facilities from a related entity for the development of the Herston Quarter health precinct in Brisbane, Queensland.

(d) Retirement Village Investment Notes (RVIN)

RVIN are debt instruments issued by the Group. The proceeds from RVIN issues were utilised by the Group for the purpose of expanding the Independent & Assisted Living business. The RVIN are secured by a first ranking registered security interest over intra-group loans in relation to the RVIN proceeds and the mortgages, granted as security for the loans, over allotments of units held in Australian Unity Retirement Village Trust #1 (in respect of Series 1, 2, 4 and 5 Notes) and Australian Unity Retirement Village Trust #2 (in respect of Series 3 and 4 Notes).

Australian Unity Retirement Village Trust #1 (AURVT#1) comprises three retirement villages - Willandra Village and Willandra Bungalows in New South Wales and Walmsley Friendship Village in Victoria. Australian Unity Retirement Village Trust #2 (AURVT#2) comprises three other villages - Constitution Hill, Karagi Court and Kiah Lodge, all located in New South Wales. All of these villages are managed by Australian Unity Retirement Living Management Pty Ltd. The Group does not hold any security over these retirement village assets nor any other assets of AURVT#1, AURVT#2 or other subsidiary entities of the Group.

During the half year, the Group repaid $21,728,000 of maturing RVIN. On 30 November 2019 the Group issued Series 5 RVIN totalling $18,401,000 with a five-year term maturing on 20 November 2024 and bearing interest at a fixed rate of 4.95% per annum.

As at 31 December 2019, the total RVIN on issue of $38,362,000 consisted of $38,347,000 interest bearing liabilities and $15,000 non-interest bearing liabilities (30 June 2019: $41,704,000 consisted of $25,384,000 interest bearing liabilities and $16,320,000 non-interest bearing liabilities). Subsequent to the reporting period, the $15,000 non-interest bearing RVIN were repaid in accordance with the terms of the relevant prospectus.

11 Other current liabilities

	31 December 2019 $'000	30 June 2019 $'000
Financial liabilities		
Refundable accommodation deposits	**257,774**	242,694
Resident loan liabilities	**908,456**	881,733
	1,166,230	1,124,427
Non-financial liabilities		
Unearned income	**148,133**	140,564
Other	**11,203**	10,852
	159,336	151,416
Total other current liabilities	**1,325,566**	1,275,843

11 Other current liabilities (continued)

(a) Unearned income

Unearned income represents mainly health insurance premium revenue and government subsidies not yet recognised in the profit or loss.

(b) Refundable accommodation deposits

Refundable accommodation deposits represent payments received from the residents of aged care facilities as upfront deposits for their aged care accommodation. Residents have the ability to pay the deposits up to six months after moving into an aged care facility. These deposits are non-interest bearing and are repayable within 14 days of a resident's departure from the facility or within 14 days of the granting of probate. Regulations restrict the permitted use of the accommodation deposits to repayment of accommodation deposit balances, capital expenditures of residential aged care facilities and investments in qualified financial products.

(c) Resident loan liabilities

Resident loan liabilities relate to residents who occupy the investment properties referred to in note 13. These liabilities represent the initial ingoing contribution less accrued deferred management fees. Resident loan liabilities are repayable at the earlier of a subsequent resident leasing the unit or a maximum repayment date. The maximum repayment date can vary between agreements however the typical repayment term is two years from vacation of the unit.

(d) Fair value

Due to the short term nature of these other current liabilities, their carrying value is assumed to approximate their fair value.

12 Fair value measurements

(a) Recognised 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
- Investment properties
- 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 2019.

(i) Fair value hierarchy

AASB 13 *Fair Value Measurement* 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).

12 Fair value measurements (continued)

(a) Recognised fair value measurements (continued)

(i) Fair value hierarchy (continued)

The following table presents the Group's financial assets and liabilities measured and recognised at fair value at 31 December 2019 and 30 June 2019 on a recurring basis:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2019				
Recurring fair value measurement				
Financial assets				
Financial assets at fair value through profit or loss				
Equity trusts	2,258	1,483,466	-	1,485,724
Fixed interest and other debt security trusts	-	515,052	-	515,052
Mortgage trusts	-	22,631	-	22,631
Property syndicates and trusts	13,608	51,737	-	65,345
Other financial assets	-	-	7,055	7,055
Total financial assets	15,866	2,072,886	7,055	2,095,807
Non-financial assets				
Investment properties	-	-	1,391,612	1,391,612
Total non-financial assets	-	-	1,391,612	1,391,612
Financial liabilities				
Interest rate swaps	-	157	-	157
Life investment contract policy liabilities	-	1,334,707	-	1,334,707
Total financial liabilities	-	1,334,864	-	1,334,864

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2019				
Recurring fair value measurement				
Financial assets				
Financial assets at fair value through profit or loss				
Equity trusts	2,227	1,262,797	-	1,265,024
Fixed interest and other debt security trusts	-	630,678	-	630,678
Mortgage trusts	-	29,026	-	29,026
Property syndicates and trusts	17,459	61,966	-	79,425
Other financial assets	-	-	7,056	7,056
Total financial assets	19,686	1,984,467	7,056	2,011,209
Non-financial assets				
Investment properties	-	-	1,327,551	1,327,551
Total non-financial assets	-	-	1,327,551	1,327,551
Financial liabilities				
Interest rate swaps	-	4,565	-	4,565
Life investment contract policy liabilities	-	1,259,311	-	1,259,311
Total financial liabilities	-	1,263,876	-	1,263,876

12 Fair value measurements (continued)

(a) Recognised fair value measurements (continued)

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 and 2 for the recurring fair value measurements during the financial period. The transfers in and out of level 3 measurements are summarised in note (iii) below.

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

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 (iii) below.

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. Development sites are recognised at cost.

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 other non-owner occupied property is based on periodic, but at least triennial, valuations by external accredited independent valuers.

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

12 Fair value measurements (continued)

(a) Recognised fair value measurements (continued)

(iii) 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 2019:

	Other financial assets $'000	Investment properties $'000	Total $'000
Opening balance 1 July 2019	7,056	1,327,551	1,334,607
Additions	-	48,728	48,728
Transfers	-	-	-
Disposals	-	-	-
Gains/(losses) recognised in other income*	(1)	15,333	15,332
Closing balance 31 December 2019	7,055	1,391,612	1,398,667
*Included in the gains/(losses) recognised in other income:			
Unrealised gains/(losses) recognised in the profit or loss attributable to assets held at the end of the financial period	(1)	15,333	15,332

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 2019 $'000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Investment properties	1,391,612	Discount rate	13% - 14%	Increase/decrease in discount rate by +/- 50 basis points changes the fair value by -$14.9 million/+$13.2 million (2019: -$13.3 million/+$14.6 million).
		Property growth rate	1% - 4%	Increase/decrease in property growth rate by +/- 50 basis points changes the fair value by +$22.9 million/ -$20.6 million (2019: +$22.7 million/ -$20.6 million).
		Average length of residents' stay	5-8 years for serviced apartments, 9-14 years for other independent living units	The higher the average length of stay, the lower the fair value.

Valuation processes

The Group's Independent & Assisted Living platform 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 Independent & Assisted Living, the Chief Financial Officer and the Audit Committee. Discussions of valuation processes and results are held between the valuation team, the Audit Committee, the Chief Financial Officer and the CEO Independent & Assisted Living every six months in line with the Group's half-yearly reporting timelines. The results of the valuations are subject to audit or review 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.

12 Fair value measurements (continued)

(b) Disclosed fair values

The Group also has a number of financial instruments which are not measured at fair value on the balance sheet. As at the end of the reporting period, those which fair values differ from their amortised cost are as follows:

	31 December 2019		30 June 2019	
	Amortised cost $'000	**Fair value $'000**	Amortised cost $'000	Fair value $'000
Current and non-current assets				
Mortgage loans	**828,595**	**828,864**	728,748	729,093
Advances	**4,000**	**4,000**	4,000	3,859
	832,595	**832,864**	732,748	732,952
Current and non-current liabilities				
Australian Unity Bonds	**386,257**	**400,752**	247,964	258,000
Development finance loans	**27,397**	**27,736**	17,959	18,209
Retirement Village Investment Notes	**38,377**	**39,992**	41,704	42,006
Term deposits	**360,513**	**360,383**	291,459	291,289
	812,544	**828,863**	599,086	609,504

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.

Non-financial assets and liabilities

13 Non-financial assets - Investment properties

Investment properties consist of the Group's interests in retirement village independent living units, development sites and other non-owner occupied property as specified below. The development sites are held within the development entities. Upon completion of the development and the required occupancy targets being met, a number of the development sites will be sold to retirement village operators.

	31 December 2019 $'000	30 June 2019 $'000
Retirement village independent living units	**866,210**	841,335
Retirement village property funds	**90,842**	88,236
Development sites	**434,560**	397,980
	1,391,612	1,327,551

(a) Movements of investment properties

	31 December 2019 $'000	30 June 2019 $'000
At fair value		
Balance at the beginning of the financial year	**1,327,551**	1,169,437
Additions	**48,728**	128,787
Transfers to property, plant and equipment	**-**	(13)
Net fair value movements	**15,333**	29,340
Balance at the end of the financial period	**1,391,612**	1,327,551

13 Non-financial assets - Investment properties (continued)

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

	Half-year 2019 $'000	Half-year 2018 $'000
Revenue	**20,544**	24,444
Expenses	**(15,564)**	(15,248)
Changes in fair value recognised in profit or loss	**15,333**	6,833
	20,313	16,029

14 Leases

The Group has applied AASB 16 *Leases* for the first time from 1 July 2019. AASB 16 requires the recognition of lease assets and liabilities on balance sheet with the amortisation of the assets and finance costs of the liabilities to be charged to profit or loss. Short-term leases and low value leases are recognised on a straight-line basis as an expense in profit or loss.

The Group has non-cancellable lease contracts, as lessee, for commercial buildings, computer equipment and motor vehicles which are used as part of the Group's operations. Computer equipment leases are categorised as leases of low-value assets and therefore no assets and liabilities are recognised. The Group's lease contracts do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The Group also has a few sub-lease contracts in relation to certain commercial buildings. Sublease transactions where the Group is an intermediate lessor are accounted for by reducing the right-of-use assets arising from the respective head leases and recognising sublease receivables. Other sublease contracts are accounted for as operating leases with income being recognised over the lease term. The value of sublease contracts as at 31 December 2019 was immaterial.

(a) Amounts recognised in the consolidated balance sheet

In previous year, the Group had operating leases recognised under AASB 117 *Leases.* The Group did not have any finance leases, and therefore did not recognise lease assets and liabilities.

The following are assets and liabilities recognised on the adoption of AASB 16 as at 1 July 2019 and the balances as at 31 December 2019:

	31 December 2019 $'000	1 July 2019 $'000
Right-of-use assets		
Buildings	**118,587**	124,515
Vehicles	**3,040**	2,693
	121,627	127,208
Other non-current assets - Sublease receivables	**1,634**	-
Total assets	**123,261**	127,208
Lease liabilities		
Current	**17,869**	17,620
Non-current	**115,080**	119,159
Total liabilities	**132,949**	136,779

Additions to the right-of-use assets during the half year ended 31 December 2019 were $1,614,000.

14 Leases (continued)

(b) Amounts recognised in the consolidated statement of comprehensive income

	Half-year	
	31 December 2019 $'000	31 December 2018 $'000
Depreciation charge of right-of-use assets	**7,290**	-
Interest expense (included in Finance costs)	**3,316**	-
Interest income on sublease receivable	**(33)**	-
Expenses relating to short-term leases or leases of low value assets (included in Other expenses)	**2,904**	-
Lease expenses charged to profit or loss on a straight line basis (included in Occupancy costs and Other expenses)	**-**	8,658
	13,477	8,658

Total cash outflow for leases in the half year ended 31 December 2019 was $11,511,000 (2018: $8,658,000).

Group structure

This section provides information that will help users understand how the Group structure affects the financial position and performance of the Group as a whole.

15 Reconciliation of profit attributable to members of Australian Unity Limited

	Half-year ended 31 December 2019		
	Attributable to members of Australian Unity Limited $'000	**Attributable to benefit fund policyholders $'000**	**Consolidated Profit or Loss $'000**
Revenue and other income	**693,504**	**71,450**	**764,954**
Expenses, excluding finance costs	**(669,178)**	**(61,921)**	**(731,099)**
Finance costs	**(20,810)**	**-**	**(20,810)**
Share of net profits of associates and joint ventures	**141**	**-**	**141**
Profit before income tax	**3,657**	**9,529**	**13,186**
Income tax benefit/(expense)	**4,735**	**(9,529)**	**(4,794)**
Profit after income tax for the half-year	**8,392**	**-**	**8,392**

15 Reconciliation of profit attributable to members of Australian Unity Limited (continued)

	Half-year ended 31 December 2018		
	Attributable to members of Australian Unity Limited $'000	Attributable to benefit fund policyholders $'000	Consolidated Profit or Loss $'000
Revenue and other income	672,533	26,907	699,440
Expenses, excluding finance costs	(650,660)	(38,460)	(689,120)
Finance costs	(9,000)	-	(9,000)
Share of net profits of associates and joint ventures	165	-	165
Profit/(loss) before income tax	13,038	(11,553)	1,485
Income tax benefit	246	11,553	11,799
Profit after income tax for the half-year	13,284	-	13,284

Unrecognised items

This section of the notes provides information about items that are not recognised in the financial statements as they do not satisfy the recognition criteria.

16 Commitments

Capital commitments

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

	31 December 2019 $'000	30 June 2019 $'000
Investment property		
Within one year	**24,178**	30,717
Later than one year but not later than five years	**36,068**	38,590
Total capital commitments	**60,246**	69,307

In addition, the Group is engaged in a social infrastructure development project in Brisbane, Queensland, being the Herston Quarter Redevelopment Project. Under the overarching Development Agreement between Herston Development Company Pty Ltd (HDC - a wholly-owned subsidiary of the Group) and the Metro North Hospital and Health Service, HDC has committed to deliver various contractual milestones for each Stage of the Project, including but not limited to site services isolation/relocation and rehabilitation of Stage 5 of the Project (Heritage Buildings). These milestones are anticipated to be completed within the next two years with capital expenditure in the range of $50 million - $60 million.

17 Contingencies

Contingent liabilities

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. The Group also has contingent liabilities arising in the ordinary course of business, including costs which might arise from a customer remediation program, in relation to which any unprovided liabilities cannot yet be reliably estimated.

17 Contingencies (continued)

Guarantees

The Group has entered into bank guarantee arrangements totalling $43,801,000 as at 31 December 2019 (30 June 2019: $36,750,000) as part of its normal operations and under business transfer arrangements in order to secure the Group's performance under contracts. The bank guarantees only become payable upon the non-performance of the Group. Partially offsetting this, the Group is the beneficiary of insurance bonds/guarantees totalling $2,578,000 (30 June 2019: $7,618,000).

The Group had no other contingent assets or liabilities at 31 December 2019.

18 Events occurring after the reporting period

After the end of the reporting period, the Group sold the assets (mainly customer contracts) of its general insurance broking services business to PSC Insurance Brokers for $1,564,000. The Group also sold the assets of its finance broking services business, being the rights to received trailing commissions, to Trail Homes for $1,792,000. Total gain on sale of these assets before tax was $3,198,000.

The board is not aware of any other matter or circumstance arising since 31 December 2019 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.

Other information

This section of the notes includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

19 Related party transactions

(a) Transactions and balances with related parties

Transactions between the Group and related parties for the half-years ended 31 December 2019 and 2018 were as follows:

- Dividends received from joint ventures, $578,193 (2018: $470,138).
- Investment management fees charged by joint ventures, $405,251 (2018: $296,345).
- Commission, director fees and other costs charged by/(charged to) joint ventures, $275,555 (2018: $136,231).
- Investment earnings from related entities, $2,169,757 (2018: $413,000).

Balances with related parties as at 31 December 2019 with comparative amounts as at 30 June 2019 were as follows:

	31 December 2019 $	30 June 2019 $
Assets		
Cash and cash equivalents	**767,255,582**	645,873,434
Trade and other receivables	**4,204,176**	4,233,766
Financial assets at fair value through profit or loss	**565,310,849**	547,506,572
	1,336,770,607	1,197,613,772
Liabilities		
Trade and other payables	**241,994**	743,688
Loans payable to related entities	**32,496,613**	23,059,231
	32,738,607	23,802,919

(b) Terms and conditions

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

In the directors' opinion:

(a) the financial statements and notes set out on pages 10 to 40 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 2019 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.

Peter Promnitz
Chair

Rohan Mead
Group Managing Director & CEO

Melbourne
26 February 2020

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

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Australian Unity Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated balance sheet as at 31 December 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 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, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

1. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date;

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Andrew Cronin
Partner

Melbourne
26 February 2020