Australian Unity

Annual Report 2010

For Members

We are building a leading, commercial, sustainable, portfolio of businesses that foster wellbeing.

Australian Unity's operations today:

Health
Health insurance

Dental

Preventative healthcare

Chronic disease management

Financial Services
Investments

Personal Financial Services

Retirement Living
Retirement villages

Aged care

Community care

Respite care

Australian Unity is a national healthcare, financial services and retirement living organisation providing services to 560,000 Australians. The company currently has some 300,000 members nationwide, including 10,000 members who have been with us for more than 50 years.

Australian Unity's history as a trusted mutual organisation dates back 170 years. We have grown organically—by continually evolving and providing the services and products needed by the communities we serve—as well as through successful strategic mergers and diversification into new business opportunities.

Our antecedent organisations trace their histories from the 1800s as part of the colonies that federated to form Australia.

Australian Unity in its current form was established with the merger of the Australian Natives' Association and Manchester Unity in 1993 and expanded further in 2005 through a merger with Grand United Friendly Society Limited. In August 2009, Lifeplan Australia Friendly Society joined Australian Unity after its members agreed to a proposal to merge the two organisations.

Australian Unity is a provider of high-trust services to members making high-trust purchases —whether they be reliable funding and provision of healthcare needs; dependable, quality investment products and advisory services; or accommodation and care services as they age.

On this platform we seek to build a commercial and sustainable portfolio of businesses that foster wellbeing.

Our near-term goals include expanding our retirement village footprint, increasing access to quality of life, community care and allied health services; building on our leading position in the provision of chronic disease management; and continuing to grow our advice and funds management businesses to support customers to create secure financial futures. These increasingly integrated areas of service provision align to support members and customers with essential elements of wellbeing.

Contents

Annual Highlights 2010
as at 30 June

$8.7m

Further invested in preventative health

98%

Occupancy across Australian Unity aged care facilities

$10.3b

Funds under management

Won the overall Outstanding Business Award in Service Excellence at the 2009 International Customer Service Professional (ICSP) Awards, as well as the platinum award in the large business category, a recognition of significant operations improvements in the health business.

Invested a further $8.7 million in preventative health programs and direct benefits to members.

Launched rehabilitation at home service for members having major joint replacements.

Launched Care 'n Repair, a new health insurance product targeted to the needs of young active healthy members.

Commenced development of a new dental centre in Rowville, Victoria. The centre will be open for business in early 2011.

Surveyed retirement village residents' personal wellbeing, which was rated 80.3 points, a significantly higher result than a like sample of the population.

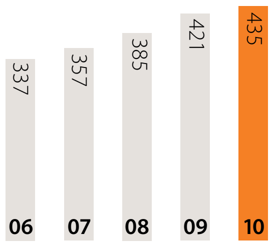
Successfully obtained funding and commenced development of a 280 unit retirement village in Mornington, Victoria.

Merged successfully with Lifeplan Australia Friendly Society, and integrated the two bonds management businesses.

Grew the investment business market share by more than 450 percent over the past five years (from less than 0.2 percent to 0.9 percent), in 2010 joining the top 30 asset managers in Australia[1], while growing funds under management 78 percent to $10.3 billion.

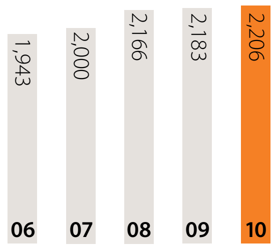
1 Morningstar Investor Supermarket Market Wrap (March 2010)

Health claims paid for members ($m)



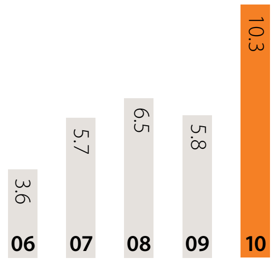
$435m

Retirement units and aged care beds



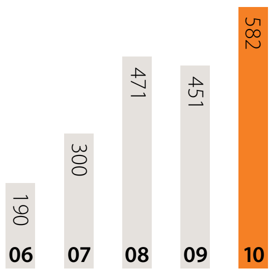
2,206

Funds under management ($b)



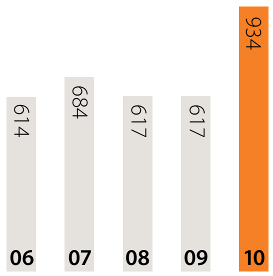
$10.3b

Funds under advice ($m)



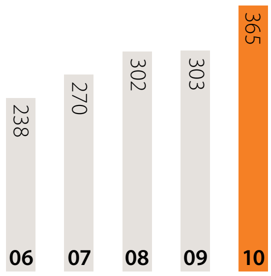
$582m

Revenues ($m)*



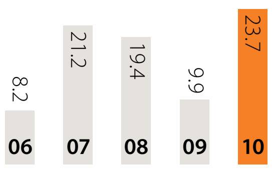
$934m

Members' funds ($m)



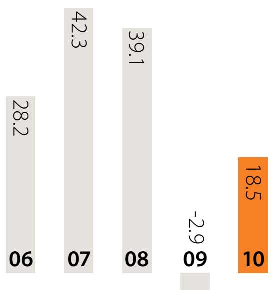
$365m

Operating earnings ($m)*



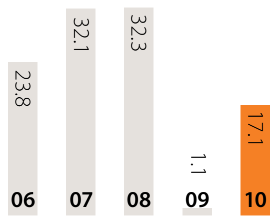
$23.7m

Profit before tax ($m)*



$18.5m

Profit after tax ($m)*



$17.1m

Definition of terms

Funds under management
Investors' funds managed by Australian Unity Investments and its joint venture partners.

Funds under advice
The total value of client funds invested through Australian Unity financial planners.

Members' funds
Net assets of the Group attributable to members.

Operating earnings
Profit before tax less investment income, borrowing costs and discontinued operations.

Notes to the annual highlights
Profits before tax and operating earnings exclude the impact of the Benefit Funds which are required to be included in the financial statements but which have a zero impact on profit before tax.

* The years 2006 to 2007 include the results of the general insurance business which was sold in 2008, materially affecting the comparative results for the years up to and including 2008, while 2010 includes 10 months of Lifeplan.

Chairman's Report

We can characterise the 2009–10 financial year as being both a period of growth and of recovery. It was a year of growth in that we have been able to seriously advance our activities in all our businesses: health, retirement living and investments, including implementing the merger with Lifeplan.

It was a year of recovery in the sense that in the prior financial year, our businesses were held back by the impact of the global financial crisis. In that prior year (2008–09), we had virtually no profit for reinvestment and the problems of the Australian financial sector inevitably spilled over onto us. The whole financial sector was impacted with banks withdrawing from previous commitments and investors tending to withdraw funds rather than add to their investments.

During the latest 2009–10 year we were able to generate over $17 million of profit after tax, compared with $1 million in the previous year; and this has helped us resume our reinvestment program. We also repaid a significant amount of corporate bank debt to strengthen our balance sheet.

On 31 August 2009, Lifeplan Australia Friendly Society Limited formally merged with Australian Unity Limited. This merger had been approved by the members of Lifeplan earlier in 2009 and took effect after receiving formal approval from the Supreme Court.

We have now largely finalised the integration of the two businesses, with Lifeplan and the smaller Australian Unity bonds business now forming a combined $2 billion bonds business within Australian Unity's total investments business of over $10 billion. We are confident the merger is good for all parties and strengthens Australian Unity's position in South Australia and nationally. We now have offices in Adelaide, Sydney and Brisbane in addition to the Melbourne head office.

Consequent upon the Lifeplan merger, the Chairman of Lifeplan Mr John Butler joined our board, with another three of the Lifeplan directors remaining on that board in its new capacity as a wholly owned subsidiary within Australian Unity.

On 16 October 2009, Ms Kate Spargo and Mr Glenn Barnes were appointed to our board and they were subsequently re-appointed at last year's annual general meeting.

I mentioned earlier that the year was one of growth. Much of this growth was in the development of new activities within existing businesses – creating additional and better platforms for future growth.

Our chronic disease management business, Remedy Healthcare, grew strongly. This business provides direct services to members following hospitalisation and we believe it to be a major move forward in assisting members with their health management. This follows us having taken an important lead in persuading the Federal Government in early 2007 to free up health funds to undertake such wellness activity. Much more detail is provided elsewhere in this report about this growing business.

Our retirement living business continues to grow, with major developments taking place at our new villages named Peninsula Grange at Mornington, Victoria; Victoria Grange in Vermont South, Victoria; and Sienna Grange at Port Macquarie, New South Wales. Our planning continues for the major Carlton urban redevelopment, in Victoria in which we will provide the wellbeing component including retirement living and aged care. Additionally, there are a range of upgrades at many of our other villages. Plans for additional villages and aged care facilities continue. An important growing area of activity is the provision of community care packages in our facilities and extending to the provision of such packages from our facilities into the broader community.

The investments business operated in a very difficult environment throughout the year, but nevertheless continued to diversify and nearly doubled funds managed. This was an excellent result in a year when many other organisations lost substantial funds under management. Merging the Lifeplan and Australian Unity investment businesses, managing the expanding property portfolio and the development of other new products positions us well for further growth.

We want Australian Unity to forge its future as a mutual organisation which is true to its history, and relevant for the future. Core to this is the preservation of the trust of our members and all those we deal with. It is critical that we seek at all times to be ethical in our activities, and 'leading edge' in terms of delivering real value for money to our members. Beyond this, we see the opportunity to build a corporation serving not only our members' interests, but also contributing to a better Australian society. The many predecessor friendly societies or mutuals from which Australian Unity has been formed, all worked for the betterment of their members and development of our country – and we see that purpose as still at the heart of what we should be doing.

In this context, I note that the Australian Unity Wellbeing Index which we launched in 2000 with Deakin University is now having its tenth anniversary and we believe this has contributed to an increased focus within government and the community on broader issues of wellbeing in our society. We have many plans to extend our activities to benefit members and we look forward to the journey.

I wish to thank all my fellow directors and staff at Australian Unity for their excellent work during challenging times and also thank all our members and fraternal organisations for their support throughout the year. The current financial year has started well and although there are some storm clouds on the economic horizon, we believe Australian Unity is well positioned to continue its mission.

Alan Castleman
Chairman

Group Managing Director's Report

The 2010 financial year was very positive for the company and its development. Consistent with our 170 year history, we responded to the challenging economic conditions of recent times steadily and, in the 2009 year, weathered reduced company financial performance so as to avoid erratic and adverse changes to customer services and benefits.

Over the last year we have seen our company's financial position improve solidly while our operations have continued their development in both scope and scale.

Revenues were $934 million, up 51 per cent from $617 million in the prior year. Overall, the operating earnings of the company were $23.7 million, a 139 per cent increase on $9.9 million in the prior year.

Our profits were also improved, notwithstanding the continued volatility of financial markets that influence the company's earnings on insurance and corporate reserves. Total profit after tax rose to $17 million, up from $1 million in 2009.

Continued development

This financial position was generated by operations that continued to invest in services supporting the wellbeing of Australians in relation to their financial affairs and retirement savings; their care and accommodation when aged; and their health. On all of these fronts, significant positive development was achieved in 2010.

More generally, our financial services activities performed positively, with our advisory business continuing its growth to more than $0.5 billion in funds under advice with 50 authorised representatives. The business model that we have pursued in this area was designed in anticipation of changing policy conditions. This business model has entailed investment in its initial years, but we believe that its fee-for-service model is more sustainable in the long run (as against the commission driven models of the past); is in tune with current regulatory developments; and is well suited to the needs of a majority of Australian investors.

Overall our investments business handled the difficult conditions that surrounded the recent financial markets turmoil extraordinarily well, with funds under management during the period rising by 78 per cent, from $5.8 billion to $10.3 billion. During the period all of its established joint venture partnerships in asset management strengthened their positions.

Our market leading mortgage trusts, which were adversely (and disappointingly) affected by the introduction of the bank deposit guarantee by the Federal Government, have provided increasing and more frequent redemption opportunities for investors. Meantime, investors have suffered no loss of capital and have continued to receive interest distribution payments. We look forward to seeing these funds shortly reach a sustainable new basis of operation that appropriately balances the interests of redeeming and of continuing investors.

Our arrangements to provide Australian investors with opportunities to invest in global and Asian equities, through the Wingate and Seres joint ventures, also developed soundly during the year.

The retirement living business further advanced its model of operation: to provide a continuum of accommodation and care services ranging from independent living within retirement villages through to high care accommodation within aged care facilities, while encompassing also community (outreach) and respite (inbound) care services. The number of community care packages that we offer grew to 105 and our occupancy levels across all facilities reached over 95 per cent. We have a range of major development projects underway. The largest of these are starting to emerge from the detailed planning phases, with construction work commencing at our Peninsula Grange facility in Mornington (Victoria) and anticipated during the coming year at our Carlton, Melbourne facility. We are positive about further development opportunities and have been successful during the year in securing appropriate finance arrangements to support our growth in this important area.

After considerable investment over a number of years in the quality of our health insurance operations and in the area of allied health, the 2010 year yielded very positive results. Customer service levels reached new heights and were recognised by both members and by external judges, through the awarding of an international customer service excellence award. In addition to prior year investment, we made further multi-million dollar investments in both programs and benefits in our allied health area including in our specialised wholly-owned subsidiary, Remedy Healthcare. This business provides a number of chronic disease management programs ranging from heart disease to osteoporosis and in home rehabilitation services to eligible members who elect to receive them. Across the company we now have a growing pool of allied health staff including nurses, physiotherapists, occupational therapists, dieticians and dentists who provide these allied health services. We expect and are planning for further strong growth in this area in coming years.

Advocacy

The last financial year saw a significant number of proposals for policy reform. These ranged from taxation with the Henry Review, through health reform plans involving the Federal Government and most states, the Cooper Review of Superannuation, and the Ripoll report on financial advice, through to the formal reference to the Productivity Commission on the subject of aged care and retirement – to name a few of the major examples. Most of these and other reform initiatives have potential impact on our members and customers in relation to the services that we provide.

Consistent with our long history of advocacy, we have devoted substantial efforts to providing input and responses to various of these initiatives. It is our hope to positively influence policy reform and enhance the interests of members and customers. In doing this, we seek to provide a practical, reasoned and experienced voice to policy thinking around areas in which we operate. The Chairman has noted our 10 year development of the Australian Unity Wellbeing Index, an initiative designed to broaden understanding of the elements of socio-economic health. This is an example of our commitment to an advocacy agenda. In order to provide some additional insight into the company's policy reform involvements we have implemented a dedicated website (www.australianwellbeing.com.au) as an information reference source.

I would like to thank all the staff at Australian Unity who have worked positively throughout the year to develop, extend and sustain the services that we provide to you.

I reiterate the Chairman's thanks for your continued support and, together with my colleagues, look forward to further developing the company on your behalf.

Rohan Mead
Group Managing Director

Australian Unity has a long established presence in the community that dates back to our company's earliest beginnings, 170 years ago. We aim to improve the wellbeing of Australians in the areas of health, ageing and financial security, and to support and celebrate Australian achievements, heritage and culture. During the economic instability of recent years, Australian Unity chose to maintain strong levels of community investment across all spectrums of community partnerships.

Community

Australian Unity Foundation
The Australian Unity Foundation was created five years ago to assist Australian Unity to support worthwhile community activities. Each year nominated community groups are awarded grants so they can continue to make a difference. This year's grants of $25,000 were awarded to seven community groups: Challenge; Prahran Mission; Ardoch Foundation; I Give a Buck; Pivot West Mobile Health Service; Women's Circus and the Amy Gillet Foundation.

Public policy
Australian Unity continued to be the principal supporter of the Australian Centre for Health Research (ACHR). During the year ACHR published three reports on health matters, organised workshops, held discussion roundtables and arranged related press conferences. A significant congress on national health reform was held in conjunction with Global Access Partners during the year.

Community partnerships
Australian Unity is the official "Wellbeing Partner" for Swimming Australia and the Australian Swim Team.

Now in its third year, Australian Unity continues its sponsorship of the Australian Unity Learn to Swim program which teaches children to swim and promotes water safety in more than 600 swim schools throughout Australia. The program also provides swim schools with teaching aids and professional development programs.

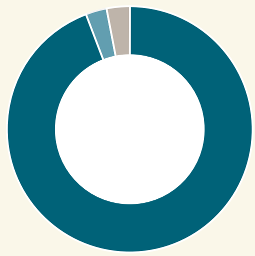
Australian Unity also continues to provide support to competitive swimming at a number of levels. The GO Club program provides information resources on how to better manage a swimming club. Aquatics and Recreation Victoria developed the *Better Being* exercise referral program in conjunction with the Baker IDI Heart and Diabetes Institute. The program works to identify individuals at high-risk of developing type 2 diabetes, and implementing support strategies, such as referral to a Lifestyle Modification Program, to prevent or delay the onset of the disease. Through Australian Unity's sponsorship, *Better Being* was able to extend its program to now include six community recreation facilities within Melbourne.

Australian Unity continues to partner with Greatconnections, a community organisation connecting mature volunteers who have senior business experience with community organisations in need of assistance. During the past four years, with funding assistance from Australian Unity, Greatconnections and its volunteers have provided millions of dollars worth of specialist expertise to the not-for-profit sector.

Australian Unity continued its partnership with Bell Shakespeare to support the development of theatre in the community, including in the company's retirement communities.

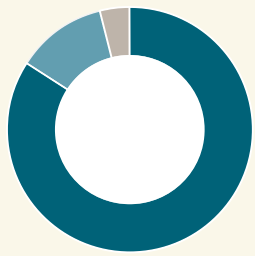
Assisting staff in supporting the community
Australian Unity staff continued to contribute to a number of charities. All staff donations were matched dollar-for-dollar by Australian Unity, raising $49,707 to support various charities. The company also supported staff who wanted to volunteer their time, with a day's paid leave allowing many to get involved in worthy initiatives in the community.

Our community contribution at a glance



3% In-kind support
3% Staff time
94% Cash

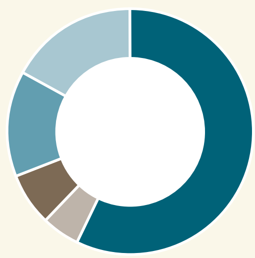
2010 Total
$1,071,176



4% Staff time
12% In-kind support
84% Cash

2009 Total **$838,000**

Areas we support 2010 (% of $)



5% Ageing
7% Heritage/culture
14% Health
17% Other/combination
57% Wellbeing

Community
continued

Australia's wellbeing guide celebrates 10 years of advocacy

Australia's most regular and comprehensive measure on how Australians feel about themselves and their lives celebrated its tenth anniversary this year.

Unlike traditional economic indicators of quality of life such as the Gross Domestic Product (GDP), the Australian Unity Wellbeing Index is a subjective measure that examines Australians' personal and national wellbeing.

The Australian Unity Wellbeing Index provides community organisations, government and business decision-makers with a credible measure of wellbeing for purposes ranging from strategic planning and policy making to providing Australian citizens with information they can use to improve their personal wellbeing.

The Australian Unity Wellbeing Index also makes a unique contribution to understanding subjective wellbeing through an International Wellbeing Group, which has more than 100 researchers from 45 countries working together to understand personal wellbeing as reported by people from different cultural backgrounds.

The Australian Unity Wellbeing Index is a joint project between Australian Unity and Deakin University's Australian Centre on Quality of Life.

Celebrating Australia

Photo: Zoë Hasker

Australian Unity has celebrated Australia Day since 1888. Continuing this tradition, the company again supported the Australia Day People's March in Melbourne and again hosted the Great Australia Day Breakfast. The breakfast, a company tradition dating back more than 50 years, has been held in Queen's Hall, Parliament House in Victoria since 1994. In 2010 the Australia Day Address was given by Professor Margaret Gardner AO, Vice-Chancellor and President, RMIT University.

The Australian Unity Great Australia Day Swim was launched this year by Brighton Rotary. The 1.2 kilometre open water swim at Middle Brighton beach in Melbourne attracted 580 participants and raised $50,000, with all profits going to the Children's Charity and the Smart Kidz Education Support Program.

The Australian Unity Bryan Kelleher Literary Award is Australia's largest bush poetry competition. This year's competition received 445 entries from all over Australia. Now in its third year, the free national competition challenged budding poets to write a poem that captures the essence of Australia.

Sustainability

Paper and printing

In September 2009 Australian Unity's head office in South Melbourne started to recycle cardboard in addition to its paper recycling. Between September 2009 and 30 June 2010 Australian Unity managed to recycle 130 large 1,100 litre bins of cardboard.

In addition, 410 standard sized wheelie bins (240 litres) of recycled paper was collected from July 2009 to June 2010.

We also arranged for all decommissioned printers in office locations to be removed and recycled.

Energy

Australian Unity reduced its energy consumption by 17 percent compared with the previous year. This reduction was a direct result of the implementation of energy saving measures from the previous year.

Water

Water conservation measures implemented in the previous year continued to be realised across the business. In comparison to last year's water use, we managed to reduce our water usage by a further five percent.

Dental centres

Australian Unity's dental centres all use digital radiography, minimising radiation exposure for patients and reducing the impact of traditional radiographic consumables on the environment.

The centres continue to use anti-retraction valves in the clinical waterlines to ensure the quality of the public water supply is not compromised, while amalgam separators (water filters) reduce the potentially harmful effects of releasing heavy metal filling materials into the environment.

Property assets

Australian Unity has a growing portfolio of investment properties and has developed a strategy to improve their environmental sustainability. The RPAH Medical Centre, located in Sydney's inner west, recently earned a four star energy and two and a half star water National Australian Built Environment Rating System (NABERS) ratings, up from a zero star energy and one star water rating. These ratings are the result of an 18 month project to improve energy and water consumption at the property. The building is owned by the Australian Unity Healthcare Property Trust.

The project and results achieved by the RPAH Medical Centre should have a significant positive effect in the wider community. The building has reduced its electricity consumption by nearly 40 percent (an emission reduction of 679 tonnes of carbon dioxide per year), thereby contributing to overall sustainability.

The Australian Unity Property Income Fund was also awarded a $500,000 government grant from AusIndustry's Green Building Fund to assist with improvements at one of its office properties in Canberra. A focus on installing high-efficiency equipment with the best design where possible, resulted in a high level of energy savings — significantly reducing the future impact on the environment. The refurbishment takes this property from a "B" grade to an "A" grade building (based on the Property Council of Australia / IPD Australian Property Index definition).

Sustainable retirement living

Australian Unity's Retirement Living has a strong commitment to wellbeing and is intent on creating sustainable communities for senior living.

Peninsula Grange, located on the Mornington Peninsula has been purposefully designed to address key social, environmental and economic sustainability principles.

The $150 million six star energy rated development is one of Australian Unity's largest retirement living communities.

Energy efficient house designs will all meet a six star rating, with each unit type designed using passive solar design principles including north facing living areas, natural cross ventilation and a focus on natural lighting.

These designs include a central rainwater collection system providing residents with the equivalent of an average 3,000 litres of rainwater storage per unit to supply toilets and water for gardens.

People

Engagement

Australian Unity measures employee engagement through the Our People Survey. This year, the fifth time the instrument has been used, the overall engagement score was 78.2 percent, down slightly on the previous survey conducted in 2008. External researchers indicate that this result compares very favourably to other leading employers, particularly given the difficult economic conditions of the past two years.

The survey feedback indicates Australian Unity employees value the challenge in their roles, the people and relationships, and the overall company culture. The key strengths identified through the survey include the customer orientation of staff; their emotional engagement with the company; their connection to their teams, and wellbeing initiatives. There are no areas of significant concern, but employees said they would welcome continuous improvement in systems and processes and more opportunities to collaborate across the various activities of the company.

The sound results from this survey, along with healthy financial results, provide the management team with added confidence that the company is well placed to pursue its development strategies.

Staff development

Australian Unity recognises the importance of developing staff and helping them to become the leaders of tomorrow.

Now in its fourth year, the Australian Unity Business School was established to drive leadership excellence across the business. It aims to equip leaders with the right tools to pursue appropriately ambitious goals. The school offers a range of leadership programs: *advance* (senior leaders), *evolve* (middle leaders) and *inspire* (new to leadership), and events that provide opportunities for reflection, collaboration and practice.

Employee wellbeing

Australian Unity's focus on employee wellbeing has led to a variety of initiatives on offer in all offices and village locations ranging from health screenings, yoga and skin checks to financial and superannuation seminars.

Australian Unity was recognised for its efforts in promoting workplace health by WorkHealth in Victoria, with WorkHealth using Australian Unity as a case study on their website to promote employee health to other employers.

Overall staff engagement at Australian Unity (engagement rating %)

May 2010

78.2%

February 2008 **81.1%**

Engagement is the measure of the pride people take in doing their work well and their enjoyment of the workplace.

Health and safety

The existing occupational health and safety communities and governance arrangements were strengthened in the past year with the establishment of the occupational health and safety standards committee which provides a single point of governance across both Australian Unity corporate and Retirement Living operations.

Industrial relations

This year Australian Unity worked to ensure compliance with the implementation of the Federal Government's *Fair Work Act*, National Employment Standards and Modern Awards. In addition, staff consultations reached an understanding on an enterprise agreement for the first time in retirement living villages in New South Wales, bringing New South Wales in line with Victoria. This extended more uniform Australian Unity workplace conditions for all retirement staff in New South Wales, which are above award conditions, and modelled to support sustainable growth and development.

Diversity

The diversity of Australian Unity's workforce is an important component in the company having the capacity to deliver on its strategic objectives. When managed well, diversity builds strong relationships with all stakeholders, including members and customers.

Australian Unity's approach to diversity is to build an environment where people feel included, invited to contribute and able to access opportunities for personal and business success. This is built into the culture through reinforcement in business plans and explicit focus within performance management arrangements.

With regard to gender diversity, some of Australian Unity's successes include:

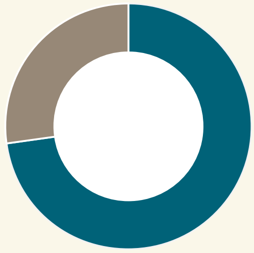
– A balance in gender representation at all levels of our organisation, which in all cases is better than industry averages with 22 percent of the board, 40 percent of the executive team and 36 percent of senior management roles taken up by women.

– Balanced representation of men and women participating in key activities that support career development such as leadership programs and targeted development.

Employees involved in Australian Unity operations

1,400+

Ratio: male & female

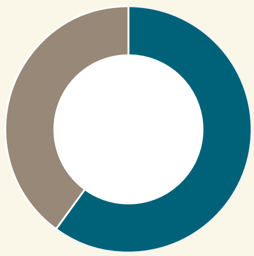


- 27% Men
- 73% Women

Ratio: male & female executives

- 44% Women
- 56% Men

Ratio: full-time & part-time



- 40% Part-time
- 60% Full-time

In pursuit of operational excellence

From left: Emma Smith, Chief Operating Officer – Healthcare; Leonie Pratt, Chief Operating Officer – Investments; and Janene Eagleton, General Manager, Client Services – Retirement Living.

The women who hold the three chief operating officer roles in the largest divisions of Australian Unity share a commitment to the needs of customer and resident wellbeing, continuous improvement and empowering staff to deliver quality service. Between them Emma Smith, Leonie Pratt and Janene Eagleton are responsible for overseeing 890 Australian Unity staff. They work with their teams to deliver industry leading customer service levels, robust financial controls and strong compliance with regulator requirements. To read more about the achievements of these businesses, go to pages 16–27.

Our Operations

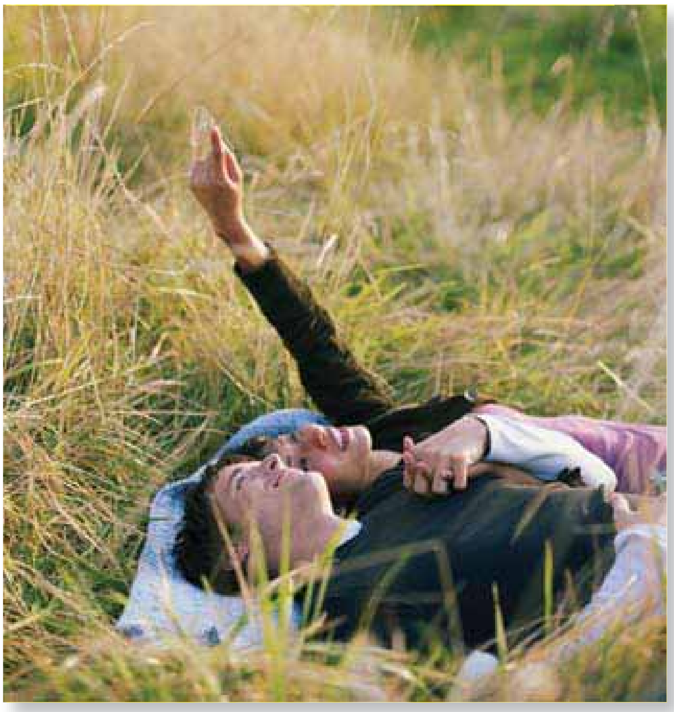
Retirement Living

Australian Unity Retirement Living owns and manages a range of service-rich accommodation options for older Australians. It currently operates 14 retirement villages and four aged care facilities in Victoria and New South Wales, offering more than 1,755 home units, 451 aged care beds, and 145 ambulatory and community care places.

The business is focused on both accommodation and service streams, expressing its strong commitment to personal and community wellbeing.

The Australian Unity Wellbeing Index

The happiest people are those who are either semi or fully retired. Full-time volunteers however, come in close behind them. There is also a marked increase in wellbeing in people who are full-time employed, full-time retired and unemployed when they engage in part-time volunteer work.



Health

Australian Unity operates the sixth largest health fund in Australia. Additionally, Australian Unity operates Grand United Corporate (GU Health), a corporate health fund that provides tailored health plans to some of Australia's leading corporations. The combined businesses provide health cover for more than 351,000 people.

Australian Unity also operates three dental clinics and other allied health services, including Remedy Healthcare, a preventative health business that offers health coaching, chronic disease management programs and in-home rehabilitation services for members and customers.

Financial Services

Investments

Australian Unity Investments provides specialist property, fixed interest, mortgage and equity products to investors. The business has built up extensive in-house property and mortgage fund expertise, and has expanded offerings to investors through jointly-owned ventures with investment professionals with specialist expertise.

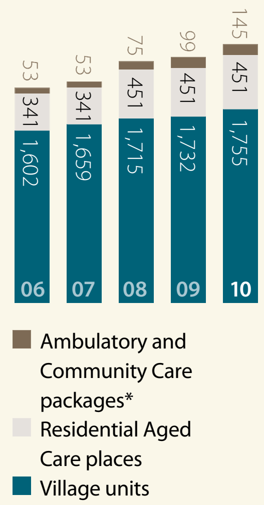
Our distinctive business model means investors can access a range of specialist investment managers, each focused on managing a specific asset class, while benefiting from the support, resources, experience and expertise of a long established, mutual organisation.

Personal Financial Services

Australian Unity's Personal Financial Services business offers financial planning advice and finance broking. The business has been modelled on modern regulatory requirements and designed to provide accessible personal financial services to Australians.

Our retirement living approach is to provide a range of services—independent living units, residential aged care and community services—from an integrated location, wherever possible. This approach means residents can continue to stay in the home and community of their choosing with access to the necessary care and wellbeing services they may require as they age.

Our operations



*Including Community Aged Care packages, Extended Aged Care at Home packages, Day Respite services, In-Home Respite services and residential-based Transition Care.

Retirement Living

Australian Unity's Retirement Living business recorded an adjusted Earnings Before Interest, Tax, Depreciation and Amortisation of $10,155,000 for the year ended 30 June 2010 (2009: $9,167,000). The year was notable for an increase in occupancy levels, firmer property prices and additional strategic investments in the provision of a more diverse range of services to residents. Lower development profits due to project phasing and a village unit refurbishment program of $5 million moderated the year's financial result.

Increased sales and occupancy levels

A 30 percent increase in unit settlements over the prior year reflected the rebound in consumer confidence following the global financial crisis and improvements in our sales and marketing function. As a result, village occupancy levels increased to above 95 percent and the time on market for vacant units significantly decreased.

Occupancy at the residential aged care facilities similarly increased during the year, with overall levels reaching just over 98 percent at 30 June 2010, compared to 90 percent at 30 June 2009. This was largely driven by our newest residential aged care facility, Victoria Grange, located in eastern Melbourne, reaching full capacity. The completion of Victoria Grange and improved occupancy across all aged care sites also resulted in significant cash flows from accommodation bonds with a net increase in bonds held of $18.7 million for the 2009–10 financial year.

A broader range of services

During the year, we expanded our range of flexible care services to cater for residents' changing needs. The popularity of the seniors' gym, physical therapies and domestic services at Constitution Hill Retirement Village in western Sydney, encouraged an expansion of these programs into Walmsley Friendship Village in south-eastern Melbourne in the first instance, with a phased extension planned for other villages.

A stronger focus on sub-acute service provision resulted in the opening of an eight bed Transition Care Unit at Walmsley Aged Care Facility in Victoria. This service has been a valuable addition to the broader health and ageing network in eastern Melbourne and plans are now under way to further extend these services into other Australian Unity Retirement Living communities as the opportunities arise.

These additional services not only made an important difference to the lives of clients and residents, many of whom are experiencing a decline in the availability of family support and informal care, but also made a significant contribution to the business' revenue ($2,117,000 in 2009–10 compared with $1,565,000 in 2008–09).

Highlights

- Data from the Australian Unity Wellbeing Index indicated that residents in Australian Unity retirement villages rated their personal wellbeing at 80.3 points in 2009, a statistically significant result when compared to a like sample of the general population, who scored 77 points.
- All existing three stages of the Victoria Grange Retirement Village, in Melbourne's east, have sold out or have received deposits.
- Australian Unity Retirement Living successfully obtained funding for the development of a 280 unit retirement village in Mornington, Victoria, which has been named Peninsula Grange Retirement Village. The six star energy rated development will be one of Australian Unity's largest retirement living communities, with open space a key element of the design.
- Occupancy across all Australian Unity's aged care facilities increased from 90 percent at 30 June 2009 to 98 percent at 30 June 2010.

Retirement Living
continued

More aged and community care places

A number of successful grant and government funding applications further boosted Australian Unity Retirement Living's service offerings with the range and geographic coverage of community care places almost doubling in 2009-10. As a result, the business has an additional 226 aged care places (which were granted in 2008-09 and pending construction of the aged care facilities), 105 active community care packages (up from 53 active packages as at 30 June 2009), and a total of some 40 ambulatory care packages across New South Wales and Victoria. Australian Unity Retirement Living was also selected as a preferred provider of in-home direct care services by the New South Wales government's Home Care Service.

New developments

The business is currently working on some $400 million worth of development projects that will provide more than 600 independent living units and 250 aged care beds.

Progress at our development sites was somewhat dampened during the year by the continued caution of financiers towards all property development activities. Despite this, Australian Unity Retirement Living's program of retirement village and aged care development gained momentum during the financial year, with the retirement village developments of Victoria Grange (Vermont South, Victoria) and Sienna Grange (Port Macquarie, New South Wales) progressing to plan.

The business also successfully obtained development funding and commenced construction of a 280 unit retirement community on the Mornington Peninsula, Victoria. Known as Peninsula Grange, work commenced on the site late in the financial year with stage one scheduled for completion during the 2010–11 financial year. The project was also granted 90 aged care places for the development.

Work with the Office of Housing, Department of Human Services in Victoria, the City of Melbourne and other stakeholders continues to give form to the vision of Australian Unity's wellbeing precinct in inner city Carlton, Victoria. The $180 million project, which is part of the Victorian Government's Carlton Housing Redevelopment, will create some 150 continuing jobs and provide accommodation for more than 400 people.

Living in Victoria Grange

Located in Vermont South in Melbourne's east, Victoria Grange has proved to be very popular with retirees, such as Merna Payne (pictured with residential services manager Jo Hill), seeking access to a range of retirement living and aged care options in a well established residential area. Victoria Grange, with its architectural design reflecting a Victorian style, offers luxurious new homes and a state-of–the-art aged care facility.

Living in one of the independent living units with her husband Stan, Merna has the freedom to enjoy the comings and goings of village life while maintaining her own independence. "We often say we should have made the move sooner as we could never go back to the way we used to live. We have better access to transport and facilities such as doctors and shops and the staff are always there to help should we have any problems," Merna says.

Two stages of independent living units have been constructed, with both stages quickly selling out. Demand is already high for the next stage, and the appeal of the village will be enhanced by the addition of well appointed community facilities, with construction expected to commence early in 2011.

Refurbishments at existing sites

A comprehensive, targeted refurbishment and unit reinstatement program has been implemented across the retirement village portfolio to ensure high-quality housing standards are achieved upon unit turnover. This process supports the ongoing price growth of units which is of benefit to both residents and the business.

Over $5 million was spent during the year on reinstating units and enhancing community infrastructure across sites.

Improvements include the addition of a community centre for residents at Walmsley Friendship Village, upgrades to the kitchen and television infrastructure at Willandra Village and the refurbishment of more than 100 units across the retirement village portfolio.

Building on operational efficiencies

Management and operations across existing villages and aged care facilities continued to demonstrate improved performance as a result of payroll and billing system upgrades and technology integration, the appointment of additional staff resources and expertise, the consolidation of quality, risk and clinical governance systems, and the successful accreditation of the rehabilitation services.

The introduction of electronic care plans and records for aged care facility residents planned for the coming year will enable clinical and care staff to have more face-to-face time with residents, as well as allowing more effective monitoring of the quality of services we provide.

The Australian Unity Wellbeing Index

Happiness can take time… the older we get, the happier we tend to become. Although satisfaction with health declines as age-related ailments set in, people tend to be more satisfied with the other areas of their lives and wellbeing goes up accordingly.

Residents indicate high levels of wellbeing

The annual resident survey, founded on the disciplines of the Australian Unity Wellbeing Index, showed that residents of our retirement communities have a higher sense of wellbeing compared to the general population. Data showed that residents in Australian Unity villages rated their personal wellbeing at 80.3 points in 2009, significantly higher than a like sample of people living outside retirement villages (who scored 77 points).

These findings highlight the importance of well designed communities and flexible care services in improving the quality of life of residents.

The survey also highlighted the high level of resident satisfaction with facilities and services provided by Australian Unity. Overall, 95 percent of independent living residents and 98 percent of aged care residents reported they were completely satisfied or satisfied, a figure that has remained consistent with previous years.

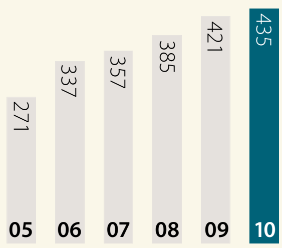
Bell Shakespeare

During the year, residents of six Australian Unity retirement villages and their communities were treated to performances by actors (pictured below) from Bell Shakespeare, Australia's national touring theatre company, which is supported by Australian Unity. Bell Shakespeare's vision is to create theatre that allows audiences to see themselves reflected and transformed through the prism of great writing. The Bell Shakespeare performances are part of an array of village social gatherings and activities that promote resident wellbeing.

Photo courtesy
of the *Parramatta Sun*

Our health business has a strong involvement in helping members stay well through providing a range of preventative services to encourage members to stay healthy and out of hospital. A preventative approach to lifestyle type diseases also makes good economic sense by reducing the likelihood of claims, and thereby easing the pressure on premiums for members.

Total claims paid to members ($m)



$435m

Health

The Group's overall Health operations recorded an adjusted Earnings Before Interest, Tax, Depreciation and Amortisation of $50,891,000 for the year ended 30 June 2010 (2009: $32,511,000). Total segment revenue for the combined healthcare business, which includes the Australian Unity and Grand United Corporate (GU Health) insurance businesses and the Australian Unity dental and allied health business, was $528,174,000 for the year ended 30 June 2010 (2009: $492,591,000).

Chronic disease management

Chronic conditions are projected to be the leading cause of disability throughout the world by the year 2020. In Australia, chronic diseases make up 80 percent of hospital expenditure and are putting increasing pressure on the claims lines of all health insurers, leading to pressure for increased premiums. Australian Unity Healthcare has responded by investing in developing an innovative disease intervention business, Remedy Healthcare, with the aim of achieving multiple objectives. First, it provides members and other customers with evidence-based disease management programs that aim to reduce hospitalisation. Second, it assists the health fund to reduce the projected claims lines pressure from the rise of chronic disease. Third, it provides the company with an additional business line, including access to a broader customer set and additional revenue opportunities.

Remedy Healthcare Group (Remedy), launched in 2009 offers patients with chronic disease access to a range of services delivered in their homes through telephonic, online and personal care. While many of Australian Unity's competitors have also invested in preventative programs, Australian Unity's Remedy business is the only one that has been developed in-house by an Australian health fund. It also remains wholly Australian owned and offers its services to customers that include other health funds. All Remedy programs are based on best-evidence Australian clinical guidelines and are supported by an expert panel of Australian medical specialists. Since Australian Unity started offering chronic disease management services, more than 2000 customers have participated in a specific program. One of the key attributes of the business is its patient recruitment approach which ensures that those members most at risk of a health event leading to hospitalisation have access to its programs.

During the year, Remedy launched the Diabetes Awareness and Self Management Program. The initiative, which is free to Australian Unity health insurance members, provides a six-month telephone support program with individualised care that addresses concerns and specific needs in managing diabetes and preventing long term complications.

Highlights

- Australian Unity won the overall Outstanding Business Award in Service Excellence at the 2009 International Customer Service Professional (ICSP) Awards, as well as the platinum award in the large business category.
- Invested a further $8.7 million in preventative health programs and direct benefits to members.
- Remedy Healthcare launched diabetes awareness and self management program.
- Launched rehabilitation at home service for members having major joint replacements.
- Australian Unity advocated on its members' behalf on issues such as the Federal Government's proposed means testing of the private health insurance rebate.

Health

continued

Remedy continued its Bone Health Program (which helps members reduce their risk of an osteoporotic fracture by providing education and support) and the Coronary Artery Disease Program (which provides support to members who have undergone hospital admission with a cardiac event).

Remedy, through its 50 percent ownership of a home rehabilitation business, Rehability, also offers members physiotherapy treatment and occupational therapy services in the comfort of their home within 48 hours of a phone call. Rehability has more than 30 full-time and permanent part-time staff and has relationships with more than 25 clinics across Melbourne.

Preventative health benefits

Many costly and disabling conditions — for example, cardiovascular diseases, cancer, diabetes and chronic respiratory diseases — are linked by common preventable lifestyle risk factors. In addition to offering specific disease management programs for those who have chronic disease, Australian Unity has continued its focus on helping members stay well by providing them with access to market leading preventative health benefits. The benefits include rebates on the cervical cancer vaccine, personal health coaching, bone density testing, mammogram screening, and quit smoking and weight loss programs.

Wellplan Online, Australian Unity's web-based health and wellness program, continues to equip members with important information, including access to online risk factor behavioural change programs, medical calculators, encyclopaedias and interactive tools.

Customer service excellence and fund efficiencies

Building on last year's customer service success, Australian Unity won the overall Outstanding Business Award in Service Excellence at the 2009 International Customer Service Professional (ICSP) Awards, as well as the platinum award in the large business category, improving on the previous year's gold award.

The award came after a period of investment in operational efficiency, resulting in industry-leading claims processing turnaround times and improved sales and service procedures. During this period of review and reinvigoration, the management team delayed investment in heavy acquisition programs and reported a small decline in membership in the 2009 financial year. During the year ended June 2010, this decline was reversed, and the retail health fund reported a growth in private health insurance policy holders of 1.6 percent during the year. The corporate health fund, GU Health, also reported a growth in members of 12 percent.

The Management Expense Ratio (MER), which is used within the private health industry as a guide to the administrative efficiency of a health fund, held steady at 9.9 percent for Australian Unity Health (2009: 9.9 percent) and 12 percent for GU Health (2009: 12.5 percent) excluding the overseas visitors' cover business. This result

Heather Thomson

Australian Unity Member

An active and fit 55 year old, Heather Thomson never thought about her bone health until she broke her ankle, wrist and leg in a short space of time. On the advice of her GP, Heather booked in for a bone density test which revealed she had Osteoporosis.

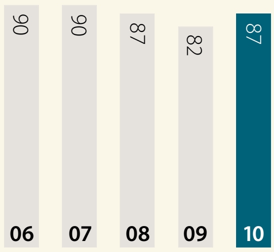
An Australian Unity member, Heather had received information on managing bone health through *Wellplan* – a member newsletter – and after a quick search of the website signed up to our Bone Health program.

The program provided Heather with detailed and personal education about Osteoporosis and put her in touch with specialist staff who could answer her questions.

Regular contact from Remedy Healthcare dietitians has meant that Heather is always informed and can track her progress through the written reports provided for each phone session.

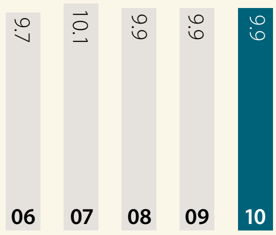
Heather now maintains her bone health with a healthy diet, plenty of exercise including dragon boat paddling.

Medical services incurring no out-of-pocket expenses (%)



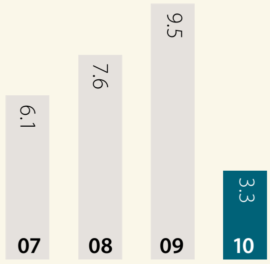
87%

Australian Unity Health Management Expense Ratio (%)



9.9%

Year-on-year increase in health claims paid to members (%)



3.3%

Most common ailments experienced by members

	2007	2008	2009	2010
Digestive system				
Patients	18,324	18,758	19,853	**20,619**
Benefits paid	$23.2m	$29.3m	$26m	**$27.8m**
Average per patient	$1,267	$1,564	$1,309	**$1,347**
Musculoskeletal				
Patients	7,285	7,725	8,051	**8,121**
Benefits paid	$43.7m	$52.8m	$53.4m	**$54.1m**
Average per patient	$5,996	$6,832	$6,634	**$6,667**
Circulatory disease				
Patients	5,560	5,720	5,774	**5,947**
Benefits paid	$44.2m	$46.4m	$51.1m	**$50.5m**
Average per patient	$7,945	$8,111	$8,857	**$8,489**

Top 5 indvidual member claims

1	Heart	$131,056
2	Heart	$125,624
3	Heart	$116,783
4	Heart	$114,790
5	Thyroid	$106,841

demonstrates Australian Unity's focus on providing value health cover for members, while continuing to invest in preventative health and customer service initiatives, which are largely included in management expenses.

Following three years of high health claims increases, this year's increase has moderated to 3.3 percent. While this was a welcome result, compound growth in claims over the last three years is 6.8 percent. Given population health and demography, it is expected that health inflation and higher utilisation costs will continue to increase claims expenses in the future.

New products

During the year, Australian Unity launched Care 'n Repair, a new health insurance product that has filled an identified gap in Australian Unity's product offering—young members who are physically active and are heavy users of sports and remedial therapy. The new product allows members to claim up to $2,420 on more than 20 different extras such as preventative dental, physiotherapy, remedial and even shiatsu massage, noting yearly limits, waiting periods and other applicable conditions.

Dental services

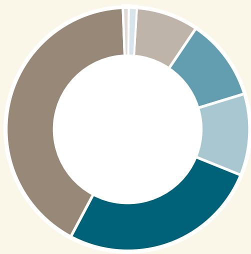
Australian Unity's three dental centres located in South Melbourne, Box Hill and Melbourne's CBD had over 42,000 patient visits during the year.

The dental units offer specific preventative dental services such as initial examinations and regular check-ups at no out-of-pocket cost to all Australian Unity members who have dental cover. In addition to the three dental centres, Australian Unity offers no gap dental services through various No Gap Dental Service dentists in Victoria, New South Wales, Queensland and South Australia.

Australian Unity has commenced development of a new dental centre in Rowville, Victoria. The centre is expected to open for business in early 2011.

Our financial services businesses aim to improve the wellbeing of investors and members. We specialise in creating investment opportunities that add true value, and provide professional strategic advice to help customers improve their current financial position and ultimately achieve their long term lifestyle goals.

Funds under management at 30 June 2010



0.4%	Other
0.7%	International equities
8.6%	Mortgages
10.6%	Property
10.9%	Lifeplan
26.8%	Australian equities
42.1%	Fixed interest

Financial Services

Investments

In a year where investors again dealt with ongoing market and economic uncertainty, Australian Unity Investments continued to achieve growth despite the sharemarket volatility, increasing its funds under management from $5.8 billion as at 30 June 2009 to $10.3 billion as at 30 June 2010. Australian Unity Investments' success is attributable to its diversified business strategy that proved its resilience and promoted growth in one of the most difficult periods for investment markets in many decades.

This strategy includes participation in five key joint venture arrangements with specialist asset managers: Acorn Capital, Vianova Asset Management, Platypus Asset Management, Wingate Asset Management and Seres Asset Management.

The business continued to experience the effects of the global financial crisis, with wary investors remaining in cash even when equities and other investments appeared to be a better alternative. Despite these conditions, there have still been some excellent long-term opportunities for those able to take advantage of them.

Overall, the business recorded an adjusted Earnings Before Interest, Tax, Depreciation and Amortisation of $10,481,000 as at 30 June 2010 (2009: $10,831,000). In the most recent data from actuarial and research company Plan for Life, Australian Unity Investments was ranked seventh for wholesale fund net flows and ninth for retail fund net flows for the quarter ending 31 March 2010.[1]

Equities

Australian equities manager Platypus Asset Management's funds under management increased to $1.6 billion as at 30 June 2010 (2009: $1.2 billion), and the Australian Unity Investments Platypus Australian Equities Trust (Wholesale) returned 11.85 percent after fees for the year to 30 June 2010. The new Australian Unity Investments Platypus Quantitative Growth Fund was also launched during the year.

Microcap manager Acorn Capital's funds under management was $1.0 billion as at 30 June 2010 (2009: $0.8 billion), and the Acorn Capital Wholesale Microcap Trust returned 23.99 percent after fees for the year to 30 June 2010, 2.29 percent above the industry benchmark.

International equities fund manager Wingate Asset Management continued to establish its presence during the year, expanding its team and receiving its first external client. In February 2010 Wingate Asset Management also held the inaugural meeting of its investment advisory committee.

Australian Unity Investments also established a new Asian equities boutique fund manager in Hong Kong, Seres Asset Management, and expects to launch a Seres Asian equities fund for Australian investors later in 2010.

Highlights

- Over the past five years, Australian Unity Investments has grown its market share by over 450 percent (from less than 0.2 percent to 0.9 percent). This impressive growth has seen it break into the top 30 asset managers in Australia, which is a significant achievement for an organisation of its size.[2]
- The Australian Unity Healthcare Property Trust remains the largest trust of its kind. For the second year in a row, the Trust was awarded the Ernst & Young Joe Curlewis Property Trust Industry Award which recognises financial performance and innovation in the property industry.
- Platypus Asset Management was the best performing Australian equities manager over seven years as at 30 June 2010, according to the Intech Investment Consultants Australian Share Manager Survey.
- The Australian Unity Investments Vianova Strategic Fixed Interest Trust was a Gold Winner in the *Money Magazine* Best of the Best Awards 2010 in the category of Best Australian Fixed Interest Funds.

1 Plan For Life Pty Ltd data (March 2010)

2 Morningstar Investor Supermarket Market Wrap (March 2010)

Our operations

Financial Services

continued

Fixed interest

Vianova Asset Management significantly increased its funds under management during the year, and the Australian Unity Investments Vianova Strategic Fixed Interest Trust (Wholesale) ("Vianova Trust") returned 6.86 percent after fees for the year to 30 June 2010. The Vianova Trust was a Gold Winner in the *Money Magazine* Best of the Best Awards 2010 in the category of Best Australian Fixed Interest Funds.

The Australian Unity Wellbeing Index

Women living with a partner and children, who have a household income over $150,000 per year; and women in full-time employment with a household income over $150,000 per year are among the demographic groups with the highest wellbeing in Australia.

Property

Australian Unity Investments' property business positioned itself to take advantage of a time of opportunity and growth in the property sector. The total value of the property portfolio was $1.1 billion as at 30 June 2010 (2009: $1.1 billion), and the business' major funds managed to hold or increase their value for investors despite difficult market conditions.

Healthcare Property Trust

The Australian Unity Healthcare Property Trust (Wholesale) ("Healthcare Property Trust") continued to perform well — a testament to its quality portfolio of hospitals, medical centres and day surgeries. During the year, the Healthcare Property Trust purchased the Vaucluse Hospital and Patricia Gladwell Aged Care Home in Brunswick, Victoria, and entered into a new 20 year lease with Healthe Care Australia Pty Ltd. The Healthcare Property Trust also invested $1.6 million in property upgrades and improvements over the year.

For the second year in a row, the Healthcare Property Trust was awarded the Ernst & Young Joe Curlewis Property Trust Industry Award, which recognises financial performance and innovation in the property industry.

Retail Property Fund

The Australian Unity Retail Property Fund ("Retail Property Fund") returned 3.93 percent after fees for the year to 30 June 2010. Retail spending at the Retail Property Fund's properties was strong despite the challenging market conditions, with Waurn Ponds Shopping Centre the standout performer.

During the year the Retail Property Fund, which started in February 2009, acquired a 50 percent interest in the vacant land adjoining the Waurn Ponds Shopping Centre in Geelong, Victoria. The land will be developed into a retail centre, and the existing Waurn Ponds Shopping Centre will increase in size by another 15,000 square metres.

Property Income Fund

The Australian Unity Property Income Fund ("Property Income Fund") delivered investors strong and consistent income throughout the year. The Property Income Fund's (Wholesale) distribution return for the year ending 30 June 2010 was 6.26 percent after fees.

The Property Income Fund continued to provide a strong level of liquidity to investors, and is the only fund of its kind that has continued to accept investor redemptions and pay withdrawals within five days.

Mortgages

Australian Unity Investments' priorities for its mortgage funds remain clear—to continue to focus on maintaining investor capital, deliver solid monthly distributions, and progressively improve liquidity arrangements for investors as it is wise to do so. All investors' capital remained secure and both the Australian Unity Mortgage Income Trust ("Mortgage Income Trust") and Australian Unity High Yield Mortgage Trust's ("High Yield Mortgage Trust") capital unit prices remained unchanged at $1.00, as they did throughout the global financial crisis.

Australian Unity Investments also continued to work closely with the Australian Securities and Investments Commission to introduce more flexible liquidity arrangements for investors in its mortgage trusts, and played a leading role in establishing improved liquidity arrangements. The business strategy recognises that mortgage funds have a strong future, and quality and conservatively managed income funds will continue to fill an increasing need for investors requiring solid, transparent returns and regular income.

The Mortgage Income Trust (Wholesale) returned 4.97 percent and the High Yield Mortgage Trust (Wholesale) returned 3.12 percent after fees for the year ending 30 June 2010. The total mortgage funds under management was $0.9 billion as at 30 June 2010 (2009: $1.1 billion), spread over 323 mortgages.

Lifeplan

Members of Lifeplan Australia Friendly Society overwhelmingly approved a proposal to merge with Australian Unity in August 2009. The merger provides all members and customers with access to a greater range of competitive and flexible tax-effective investments such as education savings plans and funeral bonds.

The integration of the two businesses progressed steadily throughout the year, aligning Lifeplan to Australian Unity's structure and frameworks. The administration functions for all bond products were also centralised to Lifeplan which will provide significant time and cost savings.

Lifeplan is now well positioned as a specialised product division within Australian Unity Investments, offering investors the benefit of low risk, capital secure products as well as strong asset management. The combined funds under management of the two businesses has also given Australian Unity an increased presence in the financial services sector, a benefit that will continue to grow into the future.

Platypus Asset Management

Platypus Asset Management was founded in 1998 as a specialist Australian equities manager. In 2006 it formed a joint venture with Australian Unity Investments.

Platypus' investment approach focuses on companies that exhibit a track record of earnings and dividend growth. The portfolio holds shares in relatively few companies—usually 35 or less—and historically has shown a small cap bias. Its investments cover companies that are ASX-listed, generally with a market cap greater than $80 million.

In April 2006, the Australian Unity Investments Platypus Australian Equities Trust was launched for retail investors. The Trust accepts investments from $1000.

Platypus was the best performing Australian equities manager over seven years as at 30 June 2010, according to the Intech Investment Consultants Australian Share Manager Survey. Platypus had over $1.6 billion funds under management as at 30 June 2010.

PLATYPUS
ASSET MANAGEMENT

Our operations

Financial Services

continued

Personal Financial Services

Despite operating in a market made difficult by the global financial downturn, Australian Unity's Personal Financial Services business recorded an improved performance for the financial year ended 2010 that was a result of the combined effect of an increase in revenue and a decrease in the cost base.

The business recorded an adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) loss of $5,621,000 for the year ended 30 June 2010 (2009: adjusted EBITDA loss of $7,775,000), reflecting the continued investment in the expansion of the financial advisory business. A key part of the approach is to increase our client relationships through referral partners. Pleasingly, the business was successful in increasing accountant referral relationships from 15 to 70.

Funds under advice increased by 29 percent to $582 million (compared to funds under advice of $451 million for the 2009 year). Total segment revenue for the year ended 30 June 2010 was $7,139,000, an increase of almost 30 percent when compared to the previous year (which was $5,479,000). The mortgage broking division also grew its loan book to $150 million when compared to the previous year (a total of $96 million), an increase of 56 percent.

According to the Quarterly Benchmarking for Financial Planning Businesses report update for the 2010 March quarter report, Australian Unity increased the previous year's sales by 115 percent as at 31 March 2010 and recorded the best performance of any organisation covered in the report. The Quarterly Benchmarking for Financial Planning Businesses provides insight into the business economics, productivity and efficiency of Australia's premier financial planning and advisory businesses.

Operating expenses for the 2010 financial year decreased by more than $1.6 million compared to the previous year due to a number of cost-saving initiatives. This will deliver further cost reductions during the 2011 financial year.

Australian Unity continued its support of and investment in advisers and provided practice development tailored to each adviser's needs. The Federal Government's proposed reforms, "The Future of Financial Advice" (Financial Advice Reforms) such as the banning of commissions and volume based payments created the opportunity to structure and build relationships with advisers that were better suited to this proposed model. This resulted in a reduction in adviser numbers from 59 to 50.

During the year, Australian Unity Personal Financial Services also launched a vehicle and equipment finance brokerage service and a private health insurance referral service. These new opportunities broadened the range of products and services that accountants and advisers can offer their clients.

The Australian Unity Wellbeing Index

On average, people with a home mortgage have a higher sense of wellbeing than people who are renting, regardless of income level.

Karen Ryrie
Financial adviser

"After five years working for a leading Geelong based financial practice, I decided to take the next step and establish my own financial planning practice. Spurred on by a colleague who introduced me to Australian Unity, I couldn't go past the chance to work for myself in association with a well established brand.

Four years on, and having started with no client base of my own, I have managed to grow a business through hard work and determination. I believe the assistance I received from the energetic forward-thinking Australian Unity team, with their vision to grow the Australian Unity brand, contributed to my success.

The most satisfying part of my work is the joy of advising clients that they have built up enough wealth for a comfortable retirement."

Our journey so far…

2009 Lifeplan Australia Friendly Society Limited merges with Australian Unity Limited.

2005 Grand United Friendly Society Limited merges with Australian Unity Limited.

2004 Significant expansion of retirement living services with purchase of substantial operations in NSW.
The Australian Unity Wellbeing Index receives Public Health Award for Excellence and Innovation.

2002 Australian Unity Financial Planning launched.

2001 Australian Unity Wellbeing Index developed in partnership with Deakin University.

2001 Direct property funds management business established.

1996 Australian Unity Funds Management Limited established.

1993 ANA and Manchester Unity (Victoria) merge to form Australian Unity.

Australian Unity

1986 Grand United (Victoria) merges with Manchester Unity.

1981 Manchester Unity opens Walmsley Friendship Village (retirement village) at Kilsyth.

1964 Manchester Unity (Victoria) Permanent Building Society established.

1932 Prominent Manchester Unity building in Swanston Street, Melbourne, completed.

1926 Manchester Unity Fire Insurance Company of Victoria established.

1870 Manchester Unity granted Crown land to establish a home for aged and disadvantaged members.

1846 Dr F. A. Greeves becomes 1st Grand Master. Subsequently becomes Mayor of Melbourne.

1840 Manchester Unity IOOF founded in Victoria.

Manchester Unity (VIC)

1964 ANA Permanent Building Society established.

1948 ANA General Insurance Company established.

1931 ANA Victoria member Sir Isaac Isaacs becomes the first Australian-born Governor General.

1903 ANA Victoria member Alfred Deakin becomes Australia's second Prime Minister – serving three terms in office.

1901 ANA NSW Member Edmund Barton becomes Australia's first Prime Minister.

1890s ANA campaigns for Federation.

1888 ANA resolves to commemorate Foundation Day (26 January), now celebrated each year as Australia Day.

1871 Victorian Natives' Association established. It was renamed Australian Natives' Association (ANA) shortly after.

Australian Natives' Association (VIC)

1998 Redevelopment of GU Centenary Centre – now known as Constitution Hill.

1948 GU Order of Odd Fellows opens GU Centenary Centre – Homes for the Aged and War Memorial Nursing Home.

1946 GU Building Society (No.1) established.

1937 GU opens head office building at 149 Castlereagh Street, Sydney.

1929 Unemployed members' contribution fund launched to mitigate the effects of the depression.

1919 GU Order of Odd Fellows War Memorial built in Hyde Park and donated to Sydney Council.

1902 GU Life Assurance Scheme introduced.

1888 First GU building completed at Castlereagh Street, Sydney.

1848 Grand United (GU) founded in NSW (research suggests that the first Lodge was opened in 1844).

Grand United (NSW)

1984 Lifeplan Australia Friendly Society created from the merger of various friendly societies of South Australia.

1950 South Australian Friendly Societies enter into new Medical Benefits Scheme.

1938 ANA supports formation of co-operative building societies.

1887 Australian Natives' Association (ANA) opened first branch in Adelaide.

1871 Hibernian-Australasian Catholic Benefit Society established in Adelaide.

1850 United Ancient Order of Druids open the Good Intent lodge.

1848 Independent Order of Rechabites opened Adelaide branch.

1847 Ancient Order of Foresters' Court Perseverance lodge established.

1840 First lodge of Manchester Unity IOOF established in Adelaide.

Lifeplan (SA)

Board of Directors

Alan Castleman
B Comm., Dip Elec. Eng., FIE (Aust.), FAICD

Mr Castleman is Chairman of Australian Unity Limited. He is chairman of a number of Australian Unity Limited subsidiaries and chairs the Human Resources, Remuneration and Nominations committee and is an ex-officio member of all other board committees. He chairs the Australian Centre for Health Research Limited, a company of which Australian Unity Limited is a member. He is a director and principal of the ProNed organisation involved in board advisory activities. Over the last 17 years he has been chairman of over 15 public or private companies outside the Australian Unity Group. Before 1993, his executive career was at BHP where he held a number of senior executive positions.

Rohan Mead
Group Managing Director

Mr Mead was appointed Group Managing Director of Australian Unity Limited on 1 July 2004. As Group Managing Director, he is a member of all subsidiary boards and most committees.

Mr Mead is chairman of the Business Council of Australia's Healthy Australia task force and is a director of the Australian Health Insurance Association. He is chairman of Platypus Asset Management, deputy chair of Acorn Capital, a director of Seres Asset Management (Hong Kong) and a director of the Australian Centre for Health Research. Prior to joining Australian Unity, Mr Mead was employed by Perpetual Trustees Australia Limited (1996–2003) in a range of senior roles. Prior to his work at Perpetual, Mr Mead headed marketing and communications at Blake Dawson.

Glenn Barnes
B Ag Sc (Melb), CPM, FAMI, FIAM, FAICD, SF Fin, FRSA

Mr Barnes was appointed to the Board of Australian Unity Limited on 16 October 2009. He is a director of a number of Australian Unity Limited subsidiaries and a member of the Investment Committee and the Human Resources, Remuneration and Nominations Committee. He is a professional director and consultant and is currently a director of Lion Nathan National Foods Pty Ltd, Ansell Limited and a number of private interest companies. Mr Barnes has twenty years of governance experience in banking and financial services, business information, consumer goods and the not-for-profit sector. He was involved in the packaged goods, banking and financial services sectors for over 30 years, as an executive, business leader and director in Australia, New Zealand, the United Kingdom, United States of America, Republic of Ireland, Japan and China. He has also held a number of regional and global leadership roles.

John Butler
FCPA, FIFS, FAICD

Mr Butler was appointed to the Board of Australian Unity on 31 August 2009 following the merger with Lifeplan Australia Friendly Society Limited, of which he was Chairman. He is a director of a number of Australian Unity Limited subsidiaries and a member of the Audit and Compliance Committee and the Risk Committee. The majority of Mr Butler's career was as the chief executive of the Druids Friendly Society in South Australia which operated in the health insurance, building society, retirement accommodation and nursing homes industries. He is currently a director of Beach Energy Ltd, North Eastern Community Hospital, SA Druids Grand Lodge and a trustee of the James Brown Memorial Trust which operates a retirement village and two aged care facilities, as well as maintaining his role as chairman of Lifeplan Australia group of companies. For many years he was chairman of National Pharmacies. He is president of the Flagstaff Hill Golf Club in Adelaide.

Eve Crestani
Dip. Law (B.A.B.), FAICD

Ms Crestani was appointed to the Board of Australian Unity Limited in 1996. She is a director of a number of Australian Unity Limited subsidiaries and is chairman of the Risk Committee and a member of the Human Resources, Remuneration and Nominations Committee. She is a director of Pillar Australia and Booking.com Limited and chairman of Mercer Investment Nominees Limited. Ms Crestani is qualified in law and management, and is a member of the ASX Disciplinary Tribunal and chairman of several compliance committees. She consults in finance, strategic planning, marketing and management. She is a founding fellow of the Australian Institute of Company Directors, and an emeritus trustee of the Committee for the Economic Development of Australia.

Ian Ferres
FIAA, FAICD

Mr Ferres was appointed to the Board of Australian Unity Limited in 1999 and was Group Managing Director from 2002 to 2004. He is a director of a number of Australian Unity Limited subsidiaries and is chairman of the Investment Committee and a member of the Audit and Compliance Committee. An actuary by profession, Mr Ferres worked with the National Mutual Group for 34 years, including as executive manager of all worldwide investment, property, unit trust, and banking and finance operations from 1975 to 1988, and as an executive director from 1983 to 1990. Mr Ferres is currently a consultant with TressCox Lawyers, a director of the Committee for the Economic Development of Australia and St Vincent's Hospital Melbourne, and chair and/or director of several other organisations. He was previously president of Monash Medical Centre. Over the past 40 years he has served as chair, director or member of almost 50 private and public sector boards.

Warren French
GAICD, AIMM

Mr French was appointed to the Board of Australian Unity Limited in 2005 following the merger with Grand United Friendly Society Limited, of which he was chairman. He is a director of a number of Australian Unity Limited subsidiaries and a member of the Human Resources, Remuneration and Nominations Committee and Risk Committee. Mr French has also served as a director of other mutual and charitable organisations and as a member of the Ministerial Advisory Committee for Co-operatives in New South Wales. He is a director of the Australian Unity Foundation and is active with other associations in raising funds for charitable and community organisations.

Stephen Maitland
OAM, RFD, BEc, MBus, LLM, FCPA, FAICD, FCIS, FAIM, FFin

Mr Maitland was appointed to the Board of Australian Unity Limited in 2005 following the merger with Grand United Friendly Society Limited. He is a director of a number of Australian Unity Limited subsidiaries, chairman of the Audit and Compliance Committee, and a member of the Investment Committee and Risk Committee. He is chairman of Buderim Ginger Limited and a director of the Royal Automobile Club of Queensland Limited, and several private companies. Mr Maitland is the principal of Delphin Associates, a business consultancy specialising in strategic planning, risk management, corporate governance and business transition. He has over 35 years experience in the banking and finance industries and was chief executive officer of the Queensland Office of Financial Supervision between 1992 and 1999. Mr Maitland is a member of the Management Committee of the Surf Life Saving Foundation Inc.

Kathryn Spargo
LLB (Hons), BA, FAICD

Ms Spargo was appointed to the Board of Australian Unity Limited on 16 October 2009. She is a director of a number of Australian Unity Limited subsidiaries and a member of the Audit and Compliance Committee and Investment Committee. She is chairman of the Accounting Professional and Ethical Standards Board and is a director of Transfield Services Infrastructure Ltd, Australian Energy Market Operator, Pacific Hydro Pty Ltd, Investec Bank (Australia) Ltd, Suncorp Portfolio Services Ltd and Sonic Healthcare Ltd. She is also a director of Coinvest Ltd and Franklyn Scholar Pty Ltd and an adviser to the board of patent attorney firm Griffith Hack. Ms Spargo is a councillor of the AICD's Victorian Division and conducts the Listed Company Director Program for the ASX and AICD throughout Australia. She also has an interest in international corporate ethics and governance. She was previously chairman of HomeStart Finance in South Australia and a director of IOOF Holdings for nearly 10 years.

Warren Stretton
FAICD, FCPA, FCIS, FTIA, FAMI CPM

Mr Stretton was appointed to the Board of Australian Unity Limited in 2005 following the merger with Grand United Friendly Society Limited, of which he was managing director. He is a director of a number of Australian Unity Limited subsidiaries and a member of the Audit and Compliance Committee and Investment Committee. Mr Stretton holds a Federal Government appointment to the Board of Australian Hearing and has gained wide commercial experience working in the motor, computer and entertainment industries for organisations such as Ford, Honeywell and Amalgamated Holdings Group.

Group leadership team

Rohan Mead
Group Managing Director

Biography on page 30.

Sharon Beaumont
BSc (Physiotherapy), Grad Dip OHS, MBA
Group Executive — Human Resources

Ms Beaumont joined Australian Unity in 2007. As Group Executive — Human Resources, she is responsible for the management of the Group's people and culture strategies and processes. She is a director of a number of Australian Unity Limited subsidiaries including Remedy Healthcare Group, Australian Unity Personal Financial Services Limited, Australian Unity Retirement Living Services Limited and Australian Unity Retirement Living Management Pty Ltd. Ms Beaumont has over 15 years experience in health, risk management and human resource management. Before joining Australian Unity, Ms Beaumont worked in various roles in these areas for state governments, ColesMyer and BHP.

David Bryant
GAICD
Group Executive — Investments & Chief Investment Officer

Mr Bryant joined Australian Unity in 2004. As Group Executive — Investments & Chief Investment Officer, he is responsible for all of the investment management businesses and activities across Australian Unity's financial and property assets. He is a director of a number of Australian Unity Limited subsidiaries including Australian Unity Funds Management Limited, Australian Unity Property Limited and Australian Unity Finance Limited and each of its Investment Joint Venture subsidiaries. Mr Bryant is a member of the Investment and Financial Services Association Investment Board Committee, and has 25 years experience in investment and financial services with high profile organisations such as Westpac, State Street and Intech. Before joining Australian Unity, Mr Bryant was chief operating officer — Personal Financial Services at Perpetual Limited.

Anthony Connon
BA (Oxon), FCA, FAICD
Chief Financial Officer

Mr Connon joined Australian Unity in 1995. As Chief Financial Officer, he is responsible for all elements of Australian Unity's finance function with special emphasis on reporting, capital management, taxation and the development of corporate structures for prudential and regulatory purposes. He is a director of the majority of the Australian Unity Limited subsidiaries. Mr Connon has over 30 years experience in senior finance and administrative roles within various organisations including PriceWaterhouseCoopers, Grindlays Bank, and Elders Finance Group. Before joining Australian Unity, Mr Connon was financial controller of the Australian Wheat Board. Mr Connon is a non-executive director of Calliden Group Limited, the honorary treasurer of Friendly Societies Australia Inc and is the chairman of the Lord Mayor's Charitable Foundation.

Steve Davis
General Manager — Personal Financial Services

Mr Davis joined Australian Unity in February 2009 as Head of Practice Development and in August 2009 he was promoted to the role of General Manager Personal Financial Services. Mr Davis is responsible for the operations and growth of the Group's Personal Financial Services business, which delivers high quality financial planning, finance broking and life risk insurance services to clients through a network of financial advisers, accountants and finance brokers. Mr Davis has over 28 years experience in financial services and prior to joining Australian Unity he worked with Perpetual Limited for over 14 years in a range of senior management roles.

Amanda Hagan
BSc (BIT), SIA
Group Executive — Healthcare

Ms Hagan joined Australian Unity in May 2006. As Group Executive — Healthcare and Chief Executive Officer of Australian Unity Health Limited and Grand United Corporate Health Limited, she is responsible for all elements of Australian Unity's healthcare operations and strategic development of the business. She is a director of a number of Australian Unity Limited subsidiaries including Grand United Corporate Health Limited, Remedy Healthcare

Group and Australian Unity Retirement Living Services Limited. She is a director of the Australian Health Service Alliance (a cooperative hospital contracting company formed by 24 health insurance funds). Ms Hagan has over 15 years experience in senior roles consulting on strategic projects for a range of companies including AGL, American Express and Energy Australia. Before joining Australian Unity, Ms Hagan held various executive roles with Perpetual Limited.

Kimina Lyall
Group Executive — Corporate Development

Ms Lyall joined Australian Unity in 2007. Appointed as Group Executive — Corporate Development in August 2008, she is responsible for group strategy, corporate communications, member relations and the development of the corporate brand. She is a director of Australian Unity Retirement Living Services Limited and Australian Unity Personal Financial Services Limited. Prior to joining Australian Unity Ms Lyall worked as a journalist for 15 years. She worked for *Time Australia* and *The Australian* newspaper, where she held senior reporting, foreign correspondent and management positions. She is a member of not-for-profit organisations, the Dart Centre for Journalism and Trauma and a director of Greatconnections.

Kirsten Mander
LLM, ACIS, FAICD, MRMIA
General Counsel and Company Secretary

Ms Mander was appointed General Counsel and Company Secretary of Australian Unity Limited in June 2009. She is responsible for Group Governance Services, including legal and company secretarial affairs, risk management and compliance. Ms Mander has had extensive experience as a senior executive, general counsel and company secretary of a number of Australia's top companies, including Sigma Pharmaceuticals, TRUenergy, Smorgon Steel Group and WMC Resources. She is also chair of the Victorian Assisted Reproductive Treatment Authority and a director on several other boards including the Consultative Council for Human Research Ethics and the Women's Circus.

Derek McMillan
BSc (Hons), Dip Ed
Group Executive — Retirement Living

Mr McMillan joined Australian Unity in 1999. He held a number of executive positions before being appointed as Group Executive — Retirement Living Services in 2005. He is responsible for all elements of the operations and development of the retirement living business, spanning retirement villages, residential aged care and community care. He is a director of a number of Australian Unity Limited subsidiaries including Australian Unity Retirement Living Services Limited, Australian Unity Health Limited, Remedy Healthcare Group and Australian Unity Personal Financial Services Limited. Mr McMillan was elected to the Board of the Retirement Villages Association in 2007 and currently holds the position of vice president. Mr McMillan has over 20 years commercial experience in leading organisations in the health and ageing, financial services and agricultural industries.

Tahir Tanveer
Master of Information Technology, BA Econ, Grad Dip Information Systems
General Manager — Business Technology

Mr Tanveer joined Australian Unity in July 2008 as the Head of Solutions Delivery and in October 2009, he was appointed General Manager — Business Technology. Mr Tanveer is responsible for the management of the business technology group which deploys the company's technology infrastructure and analyses and translates strategies into appropriate solutions. Mr Tanveer has over 20 years of extensive experience in developing strategies, managing change and implementing technology solutions in the financial services sector. He is also a qualified project director certified by the Australian Institute of Project Management and has managed multi-million dollar projects. Prior to joining Australian Unity, Mr Tanveer worked with Perpetual Limited as chief technology officer and held senior roles at the Commonwealth Securities Limited, Skandia Australia and Westpac Bank.

Governance Statement

Australian Unity Limited is a public company with a number of wholly owned and closely-held subsidiaries carrying out the major operational business activities of the Australian Unity Group. Australian Unity Limited is not a sharemarket company; it is a mutual company, comprising some 300,000 members as at 30 June 2010.

Our approach to corporate governance

ASX Listing Rules

Although not a listed company, Australian Unity Limited is a major public company and the Australian Unity board supports the Australian Securities Exchange (*ASX*) Corporate Governance Principles and Recommendations. The board has adopted a governance charter that reflects many of these principles, as relevant to a mutual company.

Our regulators

Australian Unity's business operations are extensively regulated by the Private Health Insurance Administration Council (health), Australian Prudential Regulation Authority (*APRA*) (friendly society benefit funds, building society and life insurance) and Australian Securities and Investments Commission (corporate, other investment products and financial services), in addition to state regulation (retirement living services), commonwealth regulation (aged care) and the regulation of trade practices by the Australian Competition and Consumer Commission.

Australian Unity complies with the APRA Governance Prudential Standards APS 510 (for authorised deposit-taking institutions) and LPS 510 (for life insurers) and with the Governance Standard for private health insurance in Schedule 1 of the Private Health Insurance (Insurer Obligations) Rules 2009.

Australian Unity Limited board of directors

Board composition and expertise

As at 30 June 2010, there were 10 directors on the Australian Unity Limited board, each with specific expertise and experience relevant to the Group's activities. The board is comprised of a majority of directors who are non-executive and judged by the board to be independent and free of material relationships that might influence their ability to act in the interests of the Group and its members.

The personal qualities required of our directors are: honesty and integrity; strategic insight; capacity to relevantly question, probe and challenge; and, a commitment to both the values of the Group and the highest standards of corporate governance. Each director must also possess particular skills or experience relevant to the business operations of the Group. These may include specific skills, knowledge and experience in one or more of insurance, healthcare, retirement living services, investment management and financial services, as well as general skills, knowledge and experience in management, legal, financial, accounting, actuarial, regulatory, human resources, marketing and commercial disciplines.

Board role and responsibilities

The role of the Australian Unity Limited board is to promote and protect the interests of the Company and its members. It does so by strategically directing and soundly governing the Group's activities and by seeking the highest standards of ethical conduct and service from employees.

The role and responsibilities of the board are formalised in the board charter. Some of the key matters the board has reserved for itself include:

- Appointment and terms of appointment of the Group Managing Director;
- Approval of Group and business unit strategies;
- Approval of Group and business unit annual operating plans, including capital and operating budgets and the overall salaries and benefits budget;
- Approval of delegated authorities;
- Approval of financial expenditures and allocations and changes to the Group's capital structure above the Group Managing Director's delegated limits;
- Approval and adoption of annual group accounts;
- Approval of new subsidiaries and subsidiary board members;
- Approval of Group policies;
- Approval of matters reserved to the board committees by their terms of reference; and

- Approval of any other matters that, in the opinion of the board, are necessary from time to time to maintain a high standard of corporate governance.

Role of Chairman

The board annually elects the Chairman after the annual general meeting. The Chairman must be an independent non-executive director. The Chairman is responsible for the efficient conduct of the board's meetings, setting the agenda, facilitating the work of the board at its meetings and ensuring that the procedures and standards of the board are observed. The Chairman also maintains relationships with key regulatory and other stakeholders and has other responsibilities detailed later in this statement.

Meetings of the board

The Australian Unity Limited board has 10 scheduled meetings each year, each usually scheduled over two days, and where necessary, will meet between scheduled meetings to deal with matters as and when appropriate. Once a year the board meets to approve the strategic plan and its application to the year ahead.

Avoidance of conflicts of interests

In addition to their standing notices, directors must declare any specific conflicts of interest arising from the business of a particular meeting.

Review of board performance

The board regularly conducts performance assessments of the board as a whole, its committees, the Chairman, individual directors and its governance process.
The board, led by the Chairman, reviews the skills represented by the directors on the board from time to time to ensure that the mix of skills remains appropriate to achieve Australian Unity Limited's objectives.

Succession planning

The board periodically considers and identifies suitable candidates for board appointment as successors to current directors or to supplement and renew the skills and experience of the board. The board is responsible for the Group Managing Director's succession planning.

Retirement and re-election of directors

Directors (other than the Group Managing Director) serve for terms of not more than three years from the conclusion of the annual general meeting at which they are elected. No director (other than the Group Managing Director) shall retain office past the third annual general meeting following the director's appointment, although they may offer themselves for re-election at that time.

Committees

The board has established committees that are necessary to assist it in monitoring, and where relevant, advising the management of the Group and maintaining appropriate standards. Each committee is composed of the individual directors determined by the board to be best suited to fulfil the committee's terms of reference.

The Chairman of Australian Unity is either a member or an ex-officio member of each committee. Each committee is chaired by a non-executive director appointed by the board. Each committee provides regular reports to the board about the activities of the committee. The minutes of the committee are tabled at the following board meeting. The Chairman reviews the composition of the board's committees annually, taking into account the skills and interests of directors. The current key committees established by the board to assist it in the performance of its duties are:

Audit and Compliance Committee

The audit and compliance committee (*A&C committee*) approves the annual internal audit plan and monitors the Group Audit department's performance against this plan. The main objective of the A&C committee is to oversee the credibility and objectivity of financial reporting and the compliance with Group obligations.

The A&C committee assists the board in fulfilling its fiduciary responsibilities relating to corporate accounting and reporting practices of the Group. Other goals are:

- To oversee and appraise the quality of the audits conducted by both the Group's internal and external auditors;
- To determine the adequacy of the Group's controls and evaluate adherence;
- To ascertain the adequacy of management financial reports;
- To serve as an independent and objective party to review the financial information presented to members, regulators and the general public; and
- To maintain open lines of communication with the external auditor.

Risk Committee

In recognition of the important role that effective risk management plays in sustaining and enhancing Australian Unity's performance, the board has established a risk committee dedicated to overseeing

Governance Statement
continued

the strategic management of risk and the continuing development of sound internal policies and controls.

Investment Committee

The investment committee reviews and monitors the performance of Australian Unity Investments and any investment managers utilised by it. It also approves the investment policies, strategies and other guidelines for the Group's own investable assets. The investment committee plays a critical role in assessing and reviewing our investment approach and outlook to support their appropriateness and our compliance with relevant covenants.

Human Resources, Remuneration and Nominations Committee

The human resources, remuneration and nominations committee (*HR committee*) is responsible for evaluating the performance of the Group Managing Director and monitoring the performance of Group Executives (who generally also serve as executive directors of subsidiary boards). The HR committee also recommends the remuneration of the Group Managing Director to the full board and approves the remuneration for Group Executives.

The HR committee works to ensure that Australian Unity has remuneration policies and practices that fairly, responsibly and competitively reward executives and staff. The HR committee's considerations on reward structures are based on business performance, external competitiveness, compliance with legal obligations, and high standards of corporate governance. All members of the HR committee are independent non-executive directors. Independent remuneration consultants are engaged to assist the HR committee as necessary, providing specialist market information and technical advice.

Remuneration

Australian Unity's remuneration policy, which was developed by the HR committee and approved by the board, sets the framework for rewarding Australian Unity's non-executive directors, Group Executives and the Group Managing Director.

Non-executive director remuneration

The total aggregate remuneration paid by the Company to non-executive directors as fees for their services as directors cannot exceed the maximum approved at its annual general meeting.

The board's focus is on long-term strategic direction and overall corporate performance. As a consequence, non-executive director remuneration is not related to results and they do not participate in any incentive plans. Superannuation contributions for directors in accordance with the superannuation guarantee legislation are included in the aggregate fee. When reviewing non-executive directors' fees, the HR committee may seek the advice of independent remuneration consultants to ensure market alignment.

Executive remuneration principles

The main principles underlying Australian Unity's executive remuneration policy are:

- The design of reward programs:
  - recognises member interests by aligning performance to business and strategic plans; and
  - ensures a balance between individual reward and sustainability of Australian Unity over time;
- Measures of total reward (fixed plus variable reward) are externally focused, being competitive against companies and sectors in which Australian Unity competes for talent, in recognition of the need to attract, retain and motivate talented and experienced senior staff;
- A balance is struck between fixed and variable reward to encourage behaviour that supports the long-term strategic development, sustainability and financial soundness of Australian Unity;
- Rewards recognise adherence to cultural values and ethical behaviour; and
- Incentives are performance focused and explicitly linked to rigorous financial and non-financial performance targets. The setting of the performance targets supports the creation of member service and value, with the proportion of 'at risk' performance-based remuneration generally increasing with seniority.

Executive remuneration structure

Group Executives' remuneration packages are recommended by the Group Managing Director and approved by the HR committee and the board. The HR committee also reviews and makes recommendations on the Group Managing Director's remuneration package, which is subject to board approval. In determining the level and make-up of the Group Executives' and

Group Managing Director's remuneration, the HR committee may seek the advice of independent remuneration consultants to ensure market alignment.

Australian Unity recognises that its ability to provide quality products and services to its members depends largely on the quality and performance of its people. The executive remuneration policy is designed to motivate high performance and ethical behaviour and is linked to individual, business and company results. Our executive remuneration structure comprises two components.

1. **Fixed reward:** A total employment cost (*TEC*) approach is used which is the total salary package value and includes:

   - Base salary;
   - The dollar value of any salary packaged benefits;
   - Fringe Benefits Tax (*FBT*);
   - Pre-tax voluntary contributions to superannuation; and
   - Mandatory employer Superannuation Guarantee contributions.

   Executives are paid fixed remuneration on a TEC basis. Fixed remuneration is reviewed annually, taking into account the nature of the role, external data on pay position relative to comparable roles in similar industries, individual and business performance, and contribution to the Group's strategic plans.

2. **Variable rewards:** A short-term incentive program provides performance-related bonuses. A long-term incentive plan was also implemented with effect from 1 July 2006, in order to more explicitly balance the focus of executive efforts on sustainable longer-term development of Australian Unity. The plan provides for the payment of bonuses related to the performance of the Group over multi-year periods, subject to achievement of performance criteria.

   In order to receive full bonus potential, an individual executive must perform against their financial, strategic development, operational management and compliance objectives. As the performance outcome for executives includes a weighting on financial achievement, the cost to the Company of overall incentive payments is linked to the financial performance of the Group.

   Payment under variable reward programs is contingent on Australian Unity's capacity to pay; the board may adjust performance based components of remuneration downwards if such adjustments are necessary to protect the financial soundness of Australian Unity.

Audit, risk and compliance

External auditor

Ernst & Young has been appointed to conduct an audit of the financial report and to report to members in accordance with the requirements set out in the *Corporations Act 2001*. Their audit report is provided at the end of the financial report.

A representative from Ernst & Young attends the annual general meeting and is available to answer questions from members on the conduct of the audit, the preparation and content of the auditor's report, accounting policies adopted in the preparation of the financial statements and Ernst & Young's independence in relation to the conduct of the audit of the Group's financial statements.

Internal audit

The Group's audit department aims to provide independent, objective assurance and consulting services designed to add integrity and value to improve the Group's operations.

By bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control and governance processes, it can help the Group accomplish its objectives.

The Group audit team assesses whether the Group's network of risk management, control and governance processes is adequate and functioning in a manner that supports various aims, including: the appropriate identification, reporting and management of risks; the accuracy, reliability and relevance of financial, managerial and operating information; and that employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations.

Governance Statement
continued

Risk management

Australian Unity is committed to the identification and quantification of risk throughout its business units and controlled entities. The board has established a comprehensive enterprise risk management policy and framework covering significant business risks and strategic considerations. The underpinning processes are consistent with the principles of the relevant Standard (AS/NZS ISO 31000).

As part of the risk management framework, all business units maintain, regularly review and update their risk registers and provide annual presentations to the board's risk committee on their existing and emerging risks, associated mitigation strategies and status of implementation. Higher rated risks are reviewed by the risk committee each quarter.

Risk identification, measurement and mitigation strategies are included in all business-related proposals considered by the board and form a part of the project management framework. There are also a number of programs in place to manage risk in specific areas, such as capital management, business continuity and emerging regulation.

The potentially adverse financial impacts associated with catastrophic risk exposures are also limited by the purchase of appropriate insurance cover.

Our risk management framework is periodically revised to facilitate a continued proactive and consistent approach to risk management across all areas of activity.

Compliance

Australian Unity has a well developed and implemented compliance framework. Compliance managers are in place in specific business units where appropriate, supported by the Group compliance team. The focus of this function is to ensure ongoing compliance with all laws and regulatory requirements, with particular focus on industry specific requirements. Group wide compliance is also supported by a Group compliance training system and the computer-based compliance database.

Financial report
for the year ended 30 June 2010

These financial statements cover both the separate financial statements of Australian Unity Limited as an individual entity and the consolidated financial statements for the Group consisting of Australian Unity Limited and its subsidiaries. The financial statements are presented in the Australian currency.

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

114 Albert Road
South Melbourne VIC 3205

The financial statements were authorised for issue by the directors on 31 August 2010.

Contents

Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Australian Unity Limited and the entities it controlled at the end of, or during, the year ended 30 June 2010.

Directors

The following persons were directors of Australian Unity Limited during the whole of the financial year and up to the date of this report (except where otherwise stated):

Alan Castleman, Chairman
Rohan Mead, Group Managing Director
Glenn Barnes, Director (appointed 16 October 2009)
John Butler, Director (appointed 31 August 2009)
Eve Crestani, Director
Ian Ferres, Director
Warren French, Director
Stephen Maitland, Director
Kathryn Spargo, Director (appointed 16 October 2009)
Warren Stretton, Director
Bruce Siney, Director (ceased 27 October 2009)

Company Secretaries

Kirsten Mander and Catherine Visentin were company secretaries of Australian Unity Limited at 30 June 2010.

Principal activities

The principal continuing activities of the Group during the year were the provision of a range of products and services to serve members and customers with their savings, financial security, healthcare and retirement living needs. These products and services included investments and loan facilities, health and life insurance, financial planning, allied health and dental services, aged care and retirement living facilities.

Review of operations

The Group's continued and developing focus on its principal activities supported a solid return to higher levels of profitability after the adverse financial market conditions of the preceding year. The Group's profit after tax rose from $1,051,000 in 2009 to $17,128,000 in the 2010 financial year. These financial results were underpinned by investments in customer service and the operational development of our business activities. A significant element was the implementation of the merger with Lifeplan Australia Friendly Society (Lifeplan), which both extended our operations and expanded substantially the number of members of the company.

Other investments in our businesses included further developments of three of our retirement villages in Victoria and New South Wales; the establishment of a new funds management joint venture in Hong Kong for the provision of Asian equities managed funds; more aged, transition and community care places; and the development of additional chronic disease management programs.

A turnaround from a deficit of ($4,083,000) to a surplus of $5,783,000 in external investment income following the recovery in global financial markets also contributed to the improvement in the financial result.

The merger with Lifeplan was finalised on 31 August 2009, adding $47,537,000 in Members' Funds and $1.5 billion in funds under management. Integration of the Lifeplan businesses is now complete, with its Adelaide offices now providing the headquarters for the bonds sector of our Investments business.

During the year additional Retirement Village Investment Notes were issued to fund retirement village activities while the overall level of Group borrowings (excluding Building Society deposits) was reduced from $155.6 million to $141.7 million, largely due to the partial repayment of the maturing $60 million cash advance facility from Westpac and its replacement by a new three year $50 million facility in June 2010.

In accordance with the revised standard, AASB 8 *Operating Segments*, the results of the business units have been reported as adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA). For further information refer to note 4.

Key aspects of each of the Group's activities during the year are as follows:

Healthcare and Health Insurance

The Group's overall Health operations recorded an adjusted EBITDA of $50,891,000 for the year ended 30 June 2010 (2009: $32,511,000). Total segment revenue for the combined healthcare business, which includes the Australian Unity and Grand United Corporate (GU Health) insurance businesses and the Australian Unity dental and allied health business, was $528,174,000 for the year ended 30 June 2010 (2009: $492,591,000).

During the year, the allied health business, Remedy Healthcare, launched the Diabetes Awareness and Self Management Program. The initiative, which is free to Australian Unity Health insurance members, provides a six-month telephone support program with individualised care that addresses concerns and specific needs in managing diabetes and preventing long-term complications.

Remedy, through its 50 percent ownership of a home rehabilitation business, Rehability, also offers members physiotherapy treatment and occupational therapy services in the comfort of their home within 24-48 hours of a phone call. Rehability has more than 30 full-time and permanent part-time staff and has relationships with more than 25 clinics across Melbourne.

Building on last year's customer service success, Australian Unity won the overall Outstanding Business Award in Service Excellence at the 2009 International Customer Service Professional (ICSP) Awards, as well as the platinum award in the large business category, improving on last year's gold award.

Australian Unity's three dental centres located in South Melbourne, Box Hill and Melbourne's CBD had over 42,000 patient visits during the year.

Retirement Living

Australian Unity's Retirement Living business recorded an adjusted EBITDA of $10,155,000 for the year ended 30 June 2010 (2009: $9,167,000). The year was notable for an increase in sales and occupancy levels and firmer property prices, and additional strategic investments in the provision of a more diverse range of services to residents. Lower development profits due to project phasing and a village unit refurbishment program of $5 million moderated the year's overall result.

A 30 percent increase in unit settlements over the prior year reflected the rebound in consumer confidence following the global financial crisis and improvements in our sales and marketing function. As a result, village occupancy levels increased to above 95 percent and the time on market for vacant units significantly decreased.

Occupancy at the residential aged care facilities similarly increased during the year, with overall levels reaching just over 98 percent at 30 June 2010, compared to 90 percent at 30 June 2009. This was largely driven by our newest residential aged care facility, Victoria Grange, located in eastern Melbourne, reaching full capacity. The completion of Victoria Grange and improved occupancy across all aged care sites also resulted in significant cash flows from accommodation bonds with a net increase in bonds held of $18.7 million for the 2009–10 financial year.

A number of successful funding applications saw offerings further boosted, with our range and geographic coverage of community care places almost doubling in 2009–10. As a result, the business has 105 active community care packages (up from 53 active packages as at 30 June 2009), and a total of some 40 ambulatory care packages across New South Wales and Victoria. Australian Unity Retirement Living was also selected as a preferred provider of in-home direct care services by the New South Wales government's Home Care Service.

Our plans for expansion through new developments was somewhat dampened during the year by the continued caution of financiers and regional markets towards all property development activities. Given the uncertainty of market conditions and difficulties with town planning approvals at our project in Bowral, New South Wales, we expensed all costs incurred to date on this project during the year, which also significantly impacted the year's result. Nonetheless, Australian Unity Retirement Living's program of retirement village and aged care development gained momentum during the financial year, with the retirement village developments of Victoria Grange (Vermont South, Victoria) and Sienna Grange (Port Macquarie, New South Wales) steadily progressing.

The business also successfully obtained development funding and commenced construction of a 280 unit retirement community on the Mornington Peninsula, Victoria. Known as Peninsula Grange, work commenced on the site late in the financial year with stage one scheduled for completion during the 2010–11 financial year. The project has been granted 90 places for a residential aged care facility as part of this development.

Important steps were taken to give form to the vision of Australian Unity's wellbeing precinct in inner city Carlton, Victoria, a $180 million project that is part of the Victorian Government's Carlton Housing Redevelopment. Working closely with the Office of Housing, Department of Human Services and City of Melbourne, as well as other local stakeholders, Australian Unity Retirement Living has developed plans for an integrated health and ageing precinct that will complement the broader community, create some 150 continuing jobs and provide accommodation for more than 400 people.

Investments

In a year where investors were again asked to deal with ongoing uncertainty, Australian Unity Investments continued to achieve growth despite the sharemarket volatility, increasing its funds under management from $5.8 billion as at 30 June 2009 to $10.3 billion as at 30 June 2010. Australian Unity Investments' success is attributable to its diversified business strategy that proved its resilience and promoted growth in one of the most difficult periods for investment markets in many decades. This strategy includes participation in five key joint venture arrangements with specialist asset managers: Acorn Capital, Platypus Asset Management, Seres Asset Management, Vianova Asset Management and Wingate Asset Management.

The business continues to see the effects of the global financial crisis, with wary investors remaining in cash even when equities and other investments have appeared to be a better alternative. Despite the conditions, there have still been some excellent long-term opportunities for those able to take advantage of them.

Overall, the business recorded an adjusted EBITDA of $10,481,000 as at 30 June 2010 (2009: $10,831,000). In the most recent data from actuarial and research company Plan for Life, Australian Unity Investments was ranked seventh for wholesale fund net flows and ninth for retail fund net flows for the quarter ending 31 March 2010.[1]

Australian equities manager Platypus Asset Management's funds under management increased to $1.6 billion as at 30 June 2010 (2009: $1.2 billion), and the Australian Unity Investments Platypus Australian Equities Trust (Wholesale) returned 11.85 percent after fees for the year to 30 June 2010. The new Australian Unity Investments Platypus Quantitative Growth Fund was also launched during the year.

The microcap sector, in which Acorn Capital operates was one of the stronger recovery stories following the global financial crisis. Acorn Capital's funds under management was $1.0 billion as at 30 June 2010 (2009: $0.8 billion), and the Acorn Capital Wholesale Microcap Trust returned 23.99 percent after fees for the year to 30 June 2010, 2.29 percent above the industry benchmark.

International equities fund manager Wingate Asset Management continued to establish its presence during the year, expanding its team and receiving its first external client. In February 2010, Wingate Asset Management also held the inaugural meeting of its investment advisory committee.

Australian Unity Investments also established a new Asian equities boutique fund manager, Seres Asset Management, in Hong Kong, and expects to launch a Seres Asian equities fund for Australian investors later in 2010.

Vianova Asset Management significantly increased its funds under management during the year, and the Australian Unity Investments Vianova Strategic Fixed Interest Trust (Wholesale) (Vianova Trust) returned 6.86 percent after fees for the year to 30 June 2010. The Vianova Trust was a Gold Winner in the *Money Magazine* Best of the Best Awards 2010 in the category of Best Australian Fixed Interest Funds.

Australian Unity Investments' property business not only came through the turbulent global market in good shape, but also positioned itself to take advantage of a time of opportunity and growth in the property sector. The total value of the property portfolio was $1.1 billion as at 30 June 2010 (2009: $1.1 billion), and the business' major funds managed to hold or increase their value for investors despite very difficult market conditions.

The Mortgage Income Trust (Wholesale) returned 4.97 percent and the High Yield Mortgage Trust (Wholesale) returned 3.12 percent after fees for the year ending 30 June 2010. The total mortgage funds under management was $0.9 billion as at 30 June 2010 (2009: $1.1 billion), spread over 323 mortgages.

Notes:
1 Plan for Life Pty Ltd data (March 2010)

Directors' report

Members of Lifeplan Australia Friendly Society overwhelmingly approved a proposal to merge with Australian Unity in August 2009, with over 98 percent of the members' vote in favour. Lifeplan is now part of the Australian Unity Investments business and is well placed to provide Australia's ageing population with a range of investments that offer tax advantages, capital protection, income and growth.

The merger provides all members and customers with access to a greater range of competitive and flexible tax effective investments such as education savings plans and funeral bonds.

Lifeplan's Building Society was a Gold Winner in the *Money Magazine* Best of the Best Awards 2010 in the category of Best Five-Year Fixed Investment Loans.

Personal Financial Services

Despite operating in a market made difficult by the global financial downturn, Australian Unity's Personal Financial Services business recorded an improved performance for the financial year ended 2010; that was a result of the combined effect of an increase in revenue and a decrease in the cost base.

The business unit recorded an adjusted EBITDA loss of $5,621,000 for the year ended 30 June 2010 (adjusted EBITDA loss of $7,775,000 for the year ended 30 June 2009), reflecting the continued investment in the expansion of the financial advisory business. A key part of our approach is to increase our client relationships through referral partners. Pleasingly, we were successful in increasing accountant referral relationships from 15 to 70.

Funds under advice increased by 29 percent to $582 million (compared to funds under advice of $451 million for the 2009 year). Total segment revenue for the year ended 30 June 2010 was $7,139,000, an increase of almost 30 percent compared to the previous year (which was $5,479,000). The mortgage broking division also grew its loan book with an increase of 56 percent to $150 million when compared to the previous year (a total of $96 million).

The business report, Quarterly Benchmarking for Financial Planning Businesses provides insight into the business economics, productivity and efficiency of Australia's premier financial planning and advisory businesses. According to the report update for the 2010 March quarter, Australian Unity increased the previous year's sales by 115 percent as at 31 March 2010 and recorded the best performance of any organisation covered in the report.

Operating expenses for the 2010 financial year decreased by more than $1.6 million compared to the previous year due to a number of cost saving initiatives. This will deliver further cost reductions during the 2011 financial year.

We continued our support of, and investment in, advisers and provided practice development tailored to each adviser's needs. The Federal Government's proposed reforms, "The Future of Financial Advice" (Financial Advice Reforms) such as the banning of commissions and volume based payments also gave us the opportunity to structure and build relationships with advisers that were better suited to this proposed model. This resulted in a reduction in adviser numbers from 59 to 50.

During the year, Australian Unity Personal Financial Services also launched a vehicle and equipment finance brokerage service and private health insurance referrals to our healthcare business. These new opportunities broadened the range of products and services that accountants and advisers can offer their clients.

Significant changes in the state of affairs

Total Members' funds increased to $364,682,000 at 30 June 2010 (2009: $302,610,000), an increase of $62,072,000 during the financial year. This movement reflects additional members' funds as a result of the merger with Lifeplan Australia Friendly Society Limited of $47,537,000 and the profit for the year, offset by movements in reserves.

Matters subsequent to the end of the financial year

On 31 August 2010, the directors of a number of wholly-owned subsidiary companies within the Group declared dividends totalling $1,402,500 (2009: $14,342,560) payable to the Parent entity and the Parent entity subscribed for $300,000 (2009: $10,172,999) of additional share capital in a number of wholly-owned subsidiaries.

The board is not aware of any other matter or circumstance arising since 30 June 2010 which has significantly affected or may significantly affect the financial status or results of the Group.

Likely developments and expected results of operations

The board is not aware of any developments which may affect the Group's operations and expected results of operations which can be disclosed without prejudicing unreasonably their likelihood of success or violating commercial confidences.

Environmental regulation

No significant environmental regulations apply to the Parent entity. The property operations within both the retirement living services business and in investment syndicates and trusts for which a controlled entity acts as Responsible Entity or Manager are, however, subject to environmental regulations under Australian law. There have been no known reportable breaches of these regulations.

Information on directors in office at the date of this report

Alan Castleman *B Comm., Dip Elec. Eng., FIE (Aust.), FAICD*

Mr Castleman is Chairman of Australian Unity Limited. He is chairman of a number of Australian Unity Limited subsidiaries and chairs the Human Resources, Remuneration and Nominations Committee and is an ex-officio member of all other board committees. He chairs the Australian Centre for Health Research Limited, a company of which Australian Unity Limited is a member. He is a director and principal of the ProNed organisation involved in board advisory activities. Over the last 17 years he has been chairman of over 15 public or private companies outside the Australian Unity Group. Before 1993, his executive career was at BHP where he held a number of senior executive positions.

Rohan Mead *Group Managing Director*

Mr Mead was appointed Group Managing Director of Australian Unity Limited on 1 July 2004. As Group Managing Director, he is a member of all subsidiary boards and most committees.

Mr Mead is chairman of the Business Council of Australia's Healthy Australia task force and is a director of the Australian Health Insurance Association. He is chairman of Platypus Asset Management, deputy chair of Acorn Capital, a director of Seres Asset Management (Hong Kong) and a director of the Australian Centre for Health Research. Prior to joining Australian Unity, Mr Mead was employed by Perpetual Trustees Australia Limited (1996–2003) in a range of senior roles. Prior to his work at Perpetual, Mr Mead headed marketing and communications at Blake Dawson.

Glenn Barnes *B Ag Sc (Melb), CPM, FAMI, FIAM, FAICD, SF Fin, FRSA*

Mr Barnes was appointed to the Board of Australian Unity Limited on 16 October 2009. He is a director of a number of Australian Unity Limited subsidiaries and a member of the Investment Committee and the Human Resources, Remuneration and Nominations Committee. He is a professional director and consultant and is currently a director of Lion Nathan National Foods Pty Ltd, Ansell Limited and a number of private interest companies.

Mr Barnes has twenty years of governance experience in banking and financial services, business information, consumer goods and the not-for-profit sector. He was involved in the packaged goods, banking and financial services sectors for over 30 years, as an executive, business leader and director in Australia, New Zealand, the United Kingdom, United States of America, Republic of Ireland, Japan and China. He has also held a number of regional and global leadership roles.

John Butler *FCPA, FIFS, FAICD*

Mr Butler was appointed to the Board of Australian Unity Limited on 31 August 2009 following the merger with Lifeplan Australia Friendly Society Limited, of which he was chairman. He is a director of a number of Australian Unity Limited subsidiaries and a member of the Audit and Compliance Committee and the Risk Committee. The majority of Mr Butler's career was as the chief executive of the Druids Friendly Society in South Australia which operated in the health insurance, building society, retirement accommodation and nursing homes industries. He is currently a director of Beach Energy Ltd, North Eastern Community Hospital, SA Druids Grand Lodge and a trustee of the James Brown Memorial Trust which operates a retirement village and two aged care facilities, as well as maintaining his role as chairman of the Lifeplan Australia group of companies. For many years he was chairman of National Pharmacies. He is president of the Flagstaff Hill Golf Club in Adelaide.

Eve Crestani *Dip. Law (B.A.B.), FAICD*

Ms Crestani was appointed to the Board of Australian Unity Limited in 1996. She is a director of a number of Australian Unity Limited subsidiaries and is chairman of the Risk Committee and a member of the Human Resources, Remuneration and Nominations Committee. She is a director of Pillar Australia and Booking.com Limited and chairman of Mercer Investment Nominees Limited. Ms Crestani is qualified in law and management, and is a member of the ASX Disciplinary Tribunal and chairman of several compliance committees. She consults in finance, strategic planning, marketing and management. She is a founding fellow of the Australian Institute of Company Directors and an emeritus trustee of the Committee for the Economic Development of Australia.

Ian Ferres *FIAA, FAICD*

Mr Ferres was appointed to the Board of Australian Unity Limited in 1999 and was Group Managing Director from 2002 to 2004. He is a director of a number of Australian Unity Limited subsidiaries and is chairman of the Investment Committee and a member of the Audit and Compliance Committee. An actuary by profession, Mr Ferres worked with the National Mutual Group for 34 years, including as executive manager of all worldwide investment, property, unit trust, and banking and finance operations from 1975 to 1988 and as an executive director from 1983 to 1990. Mr Ferres is currently a consultant with TressCox Lawyers, a director of the Committee for the Economic Development of Australia and St Vincent's Hospital Melbourne, and chair and/or director of several other organisations. He was previously president of Monash Medical Centre. Over the past 40 years he has served as chair, director or member of almost 50 private and public sector boards.

Warren French *GAICD, AIMM*

Mr French was appointed to the Board of Australian Unity Limited in 2005 following the merger with Grand United Friendly Society Limited, of which he was chairman. He is a director of a number of Australian Unity Limited subsidiaries and a member of the Human Resources, Remuneration and Nominations Committee and Risk Committee. Mr French has also served as a director of other mutual and charitable organisations and as a member of the Ministerial Advisory Committee for Co-operatives in New South Wales. He is a director of the Australian Unity Foundation and is active with other associations in raising funds for charitable and community organisations.

Stephen Maitland *OAM, RFD, BEc, MBus, LLM, FCPA, FAICD, FCIS, FAIM, FFin*

Mr Maitland was appointed to the Board of Australian Unity Limited in 2005 following the merger with Grand United Friendly Society Limited. He is a director of a number of Australian Unity Limited subsidiaries, chairman of the Audit and Compliance Committee, and a member of the Investment Committee and the Risk Committee. He is chairman of Buderim Ginger Limited and a director of the Royal Automobile Club of Queensland Limited, and several private companies. Mr Maitland is the principal of Delphin Associates, a business consultancy specialising in strategic planning, risk management, corporate governance and business transition. He has over 35 years experience in the banking and finance industries and was chief executive officer of the Queensland Office of Financial Supervision between 1992 and 1999. Mr Maitland is a member of the Management Committee of the Surf Life Saving Foundation Inc.

Kathryn Spargo *LLB (Hons), BA, FAICD*

Ms Spargo was appointed to the Board of Australian Unity Limited on 16 October 2009. She is a director of a number of Australian Unity Limited subsidiaries and a member of the Audit and Compliance Committee and the Investment Committee. She is chairman of the Accounting Professional and Ethical Standards Board and is a director of Transfield Services Infrastructure Ltd, Australian Energy Market Operator, Pacific Hydro Pty Ltd, Investec Bank (Australia) Ltd, Suncorp Portfolio Services Ltd and Sonic Healthcare Ltd. She is also a director of Coinvest Ltd and Franklyn Scholar Pty Ltd and an adviser to the board of patent attorney firm Griffith Hack. Ms Spargo is a councillor of the AICD's Victorian Division and conducts the Listed Company Director Program for the ASX and AICD throughout Australia. She also has an interest in international corporate ethics and governance. She was previously chairman of HomeStart Finance in South Australia and a director of IOOF Holdings for nearly 10 years.

Warren Stretton *FAICD, FCPA, FCIS, FTIA, FAMI CPM*

Mr Stretton was appointed to the Board of Australian Unity Limited in 2005 following the merger with Grand United Friendly Society Limited, of which he was managing director. He is a director of a number of Australian Unity Limited subsidiaries and a member of the Audit and Compliance Committee and the Investment Committee. Mr Stretton holds a Federal Government appointment to the Board of Australian Hearing and has gained wide commercial experience working in the motor, computer and entertainment industries for organisations such as Ford, Honeywell and Amalgamated Holdings Group.

Company secretaries

Kirsten Mander *LLM, ACIS, FAICD, MRMIA, General Counsel and Company Secretary*

Ms Mander was appointed General Counsel and Company Secretary of Australian Unity Limited in June 2009. She is responsible for Group Governance Services, including legal and company secretarial affairs, risk management and compliance. Ms Mander has had extensive experience as a senior executive, general counsel and company secretary of a number of Australia's top companies, including Sigma Pharmaceuticals, TRUenergy, Smorgon Steel Group and WMC Resources. She is also chair of the Victorian Assisted Reproductive Treatment Authority and a director on several other boards including the Consultative Council for Human Research Ethics and the Women's Circus.

Catherine Visentin *Assistant Company Secretary*

Ms Visentin joined Australian Unity in 1988. She was appointed Assistant Company Secretary of various Australian Unity Limited Group Companies in 2004. She has over 15 years of involvement with the Australian Unity Limited Company Secretarial function.

Directors' report

Meetings of directors

The number of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2010, and the number of meetings attended by each director were:

	Board		Audit and Compliance Committee		Risk Committee		Investment Committee		Human Resources, Remuneration and Nominations Committee	
	A	B	A	B	A	B	A	B	A	B
Alan Castleman	10	11	–	–	–	–	–	–	3	3
Rohan Mead	11	11	–	–	3	4	6	6	–	–
Glenn Barnes	6	7	–	–	–	–	2	3	2	2
John Butler	9	9	3	3	2	2	–	–	–	–
Eve Crestani	11	11	–	–	4	4	–	–	3	3
Ian Ferres	11	11	7	7	–	–	6	6	–	–
Warren French	11	11	–	–	4	4	–	–	3	3
Stephen Maitland	11	11	7	7	4	4	6	6	–	–
Kathryn Spargo	7	7	1	3	–	–	3	3	–	–
Warren Stretton	11	11	7	7	–	–	6	6	–	–
Bruce Siney	3	4	–	–	–	–	–	–	–	–

A = Number of meetings attended
B = Number of meetings held during the time the director held office or was a member of the committee during the year

Leave of absence had been granted in all cases where the directors were unable to attend meetings.

Alan Castleman is Chairman of the Company and of the Human Resources, Remuneration and Nominations Committee, and an ex-officio member of all other board committees; Stephen Maitland is Chairman of the Audit and Compliance Committee; Eve Crestani is Chairman of the Risk Committee, Ian Ferres is Chairman of the Investment Committee and Rohan Mead is an ex-officio member of all other committees.

The marketing committee ceased to exist at 1 December 2009.

Alan Castleman's and Rohan Mead's attendances at board committees in an ex-officio capacity are not reported above.

Certain directors are also directors of the following subsidiaries as at the date of this report:

Australian Unity Capital Management Limited	Alan Castleman (Chairman), Ian Ferres, Rohan Mead and Warren Stretton.
Australian Unity Finance Limited	Ian Ferres (Chairman), Rohan Mead and Warren Stretton.
Australian Unity Funds Management Limited	Alan Castleman (Chairman), Glenn Barnes, Ian Ferres, Stephen Maitland, Rohan Mead and Warren Stretton.
Australian Unity Health Limited	Alan Castleman (Chairman), John Butler, Eve Crestani, Warren French, Stephen Maitland, Rohan Mead and Kathryn Spargo.
Australian Unity Investment Bonds Limited	Alan Castleman (Chairman), Glenn Barnes, Ian Ferres, Stephen Maitland, Rohan Mead and Warren Stretton.
Australian Unity Property Limited	Alan Castleman (Chairman), Glenn Barnes, Ian Ferres, Stephen Maitland, Rohan Mead and Warren Stretton.
Campana Pty Ltd	John Butler (Chairman), Glenn Barnes, Alan Castleman, Ian Ferres, Stephen Maitland, Rohan Mead and Warren Stretton.
Funeral Plan Management Pty Ltd	John Butler (Chairman), Glenn Barnes, Alan Castleman, Ian Ferres, Stephen Maitland, Rohan Mead and Warren Stretton.
Grand United Corporate Health Limited	Alan Castleman (Chairman), John Butler, Eve Crestani, Warren French, Stephen Maitland, Rohan Mead and Kathryn Spargo.
Lifeplan Australia Building Society Limited	John Butler (Chairman), Glenn Barnes, Alan Castleman, Ian Ferres, Stephen Maitland, Rohan Mead and Warren Stretton.
Lifeplan Australia Friendly Society Limited	John Butler (Chairman), Glenn Barnes, Alan Castleman, Ian Ferres, Stephen Maitland, Rohan Mead and Warren Stretton.
Lifeplan Travel Pty Ltd	John Butler (Chairman), Glenn Barnes, Alan Castleman, Ian Ferres, Stephen Maitland, Rohan Mead and Warren Stretton.

Rohan Mead is also a director of all other entities within the Group.

Directors' interests and benefits

Since the end of the previous financial year and to the date of signing this report, no director of the Company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by directors or related party transactions shown in the Group's financial report) by reason of a contract made by the Company with the director or with a firm of which the director is a member, or with a company in which the director has a substantial interest except as disclosed in the details of related party transactions in note 36.

Insurance and indemnification of directors and officers

During the financial year the Group paid a premium for a contract insuring the directors, company secretaries and executive officers of the Group to the extent permitted by the *Corporations Act 2001*. In accordance with common commercial practice the insurance policy prohibits disclosure of the nature of the liabilities covered and the amount of the premium.

In accordance with the constitution of the Company and under a separate deed, the directors and officers are indemnified to the extent permitted by law against any liability incurred by them in connection with the proper discharge of their duties, other than for conduct involving a lack of good faith.

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 46.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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

Alan Castleman
Chairman

Rohan Mead
Group Managing Director

South Melbourne
31 August 2010

Auditor's independence declaration

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

In relation to our audit of the financial report of Australian Unity Limited for the financial year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

A J (Tony) Johnson
Partner
31 August 2010

Statements of comprehensive income

for the year ended 30 June 2010

		Consolidated		Parent entity	
	Notes	**2010 $'000**	2009 $'000	**2010 $'000**	2009 $'000
Revenue	6	**934,049**	617,437	**47,288**	37,567
Expenses, excluding finance costs	7	**(895,876)**	(612,310)	**(21,050)**	(17,880)
Finance costs	7	**(11,006)**	(8,626)	**(8,125)**	(12,720)
Share of net profits of associates	17	**3,419**	2,023	**–**	–
Profit/(loss) before income tax		**30,586**	(1,476)	**18,113**	6,967
Income tax (expense)/benefit	8	**(13,458)**	2,527	**6,066**	8,698
Profit after income tax		**17,128**	1,051	**24,179**	15,665
Other comprehensive income					
Transfer to net profit	34(a)	**–**	(166)	**–**	–
Income tax relating to components of other comprehensive income	8(d)	**–**	50	**–**	–
Other comprehensive income for the year, net of tax		**–**	(116)	**–**	–
Total comprehensive income for the year		**17,128**	935	**24,179**	15,665
Profit for the year is attributable to:					
Members of Australian Unity Limited		**17,128**	1,051	**24,179**	15,665
Allocated to policyholder equity		**–**	–	**–**	–
		17,128	1,051	**24,179**	15,665
Total comprehensive income for the year is attributable to:					
Members of Australian Unity Limited		**17,128**	935	**24,179**	15,665
Allocated to policyholder equity		**–**	–	**–**	–
		17,128	935	**24,179**	15,665

The above statements 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 44.

Balance sheets
as at 30 June 2010

	Notes	Consolidated 2010 $'000	Consolidated 2009 $'000	Parent entity 2010 $'000	Parent entity 2009 $'000
ASSETS					
Current assets					
Cash and cash equivalents	9	**1,054,830**	273,993	**1,409**	658
Trade and other receivables	10	**91,461**	75,278	**10,582**	5,282
Inventories	11	**534**	535	**–**	–
Current tax assets	12	**3,010**	–	**–**	–
Loans and receivables	13	**5,180**	–	**–**	–
Other current assets	14	**–**	2,149	**–**	1,299
Financial assets at fair value through profit or loss	15	**900,410**	198,000	**1,242**	1,165
Total current assets		**2,055,425**	549,955	**13,233**	8,404
Non-current assets					
Financial assets at fair value through profit or loss	15	**112,570**	182,063	**887**	222
Loans and receivables	16	**106,754**	28,171	**–**	–
Investments in associates	17	**20,044**	34,227	**–**	–
Investments in subsidiaries	18	**–**	–	**484,097**	422,919
Other financial assets	19	**810**	165	**203**	162
Property, plant and equipment	20	**70,855**	73,995	**321**	321
Investment properties	21	**458,805**	414,436	**–**	–
Deferred tax assets	22	**72,560**	34,349	**12,092**	10,389
Intangible assets	23	**59,337**	52,281	**–**	–
Other non-current assets	24	**1,892**	5,829	**560**	4,286
Total non-current assets		**903,627**	825,516	**498,160**	438,299
Total assets		**2,959,052**	1,375,471	**511,393**	446,703
LIABILITIES					
Current liabilities					
Trade and other payables	25	**45,077**	40,258	**24,882**	30,935
Interest bearing liabilities	26	**79,600**	63,042	**50,200**	115,404
Current tax liabilities	27	**–**	1,197	**1,256**	758
Provisions	28	**58,806**	50,861	**6,240**	2,905
Other current liabilities	29	**376,730**	324,870	**–**	–
Benefit fund policy liabilities	42	**223,645**	45,063	**–**	–
Total current liabilities		**783,858**	525,291	**82,578**	150,002
Non-current liabilities					
Interest bearing liabilities	30	**140,547**	92,599	**62,800**	–
Non-interest bearing liabilities	31	**–**	328	**–**	–
Deferred tax liabilities	32	**48,797**	40,680	**14,306**	14,286
Provisions	33	**5,563**	5,069	**–**	–
Benefit fund policy liabilities	42	**1,615,605**	408,894	**–**	–
Total non-current liabilities		**1,810,512**	547,570	**77,106**	14,286
Total liabilities		**2,594,370**	1,072,861	**159,684**	164,288
Net assets		**364,682**	302,610	**351,709**	282,415
EQUITY					
Members' balances		**216,586**	169,049	**216,292**	168,755
Reserves	34(a)	**2,466**	2,462	**–**	–
Retained earnings	34(b)	**145,630**	131,099	**135,417**	113,660
Total equity		**364,682**	302,610	**351,709**	282,415

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

Statements of changes in equity

for the year ended 30 June 2010

Consolidated	Notes	Members' balances $'000	Asset revaluation reserve $'000	General reserve $'000	Hedging reserve – cash flow hedges $'000	Total Reserves $'000	Retained earnings $'000	Total equity $'000
		Attributable to members of Australian Unity Limited						
Balance at 1 July 2008		169,049	2,462	–	116	2,578	130,048	301,675
Profit for the year		–	–	–	–	–	1,051	1,051
Other comprehensive income		–	–	–	(116)	(116)	–	(116)
Total comprehensive income		–	–	–	(116)	(116)	1,051	935
Transactions with members in their capacity as members:								
Dividends provided for or paid		–	–	–	–	–	–	–
		–	–	–	–	–	–	–
Balance at 30 June 2009		169,049	2,462	–	–	2,462	131,099	302,610
Balance at 1 July 2009		**169,049**	**2,462**	**–**	**–**	**2,462**	**131,099**	**302,610**
Adjustment due to change of accounting standard	5, 34	**–**	**–**	**–**	**–**	**–**	**(2,422)**	**(2,422)**
Other adjustment	34	**–**	**–**	**–**	**–**	**–**	**(175)**	**(175)**
		169,049	**2,462**	**–**	**–**	**2,462**	**128,502**	**300,013**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**17,128**	**17,128**
Other comprehensive income	34	**–**	**–**	**4**	**–**	**4**	**–**	**4**
Total comprehensive income		**–**	**–**	**4**	**–**	**4**	**17,128**	**17,132**
Transactions with members in their capacity as members:								
Increase in members' balances		**47,537**	**–**	**–**	**–**	**–**	**–**	**47,537**
		47,537	**–**	**–**	**–**	**–**	**–**	**47,537**
Balance at 30 June 2010		**216,586**	**2,462**	**4**	**–**	**2,466**	**145,630**	**364,682**

Parent entity	Notes	Members' balances $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2008		168,755	97,995	266,750
Profit for the year		–	15,665	15,665
Other comprehensive income		–	–	–
Total comprehensive income		–	15,665	15,665
Transactions with members in their capacity as members:				
Dividends provided for or paid		–	–	–
		–	–	–
Balance at 30 June 2009		168,755	113,660	282,415
Balance at 1 July 2009		**168,755**	**113,660**	**282,415**
Adjustment due to change of accounting standard	5, 34	**–**	**(2,422)**	**(2,422)**
		168,755	**111,238**	**279,993**
Profit for the year		**–**	**24,179**	**24,179**
Other comprehensive income		**–**	**–**	**–**
Total comprehensive income		**–**	**24,179**	**24,179**
Transactions with members in their capacity as members:				
Increase in members' balances	5	**47,537**	**–**	**47,537**
Dividends provided for or paid		**–**	**–**	**–**
		47,537	**–**	**47,537**
Balance at 30 June 2010		**216,292**	**135,417**	**351,709**

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

Cash flow statements

for the year ended 30 June 2010

	Notes	Consolidated 2010 $'000	Consolidated 2009 $'000	Parent entity 2010 $'000	Parent entity 2009 $'000
Cash flows from operating activities					
Receipts from customers		**715,435**	576,767	**–**	330
Payments to suppliers and employees		**(283,177)**	(213,972)	**(14,513)**	(7,418)
		432,258	362,795	**(14,513)**	(7,088)
Premiums received – Life insurance		**800**	505	**–**	–
Policy claims – Life insurance		**(2,592)**	(2,713)	**–**	–
Life investment contracts – contribution receipts		**202,104**	11,810	**–**	–
Life investment contracts – withdrawals		**(222,642)**	(30,885)	**–**	–
Dividends and distributions received		**8,287**	13,139	**38,417**	31,242
Interest received		**4,446**	6,792	**336**	3,875
Claims and benefits paid		**(401,618)**	(386,961)	**–**	–
Borrowing costs		**(14,838)**	(9,705)	**(9,156)**	(13,539)
Other revenue		**21,681**	13,497	**4,593**	2,543
Income tax refunded		**4,684**	3,425	**3,145**	4,046
Net cash inflow/(outflow) from operating activities	35	**32,570**	(18,301)	**22,822**	21,079
Cash flows from investing activities					
Payment for purchase of subsidiaries, net of cash acquired		**–**	–	**(13,641)**	(93,634)
Inflow of cash on business combination	5	**399,875**	–	**–**	–
Payments for property, plant and equipment	20	**(2,957)**	(14,739)	**–**	–
Payments for investments		**(1,548,254)**	(165,845)	**(2,102)**	(38)
Payments for intangible assets		**(6,683)**	(12,643)	**–**	–
Payments for investment properties		**(19,517)**	(38,294)	**–**	–
Payments for purchase of investments in associates		**(3,382)**	–	**–**	–
Loans to related entities		**(7,777)**	(3,595)	**–**	–
Proceeds from sale of property, plant and equipment		**554**	728	**–**	459
Proceeds from sale of investments		**1,815,021**	172,772	**1,326**	–
Proceeds from sale of intangible assets		**92**	5	**–**	–
Proceeds from disposal of investments in associates		**14,550**	–	**–**	–
Proceeds from sale of investment property	21	**–**	14,947	**–**	–
Net cash inflow/(outflow) from investing activities		**641,522**	(46,664)	**(14,417)**	(93,213)
Cash flows from financing activities					
Net increase/(decrease) in borrowings		**64,416**	3,407	**(7,654)**	71,074
Net increase in refundable lease deposits and resident liabilities		**42,329**	30,955	**–**	–
Net cash inflow/(outflow) from financing activities		**106,745**	34,362	**(7,654)**	71,074
Net increase/(decrease) in cash and cash equivalents		**780,837**	(30,603)	**751**	(1,060)
Cash and cash equivalents at the beginning of the financial year		**273,993**	304,596	**658**	1,718
Cash and cash equivalents at the end of the financial year	9	**1,054,830**	273,993	**1,409**	658

The above cash flow statements should be read in conjunction with the accompanying notes.

Notes to the financial statements
for the year ended 30 June 2010

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Where appropriate, comparatives have been reclassified to enhance comparability with current year disclosures. The financial report includes separate financial statements for Australian Unity Limited as an individual entity (Parent entity) and the Group consisting of Australian Unity Limited and its subsidiaries, referred to in this financial report as the Group.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001*.

Statement of compliance

This financial report complies with Australian Accounting Standards and International Financial Reporting Standards as issued by the International Accounting Standards Board.

Early adoption of standard

The Group has elected to apply the following pronouncements to the annual reporting period beginning 1 July 2009

- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Projects.

This includes applying the revised pronouncement to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. As a result of the early adoption of AASB 2009-5, transaction costs associated with the business combination described in note 5 have been presented as operating rather than financing cash flow. There was no other impact on the current or prior year financial statements.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

Critical accounting estimates

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise their judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Financial statements presentation

The Group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group has changed the presentation of its financial statements. Comparative information has been re-presented so that it also conforms with the revised standard.

Australian Accounting Standards issued but not yet effective

The Australian Accounting Standards Board has issued the following amendments to Australian Accounting Standards:

AASB	*Title*	*Operative Date*
AASB 2009-8	Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions [AASB 2]	1 January 2010
AASB 2009-9	Amendments to Australian Accounting Standards – Additional Exemptions for First-time Adopters	1 January 2010
AASB 2009-10	Amendments to Australian Accounting Standards – Classification of Rights Issues	1 February 2010
AASB 9 and AASB 2009-11	Financial Instruments and Amendments to Australian Accounting Standards arising from AASB 9	1 January 2013
Revised AASB 124 and AASB 2009-12	Related Party Disclosures and Amendments to Australian Accounting Standards	1 January 2011
AASB Interpretation 19 and AASB 2009-13	Extinguishing Financial Liabilities with Equity Instruments and Amendments to Australian Accounting Standards arising from Interpretation 19	1 July 2010
AASB 2009-14	Amendment to Australian Interpretation – Prepayments of a Minimum Funding Requirement	1 July 2010
AASB 2010-1	Amendments to Australian Accounting Standards – Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters	1 July 2010
AASB 1053	Application of Tiers of Australian Accounting Standards	1 July 2013
AASB 2010-2	Amendments to Australian Accounting Standards arising from reduced disclosure requirements	1 July 2013
AASB 2010-3	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]	1 July 2010
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	1 July 2011
Interpretation 19	Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

The above are not yet effective for the annual reporting year ended 30 June 2010 and have not been applied in preparing the Group's financial statements. Where applicable, the Group will apply the amendments to the annual reporting periods beginning on or after the operative dates set out above. Apart from AASB 9 and AASB 124, application of these amendments is not expected to require any changes to accounting policies.

Notes to the financial statements

for the year ended 30 June 2010

1. Summary of significant accounting policies (continued)

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at 30 June 2010 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group, refer to note 1(e).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated except to the extent that the transaction reflects impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Investments in associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 percent and 50 percent of the voting rights. Investments in associates are accounted for in the Parent entity's financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill identified on acquisition.

The Group's share of its associates' post-acquisition profits/(losses) is recognised in the profit and loss, and its share of post-acquisition movements in reserves is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the Parent entity's profit and loss, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated except to the extent that the transaction reflects impairment of the asset transferred.

(iii) Life insurance benefit funds

The Group's life insurance operations are conducted within separate benefit funds as required by the *Life Insurance Act 1995*. The assets, liabilities, revenue and expenses of the benefit funds are included within the consolidated financial statements. Revenue and expense transactions between the benefit funds and other entities within the Group are not eliminated. Balances outstanding between benefit funds and other entities within the Group are eliminated.

(iv) Changes in accounting policy

The Group has changed its accounting policy for transactions with non-controlling interests and the account for loss of control, joint control or significant influence from 1 July 2009 when a revised AASB 127 *Consolidated and Separate Financial Statements* became operative. The revisions to AASB 127 contained consequential amendments to AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures*.

Previously transactions with non-controlling interests were treated as transactions with parties external to the Group. Disposals therefore resulted in gains/(losses) in the profit and loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to the profit and loss or directly to retained earnings.

Previously when the Group ceased to have control, joint control or significant influence over an entity, the carrying amount of the investment at the date control, joint control or significant influence ceased became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

The Group has applied the new policy prospectively to transactions occurring on or after 1 July 2009. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

(c) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(d) Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received.

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(e) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary.

Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill, refer to note 1(q(i)). If those amounts are less than the Group's share the fair value of the net identifiable assets of the subsidiary acquired, and the measurement of all amounts has been reviewed, the difference is recognised directly in the profit and loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified as either equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in the profit and loss.

Change in accounting policy due to change of accounting standard

A revised AASB 3 *Business Combinations* became operative on 1 July 2009. While the revised standard continues to apply the acquisition method of business combinations, there have been some significant changes.

The consideration transferred is now recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently remeasured through the profit and loss. Under the Group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net identifiable assets.

If the Group recognises previously acquired deferred tax assets after the initial acquisition accounting is completed there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the Group's net profit after tax.

The changes were implemented prospectively from 1 July 2009 and affected the accounting for the acquisition of Lifeplan Australia Friendly Society Limited disclosed in note 5. No contingent consideration was recognised. Acquisition related costs incurred from 1 July 2009 of $717,620 were recognised in the profit and loss. The acquisition related costs incurred and recognised as an asset at 30 June 2009 of $3,460,000 together with a corresponding adjustment for the tax effect of $1,038,000 resulted in a net write-off of $2,422,000 to opening retained earnings at 1 July 2009.

(f) Cash and cash equivalents

For the purpose of presentation in the cash flow statement, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(g) Deferred acquisition costs

Acquisition costs incurred in obtaining health insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the profit and loss in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

Acquisition costs incurred in acquiring other new business are deferred and amortised over a period relevant to that stream of income.

(h) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain/(loss) depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 2. Movements in the hedging reserve in members' equity are shown in note 34.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain/(loss) relating to the ineffective portion is recognised immediately in the profit and loss and is within other income or other expenses.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves as equity. The gain/(loss) relating to the ineffective portion is recognised immediately in the profit and loss and is within other income or other expenses.

Amounts accumulated in equity are recycled in the profit and loss in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain/(loss) existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss. When a forecast transaction is no longer expected to occur, the cumulative gain/(loss) that was reported in equity is immediately transferred to the profit and loss.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the profit and loss and are included in other income or other expenses.

Notes to the financial statements

for the year ended 30 June 2010

1. Summary of significant accounting policies (continued)

(i) Discontinued operations

A discontinued operation is a component of the Group's business representing a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative profit and loss is restated as if the operation had been discontinued from the start of the comparative period. Non-current assets classified as held for sale are measured at the lower of their carrying amount or fair value less costs to sell.

(j) Employee benefits

Employees engaged in the Group's operations are employed by related entities, Australian Unity Group Services Proprietary Limited and Lifeplan Australia Friendly Society Limited. Accordingly, liabilities for employee benefits are recognised in the balance sheets as part of provisions.

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheets date are discounted to present value.

(iv) Superannuation

The Group contributes to the Australian Unity Staff Superannuation Plan (a sub plan of the Freedom of Choice Employer Sponsored Superannuation Plan), the Hesta Superannuation Fund and other complying superannuation funds nominated by employees. The Australian Unity Staff Superannuation Plan is open to new members and is an accumulation fund, where the employer contributions are fully vested in the member. The Hesta Superannuation Fund is an industry based fund for employees working in the retirement village complexes and aged care facilities. The Group is required to contribute to the above mentioned plans in accordance with the Superannuation Guarantee Legislation.

(k) Financial guarantee contracts

A financial guarantee contract is a contract requiring the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make a payment when due in accordance with terms of the debt instrument.

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

(l) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Australian Unity Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains/(losses) resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain/(loss). For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in the profit and loss as part of the fair value gain/(loss) and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are included in other comprehensive income and accumulated in reserves as equity.

(m) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit and loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the profit and loss on a straight-line basis over the expected lives of the related assets.

(n) Health insurance

(i) Classification

Health insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant over time. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect.

Once a contract has been classified as a health insurance contract, it remains as a health insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period.

The Group has determined that all current contracts with health insurance policyholders are health insurance contracts.

(ii) Claims expense

Health insurance claims include all claim losses occurring during the year, whether reported or not, and any adjustments to claims outstanding from previous years.

(o) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(p) Income tax and other taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carrying forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the deductible temporary difference is associated with investments in subsidiaries, associates or interest in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation legislation

On 1 July 2002, the Parent entity and its wholly-owned Australian controlled entities formed a tax consolidation group, as allowed under the tax consolidation legislation.

The Parent entity, as head entity, and the controlled entities in the tax consolidation group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current deferred tax amounts, the Group also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details of the tax funding agreement are disclosed in note 8.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

1. Summary of significant accounting policies (continued)

Other taxes

Revenue, expenses and assets are recognised net of the amount of Goods and Services Tax (GST) except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(q) Intangible assets

(i) Goodwill

Goodwill represents the excess of the consideration transferred of a business combination over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains /(losses) on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating-units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which goodwill is so allocated represents the lowest level within the Group at which goodwill is monitored for internal management purposes according to operating segments refer to note 4.

Impairment is determined by assessing the recoverable amount, based on value-in-use calculations, of the cash generating unit to which the goodwill relates. When the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash generating unit and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed and of the portion of the cash generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

(ii) Aged care bed licences

Bed licences for aged care facilities are recognised at cost of acquisition. No amortisation has been provided as these licences are perpetual and so the Group considers the useful life of these assets to be indefinite. Bed licences are reviewed annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

(iii) Management rights

Management rights relating to managed investment schemes are recorded at cost and are amortised over the period of expected benefit, less any adjustments for impairment losses.

(iv) Computer software

Computer software is initially recognised at cost and amortised over the period of expected benefit, less any adjustments for impairment losses.

(v) Other intangibles

Other intangibles are initially recognised at cost and amortised over the period of expected benefit, less any adjustments for impairment losses.

Other intangibles with a finite life are tested for impairment if events or changes in circumstances indicate that the asset might be impaired.

Other intangibles with an indefinite life are not amortised. Instead, they are tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

(r) Interests in wholly-owned subsidiaries

The Parent entity has valued its investment in wholly-owned subsidiaries at cost less any adjustments for impairment losses.

(s) Inventories

Inventories are stated at the lower of cost and net realisable value on a first in and first out basis.

(t) Investment property

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition investment properties are stated at fair value.

Gains/(losses) arising from changes in the fair values of investment properties are included in the profit and loss in the year in which they arise.

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains/(losses) on the derecognition of an investment property are recognised in the profit and loss in the year of derecognition.

Retirement village investment property disclosed relates to villa unit interests and aged care facilities where the aged care facilities are managed by operators which are not part of the Group. These investments are valued at fair value. For those facilities that are complete or substantially complete, fair value represents the present value of future cash flows based upon statistical modelling of incoming and outgoing residents and includes assumptions in respect of a number of factors, including average length of residence and expected changes in property prices.

Land held for development purposes is also classified as investment property.

(u) Investments and other financial assets

Classification

The Group classifies its investments into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheets date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheets (refer to notes 13 and 16). Loans and receivables are carried at amortised cost using the effective interest method.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method.

(iv) Available-for-sale financial assets

Available-for-sale financial assets comprise marketable and non-marketable equity securities and floating rates notes, that are either designated in this category or not classified in any of the other categories. Available-for-sale financial assets are stated at their fair value with changes in the fair value recognised in equity. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Recognition and derecognition

Purchases and sales of investments are recognised on trade date, which is the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs where they are not recognised as fair value through profit or loss financial assets. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and there has been a transfer of substantially all the risks and rewards of ownership. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long-term.

Measurement

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains/(losses) arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the profit and loss in the period in which they arise. Realised and unrealised gains/(losses) arising from changes in the fair value of the available-for-sale financial assets category are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to the profit and loss as gains/(losses) from investment securities in the period in which they arise.

The fair values of quoted investments are based on closing bid prices. If the market prices are not available (e.g. for unlisted securities), the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

Impairment

At each balance date the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on these financial assets previously recognised in the profit and loss is removed from equity and recognised in the profit and loss. Impairment losses recognised in the profit and loss on equity instruments are not reversed through the profit and loss.

(v) Leases

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.

Operating leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

Finance leases

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Group are capitalised at the present value of the minimum lease payments and included in property, plant and equipment. A lease liability of equal value is also recognised.

(w) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided as part of the monthly management reporting document. The chief operating decision maker has been identified as the Group Executive Committee that has delegated responsibility from the Board for the achievement of the business strategic and operational plans approved by the Board.

Change in accounting policy due to change of accounting standard

The Group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting*. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of the new standard has not resulted in any change to the number of reportable segments presented. In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. There has been no further impact on the measurement of the Group's assets and liabilities. Comparatives for the year ended 2009 have been restated.

1. Summary of significant accounting policies (continued)

(x) Outstanding claims liability

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date under insurance contracts issued by the Group, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid, claims Incurred But Not Reported (IBNR), claims Incurred But Not Enough Reported (IBNER) and anticipated claims handling costs.

Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can only be indirectly associated with individual claims, such as claims administration costs.

The expected future payments of claims expected to be settled within one year are not discounted as the undiscounted value approximates their present value. The expected future payments of other claims are discounted to present value using a risk free rate.

A risk margin is applied to the outstanding claims liability, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate of the outstanding claims liability.

(y) Outwards reinsurance

Amounts paid to reinsurers under insurance contracts held by the Group are recorded as an outwards reinsurance expense and are recognised in the profit and loss from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk ceded.

Premium ceded to reinsurers is recognised as outwards reinsurance expense from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk.

(z) Policy liabilities

(i) Classification

The Group's life insurance liabilities are held within separate benefit funds as required by the *Life Insurance Act 1995*. The activities of the benefit funds are aggregated within the consolidated financial statements but are governed separately. Life insurance liabilities are classified for accounting purposes as either life insurance contract liabilities, participating life investment contract liabilities or non-participating life investment contract liabilities in accordance with AASB 1038 *Life Insurance Contracts*.

Life insurance contracts are contracts, which transfer significant insurance risk at the inception of the contract. Insurance risk is considered to be significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance.

Life Investment contracts are contracts regulated under the *Life Insurance Act 1995* but that do not transfer significant insurance risk. Life investment contracts are further categorised into participating and non-participating contracts. Participating life investment contracts are contracts that contain a discretionary participation feature (DPF). A DPF is a contractual right to receive as a supplement to guaranteed benefits, additional benefits: (i) that are likely to be a significant portion of the total benefits; (ii) whose amount or timing is contractually at the discretion of the issuer, and (iii) that are based on the performance of a specified pool of assets.

Participating life investment contract liabilities are classified and accounted for in the same manner as life insurance contract liabilities, that is under the requirements of AASB 1038 *Life Insurance Contracts* and referred to in this financial report as life insurance contract liabilities. Non-participating life investment contract liabilities are classified and accounted for under the requirements of AASB 139 *Financial Instruments* and are referred to in this financial report as life investment contract liabilities.

Life investment contract liabilities include investment-linked contracts in which the Group issues a contract where the benefit amount is directly linked to the market value of the investments held by the benefit fund. While the underlying assets are registered in the name of the benefit fund and the investment-linked policyowner has no direct access to the specific assets, the contractual arrangements are such that the investment-linked policyowner bears the risks and rewards of the benefit fund's investment performance. The Group derives fee income from the administration of the investment-linked contracts.

Non-investment linked business is business in which the Group issues a policy contract where the insured benefit is not directly linked to the market value of the investments held. These benefits are payable on death, or on the occurrence of an insured event.

(ii) Valuation

The fair value of life insurance contract liabilities are determined using a projection method. This involves estimates of policy cash flows projected into the future. The policy liability is calculated as the net present value of these projected cash flows (premiums, benefits, expenses and profit margins to be released in future periods) using best estimate assumptions about the future. A minority of life insurance contract liabilities are determined using a Margin on Services methodology.

The participating investment contract liabilities, which are classified as life insurance contracts, are valued under an accumulation method whereby policyholder liabilities are equal to the value of the assets backing the liabilities. The liability reported under this approach is equal to the account balance pre bonus plus the current bonus plus the difference between the value of the assets and the preceding items.

The unit-linked funds are classified as life investment contract liabilities and measured at fair value. The contracts consist of a financial instrument and an investment management services element both of which are measured at fair value. The liability to policyholders is linked to the performance and value of the assets that back the liabilities. The liabilities are therefore the same as the fair value of the assets.

Further details of the actuarial assumptions used in the calculation of policy liabilities are set out in note 42.

(iii) Claims expense

For life insurance contract liabilities and participating investment contract liabilities, claims are recognised when the liability to the policyholder under the contract has been established (i.e. on notification of death, at time of admittance, or when payment is due).

For life investment contract liabilities there are no claims expense. Surrenders and withdrawals are not included in the profit and loss but are instead deducted from investment contract liabilities.

(aa) Property, plant and equipment

(i) Cost and valuation

Freehold land and buildings on freehold land are measured on a fair value basis. At each reporting date, the value of each asset in these classes is reviewed to ensure that it does not materially differ from the asset's fair value at that date. Where necessary, the asset is revalued to reflect its fair value.

Increases in the carrying amounts arising on revaluation of land and buildings are credited to other comprehensive income and accumulated in the asset revaluation reserve in equity. To the extent that the increase reverses a decrease previously recognised in the profit and loss, the increase is first recognised in the profit and loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the profit and loss.

All other classes of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

(ii) Depreciation

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each item of property, plant and equipment (excluding land) over its expected useful life to the Group. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

The expected useful lives are as follows:

Category	**Useful life**
Buildings	40 years
Plant and equipment	5–15 years
Leasehold improvements	5 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount, refer to note 1(o).

Gains/(losses) on disposals are determined by comparing proceeds with carrying amount. These are included in the profit and loss. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

Non-property assets under construction are recorded at cost within plant and equipment. These assets are transferred to an appropriate asset category on completion and depreciation commences only when the assets come into operational service.

(ab) Provisions

Provisions are recognised when the Group has a legal, equitable or constructive obligation to make future sacrifice of economic benefits as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the subsequent increase in the provision due solely to the passage of time is recognised as a borrowing cost.

(ac) Refundable lease deposits

Retirement village residents, upon entering certain accommodation types, provide a deposit from which fees are deducted in respect of the provision of certain services and facilities. The actual amount refundable upon departure from the retirement village is determined by the terms of the existing tenancy contracts. As these amounts are payable on demand, they are treated as a current liability and are carried at amortised cost using the effective interest method even though they relate to occupancy of the investment properties which are non-current assets and on average only a small proportion is repaid in any one year.

(ad) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, IBNR, IBNER and unexpired risk liabilities are recognised as revenue.

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

(ae) Resident Loans

Retirement village residents, upon entering certain accommodation types, provide a loan to the village operator, from which deferred management fees are deducted in respect of the provision of certain services and facilities. The actual amount repayable upon departure from the accommodation is determined by the terms of the existing tenancy contracts. In certain cases, the amount repayable includes the resident's share of any increase in the value of the property occupied by the resident during the period of tenancy. As these amounts are payable on demand, they are treated as a current liability and are carried at amortised cost using the effective interest method even though they relate to occupancy of the investment properties which are non-current assets and on average only a small proportion is repaid in any one year.

(af) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Aged care income

Income and government subsidies for the provision of aged care facilities and related services are recognised as the services are provided.

(ii) Deferred management fees

Deferred management fee income relating to managed retirement village assets is recognised on the turnover from one resident to another of independent living units in the retirement village and is linked to the resale value of a resident's unit and the resident's length of occupancy of the unit.

(iii) Dividends

Dividend revenue is recognised when the Group's right to receive the dividend is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence, refer note 1(o).

Change in accounting policy

The Group has changed its accounting policy for transactions with non-controlling interests and the account for loss of control, joint control or significant influence from 1 July 2009 when a revised AASB 127 *Consolidated and Separate Financial Statements* became operative. Previously, dividends paid out of pre-acquisition profits were deducted from the cost of the investment. In accordance with the transitional provisions, the new accounting policy is applied prospectively. It was therefore not necessary to make any adjustments to any of the amounts previously recognised in the financial statements.

(iv) Fair value increments

Fair value gains on investment properties are recognised when they arise.

(v) Health insurance premium revenue

Health insurance premium revenue is recognised in the profit and loss from the attachment date, as soon as there is a basis on which it can be reliably measured. Revenue is recognised in accordance with the pattern of the incidence of risk expected over the term of the contract.

The proportion of premium received or receivable not earned in the profit and loss at the reporting date is recognised in the balance sheet as unearned premium liability.

Notes to the financial statements

for the year ended 30 June 2010

1. Summary of significant accounting policies (continued)

(vi) Interest income

Interest income is recognised using the effective interest method when the Group has control of the right to receive the interest payment.

(vii) Life insurance premium revenue and fees

For life insurance contract liabilities and participating investment contract liabilities, premiums are recognised when the liabilities arising from them are created.

For life investment contract liabilities, amounts collected as premiums are reported as deposits to investment contract liabilities in the balance sheets (rather than being included in the profit and loss).

(viii) Other revenue

Commissions from reinsurance are recognised when the Group's right to receive the commission is established.

(ix) Property, funds management and administration fee income

Fee income is recognised based upon the contractual obligations of the Responsible Entity/Trustee to perform certain tasks.

(x) Rental income

Rental income from investment properties is accounted for on a straight line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned. Lease incentives granted are recognised as an integral part of the total rental income.

Rental income from the lease of aged care facilities to aged care facility operators is recognised on a straight line basis over the lease term.

(xi) Resident levies

Income from the provision of services to retirement village residents is recognised as the services are provided.

(xii) Retirement village and aged care facility management fees

Fees for the management of retirement villages and aged care facilities are recognised as management services are provided.

(xiii) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the customer and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(xiv) Share of profits of property development contracts – retirement village developments

During the construction phase, the Group's share of development profits is recognised based upon cumulative development sales revenue as a proportion of total expected development sales revenue. On completion of a property development, all of the previously unrecognised share of development profits is recognised in the profit and loss.

(ag) Risk equalisation trust fund

Under the provisions of the *Private Health Insurance Act 2007*, stipulated in the Private Health Insurance (Risk Equalisation Administration) Rules 2007, which became effective from 1 April 2007, all health insurers must participate in the Risk Equalisation Trust Fund (RETF). These rules charge a levy to all health insurers and share a proportion of the hospital claims on a sliding scale (by age) for all persons aged 55 years and over regardless of their length of stay in hospital. In certain circumstances, these rules also provide for a High Cost Claimants Pool.

The amounts receivable from the RETF are determined by the Private Health Insurance Administration Council after the end of each calendar quarter. Estimated provisions for amounts payable and income receivable are recognised on an accruals basis.

(ah) Trade and other payables

Trade and other payables, which are generally settled on 30–90 day terms and are unsecured, are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

(ai) Trade and other receivables

Trade and other receivables, which are generally settled on 30–90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate at the date of recognition of the receivable. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the profit and loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the profit and loss.

(aj) Unexpired risk liability

At each reporting date the Group assesses whether the unearned premium liability is sufficient to cover all expected future cash flows relating to future claims against current insurance contracts. This assessment is referred to as the liability adequacy test and is performed separately for each group of contracts subject to broadly similar risks and managed together as a single portfolio.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs then the unearned premium liability is deemed to be deficient. The Group applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability.

The entire deficiency, net of reinsurance, is recognised immediately in the profit and loss. The deficiency is recognised first by writing down any related intangible assets and then related deferred acquisition costs, with any excess being recorded in the balance sheet as an unexpired risk liability.

2. Financial risk management

The board of directors has overall responsibility for the establishment and oversight of the risk management framework. The board has established the Risk Committee, which is responsible for developing and monitoring risk management policies.

The Risk Committee reviews the adequacy of the risk management framework in relation to the risks faced by the Group and the Parent entity and reports regularly to the board on its activities.

Risk management policies are established to identify and analyse the risks faced by the Group and the Parent entity, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's and the Parent entity's activities. The Group and the Parent entity, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

In addition, the board has established the Investment Committee to oversee the particular activities and risks associated with the Group's investment responsibilities.

The Group Audit and Compliance Committee oversees how management monitors compliance with the Group and the Parent entity risk management policies and procedures. The Group Audit and Compliance Committee is assisted in its role by Internal Audit, Group Compliance and Group Finance. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, Group Compliance oversees compliance with controls and procedures and Group Finance measures the quantitative aspects of the controls. The results of these reviews are reported to the Group Audit and Compliance Committee and the board.

The Group and the Parent entity hold the following financial instruments:

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Financial assets				
Cash and cash equivalents	**1,054,830**	273,993	**1,409**	658
Trade and other receivables	**91,461**	75,278	**10,582**	5,282
Financial assets at fair value through profit or loss	**1,012,980**	380,063	**2,129**	1,387
Loans and receivables	**111,934**	28,171	**–**	–
Other financial assets	**810**	1,015	**203**	162
	2,272,015	758,520	**14,323**	7,489
Financial liabilities				
Trade and other payables	**45,077**	40,258	**24,882**	30,935
Borrowings	**220,147**	155,969	**113,000**	115,404
Refundable lease deposits	**64,103**	46,653	**–**	–
Resident loans	**219,662**	194,782	**–**	–
	548,989	437,662	**137,882**	146,339

(a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: price risk, foreign currency risk and interest rate risk. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandates and investment strategies.

Financial instruments held by the benefit funds managed by the Group do not expose the Group to market risk as these financial instruments are matched with policyholder liabilities in the benefit funds; any movement in the carrying value of financial instruments held by the benefit funds has an equal and opposite effect on policyholder liabilities.

(i) Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows of an overseas financial instrument will fluctuate as a result of movements in international exchange rates. The Group and the Parent entity do not operate internationally and are not directly exposed to any material foreign exchange risk, there are however small exposures through various International Share Fund Trust Investments and Investments in Associates which are also immaterial.

(ii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument may fluctuate because of changes in market prices. The Group and the Parent entity are exposed to equity securities price risk. This arises from investments held by the Group and classified on the balance sheet as fair value through profit or loss. Neither the Group nor the Parent entity are directly exposed to commodity price risk.

To manage its price risk arising from investments in equity securities, the Group and the Parent entity diversifies their portfolio. Diversification of the portfolio is achieved in accordance with investment policies overseen by the Investment Committee, the objective of which is to manage risk within acceptable limits.

2. Financial risk management (continued)

The majority of the Group's and the Parent entity's equity investments are held via investments in trusts managed by related entities. The equity investments held by these trusts are publicly traded and are included within market indices such as the Standard & Poor's ASX 200 Index.

The table below summarises the impact of increases/(decreases) of the index on the Group's and the Parent entity's post-tax profit for the year and on equity. The analysis is based on the assumption that the equity index had increased/(decreased) by 10% at balance date (2009: 10%) with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the index.

	Impact on post-tax profit		Impact on equity	
Index	**2010 $'000**	2009 $'000	**2010 $'000**	2009 $'000
Group				
ASX 200 +10%	**6,581**	4,361	**6,581**	4,361
ASX 200 –10%	**(5,767)**	(4,464)	**(5,767)**	(4,464)
Parent entity				
ASX 200 +10%	**33**	20	**33**	20
ASX 200 –10%	**(33)**	(20)	**(33)**	(20)

The price risk for the unlisted securities is immaterial in terms of the possible impact on profit or loss or total equity. It has therefore not been included in the sensitivity analysis.

The assumptions used in the sensitivity analysis are based on an analysis of published economic data.

(iii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's main interest rate risk arises from cash and cash equivalents and borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group analyses variable interest rate exposures on borrowings and will hedge at a fixed rate using interest rate swaps where this is in line with current management view of potential benefit. During the years ended 30 June 2010 and 30 June 2009, the Group's borrowings at variable rate were denominated in Australian Dollars.

As at the reporting date, the Group and the Parent entity had the following variable rate borrowings outstanding:

	30 June 2010		30 June 2009	
	Weighted average interest rate %	**Balance $'000**	Weighted average interest rate %	Balance $'000
Group				
Amounts due to preferential unit holders	**5.32**	**10,000**	4.61	10,000
Call deposits	**2.97**	**11,705**	–	–
Cash advance facility	**6.38**	**45,000**	6.25	60,000
Development finance loan	**6.84**	**1,604**	5.82	1,848
Mortgage loans	**–**	**–**	5.94	3,042
Subordinated capital notes	**8.72**	**25,000**	10.28	25,000
Net exposure to cash flow interest rate risk		**93,309**		99,890
Parent entity				
Loans payable to controlled entities	**6.93**	**105,200**	4.11	115,404

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. The scenarios are run only for liabilities that represent the interest-bearing positions. The simulation is done on a quarterly basis to verify that the maximum loss potential is within the limit given by the board and monitored by management.

Based on the various scenarios, the Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate-interest amounts calculated by reference to the agreed notional principal amounts.

At 30 June 2010 and 30 June 2009, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Impact on post-tax profit		Impact on equity	
Judgements of reasonably possible movements:	**2010 $'000**	2009 $'000	**2010 $'000**	2009 $'000
Group				
+0.75% (75 basis points)	**(1,026)**	–	**(1,026)**	–
–0.75% (75 basis points)	**1,026**	–	**1,026**	–
+0.50% (50 basis points)	**–**	(546)	**–**	(546)
–0.50% (50 basis points)	**–**	546	**–**	546
Parent entity				
+0.75% (75 basis points)	**(578)**	–	**(578)**	–
–0.75% (75 basis points)	**578**	–	**578**	–
+0.50% (50 basis points)	**–**	(354)	**–**	(354)
–0.50% (50 basis points)	**–**	354	**–**	354

The movements in profit are due to higher/lower interest costs from variable rate debt and higher/lower interest income from cash equivalents and other interest bearing investments.

The assumptions used in the sensitivity analysis are based upon an analysis of published economic data. The sensitivity index is higher in 2010 than in 2009 as a reasonably possible change of 75 basis points is more appropriate to current market expectations for interest rate increases.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Credit risk is managed on a group basis to ensure that this risk is minimised. Credit risk arises from derivative financial assets, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A-' are accepted. If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, an internal assessment is made in relation to the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The compliance with credit limits by wholesale customers is regularly monitored by line management. Sales to retail customers are required to be settled in cash or using major credit cards, mitigating credit risk.

Trade and other receivables

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

There is generally no significant concentration of credit risks as the organisation transacts with a large number of individually immaterial debtors. This is further mitigated in relation to health insurance policy debtors where the credit risk will only continue during the grace period as specified by legislation and/or in the policy document, after this period the policy is either paid up or terminated.

In relation to any other individually material debtors, it is the Group's policy that any customers who are likely to have such material balances owing and wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by the board. These risk limits are regularly monitored.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Mortgage and policy loans held by the benefit funds managed by the Group do not expose the Group to credit risk as these financial instruments are matched with policyholder liabilities in the benefit funds; any movement in the carrying value of financial instruments held by the benefit funds has an equal and opposite effect on policyholder liabilities.

Credit risk further arises in relation to financial guarantees given to certain parties. Such guarantees are only provided in exceptional circumstances and are subject to specific board approval.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets. The credit risk on financial assets of the Group which have been recognised in the balance sheet, other than investments in shares, is generally the carrying amount, net of any provisions for impairment. Credit risk for physical securities and derivative instruments are monitored by exposure limits to counterparties. These limits are determined by reference to third party credit ratings.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets.

Notes to the financial statements

for the year ended 30 June 2010

2. Financial risk management (continued)

Maturities of financial liabilities

The tables below analyse the Group's and the Parent entity's financial liabilities into relevant maturity groupings based on the contractual maturities remaining at the reporting date.

The amounts disclosed in the tables are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Group – at 30 June 2010	**Less than 6 months $'000**	**6–12 months $'000**	**Between 1 and 2 years $'000**	**Between 2 and 5 years $'000**	**Over 5 years $'000**	**Carrying Amount $'000**
Non-interest bearing	**328,842**	**–**	**–**	**–**	**–**	**328,842**
Variable rate	**22,724**	**–**	**–**	**45,585**	**25,000**	**93,309**
Fixed rate	**44,704**	**22,173**	**39,714**	**18,979**	**1,268**	**126,838**
Financial guarantee contracts	**–**	**–**	**–**	**–**	**–**	**–**
	396,270	**22,173**	**39,714**	**64,564**	**26,268**	**548,989**

Group – at 30 June 2009	Less than 6 months $'000	6–12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Carrying Amount $'000
Non-interest bearing	281,693	–	–	–	328	282,021
Variable rate	10,000	53,042	1,848	–	35,000	99,890
Fixed rate	–	–	5,094	49,622	1,035	55,751
Financial guarantee contracts	–	–	–	–	–	–
	291,693	53,042	6,942	49,622	36,363	437,662

Parent entity – at 30 June 2010	**Less than 6 months $'000**	**6–12 months $'000**	**Between 1 and 2 years $'000**	**Between 2 and 5 years $'000**	**Over 5 years $'000**	**Carrying Amount $'000**
Non-interest bearing	**24,882**	**–**	**–**	**–**	**–**	**24,882**
Variable rate	**50,200**	**–**	**–**	**45,000**	**10,000**	**105,200**
Fixed rate	**–**	**–**	**4,888**	**2,912**	**–**	**7,800**
	75,082	**–**	**4,888**	**47,912**	**10,000**	**137,882**

Parent entity – at 30 June 2009	Less than 6 months $'000	6–12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Carrying Amount $'000
Non-interest bearing	30,935	–	–	–	–	30,935
Variable rate	65,404	50,000	–	–	–	115,404
Financial guarantee contracts	–	–	–	–	–	–
	96,339	50,000	–	–	–	146,339

Details about the financial guarantee contracts are provided in note 38. The amounts disclosed in the table are the maximum amounts allocated to the earliest period in which the guarantee could be called. The Parent entity does not expect these payments to eventuate.

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes, therefore information relating to the estimation of fair values is provided in the relevant note to the accounts.

The carrying amounts of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The fair value of current borrowings approximates the carrying amount, as the impact of discounting is not significant.

As of 1 July 2009, the Group has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The following table presents the Group's and the Parent entity's financial assets and financial liabilities measured and recognised at fair value at 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

Group – as at 30 June 2010	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets				
Financial assets at fair value through profit or loss				
Fixed interest securities	222,083	13,013	24,927	260,023
Equities	436,850	–	–	436,850
Mortgage trusts	86,663	110,312	–	196,975
Property syndicates and trusts	59,968	2,258	–	62,226
Debt securities	26,018	–	30,140	56,158
Futures contract	748	–	–	748
Other financial assets	810	–	–	810
Total financial assets	833,140	125,583	55,067	1,013,790

Parent entity – as at 30 June 2010	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets				
Financial assets at fair value through profit or loss				
Equities	355	–	–	355
Mortgage trusts	63	200	–	263
Property syndicates and trusts	76	687	–	763
Futures contract	748	–	–	748
Other financial assets	203	–	–	203
Total financial assets	1,445	887	–	2,332

Reconciliation of level 3 fair value movements:	Consolidated 2010 $'000	Parent entity 2010 $'000
Opening balance	–	–
Purchases	11,730	–
Transfer from other categories	44,742	–
Sales	(533)	–
Principal repayments	(872)	–
Closing balance	55,067	–

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Investments in unlisted unit trusts are recorded at the redemption value per unit as reported by the managers of such trusts. These instruments are included in level 1 and level 2 depending on the redemption terms of the manager.

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. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for long-term debt for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise debt investments and derivative financial instruments. In the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3.

Notes to the financial statements
for the year ended 30 June 2010

2. Financial risk management (continued)

(e) Capital risk management

Capital is represented by members' funds and comprises earnings retained in relation to past activities of Australian Unity Limited. It is the board's policy to maintain a strong capital base so as to maintain member, stakeholder, creditor and market confidence and to sustain future development of the business.

Capital management plays a central role in managing risk to create member value whilst also ensuring that the interests of all stakeholders including investors, policyholders, lenders and regulators are met.

Capital is utilised to finance growth, non-current asset acquisitions and business plans and also provides support if adverse outcomes arise from health insurance, investment performance or other activities.

The appropriate level of capital is determined by the board based on both regulatory and economic considerations.

Legislation requires a number of the controlled entities to maintain certain levels of capital, the specific details of which are discussed in the relevant individual controlled entities' financial statements. Throughout the year ended 30 June 2010 and currently, these controlled entities have maintained capital in excess of prudential requirements at all times. For entities not subject to specific legislation, capital risk management is determined in conjunction with the above mentioned considerations, the economic, operational and capital needs of the business.

There were no changes in the Group's approach to capital management during the year.

3. Critical accounting estimates and judgements

Estimates and judgements are continually re-evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment of goodwill and intangibles with indefinite useful lives

The Group tests annually whether goodwill or other intangibles has suffered any impairment. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated in accordance with the accounting policy stated in note 1(q). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions.

(ii) Insurance liabilities

The estimates, uncertainties and judgements arising as a result of the Group's health and life insurance operations are detailed in notes 41 and 42.

(iii) Long service leave provision

The liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, attrition rates and pay increases as a result of projected inflation have been taken into account.

(iv) Retirement village investment property

The fair value of retirement village investment property is determined as the present value of future cash flows based upon statistical modelling of incoming and outgoing residents and includes assumptions in respect of a number of factors, including average length of residency and expected changes in property prices. Further information is detailed in note 21.

(v) Financial guarantees

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. In order to estimate the fair value using this approach, the following assumptions were made:

Probability of default (PD): this represents the likelihood of the guaranteed party defaulting at any time during the period of the guarantee and is assessed based on expected surplus funds generated from investments during the guarantee period and made available to all guarantors to meet the exposure.

Exposure at default (EAD): this represents the maximum loss that the Group is exposed to if the guaranteed party was to default.

Loss given default (LGD): this represents the proportion of the EAD which the Group is exposed to if the guaranteed party was to default.

The value of the financial guarantee over each future year of the period of the guarantee is then equal to PD x EAD x LGD, which is discounted over the contractual term of the guarantee, to reporting date, to determine fair value at reporting date. The discount rate applied represents the weighted average interest rate applicable to the total exposure.

(b) Critical judgements in applying the Group's accounting policies

(i) Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as the directors consider it probable that future taxable profits will be available to utilise these temporary differences.

(ii) Classification of life insurance liabilities

Life insurance liabilities held within benefit funds managed by the Group are classified for accounting purposes as either life insurance contract liabilities, participating life investment contract liabilities or non-participating life investment contract liabilities in accordance with AASB 1038 *Life Insurance Contracts*.

(iii) Leases

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties and has thus classified the leases as operating leases.

4. Segment information

(a) Description of segments

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

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

Corporate Functions	Provision of shared services, fraternal activities and management of properties and other strategic investments and group liquidity.
Healthcare	Provision of dental and other healthcare services.
Health Insurance	Provision of private health insurance and management of the customer service centre.
Investments	Management of property trusts, investment unit trusts, superannuation funds, benefit funds and mortgage administration.
Personal Financial Services	Provision of financial planning and finance broking services.
Retirement Living	Provisions of aged care facilities and services for independent living units and aged care support services.

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

(b) Segment information

The segment information provided to the Group Executive Committee for the reportable operating segments for the year ended 30 June 2010 is as follows:

30 June 2010	Corporate Functions and Eliminations $'000	Healthcare $'000	Health Insurance $'000	Investments $'000	Personal Financial Services $'000	Retirement Living $'000	Total $'000
Total segment revenue	(6,694)	15,282	512,892	70,410	7,139	53,724	652,753
Inter-segment revenue	4,176	(2,020)	836	(1,508)	(18)	(1,466)	–
Revenue from external customers	(2,518)	13,262	513,728	68,902	7,121	52,258	652,753
Adjusted EBITDA	(30,919)	(1,511)	52,402	10,481	(5,621)	10,155	34,987
Depreciation and amortisation	(5,185)	(424)	(4,139)	(4,127)	(374)	(1,712)	(15,961)
Interest expense	(3,092)	–	(2,180)	(5,274)	–	(737)	(11,283)
Investment income	(6,556)	(157)	13,891	2,404	(3)	1,202	10,781
Segment management report shared services	11,568	(575)	(4,980)	(3,083)	(656)	(2,274)	–
Income tax benefit/(expense)	7,774	851	(15,851)	5,567	2,115	(1,852)	(1,396)
Profit After Tax	(26,410)	(1,816)	39,143	5,968	(4,539)	4,782	17,128
Share of profit/(loss) from associates after tax (included in EBITDA)	–	(10)	–	2,956	–	(144)	2,802
Total segment assets include:							
Income producing assets	1,207	271	215,407	154,723	1,125	7,347	380,080
Working capital assets	(6,362)	1,292	49,815	15,466	991	9,126	70,328
Non-interest bearing assets	20,798	1,235	26,753	103,076	379	229,264	381,505
Total segment assets	15,643	2,798	291,975	273,265	2,495	245,737	831,913
Total segment liabilities include:							
Borrowings	100,930	400	26,200	137,213	800	(45,397)	220,146
Working capital liabilities	20,221	1,041	150,922	16,176	546	10,095	199,001
Non-interest bearing liabilities	22,817	–	5,548	3,050	7	17,830	49,252
Total segment liabilities	143,968	1,441	182,670	156,439	1,353	(17,472)	468,399

4. Segment information (continued)

The segment information provided to the Group Executive Committee for the reportable operating segments for the year ended 30 June 2009 is as follows:

30 June 2009	Corporate Functions and Eliminations $'000	Healthcare $'000	Health Insurance $'000	Investments $'000	Personal Financial Services $'000	Retirement Living $'000	Total $'000
Total segment revenue	(515)	15,020	477,571	47,660	5,479	50,650	595,865
Inter-segment revenue	1,467	(2,068)	1,018	–	(18)	(399)	–
Revenue from external customers	952	12,952	478,589	47,660	5,461	50,251	595,865
Adjusted EBITDA	(21,965)	210	32,301	10,831	(7,775)	9,167	22,769
Depreciation and amortisation	(2,968)	(470)	(3,508)	(3,504)	(312)	(1,499)	(12,261)
Interest expense	(2,264)	–	(2,444)	(2,863)	–	(1,044)	(8,615)
Investment income	(2,002)	(106)	(6,278)	3,020	(78)	702	(4,742)
Segment management report shared services	8,407	(389)	(3,471)	(2,025)	(365)	(2,157)	–
Income tax benefit/(expense)	7,796	276	(3,516)	346	2,550	(3,552)	3,900
Profit After Tax	(12,996)	(479)	13,084	5,805	(5,980)	1,617	1,051
Share of profit/(loss) from associates after tax (included in EBITDA)	992	(18)	–	849	–	848	2,671
Total segment assets include:							
Income producing assets	(3,359)	127	189,387	16,604	966	3,949	207,674
Working capital assets	(15,549)	3,180	49,674	26,205	1,840	9,843	75,193
Non-interest bearing assets	117,188	546	31,333	89,453	486	159,534	398,540
Total segment assets	98,280	3,853	270,394	132,262	3,292	173,326	681,407
Total segment liabilities include:							
Borrowings	103,813	–	25,750	51,567	1,500	(25,303)	157,327
Working capital liabilities	20,286	1,031	140,023	12,768	392	5,666	180,166
Non-interest bearing liabilities	18,482	–	5,177	1,007	1	16,639	41,306
Total segment liabilities	142,581	1,031	170,950	65,342	1,893	(2,998)	378,799

(c) Other segment information

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

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

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

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

(i) Segment revenue

Revenue transactions between segments are carried out at arm's length and eliminated on consolidation. The revenue from external parties reported to management is measured in a manner consistent with that in the profit and loss, except for dividends and distributions and other net investment gains/(losses) which are presented below the EBITDA line. Included in segment revenue from external customers is interest expense on external borrowings.

Segment revenue reconciles to total revenue as follows:

	Consolidated 2010 $'000	2009 $'000
Total segment revenue	**652,753**	595,865
Fair value amortisation adjustment on non-interest bearing revenue	**8**	(935)
Dividends and distributions (note 6)	**9,483**	11,086
Other net investment gains/(losses) (note 6)	**(3,700)**	(15,169)
Adjustment to villa unit valuations	**(1,013)**	–
Rental income	**268**	153
Retirement aged care facility income	**(144)**	376
Revenue from Lifeplan trust	**8,687**	–
Internal commission elimination	**(281)**	–
Other	**(108)**	459
Revenue attributable to members of Australian Unity Limited (note 44)	**665,953**	591,835
Revenue from Benefit Funds (note 44)	**268,096**	25,602
Total revenue	**934,049**	617,437

(ii) Adjusted EBITDA

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

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

	Consolidated 2010 $'000	2009 $'000
Adjusted EBITDA	**34,987**	22,769
Depreciation and Amortisation:		
Depreciation and amortisation expense (note 7)	**(13,869)**	(11,266)
Net (gain)/loss on disposal of assets (note 7)	**(226)**	286
Fair value amortisation adjustment on non-interest bearing revenue	**8**	(935)
Transfer from general expenses within EBITDA	**(1,284)**	200
Transfer to interest expense	**(590)**	(546)
	(15,961)	(12,261)
Interest expense:		
Finance costs (note 7)	**(11,006)**	(8,626)
Retirement village investment notes interest adjustment	**(663)**	(397)
Retirement village trust accommodation bond charge	**(194)**	(138)
Trust interest expense	**(10)**	–
Transfer from depreciation and amortisation	**590**	546
	(11,283)	(8,615)
Investment income:		
Dividends and distributions (note 6)	**9,483**	11,086
Other net investment gains/(losses) (note 6)	**(3,700)**	(15,169)
Impairment of investment	**(2,296)**	(659)
Adjustment to villa unit valuations	**(1,103)**	–
Investment income – Lifeplan trusts	**8,397**	–
	10,781	(4,742)
Other	**–**	(1)
Profit/(loss) before income tax attributable to members of Australian Unity Limited (note 44)	**18,524**	(2,850)
Profit before income tax of benefit funds (note 44)	**12,062**	1,374
Profit/(loss) before income tax	**30,586**	(1,476)

Notes to the financial statements
for the year ended 30 June 2010

4. Segment information (continued)

(iii) Segment assets

Segment assets provided are split into three categories: income producing assets, working capital assets and non-interest bearing assets. Income producing assets include cash and investments including those held in funds managed by related entities. Working capital assets include trade debtors, inventory, reinsurance receivables, and inter-entity trading. Non-interest bearing assets include property, plant and equipment, investment property, intangible assets, investments in associates, intercompany investments and other non-current assets.

The amounts provided to management with respect to total assets are measured in a manner consistent with that of the financial statements, except for investment property which is presented on a net basis of investment property, resident liabilities and refundable lease deposits. All assets are allocated based on the operations of the segment.

Reportable segments' assets are reconciled to total assets as follows:

	Consolidated	
	2010 $'000	2009 $'000
Segment assets	**831,913**	681,407
Gross up Investment property for resident liabilities and refundable lease deposits (note 29)	**283,765**	241,435
GST payable	**(1,538)**	(333)
Grand United Centenary Centre	**962**	(315)
Receivables reclassified	**1,247**	–
Inter entity trading balances reclassified	**(26,901)**	–
Other – reclassification between assets and liabilities	**1,476**	(1,400)
Segment assets attributable to members of Australian Unity Limited	**1,090,924**	920,794
Benefit Fund assets (note 43)	**1,868,128**	454,677
Total assets as per the balance sheet	**2,959,052**	1,375,471

(iv) Segment liabilities

Segment liabilities provided are split into three categories: borrowings, working capital liabilities and non-interest bearing liabilities. Borrowings include those held externally and also inter-entity lending. Working capital liabilities include trade creditors, claims and other payables, current provisions and other liabilities and unearned income. Non-interest bearing liabilities include non-current provisions and resident ingoing fees.

The amounts provided to management with respect to total liabilities are measured in a manner consistent with that of the financial statements, except for resident liabilities and refundable lease deposits which are not considered to be segment liabilities. Rather they are managed on a net basis with investment property and thus included in segment assets reported to management. These liabilities are allocated based on the operations of the segment.

Reportable segments' liabilities are reconciled to total liabilities as follows:

	Consolidated	
	2010 $'000	2009 $'000
Segment liabilities	**468,399**	378,799
Resident liabilities and refundable lease deposits (note 29)	**283,765**	241,435
GST payable	**(1,538)**	(333)
Grand United Centenary Centre	**962**	(315)
Receivables reclassified	**1,247**	–
Offset against equity for statutory reporting purposes	**(1,343)**	(132)
Inter-entity trading balances reclassified	**(26,901)**	–
Other – reclassification between assets and liabilities	**1,651**	(1,270)
Segment liabilities attributable to members of Australian Unity Limited	**726,242**	618,184
Benefit Fund liabilities (note 43)	**28,878**	720
Benefit Fund policy liabilities (note 43)	**1,839,250**	453,957
Total liabilities as per the balance sheet	**2,594,370**	1,072,861

5. Business combination

Group and Parent entity

On 31 August 2009, Australian Unity Limited merged with Lifeplan Australia Friendly Society Limited. All members of Lifeplan Australia Friendly Society Limited at the date of merger became members of the enlarged Australian Unity Limited Group and Lifeplan Australia Friendly Society Limited and its controlled entities became subsidiaries of Australian Unity Limited.

The principal activities of Lifeplan Australia Friendly Society Limited are the provision of financial products and services (including savings and loan products), benefit and insurance services, such as funeral and accident (student, adult and death). Its controlled entities provide savings and loan products, travel agency, funeral plan management and office accommodation services.

As this transaction was a merger of two mutual entities, no cash consideration was paid.

Details of the purchase consideration, the net assets and liabilities acquired and goodwill are as follows:

	2010 $'000
Purchase consideration	
Cash paid	–
Fair value of members interest	47,999
Total purchase consideration	47,999
Fair value of net identifiable assets acquired (refer to (a) below)	47,999
Goodwill (refer to (a) below and note 23)	–

(a) Assets and liabilities acquired

The Group has recognised the fair values of the identifiable assets and liabilities of Lifeplan Australia Friendly Society Limited and its controlled entities following the completion of business combination accounting.

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

	Acquiree's carrying amount $'000	Fair value $'000
Cash and cash equivalents	399,875	399,875
Available-for-sale investments	15,639	15,639
Trade and other receivables	6,410	6,410
Loans and receivables	94,863	94,863
Other financial assets	917,357	917,760
Property, plant and equipment	17,732	17,732
Current tax assets	14,065	14,204
Deferred tax assets	39,512	39,373
Intangible assets	6,261	6,261
Trade and other payables	(10,318)	(10,318)
Interest bearing liabilities	(88,884)	(88,825)
Provisions	(4,199)	(4,199)
Life insurance contract liabilities	(10,748)	(10,748)
Life investment contract liabilities	(1,346,980)	(1,346,980)
Policyholder equity – life insurance contracts	(3,048)	(3,048)
Net identifiable assets acquired	47,537	47,999
Add: Goodwill		–
Net assets acquired		47,999

5. Business combination (continued)

(i) Acquisition-related costs

Acquisition-related costs incurred since 1 July 2009 of $717,620 are included in other expenses in the profit and loss.

Acquisition-related costs incurred prior to 1 July 2009 of $3,460,000 were capitalised under the previous accounting standard. These costs were written off together with a corresponding adjustment for the tax effect of $1,038,000 to opening retained earnings at 1 July 2009. Refer accounting policy note 1(e).

(ii) Restructuring provision

The restructuring provision recognised on acquisition was a present obligation of Lifeplan Australia Friendly Society Limited and its controlled entities immediately prior to the business combination and its execution was not conditional upon it being acquired by Australia Unity Limited.

(iii) Revenue and profit contribution

The acquired business contributed revenues, including the benefit funds, of $234,206,000 and a profit after income tax expense of $2,737,000 to the Group for the period from 31 August 2009 to 30 June 2010. If the acquisition had occurred on 1 July 2009, consolidated revenue and consolidated profit would have included revenue of $294,401,000 and a loss after income tax expense of $513,000 for the year ended 30 June 2010.

(b) Purchase consideration – cash inflow/(outflow)

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Cash balance acquired from subsidiary	**399,875**	–	**–**	–
Consideration paid to acquire subsidiary	**–**	–	**–**	–
Inflow of cash – investing activities	**399,875**	–	**–**	–

Prior year

There were no business combinations during the year ended 30 June 2009.

6. Revenue

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Contributions and premiums (note 41)	**513,187**	478,029	**–**	–
Commission received	**20,606**	5,597	**–**	–
Dental sales	**13,266**	12,952	**–**	–
Dividends and distributions	**9,483**	11,086	**38,417**	31,242
Fair value gains on investment property	**10,890**	14,108	**–**	–
Interest income received from wholly-owned entities	**–**	–	**300**	3,818
Management fees	**55,517**	43,991	**3,045**	–
Other net investment gains/(losses)	**(3,700)**	(15,169)	**885**	1,459
Other revenue	**3,749**	2,238	**704**	1,045
Profit from property development contracts	**–**	472	**–**	–
Rental income	**4,577**	2,892	**4**	3
Retirement village fees and subsidies	**38,378**	35,639	**–**	–
Revenue from benefit funds (note 42)	**268,096**	25,602	**–**	–
Shared service fees recovered from controlled entities	**–**	–	**3,933**	–
	934,049	617,437	**47,288**	37,567

7. Expenses

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Expenses, excluding finance costs, included in the profit and loss classified by nature				
Advertising costs	**11,208**	11,539	**202**	1,831
Bank charges	**2,491**	1,939	**12**	16
Claims expense	**433,209**	419,378	**–**	–
Commission	**17,010**	13,330	**281**	–
Communication costs	**4,309**	4,256	**14**	12
Computer and equipment costs	**7,964**	7,003	**65**	–
Depreciation and amortisation expense	**13,869**	11,266	**–**	64
Employee benefits expense	**116,549**	99,910	**5,206**	2,035
Expenses in relation to benefit funds (note 42)	**256,034**	24,228	**–**	–
Financial and insurance costs	**1,624**	1,429	**–**	–
Fund manager fees	**9,302**	6,447	**–**	–
Impairment of investment in associate (note 17)	**2,296**	659	**–**	–
Legal and professional fees	**15,420**	9,251	**4,092**	(327)
Occupancy costs	**8,559**	8,459	**251**	144
Other direct expenses	**21,504**	19,398	**–**	–
Net (gain)/loss on disposal of assets	**226**	(286)	**–**	(278)
Net risk equalisation trust fund recoveries	**(29,590)**	(29,221)	**–**	–
Other expenses	**3,892**	3,325	**853**	585
Shared service costs paid to controlled entities	**–**	–	**10,074**	13,798
	895,876	612,310	**21,050**	17,880

Investment gains/(losses) are included within revenue in note 6.

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Profit before income tax includes the following specific expenses:				
Depreciation				
Buildings	**992**	971	**–**	–
Leasehold improvements	**3,383**	3,081	**–**	64
Plant and equipment	**2,271**	2,036	**–**	–
Total depreciation	**6,646**	6,088	**–**	64
Amortisation				
Computer software	**6,537**	5,107	**–**	–
Management rights	**686**	71	**–**	–
Total amortisation	**7,223**	5,178	**–**	–
Total depreciation and amortisation expense	**13,869**	11,266	**–**	64
Finance costs				
Interest and finance charges paid/payable	**11,011**	12,009	**8,125**	12,720
Amount capitalised (note (a))	**(5)**	(3,383)	**–**	–
Finance costs	**11,006**	8,626	**8,125**	12,720

(a) Capitalised borrowing costs

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's outstanding borrowings during the year, in this case 6.38% (2009: 6.25%).

8. Income tax expense/(benefit)

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
(a) Income tax expense/(benefit)				
Current tax	**(2,750)**	1,057	**(8,236)**	(1,994)
Current tax – benefit funds	**6,820**	424	**–**	–
Deferred tax	**4,705**	572	**(120)**	(5,876)
Deferred tax – benefit funds	**5,512**	823	**–**	–
Adjustments for current tax of prior periods	**(560)**	(5,737)	**2,290**	(828)
Adjustments for current tax of prior periods – benefit funds	**(269)**	334	**–**	–
Total income tax expense/(benefit)	**13,458**	(2,527)	**(6,066)**	(8,698)
Deferred income tax expense/(revenue) included in income tax expense/(benefit) comprises:				
Decrease/(increase) in deferred tax assets (note 22)	**3,887**	(6,029)	**(140)**	(5,581)
Increase/(decrease) in deferred tax liabilities (note 32)	**6,330**	7,422	**20**	(295)
Total deferred income tax expense/(revenue)	**10,217**	1,393	**(120)**	(5,876)
(b) Reconciliation of income tax expense/(benefit) to prima facie tax payable				
Profit/(loss) before income tax expense	**30,586**	(1,476)	**18,113**	6,967
Less: profit in benefit funds	**(12,063)**	(1,374)	**–**	–
	18,523	(2,850)	**18,113**	6,967
Tax at the Australian tax rate of 30% (2009: 30%)	**5,557**	(856)	**5,434**	2,090
Non-assessable dividends/income	**(2,907)**	(101)	**(11,503)**	(9,449)
Other assessable amounts	**530**	342	**2**	28
Non-deductible expenditure	**1,102**	599	**2**	52
Other deferred tax adjustment	**60**	(1,058)	**–**	(452)
Other deductible expenditure	**(99)**	–	**–**	–
Tax in benefit funds	**12,063**	1,374	**–**	–
Tax offsets/credits	**(1,767)**	(1,053)	**(6)**	(6)
Over provision in prior years	**(1,081)**	(1,774)	**5**	(961)
Total income tax expense/(benefit)	**13,458**	(2,527)	**(6,066)**	(8,698)
(c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and not recognised in the profit and loss or other comprehensive income but directly debited or credited to equity:				
Current tax – debited/(credited) directly to equity	**–**	–	**–**	–
Net deferred tax – debited/(credited) directly to equity (notes 22 and 32)	**(1,038)**	–	**(1,038)**	–
	(1,038)	–	**(1,038)**	–
(d) Tax (benefit)/expense relating to items of other comprehensive income				
Gains on revaluation of land and buildings (note 34(a))	**–**	–	**–**	–
Available-for-sale financial assets (note 34(a))	**–**	–	**–**	–
Cash flow hedges (note 34(a))	**–**	(50)	**–**	–
Share of other comprehensive income of associates (note 34(a))	**–**	–	**–**	–
	–	(50)	**–**	–
(e) Tax losses				
Unused tax losses for which no deferred tax asset has been recognised	**48**	–	**–**	–
Potential tax benefit @ 15%	**7**	–	**–**	–

All unused tax losses were incurred by Australian entities that are not part of the tax consolidated group.

(f) Tax consolidation legislation

The Parent entity and its wholly-owned Australian controlled entities have formed a tax consolidated group with effect from 1 July 2002. Australian Unity Limited is the head entity of the tax consolidated group. The accounting policy in relation to this legislation is set out in note 1(p).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Australian Unity Limited. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Australian Unity Limited for any current tax payable assumed and are compensated by Australian Unity Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Australian Unity Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/(payable) under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables.

9. Current assets – Cash and cash equivalents

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Cash at bank and on hand	**551**	18	**–**	–
Bank balances	**14,501**	7,412	**160**	635
Deposits at call	**1,039,778**	266,563	**1,249**	23
	1,054,830	273,993	**1,409**	658

(a) Deposits at call

Deposits at call includes future margin deposits held with brokers as collateral against open future contracts. At 30 June 2010 this balance was $248,000 of which $22,000 is restricted against margin requirements (2009: $nil).

(b) Risk exposure

The Group's and the Parent entity's exposure to interest rate risk is discussed in note 2. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

(c) Fair value

The carrying amount for cash and cash equivalents equals their fair value.

10. Current assets – Trade and other receivables

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Net trade receivables				
Trade receivables	**40,357**	33,001	**–**	–
Provision for impairment of trade receivables	**(356)**	(379)	**–**	–
	40,001	32,622	**–**	–
Related party receivables				
Loans to controlled entities	**–**	–	**10,400**	5,150
Loans to related entities	**–**	565	**–**	–
Loan to associate	**243**	136	**–**	–
	243	701	**10,400**	5,150
Other receivables				
Sundry debtors	**25,123**	15,412	**196**	94
Property syndicate loans	**–**	3,042	**–**	–
Risk equalisation trust fund receivable	**9,648**	10,000	**–**	–
GST receivable	**(31)**	296	**(16)**	38
Interest receivable	**198**	300	**2**	–
	34,938	29,050	**182**	132

10. Current assets – Trade and other receivables (continued)

	Consolidated 2010 $'000	Consolidated 2009 $'000	Parent entity 2010 $'000	Parent entity 2009 $'000
Prepayments				
Prepayments	**3,243**	2,628	**–**	–
Prepaid reinsurance	**6**	13	**–**	–
Management fees	**8,125**	5,578	**–**	–
Deferred acquisition costs	**2,655**	2,181	**–**	–
	14,029	10,400	**–**	–
Property receivables				
Property deposits	**2,250**	2,505	**–**	–
	2,250	2,505	**–**	–
	91,461	75,278	**10,582**	5,282

(a) Impaired trade receivables

Trade receivables are non-interest bearing and are generally on 30-90 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired.

At 30 June 2010, current trade receivables of the Group with a nominal value of $356,000 (2009: $379,000) were impaired. An impairment provision of $356,000 (2009: $379,000) has been recognised. There were no impaired trade receivables for the Parent entity at 30 June 2010 (2009: $nil).

The ageing of these trade receivables is as follows:

	Consolidated 2010 $'000	Consolidated 2009 $'000	Parent entity 2010 $'000	Parent entity 2009 $'000
1 to 3 months	**311**	237	**–**	–
Over 6 months	**45**	142	**–**	–
	356	379	**–**	–

Movements in the provision for impairment of trade receivables are as follows:

	Consolidated 2010 $'000	Consolidated 2009 $'000	Parent entity 2010 $'000	Parent entity 2009 $'000
Balance at the beginning of the financial year	**379**	240	**–**	–
Provision recognised/(reversed) during the year	**65**	139	**–**	–
Receivables written-off during the year as uncollectible	**(88)**	–	**–**	–
Balance at the end of the financial year	**356**	379	**–**	–

The creation of the provision for impaired receivables has been included in financial and insurance costs in the profit and loss. The release of the provision for impaired receivables has been included in other revenue in the profit and loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(b) Past due but not impaired

At 30 June 2010, trade receivables of $8,440,000 (2009: $2,705,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The ageing of these trade receivables is as follows:

	Consolidated 2010 $'000	Consolidated 2009 $'000	Parent entity 2010 $'000	Parent entity 2009 $'000
Up to 3 months	**6,771**	2,437	**–**	–
3 to 6 months	**1,401**	194	**–**	–
6 to 12 months	**268**	74	**–**	–
	8,440	2,705	**–**	–

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

(c) Loans to controlled entities

Loans to controlled entities are repayable on demand and accrue interest on a monthly basis at the 90 day bank bill rate plus a margin of 1%, set on the first day of each quarter; at 30 June 2010 the rate for the quarter ending 30 June 2010 amounted to 5.42% (2009: 4.11%).

(d) Loans to related entities

The 30 June 2009 loans to related entities were made for the purpose of the development of a retirement village under a joint development arrangement. These loans are secured by a second mortgage on the properties of the related entities and by personal guarantees from the directors of the related entities. The loans accrued interest on a monthly basis at a fixed rate of 10.04% per annum.

(e) Loan to associate

The loan to associate comprises a loan receivable from Health Providers Australia Pty Ltd (trading as "Rehability"). This loan is repayable on or before 10 December 2010 and accrues interest on a quarterly basis at the 90 day bank bill rate plus a margin of 1.5%, set on the first day of each quarter; at 30 June 2010 the rate for the quarter ending 30 June 2010 amounted to 5.77% (2009: 4.61%).

(f) Property syndicate loans

The property syndicate loans were due from a class of investors in a property syndicate of which a controlled entity is the Responsible Entity. The loans were repaid on 30 June 2010. Interest on these loans was charged at an average rate of 5.94% per annum.

(g) Interest rate risk

Information about the Group's and the Parent entity's exposure to interest rate risk in relation to trade and other receivables is provided in note 2.

(h) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above. Information about the Group's and the Parent entity's exposure to credit risk and the credit quality in relation to trade and other receivables is provided in note 2.

11. Current assets – Inventories

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Inventories at cost – Healthcare	**465**	447	**–**	–
Other inventories at cost	**69**	88	**–**	–
	534	535	**–**	–

12. Current assets – Current tax assets

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Current tax asset	**3,010**	–	**–**	–

13. Current assets – Loans and receivables

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Mortgage loans	**3,460**	–	**–**	–
Other receivables	**1,720**	–	**–**	–
	5,180	–	**–**	–

(a) Mortgage loans
The mortgage loans are secured on real property. The loans mature at various dates up to 30 June 2011 and earn interest at annual interest rates between 6.65% and 7.59%.

(b) Other receivables
The other receivables are personal loans and secured and unsecured line of credit loans. The loans mature at various dates up to 30 June 2011 and earn interest at annual fixed rates between 9.75% and 14.25%.

(c) Impaired receivables
As at 30 June 2010, current other receivables with a nominal value of $23,000 were impaired. An impairment provision of $23,000 has been recognised.

The ageing of these receivables is as follows:

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Up to 3 months	**4**	–	**–**	–
3–6 months	**1**	–	**–**	–
6–12 months	**18**	–	**–**	–
	23	–	**–**	–
Movements in the provision for impairment of receivables are as follows:				
Balance at the beginning of the financial year	**–**	–	**–**	–
Acquisition of subsidiary	**53**	–	**–**	–
Provision recognised/(released) during the year	**10**	–	**–**	–
Receivables written off during the year as uncollectible	**(40)**	–	**–**	–
Balance at the end of the financial year	**23**	–	**–**	–

The creation of the provision for impaired receivables has been included in other expenses in the profit and loss. The releases of the provision for impaired receivables has been included in other revenue in the profit and loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(d) Past due but not impaired
At 30 June 2010, loans and receivables of $190,000 were past due but not impaired. These relate to a number of borrowers from whom there is no recent history of default.

The ageing of these receivables is as follows:

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Up to 3 months				
Mortgages	**186**	–	**–**	–
Other receivables	**4**	–	**–**	–
	190	–	**–**	–

(e) Risk exposure
Information about the Company's exposure to credit risk and interest rate risk in relation to loans and receivables is provided in note 2.

14. Current assets – Other current assets

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Call option	**–**	850	**–**	–
Deferred expenditure	**–**	1,299	**–**	1,299
	–	2,149	**–**	1,299

(a) Call option

Due to planning difficulties and the withdrawal of the development joint venture partners the call option has expired and been written off to the profit and loss during the year ended 30 June 2010.

(b) Fair value and credit risk

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

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of other current assets mentioned above. Information about the Group's and the Parent entity's exposure to risk arising from these other current assets are set out in note 2.

15. Financial assets at fair value through profit or loss

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

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Securities held by benefit funds (note (a))	**887,340**	269,637	**–**	–
Securities held in funds managed by related entities (note (b))	**124,065**	109,533	**1,381**	1,387
Discount securities	**827**	893	**–**	–
Futures contracts	**748**	–	**748**	–
	1,012,980	380,063	**2,129**	1,387

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

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

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Fixed interest securities	**219,160**	53,619	**–**	–
Equities	**406,416**	40,287	**–**	–
Mortgage trusts	**166,252**	162,585	**–**	–
Property syndicates and trusts	**39,346**	13,135	**–**	–
Debt securities	**56,158**	–	**–**	–
Other securities	**8**	11	**–**	–
	887,340	269,637	**–**	–

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

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Fixed interest securities	**40,028**	17,414	**–**	–
Equities	**30,434**	26,122	**355**	319
Mortgage trusts	**30,723**	43,533	**263**	253
Property syndicates and trusts	**22,880**	22,464	**763**	815
	124,065	109,533	**1,381**	1,387

The above analysis shows the proportionate share on a 'look through' basis of the underlying investments in funds that subsidiaries have invested in via units in the funds.

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

(c) Current and non-current split

The redemption terms for investments in certain managed trusts have been varied during the year by their responsible entities in response to prevailing market conditions. Consequently those investments which it is not possible to redeem entirely within one year of balance date are allocated between current and non-current in accordance with the maximum percentage redeemable within one year as per the most recent advice from the manager at balance date.

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

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Current	**900,410**	198,000	**1,242**	1,165
Non-current	**112,570**	182,063	**887**	222
	1,012,980	380,063	**2,129**	1,387

(d) Risk exposure

Information about the Group's and the Parent entity's exposure to credit risk and price risk is provided in note 2.

Further information on the fair value measurement basis is provided in note 2.

16. Non-current assets – Loans and receivables

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Loan to associate	**435**	894	**–**	–
Loans to related entities	**27,765**	19,529	**–**	–
Mortgage loans	**73,309**	3,682	**–**	–
Policy loans	**218**	227	**–**	–
Other receivables	**5,027**	3,839	**–**	–
	106,754	28,171	**–**	–

(a) Loan to associate

The loan to associate comprises a loan receivable from Vianova Asset Management Pty Ltd. This loan is secured by a fixed and floating charge and is repayable on or before 16 February 2012. Vianova Asset Management Pty Ltd is a wholly-owned subsidiary of Vianova Unit Trust. The Group owns 50% of the issued units in Vianova Unit Trust (refer to note 17).

Interest on this loan facility is charged at a rate equal to the 90 day bank bill swap rate plus a margin of 0.75% per annum until 1 February 2010 at which time the margin increased to 2% per annum. At 30 June 2010 the interest rate was 6.88% (2009: 6.13%).

(b) Loans to related entities

The loans to related entities were made for the purpose of the development of a retirement village under a joint development arrangement. These loans are secured by a second mortgage on the properties of the related entities and by personal guarantees from the directors of the related entities. Included in these loans are fixed rate loans of $2,343,000 (2009: $nil) which accrue interest on a monthly basis at a fixed rate of 15% (2009: nil%) and fixed rate loans of $25,422,000 (2009: $19,529,000) which accrue interest on a monthly basis at a fixed rate of 12% (2009: 12%).

(c) 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 2 May 2040 and earn interest at annual interest rates between 5.40% and 9.34% (2009: 4.40% and 7.55%).

(d) Policy loans

The policy loans are receivable by benefit funds managed by a controlled entity and are secured on real property. These loans mature at various dates up to 1 April 2039 and earn interest at annual interest rates between 4.63% and 7.25% (2009: 4.63% and 7.25%).

(e) Other receivables

The other receivables are personal loans and secured and unsecured line of credit loans receivable by a controlled entity. These loans mature at various dates up to 24 May 2020 and earn interest at annual interest rates between 6.65% and 14.25%.

(f) Impaired receivables

At 30 June 2010, non-current other receivables with a nominal value of $22,000 were impaired. An impairment provision of $22,000 has been recognised.

The ageing of these non-current other receivables is as follows:

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
1 to 2 years	**2**	–	**–**	–
2 to 5 years	**5**	–	**–**	–
Over 5 years	**15**	–	**–**	–
	22	–	**–**	–

Movements in the provision for impairment of other receivables are as follows:

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Balance at the beginning of the financial year	**–**	–	**–**	–
Acquisition of subsidiary	**30**	–	**–**	–
Provision reversed during the year	**(8)**	–	**–**	–
Balance at the end of the financial year	**22**	–	**–**	–

The creation of the provision for impaired receivables has been included in other expenses in the profit and loss. The releases of the provision for impaired receivables has been included in other revenue in the profit and loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(g) Past due but not impaired

At 30 June 2010, loans and receivables of $1,743,000 were past due but not impaired. These relate to a number of borrowers for whom there is no recent history of default.

The ageing of these loans and receivables is as follows:

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Up to 3 months				
Mortgages	**1,591**	–	**–**	–
Other receivables	**152**	–	**–**	–
	1,743	–	**–**	–

(h) Fair values

The fair values and carrying values of current and non-current loans and receivables are as follows:

	2010		2009	
Consolidated	**Carrying amount $'000**	**Fair value $'000**	Carrying amount $'000	Fair value $'000
Loan to associate	**435**	**435**	894	894
Loans to related entities	**27,765**	**27,765**	19,529	19,529
Mortgage loans	**76,769**	**76,769**	3,682	3,682
Policy loans	**218**	**218**	227	227
Other receivables	**6,747**	**6,747**	3,839	3,839
	111,934	**111,934**	28,171	28,171

(i) Risk exposure

Information about the Group's and the Parent entity's exposure to credit risk and interest rate risk is provided in note 2.

17. Non-current assets – Investments in associates

(a) Carrying amounts

On 16 July 2009, the Group acquired 50 percent of the issued shares of Seres Asset Management Limited, a Hong Kong registered investment management company. During the year, the Group paid additional calls on the shares acquired, retaining a 50 percent interest after payment of these calls. Total consideration for this interest amounted to $2,840,196.

During the year, the Group also paid additional calls on the shares it holds in Wingate Asset Management Pty Limited, retaining a 45 percent interest after payment of these calls; consideration for these calls amounted to $372,000.

During the year, the Group also paid additional calls on the shares it holds in Health Providers Australia Pty Ltd, retaining a 50 percent interest after payment of these calls; consideration for these calls amounted to $68,963.

During the year, the Group also purchased additional units in HAL Property Trust; consideration for these units amounted to $100,000. The investment in HAL Property Trust was subsequently sold.

		Ownership interest		Consolidated		Parent entity	
Name of company	Principal activity	**2010 %**	2009 %	**2010 $'000**	2009 $'000	**2010 $'000**	2009 $'000
Listed							
Calliden Group Limited	General insurance underwriting	**13**	13	**12,961**	15,086	**–**	–
Unlisted							
Acorn Capital Limited	Investment management	**50**	50	**1,759**	1,733	**–**	–
HAL Property Trust	Property development	**50**	50	**–**	13,981	**–**	–
Health Providers Australia Pty Ltd	Rehabilitative health services	**50**	50	**361**	301	**–**	–
Lifestyle Manor Anglesea Pty Ltd	Property development	**51**	51	**500**	1,000	**–**	–
Platypus Asset Management Pty Limited	Investment management	**50**	50	**1,073**	1,316	**–**	–
Seres Asset Management Limited	Investment management	**50**	–	**1,971**	–	**–**	–
Vianova Unit Trust	Investment management	**50**	50	**1,045**	434	**–**	–
Wingate Asset Management Pty Limited	Investment management	**45**	45	**374**	376	**–**	–
				20,044	34,227	**–**	–

Each of the above associates is incorporated in Australia, except for Seres Asset Management Limited which is incorporated in Hong Kong.

The Group appoints one member to the Calliden board of Directors and Group entities distribute Calliden insurance products and provide Calliden with some office accommodation on commercial terms. Consequently, the Group recognises the investment in Calliden as an investment in an associate.

	Consolidated	
	2010 $'000	2009 $'000
(b) Movements in carrying amounts		
Balance at the beginning of the financial year	**34,227**	34,541
Investments acquired during the year	**3,382**	763
Provision for impairment of investment	**(2,296)**	(659)
Share of net profits after income tax	**3,419**	2,023
Dividends received	**(4,108)**	(2,441)
Disposals	**(14,580)**	–
Balance at the end of the financial year	**20,044**	34,227
(c) Fair value of listed investments in associates		
Calliden Group Limited	**6,631**	9,646

(d) Summarised financial information of associates

The Group's share of the results of its principal associates and its aggregated assets (including goodwill) and liabilities are as follows:

	Group's share of:			
	Assets $'000	Liabilities $'000	Revenues $'000	Profit after tax $'000
2010				
Total	**77,628**	**32,666**	**61,369**	**3,419**
2009				
Total	83,695	52,488	53,676	2,023

18. Non-current assets – Investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

			Equity holding		Value of investment	
Name of entity	Country of incorporation	Holding	2010 %	2009 %	2010 $'000	2009 $'000
Wholly-owned by the Parent entity						
Australian Unity Capital Management Limited	Australia	Shares	**100**	100	**7,210**	6,210
Australian Unity Dispensaries Friendly Society Limited	Australia	Shares	**100**	100	**1**	1
Australian Unity Personal Financial Services Limited (formerly Australian Unity Financial Planning Limited)	Australia	Shares	**100**	100	**22,495**	17,995
Australian Unity Finance Limited	Australia	Shares	**100**	100	**6,000**	6,000
Australian Unity Funds Management Limited	Australia	Shares	**100**	100	**12,690**	12,690
Australian Unity Group Services Proprietary Limited	Australia	Shares	**100**	100	**28,566**	28,566
Australian Unity Health Limited	Australia	Shares	**100**	100	**28,798**	28,798
Australian Unity Health Care Limited	Australia	Shares	**100**	100	**1,500**	1,500
Australian Unity Nominees Pty Ltd (trustee company)	Australia	Shares	**100**	100	**–**	–
Australian Unity Property Limited	Australia	Shares	**100**	100	**7,900**	7,900
Australian Unity Property Management Proprietary Limited	Australia	Shares	**100**	100	**–**	–
Australian Unity Property Syndicate (Finance) Pty Limited	Australia	Shares	**100**	100	**–**	–
Australian Unity Retail Network Proprietary Limited	Australia	Shares	**100**	100	**17,449**	17,051
Australian Unity Retirement Living Investments Limited	Australia	Shares	**100**	100	**24,872**	24,872
Australian Unity Retirement Living Services Limited	Australia	Shares	**100**	100	**183,799**	177,006
Australian Unity Staff Superannuation Pty Ltd (trustee company)	Australia	Shares	**100**	100	**–**	–
Australian Unity Strategic Holdings Pty Limited	Australia	Shares	**100**	100	**66,500**	66,500
Grand United Corporate Health Limited	Australia	Shares	**100**	100	**15,296**	15,296
Remedy Healthcare Group Pty Ltd	Australia	Shares	**100**	100	**2,750**	1,800
ACN 006 778 114 Pty Ltd (formerly Strode One Pty Limited)	Australia	Shares	**100**	100	**–**	–
ACN 085 260 986 Pty Ltd (formerly Grand United Health Fund Pty Limited)	Australia	Shares	**100**	100	**1,831**	1,831
ACN 092 219 068 Pty Ltd (formerly System Stanley Pty Ltd)	Australia	Shares	**100**	100	**5**	5
ACN 101 805 305 Pty Ltd (formerly HealthSource Australia Pty Ltd)	Australia	Shares	**100**	100	**2,878**	2,878
Not wholly-owned by the Parent entity						
Australian Unity Aged Care Trust #1	Australia	Units	**100**	100	**–**	–
Australian Unity Aged Care Trust #2	Australia	Units	**100**	100	**–**	–
Australian Unity Aged Care Trust #3	Australia	Units	**100**	100	**–**	–
Australian Unity Aged Care Trust #4	Australia	Units	**100**	100	**–**	–
Australian Unity Aged Care Trust #5	Australia	Units	**100**	100	**–**	–
Australian Unity Aged Care Trust #6	Australia	Units	**100**	100	**–**	–
Australian Unity Bondi Trust	Australia	Units	**100**	100	**–**	–
Australian Unity Bowral Development Pty Ltd	Australia	Shares	**100**	100	**–**	–
Australian Unity Care Services Pty Ltd	Australia	Shares	**100**	100	**–**	–

18. Non-current assets – Investments in subsidiaries (continued)

Name of entity	Country of incorporation	Holding	Equity holding 2010 %	Equity holding 2009 %	Value of investment 2010 $'000	Value of investment 2009 $'000
Australian Unity Greenfields Pty Ltd (formerly Australian Unity Cranbourne Development Pty Ltd)	Australia	Shares	**100**	100	**–**	–
Australian Unity Cranbourne Development Trust	Australia	Units	**100**	100	**–**	–
Australian Unity Investment Bonds Limited	Australia	Shares	**100**	100	**6,020**	6,020
Australian Unity Investment Trust	Australia	Units	**100**	100	**–**	–
Australian Unity Lilydale Development Trust	Australia	Units	**100**	100	**–**	–
Australian Unity Retirement Development Management Pty Ltd	Australia	Shares	**100**	100	**–**	–
Australian Unity Retirement Development No. 1 Pty Ltd	Australia	Shares	**100**	100	**–**	–
Australian Unity Retirement Development No. 2 Pty Ltd	Australia	Shares	**100**	100	**–**	–
Australian Unity Retirement Development No. 3 Pty Ltd	Australia	Shares	**100**	100	**–**	–
Australian Unity Retirement Development No. 4 Pty Ltd	Australia	Shares	**100**	100	**–**	–
Australian Unity Retirement Development No. 5 Pty Ltd	Australia	Shares	**100**	100	**–**	–
Australian Unity Retirement Development No. 6 Pty Ltd	Australia	Shares	**100**	100	**–**	–
Australian Unity Retirement Development No. 7 Pty Ltd	Australia	Shares	**100**	100	**–**	–
Australian Unity Retirement Living Management Pty Ltd	Australia	Shares	**100**	100	**–**	–
Australian Unity Retirement Village Trust #1	Australia	Units	**100**	100	**–**	–
Australian Unity Retirement Village Trust #2	Australia	Units	**100**	100	**–**	–
Australian Unity Retirement Village Trust #5	Australia	Units	**100**	100	**–**	–
Australian Unity Retirement Village Trust #6	Australia	Units	**100**	100	**–**	–
Australian Unity Retirement Village Trust #7	Australia	Units	**100**	100	**–**	–
Campana Pty Ltd	Australia	Shares	**100**	–	**–**	–
Cash Enhanced Plus Internal Investment Trust	Australia	Units	**100**	–	**–**	–
Centennial Road Development Pty Ltd	Australia	Shares	**100**	100	**–**	–
Couhe Unit Trust	Australia	Units	**100**	–	**–**	–
Credit Enhanced Internal Investment Trust	Australia	Units	**100**	–	**–**	–
Diversified No. 1 Internal Investment Trust	Australia	Units	**100**	–	**–**	–
Funeral Plan Management Pty Ltd	Australia	Shares	**100**	–	**–**	–
Grand United RVO Pty Ltd	Australia	Shares	**100**	100	**–**	–
Greglea Village Management Pty Limited	Australia	Shares	**100**	100	**–**	–
High Yield Plus Internal Investment Trust	Australia	Units	**100**	–	**–**	–
Lifeplan Australia Building Society Limited	Australia	Shares	**100**	–	**–**	–
Lifeplan Australia Friendly Society Limited***	Australia	Shares	**100**	–	**47,537**	–
Lifeplan Travel Pty Ltd	Australia	Shares	**100**	–	**–**	–
Long Duration Internal Investment Trust	Australia	Units	**100**	–	**–**	–
Mortgages No. 1 Internal Investment Trust	Australia	Units	**100**	–	**–**	–
Other Securities Internal Investment Trust	Australia	Units	**100**	–	**–**	–
Retirement Management Services Pty Limited	Australia	Shares	**100**	100	**–**	–
Short-Term Securities Internal Investment Trust	Australia	Units	**100**	–	**–**	–
The Australian Unity Mornington Development Trust	Australia	Units	**100**	100	**–**	–
The Australian Unity Sienna Grange Development Trust	Australia	Units	**100**	100	**–**	–
The Australian Unity Victoria Grange Development Trust	Australia	Units	**100**	100	**–**	–
The Governor's Retirement Resort Pty Ltd	Australia	Shares	**100**	100	**–**	–
Willandra Village Management Pty Ltd	Australia	Shares	**100**	100	**–**	–
National Friendly Society Limited*	Australia	–	**–**	–	**–**	–
ACN 113 090 467 Pty Ltd (formerly Grand United NHO Pty Ltd)	Australia	Shares	**100**	100	**–**	–
					484,097	422,919

The Parent entity investment in wholly-owned subsidiaries is at cost, in accordance with the accounting policy described in note 1(r).
In addition to the investments in associates (note 17) and subsidiaries, various entities in the Group invest in managed investment schemes for which the members of the Group act as the responsible entity. In determining whether such investments require to be consolidated as subsidiaries in the event of an equity holding exceeding 50% of the total equity of any such scheme, a distinction is drawn between those holdings which are beneficially owned by the Members of Australian Unity Limited and those which are beneficially owned by the policyholders of the benefit funds operated by subsidiaries in the Group even though both types of holding are legally owned by the Group. It is only when the holding beneficially owned by Members of Australian Unity Limited exceeds 50% of the total equity that the scheme is consolidated irrespective of whether a combined holding exceeds 50% of the total equity. This approach of distinguishing between legal and beneficial ownership relative to investments held by benefit funds parallels the requirement for responsible entities of managed investment schemes to act in the interests of the investors of those schemes irrespective of the legal ownership of or the ability to control the assets of the scheme.

* Australian Unity Limited controls the composition of the board of National Friendly Society Limited and so controls the company, although no equity interest is held.

** The proportion of ownership interest is equal to the proportion of voting power held.

*** Australian Unity Limited acquired control of Lifeplan Australia Friendly Society Limited and its subsidiaries on 31 August 2009. Refer to note 5 for further information.

Information on related party transactions is included in note 36.

19. Non-current assets – Other financial assets

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Unlisted investments	**810**	165	**203**	162

20. Non-current assets – Property, plant and equipment

Consolidated	Freehold land $'000	Freehold buildings $'000	Plant and equipment $'000	Leasehold improvements $'000	Total $'000
At 1 July 2008					
Cost	–	–	18,193	17,183	35,376
Valuation	11,608	62,023	–	–	73,631
Accumulated depreciation	–	(5,005)	(6,721)	(6,795)	(18,521)
Net book amount	11,608	57,018	11,472	10,388	90,486
Year ended 30 June 2009					
Opening net book amount	11,608	57,018	11,472	10,388	90,486
Additions	7,219	2,464	1,540	3,516	14,739
Disposals	(1)	(37)	(15)	(389)	(442)
Transfer to investment property	(1,182)	(23,518)	–	–	(24,700)
Depreciation charge	–	(971)	(2,036)	(3,081)	(6,088)
Closing net book amount	17,644	34,956	10,961	10,434	73,995
At 30 June 2009					
Cost	–	–	18,992	18,528	37,520
Valuation	17,644	40,946	–	–	58,590
Accumulated depreciation	–	(5,990)	(8,031)	(8,094)	(22,115)
Net book amount	17,644	34,956	10,961	10,434	73,995
Year ended 30 June 2010					
Opening net book amount	**17,644**	**34,956**	**10,961**	**10,434**	**73,995**
Acquisition of subsidiary	**4,900**	**9,315**	**1,057**	**18**	**15,290**
Additions	**–**	**825**	**1,779**	**353**	**2,957**
Disposals	**–**	**(52)**	**(492)**	**(235)**	**(779)**
Transfer to investment property	**(4,900)**	**(9,035)**	**(6)**	**(21)**	**(13,962)**
Other transfers	**1,050**	**(1,047)**	**–**	**(3)**	**–**
Depreciation charge	**–**	**(992)**	**(2,271)**	**(3,383)**	**(6,646)**
Closing net book amount	**18,694**	**33,970**	**11,028**	**7,163**	**70,855**
At 30 June 2010					
Cost	**–**	**–**	**24,915**	**18,583**	**43,498**
Valuation	**18,694**	**40,952**	**–**	**–**	**59,646**
Accumulated depreciation	**–**	**(6,982)**	**(13,887)**	**(11,420)**	**(32,289)**
Net book amount	**18,694**	**33,970**	**11,028**	**7,163**	**70,855**

20. Non-current assets – Property, plant and equipment (continued)

Parent entity	Freehold land $'000	Freehold buildings $'000	Plant and equipment $'000	Leasehold improvements $'000	Total $'000
At 1 July 2008					
Cost	–	–	3	315	318
Valuation	297	49	–	–	346
Accumulated depreciation	–	–	(1)	(97)	(98)
Net book amount	297	49	2	218	566
Year ended 30 June 2009					
Opening net book amount	297	49	2	218	566
Disposals	(1)	(26)	–	–	(27)
Transfer to related entities	–	–	–	(154)	(154)
Depreciation charge	–	–	–	(64)	(64)
Closing net book amount	296	23	2	–	321
At 30 June 2009					
Cost	–	–	3	–	3
Valuation	296	23	–	–	319
Accumulated depreciation	–	–	(1)	–	(1)
Net book amount	296	23	2	–	321
Year ended 30 June 2010					
Opening net book amount	**296**	**23**	**2**	**–**	**321**
Closing net book amount	**296**	**23**	**2**	**–**	**321**
At 30 June 2010					
Cost	**–**	**–**	**3**	**–**	**3**
Valuation	**296**	**23**	**–**	**–**	**319**
Accumulated depreciation	**–**	**–**	**(1)**	**–**	**(1)**
Net book amount	**296**	**23**	**2**	**–**	**321**

(a) Valuations of land and buildings

The Group engaged CB Richard Ellis (V) Pty Ltd, an accredited independent valuer to determine the fair value of its freehold land and buildings. Fair value is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Fair value is determined by direct reference to recent market transactions on arm's length terms for land and buildings comparable in size and location to those held by the Group, and to market based yields for comparable properties. The independent valuations support the Group's carrying value.

(b) Carrying amounts that would have been recognised if land and buildings were stated at cost

If freehold land and buildings were stated on the historical cost basis, the amounts would be as follows:

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Freehold land				
Cost	**16,437**	16,433	**269**	269
Net book amount	**16,437**	16,433	**269**	269
Buildings				
Cost	**39,695**	39,695	**23**	23
Accumulated depreciation	**(6,981)**	(5,990)	**–**	–
Net book amount	**32,714**	33,705	**23**	23

21. Non-current assets – Investment properties

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
At fair value				
Balance at the beginning of the financial year	**414,436**	352,281	**–**	–
Acquisitions	**19,517**	38,294	**–**	–
Disposals	**–**	(14,947)	**–**	–
Net fair value increments	**10,890**	14,108	**–**	–
Transfer from owner occupied property	**13,962**	24,700	**–**	–
Balance at the end of the financial year	**458,805**	414,436	**–**	–

(a) Amounts recognised in the profit and loss for investment properties

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Revenue	**21,685**	10,314	**–**	–
Expenses	**(16,679)**	(12,865)	**–**	–
Changes in fair value recognised in profit and loss	**10,890**	14,108	**–**	–
	15,896	11,557	**–**	–

(b) Valuation basis

Investment properties comprise the Group's interests in retirement village independent living units, the aged care facility at Victoria Grange in Victoria, development sites and non-owner occupied property. A related party, not part of the wholly-owned Group, has an interest in the Victoria Grange aged care facility. The Group's other aged care facilities are managed by operators within the Group and so are included in property, plant and equipment as owner-occupied property, refer to note 20.

The Group generally obtains independent valuations for its investment properties at least every 3 years. In the period between purchase and first valuation properties are carried at cost in the balance sheet. 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 independent valuations. The directors determine a property's value within a range of reasonable fair value estimates.

Fair value for completed retirement villages is determined using a financial model which calculates the net present value of future discounted cash flows. The financial model incorporates information from a variety of sources including:

(i) current prices in an active market for properties of a similar nature;
(ii) resident turnover based on business experience including the expected average length of residence based on mortality assumptions and voluntary turnover, average incoming ages and distributions;
(iii) forecast property appreciation rates based on market evidence and historical trends; and
(iv) current contractual arrangements with residents relating to departure fees, refurbishment costs and other incidental expenses.

(c) Summarised information of investment properties

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Investments in properties is held as follows:				
Retirement village independent living units	**332,752**	311,051	**–**	–
Residential aged care facilities	**22,173**	22,662	**–**	–
Development sites	**87,880**	80,723	**–**	–
Non-owner occupied property	**16,000**	–	**–**	–
	458,805	414,436	**–**	–

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22. Non-current assets – Deferred tax assets

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
The balance comprises temporary differences attributable to:				
Accrued expenses	**4,602**	1,012	**95**	141
Capitalised assets/expenditure	**5,001**	5,919	**918**	924
Capitalised professional fees	**980**	177	**2**	2
Depreciable professional fees	**1,113**	1,042	**–**	229
Other assessable items	**2,176**	2,417	**8**	10
Policy bonus credits	**5,445**	–	**–**	–
Provisions	**5,897**	4,514	**2,410**	990
Risk equalisation	**1,273**	1,071	**–**	–
Tax losses	**10,181**	9,744	**8,659**	8,093
Unallocated income	**4,498**	–	**–**	–
Unrealised losses	**31,394**	8,453	**–**	–
Total deferred tax assets	**72,560**	34,349	**12,092**	10,389
Movements:				
Balance at the beginning of the financial year	**34,349**	27,392	**10,389**	3,204
Acquisition of subsidiary	**41,268**	–	**–**	–
(Charged)/credited to the profit and loss (note 8)	**(3,887)**	6,029	**140**	5,581
Credited to equity (note 8)	**1,038**	–	**1,038**	–
Transfer of tax losses	**–**	–	**525**	500
Other transfers	**(208)**	928	**–**	1,104
Balance at the end of the financial year	**72,560**	34,349	**12,092**	10,389
Deferred tax assets to be recovered within 12 months	**5,202**	8,788	**103**	151
Deferred tax assets to be recovered after more than 12 months	**67,358**	25,561	**11,989**	10,238
	72,560	34,349	**12,092**	10,389

23. Non-current assets – Intangible assets

Consolidated	**Goodwill/ management rights $'000**	**Computer software $'000**	**Aged care bed licences $'000**	**Total $'000**
At 1 July 2008				
Cost	11,138	42,507	6,990	60,635
Accumulated amortisation	–	(15,814)	–	(15,814)
Net book amount	11,138	26,693	6,990	44,821
Year ended 30 June 2009				
Opening net book amount	11,138	26,693	6,990	44,821
Additions	–	8,801	3,842	12,643
Disposals	–	(5)	–	(5)
Amortisation charge	(71)	(5,107)	–	(5,178)
Closing net book amount	11,067	30,382	10,832	52,281
At 30 June 2009				
Cost	11,228	51,262	10,832	73,322
Accumulated amortisation	(161)	(20,880)	–	(21,041)
Net book amount	11,067	30,382	10,832	52,281

Consolidated	Goodwill/ management rights $'000	Computer software $'000	Aged care bed licences $'000	Total $'000
Year ended 30 June 2010				
Opening net book amount	11,067	30,382	10,832	52,281
Acquisition of subsidiary	6,261	1,501	–	7,762
Additions	–	6,683	–	6,683
Refund	–	–	(92)	(92)
Transfers	–	(74)	–	(74)
Amortisation charge	(686)	(6,537)	–	(7,223)
Closing net book amount	16,642	31,955	10,740	59,337
At 30 June 2010				
Cost	18,187	62,693	10,740	91,620
Accumulated amortisation	(1,545)	(30,738)	–	(32,283)
Net book amount	16,642	31,955	10,740	59,337

Residential Care Places (high care and low care) under the *Aged Care Act 1997* (bed licences) purchased from other approved providers are valued at cost. Residential Care Places (high care and low care) under the *Aged Care Act 1997* (bed licences) granted to the Group *ab initio* by the Department of Health and Ageing are not ascribed a value. At 30 June 2010 the Group held 231 purchased licences and 446 granted licences (2009: 231 purchased licences and 220 granted licences).

(a) Impairment tests for goodwill

The carrying amount of goodwill is allocated to the Group's cash generating units (CGUs) identified according to entities within each business segment.

A segment-level summary of the goodwill allocation is presented below.

	2010 $'000	2009 $'000
Healthcare	1,355	1,355
Retirement living*	5,229	5,229
Investments	10,058	4,483
	16,642	11,067

* In addition the Retirement living CGU holds $10,740,000 (2009: $10,832,000) of indefinite life aged care bed licences.

The recoverable amount of a CGU is determined based on a value-in-use calculation using cash flow projections based upon financial budgets approved by the directors, covering a four year period. Cash flows beyond the four year period commencing 1 July following balance date are extrapolated using estimated growth rates appropriate for the CGU.

(b) Key assumptions used for value-in-use calculations

The average discount rate of 8.10% (2009: 7.06%) applied to cash flow projections was equal to a five year government bond rate plus a risk margin appropriate to the operations of the CGU. A 3% growth rate was applied to cash flows beyond the four-year period for which financial budgets were available.

(c) Impact of possible changes in key assumptions

It is recognised that actual time value of money may vary to what has been estimated. It is believed that no reasonably possible change in the discount rate would cause the recoverable amount of goodwill to fall below its carrying amount.

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24. Non-current assets – Other non-current assets

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Borrowing arrangement costs	**1,892**	2,369	**560**	826
Capitalised merger costs	**–**	3,460	**–**	3,460
	1,892	5,829	**560**	4,286

(a) Borrowing arrangement costs

Borrowing arrangement costs represent the costs incurred in raising financing for the Group. These costs will be amortised over the term of the relevant borrowings. The carrying value of these borrowing arrangement costs approximate their fair value.

(b) Capitalised merger costs

The capitalised merger costs represent the costs incurred by Australian Unity Limited and Lifeplan Australia Friendly Society Limited in respect of the merger of the two entities. These costs were written off together with a corresponding adjustment for the tax effect of $1,038,000 to opening retained earnings at 1 July 2009. Refer to accounting policy note 1(e).

25. Current liabilities – Trade and other payables

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Trade payables	**8,580**	13,775	**–**	–
Amounts due to controlled entities (note 36)	**–**	–	**23,366**	27,894
Risk equalisation trust fund payable	**3,042**	2,532	**–**	–
Accrued expenses	**33,455**	23,951	**1,516**	3,041
	45,077	40,258	**24,882**	30,935

(a) Trade payables

Trade payables are generally non interest bearing and are on 30–90 day settlement terms.

(b) Fair value disclosures

Due to the short-term nature of these trade and other payables, their carrying value is assumed to approximate their fair value.

(c) Risk exposure

Details of the Group's and the Parent entity's exposure to risk arising from current trade and other payables are set out in note 2.

26. Current liabilities – Interest bearing liabilities

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Secured				
Mortgage loans	**–**	3,042	**–**	–
Total secured current borrowings	**–**	3,042	**–**	–
Unsecured				
Call deposits	**11,705**	–	**–**	–
Cash advance facility	**–**	60,000	**–**	–
Development finance loan	**1,019**	–	**–**	–
Loans payable to controlled entities	**–**	–	**50,200**	115,404
Retirement village investment notes	**5,094**	–	**–**	–
Term deposits	**61,782**	–	**–**	–
Total unsecured current borrowings	**79,600**	60,000	**50,200**	115,404
Total current borrowings	**79,600**	63,042	**50,200**	115,404

(a) Mortgage loans

The 30 June 2009 mortgage loan was secured by a first registered mortgage over the property of Australian Unity Property Syndicate – Footscray, and was repaid prior to 30 June 2010.

Interest on the loan was charged at a variable rate: the average annual interest rate for the year ended 30 June 2009 was 5.94%.

(b) Call deposits

The call deposits are repayable on demand and accrue interest on a daily basis. At 30 June 2010, this rate amounted to 5.75%.

(c) Cash advance facility

The Group sourced external financing from Westpac Banking Corporation on 27 June 2007. At 30 June 2009 the borrowings comprised a revolving cash advance facility of $60,000,000 for a term of 3 years ending 15 June 2010 of which $15,000,000 was repaid in December 2009. At 30 June 2009, the cash advance facility had a face value of $60,000,000 with a floating interest rate between 5.56% and 5.78%. Repayment of amounts drawn down under this facility were guaranteed by certain controlled entities within the Australian Unity Group.

(d) Development finance loan

The Group sourced external financing from Suncorp-Metway Ltd (Suncorp) on 1 May 2009 to fund the development of a retirement village site in Port Macquarie, New South Wales (Sienna Grange). At 30 June 2010 the facility provided for finance of up to $8,979,000 (2009: $2,300,000) at a current interest rate of 8.03% per annum (2009: 5.82%), of which $1,019,000 was drawn at balance date (2009: $nil).

Management undertook a review of the development program at Sienna Grange due to the slower than expected sales rate caused by the prevailing economic conditions. Following this review, amended terms were negotiated with Suncorp, the project financiers. As at 30 June 2010 Suncorp had approved amended terms and the amended agreement has been executed.

The development finance loan expires in two tranches; $6,700,000 expires on 5 August 2010 and $2,279,000 expires on 21 December 2010.

(e) Loans payable to controlled entities

The 30 June 2010 loans payable to controlled entities comprise loans of $47,000,000 and $3,200,000. The loans are repayable on demand and accrue interest on a monthly basis at the 90 day bank bill rate plus a margin set on the first day of each quarter. The loan of $47,000,000 incurs a margin of 1%; at 30 June 2010 the rate for the quarter ending 30 June 2010 amounted to 5.42%. The loan of $3,200,000 incurs a margin of 6.00%; at 30 June 2010 the rate for the quarter ending 30 June 2010 amounted to 10.42%.

The 30 June 2009 loans payable to controlled entities includes a $60,000,000 unsecured loan from a controlled entity from the proceeds of the cash advance facility. Interest was payable at the 90 day bank bill rate plus the applicable margin on the borrowings together with a further margin of 1.5%; at 30 June 2009 this rate amounted to 7.01%.

The other 30 June 2009 loans payable to controlled entities were repayable on demand and accrued interest on a monthly basis at 90 day bank bill rate plus a margin of 1%; at 30 June 2009 this rate amounted to 4.11%.

(f) Retirement village investment notes

The 30 June 2010 balance represents the first issue of the Series 1 Retirement village Investment Notes which mature on 30 November 2010 and incur interest at an annual fixed rate of 8.75%. For further information refer to note 30.

(g) Term deposits

The term deposits are repayable on maturity and accrue interest on a monthly basis with annual fixed interest rates at 30 June 2010 ranging between 1.00% and 8.40%.

(h) Risk exposures

Details of the Group's and the Parent entity's exposure to risk arising from current interest bearing liabilities are set out in note 2.

(i) Fair value disclosures

Details of the fair value of borrowings for the Group and Parent entity are set out in note 30.

27. Current liabilities – Current tax liabilities

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Income tax	**–**	1,197	**1,256**	758

28. Current liabilities – Provisions

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Employee benefits	**8,115**	5,653	**447**	–
Outstanding claims	**43,908**	41,258	**–**	–
Other provisions	**6,783**	3,950	**5,793**	2,905
	58,806	50,861	**6,240**	2,905

(a) Outstanding claims provision
Provision is made for claims outstanding at the end of the financial year, being claims for services incurred but not yet reported, the economic cost of which will arise in a later period. Claims reported but not yet paid are included as provisions. Claims provisions are determined on an actuarial basis and amounts paid or payable are recognised as part of expenses in the profit and loss.

(b) Other provisions
Other provisions relate to capital maintenance, provision for legal fees and general provisions.

(c) Movements in provisions
Movements in the outstanding claims provision during the financial year is provided in note 41(c).

Movements in each class of provision during the financial year, other than employee benefits and outstanding claims provision, are set out below:

	Other provisions $'000
Consolidated – 2010	
Current	
Balance at the beginning of the financial year	**3,950**
Charged to profit and loss	**5,149**
Payments during the year	**(2,316)**
Balance at the end of the financial year	**6,783**
Consolidated – 2009	
Balance at the beginning of the financial year	8,041
Charged to profit and loss	1,237
Payments during the year	(5,328)
Balance at the end of the financial year	3,950

	Other provisions $'000
Parent entity – 2010	
Balance at the beginning of the financial year	**2,905**
Charged to profit and loss	**5,217**
Payments during the year	**(2,329)**
Balance at the end of the financial year	**5,793**
Parent entity – 2009	
Balance at the beginning of the financial year	3,100
Payments during the year	(195)
Balance at the end of the financial year	2,905

29. Current liabilities – Other current liabilities

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Unearned income	**87,770**	81,012	**–**	–
Refundable lease deposits	**64,103**	46,653	**–**	–
Resident loans	**219,662**	194,782	**–**	–
Other	**5,195**	2,423	**–**	–
	376,730	324,870	**–**	–

(a) Unearned income
Unearned income represents health insurance premium revenue not yet recognised in the profit and loss.

(b) Refundable lease deposits
Refundable lease deposits are non-interest bearing and are repayable within 14 days of the resident's departure from the facility.

(c) Resident loans
Resident loans relate to residents who occupy the investment properties referred to in note 21. These liabilities represent the initial ingoing contribution less accrued deferred management fees.

Resident loans 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.

(e) Risk exposures
Details of the Group's and the Parent entity's exposure to risk arising from other current liabilities is set out in note 2.

30. Non-current liabilities – Interest bearing liabilities

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Unsecured				
Cash advance facility	**45,000**	–	**–**	–
Development finance loan	**585**	1,848	**–**	–
Loans payable to controlled entities	**–**	–	**62,800**	–
Preferential units	**10,000**	10,000	**–**	–
Retirement village investment notes	**55,036**	55,751	**–**	–
Subordinated capital notes	**25,000**	25,000	**–**	–
Term loans	**4,926**	–	**–**	–
Total unsecured non-current borrowings	**140,547**	92,599	**62,800**	–

(a) Cash advance facility
The Group sourced external financing from Westpac Banking Corporation on 16 June 2010. At 30 June 2010 the borrowings comprised a revolving cash advance facility of $50,000,000 for a term of 3 years ending 15 June 2013 of which $45,000,000 has been drawn down. At 30 June 2010, the cash advance facility had a face value of $45,000,000 with a floating interest rate between 7.90% to 7.98%. Repayment of amounts drawn down under this facility are guaranteed by certain controlled entities within the Australian Unity Group.

(b) Development finance loan
During the year ended 30 June 2010 the Group sourced additional external financing from Bendigo and Adelaide Bank Limited to fund the development of a retirement village site in Mornington, Victoria. At 30 June 2010 the facility provided for finance of up to $19,000,000 expiring on 6 June 2013 at a current interest rate of 6.88% per annum.

The development finance loan at 30 June 2009 related to the non-current portion of the financing from Suncorp-Metway Ltd, to fund the development of a retirement village in Port Macquaries, NSW expiring on 21 December 2010. For more information refer to note 26.

(c) Loans payable to controlled entities
The loans payable to controlled entities include a $45,000,000 unsecured loan from a controlled entity from the proceeds of the cash advance facility.

The loan is repayable on or before 15 June 2013 in line with the repayment date of the cash advance facility. Interest is payable monthly at the 90 day bank bill rate plus the applicable margin on the borrowings together with a further margin of 1.5%; at 30 June 2010 this rate amounted to 8.32%.

The loans payable to controlled entities also include an unsecured loan from a controlled entity of $7,800,000. The loan is repayable in two tranches with $4,888,000 repayable on or before 31 December 2011 and the balance of $3,912,000 repayable on or before 31 March 2012. The loan accrues interest on a monthly basis at a fixed rate of 9.00%.

The other loans payable to controlled entities of $10,000,000 have no fixed term and accrue interest at an annual rate equivalent to the 90 day BBSY rate plus 1.5% set on the first day of each quarter; at 30 June 2010 the rate for the quarter ending 30 June 2010 amounted to 5.92%.

(d) Preferential units
The preferential units were issued on 20 December 2007 by controlled entities, Australian Unity Aged Care Trust #1, Australian Unity Aged Care Trust #2 and Australian Unity Aged Care Trust #3 in order to fund their operations. The preferential units are held by Grand United Centenary Centre Limited, a related entity. Interest on the preferential units is payable quarterly at an annual interest rate equal to the BBSY interest rate plus a margin of 1.5% set on the first day of each quarter. At 30 June 2010, the rate for the quarter ending 30 June 2010 amounted to 5.92% (2009: 4.61%) per annum.

30. Non-current liabilities – Interest bearing liabilities (continued)

(e) Retirement village investment notes

The Retirement Village Investment Notes (RVINs) are debt obligations issued by the Group and are secured in the form of a registered security over specific assets. These assets are loans made by the Group to a related entity, Australian Unity Retirement Living Investments Limited, which have been utilised for the purpose of acquiring units in the Australian Unity Retirement Village Trust #1 (AURVT#1), the Australian Unity Retirement Village Trust #2 (AURVT#2) and for lending to Australian Unity Retirement Living Services Limited (AURLSL), a related entity, to expand its retirement living business.

AURVT#1 comprises three retirement villages – Willandra Village and Willandra Bungalows in New South Wales and Walmsley Friendship Village in Victoria, whilst 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 a related entity 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 AURLSL.

The Series 1 RVINs are payable to investors on three separate fixed maturity dates, being 30 November 2010, 2011 and 2012. Interest is payable at annual fixed rates of 8.75% for the RVINs repayable in 2010, 8.50% for the RVINs repayable in 2011 and 9.00% for the RVINs repayable in 2012.

The Series 2 RVINs are payable to investors on two separate fixed maturity dates, being 31 December 2011 and 31 March 2012. Interest is payable at an annual fixed rate of 8.50%.

The first issue of Series 3 RVINs are repayable to investors on three separate maturity dates being 31 March 2012, 2014 and 2016. Interest is payable at annual fixed rates of 8.00% for the RVINs repayable in 2012, 8.25% for the RVINs repayable in 2014 and 8.50% for the RVINs repayable in 2016.

The second issue of Series 3 RVINs are repayable to investors on three separate maturity dates being 30 June 2012, 2014 and 2016. Interest is payable at the same annual fixed rates as for the first issue of Series 3.

The third issue of the Series 3 RVINs are repayable to investors on these separate maturity dates being 31 December 2012, 2014, 2016. Interest is payable at the same annual fixed rates as for the first issue of Series 3.

(f) Subordinated capital notes

On 11 July 2008, the Group issued $25,000,000 of subordinated capital notes. The subordinated capital notes have a maturity of 10 years with a non-call 5 year period and incur a floating interest rate equal to the 90-day BBSW rate plus a margin of 4.90%. After the non-call period, this rate increases to the 90-day BBSW rate plus a margin of 6.90%. The interest rate is set quarterly on 11 July, 11 October, 11 January and 11 April. As at 30 June 2010, the interest rate applicable to the quarter commencing 11 April 2010 was 9.82% (2009: 10.28%). The floating interest rate on the $25,000,000 subordinated capital notes issued on 11 July 2008 was not hedged prior to 30 June 2010.

(g) Term deposits

Term deposits are repayable on maturity and accrue interest on a monthly basis with annual fixed interest rates at 30 June 2010 ranging between 3.00% and 8.20%.

(h) Fair value

The carrying amounts and fair values of interest bearing borrowings (current and non-current) at balance date are:

	2010		2009	
	Carrying amount $'000	**Fair value $'000**	Carrying amount $'000	Fair value $'000
Consolidated				
Cash advance facility	**45,000**	**45,000**	60,000	60,000
Call deposits	**11,705**	**11,705**	–	–
Development finance loans	**1,604**	**1,604**	1,848	1,848
Mortgage loans	**–**	**–**	3,042	3,042
Preferential units	**10,000**	**10,000**	10,000	10,000
Retirement village investment notes	**60,130**	**60,130**	55,751	55,751
Subordinated capital notes	**25,000**	**25,000**	25,000	25,000
Term deposits	**66,708**	**66,708**	–	–
	220,147	**220,147**	155,641	155,641
Parent entity				
Loans payable to controlled entities	**113,000**	**113,000**	115,404	115,404

(i) Risk exposures

Information about the Group's and the Parent entity's exposure to risk arising from borrowings is set out in note 2.

31. Non-current liabilities – Non-interest bearing liabilities

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Property development loan	**–**	328	**–**	–

(a) Property development loan

The 30 June 2009 property development loan represents the fair value of a loan with a face value of $425,000 which was advanced from a third party property developer. This loan was utilised by the Group to pay the first instalment under a call option to acquire land in Bowral, New South Wales. The loan was non-interest bearing and was repayable on or before 17 April 2018. Due to the third party property developer withdrawing from the development project the loan was forgiven during the year ended 30 June 2010.

(b) Fair value of non-interest bearing liabilities

The carrying amounts and fair values of non-interest bearing liabilities at balance date are:

	2010		2009	
	Carrying amount $'000	**Fair value $'000**	Carrying amount $'000	Fair value $'000
Property development loan	**–**	**–**	328	328

(a) Risk exposures

Information about the Group's and the Parent entity's exposure to risk arising from non-interest bearing liabilities is set out in note 2.

32. Non-current liabilities – Deferred tax liabilities

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
The balance comprises temporary differences attributable to:				
Allocable cost adjustment on consolidation	**1,013**	1,102	**1,012**	1,102
Deferred acquisition costs	**1,087**	251	**–**	121
Fixed assets and investment properties	**35,809**	27,668	**9,861**	9,865
Investments in associates	**514**	1,151	**–**	–
Other deductible items	**365**	98	**58**	–
Risk equalisation trust fund	**4,720**	4,524	**–**	–
Tax deferred	**1,592**	825	**–**	50
Unrealised gains	**3,697**	5,061	**3,375**	3,148
Total deferred tax liabilities	**48,797**	40,680	**14,306**	14,286
Movements:				
Balance at the beginning of the financial year	**40,680**	32,139	**14,286**	92
Acquisition of subsidiary	**1,755**	–	**–**	–
Charged/(credited) to the profit and loss (note 8)	**6,330**	7,422	**20**	(295)
Transfer from related entity	**–**	–	**–**	14,489
Other transfers	**32**	1,119	**–**	–
Balance at the end of the financial year	**48,797**	40,680	**14,306**	14,286
Deferred tax liabilities to be settled within 12 months	**304**	592	**345**	60
Deferred tax liabilities to be settled after more than 12 months	**48,493**	40,088	**13,961**	14,226
	48,797	40,680	**14,306**	14,286

33. Non-current liabilities – Provisions

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Employee benefits	**4,840**	4,084	**–**	–
Claims	**723**	985	**–**	–
	5,563	5,069	**–**	–

34. Reserves and retained earnings

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
(a) Reserves				
Asset revaluation reserve	**2,462**	2,462	**–**	–
General reserve for credit loss	**4**	–	**–**	–
Hedging reserve – cash flow hedges	**–**	–	**–**	–
	2,466	2,462	**–**	–
Movements:				
Asset revaluation reserve				
Balance at the beginning of the financial year	**2,462**	2,462	**–**	–
Balance at the end of the financial year	**2,462**	2,462	**–**	–
General reserve for credit loss				
Balance at the beginning of the financial year	**–**	–	**–**	–
Transfer from net profit	**5**	–	**–**	–
Tax expense	**(1)**	–	**–**	–
Balance at the end of the financial year	**4**	–	**–**	–
Hedging reserve – cash flow hedges				
Balance at the beginning of the financial year	**–**	116	**–**	–
Transfer to net profit	**–**	(166)	**–**	–
Tax benefit	**–**	50	**–**	–
Balance at the end of the financial year	**–**	–	**–**	–

(b) Retained earnings

Movements in retained earnings were as follows:

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Balance at the beginning of the financial year	**131,099**	130,048	**113,660**	97,995
Adjustments due to change of accounting standard (note 5)	**(2,422)**	–	**(2,422)**	–
Other adjustment	**(175)**	–	**–**	–
Profit for the year	**17,128**	1,051	**24,179**	15,665
Transfer to general reserve (note a)	**–**	–	**–**	–
Balance at the end of the financial year	**145,630**	131,099	**135,417**	113,660

(c) Nature and purpose of reserves

(i) Asset revaluation reserve

The asset revaluation reserve is used to record increments and decrements on the revaluation of land and buildings used by the Group as owner-occupied property as described in note 1(aa).

(ii) General reserve for credit loss

The general reserve for credit loss, is required under Prudential standards, to cover risks inherent in the loan portfolios, as described in note 2(b).

(iii) Hedging reserve – cash flow hedges

The hedging reserve is used to record gains/(losses) on a hedging instrument in a cash flow hedge that are recognised in other comprehensive income, as described in note 1(h). The amounts are recognised in the profit and loss when the associated hedged transaction affects profit and loss.

35. Reconciliation of profit after income tax to net cash inflow/(outflow) from operating activities

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Profit after income tax for the year	**17,128**	1,051	**24,179**	15,665
Depreciation and amortisation	**13,869**	11,266	**–**	64
Impairment provision	**1,823**	659	**–**	–
Amortisation of borrowing costs	**233**	–	**–**	–
Net market value movements	**(13,466)**	5,577	**(7)**	93
Net loss/(gain) on sale of non-current assets	**227**	(286)	**–**	(278)
Share of profits of associates not received as dividends	**(2,946)**	–	**–**	–
Dividends from associates	**3,806**	–	**–**	–
Change in operating assets and liabilities:				
(Increase)/decrease in trade and other receivables	**(16,618)**	990	**(51)**	299
Decrease/(increase) in inventories	**1**	(113)	**–**	–
Decrease/(increase) in deferred tax asset	**3,887**	(6,957)	**(665)**	(7,185)
(Increase)/decrease in other operating assets	**(282)**	(2,991)	**1,565**	(5,585)
Increase/(decrease) in trade and other payables	**4,817**	(8,468)	**(1,525)**	458
(Decrease)/increase in intercompany debt	**–**	–	**(4,527)**	4,805
(Decrease)/increase in current tax liabilities	**(4207)**	(1,171)	**498**	(1,256)
Increase in deferred tax liabilities	**6,330**	8,541	**20**	14,194
Increase/(decrease) in other provisions	**8,439**	(734)	**3,335**	(195)
Increase/(decrease) in other operating liabilities	**9,529**	(25,665)	**–**	–
Net cash inflow/(outflow) from operating activities	**32,570**	(18,301)	**22,822**	21,079

36. Related party transactions

(a) Directors

The names of persons who were directors of Australian Unity Limited at any time during the financial year are as follows:

Alan Castleman, Rohan Mead, Glenn Barnes, John Butler, Eve Crestani, Ian Ferres, Warren French, Stephen Maitland, Kathryn Spargo, Warren Stretton and Bruce Siney.

(b) Wholly-owned group

The wholly-owned group consists of Australian Unity Limited and its wholly-owned and controlled entities. Ownership interests in these controlled entities are set out in note 18.

Transactions between entities in the wholly-owned group are entered into on normal commercial terms.

Transactions between Australian Unity Limited and controlled entities during the years ended 30 June 2010 and 30 June 2009 were as follows:

- Interest received/receivable from controlled entities, $299,725 (2009: $3,818,006)
- Dividends received from controlled entities, $38,342,560 (2009: $31,160,400)
- Amounts paid/payable to controlled entities for shared services, $10,074,474 (2009: $13,798,080)
- Amounts received/receivable from controlled entities for shared services, $3,932,573 (2009: $nil)

Transactions between the Parent entity and its controlled entities are settled through intercompany accounts. The intercompany balances at 30 June are included in the notes to the financial statements as amounts receivable/(payable) to either the Parent entity or related entity as applicable.

Balances outstanding between the Parent entity and controlled entities are identified in notes 10, 25, 30 and 31.

Transactions between the Group and related parties were as follows:

- Dividends received from associates, $4,108,000 (2009: $2,441,000).
- At 30 June 2010, loans of $678,524 (2009: $1,030,817) were receivable from associates.
- At 30 June 2010, loans of $27,764,697 (2009: $20,094,194) were receivable from related entities.

36. Related party transactions (continued)

(c) Key management personnel compensation

Key management personnel compensation for the years ended 30 June 2010 and 30 June 2009 is set out below. Key management personnel comprise all directors of the Parent entity and those executives responsible for the strategic direction and management of the Parent entity and Group.

	Short-term benefits $	Post-employment benefits $	Termination benefits $	Total $
Consolidated				
2010	**5,744,009**	**–**	**273,807**	**6,017,816**
2009	6,042,065	604,189	1,118,737	7,764,991
Parent entity				
2010	**717,547**	**–**	**68,441**	**785,988**
2009	692,183	136,099	150,924	979,206

(d) Other transactions with directors and director-related entities

Information on transactions with key management personnel or entities related to them, other than compensation, are set out below.

In accordance with rule 5.15.1 of the Parent entity's constitution, the Parent entity has determined at its Annual General Meeting that the maximum aggregate annual amount of remuneration payable by the Parent entity to non-executive directors of the Parent entity as fees for their services as directors is $1,200,000 per financial year. The actual amounts paid to non-executive directors of the Parent entity excluding retirement allowances for the financial year ended 30 June 2010 amounted to $1,190,829 (2009: $1,006,621). Directors' remuneration includes superannuation contributions in accordance with the Superannuation Guarantee Legislation. Information relating to the Group's superannuation funds is set out in notes 1(j).

The Group has also set aside a provision for directors' retirement allowances. At 30 June 2010, this provision amounted to $944,702 (2009: $1,184,896). During the year ended 30 June 2010, Mr Bruce Siney received a retirement payment of $270,194 from the provision for directors' retirement allowances (2009: $nil). There is no liability for retirement allowances in respect of directors appointed after the 2004 Annual General Meeting. The provision for directors' retirement allowances is included in the provision for employee entitlements.

During the year ended 30 June 2010, Mr Warren French received an honorarium of $30,000 (2009: $30,000) in his capacity as Grand Secretary of the Grand United Order of Oddfellows, which was funded by the Parent entity.

From time to time the directors of the Parent entity and its controlled entities may purchase or subscribe for the various products offered by the Group. These transactions are on the same terms and conditions as those entered into by other Group employees or customers and are trivial or domestic in nature.

37. Commitments

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities:

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Payable within one year				
Property, plant and equipment	**–**	2,833	**–**	–
Investment property	**5,451**	661	**–**	–
Intangible assets	**1,315**	810	**–**	–
	6,766	4,304	**–**	–
Payable later than one year but not later than five years				
Intangible assets	**825**	–	**–**	–
Total capital commitments	**7,591**	4,304	**–**	–

(b) Lease commitments: where a Group company is the lessee

Commitments in relation to non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities:

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Within one year	**2,264**	3,822	**–**	–
Later than one year but not later than five years	**4,449**	7,412	**–**	–
Later than five years	**3,104**	–	**–**	–
	9,817	11,234	**–**	–

(i) Operating leases

The Group leases various commercial premises under non-cancellable operating leases with an average outstanding lease term of 4 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

(ii) Finance leases

Neither the Group nor the Parent entity had outstanding finance lease commitments at 30 June 2010 (2009: $nil).

(c) Lease commitments: where a Group company is the lessor

The future minimum lease payments receivable under non-cancellable operating leases are as follows :

	Consolidated		Parent entity	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Within one year	**178**	444	**–**	–
Later than one year and not later than five years	**–**	227	**–**	–
	178	671	**–**	–

These leases relate to commercial property owned or leased by the Group.

38. Contingencies and guarantees

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 and Parent entity had no contingent assets or liabilities at 30 June 2010 (2009: $nil).

Guarantees

The Parent entity, jointly with 42 of its wholly-owned controlled entities, has guaranteed borrowings of a controlled entity. The borrowings guaranteed comprise a revolving cash advance facility of up to $50,000,000 for a term of three years ending 15 June 2013. The guarantors for this facility have joint and several liability for repayment of all outstanding amounts in the event of a default by the borrowing entity.

The fair value of the guarantee, which has been determined in accordance with the accounting policy set out in note 1(k), has not been recognised as the amount is not material.

39. Events occurring after the reporting period

On 31 August 2010, the directors of a number of wholly-owned subsidiary companies within the Group declared dividends totalling $1,402,500 payable to the Parent entity and the Parent entity subscribed for $300,000 of additional share capital in a number of wholly-owned subsidiaries.

The board is not aware of any other matter or circumstance arising since 30 June 2010 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.

40. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Parent entity, its related practices and non-related audit firms:

	Consolidated		Parent entity	
	2010 $	2009 $	**2010 $**	2009 $
(a) Audit services				
Ernst & Young Australian firm				
Audit of financial reports and other audit work under the *Corporations Act 2001*	**1,227,157**	810,900	**99,766**	54,500
Audit of regulatory returns	**394,248**	62,410	**–**	–
Total remuneration for audit services	**1,621,405**	873,310	**99,766**	54,500
(b) Taxation and other services				
Ernst & Young Australian firm				
Tax compliance services, including review of company income tax returns	**254,305**	318,595	**–**	110,880
Other taxation services	**530,293**	738,207	**486,322**	–
Other assurance services	**6,186**	250,830	**68,136**	733,282
Total remuneration for taxation and other assurance services	**790,784**	1,307,632	**554,458**	844,162
Total auditors' remuneration	**2,412,189**	2,180,942	**654,224**	898,662

It is Australian Unity Limited's policy to employ Ernst & Young on assignments additional to their statutory audit duties only where Ernst & Young's expertise and experience with Australian Unity Limited's business are essential to the efficient completion of the assignment; these assignments are principally the completion of tax returns. It is Australian Unity Limited's policy to seek competitive tenders for all major consulting projects.

41. Health insurance

The Parent entity has no health insurance related disclosures. The Group's disclosures are set out below.

The disclosures below relate only to the health insurance activities of the relevant controlled entities and do not therefore include the non-insurance activities of the healthcare businesses.

(a) Details of income and expenses

	Consolidated	
	2010 $'000	2009 $'000
Premium revenue	**513,187**	478,029
Claims expense	**(435,227)**	(421,446)
Net risk equalisation trust fund recoveries	**29,590**	29,221
State levies	**(2,536)**	(2,401)
Net claims incurred	**(408,173)**	(394,626)
Acquisition costs	**(24,114)**	(21,795)
Other underwriting expenses	**(1,938)**	(1,667)
	(26,052)	(23,462)
Underwriting result	**78,962**	59,941
Net investment revenue/(expense)	**14,534**	(5,325)
Employee benefits expense	**(13,935)**	(13,886)
Other expenses from ordinary activities	**(20,801)**	(19,070)
Finance costs	**(2,250)**	(2,622)
	(22,452)	(40,903)
Profit before income tax	**56,510**	19,038
Income tax expense	**(16,508)**	(4,926)
Profit after income tax	**40,002**	14,112

(b) Net Risk Equalisation Trust Fund (RETF) receivable

	Consolidated 2010 $'000	2009 $'000
Movement in net RETF receivable		
Balance at the beginning of the financial year	**7,468**	7,717
Net RETF raised during the year	**29,590**	29,221
Net RETF received during the year	**(30,452)**	(29,470)
Balance at the end of the financial year	**6,606**	7,468

(c) Outstanding claims provision

	Consolidated 2010 $'000	2009 $'000
Outstanding claims – central estimate of the expected present value of future payments for claims incurred	**39,097**	37,101
Risk margin	**3,717**	3,211
Claims handling costs	**1,094**	946
Gross outstanding claims liability	**43,908**	41,258
Movement in the gross outstanding claims provision		
Balance at the beginning of the financial year	**41,258**	39,258
Claims incurred during the year	**435,227**	421,446
Claims paid during the year	**(432,577)**	(419,446)
Balance at the end of the financial year	**43,908**	41,258
Current	**43,908**	41,258

The expected future payments are expected to be settled within one year and as such the undiscounted value equals their present value.

The risk margin of $3,717,000 (2009: $3,211,000) combined with the central estimate, is estimated to equate to a probability of adequacy of at least 95% (2009: 95%). The risk margin has been based on an analysis of the Group's past experience. This analysis modelled the volatility of past payments and the results are assumed to be indicative of future volatility.

The outstanding claims estimate for the retail health business is derived using all data combined in an aggregate model. As such, diversification benefits have been implicitly allowed for in this process. The outstanding claims liability has been estimated using both a stochastic model, based on historical experience, and the modified chain ladder method. Subsequent judgement is then applied to both the outcomes in determining the value of the liability to hold. Consequently, changes in assumptions will not have a material impact on the estimate.

The outstanding claims estimate for the corporate health business is derived using separate calculations on the data for hospital claims and ancillary claims. The outstanding claims liability has been estimated based on historical experience using the modified chain ladder method.

The weighted average expected term to settlement of claims from the balance sheet date is estimated to be 1.7 months (2009: 1.8 months).

Impact of changes in key variables

The following table shows the impact on amounts recognised in the financial statements of the Group's health insurance subsidiaries arising from movements in selected key variables.

	Movement in variable	Profit/(loss) after tax $'000	Net assets $'000
Central estimate	+5%	(1,368)	(1,368)
Central estimate	–5%	1,368	1,368
Claims handling	+10%	(76)	(76)
Claims handling	–10%	76	76

(d) Unexpired risk liability

The calculation of the liability adequacy test has found that there is no need to provide for an unexpired risk liability at 30 June 2010 (2009: $nil) at a 75% (2009: 75%) and below probability of adequacy. The lower level of probability of adequacy used in the liability adequacy test compared to that used in the outstanding claims liability calculation is due to the Group accepting a lower level of certainty given that actions can be taken to reduce the impact of an adverse event should it occur in future periods.

42. Benefit fund policy liabilities

The Parent entity has no life insurance related disclosures. The Group's life insurance disclosures are set out below and reflect the operations of the benefit funds managed by the Group.

(a) Analysis of policy liabilities

	Consolidated	
	2010 $'000	2009 $'000
Life investment contract liabilities	**586,037**	60,144
Life insurance contract liabilities	**1,207,295**	370,837
Unvested policyholder liabilities	**45,918**	22,976
Total policy liabilities	**1,839,250**	453,957
Expected to be realised within 12 months	**223,645**	45,063
Expected to be realised in more than 12 months	**1,615,605**	408,894
	1,839,250	453,957

(b) Reconciliation of changes in policy liabilities

	Consolidated	
	2010 $'000	2009 $'000
Life investment contract liabilities		
Balance at the beginning of the financial year	**60,144**	69,098
Acquisition of subsidiary	**522,420**	–
Increase/(decrease) recognised in the profit and loss	**12,651**	(4,307)
Premiums recognised as a change in contract liabilities	**77,225**	2,086
Claims recognised as a change in contract liabilities	**(86,403)**	(6,733)
Balance at the end of the financial year	**586,037**	60,144
Life insurance contract liabilities		
Balance at the beginning of the financial year	**370,837**	384,997
Acquisition of subsidiary	**823,786**	–
Increase/(decrease) recognised in the profit and loss	**12,672**	(14,160)
Balance at the end of the financial year	**1,207,295**	370,837
Unvested policyholder benefits		
Balance at the beginning of the financial year	**22,976**	26,666
Acquisition of subsidiary	**11,522**	–
Increase/(decrease) recognised in the profit and loss	**11,420**	(3,690)
Balance at the end of the financial year	**45,918**	22,976
Net policy liabilities at the end of the financial year	**1,839,250**	453,957

(c) Analysis of policy liability revenue and expenses

	Consolidated 2010 $'000	2009 $'000
Revenue		
Total life insurance and participating contract premium revenue	**125,679**	10,251
Reinsurance recoveries	**(408)**	(324)
Total life insurance contract premium and related revenue	**125,271**	9,927
Financial assets held at fair value through profit and loss		
– Interest income	**2,226**	241
– Distribution income	**62,362**	25,655
– Realised losses	**(18,322)**	(5,143)
– Unrealised gains/(losses)	**30,715**	(5,522)
Other investment income	**65,844**	444
Total revenue from life insurance business	**268,096**	25,602
Expenses		
Total life insurance and participating contract claims expense	**138,149**	41,475
Life insurance contract claims expense	**138,149**	41,475
Policy maintenance expenses – life insurance contracts	**13**	9
Other expenses	**81,130**	4,901
Movement in life insurance contracts	**12,672**	(14,160)
Movement in unvested policyholder liabilities	**11,419**	(3,690)
Movement in investment contract liabilities	**12,651**	(4,307)
Total expenses from life insurance business	**256,034**	24,228

(d) Actuarial methods and assumptions

The effective date of the actuarial report on policy liabilities and solvency reserves is 30 June 2010. The actuarial report was prepared by the appointed actuary Mr Barry Robertson, FIAA, Principal, Authorised Representative #303768 of Mercer Investment Nominees Limited AFS Licence #235906. The appointed actuary is satisfied as to the accuracy of the data from which the amount of policy liabilities has been determined. The policy liabilities have been determined in accordance with the requirements of the *Life Insurance Act 1995* consistent with the relevant accounting standards.

The policy liabilities for the defined benefit funds are determined in accordance with Prudential Standard LPS1.04 issued by the Australian Prudential Regulation Authority (APRA) under the *Life Insurance Act 1995*.

Under a projection method, estimates of future cash flows (i.e. premium, expenses, interest and benefits) are projected into the future. The policy liability is then calculated as the net present value of these projected cash flows. Allowance has been made for tax and fees where appropriate.

The benefit fund rules for the Accidental Death Benefits Fund, Adult Accident Fund, Student Accident Fund, the Funeral and Ancillary Fund and the Travel Protection Fund appear to expect all surplus to be transferred to the management fund and do not appear to anticipate surplus will be used to enhance member benefits. As a practical solution to the selection of the profit carrier, the carrier was set to equal the excess of assets over the capital adequacy requirement. A percentage of this amount will be transferred to the management fund after the normal year end valuation.

The benefit fund rules of the Personal Risk Insurance Fund (PRIF) allow for surplus to be transferred to the management fund. No surplus is to be used for augmenting benefits. It is therefore appropriate to treat surplus as equity. As a practical solution to the selection of the profit carrier for a small fund that is in wind down, the carrier was set to equal the excess of assets over the capital adequacy requirement. Of this, 100 percent will transfer to the management fund after the normal year end valuation.

The benefit fund rules for the Whole of Life Funeral Fund appear to expect all surplus to be used to enhance members benefits and do not appear to anticipate surplus will be transferred to the management fund. It is therefore appropriate to treat surplus as policyholder equity or unallocated benefit funds. No profit carrier will be established and surplus can be used to declare bonuses as recommended in the actuarial report each year.

The benefit fund rules of all the other defined benefit funds allow for surplus to be transferred to the management fund or to be used for the enhancement of member benefits. It is therefore appropriate to treat surplus as policyholder equity or unallocated benefit funds. No profit carrier will be established and surplus can be transferred as recommended in the actuarial report each year.

Notes to the financial statements
for the year ended 30 June 2010

42. Benefit fund policy liabilities (continued)
The key assumptions for the policy liability calculations for the various defined benefit funds at 30 June 2010 were as follows:

Fund Name	Discount Basis[1]	Mean Liability Term (Yrs)	Discount Rate	Fees (% of Assets)	Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis[2]
Assurance Benefit Fund	**Swap Rate**	**16**	**5.78%**	**1.80%**	**30.00%**	**2.79%**	**60% of ALT0507**
Endowment and Funeral Fund – Funeral Fund	**Swap Rate**	**14**	**5.79%**	**0.00%**	**0.00%**	**5.79%**	**50% of ALT0002**
Life Assurance Fund	**Swap Rate**	**15**	**5.81%**	**2.25%**	**30.00%**	**2.49%**	**60% of ALT0002**
Central Sick and Funeral Fund	**Swap Rate**	**12**	**5.76%**	**2.00%**	**0.00%**	**3.76%**	**50% of ALT0002**
Personal Risk Fund	**Swap Rate**	**1**	**4.92%**	**0.00%**	**30.00%**	**3.44%**	**70% of ALT0002**
Funeral and Ancillary[3,4]	**Swap Rate**	**13**	**5.78%**	**0.00%**	**0.00%**	**–**	**85% of ALT0507**
Travel Protection[5]	**Swap Rate**	**12**	**5.76%**	**1.00%**	**0.00%**	**–**	**85% of ALT0507**
Whole of Life	**Swap Rate**	**13**	**5.78%**	**1.50%**	**0.00%**	**–**	**85% of ALT0507**

The key assumptions for the policy liability calculations for the various defined benefit funds at 30 June 2009 were as follows:

Fund Name	Discount Basis[1]	Mean Liability Term (Yrs)	Discount Rate	Fees (% of Assets)	Tax Rate	Discount Rate Net of Tax and Fees	Mortality Basis[2]
Assurance Benefit Fund	Swap Rate	15	6.31%	1.80%	30.00%	3.16%	60% of ALT0002
Endowment and Funeral Fund – Endowment Fund	Swap Rate	6	5.86%	0.00%	30.00%	4.10%	50% of ALT0002
Endowment and Funeral Fund – Funeral Fund	Swap Rate	19	6.14%	0.00%	0.00%	6.14%	50% of ALT0002
Life Assurance Fund	Swap Rate	15	6.31%	1.35%	30.00%	3.47%	60% of ALT0002
Central Sick and Funeral Fund	Swap Rate	15	6.31%	1.20%	0.00%	5.11%	50% of ALT0002
Personal Risk Fund	Swap Rate	1	3.49%	0.00%	30.00%	2.44%	70% of ALT0002

Notes:
1 The mid-swap rate corresponding to the mean liability term.
2 ALT0507: Australian Life Tables (Male and Female) 2005–2007. ALT0002: Australian Life Tables (Male and Female) 2000–2002.
3 Funeral and Ancillary Fund, the proportion married varies by age as set out in the relevant valuation report.
4 Funeral and Ancillary Fund, where benefits are indexed to inflation (as required by the benefit fund rules) the future inflation assumption is 3% pa.
5 Travel Protection Fund, the proportion of claims (arising from each death) is 6% and the average claim amount is $900 inflating at 3% pa.

The assumptions were derived by analysis of the experience of the funds, the experience of similar funds and actuarial judgment. The expense assumptions were based on the allowable fee transfers to the management fund in the fund rules.

The Endowment Fund of the Endowment and Funeral Fund is in the process of being terminated with all benefits being paid out at face value. As a result, the liability is equal to the total face value of benefits including the outstanding benefits due to members who have previously died. In this situation, mortality and discounting are irrelevant.

For the Accidental Death Benefits Fund the policy liability is equal to the unearned net premium. For the Adult Accident Fund and Student Accident Fund the policy liability is equal to the unearned net premium plus the outstanding claim liability, determined by reference to the past delay pattern of claim payments

An additional reserve of $100,000 was included in the PRIF liability to protect the Group against claims significantly more adverse than expected under the APRA Prudential Standard LPS 3.04 Capital Adequacy Standard assumptions. A larger reserve was deemed necessary because of the small number of policies and the potential for higher deviations from experience arising in small portfolios.

For all the defined benefit funds other than the PRIF, if experience varies from expectation, then the member liability and the unallocated benefit funds will change by equal and opposite amounts. As the Group has sufficient unallocated benefit funds to cover fluctuations in experience, the equity will not change.

Due to the simplifications employed in the valuation of the PRIF, reasonable changes in assumptions will not impact the liability. Due to the small size of the fund, any changes in equity will not be significant for the Group.

Policy Liability Valuation for Defined Contribution Funds

The defined contribution funds comprise the following:

Bonus Accumulation Fund, Bonus Bond, Capital Guaranteed Deferred Annuity Fund, Capital Guaranteed Funeral Bond (non-taxable), Capital Guaranteed Funeral Bond (taxable), Capital Guaranteed Mortgage Bond, Capital Secure Funeral Bond, Community Bond Fund, Education Savings Plan, Flexishield Bond Fund, NextGen Investments Capital Guaranteed Fund, Telecom Rollover Fund, Funeral Bond Fund, Prepaid Funeral Fund, Funeral Fund No. 2, Tax Minimiser Funeral Fund, Grand Bonds Assurance Fund and the Growth Fund.

The funeral funds are referred to as defined contribution funeral funds. The remainder funds are referred to as defined contribution investment account funds.

The policy liabilities for benefit funds are determined in accordance with Prudential Standard LPS 1.04 issued by APRA under the *Life Insurance Act 1995.*

For the investment account funds other than funeral funds, the policy liabilities are valued using the accumulation method and are equal to the contributions made by members, net of contribution fees, together with bonus additions to date. The balance of the fund is then described as unvested policyholder benefit liabilities or surplus. The current bonus declaration simply results in a movement from unvested policyholder benefit liabilities to vested policy liability subject to the amount vesting being no more than the distributable portion of unvested policyholder benefit liabilities.

The Grand Bonds Fund has an additional death benefit and bonus guarantee. The liability for these extra benefits is significantly less than the investment account liability. The liability for bonus guarantees has been evaluated by inspecting individual policies that may give rise to bonus guarantees. The liability for death benefits was calculated assuming 80% of Australian Life Tables 2000–2002 mortality and a gross discount rate of the mid swap rate as at 30 June 2010 for a term of three years (less management fees). The liability for death benefits was then subjected to a minimum equal to the largest exposure to a single member in the fund.

In addition to the above, for the Flexishield Bond Fund and the Community Bond Fund a small reserve for early death risk in maintained. As well, a deferred tax benefit in respect of future termination bonuses is added to members' balances for the Education Savings Plan.

For the funeral funds, the policy liability has been valued using the same discounted cash flow methods adopted for the defined benefit funds. The policy liability has been taken to be the value of assets of the fund net of other liabilities less the value of the current period bonus. This liability represents the present value of guaranteed benefits (pre bonus) plus the present value of future bonuses. Following declaration of the bonus, there would then be no surplus under this arrangement. The funds currently expect to deduct between 1.00% and 2.05% of the funds' assets for expense allowances. It has been assumed that interest will be earned in future years at rates after tax sufficient to meet this level of expense.

For the Tax Minimiser Funeral Fund and Funeral Benefits Fund No. 2, a deferred tax benefit in respect of future termination bonuses is added to policy liability.

There is no provision in the funds' rules for any surplus to be transferred to the management fund. The management fund receives specified fee transfers from the funds to cover expenses. All remaining assets are to be used to provide benefits to members and hence there is no profit and consequently, no need for a profit carrier.

Changes in economic conditions and demographics will alter the unallocated surplus. The Capital Adequacy Standard is designed to ensure there is sufficient unallocated surplus to cover the effect of these changes. The equity will not change.

The expenses of the benefit funds are equal to the management allowances transferred to the management fund.

Taxation

Rates of taxation in Australia are assumed to continue at current levels, in accordance with legislation known at the valuation date.

Surrender values

Where a surrender option exists, surrender values are based on the provisions specified within the policy contract. Surrender values assumed are those current at the reporting date. Discontinuance rates are based on the fund's experience.

Profit carriers

Each benefit fund contributes to the management fund via any fee transfers authorised in the benefit fund rules and transfers of a part of surplus disclosed in authorised fund valuations. Profit is equivalent to the authorised surplus transfers to the management fund and therefore profit carriers are not applicable. For the investment account funds there is no provision in the funds' rules for any surplus to be transferred to the management fund. The management fund receives specified fee transfers from the funds to cover expenses. All remaining assets are to be used to provide benefits to members and hence there is no profit and consequently, no need for a profit carrier.

42. Benefit fund policy liabilities (continued)

Restrictions on assets

Assets held in benefit funds for the benefit of policyholders can only be used in accordance with *Life Insurance Act 1995* regulations.

Assets backing policy liabilities

Assets backing benefit fund policy liabilities are measured at fair value through profit and loss. All of the assets backing life insurance and investment contract liabilities are included within the benefit funds and are separately identifiable.

Future participating benefits

The bonus rates assumed are those supported by policy liabilities. The bonus rates are based on investment returns net of ongoing expenses and taxation after allowing for a suitable safety margin.

The level of future bonus rates are not guaranteed. Given the nature of the underlying assets held by the various benefit funds the level of any future bonuses declared will be subject to the performance of the investment markets and assets that the benefit funds are invested in.

Sensitivity analysis

The Group has no material sensitivity analysis to disclose.
If experience varies from expectations then the member liabilities and the unvested policyholder liabilities will change by equal and opposite amounts, except as noted above for PRF. As the Group maintains sufficient unallocated surplus to cover fluctuations in experience, there is no impact on equity.

Effects of changes in assumptions

There are no material changes in actuarial assumptions which affect the valuation of policy liabilities at 30 June 2010. Actuarial assumptions are derived by analysis of the experience of the funds, the experience of similar funds and actuarial judgment. The expense assumptions are based on the allowable fee transfers to the management fund in the fund rules.

(e) Nature of risks arising from insurance contracts

The benefit funds are exposed to insurance risk and the principal risk arising under insurance contracts is that benefit payments exceed the carrying amount of insurance liabilities.

Life insurance contracts included within the benefit funds include endowments, contracts for lump sum risk and benefits paid for death or ill health. For endowment contracts the sum assured plus bonuses is paid automatically upon reaching required age. For whole of life endowment contracts the sum assured plus bonus is paid on death. For lump sum risk and benefits paid on death or ill health, benefits are payable upon death, disablement or defined trauma events.

The benefit funds limit exposure to insurance risk by ceding part of the liabilities assumed through reinsurance. For the unit-linked business the financial risks on these contracts are borne by the policyholder because there is a direct link between the investments and the liability obligations.

Bonuses declared are recommended and reviewed by the Group's Investment Committee. The Group also uses the appointed actuary's annual financial condition report to inform decisions on capital management issues.

Changes in economic conditions and demographics may alter the unallocated surplus. The Capital Requirements are designed to ensure there is sufficient unallocated surplus to cover the effect of these changes. The equity will not change. For all the defined benefit funds other than the PRF, if experience varies from expectation, then the member liability and the unallocated benefit funds will change by equal and opposite amounts. As the management fund has sufficient unallocated benefit funds to cover fluctuations in experience, the equity will not change.
Due to the simplifications employed in the valuation of the PRF, reasonable changes in assumptions will not impact the liability.

Due to the small size of the fund, any changes in equity will not be significant for the Group.

Concentrations

The Group is not exposed to large concentrations of insurance risk. Mortality risk is adequately reinsured with highly rated counterparties thereby reducing concentration risk.

Interest rate risk

The management of the risks associated with investments undertaken by benefit funds, including interest rate risk, is subject to the requirements of the relevant regulatory requirements, which are governed by the *Life Insurance Act 1995*. This includes satisfying solvency requirements, which requires statutory reserves to be held specifically to address interest rate risk to the extent that assets are not matched against liabilities.

Credit risk

Credit risk arises in relation to investments in financial assets. Credit risk is monitored by exposure limits to counter parties. These limits are determined by reference to third party credit ratings. The Group does not have any significant concentrations of credit risk.
The maximum exposure to credit risk at balance date in relation to financial assets is the carrying amount of those assets as indicated in the balance sheet.

(f) Solvency and capital adequacy information

Under the *Life Insurance Act 1995*, the Group is required to hold prudential reserves over and above their policy liabilities, as a buffer against adverse experience and poor investment returns.
The minimum level of reserves required to be held are specified by the *Life Insurance Act 1995* and the accompanying Prudential Standards. These standards are Prudential Standards LPS 2.04 and LPS 3.04. These standards have been met for all benefit funds as at 30 June 2010.

For each benefit fund subject to a solvency requirement, the figures in note 43 below represent the ratio of the solvency reserve requirement to the assets available for solvency.

The Group has maintained adequate levels of capital in accordance with the prudential standards specified by the *Life Insurance Act 1995*.

In order to meet the prudential standards the following funds required the following seed capital transfers as at 30 June 2010:

	$'000
Bonus Bond No 1	1,675
Capital Guaranteed Deferred Annunity Fund	55
Community Bond Fund	1,400
Education Savings Plan	50
Flexishield Bond Fund	985
NextGen Investments Capital Guaranteed Fund	130
Funeral and Ancillary Benefit Fund	1,450
Travel Protection Fund	35

The need for this seed capital arose due to inadmissible asset concentration requirements, except for the NextGen Investments Capital Guaranteed Fund where the seed capital was required to support the position of a growing fund.

(g) Disaggregated information – Benefit Funds

Note 43 details the income statement and balance sheet for the individual benefit funds aggregated within these financial statements.

43. Disaggregated information – Benefit Funds

(a) Non-investment linked benefit funds

30 June 2010	Revenue Net Premium $'000	Revenue Investment $'000	Revenue Other $'000	Expenses Claims $'000	Expenses Other $'000	Profit/(loss) for the year Before Tax $'000	Profit/(loss) for the year After Tax $'000
Accidental death benefits	153	55	(51)	–	104	53	–
Adult accident	21	13	–	2	22	10	–
Assurance benefit fund	–	1,007	–	527	202	278	–
Central sick and funeral fund	–	706	–	312	401	(7)	–
Endowment fund	–	32	–	77	(55)	10	–
Funeral and ancillary benefits	15	1,121	–	649	487	–	–
Funeral fund	–	901	–	359	542	–	–
Life assurance fund	–	1,301	–	634	420	247	–
Personal risk fund	41	17	–	–	171	(113)	–
Student accident	43	32	(4)	9	43	19	–
Travel protection funeral	119	36	–	9	109	37	–
Whole of life funeral	–	37	–	14	22	1	–
Total non-investment linked benefit fund – Life insurance contracts	**392**	**5,258**	**(55)**	**2,592**	**2,468**	**535**	**–**

30 June 2009	Revenue Net Premium $'000	Revenue Investment $'000	Revenue Other $'000	Expenses Claims $'000	Expenses Other $'000	Profit/(loss) for the year Before Tax $'000	Profit/(loss) for the year After Tax $'000
Assurance benefit fund	2	1,323	–	878	124	323	–
Central sick and funeral fund	–	323	–	315	13	(5)	–
Endowment fund	–	103	–	92	(20)	31	–
Funeral fund	–	1,205	–	473	732	–	–
Life assurance fund	9	842	–	932	(245)	164	–
Personal risk fund	494	31	(324)	25	176	–	–
Total non-investment linked benefit fund – Life insurance contracts	505	3,827	(324)	2,715	780	513	–

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for the year ended 30 June 2010

43. Disaggregated information – Benefit Funds (continued)

30 June 2010	Assets		Liabilities		Equity	
	Financial $'000	Other $'000	Life insurance $'000	Other $'000	Retained Earnings/ Policyholder Equity $'000	Coverage of Solvency Reserve %
Accidental death benefits	179	676	842	13	–	18
Adult accident	40	174	209	5	–	22
Assurance benefit fund	10,581	851	11,216	216	–	86
Central sick and funeral fund	5,599	458	6,054	3	–	90
Endowment fund	510	355	883	(18)	–	97
Funeral and ancillary benefits	5,125	9,366	12,716	1775	–	89
Funeral fund	9,983	311	10,368	(74)	–	92
Life assurance fund	10,463	1,594	11,585	472	–	91
Personal risk fund	106	67	313	(140)	–	78
Student accident	106	388	485	9	–	26
Travel protection funeral	142	565	664	43	–	64
Whole of life funeral	154	395	549	–	–	96
Total non-investment linked benefit fund – Life insurance contracts	**42,988**	**15,200**	**55,884**	**2,304**	**–**	

30 June 2009	Assets		Liabilities		Equity	
	Financial $'000	Other $'000	Life insurance $'000	Other $'000	Retained Earnings/ Policyholder Equity $'000	Coverage of Solvency Reserve %
Assurance benefit fund	–	11,362	11,212	150	–	87
Central sick and funeral fund	3,688	2,080	5,760	8	–	100
Endowment fund	–	939	936	3	–	80
Funeral fund	–	10,292	10,369	(77)	–	89
Life assurance fund	3,343	8,220	11,420	143	–	100
Personal risk fund	229	175	331	73	–	78
Total non-investment linked benefit fund – Life insurance contracts	7,260	33,068	40,028	300	–	

(b) Investment linked benefit fund – Life investment contracts with discretionary participating features

30 June 2010	Revenue			Expenses		Profit/(loss) for the year	
	Deposits $'000	Investment $'000	Other $'000	Claims $'000	Other $'000	Before Tax $'000	After Tax $'000
Bonus accumulation	2,996	7,604	(389)	28,042	(20,275)	2,444	–
Bonus Bond no 1	3,303	2,610	(215)	18,594	(12,896)	–	–
Capital guaranteed bond	458	6,863	–	12,550	(6,857)	1,628	–
Capital guaranteed deferred annuity	–	60	(9)	93	(48)	6	–
Capital guaranteed funeral bond (non-taxable)	117	2,735	–	3,657	(745)	(60)	–
Capital guaranteed funeral bond (taxable)	6,569	2,937	–	3,829	5,029	648	–
Capital guaranteed mortgage bond	234	1,800	–	3,116	(1,568)	486	–
Capital secure funeral bond	49	2,036	–	3,544	(1,413)	(46)	–
Community bond	1,290	2,761	458	10,416	(7,034)	1,127	–
Education savings plan	2,355	472	(78)	1,400	1,340	9	–
Flexishield bond	720	1,759	(100)	4,840	(3,045)	584	–
Funeral Benefits no 2	2,092	14,157	(2,197)	23,003	(8,039)	(912)	–
Funeral Bond	61	585	16	546	117	(1)	–
Grand bonds assurance fund	17	267	–	329	(91)	46	–
Growth fund	–	5	–	–	4	1	–
NextGen investments capital guaranteed	45,439	1,465	(281)	12,671	33,593	359	–
Prepaid funeral	–	552	–	686	(134)	–	–
Tax minimiser funeral	59,179	2,162	(491)	8,843	52,006	1	–
Telecom rollover	–	80	(9)	80	(18)	9	–
Total Investment linked benefit fund – Life investment contracts with discretionary participating features	124,879	50,910	(3,295)	136,239	29,926	6,329	–

30 June 2009	Revenue			Expenses		Profit/(loss) for the year	
	Deposits $'000	Investment $'000	Other $'000	Claims $'000	Other $'000	Before Tax $'000	After Tax $'000
Capital guaranteed bond	1,219	9,739	–	1,218	7,271	2,469	–
Capital guaranteed funeral bond (non-taxable)	206	1,980	–	206	1,999	(19)	–
Capital guaranteed funeral bond (taxable)	7,313	1,869	–	7,772	1,584	(174)	–
Capital guaranteed mortgage bond	900	2,490	–	900	1,788	702	–
Capital secure funeral bond	84	1,480	–	83	1,496	(15)	–
Grand bonds assurance fund	24	379	–	24	287	92	–
Growth fund	–	7	–	–	5	2	–
Total Investment linked benefit fund – Life investment contracts with discretionary participating features	9,746	17,944	–	10,203	14,430	3,057	–

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for the year ended 30 June 2010

43. Disaggregated information – Benefit Funds (continued)

	Assets		Liabilities		Equity	
30 June 2010	**Financial $'000**	**Other $'000**	**Life insurance $'000**	**Other $'000**	**Retained Earnings/ Policyholder Equity $'000**	**Coverage of Solvency Reserve %**
Bonus accumulation	**231,446**	**14,836**	**235,890**	**10,392**	**–**	**100**
Bonus Bond no 1	**27,193**	**32,070**	**57,519**	**1,744**	**–**	**99**
Capital guaranteed bond	**53,267**	**104,040**	**155,829**	**1,478**	**–**	**99**
Capital guaranteed deferred annuity	**524**	**892**	**1,350**	**66**	**–**	**100**
Capital guaranteed funeral bond (non-taxable)	**35,586**	**13,204**	**48,732**	**58**	**–**	**100**
Capital guaranteed funeral bond (taxable)	**41,342**	**16,916**	**58,046**	**212**	**–**	**100**
Capital guaranteed mortgage bond	**30,385**	**10,346**	**40,284**	**447**	**–**	**99**
Capital secure funeral bond	**26,019**	**9,742**	**35,772**	**(11)**	**–**	**100**
Community bond	**21,015**	**64,039**	**83,171**	**1,883**	**–**	**99**
Education savings plan	**2,352**	**10,234**	**12,431**	**155**	**–**	**100**
Flexishield bond	**13,365**	**32,717**	**44,709**	**1,373**	**–**	**100**
Funeral Benefits no 2	**145,567**	**108,898**	**253,685**	**780**	**–**	**100**
Funeral Bond	**1,209**	**5,737**	**6,935**	**11**	**–**	**100**
Grand bonds assurance fund	**–**	**6,100**	**6,057**	**43**	**–**	**100**
Growth fund	**–**	**116**	**114**	**2**	**–**	**96**
NextGen investments capital guaranteed	**61,106**	**(1,135)**	**59,656**	**315**	**–**	**100**
Prepaid funeral	**1,160**	**5,207**	**6,349**	**18**	**–**	**100**
Tax minimiser funeral	**87,437**	**997**	**88,316**	**118**	**–**	**100**
Telecom rollover	**2,462**	**86**	**2,484**	**64**	**–**	**99**
Total Investment linked benefit fund – Life investment contracts with discretionary participating features	**781,435**	**435,042**	**1,197,329**	**19,148**	**–**	

	Assets		Liabilities		Equity	
30 June 2009	**Financial $'000**	**Other $'000**	**Life insurance $'000**	**Other $'000**	**Retained Earnings/ Policyholder Equity $'000**	**Coverage of Solvency Reserve %**
Capital guaranteed bond	69,467	97,089	164,192	2,364	–	99
Capital guaranteed funeral bond (non-taxable)	38,380	11,782	50,103	59	–	100
Capital guaranteed funeral bond (taxable)	38,198	15,764	53,669	293	–	100
Capital guaranteed mortgage bond	35,645	7,037	42,042	640	–	99
Capital secure funeral bond	29,057	8,431	37,459	29	–	100
Grand bonds assurance fund	–	6,295	6,206	89	–	99
Growth fund	–	124	112	12	–	95
Total Investment linked benefit fund – Life investment contracts with discretionary participating features	210,747	146,522	353,783	3,486	–	

(c) Investment linked benefit fund – Investment contracts

	Revenue			Expenses		Profit/(loss) for the year	
30 June 2010	**Net Premium $'000**	**Investment $'000**	**Other $'000**	**Claims $'000**	**Other $'000**	**Before Tax $'000**	**After Tax $'000**
Balanced growth bond	–	3,042	–	–	2,194	848	–
Capital base	–	3,809	(301)	–	2,675	833	–
Conservative growth bond	–	1,161	–	–	831	330	–
Education bond long-term portfolio	–	525	–	–	389	136	–
Education bond medium-term portfolio	–	155	–	–	112	43	–
Education bond short-term portfolio	–	14	–	–	10	4	–
Education savings plan	–	17,784	123	–	17,884	23	–
Flexigrowth	–	3,065	(143)	–	2,922	–	–
Growth investment	–	1,007	(213)	–	654	140	–
High growth bond	–	364	–	–	270	94	–
Income	–	2,646	(96)	–	2,551	(1)	–
Managed investment	–	1,541	(761)	–	440	340	–
NextGen investments	–	43,217	(504)	–	42,910	(197)	–
Select strategies	–	12,494	(1,594)	–	8,554	2,346	–
TaxSmart	–	2,286	(73)	–	2,042	171	–
Wealth builder	–	470	(11)	–	371	88	–
Total Investment linked benefit fund – Investment contracts without discretionary participating features	–	93,580	(3,573)	–	84,809	5,198	–

	Revenue			Expenses		Profit/(loss) for the year	
30 June 2009	**Net Premium $'000**	**Investment $'000**	**Other $'000**	**Claims $'000**	**Other $'000**	**Before Tax $'000**	**After Tax $'000**
Balanced growth bond	–	(4,220)	–	–	(2,732)	(1,488)	–
Conservative growth bond	–	(27)	–	–	37	(64)	–
Education bond long-term portfolio	–	(848)	–	–	(550)	(298)	–
Education bond medium-term portfolio	–	(214)	–	–	(140)	(74)	–
Education bond short-term portfolio	–	(3)	–	–	(1)	(2)	–
High growth bond	–	(784)	–	–	(514)	(270)	–
Total Investment linked benefit fund – Investment contracts without discretionary participating features	–	(6,096)	–	–	(3,900)	(2,196)	–

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43. Disaggregated information – Benefit Funds (continued)

30 June 2010	Assets Financial $'000	Assets Other $'000	Liabilities Life insurance $'000	Liabilities Other $'000	Equity Retained Earnings/ Policyholder Equity $'000	Equity Coverage of Solvency Reserve %
Balanced growth bond	31,688	1,072	32,547	213	–	–
Capital base	52,034	601	52,207	428	–	–
Conservative growth bond	15,295	162	15,238	219	–	–
Education bond long-term portfolio	6,129	319	6,422	26	–	–
Education bond medium-term portfolio	1,507	66	1,554	19	–	–
Education bond short-term portfolio	123	37	139	21	–	–
Education savings plan	50,305	5,410	54,103	1,612	–	–
Flexigrowth	11,013	9,697	20,616	94	–	–
Growth investment	24,983	2,195	26,918	260	–	–
High growth bond	4,247	200	4,429	18	–	–
Income	17,443	7,563	24,940	66	–	–
Managed investment	93,729	3,819	96,224	1,324	–	–
NextGen investments	50,304	(364)	49,541	399	–	–
Select strategies	159,895	22,977	180,425	2,447	–	–
TaxSmart	5,633	8,047	13,716	(36)	–	–
Wealth builder	6,253	1,081	7,018	316	–	–
Total Investment linked benefit fund – Investment contracts without discretionary participating features	530,581	62,882	586,037	7,426	–	

30 June 2009	Assets Financial $'000	Assets Other $'000	Liabilities Life insurance $'000	Liabilities Other $'000	Equity Retained Earnings/ Policyholder Equity $'000	Equity Coverage of Solvency Reserve %
Balanced growth bond	28,313	2,446	32,642	(1,883)	–	–
Conservative growth bond	14,738	602	15,517	(177)	–	–
Education bond long-term portfolio	4,887	520	5,935	(528)	–	–
Education bond medium-term portfolio	1,399	107	1,622	(116)	–	–
Education bond short-term portfolio	156	22	178	–	–	–
High growth bond	3,497	393	4,252	(362)	–	–
Total Investment linked benefit fund – Investment contracts without discretionary participating features	52,990	4,090	60,146	(3,066)	–	

(d) Summarised information by investment type

30 June 2010	Revenue: Net Premium/ Deposits $'000	Revenue: Investment $'000	Revenue: Other $'000	Expenses: Claims $'000	Expenses: Other $'000	Profit/(loss) for the year: Before Tax $'000	Profit/(loss) for the year: After Tax $'000
Non-investment linked benefit fund – Life insurance contracts	**392**	**5,258**	**(55)**	**2,592**	**2,468**	**535**	**–**
Investment linked benefit fund – Life investment contracts with discretionary participating features	**124,879**	**50,910**	**(3,295)**	**136,239**	**29,926**	**6,329**	**–**
Investment linked benefit fund – Investment contracts	**–**	**93,580**	**(3,573)**	**–**	**84,809**	**5,198**	**–**
Total	**125,271**	**149,748**	**(6,923)**	**138,831**	**117,203**	**12,062**	**–**

30 June 2009	Revenue: Net Premium/ Deposits $'000	Revenue: Investment $'000	Revenue: Other $'000	Expenses: Claims $'000	Expenses: Other $'000	Profit/(loss) for the year: Before Tax $'000	Profit/(loss) for the year: After Tax $'000
Non-investment linked benefit fund – Life insurance contracts	505	3,827	(324)	2,715	780	513	–
Investment linked benefit fund – Life investment contracts with discretionary participating features	9,746	17,944	–	10,203	14,430	3,057	–
Investment linked benefit fund – Investment contracts	–	(6,096)	–	–	(3,900)	(2,196)	–
Total	10,251	15,675	(324)	12,918	11,310	1,374	–

30 June 2010	Assets: Financial $'000	Assets: Other $'000	Liabilities: Life insurance $'000	Liabilities: Other $'000	Equity: Retained Earnings/ Policyholder Equity $'000
Non-investment linked benefit fund – Life insurance contracts	**42,988**	**15,200**	**55,884**	**2,304**	**–**
Investment linked benefit fund – Life investment contracts with discretionary participating features	**781,435**	**435,042**	**1,197,329**	**19,148**	**–**
Investment linked benefit fund – Investment contracts	**530,581**	**62,882**	**586,037**	**7,426**	**–**
Total	**1,355,004**	**513,124**	**1,839,250**	**28,878**	**–**

30 June 2009	Assets: Financial $'000	Assets: Other $'000	Liabilities: Life insurance $'000	Liabilities: Other $'000	Equity: Retained Earnings/ Policyholder Equity $'000
Non-investment linked benefit fund – Life insurance contracts	7,260	33,068	40,028	300	–
Investment linked benefit fund – Life investment contracts with discretionary participating features	210,747	146,522	353,783	3,486	–
Investment linked benefit fund – Investment contracts	52,990	4,090	60,146	(3,066)	–
Total	270,997	183,680	453,957	720	–

44. Reconciliation of profit attributable to members of Australian Unity Limited

	2010		
	Attributable to members of Australian Unity Limited $'000	Attributable to Benefit Fund policyholders $'000	Consolidated Profit and Loss $'000
Revenue	**665,953**	**–**	**665,953**
Direct life insurance premium revenue	**–**	**800**	**800**
Outwards reinsurance expense	**–**	**(408)**	**(408)**
Deposits received – investment contracts with DPF*	**–**	**124,879**	**124,879**
Investment income	**–**	**149,748**	**149,748**
Other	**–**	**(6,923)**	**(6,923)**
Total revenue	**665,953**	**268,096**	**934,049**
Life insurance claims expense	**–**	**2,592**	**2,592**
Benefits and withdrawals paid – investment contracts with DPF*	**–**	**136,239**	**136,239**
Distribution to policyholders	**–**	**23,085**	**23,085**
Expenses excluding finance costs	**639,842**	**94,118**	**733,960**
Total expenses, excluding finance costs	**639,842**	**256,034**	**895,876**
Finance costs	**(11,006)**	**–**	**(11,006)**
Share of net profits of associates	**3,419**	**–**	**3,419**
Profit before income tax	**18,524**	**12,062**	**30,586**
Income tax expense	**(1,396)**	**(12,062)**	**(13,458)**
Profit after income tax	**17,128**	**–**	**17,128**

* DPF = Discretionary Participating Feature

	2009		
	Attributable to members of Australian Unity Limited $'000	Attributable to Benefit Fund policyholders $'000	Consolidated Profit and Loss $'000
Revenue	591,835	–	591,835
Direct life insurance premium revenue	–	505	505
Outwards reinsurance expense	–	(324)	(324)
Deposits received – investment contracts with DPF*	–	9,746	9,746
Investment income	–	15,675	15,675
Total revenue	591,835	25,602	617,437
Life insurance claims expense	–	2,715	2,715
Benefits and withdrawals paid – investment contracts with DPF*	–	38,760	38,760
Decrease in policyholder liabilities – investment contracts with DPF*	–	(28,557)	(28,557)
Distribution to policyholders	–	6,400	6,400
Expenses excluding finance costs	588,082	4,910	592,992
Total expenses, excluding finance costs	588,082	24,228	612,310
Finance costs	(8,626)	–	(8,626)
Share of net profits of associates	2,023	–	2,023
(Loss)/profit before income tax	(2,850)	1,374	(1,476)
Income tax benefit/(expense)	3,901	(1,374)	2,527
Profit after income tax	1,051	–	1,051

*DPF = Discretionary Participating Feature

Directors' declaration
for the year ended 30 June 2010

In the directors' opinion:

(a) the financial statements and notes set out on pages 47 to 114 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(ii) giving a true and fair view of the Parent entity's and the Group's financial position as at 30 June 2010 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the financial year ended on that date; and

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1; and

(c) 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 the directors.

Alan Castleman
Chairman

Rohan Mead
Group Managing Director

South Melbourne
31 August 2010

Independent auditor's report to the members
for the year ended 30 June 2010

ERNST & YOUNG

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

We have audited the accompanying financial report of Australian Unity Limited, which comprises the balance sheet as at 30 June 2010, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(a), the directors also state that the financial report complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Ernst & Young

Auditor's Opinion

In our opinion:

1. the financial report of Australian Unity Limited is in accordance with the *Corporations Act 2001*, including:

    i giving a true and fair view of the financial position of Australian Unity Limited and the consolidated entity at 30 June 2010 and of their performance for the year ended on that date; and

    ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Ernst & Young

A J (Tony) Johnson
Partner
Melbourne
31 August 2010

Australian Unity

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FSC
Mixed Sources
Product group from well-managed forests and other controlled sources
www.fsc.org Cert no. SGS-COC-004630