Australian Unity Limited

ABN 23 087 648 888

Interim financial report for the half-year ended 31 December 2017

Australian Unity Limited ABN 23 087 648 888
Interim financial report - 31 December 2017

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by Australian Unity Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

114 Albert Road
South Melbourne VIC 3205

The financial statements were authorised for issue by the directors on 28 February 2018.

Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Australian Unity Limited (Parent entity or Company) and the entities it controlled at the end of, or during, the half-year ended 31 December 2017.

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

Peter Promnitz, Chair
Rohan Mead, Group Managing Director & CEO
Lisa Chung, Non-executive Director
Melinda Cilento, Non-executive Director
Paul Kirk, Non-executive Director
Su McCluskey, Non-executive Director
Greg Willcock, Non-executive Director
Stephen Maitland, Non-executive Director (resigned 1 November 2017)

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

Operating and financial review
During the half-year ended 31 December 2017, Australian Unity continued to progress its ambition of creating personal and community value by delivering a valued and commercially sustainable portfolio of businesses and investments. The Group delivered a profit for the half-year of $73.3 million, compared to $16.6 million for the same period last year.

Of this result, $64.8 million was a discontinued operation profit arising from the sale of the Group's corporate health insurance subsidiary, Grand United Corporate Health Limited (GUCH), to nib holdings ltd.

Excluding this sale impact, the Group's profit after income tax from continuing operations for the half-year was $8.5 million, a result $4.3 million lower than the previous corresponding period. This included $14.6 million of costs arising from an extensive business transformation announced in October 2017 and some GUCH sale related costs attributable to continuing operations.

Total revenue and other income from continuing operations decreased to $750.6 million (31 December 2016: $805.2 million). Overall Revenue growth generated by the Group's operating businesses and solid investment returns were outweighed by a $58.2 million reduction in benefit fund revenue.

Total expenses, excluding financing costs from continuing operations, decreased to $731.5 million (31 December 2016: $788.4 million) with a reduction in benefit fund expenses partly offset by higher remuneration costs reflecting the business transformation and GUCH sale-related costs.

Overall, the outcome for the Group represented a small reduction in operating earnings from continuing operations, down $1.5 million from the same time last year to $12.3 million, after excluding the above business transformation and GUCH sale-related costs.

The Group continued to focus on organic growth supplemented by strategic, complementary acquisitions that support its strategy. Community value not only involves providing value to individuals and families but also contributing to broader social purposes such as the social infrastructure challenge. Social infrastructure is the interdependent mix of facilities, services and networks that maintain and improve standards of living and quality of life in a community.

The Group's operations during the half-year ended 31 December 2017 were conducted through four business segments: Healthcare, Independent & Assisted Living, Wealth, and Personal Financial Services. Key aspects of the operating, financial and strategic performance of each Group segment during the half-year to 31 December 2017 are set out below.

During this period, Australian Unity commenced a number of organisational changes as part of a transformation program. This program aims to capitalise on the significant growth opportunities that exist in the Group's areas of operations in health, wealth and living.

The Group is streamlining its business operations with the creation of three operating platforms designed to focus on the needs of customers. These platforms are Retail, Wealth & Capital Markets, and Independent & Assisted Living. The costs incurred during this transformation process will realise benefits throughout the course of the 2018 calendar year and beyond. However, the financial information and commentary reported for the half-year to 31 December 2017 reflect the former, four-platform operating structure that was in place during this six month period.

In assessing the performance of its operating business segments the Group uses a measure of adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (adjusted EBITDA).

As the term indicates, this measure excludes the effects of tax, depreciation and amortisation, interest on external borrowings and investment income. It also excludes other non-recurring expenditure.

Operating and financial review (continued)

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

Operating platforms

Healthcare

Overview
Healthcare provides private health insurance, dental, and other healthcare services, such as preventative health and chronic disease management services through a wholly owned subsidiary Remedy Healthcare.

Australian Unity's corporate health insurance subsidiary, GUCH was sold to nib holdings ltd on 31 October 2017. This sale was undertaken to release capital for investment in strategic initiatives that align with Australian Unity's goal of providing direct-to-consumer products and services.

Financial performance

Healthcare financial result	**Half-year to 31/12/17 $million**	Half-year to 31/12/16 $million	Variance
Total segment revenue	**363.1**	360.5	0.7%
Operating expenses	**325.8**	326.2	(0.1)%
Adjusted EBITDA	**37.3**	34.3	8.7%

The Healthcare business delivered a solid first half-year result with adjusted EBITDA up $3.0 million or 8.7 percent to $37.3 million compared to the prior corresponding period. The increased result was driven largely by an improved underwriting experience.

Healthcare's adjusted EBITDA margin for the half-year was 10.3 percent (31 December 2016: 9.5 percent).

Drivers of financial performance
Revenue
Total segment revenue generated by the Healthcare continuing business was $363.1 million, a 0.7 percent increase compared to the previous half-year (31 December 2016: $360.5 million).

The main drivers of this increase in revenue were:

- $2.2 million or 0.6 percent increase in health insurance net premium income; and
- $0.4 million or 2.1 percent higher healthcare services revenues compared to the prior corresponding period.

Expenses
Total operating expenses for the half-year were $325.8 million, which was $0.4 million or 0.1 percent lower than the half-year to 31 December 2016. The main drivers for this were:

- $1.4 million or 0.4 percent decrease in health insurance operating expenses; and
- $1.0 million or 6.3 percent increase in healthcare services operating expenses mainly attributed to business development.

	31/12/17	30/06/17	Variance
Total private health insurance policyholders*	**199,539**	201,516	(1.0)%

* including Overseas Visitor Cover policyholders

Australian Unity Health Limited (private health insurance)
The number of private health fund policyholders (including overseas visitor cover policyholders) decreased by 1.0 percent to 199,539 in the half-year to 31 December 2017. This decrease reflects lower industry growth together with a deliberate strategy to focus our product and sales efforts around target segments.

Operating and financial review (continued)

A key area of focus for the private health insurance business in the six months under review was customer service. The healthcare business underwent an extensive call centre optimisation program with significant results. Reduced wait and handling times were achieved as part of a strategy to improve experience and retention. This has enabled more meaningful conversations with customers, while also equipping them with the tools to self-serve, thereby reducing the overall call volumes.

An enforceable undertaking was provided to the Australian Competition & Consumer Commission during the half-year, in relation to a change in dental benefits under the Comprehensive Extras product in 2015. Financial compensation was provided to impacted members and steps have been undertaken to improve our processes and systems.

Healthcare continues to grow its overseas visitor cover alliances including major partnerships with new Registered Migration Agent (RMA) businesses and more than 100 new RMA agents.

Remedy Healthcare
Remedy Healthcare maintained its strong growth trajectory in the half-year under review, delivering more than 256,000 episodes of care across its 18 treatment programs. Remedy continues to diversify its customer portfolio by expanding health coaching resources and capability in NSW. Along with new commercial partnerships, this has doubled Remedy's national health coaching footprint. Remedy continues to provide services to 27 of Australia's health insurers as clients of one or more of Remedy programs.

Remedy successfully integrated its depression and anxiety program, MindStep® into the life insurance and superannuation market, including a strategic partnership with a major financial institution. It also secured a range of new contracts for its Rehabilitation at Home business.

The Remedy Healthcare business will continue investment in business development, especially in the area of mental health services and hospital avoidance programs. It will focus on further integration of allied health services with home care and disability services and furthering its digital and innovation agenda, including integration with the national electronic health record, My Health Record.

Dental
The dental business has seen a growth in new patients in the first half of the year, including in its new Moonee Ponds clinic. To support this growth the business has instituted a new dental call centre focused on bookings across the network. This is co-located with the retail health insurance call centre team in order to foster greater customer opportunities between the two customer groups.

Healthcare outlook
An ageing population, living with greater levels of chronic illness, is affecting the affordability of health care in all sectors, private health insurance included. The rising costs of treatments and greater usage of medical devices are increasing the pressure on private health insurance premiums, and insurers have limited capacity to address the structural issues in the system. If consumers continue to downgrade cover or move out of private health insurance pressure on the public health system will mount and the affordability and value of private health insurance will reduce. Australian Unity is actively engaged on its own account and with sector and policy collaborators to urge positive reforms to improve the quality and effectiveness as well as the cost efficiency of the sector.

Wealth

Overview
Australian Unity's Wealth business offers a comprehensive range of financial products and services designed to improve the financial wellbeing of customers, deepen community capital and valuably connect capital markets with social infrastructure investment opportunities.

The business offers customers expertise in property, equity and debt capital markets, cash, fixed interest and Australian shares, market-leading investment bonds, funeral bonds, education savings plans and a wide range of personal banking services.

Financial performance

Wealth financial result	**Half-year to 31/12/17 $million**	Half-year to 31/12/16 $million	Variance
Total segment revenue	**67.9**	60.2	12.9%
Operating expenses	**52.4**	51.5	1.9%
Adjusted EBITDA	**15.5**	8.7	77.4%

Operating and financial review (continued)

The Wealth business again produced very solid results for the half-year ended 31 December 2017, achieving strong growth in new business, delivering clients pleasing investment returns in improved but increasingly cautious markets, and launching a number of new products and technology improvements for the benefit of customers.

The Wealth business recorded a 12.9 percent increase in total segment revenue to $67.9 million for the half-year to 31 December 2017 (31 December 2016: $60.2 million). Adjusted EBITDA increased to $15.5 million representing a 77.4 percent increase compared to the previous half-year (31 December 2016: $8.7 million).

This strong result in adjusted EBITDA was positively impacted by both the ongoing work undertaken within the business designed to streamline operations and reduce capital usage, as well as strong growth in the property and investment bonds segments.

Total funds under management and administration (FUMA) within the Wealth business were $10.35 billion during this reporting period (30 June 2017: $9.43 billion).

The Wealth team also manages the investment portfolios of the Australian Unity Group, which achieved a weighted aggregate return of 3.49 percent on the Group's investment assets for the year to 31 December 2017. These investments include its capital stable and highly liquid insurance reserves. This result compared favourably to the return available on risk-free cash (measured by the Bloomberg AusBond Bank Bill Index) of 1.75 percent for the year ended 31 December 2017.

Investments
The Investments business provides investment management products and managed funds for cash, fixed interest, listed real estate and Australian equities, as well as diversified (multi-sector) investment options.

Over the half-year investment markets were generally stable, with equities markets delivering strong performance. For the first time in a decade there was strong coordinated growth across the world's major economic regions.

Investment returns for the year ended 31 December 2017 were strong, with the standout performer being the Platypus Asset Management business. Its flagship portfolio outperformed the market, returning 22.86 percent for the year to 31 December 2017 compared to the benchmark return of 11.94 percent for the S&P ASX 300 Accumulation Index.

A summary of investment returns for the year ending 31 December 2017.

Asset Class	Asset Manager	Fund	Performance for the half-year ended 31 December 2017
Australian equities	Platypus	Platypus Australian Equities Trust (Wholesale)	22.86%
		Platypus Systematic Growth Fund	14.32%
Global equities	Wingate	Wingate Global Equity Fund (Wholesale)	3.36%
Fixed interest	Altius	Altius Bond Fund	2.64%
		Altius Sustainable Bond Fund	2.61%
Cash	Australian Unity	Australian Unity Wholesale Cash Fund	2.07%

Property
Total funds under management (FUM) in Australian Unity's Property portfolio increased to $2.60 billion (30 June 2017: $2.44 billion). In addition, a multi-year pipeline of property development opportunities of $1.5 billion is now established, the majority of which is focused in the area of social infrastructure.

In late December, the Queensland Government formally approved the Development Scheme for the landmark Herston Quarter social infrastructure project. The Herston project was recognised at the Public Private Partnership awards for 'Best Social Infrastructure Project' and 'Best Financial Structure'. The approval of the Development Scheme now allows the design and financial elements of this project to be finalised, as a prelude to larger scale construction getting underway.

Operating and financial review (continued)

Australian Unity's Healthcare Property Trust, the largest fund of its kind in Australia, increased FUM to $1.59 billion (30 June 2017: $1.25 billion) and posted a return of 21.01 percent for the year to 31 December 2017. During the half-year the Trust made a number of property acquisitions and disposals, including selling the Calvary Wakefield Private Hospital and Medical Clinic, located in Adelaide, to Cromwell Property Group for $50 million. In October 2017, the trust raised $257 million in capital after being open to investment for only three days. During the period, the Trust also finalised refinancing arrangements to support its future plans. The refinance put in place an aggregate of $740 million in borrowing support for the Trust. The refinance incorporated arrangements with a number of major banks and also introduced a major Australian superannuation fund as an additional, long term funding partner.

The Retail Property Fund, Australian Unity's direct retail property asset fund, achieved a 19.98 percent return for investors in the year to 31 December 2017.

The ASX-listed Australian Unity Office Fund (AOF) achieved a return of 27.49 percent and outperformed the S&P/ASX 300 A-REIT Accumulation Index by 21.05 percentage points in the year to 31 December 2017. In October 2017, AOF settled the acquisition of an office asset at 150 Charlotte Street, Brisbane for $105.75 million. The AOF either met or exceeded its PDS forecasts.

The Australian Unity Diversified Property Fund achieved a return of 19.24 percent for the year to 31 December 2017. Over the past 12 months the Fund's properties were independently re-valued with strong growth in property values.

Support from financial planning groups for the Australian Unity Select Income Fund, a contributory mortgage fund, continued to grow. The Fund generated strong recurring monthly net inflows during the year. Its lending portfolio grew solidly over the half-year to $129 million (30 June 2017: $117.0 million).

Life & Super
Australian Unity's Lifeplan Australia Friendly Society Limited business continues to be Australia's market leader in investment bonds and funeral bonds, and a leading provider of education investment funds, with $2.13 billion in FUMA as at 31 December 2017 (30 June 2017: $2.12 billion).

Australian Unity remains clear market leader for investment bond solutions, with half-year sales totalling $116 million.

The Lifeplan Investment Bond was again rated 'Highly Recommended' by Zenith Investment Partners, and the business is positioned well to capitalise on the caps to superannuation.

FUM for education solutions increased by 9.4 percent surpassing $191 million (30 June 2017: $175 million).

With over $665 million in FUM and 90,000 clients, Australian Unity has a leading position in the pre-paid funeral market via the specialised business, Funeral Plan Management.

Banking
Australian Unity's banking business (Big Sky Building Society) continues to focus on delivering quality products to its customers, with a growing emphasis on digital delivery of services to better meet their needs.

During the half-year, competitive market conditions again prevailed including ongoing pressure on interest rate margins. Big Sky responded to these conditions proactively by targeting lower levels of lending and a stable balance sheet size with a focus on cost of funds and liquidity management to drive improved profitability.

Big Sky's total on-balance sheet assets declined slightly to $784.8 million as at 31 December 2017 (30 June 2017: $827.4 million).

Wealth outlook
The Australian Unity Wealth business continues to seek to deliver differentiated, higher value products and services, designed to improve the financial wellbeing of customers while connecting communities.

With improved economic growth, a broad yet thematically focused range of businesses, and a material and growing presence in the funding, development and management of Australia's social infrastructure, the period ahead should continue to provide opportunities for Australian Unity Wealth to provide our customers with valuable investment and financial opportunities.

Personal Financial Services

Overview
Australian Unity's Personal Financial Services business works with advisers and industry partners to provide financial planning, finance broking, insurance and trustee services.

During the half-year to 31 December 2017 the business focused considerably on the expansion and growth of Australian Unity Trustees Limited after successfully obtaining a trustee licence in February 2017.

Operating and financial review (continued)

Financial performance

Personal Financial Services financial result	**Half-year to 31/12/17 $million**	Half-year to 31/12/16 $million	Variance
Total segment revenue	**32.2**	32.2	0.0%
Operating expenses	**32.6**	31.3	4.1%
Adjusted EBITDA	**(0.36)**	0.93	(138.3)%

For the half-year to 31 December 2017, total segment revenue remained steady at $32.2 million (31 December 2016: $32.2 million), with aspects of revenue growth offset by some practices leaving the Premium Wealth Management business, and the impact of regulatory changes affecting financial advice revenue.

Adjusted EBITDA was ($0.36) million for the half-year compared to $0.93 million for the prior year's corresponding period. This result reflected ongoing investment in the trustee services business and regulatory changes affecting financial advice revenue.

Trustee Services
Significant work continues to further extend the range of Trustees' services and solutions nationally.

Starting from a relatively small base, Estate Planning revenues grew by over 100 percent during the period under review compared to the same period last year and the demand for these services, through our network of advisers, accountants and other centres of influence, continues to increase.

The business secured a number of new tribunal and court appointments outside Victoria, in particular Queensland, South Australia and Western Australia. This reflected the increasing awareness of our brand and the client experience delivered nationally.

Trustee Services also partners with clients to establish and manage structures in line with their long term philanthropic objectives. The Australian Unity Trustees Foundation, established during 2017, received donations from a number of new clients during the period.

Australian Unity was appointed as trustee of the Manus Island Settlement Trust during the half-year. This appointment relied on the business' capability to manage complex settlement trusts, with beneficiaries located across a number of regions internationally.

Financial advice
The number of advisers decreased marginally to 175 at 31 December 2017 (30 June 2017: 182). Adviser numbers are expected to increase in the second half of the year financial year.

Despite the regulatory changes in recent years, we have seen steady growth in the numbers of members and funds under advice in our Corporate Superannuation business.

Finance and insurance services
Finance broking achieved revenue of $1.1 million for the half-year which was slightly down on the previous half-year (31 December 2016: $1.3 million) due to lower settlements and a deliberate reduction in self-employed broker numbers.

General insurance achieved first half operating revenue growth to $1.1 million representing an increase of 8.4 percent compared to the previous half-year largely due to higher broking revenue.

Personal Financial Services' outlook
The business continues to be impacted by a range of regulatory reforms, including the Future of Financial Advice reforms; the MySuper reforms; the introduction of new Professional Standards for Financial Advisers; the implementation of the recommendations for the Life Insurance Framework, which will result in remuneration changes for advisers; as well as changes to complaints schemes, compensation schemes of last resort, and implementation of ASIC's self-funding model.

This backdrop of continual change in the regulatory regime and increased complexity strongly reinforces the growing need in the community for valued providers of quality advice and services. The Personal Financial Services business seeks growth in this context as a differentiated provider, within a mutual organisation, with a clear focus on helping clients and members to thrive.

Operating and financial review (continued)

Independent & Assisted Living

Overview
Australian Unity's Independent & Assisted Living (IAL) platform operates retirement communities and aged care facilities, as well as providing home care and disability services. These businesses are interconnected, delivering a continuum of care and service that meets the daily needs of its customers.

Financial performance

Independent & Assisted Living financial result	**Half-year to 31/12/17 $million**	Half-year to 31/12/16 $million	Variance
Total segment revenue	**192.7**	197.7	(2.5)%
Operating expenses	**194.7**	194.7	0.0%
Adjusted EBITDA	**(2.0)**	3.0	(169.5)%

The business recorded total segment revenue of $192.7 million for the half-year representing a decline of 2.5 percent compared to the previous year (31 December 2016: $197.7 million). Adjusted EBITDA was ($2.0) million (31 December 2016: $3.0 million), largely attributable to the continued investment in supporting the integration and growth of the Home & Disability Services business within IAL.

Retirement communities
During the half-year under review, village occupancy remained very high at 96.7 percent, which was a slight decrease of 0.2 percentage points from 30 June 2017.

A further eight new home units were delivered across the portfolio, increasing the total portfolio of home units to 2,362 at 31 December 2017 (30 June 2017: 2,354). Further units are under construction.

Aged care
Occupancy levels remained high at 94 percent at Australian Unity's five established aged care facilities.

IAL's newest and sixth facility, Campbell Place in Glen Waverley, Victoria, was completed in late 2017, with occupancy levels reaching 55 percent by 31 December 2017.

Home & Disability Services
The Home & Disability Services business (including Home Care NSW) continued to provide significant growth for the IAL business. Revenue for the half-year was $136.1 million representing an increase of $8.7 million compared to the same period last year.

The transfer of state-funded disability clients to the NDIS is 60 percent complete. Significant differences in per hour revenue rate between the two schemes are being addressed, including cost reduction, process improvement and customer engagement. Profitability of the NDIS business is currently challenged as a result.

Total Home Care Packages under management reached 2,000 at 31 December 2017, representing an increase of 1,200 package clients, or 150 percent. This has been made possible due to the Federal Government's Increasing Choice in Home Care reforms that commenced on 27 February 2017.

Service hour delivery remains strong across other programs and recent renewal of important quality accreditation under the Attendant Care Industry Standards (ACIS) and regular branch based audits by the Australian Aged Care Quality Agency (AACQA) have demonstrated significant improvements in quality of service delivery.

Challenges remain in selected core back office functions as systems are updated in light of industry changes in Aged Care and Disability Services, all of which are being addressed via the transformation program.

Developments
The business continued to progress a number of development projects including Peninsula Grange in Mornington, Victoria, Sienna Grange in Port Macquarie, NSW, and Albert Road South Melbourne, which is being built next to Australian Unity's current corporate head office.

Operating and financial review (continued)

Independent & Assisted Living outlook
Independent & Assisted Living seeks to provide a continuum of care to its customers in the form of home care, retirement communities and aged care, built around the concept of ageing in place and supporting older Australians to age in the community and setting of their choosing.

The business is well placed to address the growing issues and agendas in Australia in relation to demography, specifically, mass aging and dignified disability support. These current trends, together with the introduction of the National Disability Insurance Scheme, provide significant growth opportunities to the business. Specifically, in addressing the needs of the community and providing Australians with greater dignity and quality of life.

Matters subsequent to the end of the half-year

The board is not aware of any matter or circumstance arising since 31 December 2017 which has significantly affected or may significantly affect the financial status or results of the Group and which has not been separately disclosed in this report.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 9.

Rounding of amounts

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, issued by the Australian Securities and Investments Commission. Unless otherwise stated, amounts in the Directors' report and Financial statements have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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

Peter Promnitz
Chair

Rohan Mead
Group Managing Director & CEO

South Melbourne
28 February 2018

Auditor's Independence Declaration

As lead auditor for the review of Australian Unity Limited for the half-year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Peter van Dongen
Partner
PricewaterhouseCoopers

Melbourne
28 February 2018

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	Notes	Half-year 2017 $'000	2016* $'000
Continuing operations			
Revenue and other income	3	**750,605**	805,245
Expenses, excluding finance costs	4	**(731,477)**	(788,408)
Finance costs	4	**(10,185)**	(10,190)
Share of net loss of joint ventures		**(272)**	(1,084)
Profit before income tax		**8,671**	5,563
Income tax benefit/(expense)	5	**(152)**	7,212
Profit from continuing operations		**8,519**	12,775
Profit from discontinued operation	13	**64,815**	3,790
Profit for the half-year		**73,334**	16,565
Other comprehensive income			
Items that may be reclassified to profit or loss			
Cash flow hedges		**434**	1,245
Income tax relating to this item		**(130)**	(373)
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations		**426**	3,079
Other comprehensive income for the half-year, net of tax		**730**	3,951
Total comprehensive income for the half-year		**74,064**	20,516
Profit for the half-year is attributable to:			
Members of Australian Unity Limited	12	**73,334**	16,565
Total comprehensive income for the half-year is attributable to:			
Members of Australian Unity Limited		**74,064**	20,516
Total comprehensive income for the half-year attributable to members of Australian Unity Limited arises from:			
Continuing operations		**9,249**	16,726
Discontinued operation		**64,815**	3,790
		74,064	20,516

*The 2016 consolidated statement of comprehensive income has been re-presented to separate the comparative amount of profit relating to the discontinued operation.

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes, specifically the allocation of the consolidated income statement between Members' Funds and Benefit Funds outlined in note 12.

Australian Unity Limited
Consolidated balance sheet
As at 31 December 2017

	Notes	31 December 2017 $'000	30 June 2017 $'000
ASSETS			
Current assets			
Cash and cash equivalents	6	**945,976**	893,725
Trade and other receivables		**118,230**	172,944
Current tax assets		**-**	1,222
Loans and advances	7	**15,622**	31,772
Financial assets at fair value through profit or loss	8	**1,747,890**	1,676,290
Other financial assets at amortised cost		**64,346**	88,735
Other current assets		**31,035**	34,374
Total current assets		**2,923,099**	2,899,062
Non-current assets			
Loans and advances	7	**656,376**	689,396
Financial assets at fair value through profit or loss	8	**30,396**	30,307
Investments in associates and joint ventures		**21,814**	21,986
Investment properties	11	**1,126,398**	976,799
Property, plant and equipment		**205,499**	184,555
Intangible assets		**359,147**	372,618
Other non-current assets		**9,893**	11,014
Total non-current assets		**2,409,523**	2,286,675
Total assets		**5,332,622**	5,185,737
LIABILITIES			
Current liabilities			
Trade and other payables		**117,696**	140,153
Borrowings	9	**716,509**	774,605
Current tax liabilities		**13,634**	-
Provisions		**123,473**	142,413
Other current liabilities		**1,126,191**	1,007,056
Benefit fund policy liabilities		**430,878**	353,014
Total current liabilities		**2,528,381**	2,417,241
Non-current liabilities			
Borrowings	9	**334,859**	314,266
Deferred tax liabilities		**66,762**	59,382
Provisions		**4,555**	7,191
Other non-current liabilities		**2,450**	3,232
Benefit fund policy liabilities		**1,700,576**	1,763,450
Total non-current liabilities		**2,109,202**	2,147,521
Total liabilities		**4,637,583**	4,564,762
Net assets		**695,039**	620,975
EQUITY			
Members' balances		**255,919**	255,919
Reserves		**5,099**	4,369
Retained earnings		**434,021**	360,687
Equity attributable to members of Australian Unity Limited		**695,039**	620,975
Total equity		**695,039**	620,975

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

	Members' balances $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2016	255,919	3,382	320,222	579,523
Adjustment on adoption of AASB 9, net of tax	-	(2,043)	(6,382)	(8,425)
Profit for the half-year	-	-	16,565	16,565
Other comprehensive income				
- Cash flow hedges	-	872	-	872
- Post-employment benefits	-	3,079	-	3,079
Total comprehensive income	-	1,908	10,183	12,091
Balance at 31 December 2016	255,919	5,290	330,405	591,614
Balance at 1 July 2017	**255,919**	**4,369**	**360,687**	**620,975**
Profit for the half-year	-	-	**73,334**	**73,334**
Other comprehensive income				
- Cash flow hedges	-	**304**	-	**304**
- Post-employment benefits	-	**426**	-	**426**
Total comprehensive income	-	**730**	**73,334**	**74,064**
Balance at 31 December 2017	**255,919**	**5,099**	**434,021**	**695,039**

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

	Notes	Half-year 2017 $'000	2016 $'000
Cash flows from operating activities			
Receipts from customers		**1,273,430**	971,664
Payments to suppliers and employees		**(780,765)**	(675,616)
Health insurance claims and benefits paid		**(329,085)**	(338,167)
Net receipts/(payments) of loans asset		**32,681**	(7,146)
Net receipts/(payments) of deposits liability		**(41,111)**	15,166
Interest received		**19,703**	20,353
Dividends and distributions received		**4,618**	3,830
Interest and finance charges paid		**(16,096)**	(17,942)
Income tax payments		**(1,972)**	(10,286)
Net cash inflow/(outflow) from operating activities		**161,403**	(38,144)
Cash flows from investing activities			
Payments for business combination, net of cash receipt		**-**	(1,752)
Payments for investments		**(558,434)**	(439,873)
Payments for investment properties		**(41,016)**	(35,977)
Payments for property, plant and equipment		**(19,767)**	(8,740)
Payments for intangible assets		**(926)**	(12,789)
Payments for investments in associates and joint ventures		**(750)**	(5,814)
Receipts from investments		**371,744**	531,900
Receipts from loans to related entities		**-**	14,400
Dividends received from joint ventures		**150**	104
Proceeds from sale of a subsidiary, net of cash held by the subsidiary	13	**82,471**	-
Net cash inflow/(outflow) from investing activities		**(166,528)**	41,459
Cash flows from financing activities			
Receipts from borrowings		**3,986**	-
Payments of borrowings		**(7,555)**	(10,659)
Receipts from refundable lease deposits and resident liabilities		**60,945**	41,797
Net cash inflow from financing activities		**57,376**	31,138
Net increase in cash and cash equivalents		**52,251**	34,453
Cash and cash equivalents at the beginning of the half-year		**893,725**	916,728
Cash and cash equivalents at the end of the half-year	6	**945,976**	951,181
Cash flows from discontinued operation	13	**83,800**	6,414

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

Notes to the consolidated financial statements

Basis of preparation of half-year report

The interim financial report for the half-year reporting period ended 31 December 2017 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by Australian Unity Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

1 Accounting policies

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

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period. Where applicable, the Group has also adopted new and amended accounting standards which have become mandatory for the interim reporting period since its previous financial year as set out below. The application of these standards has no impact to the amounts reported in the Group's financial statements.

AASB	Title
AASB 2016-1	Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112]
AASB 2016-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107
AASB 2017-2	Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle

(b) Discontinued operation

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations. The results of discontinued operations are presented separately in the statement of comprehensive income.

(c) Comparative information

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

How numbers are calculated

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

2 Segment information

(a) Description of segments

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

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

Health Insurance	Provision of private health insurance and management of the customer service centre.
Healthcare Services	Provision of dental and other healthcare services, including preventative health and chronic disease management services.
Independent & Assisted Living	Provision of retirement communities, aged care facilities, and home care and disability services.
Personal Financial Services	Provision of financial planning, finance and general broking services, estate planning and trustee services.
Wealth	Management of investment funds in property, mortgages, Australian equities, international equities, fixed interest and bonds. Operation of Approved Deposit-taking Institution.
Corporate Functions	Provision of shared services, fraternal activities and management of properties and other strategic investments and group liquidity.

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

During the half year period, the Group commenced a number of organisational changes as part of a transformation program which aims to capitalise on the significant growth opportunities that exist in the Group's area of operations in health, wealth and living. As at 31 December 2017 these changes were in transition and, accordingly, the segment information for the half year to 31 December 2017 is presented based on the above operating structure which is consistent with prior periods.

2 Segment information (continued)

(b) Segment information

The segment information provided to the Group Executive Committee for the reportable segments for the half-year ended 31 December 2017 is as follows:

Half-year ended 31 December 2017	Health Insurance $'000	Healthcare Services $'000	Independent & Assisted Living $'000	Personal Financial Services $'000	Wealth $'000	Corporate Functions and Eliminations $'000	Total $'000
Continuing operations							
Total segment revenue	345,420	17,647	192,679	32,212	67,933	(10,906)	644,985
Inter-segment revenue	-	(4,119)	(1,388)	-	-	5,507	-
Revenue from external customers	345,420	13,528	191,291	32,212	67,933	(5,399)	644,985
Adjusted EBITDA from continuing operations	35,641	1,676	(2,052)	(358)	15,494	(35,574)	14,827
Depreciation and amortisation							(17,031)
Interest expense							(10,194)
Investment income							7,534
Income tax benefit							13,383
Profit from continuing operations							8,519
Share of loss after tax from joint ventures (included in adjusted EBITDA)							(272)
Total segment assets include:							
Income producing assets	283,775	626	67,172	10,368	823,245	192,545	1,377,731
Working capital assets	52,360	3,197	36,890	8,212	18,954	17,073	136,686
Non-interest bearing assets	4,969	8,974	540,235	58,724	75,413	91,258	779,573
Total segment assets	341,104	12,797	644,297	77,304	917,612	300,876	2,293,990
Total segment liabilities include:							
Borrowings and net inter-segment lending	20,000	-	146,983	-	720,719	167,243	1,054,945
Working capital liabilities	157,389	3,064	105,559	6,334	35,950	72,208	380,504
Non-interest bearing liabilities	13,676	560	101,758	10,274	15,018	22,216	163,502
Total segment liabilities	191,065	3,624	354,300	16,608	771,687	261,667	1,598,951

2 Segment information (continued)

(b) Segment information (continued)

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

Half-year ended 31 December 2016	**Health Insurance** $'000	**Healthcare Services** $'000	**Independent & Assisted Living** $'000	**Personal Financial Services** $'000	**Wealth** $'000	**Corporate Functions and Eliminations** $'000	**Total** $'000
Continuing operations							
Total segment revenue	343,228	17,284	197,675	32,229	60,176	(8,921)	641,671
Inter-segment revenue	-	(4,579)	(1,288)	-	-	5,867	-
Revenue from external customers	343,228	12,705	196,387	32,229	60,176	(3,054)	641,671
Adjusted EBITDA from continuing operations	32,075	2,264	2,951	934	8,732	(15,832)	31,124
Depreciation and amortisation							(14,403)
Interest expense							(13,106)
Investment income							2,799
Income tax benefit							6,361
Profit from continuing operations							12,775
Share of loss after tax from joint ventures (included in adjusted EBITDA)							(1,084)
As at 30 June 2017							
Total segment assets include:							
Income producing assets	318,421	762	15,440	11,544	878,335	21,760	1,246,262
Working capital assets	57,389	4,720	42,945	7,561	19,524	28,717	160,856
Non-interest bearing assets	6,772	9,275	539,232	60,487	75,529	101,023	792,318
Discontinued operation	120,732	-	-	-	-	(2,419)	118,313
Total segment assets	503,314	14,757	597,617	79,592	973,388	149,081	2,317,749
Total segment liabilities include:							
Borrowings and net inter-segment lending	20,000	-	191,775	800	761,998	119,005	1,093,578
Working capital liabilities	210,020	3,376	63,229	7,476	52,095	46,027	382,223
Non-interest bearing liabilities	14,174	585	98,030	10,572	14,224	22,641	160,226
Discontinued operation	60,747	-	-	-	-	-	60,747
Total segment liabilities	304,941	3,961	353,034	18,848	828,317	187,673	1,696,774

(c) Other segment information

Management monthly reports exclude information relating to the benefit funds that are managed by the Group, as the revenues, expenses, assets and liabilities of benefit funds are not attributable to the members of the Group. In accordance with AASB 10 *Consolidated Financial Statements* the revenues, expenses, assets and liabilities of benefit funds managed by the Group are included in the consolidated financial statements.

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

Adjusted EBITDA

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

2 Segment information (continued)

(c) Other segment information (continued)

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

	Half-year 2017 $'000	Half-year 2016 $'000
Adjusted EBITDA from continuing operations	**14,827**	31,124
Depreciation and amortisation expense:		
Depreciation and amortisation expense (note 4)	**(16,595)**	(14,215)
Merger and acquisition expenses	**(5)**	(58)
Other	**(431)**	(130)
	(17,031)	(14,403)
Interest expense		
Finance costs (note 4)	**(10,185)**	(10,190)
Accommodation bond interest reclassification	**-**	(2,886)
Other	**(9)**	(30)
	(10,194)	(13,106)
Investment income:		
Dividends and distributions (note 3)	**4,618**	3,101
Investment income (note 3)	**2,915**	5,788
Impairment of joint venture investments (note 4)	**-**	(6,091)
Other	**1**	1
	7,534	2,799
Profit/(loss) before income tax attributable to members of Australian Unity Limited (note 12)	**(4,864)**	6,414
Profit/(loss) before income tax of benefit funds (note 12)	**13,535**	(851)
Profit before income tax from continuing operations	**8,671**	5,563

3 Revenue and other income

The following are revenue and other income from continuing operations:

	Half-year 2017 $'000	Half-year 2016 $'000
Commission income	**30,110**	32,082
Healthcare services revenue	**13,566**	12,370
Dividends and distributions	**4,618**	3,101
Fair value gains on investment property	**7,500**	6,435
Health insurance net premium revenue	**345,420**	343,228
Interest income of building society	**16,245**	17,163
Investment income	**2,915**	5,788
Management fees revenue	**44,552**	37,915
Rental income	**917**	1,173
Independent & assisted living fees, subsidies and development activities income	**179,102**	181,918
Revenue of benefit funds	**95,955**	154,131
Other income	**9,705**	9,941
	750,605	805,245

4 Expenses

	Half-year 2017 $'000	Half-year 2016 $'000
Expenses, excluding finance costs, from continuing operations classified by nature are as follows:		
Bank charges	**1,652**	1,622
Commission expense	**29,482**	29,516
Communication costs	**4,441**	4,027
Computer and equipment costs	**12,752**	5,782
Depreciation and amortisation expense	**16,595**	14,215
Employee benefits expense	**238,693**	219,166
Expenses in relation to benefit funds	**82,420**	154,982
Financial and insurance costs	**5,716**	2,910
Fund manager and administration fees	**10,356**	10,249
Health insurance claims expense	**302,891**	305,663
Health insurance claims recoveries - Net Risk Equalisation Special Account	**(31,442)**	(31,168)
Impairment of joint venture investments	**-**	6,091
Interest expense of building society	**6,373**	8,160
Legal and professional fees	**15,111**	15,569
Marketing expenses	**6,419**	6,429
Occupancy costs	**11,930**	12,723
Other direct expenses	**3,861**	3,291
Other expenses	**14,227**	19,181
	731,477	788,408
Depreciation and amortisation		
Depreciation of property, plant and equipment	**5,857**	4,937
Amortisation of intangible assets	**10,738**	9,278
	16,595	14,215
Finance costs		
Interest and finance charges	**10,210**	10,340
Amount capitalised	**(25)**	(150)
Finance costs expensed	**10,185**	10,190

5 Income tax

(a) Income tax expense/(benefit)

	Half-year 2017 $'000	Half-year 2016 $'000
Current tax	**17,993**	(7,667)
Current tax - benefit funds	**16,601**	11,341
Deferred tax	**10,094**	10,926
Deferred tax - benefit funds	**(1,751)**	(11,739)
Adjustments for current tax of prior periods	**(17,648)**	(8,134)
Adjustments for current tax of prior periods - benefit funds	**(1,315)**	(453)
	23,974	(5,726)

5 Income tax (continued)

(a) Income tax expense/(benefit) (continued)

	Half-year	
	2017	2016
	$'000	$'000
Deferred income tax expense/(benefit) included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	**(2,519)**	404
Increase/(decrease) in deferred tax liabilities	**10,862**	(1,217)
	8,343	(813)
Income tax expense/(benefit) is attributable to:		
Profit from continuing operations	**152**	(7,212)
Profit from discontinued operation	**23,822**	1,486
	23,974	(5,726)

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

	Half-year	
	2017	2016
	$'000	$'000
Profit from continuing operations before income tax	**8,671**	5,563
Less: profit/(loss) in benefit funds	**(13,535)**	851
	(4,864)	6,414
Profit from discontinued operation before income tax	**88,637**	5,276
Profit before income tax for the period	**83,773**	11,690
Tax at the Australian tax rate of 30% (2017: 30%)	**25,132**	3,507
Non-assessable income	**(3,682)**	(1,316)
Non-deductible expenditure	**1,075**	1,223
Other deductible expenditure	**(3,739)**	(3,219)
Over provision in prior years	**(8,299)**	(5,070)
Tax credits	**(48)**	-
Tax in benefit funds	**13,535**	(851)
Income tax expense/(benefit)	**23,974**	(5,726)

The income tax results for the six months to 31 December 2017 and comparative period included favourable non-temporary differences arising from the Group's retirement community loans received from village residents which is non-assessable for tax purposes.

Financial assets and liabilities

6 Financial assets - Cash and cash equivalents

	31 December 2017 $'000	30 June 2017 $'000
Cash at bank and on hand	**82**	77
Bank balances	**20,798**	47,515
Deposits at call	**925,096**	846,133
	945,976	893,725

(a) Deposits at call

Deposits at call include $725,156,000 (2017: $603,000,000) held in the Australian Unity Wholesale Cash Fund.

(b) Parent Entity's accounts

The balance of cash and cash equivalents as at 31 December 2017 included the Parent Entity's accounts totalling $193,025,000 (2017: $22,262,000).

7 Financial assets - Loans and advances

	31 December 2017 $'000	30 June 2017 $'000
Current		
Mortgage loans	**16,263**	16,177
Personal loans	**6,377**	6,288
Loans to related entities	**-**	16,452
Provision for impairment	**(7,018)**	(7,145)
Total - current	**15,622**	31,772
Non-current		
Mortgage loans	**652,089**	683,668
Personal loans	**3,363**	3,851
Provision for impairment	**(5,386)**	(4,470)
Advances	**6,310**	6,347
Total - non-current	**656,376**	689,396
Total loans and advances	**671,998**	721,168

(a) Mortgage loans

The mortgage loans are receivable by a controlled entity and by benefit funds managed by a controlled entity and are secured on real property. These loans mature at various dates up to 15 December 2047 and earn interest at annual interest rates between 3.72% and 6.51% (2017: between 3.73% and 6.51%).

(b) Personal loans

The personal loans mature at various dates up to 27 November 2024 and earn interest at annual rates between 4.57% and 14.73% (2017: between 6.00% and 14.18%).

7 Financial assets - Loans and advances (continued)

(c) Provision for impairment

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

(d) Loans to related entities

The loans to related entities amounting to $16,452,000 as at 30 June 2017 were secured loans for the purpose of the development of retirement villages under joint development arrangements. As the development had been completed and the retirement villages are occupied, these loans were settled during the half year period.

(e) Past due but not impaired

At 31 December 2017, the current portion of loans and advances that were past due but not impaired amounted to $295,000 (30 June 2017: $336,000), while the non-current portion amounted to $10,058,000 (30 June 2017: $10,267,000). These relate to a number of borrowers from whom there is no recent history of default.

(f) Fair value

The fair value of current and non-current loans and advances are provided in note 10.

8 Financial assets at fair value through profit or loss

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

	31 December 2017 $'000	30 June 2017 $'000
Securities held by benefit funds	**1,640,785**	1,546,964
Securities held in funds managed by subsidiaries and related entities	**137,501**	159,633
	1,778,286	1,706,597

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

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

	31 December 2017 $'000	30 June 2017 $'000
Equity trusts	**1,142,854**	1,060,816
Fixed interest and other debt security trusts	**421,741**	410,559
Mortgage trusts	**11,805**	12,522
Property syndicates and trusts	**64,385**	63,067
	1,640,785	1,546,964

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

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

	31 December 2017 $'000	30 June 2017 $'000
Equity trusts	**27,222**	40,271
Fixed interest and other debt security trusts	**85,018**	84,383
Mortgage trusts	**3,277**	5,512
Property syndicates and trusts	**21,984**	29,467
	137,501	159,633

(c) Current and non-current split

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

	31 December 2017 $'000	30 June 2017 $'000
Current	**1,747,890**	1,676,290
Non-current	**30,396**	30,307
	1,778,286	1,706,597

9 Financial liabilities - Borrowings

	31 December 2017 $'000	30 June 2017 $'000
Current		
Secured interest bearing liabilities		
Mortgage offset savings accounts	**84,936**	83,565
Retirement Village Investment Notes	**9,449**	27,830
	94,385	111,395
Secured non-interest bearing liabilities		
Retirement Village Investment Notes	**460**	-
Unsecured interest bearing liabilities		
Call deposits	**381,403**	356,734
Term deposits	**235,130**	301,364
Development finance loans	**31**	12
Loan payable to related entity	**5,100**	5,100
	621,664	663,210
Total current borrowings	**716,509**	774,605

9 Financial liabilities - Borrowings (continued)

	31 December 2017 $'000	30 June 2017 $'000
Non-current		
Secured interest bearing liabilities		
Retirement Village Investment Notes	**41,704**	23,766
Unsecured interest bearing liabilities		
Australian Unity Bonds - face value	**250,000**	250,000
Valuation at amortised cost	**(4,046)**	(4,711)
Australian Unity Bonds - at amortised cost	**245,954**	245,289
Subordinated capital notes	**30,000**	30,000
Term deposits	**13,767**	14,684
Development finance loans	**3,434**	527
Total unsecured non-current borrowings	**293,155**	290,500
Total non-current borrowings	**334,859**	314,266
Total borrowings	**1,051,368**	1,088,871

(a) Australian Unity Bonds

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

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

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

Under the terms of the bonds, Australian Unity Limited is required to maintain a Covenant Gearing Ratio of less than 50% as at 30 June and 31 December each year. The Covenant Gearing Ratio represents the aggregate of interest bearing liabilities and guarantees divided by the aggregate of interest bearing liabilities and guarantees plus total equity. The ratio is calculated based on the financial position of the Group, excluding the Group's authorised deposit-taking institution and benefit funds. Interest bearing liabilities and guarantees are further reduced by cash and cash equivalents of the Company. Junior Ranking Obligations, if any, also reduce interest bearing liabilities and guarantees but increase total equity in the calculation. Junior Ranking Obligations represent equity or subordinated debt of the Company which would, in a winding up situation, rank behind the Company's obligations under the Australian Unity Bonds. As at 31 December 2017, the Australian Unity Bonds Covenant Gearing Ratio was 25.4% (30 June 2017: 39.9%).

Since the issue of the bonds, the Company has not issued any debt securities which are subject to the negative pledge clauses of the terms of the bonds.

(b) Development finance loans

The 2017 balance of development finance loans represented bank loan facilities for the development of a retirement village in Mornington, Victoria (Peninsula Grange) and loan facilities for the development of the Herston Quarter health precinct in Brisbane, Queensland.

9 Financial liabilities - Borrowings (continued)

(c) Retirement Village Investment Notes (RVIN)

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

Australian Unity Retirement Village Trust #1 (AURVT#1) comprises three retirement villages - Willandra Village and Willandra Bungalows in New South Wales and Walmsley Friendship Village in Victoria, whilst Australian Unity Retirement Village Trust #2 (AURVT#2) comprises three other villages - Constitution Hill, Karagi Court and Kiah Lodge, all located in New South Wales. All of these villages are managed by 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 Australian Unity Retirement Living Services Limited (the parent entity of Independent & Assisted Living business).

During the half year period the Group extended the term of the RVIN totalling to $19,961,000 for periods up to three years with an option for the Group to repurchase the notes and make an early repayment in full before the maturity date. The extended RVIN bear lower interest rates.

The balance of RVIN as at 31 December 2017 amounted to $51,153,000 of interest bearing liabilities and $460,000 non-interest bearing liabilities (30 June 2017: $51,596,000 interest bearing liabilities).

10 Fair value measurements

(a) Recognised fair value measurements

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

- Financial assets at fair value through profit or loss
- Derivative financial instruments
- Investment properties
- Life investment contract policy liabilities

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2017.

(i) Fair value hierarchy

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements according to the following hierarchy:

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

10 Fair value measurements (continued)

(a) Recognised fair value measurements (continued)

(i) Fair value hierarchy (continued)

The following table presents the Group's financial assets and liabilities measured and recognised at fair value at 31 December 2017 and 30 June 2017 on a recurring basis:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2017				
Recurring fair value measurement				
Financial assets				
Financial assets at fair value through profit or loss				
Equity trusts	**2,522**	**1,167,554**	**-**	**1,170,076**
Fixed interest and other debt security trusts	**-**	**506,759**	**-**	**506,759**
Mortgage trusts	**-**	**15,082**	**-**	**15,082**
Property syndicates and trusts	**14,192**	**72,177**	**-**	**86,369**
Other financial assets	**-**	**-**	**7,059**	**7,059**
Total financial assets	**16,714**	**1,761,572**	**7,059**	**1,785,345**
Non-financial assets				
Investment properties	**-**	**-**	**1,126,398**	**1,126,398**
Total non-financial assets	**-**	**-**	**1,126,398**	**1,126,398**
Financial liabilities				
Interest rate swaps	**-**	**1,142**	**-**	**1,142**
Life investment contract policy liabilities	**-**	**1,113,428**	**-**	**1,113,428**
Total financial liabilities	**-**	**1,114,570**	**-**	**1,114,570**

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2017				
Recurring fair value measurement				
Financial assets				
Financial assets at fair value through profit or loss				
Equity trusts	2,712	1,098,375	-	1,101,087
Fixed interest and other debt security trusts	-	494,942	-	494,942
Mortgage trusts	-	18,034	-	18,034
Property syndicates and trusts	12,911	79,623	-	92,534
Other financial assets	-	-	7,048	7,048
Total financial assets	15,623	1,690,974	7,048	1,713,645
Non-financial assets				
Investment properties	-	-	976,799	976,799
Total non-financial assets	-	-	976,799	976,799
Financial liabilities				
Interest rate swaps	-	1,577	-	1,577
Life investment contract policy liabilities	-	1,071,464	-	1,071,464
Total financial liabilities	-	1,073,041	-	1,073,041

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

10 Fair value measurements (continued)

(a) Recognised fair value measurements (continued)

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. There were no transfers between levels 1, 2 and 3 for the recurring fair value measurements during the financial period.

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

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

Specific valuation techniques used to value financial instruments include:

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

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

Investment properties
Investment properties comprise the Group's interests in retirement village independent living units, development sites and other non-owner occupied investment properties.

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

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

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

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

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

10 Fair value measurements (continued)

(a) Recognised fair value measurements (continued)

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

The following table presents the changes in level 3 assets for the half-year ended 31 December 2017:

	Other financial assets $'000	Investment properties $'000	Total $'000
Opening balance 1 July 2017	7,048	976,799	983,847
Additions	-	149,706	149,706
Disposals	-	(507)	(507)
Transfers	-	(7,100)	(7,100)
Gains recognised in other income*	11	7,500	7,511
Closing balance 31 December 2017	7,059	1,126,398	1,133,457
*Included in the gains recognised in other income:			
Unrealised gains recognised in the profit or loss attributable to assets held at the end of the financial period	11	7,500	7,511

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

Description	Fair value at 31 December 2017 $'000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Investment properties	1,126,398	Discount rate	10.0% - 14.0%	Increase/decrease in discount rate by +/- 50 basis points changes the fair value by -$10.5 million/+$12.9 million (2017: -$10.3 million/+$12.6 million).
		Property growth rate	0.0% - 4.0%	Increase/decrease in property growth rate by +/- 50 basis points changes the fair value by +$19.2 million/ -$18.3 million (2017: +$19.0 million/ -$17.2 million).
		Average length of residents' stay	4-8 years for serviced apartments, 9-14 years for other independent living units	The higher the average length of stay, the lower the fair value.

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

10 Fair value measurements (continued)

(b) Disclosed fair values

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

	31 December 2017		30 June 2017	
	Amortised cost $'000	**Fair value $'000**	Amortised cost $'000	Fair value $'000
Current and non-current assets				
Mortgage loans	**668,352**	**668,805**	699,845	700,279
Advances	**6,310**	**5,915**	6,347	5,880
	674,662	**674,720**	706,192	706,159
Current and non-current liabilities				
Australian Unity Bonds	**245,954**	**260,750**	245,289	261,750
Development finance loans	**3,465**	**3,569**	539	549
Retirement Village Investment Notes	**51,613**	**52,079**	51,596	52,019
Subordinated capital notes	**30,000**	**29,688**	30,000	29,462
Term deposits	**248,897**	**248,637**	316,048	315,801
	579,929	**594,723**	643,472	659,581

The fair values of loans, advances and borrowings disclosed above are estimated by discounting the future contractual cash flows at the current applicable market interest rate.

Non-financial assets

11 Non-financial assets - Investment properties

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

	31 December 2017 $'000	30 June 2017 $'000
Retirement village independent living units	**763,080**	637,372
Retirement village property funds	**81,176**	79,498
Development sites	**282,142**	259,929
	1,126,398	976,799

11 Non-financial assets - Investment properties (continued)

(a) Movements of investment properties

	31 December 2017 $'000	30 June 2017 $'000
At fair value		
Balance at the beginning of the financial period	976,799	820,885
Additions	149,706	157,098
Transfer of development rights	-	(4,614)
Transfers to property, plant and equipment	(7,100)	(13,500)
Disposals	(507)	-
Net fair value movements	7,500	16,930
Balance at the end of the financial period	1,126,398	976,799

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

	Half-year 2017 $'000	Half-year 2016 $'000
Revenue	31,370	25,282
Expenses	(14,902)	(17,224)
Changes in fair value recognised in profit or loss	7,500	6,435
	23,968	14,493

Group structure

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

12 Reconciliation of profit attributable to members of Australian Unity Limited

	Half-year ended 31 December 2017		
	Attributable to members of Australian Unity Limited $'000	Attributable to benefit fund policyholders $'000	Consolidated Profit or Loss $'000
Continuing operations			
Revenue and other income	654,650	95,955	750,605
Expenses, excluding finance costs	(649,057)	(82,420)	(731,477)
Finance costs	(10,185)	-	(10,185)
Share of net losses of associates and joint ventures	(272)	-	(272)
Profit/(loss) before income tax	(4,864)	13,535	8,671
Income tax benefit/(expense)	13,383	(13,535)	(152)
Profit from continuing operations	8,519	-	8,519
Profit from discontinued operation	64,815	-	64,815
Profit after income tax for the half-year	73,334	-	73,334

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

	Half-year ended 31 December 2016		
	Attributable to members of Australian Unity Limited $'000	Attributable to benefit fund policyholders $'000	Consolidated Profit or Loss $'000
Continuing operations			
Revenue and other income	651,114	154,131	805,245
Expenses, excluding finance costs	(633,426)	(154,982)	(788,408)
Finance costs	(10,190)	-	(10,190)
Share of net losses of associates and joint ventures	(1,084)	-	(1,084)
Profit/(loss) before income tax	6,414	(851)	5,563
Income tax benefit	6,361	851	7,212
Profit from continuing operations	12,775	-	12,775
Profit from discontinued operation	3,790	-	3,790
Profit after income tax for the half-year	16,565	-	16,565

13 Sale of Grand United Corporate Health Limited

(a) Description

On 31 October 2017, the Group sold all of its shares in Grand United Corporate Health Limited (GUCH), a wholly-owned subsidiary, for $155,587,000. The sale is reported in the current period as a discontinued operation. Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

(b) Financial performance and cash flow information

The financial performance and cash flow information presented are for the four months ended 31 October 2017 and the half year ended 31 December 2016.

	2017 (four months) $'000	2016 (six months) $'000
Net premium revenue	**54,862**	76,962
Net claims expense	**(43,274)**	(64,275)
Gross underwriting result	**11,588**	12,687
Other revenue	**1,169**	1,826
Management expenses	**(6,228)**	(10,159)
Net underwriting result	**6,529**	4,354
Investment income	**920**	1,194
Finance costs	**(249)**	(272)
Profit before income tax	**7,200**	5,276
Income tax expense	**(2,009)**	(1,486)
Profit after income tax of GUCH	**5,191**	3,790
Gain on sale of GUCH after income tax	**59,624**	-
Profit from discontinued operation	**64,815**	3,790

13 Sale of Grand United Corporate Health Limited (continued)

	2017 (four months) $'000	2016 (six months) $'000
Net cash inflow from operating activities	**7,618**	6,809
Net cash inflow/(outflow) from investing activities	**(1,789)**	1,605
Net cash inflow from the sale of GUCH	**82,471**	-
Net cash outflow from financing activities	**(4,500)**	(2,000)
Net increase in cash generated by GUCH	**83,800**	6,414

(c) Detail of the sale of GUCH

	$'000
Cash consideration	155,587
Carrying amount of net assets sold and incremental costs directly related to the sale	(74,150)
Gain on sale before income tax	81,437
Income tax expense	(21,813)
Gain on sale of GUCH after income tax	59,624

(d) Carrying amount of net assets disposed of

	31 October 2017 $'000
Assets	
Cash and cash equivalents	70,360
Trade and other receivables	14,401
Financial assets at fair value through profit or loss	27,755
Other assets	7,009
Total assets	119,525
Liabilities	
Trade and other payables	20,527
Outstanding claims provision	15,350
Other current liabilities	21,618
Total liabilities	57,495
Net assets	**62,030**

Unrecognised items

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

14 Commitments

Capital commitments

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

	31 December 2017 $'000	30 June 2017 $'000
Payable within one year:		
Investment property	**15,627**	8,268
Total capital commitments	**15,627**	8,268

15 Contingencies

Contingent liabilities

As at 31 December 2017, the Group had contingent liabilities in relation to future development activities of the Herston Quarter site in Brisbane, Queensland totalling to $86,878,000 (30 June 2017: $78,830,000). Partially offsetting this, the Group is the beneficiary to an insurance bond of $5,900,000 in relation to one of the contingent liabilities.

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

Guarantees

The Group has entered into bank guarantee arrangements totalling $68,427,000 as at 31 December 2017 (30 June 2017: $57,474,000) as part of its normal operations and under business transfer arrangements in order to secure the Group's performance under contracts. The bank guarantees only become payable upon the non-performance of the Group.

On 1 February 2018, $15 million of the bank guarantees which was provided in relation to the Home and Disability Services operation was terminated upon its expiry.

The Group had no other contingent assets or liabilities at 31 December 2017.

16 Events occurring after the reporting period

The board is not aware of any matter or circumstance arising since 31 December 2017 which has significantly affected or may significantly affect the financial status or results of the Group and which has not been separately disclosed in this report.

Other information

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

17 Related party transactions

(a) Transactions and balances with related parties

Transactions between the Group and related parties for the half-years ended 31 December 2017 and 2016 were as follows:

- Dividends received from joint ventures, $150,000 (2016: $104,310).
- Investment management fees charged by joint ventures, $411,742 (2016: $1,860,390).
- Commission, director fees and occupancy costs charged to joint ventures, $294,684 (2016: $1,065,000).
- Investment income from related entities, $2,975,205 (2016: $6,252,429).
- Net amount of development loans repaid by related entities, $16,452,391 (2016: $14,400,000).

Balances with related parties as at 31 December 2017 with comparative amounts as at 30 June 2017 were as follows:

- Trade and other receivables from related entities, $4,071,872 (30 June 2017: $4,071,521).
- Trade and other payables to related entities, $257,026 (30 June 2017: $698,863).
- Loans receivable from related entities, $nil (30 June 2017: $16,452,391).
- Loans payable to related entities, $8,533,518 (30 June 2017: $5,100,000).
- Wholesale cash fund and financial assets at fair values through profit or loss managed by related entities are disclosed in notes 6 and 8.

Remedy Healthcare Group Pty Ltd has partnered with Transport Accident Commission (TAC) to establish a new healthcare pathway for TAC's injured clients. Mr Paul Kirk, a Non-Executive Director of the Group, is also a director of TAC. For the half-year period ended 31 December 2017, the Group earned $106,989 (2016: $nil) from its transactions with TAC. An amount of $23,172 was receivable from TAC as at 31 December 2017 (30 June 2017: $21,064).

(b) Terms and conditions

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

In the directors' opinion:

(a) the financial statements and notes set out on pages 10 to 35 are in accordance with the *Corporations Act 2001*, including:

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

(ii) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and

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

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

Peter Promnitz
Chair

Rohan Mead
Group Managing Director & CEO

South Melbourne
28 February 2018

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Australian Unity Limited (the Company), which comprises the consolidated balance sheet as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Australian Unity Limited. The consolidated entity comprises the Company and the entities it controlled from time to time during the half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Australian Unity Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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Conclusion

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

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date;

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

PricewaterhouseCoopers

Peter van Dongen
Partner

Melbourne
28 February 2018