# Australian Unity Limited

ABN 23 087 648 888

# Interim financial report for the half-year ended 31 December 2018

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# Interim financial report - 31 December 2018


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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018 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 27 February 2019.

## 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 2018.

### 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

### Company secretaries

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

### Operating and financial review

In the half-year to 31 December 2018 Australian Unity continued to progress its strategy of developing a commercially sustainable portfolio of businesses that provide customer, member and community value.

The Group delivered a net profit after tax from continuing operations for the period of $13.3 million, which was a $4.8 million increase on the prior corresponding period. This result was in part achieved through benefits arising from the extensive business transformation program undertaken in the previous financial year and a review of the operating model for the Home and Disability Services business. The transformation program was designed to support the Group to continue its development as a provider of trusted goods and services aligned to rapidly changing community needs. The benefits of the transformation are expected to be fully realised over the period to 2020 and beyond.

Total revenue and other income from continuing operations decreased to $699.4 million (31 December 2017: $750.6 million). Overall revenue growth generated by the Group's operating businesses, up $14.9 million on the prior corresponding period, and solid investment returns were outweighed by a $69.0 million reduction in benefit fund revenue. Within the benefit funds, growth in premiums and other revenue of $17.4 million were more than offset by an $86.4 million reduction in investment returns.

Total expenses, excluding financing costs, from continuing operations also decreased to $689.1 million (31 December 2017: $731.5 million), with a $1.6 million increase in overall operating expenses offset by $44.0 million lower expenses in benefit funds compared to the prior corresponding period. The reduction in benefit fund expenses was mainly due to transfers to unallocated surplus reducing by $64.4 million over the prior comparative period, driven by the reduction in investment returns, while claims and other expenses increased by $20.4 million.

The outcome represents a sound improvement in the aggregate trading position, with operating earnings from continuing operations up 27.3 percent to $15.7 million (31 December 2017: $12.3 million).

The Group's operations are conducted through three business platforms: Independent & Assisted Living, Retail and Wealth & Capital Markets. Key aspects of the operating, financial and strategic performance of each platform during the half-year to 31 December 2018 are set out below.

In assessing the performance of its operating business segments, the Group uses a measure of adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (adjusted EBITDA). As the name indicates, this measure excludes the effects of tax, depreciation and amortisation, interest on external borrowings and investment income. It also excludes other material non-recurring expenditure. A reconciliation between adjusted EBITDA and profit before income tax from continuing operations is disclosed in note 3 to the consolidated financial statements.

### Independent & Assisted Living

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

During the period under review IAL decommissioned the Walmsley aged care facility in Kilsyth, Victoria in order to redevelop it. After 40 years of service, it was reaching the end of its useful life.

**Operating and financial review (continued)**

***Independent & Assisted Living (continued)***

*Financial performance - Independent & Assisted Living*

| | **Half-year to 31/12/18 $million** | Half-year to 31/12/17 $million | Variance |
|---|---|---|---|
| Total segment revenue | **221.5** | 208.9 | 6.0% |
| Operating expenses | **212.2** | 209.3 | 1.4% |
| Adjusted EBITDA | **9.3** | (0.4) | n/a |

The IAL platform recorded total segment revenue of $221.5 million for the half-year representing an increase of 6.0 percent compared to the prior corresponding period (31 December 2017: $208.9 million).

Home & Disability Services experienced an 8.4 percent increase in revenue to $147.5 million, Health Services increased 8.2 percent to $19.1 million, and Residential Communities decreased 6.0 percent to $48.6 million while Developments increased 78.8 percent to $6.3 million.

IAL's adjusted EBITDA of $9.3 million represents an increase of $9.7 million on the prior corresponding period. This increase reflects the continued focus on improving the sustainability of the Home & Disability Services business.

*Home & Disability Services*

The Home & Disability Services (HDS) business made further progress in embedding its operating model during the half-year with an 8.4 percent increase in revenue to $147.5 million (31 December 2017: $136.1 million) and an improvement in adjusted EBITDA of $9.9 million to ($4.2) million (31 December 2017: ($14.1) million).

During the period under review HDS completed the transition of state-funded disability clients to the National Disability Insurance Scheme (NDIS) enabling it to focus on growing Home Care Packages and supporting transitioning customers. The HDS business is working closely with the National Disability Insurance Agency (NDIA) to address the suitability and sustainabilty of its policy settings in some areas.

The safety and engagement of the Australian Unity workforce is a key priority. In the half-year to 31 December 2018, the HDS business continued to focus on process and system simplification, together with enhancing technology infrastructure to improve employee and customer experience. Investment in technical learning and development and care worker peer coaching during this period aimed to support quality and safety outcomes for staff and customers.

In order to more appropriately service the unique and culturally sensitive needs of Australia's indigenous communities, Indigenous Business Services was defined as a service area on 1 July 2018. The intention has been to establish a foundation of distinct capability for Aboriginal Home Care (AHC) within home care services and then build business development activities on this foundation.

In the half-year to 31 December 2018, total home care packages under management reached 3,400 representing an increase of 428 package clients, or 14.4 percent.

*Remedy Healthcare*

Remedy Healthcare is a leading national provider of highly targeted, evidence-based self-management and health programs integrated with home-based services.

Remedy continued its strong growth trajectory in the half-year under review, increasing revenue by 12.9 percent, driven predominantly by Allied Health Services. Remedy continued to increase collaboration with HDS after successfully transitioning into the IAL platform. Changes to its portfolio of work saw divestment of some low margin aged care contracts. This resulted in opportunities to realign some staff into community work to drive further growth in Allied Health Services and the further development of an Integrated Care Model across Residential Communities and HDS.

Remedy continued to expand and diversify its depression and anxiety program, MindStep®, adding a number of new supporters to its existing portfolio of life insurance and superannuation clients.

To support and enable continued growth and to support large scale across services, Remedy embarked on a program of digitisation of its health services.

**Operating and financial review (continued)**

***Independent & Assisted Living (continued)***

*Dental*

The dental business' newest clinics, Moonee Ponds and Hughesdale, continued to achieve growth in client numbers in the half-year under review. The Albert Road clinic saw a decline in patient volumes as it transitioned dentists and patients to other areas of the Australian Unity dental network in preparation for that clinic's move to Spring Street, Melbourne.

The business is currently embarking on a program of streamlining digital booking and operational systems in order to support improved scale efficiencies.

*Residential Communities*

IAL owns and operates 19 retirement communities in Victoria and New South Wales (NSW). The portfolio consists of 2,370 independent living units (30 June 2018: 2,370). Retirement community occupancy remained high, in excess of 96 percent in the six-month period to 31 December 2018.

IAL owns and operates five aged care facilities in Victoria and NSW. The portfolio consists of 590 aged care beds (30 June 2018: 711). The business decommissioned the aged care and community facilities at Walmsley in Kilsyth, Victoria, in October 2018 to build a new aged care facility that will better meet our customers' needs.

Occupancy levels at Australian Unity's aged care facilities remained high at 98 percent across the portfolio with Campbell Place in Glen Waverley, the most recently developed facility, at full occupancy.

*Development*

IAL continued to focus on its development pipeline of aged care and retirement communities. A number of development projects progressed in the half-year ending 31 December 2018 including Peninsula Grange in Mornington, Victoria, Sienna Grange in Port Macquarie, NSW, and The Grace Albert Park Lake, South Melbourne.

*Outlook*

IAL's potential market continues to grow with an ageing Australian population. IAL's priorities for the next half-year include further optimising its HDS operations to support customers effectively and with increased efficiency. The business will continue to refine the HDS branch operating model, focusing on leadership, service and safety culture while shaping an appropriate network (capability and capacity) to deliver and support expected growth.

As the Residential Communities market continues to grow, an ongoing challenge will be attracting the workforce required to deliver aged care services safely and at the high quality required. Our priorities remain in progressively implementing a comprehensive workforce strategy, supported by an effective learning and development framework. In addition to this, Residential Communities will continue to focus on mitigation strategies to address the potential flow on effect of the softening residential housing market.

Residential Communities, together with the Australian Unity Property business and with the ongoing support of investment partners, will continue to build Australian Unity's development pipeline of new and integrated communities, which are designed and operated according to IAL's 'Better Together' domestic household model.

Like all substantial residential aged care and home care providers, over the next year IAL will participate in the Royal Commission into Aged Care Quality and Safety. Other enquiries by the executive arm of government are also expected to commence - particularly in the areas of disability and mental health; with all enquiries having the potential to result in significant policy reform.

**Retail**

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

**Operating and financial review (continued)**

***Retail (continued)***

*Financial performance - Retail*

| | **Half-year to 31/12/18 $million** | Half-year to 31/12/17 $million | Variance |
|---|---|---|---|
| Total segment revenue | **361.5** | 365.0 | (1.0)% |
| Operating expenses | **321.1** | 326.7 | (1.7)% |
| Adjusted EBITDA | **40.4** | 38.3 | 5.6% |

The Retail business had a positive half-year amidst mixed operating conditions, with adjusted EBITDA up by $2.1 million or 5.6 percent to $40.4 million compared to the prior corresponding period. This result was driven principally by a steady underwriting experience in the health insurance business and continued net interest margin improvement in the banking business.

Total operating expenses were $321.1 million, which was $5.6 million or 1.7 percent lower than last year. This decrease reflects a $1.3 million decrease in health insurance claims net of risk equalisation, and a $4.3 million decrease in operating expenses across the Retail platform.

*Health insurance*

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

Health fund policyholders (including overseas visitor cover) decreased by 1.0 percent over the half-year to 191,874 at 31 December 2018. This reflects lower industry growth together with a considered strategy to review profitability of distribution channels.

During December 2018, the Minister for Health approved Australian Unity Health Limited's (AUHL) 2019 Premium Round submission with an average increase of 3.35 percent. This was only slightly above the sector average of 3.25 percent and the lowest average AUHL increase in 18 years. This increase is driven by the growing use of health cover by members; rises in medical procedure and supply prices; and increases in the variety of procedures available to policyholders. Additionally, AUHL's commitment to the mental health of its policyholders has seen psychiatric care accounting for a greater proportion of total benefits paid than the industry average (about 30 percent higher).

During the reporting period, the Federal Government finalised legislation for the largest reforms to the health insurance sector in more than a decade. The reforms aim to increase consumer understanding of, and ability to, make the best use of health insurance products. AUHL is well advanced in implementing the reforms, which required significant resources in the half-year as the majority of private health insurance products have been altered as a result. This is consistent with what is expected across the industry.

During the reporting period, the transfer and migration of the corporate health insurance business, GU Health, to nib was successfully completed.

*Banking*

During the half-year, Big Sky Building Society Limited was renamed Australian Unity Bank Limited. While Big Sky had been part of the Group since 2012, member and market feedback found that a banking business branded Australian Unity - an enduring and trusted brand - would be well received. There are also numerous cost and efficiency outcomes that arise from operating under the single brand.

As at 31 December 2018, Australian Unity Bank had approximately 24,400 customers and its total assets grew by $57.7 million to $835.1 million (30 June 2018: $777.4 million) during the half-year under review.

Australian Unity Bank continues to focus on delivering quality products and services, with an emphasis on digital delivery. The take up of the New Payments Platform by banking customers during the half-year following its launch earlier in 2018 has been strong, endorsing the early adoption of this technology. To 31 December 2018, more than 150,000 transactions worth approximately $120.0 million had occurred via this consumer-oriented feature.

The banking business remains rated BBB/Stable from Standard & Poor's. It is also well advanced in preparations for the implementation of the Banking Executive Accountability Regime.

**Operating and financial review (continued)**

***Retail (continued)***

*Outlook*

The outlook for the Retail business is cautiously positive. It will be responsive to any reforms arising from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, and remains actively engaged with relevant industry bodies.

In private health insurance, affordability pressures and changing demography will remain key factors for the sector. The political environment and the desire of major political parties to lower premiums will require significant consideration and response. Australian Unity would welcome a Productivity Commission review of the private health sector particularly with a strong focus on the drivers of healthcare inflation.

In implementing the Government's health insurance reforms, which included new clinical categories, Australian Unity is seeking to minimise change that is detrimental to policyholders, and instead upgrade policies with additional features where practical. The business is also using this opportunity to simplify its product set. This should reduce complexity and provide operating cost benefits into the future.

With national issues such as trust and affordability concerning the community, Australian Unity believes there are several opportunities arising from the health insurance and banking adjacencies. The banking business' rebranding, expansion of its distribution footprint and strengthened general insurance offering are elements in Australian Unity's business development strategy. This includes packages of banking and insurance products; innovative solutions to tackling health and housing affordability; and customer-centred digital platforms that assist the co-ordination of essential financial and health insurance related services.

**Wealth & Capital Markets**

The Wealth & Capital Markets (W&CM) platform comprises business units encompassing advice, investments, life and superannuation, property and trustee services.

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

W&CM's expertise in property, particularly social infrastructure assets such as healthcare, retirement villages and aged care, combined with long experience in sourcing funds in equity and debt capital markets, means it is well placed to play a meaningful role in addressing Australia's social infrastructure challenge.

The platform has expertise in cash, fixed interest and Australian shares, market-leading investment bonds, funeral bond, and education savings plans. In addition, the business works with advisers and industry partners to provide professional advice and trustee services that support clients' financial wellbeing.

*Financial performance - Wealth & Capital Markets*

| | **Half-year to 31/12/18 $million** | Half-year to 31/12/17 $million | Variance |
|---|---|---|---|
| Total segment revenue | **88.4** | 80.5 | 9.8% |
| Operating expenses | **68.3** | 67.4 | 1.2% |
| Adjusted EBITDA | **20.1** | 13.1 | 54.0% |

The W&CM platform recorded a 9.8 percent increase in total segment revenue to $88.4 million for the half-year to 31 December 2018 (31 December 2017: $80.5 million). Adjusted EBITDA increased to $20.1 million representing a 54.0 percent increase compared to the previous half-year (31 December 2017: $13.1 million). This strong result in adjusted EBITDA was achieved though underlying business growth, net favourable outcomes in one-off items from social infrastructure related developments and legal settlements received in Life & Superannuation. The growth in operating earnings was positively impacted by both the ongoing work undertaken within the business designed to streamline operations and reduce capital usage, along with growth in the property and investment segments.

**Operating and financial review (continued)**

***Wealth & Capital Markets (continued)***

The W&CM business manages investments, property assets and developments (and associated debt facilities) and provides advice and trustee services on funds with an aggregate value of $20.2 billion as at 31 December 2018 (30 June 2018: $20.8 billion).

The W&CM investments team manages the portfolios of the Group of approximately $700.0 million, including its capital stable and highly liquid insurance reserves. The investments team achieved a weighted aggregate return of 2.7 percent for the year to 31 December 2018 on these portfolios, comparing favourably to the return available on risk-free cash (measured by the Bloomberg Ausbond Bank Bill Index) of 1.9 percent.

*Investments*

The Investments business continued to refine its focus on its core areas of cash, fixed interest, Australian equities and property securities together with further developing a socially responsible investment platform. During the half-year, Investments' joint venture partner Acorn Capital Limited launched the Acorn Capital Expansion platform, which will invest in emerging Australian companies.

Investments, including its joint venture partners, manages funds under management (FUM) of $5.5 billion as at 31 December 2018 (30 June 2018: $5.9 billion). During the half-year, the business experienced positive net flows from both retail and institutional markets. Investments has seen a growing client interest in its 'sustainable' investment capabilities, with strong flows received into the Altius Sustainable Bond Fund, and the conversion of the existing Enhanced Cash Fund to a Sustainable Enhanced Cash Fund to meet projected investor demand.

Returns on equities for the half-year ended 31 December 2018 were mostly lower than prior years. Platypus Asset Management continued to generate outperformance above the Australian share market with its flagship portfolio returning 1.7 percent for the year to 31 December 2018 compared to the benchmark return of -3.1 percent for the S&P ASX 300 Accumulation Index.

*Property*

During the half-year the Property business continued to extend its capabilities across the key sectors of commercial and healthcare property, social infrastructure and mortgages, with assets under management of $3.2 billion at 31 December 2018 (30 June 2018: $3.1 billion). Its multi-year pipeline of property development opportunities stands at $1.2 billion (June 2018: $1.2 billion), and debt facilities managed on behalf of investors (through property funds and its commercial property activities) of $1.5 billion (30 June 2018: $1.6 billion).

Key examples of the Group's involvement in social infrastructure include the landmark $1.1 billion Herston Quarter development in Brisbane. Construction of the $340.0 million Surgical, Treatment and Rehabilitation Service building by the Healthcare Property Trust continued during the half-year after commencing in May 2018, with completion expected in late 2020. Planning for the other stages of the integrated health precinct to deliver health services, aged care and supporting and complementary uses also continued.

Australian Unity's Healthcare Property Trust increased FUM to $1.6 billion (30 June 2018: $1.5 billion) and posted a return of 8.1 percent (wholesale units) for the year to 31 December 2018. In addition to the works at the Herston precinct during the half-year, development works commenced on the expansion of Peninsula Private Hospital with developments at Tuggerah Lakes Private Hospital and Port Macquarie progressing well.

The Retail Property Fund, Australian Unity's direct retail property asset fund, announced it is in commercial negotiations for the sale of its 50 percent interest in the Waurn Ponds shopping centre and for the year to 31 December 2018 it achieved a return for investors of 24.8 percent. Other funds in the property business returned strong performances over the year to 31 December 2018 with the Australian Unity Diversified Property Fund achieving a return of 14.6 percent, and the Property Income Fund achieving a return of 11.5 percent.

The ASX-listed Australian Unity Office Fund (AOF) achieved a return of 20.2 percent and outperformed the S&P/ASX 300 A-REIT Accumulation Index by 3.2 percentage points. During the half-year AOF announced that it had received an all cash offer from Starwood Capital Group (Starwood) to acquire all units in AOF. AOF subsequently advised that a revised and reduced offer was received from Starwood, with the offer being rejected.

Support for the Australian Unity Select Income Fund, a contributory mortgage fund, continued to grow, with the lending portfolio increasing to $165.3 million at 31 December 2018 (30 June 2018: $132.9 million).

*Life & Superannuation*

Australian Unity's Life & Superannuation business continues to be Australia's market leader in investment bonds and funeral bonds, and a leading provider of education investment funds, with $2.2 billion in assets under management and administration as at 31 December 2018 (30 June 2018: $2.2 billion). Gross sales remained strong at $117.1 million for the half-year.

**Operating and financial review (continued)**

***Wealth & Capital Markets (continued)***

Based on data from Strategic Insight Data as at 30 September 2018, Lifeplan remains number one in terms of FUM in the investment bond sector.

FUM for education solutions increased to $206.6 million (30 June 2018: $201.3 million).

With over $650.5 million in FUM (30 June 2018: $639.0 million) and 90,000 customers, Australian Unity also has a leading position in the pre-paid funeral market via its specialised business, Funeral Plan Management.

In early October 2018, following a seven-year legal dispute, the High Court of Australia handed down its decision in Ancient Order of Foresters in Victoria Friendly Society Limited (Foresters) v Lifeplan Australia Friendly Society Limited (Lifeplan), a wholly-owned subsidiary of Australian Unity Limited, with the court finding in favour of Lifeplan. The judgement amount determined by the court was on an "Account of Profits" basis and resulted in a favourable financial outcome to the Group.

*Trustee Services*

Significant work continues to further extend the range of Trustees' services nationally. The business also continued implementation of a new computer operating system designed to support and strengthen the capability and capacity of the business.

Estate planning, legal and taxation services revenues continued to grow during the period as the demand for these services, through Trustee Services' network of advisers, accountants and other centres of influence, continued to increase. As a result, the size of its national will bank and the number of executor appointments also continued to grow. However, total gross revenue was below the prior corresponding period due to lower than expected aggregate volumes in Deceased Estates and Protected Persons' appointments.

*Advice*

The Advice business is focused on helping clients improve their financial position and ultimately achieve their long-term lifestyle goals.

The backdrop of continual change in the regulatory regime, community expectations and increased complexity, strongly reinforces the growing need in the community for valued providers of quality advice and services. The Advice business seeks growth in this context as a differentiated provider, within a mutual organisation.

During the half-year a new management team was established, with a focus on positioning the business for growth, achieving increased operating scale and the delivery of longer term strategic priorities.

The number of advisers at 31 December 2018 was 173 (30 June 2018: 172). While adviser numbers were relatively flat for the half-year, the business has recently recruited new self-employed practices, with a strong recruitment pipeline in place.

*Outlook*

The W&CM platform continues to seek to deliver differentiated, higher value products and services, designed to improve the financial wellbeing of customers.

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

The Herston Quarter project continues to be a key focus of the platform as it embodies one element of Australian Unity's response to Australia's social infrastructure challenge. The development of other social infrastructure solutions is also being explored. The business' continued success in accessing debt and equity from a more diverse range of sources is key as it looks to originate further initiatives in social infrastructure and impact investing.

The W&CM platform is well positioned to benefit from the collective effects of rising and better-planned wealth accumulation, the challenges and opportunities presented by Australia's ageing population, and the constraints and constant changes in superannuation, community expectations and the likelihood of regulatory change across the financial services sector.

**Matters subsequent to the end of the half-year**

The board is not aware of any matter or circumstance arising since 31 December 2018 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
27 February 2019

# *Auditor's Independence Declaration*

As lead auditor for the review of Australian Unity Limited for the half-year ended 31 December 2018, 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
27 February 2019

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| | Notes | Half-year 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue and other income | 4 | **699,440** | 750,605 |
| Expenses, excluding finance costs | 5 | **(689,120)** | (731,477) |
| **Operating profit** | | **10,320** | 19,128 |
| Finance costs | 5 | **(9,000)** | (10,185) |
| Share of net profit/(loss) of joint ventures | | **165** | (272) |
| **Profit before income tax** | | **1,485** | 8,671 |
| Income tax benefit/(expense) | 6 | **11,799** | (152) |
| **Profit from continuing operations** | | **13,284** | 8,519 |
| **Discontinued operations** | | | |
| Profit from discontinued operation | | **-** | 64,815 |
| **Profit for the half-year** | | **13,284** | 73,334 |
| **Other comprehensive income** | | | |
| *Items that may be reclassified to profit or loss* | | | |
| Cash flow hedges | | **(847)** | 434 |
| Income tax relating to this item | | **280** | (130) |
| *Items that will not be reclassified to profit or loss* | | | |
| Remeasurements of post-employment benefit obligations | | **(163)** | 426 |
| **Other comprehensive income for the half-year, net of tax** | | **(730)** | 730 |
| **Total comprehensive income for the half-year** | | **12,554** | 74,064 |
| Profit for the half-year is attributable to: | | | |
| Members of Australian Unity Limited | 13 | **13,284** | 73,334 |
| Total comprehensive income for the half-year is attributable to: | | | |
| Members of Australian Unity Limited | | **12,554** | 74,064 |
| Total comprehensive income for the half-year attributable to members of Australian Unity Limited arises from: | | | |
| Continuing operations | | **12,554** | 9,249 |
| Discontinued operation | | **-** | 64,815 |
| | | **12,554** | 74,064 |

*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 13.*

| | Notes | 31 December 2018 $'000 | 30 June 2018 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 7 | **913,446** | 1,011,024 |
| Trade and other receivables | | **112,380** | 136,489 |
| Loans and advances | 8 | **13,165** | 11,929 |
| Financial assets at fair value through profit or loss | 9 | **1,770,100** | 1,784,580 |
| Other financial assets at amortised cost | | **48,876** | 61,744 |
| Other current assets | | **29,343** | 23,898 |
| Total current assets | | **2,887,310** | 3,029,664 |
| **Non-current assets** | | | |
| Loans and advances | 8 | **690,426** | 643,535 |
| Financial assets at fair value through profit or loss | 9 | **34,690** | 30,521 |
| Investments in associates and joint ventures | | **22,624** | 27,431 |
| Investment properties | 12 | **1,249,747** | 1,169,437 |
| Property, plant and equipment | | **233,298** | 217,280 |
| Intangible assets | | **315,065** | 329,004 |
| Other non-current assets | | **9,617** | 9,912 |
| Total non-current assets | | **2,555,467** | 2,427,120 |
| **Total assets** | | **5,442,777** | 5,456,784 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | **155,928** | 123,683 |
| Borrowings | 10 | **772,513** | 738,843 |
| Current tax liabilities | | **11,716** | 31,786 |
| Provisions | | **127,324** | 129,139 |
| Other current liabilities | | **1,228,555** | 1,204,001 |
| Benefit fund policy liabilities | | **353,886** | 320,395 |
| Total current liabilities | | **2,649,922** | 2,547,847 |
| **Non-current liabilities** | | | |
| Borrowings | 10 | **295,454** | 300,021 |
| Deferred tax liabilities | | **39,985** | 66,702 |
| Provisions | | **4,431** | 4,524 |
| Other non-current liabilities | | **3,414** | 2,164 |
| Benefit fund policy liabilities | | **1,767,971** | 1,861,969 |
| Total non-current liabilities | | **2,111,255** | 2,235,380 |
| **Total liabilities** | | **4,761,177** | 4,783,227 |
| **Net assets** | | **681,600** | 673,557 |
| **EQUITY** | | | |
| Members' balances | | **255,919** | 255,919 |
| Reserves | | **4,679** | 5,409 |
| Retained earnings | | **421,002** | 412,229 |
| Equity attributable to members of Australian Unity Limited | | **681,600** | 673,557 |
| **Total equity** | | **681,600** | 673,557 |

*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 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 |
| **Balance at 1 July 2018** | **255,919** | **5,409** | **412,229** | **673,557** |
| Adjustment on adoption of AASB 15, net of tax (note 2(a)) | **-** | **-** | **(4,511)** | **(4,511)** |
| Profit for the half-year | **-** | **-** | **13,284** | **13,284** |
| Other comprehensive income | | | | |
| - Cash flow hedges | **-** | **(567)** | **-** | **(567)** |
| - Post-employment benefits | **-** | **(163)** | **-** | **(163)** |
| **Total comprehensive income** | **-** | **(730)** | **8,773** | **8,043** |
| **Balance at 31 December 2018** | **255,919** | **4,679** | **421,002** | **681,600** |

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

| | Notes | Half-year 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of goods and services tax) | | **1,021,323** | 1,295,899 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | **(721,353)** | (803,234) |
| Health insurance claims and benefits paid | | **(271,118)** | (329,085) |
| Net receipts/(payments) of loans asset | | **(48,204)** | 32,681 |
| Net receipts/(payments) of deposits liability | | **56,858** | (41,111) |
| Interest received | | **19,828** | 19,703 |
| Dividends and distributions received | | **10,398** | 4,618 |
| Interest and finance charges paid | | **(14,355)** | (16,096) |
| Income tax payments | | **(29,013)** | (1,972) |
| **Net cash inflow from operating activities** | | **24,364** | 161,403 |
| **Cash flows from investing activities** | | | |
| Payments for investments | | **(404,706)** | (558,434) |
| Payments for investment properties | | **(68,793)** | (41,016) |
| Payments for property, plant and equipment | | **(13,910)** | (19,767) |
| Payments for intangible assets | | **(9,750)** | (926) |
| Payments for investments in associates and joint ventures | | **(2,850)** | (750) |
| Receipts from investments | | **367,392** | 371,744 |
| Proceeds from sale of a subsidiary, net of cash held by the subsidiary | | **-** | 82,471 |
| Receipts from returns of joint venture capital | | **7,284** | - |
| Dividends received from joint ventures | | **470** | 150 |
| **Net cash outflow from investing activities** | | **(124,863)** | (166,528) |
| **Cash flows from financing activities** | | | |
| Receipts from borrowings | | **2,861** | 3,986 |
| Payments of borrowings | | **(31,288)** | (7,555) |
| Receipts from refundable lease deposits and resident liabilities | | **31,348** | 60,945 |
| **Net cash inflow from financing activities** | | **2,921** | 57,376 |
| **Net increase/(decrease) in cash and cash equivalents** | | **(97,578)** | 52,251 |
| Cash and cash equivalents at the beginning of the half-year | | **1,011,024** | 893,725 |
| **Cash and cash equivalents at the end of the half-year** | 7 | **913,446** | 945,976 |
| **Cash flows from discontinued operation** | | **-** | 83,800 |

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

## Notes to the consolidated financial statements


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# Basis of preparation of half-year report

The interim financial report for the half-year reporting period ended 31 December 2018 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 2018 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. AASB 9 *Financial Instruments* has also become mandatory for the interim reporting period. The Group has early adopted AASB 9 since the 2017 financial year. The application of these standards has no impact to the amounts reported in the Group's financial statements.

| AASB | Title |
|---|---|
| AASB 15 | Revenue from contracts with customers |
| AASB 2014-5 | Amendments to Australian Accounting Standards arising from AASB 15 |
| AASB 2015-8 | Amendments to Australian Accounting Standards – Effective Date of AASB 15 |
| AASB 2016-3 | Amendments to Australian Accounting Standards – Clarifications to AASB 15 |
| AASB 2016-7 | Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities |
| AASB 2016-6 | Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts |
| AASB 2017-1 | Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments |
| AASB 2017-3 | Amendments to Australian Accounting Standards – Clarifications to AASB 4 |

### (b) Implementation of AASB 15 Revenue from Contracts with Customers

The Group has implemented AASB 15 from 1 July 2018 and the relevant accounting policies have been amended to comply with the new revenue recognition requirements. The amended accounting policies are described below, noting the changes applicable to revenue from contracts with customers and relevant accounts in section (iii).

**Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue/income can be reliably measured. As the Group operates diverse businesses, it applies a number of relevant accounting standards for the recognition of revenue: AASB 1023 *General Insurance Contracts*, AASB 9 *Financial Instruments*, AASB 15 *Revenue from Contracts with Customers*, AASB 117 *Leases*, AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*, and AASB 1038 *Life Insurance Contracts*. The following summarises specific recognition criteria in line with these standards:

(i) Health insurance premium revenue (AASB 1023)

Health insurance premium revenue is recognised in the profit or 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 or loss at the end of each reporting period is recognised in the balance sheet as unearned premium liability.

## 1 Accounting policies (continued)

### (b) Implementation of AASB 15 Revenue from Contracts with Customers (continued)

(ii) Government grants and subsidies (AASB 120)

Government grants and subsidies funding aged care and home care services are recognised as the services are provided.

(iii) Revenue from contracts with customers (AASB 15)

The Group's revenue governed by the requirements of AASB 15 is related to services provided under contracts with customers in the operation of retirement communities, aged care facilities, home care & disability services, health services, wealth assets management and administration, financial planning, estate planning, trustee services, and finance and general insurance broking services. The revenue recognition from these services is based on the delivery of performance obligations by the Group and an assessment of when the control is transferred to the customer. Revenue is recognised either at a point in time when the performance obligation in the contract has been completed by the Group or over time when the customer simultaneously receives the benefits from the services provided by the Group as the Group performs under the contract.

The transaction price is measured at contract inception, being the amount to which the Group expects to be entitled and to which it has rights under the contract. This includes an assessment of any variable consideration where the Group's performance may result in additional revenues based on certain achievements. Such amounts are only included based on the expected value or the most likely outcome, and only to the extent that it is highly probable that no revenue reversal will occur. The Group identifies the various performance obligations of the contract and allocates the transaction price to these performance obligations. The transaction price is adjusted for the time value of money where the period between the transfer of the promised services to the customers and payment made by the customers exceeds one year.

*Independent and assisted living services fees*
Independent and assisted living services fees are revenue generated from the provision of home and disability services and the management of retirement communities and aged care facilities. Revenue is recognised over time when the customer simultaneously receives the benefits from the services provided by the Group as the Group performs under the contract.

*Management and performance fees*
Management fees are earned from wealth management and trustee services provided over the life of the contracts and revenue is recognised periodically over time. Any associated performance fees are deemed to be a variable component of the management services that are constrained and recognised only if it is highly probable that the performance hurdles are met and reversal will not occur.

*Brokerage and commission income*
Brokerage and commission are earned from contracts with customers where the Group entities act as an agent to sell general and life insurance products. Commission is also earned from property sale services provided within trustee services and the operations of retirement villages. Revenue is recognised at a point in time when the transfer of the underlying asset has occurred.

*Healthcare services revenue*
Healthcare services revenue represents fees charged for dental, physiotherapy and other healthcare services provided to customers. Revenue is recognised after the delivery of services to the customers.

Assets and liabilities recognised from contracts with customers
As a result of the contracts with customers, the Group recognises Trade receivables and a number of contract assets and liabilities. Trade receivables are recognised when the Group has the right to consideration that is unconditional (no change in accounting policy). Contract assets are recognised when the Group has a conditional right to consideration for the services that have been provided to customers. Contract liabilities are recognised when the Group receives payments in advance for the services that will be provided to customers. The Group also capitalises incremental costs in obtaining contracts with customers.

*Accrued and deferred income*
Customer contracts generally include arrangements for payments dependent upon the nature and type of services being provided. Customer payments may be required at the inception of the contract (advance payment) or regular payments for ongoing service delivery or at the end of the contract (in arrears) or a combination of these with varied amounts. Accrued income is recognised as a contract asset for unbilled service revenue. Deferred income is recognised as a contract liability where a customer pays in advance or pays a deposit prior to the delivery of the contracted services. On the balance sheet, accrued income is presented as part of Trade and other receivables, while deferred income is presented as part of Trade and other payables.

## 1 Accounting policies (continued)

### (b) Implementation of AASB 15 Revenue from Contracts with Customers (continued)

*Capitalised costs to obtain a contract*
The incremental costs of obtaining a contract with a customer are capitalised as an asset to the extent to which the costs are expected to be recovered over a period of more than one year. The asset is amortised on a systematic basis that is consistent with the timing of recognition of the relevant revenue. The asset is subject to an impairment assessment through a review of the recoverability against the remaining future revenue, net of respective future expenses. The capitalised costs to obtain a contract are presented as part of Intangible assets on the balance sheet.

In determining the amount of capitalised costs to obtain a contract, management forms a number of key judgements and assumptions which include an assessment of the incremental costs, whether such costs should be expensed as incurred or capitalised, and the period of amortisation of the capitalised costs. These judgements may inherently be subjective, and cover future events such as the recoverability of the capitalised costs through future net income streams over a certain period.

*Deferred management fee*
Deferred management fee (DMF) is a contracted fee charged to a resident of a managed retirement village. The amount of DMF is linked either to the ingoing contribution the resident paid on entry to the retirement village or to the turnover value of a unit on exiting the village and is expressed as a percentage charge per annum over the period of occupancy. The number of years the DMF can be charged is usually capped to a specific period of time. DMF revenue is recognised at the time of unit turnover from one resident to another.

Practical expedients
The Group has elected to make use of the following practical expedients permitted under AASB 15:

- Completed contracts before the date of transition have not been reassessed;
- Information about remaining performance obligations for contracts with an original expected duration of one year or less is not disclosed;
- The amount of the transaction price allocated to the remaining performance obligations and an explanation of when the revenue is expected to be recognised is not disclosed; and
- Contract costs incurred related to customer contracts with an amortisation period of less than one year have been expensed as incurred.

(iv) Interest income (AASB 9)

Interest income is recognised using the effective interest method when the Group has control of the right to receive the interest payment. The effective interest rate method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense over the expected life of the financial asset or financial liability so as to achieve a constant yield on the financial asset or liability.

(v) Dividends and distributions (AASB 9)

Dividends and distributions are recognised when the Group's right to receive the income 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.

(vi) Benefit funds - Life insurance premiums and fees (AASB 1038)

For life insurance contract liabilities and participating investment contract liabilities, premium revenue is 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 on the balance sheet (rather than being included in the profit or loss).

### (c) Comparative information

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

## 2 The Impacts of AASB 15 adoption

### (a) Changes in accounting policy

As disclosed in note 1(b)(iii), the Group has adopted AASB 15 from 1 July 2018. This has resulted in changes to accounting policies and adjustments to certain amounts recognised in the financial statements. In accordance with the transitional provisions of AASB 15, the Group elected to apply the modified retrospective method wherein the standard is retrospectively applied to only the most current period presented in the financial statements (comparative figures are not restated). Under this method the cumulative effect is recognised as an adjustment to the opening retained earnings at 1 July 2018.

The following summarises the impacts of the adoption of AASB 15 to the Group's accounting policies and its recognition and measurement of revenue and the relevant assets and liabilities:

(i) Recognition of revenue and costs of obtaining customer contracts

The change in revenue recognition has postponed the recognition of revenue on fees received in advance from general insurance broking services. As a result, an adjustment of $327,000 was charged to the opening retained earnings at 1 July 2018 relating to previously recognised revenue which is now required to be recognised as income over the period of the contract. Revenue from these contracts is now recognised over time in line with when the performance obligation is satisfied, except for those with completed performance obligations or having variable consideration that is highly probable to have no risk of reversal. Revenue on these contracts continues to be recognised at a point in time.

The Group has also re-assessed capitalisation of costs relating to obtaining customer contracts. AASB15 requires the capitalisation of incremental costs of obtaining a contract with customer where these are expected to be recovered over the life of the contract. An assessment on the capitalised costs in relation to Herston Quarter project, which is reported as Intangible assets, has resulted in an adjustment of $4,184,000. This was charged to the opening retained earnings at 1 July 2018.

(ii) Reconciliation of accounts impacted by AASB 15 as at 1 July 2018

The following table is a reconciliation of the carrying amount of the accounts within the Group's balance sheet which were impacted by the application of AASB 15 as at 1 July 2018:

| Accounts | Carrying amount 30 June 2018 $'000 | Net assets Addition/(deduction) $'000 | AASB 15 Carrying amount 1 July 2018 $'000 | Retained earnings Addition/(deduction) 1 July 2018 $'000 |
|---|---|---|---|---|
| **Increase in unearned income** | | | | |
| Trade and other payables | **(123,683)** | **(467)** | **(124,150)** | **(467)** |
| Deferred tax liabilities | **(66,702)** | **140** | **(66,562)** | **140** |
| Net impact | | **(327)** | | **(327)** |
| **Reduction in capitalisation of Herston project costs** | | | | |
| Intangible assets | **329,004** | **(5,977)** | **323,027** | **(5,977)** |
| Current tax liabilities | **(31,786)** | **1,793** | **(29,993)** | **1,793** |
| Net impact | | **(4,184)** | | **(4,184)** |
| **Reduction to Net Assets and Retained earnings** | | **(4,511)** | | **(4,511)** |

(iii) Presentation of contract assets and contract liabilities

Following the adoption of AASB 15, contract assets and contract liabilities are recognised separately from trade receivables and trade payables. However, there is no change in the category of assets and liabilities disclosed on the balance sheet. Contract assets which consist of accrued income of $25.8 million have been included in Trade and other receivables, while contract liabilities which consist of deferred income of $21.1 million have been included in Trade and other payables.

# How numbers are calculated

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

## 3 Segment information

### (a) Description of segments

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

During the 2018 financial year, the Group implemented a number of organisational changes as part of a transformation program which aims to capitalise on the significant growth opportunities that exist in the area of operations in health, wealth and living. From January 2018 the Group operates three customer-facing platforms which are Independent & Assisted Living, Retail and Wealth & Capital Markets. For management reporting purposes, the Group is organised into these three business platforms and the Group's corporate functions. The table below summarises these reportable operating segments. The segment information for the comparative period has been re-presented to show the comparative figures for the new segment structure.

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

## 3 Segment information (continued)

### (b) Segment information

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

| Half-year ended 31 December 2018 | Independent & Assisted Living $'000 | Retail $'000 | Wealth & Capital Markets $'000 | Corporate functions $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| Total segment revenue | 221,507 | 361,484 | 88,391 | (7,055) | 664,327 |
| Inter-segment revenue | (4,678) | - | - | 4,678 | - |
| **Revenue from external customers** | 216,829 | 361,484 | 88,391 | (2,377) | 664,327 |
| **Adjusted EBITDA from continuing operations** | 9,344 | 40,395 | 20,126 | (39,547) | 30,318 |
| Depreciation and amortisation | | | | | (14,605) |
| Interest expense | | | | | (9,005) |
| Investment income | | | | | 6,330 |
| Income tax benefit | | | | | 246 |
| **Profit from continuing operations** | | | | | 13,284 |
| Share of profit/(loss) after tax from joint ventures (included in adjusted EBITDA) | | | | | 165 |
| **Total segment assets include:** | | | | | |
| Income producing assets | 90,618 | 1,140,153 | 53,574 | 116,436 | 1,400,781 |
| Working capital assets | 1,618 | 43,931 | 50,288 | 13,608 | 109,445 |
| Non-interest bearing assets | 593,888 | 11,381 | 128,081 | 80,305 | 813,655 |
| **Total segment assets** | 686,124 | 1,195,465 | 231,943 | 210,349 | 2,323,881 |
| **Total segment liabilities include:** | | | | | |
| Borrowings and net inter-segment lending | 163,188 | 765,472 | 28,162 | 113,117 | 1,069,939 |
| Working capital liabilities | 131,494 | 166,371 | 36,813 | 72,964 | 407,642 |
| Non-interest bearing liabilities | 110,196 | 13,755 | 20,867 | 19,882 | 164,700 |
| **Total segment liabilities** | 404,878 | 945,598 | 85,842 | 205,963 | 1,642,281 |

## 3 Segment information (continued)

### (b) Segment information (continued)

The segment information for the comparative period has been re-presented to show the comparative amounts for the new operating segments as follows:

| Half-year ended 31 December 2017 | Independent & Assisted Living $'000 | Retail $'000 | Wealth & Capital Markets $'000 | Corporate functions $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| Total segment revenue | 208,938 | 365,037 | 80,522 | (9,512) | 644,985 |
| Inter-segment revenue | (4,119) | - | - | 4,119 | - |
| **Revenue from external customers** | 204,819 | 365,037 | 80,522 | (5,393) | 644,985 |
| **Adjusted EBITDA from continuing operations** | (376) | 38,258 | 13,068 | (36,123) | 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 profit/(loss) after tax from joint ventures (included in adjusted EBITDA) | | | | | (272) |

| As at 30 June 2018 | Independent & Assisted Living $'000 | Retail $'000 | Wealth & Capital Markets $'000 | Corporate functions $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Total segment assets include:** | | | | | |
| Income producing assets | 51,814 | 1,105,450 | 62,279 | 206,906 | 1,426,449 |
| Working capital assets | 28,710 | 53,911 | 32,413 | 10,375 | 125,409 |
| Non-interest bearing assets | 532,729 | 11,737 | 132,470 | 80,620 | 757,556 |
| **Total segment assets** | 613,253 | 1,171,098 | 227,162 | 297,901 | 2,309,414 |
| **Total segment liabilities include:** | | | | | |
| Borrowings and net inter-segment lending | 155,979 | 738,592 | 6,854 | 140,816 | 1,042,241 |
| Working capital liabilities | 87,410 | 208,474 | 47,191 | 88,068 | 431,143 |
| Non-interest bearing liabilities | 102,420 | 13,770 | 24,066 | 22,217 | 162,473 |
| **Total segment liabilities** | 345,809 | 960,836 | 78,111 | 251,101 | 1,635,857 |

### (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 other non-recurring expenditure and shared services costs.

## 3 Segment information (continued)

### (c) Other segment information (continued)

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

| | Half-year | |
|---|---|---|
| | **2018** | 2017 |
| | **$'000** | $'000 |
| **Adjusted EBITDA from continuing operations** | **30,318** | 14,827 |
| **Depreciation and amortisation expense:** | | |
| Depreciation and amortisation expense (note 5) | **(14,485)** | (16,595) |
| Merger and acquisition expenses | **(2)** | (5) |
| Other | **(118)** | (431) |
| | **(14,605)** | (17,031) |
| **Interest expense** | | |
| Finance costs (note 5) | **(9,000)** | (10,185) |
| Other | **(5)** | (9) |
| | **(9,005)** | (10,194) |
| **Investment income:** | | |
| Dividends and distributions (note 4) | **10,816** | 4,618 |
| Gain/(loss) on investments in financial instruments (note 4) | **(3,364)** | 410 |
| Other interest income (note 4) | **3,777** | 2,505 |
| Property development distributions included in adjusted EBITDA | **(4,962)** | - |
| Other | **63** | 1 |
| | **6,330** | 7,534 |
| **Profit/(loss) before income tax attributable to members of Australian Unity Limited (note 13)** | **13,038** | (4,864) |
| Profit/(loss) before income tax of benefit funds (note 13) | **(11,553)** | 13,535 |
| **Profit before income tax from continuing operations** | **1,485** | 8,671 |

## 4 Revenue and other income

The Group operates in Australia and generates revenue through its business platforms that operate private health insurance, banking services, finance and general insurance broking services, retirement communities, aged care facilities, home care and disability services, health services, investment funds management, financial planning, estate planning and trustee services. As the Group operates diverse businesses, it applies a number of accounting standards for the revenue recognition as disclosed in note 1.

The Group has applied AASB 15 *Revenue from contracts with customers* (refer to note 1(b)) for the first time since 1 July 2018 for its recognition of revenue, except for revenue generated from insurance contracts, government grants and subsidies, financial instruments and lease contracts that are presided under the other accounting standards. The Group's revenue which is accounted for under AASB 15 is presented under Revenue from services in the below table, except for the government grants and subsidies which is accounted for under AASB 120.

## 4 Revenue and other income (continued)

The following is revenue and other income from continuing operations:

| | Half-year 2018 $'000 | Half-year 2017 $'000 |
|---|---|---|
| **Health insurance net premium revenue** | **342,775** | 345,420 |
| **Revenue from services** | | |
| Government grants and subsidies funding aged care, home and disability services | **88,358** | 94,406 |
| Independent and assisted living services and other fees | **99,401** | 85,444 |
| Management and performance fees revenue | **40,829** | 43,805 |
| Brokerage and commission | **31,758** | 30,110 |
| Healthcare services revenue | **14,423** | 13,566 |
| | **274,769** | 267,331 |
| **Interest income of bank** | **15,864** | 16,245 |
| **Investment earnings** | | |
| Other interest income | **3,777** | 2,505 |
| Dividends and distributions | **10,816** | 4,618 |
| Gain/(loss) on investments in financial instruments | **(3,364)** | 410 |
| Fair value gains on investment property | **6,833** | 7,500 |
| | **18,062** | 15,033 |
| **Benefit funds income** | **26,907** | 95,955 |
| **Other income** | **21,063** | 10,621 |
| | **699,440** | 750,605 |

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

## 4 Revenue and other income (continued)

Disaggregation of revenue from services for each business segment for the half year ended 31 December 2018 and reconciliation of Revenue and other income to Revenue from external customers in segment reporting are presented in below table:

| | Independent & Assisted Living $'000 | Retail $'000 | Wealth & Capital Markets $'000 | Corporate Functions $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Health insurance net premium revenue** | - | 342,775 | - | - | 342,775 |
| **Revenue from services** | | | | | |
| Government grants and subsidies funding aged care, home and disability services | 88,358 | - | - | - | 88,358 |
| Independent & assisted living services and other fees | 99,632 | - | 114 | (345) | 99,401 |
| Management and performance fees revenue | - | - | 43,371 | (2,542) | 40,829 |
| Brokerage and commission | 873 | 2,497 | 28,388 | - | 31,758 |
| Healthcare services revenue | 14,423 | - | - | - | 14,423 |
| | 203,286 | 2,497 | 71,873 | (2,887) | 274,769 |
| **Interest income of bank** | - | 15,864 | - | - | 15,864 |
| **Investment earnings** | | | | | |
| Other interest income | 838 | 561 | 167 | 2,211 | 3,777 |
| Dividends and distributions | 4,962 | 5,103 | 744 | 6 | 10,816 |
| Gain/(loss) on investments in financial instruments | (957) | (2,069) | (186) | (152) | (3,364) |
| Fair value gains on investment property | 6,833 | - | - | - | 6,833 |
| | 11,676 | 3,595 | 725 | 2,065 | 18,062 |
| **Benefit funds income** | - | - | 26,907 | - | 26,907 |
| **Other income** | 1,825 | 480 | 18,200 | 558 | 21,063 |
| **Revenue and other income** | 216,787 | 365,211 | 117,705 | (264) | 699,440 |
| **Reconciliation to revenue from external customers in segment reporting** | | | | | |
| *Items added to/(excluded from) the segment revenue* | | | | | |
| Dividends and distributions | - | (5,103) | (744) | (6) | (5,854) |
| Other investment income | 119 | 1,508 | 19 | (2,059) | (413) |
| Other items included in adjusted EBITDA | (77) | (132) | (1,682) | (48) | (1,939) |
| Revenue from benefit funds | - | - | (26,907) | - | (26,907) |
| | 42 | (3,727) | (29,314) | (2,113) | (35,113) |
| **Revenue from external customers in segment reporting** | 216,829 | 361,484 | 88,391 | (2,377) | 664,327 |

## 5 Expenses

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

| | Half-year 2018 $'000 | 2017 $'000 |
|---|---|---|
| Bank charges | **1,657** | 1,652 |
| Commission expense | **28,930** | 29,482 |
| Communication costs | **4,924** | 4,441 |
| Computer and equipment costs | **15,174** | 12,752 |
| Depreciation and amortisation expense | **14,485** | 16,595 |
| Employee benefits expense | **249,041** | 238,693 |
| Expenses in relation to benefit funds | **38,460** | 82,420 |
| Financial and insurance costs | **2,033** | 5,716 |
| Fund manager and administration fees | **11,199** | 10,356 |
| Health insurance claims expense | **304,653** | 302,891 |
| Health insurance claims recoveries - Net Risk Equalisation Special Account | **(34,476)** | (31,442) |
| Interest expense of bank | **6,038** | 6,373 |
| Legal and professional fees | **8,569** | 15,111 |
| Marketing expenses | **5,749** | 6,419 |
| Occupancy costs | **10,951** | 11,930 |
| Other direct expenses | **2,823** | 3,861 |
| Other expenses | **18,910** | 14,227 |
| | **689,120** | 731,477 |
| *Depreciation and amortisation* | | |
| Depreciation of property, plant and equipment | **3,534** | 5,857 |
| Amortisation of intangible assets | **10,951** | 10,738 |
| | **14,485** | 16,595 |
| Finance costs | | |
| Interest and finance charges | **9,011** | 10,210 |
| Amount capitalised | **(11)** | (25) |
| Finance costs expensed | **9,000** | 10,185 |

## 6 Income tax

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

| | Half-year 2018 $'000 | 2017 $'000 |
|---|---|---|
| Current tax | **(1,471)** | 17,993 |
| Current tax - benefit funds | **14,374** | 16,601 |
| Deferred tax | **2,270** | 10,094 |
| Deferred tax - benefit funds | **(24,704)** | (1,751) |
| Adjustments for current tax of prior periods | **(1,045)** | (17,648) |
| Adjustments for current tax of prior periods - benefit funds | **(1,223)** | (1,315) |
| | **(11,799)** | 23,974 |
| Deferred income tax (revenue)/(benefit) included in income tax expense comprises: | | |
| Increase in deferred tax assets | **(25,532)** | (2,519) |
| Increase in deferred tax liabilities | **3,098** | 10,862 |
| | **(22,434)** | 8,343 |

## 6 Income tax (continued)

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

| | Half-year 2018 $'000 | Half-year 2017 $'000 |
|---|---|---|
| Income tax expense/(benefit) is attributable to: | | |
| Profit from continuing operations | **(11,799)** | 152 |
| Profit from discontinued operation | **-** | 23,822 |
| | **(11,799)** | 23,974 |

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

| | Half-year 2018 $'000 | Half-year 2017 $'000 |
|---|---|---|
| Profit from continuing operations before income tax | **1,485** | 8,671 |
| Less: loss/(profit) in benefit funds | **11,553** | (13,535) |
| | **13,038** | (4,864) |
| Profit from discontinued operation before income tax | **-** | 88,637 |
| Profit before income tax for the period | **13,038** | 83,773 |
| | | |
| Tax at the Australian tax rate of 30% (2018: 30%) | **3,911** | 25,132 |
| Non-assessable income | **(3,786)** | (3,682) |
| Non-deductible expenditure | **409** | 1,075 |
| Other deductible expenditure | **(177)** | (3,739) |
| Over provision in prior years | **(352)** | (8,299) |
| Tax credits | **(251)** | (48) |
| Tax in benefit funds | **(11,553)** | 13,535 |
| Income tax expense/(benefit) | **(11,799)** | 23,974 |

The income tax results for the six months to 31 December 2018 and comparative period included favourable non-temporary differences arising from the Group's retirement community loans received from village residents which is non-assessable for tax purposes.

# Financial assets and liabilities

## 7 Financial assets - Cash and cash equivalents

| | 31 December 2018 $'000 | 30 June 2018 $'000 |
|---|---|---|
| Cash at bank and on hand | **85** | 80 |
| Bank balances | **74,639** | 39,000 |
| Deposits at call | **838,722** | 971,944 |
| | **913,446** | 1,011,024 |

**Parent Entity's accounts**

The balance of cash and cash equivalents as at 31 December 2018 included the Parent Entity's accounts totalling $117,348,000 (2018: $206,958,000).

## 8 Financial assets - Loans and advances

| | 31 December 2018 $'000 | 30 June 2018 $'000 |
|---|---|---|
| **Current** | | |
| Mortgage loans | **18,043** | 16,198 |
| Personal loans | **5,842** | 5,979 |
| Provision for impairment | **(10,720)** | (10,248) |
| **Total - current** | **13,165** | 11,929 |
| | | |
| **Non-current** | | |
| Mortgage loans | **687,889** | 641,097 |
| Personal loans | **2,624** | 2,949 |
| Provision for impairment | **(4,198)** | (4,659) |
| Advances | **4,111** | 4,148 |
| **Total - non-current** | **690,426** | 643,535 |
| | | |
| **Total loans and advances** | **703,591** | 655,464 |

### (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 11 December 2048 and earn interest at annual interest rates between 3.64% and 7.00% (2018: between 3.64% and 6.70%).

### (b) Personal loans

The personal loans mature at various dates up to 9 December 2025 and earn interest at annual rates between 4.57% and 16.58% (2018: between 4.57% and 14.18%).

### (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.

## 8 Financial assets - Loans and advances (continued)

### (d) Past due but not impaired

At 31 December 2018, the current portion of loans and advances that were past due but not impaired amounted to $11,658,000 (30 June 2018: $15,718,000). These relate to a number of borrowers with no recent history of default.

### (e) Fair value

The fair value of current and non-current loans and advances are provided in note 11.

## 9 Financial assets at fair value through profit or loss

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

| | **31 December 2018 $'000** | 30 June 2018 $'000 |
|---|---|---|
| Securities held by benefit funds | **1,657,574** | 1,667,374 |
| Securities held in funds managed by subsidiaries and related entities | **147,216** | 147,727 |
| | **1,804,790** | 1,815,101 |

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 2018 $'000** | 30 June 2018 $'000 |
|---|---|---|
| Equity trusts | **1,084,996** | 1,134,143 |
| Fixed interest and other debt security trusts | **491,948** | 468,847 |
| Mortgage trusts | **16,451** | 3,249 |
| Property syndicates and trusts | **64,179** | 61,135 |
| | **1,657,574** | 1,667,374 |

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

| | **31 December 2018 $'000** | 30 June 2018 $'000 |
|---|---|---|
| Equity trusts | **24,664** | 27,647 |
| Fixed interest and other debt security trusts | **101,042** | 95,746 |
| Mortgage trusts | **2,169** | 2,169 |
| Property syndicates and trusts | **19,341** | 22,165 |
| | **147,216** | 147,727 |

### (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 2018 $'000** | 30 June 2018 $'000 |
|---|---|---|
| Current | **1,770,100** | 1,784,580 |
| Non-current | **34,690** | 30,521 |
| | **1,804,790** | 1,815,101 |

## 10 Financial liabilities - Borrowings

| | 31 December 2018 $'000 | 30 June 2018 $'000 |
|---|---|---|
| **Current** | | |
| Secured interest bearing liabilities | | |
| Mortgage offset savings accounts | **89,424** | 82,769 |
| Retirement Village Investment Notes | **21,743** | 18,342 |
| | **111,167** | 101,111 |
| Secured non-interest bearing liabilities | | |
| Retirement Village Investment Notes | **734** | - |
| Unsecured interest bearing liabilities | | |
| Call deposits | **389,790** | 389,497 |
| Term deposits | **265,722** | 213,088 |
| Development finance loans | **-** | 47 |
| Loan payable to related entity | **5,100** | 5,100 |
| Subordinated capital notes | **-** | 30,000 |
| | **660,612** | 637,732 |
| **Total current borrowings** | **772,513** | 738,843 |
| **Non-current** | | |
| Secured interest bearing liabilities | | |
| Retirement Village Investment Notes | **19,961** | 25,384 |
| Unsecured interest bearing liabilities | | |
| Australian Unity Bonds - face value | **250,000** | 250,000 |
| Valuation at amortised cost | **(2,706)** | (3,378) |
| Australian Unity Bonds - at amortised cost | **247,294** | 246,622 |
| Term deposits | **18,437** | 21,161 |
| Development finance loans | **9,762** | 6,854 |
| Total unsecured non-current borrowings | **275,493** | 274,637 |
| **Total non-current borrowings** | **295,454** | 300,021 |
| **Total borrowings** | **1,067,967** | 1,038,864 |

### (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 refinance 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.

## 10 Financial liabilities - Borrowings (continued)

### (a) Australian Unity Bonds (continued)

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 2018, the Australian Unity Bonds Covenant Gearing Ratio was 26.8% (30 June 2018: 21.3%).

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 2018 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.

### (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. 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 repaid maturing RVIN of $1,288,000. The balance of RVIN reported as interest bearing liabilities as at 31 December 2018 amounted to $41,704,000 (30 June 2018: $43,726,000). RVIN that were due as at 31 December 2018 of $734,000 were reported as non-interest bearing liabilities.

## 11 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 2018.

#### (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).

## 11 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 2018 and 30 June 2018 on a recurring basis:

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **31 December 2018** | | | | |
| ***Recurring fair value measurement*** | | | | |
| **Financial assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Equity trusts | **2,325** | **1,107,335** | **-** | **1,109,660** |
| Fixed interest and other debt security trusts | **-** | **592,990** | **-** | **592,990** |
| Mortgage trusts | **-** | **18,620** | **-** | **18,620** |
| Property syndicates and trusts | **16,033** | **67,487** | **-** | **83,520** |
| Other financial assets | **-** | **-** | **7,069** | **7,069** |
| Total financial assets | **18,358** | **1,786,432** | **7,069** | **1,811,859** |
| **Non-financial assets** | | | | |
| Investment properties | **-** | **-** | **1,249,747** | **1,249,747** |
| Total non-financial assets | **-** | **-** | **1,249,747** | **1,249,747** |
| **Financial liabilities** | | | | |
| Interest rate swaps | **-** | **1,546** | **-** | **1,546** |
| Life investment contract policy liabilities | **-** | **1,107,077** | **-** | **1,107,077** |
| Total financial liabilities | **-** | **1,108,623** | **-** | **1,108,623** |

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **30 June 2018** | | | | |
| ***Recurring fair value measurement*** | | | | |
| **Financial assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Equity trusts | 2,511 | 1,159,279 | - | 1,161,790 |
| Fixed interest and other debt security trusts | - | 564,593 | - | 564,593 |
| Mortgage trusts | - | 5,418 | - | 5,418 |
| Property syndicates and trusts | 14,846 | 68,454 | - | 83,300 |
| Other financial assets | - | - | 7,065 | 7,065 |
| Total financial assets | 17,357 | 1,797,744 | 7,065 | 1,822,166 |
| **Non-financial assets** | | | | |
| Investment properties | - | - | 1,169,437 | 1,169,437 |
| Total non-financial assets | - | - | 1,169,437 | 1,169,437 |
| **Financial liabilities** | | | | |
| Interest rate swaps | - | 736 | - | 736 |
| Life investment contract policy liabilities | - | 1,179,421 | - | 1,179,421 |
| Total financial liabilities | - | 1,180,157 | - | 1,180,157 |

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.

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

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

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

Specific valuation techniques used to value financial instruments include:

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

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

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

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

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

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

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

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

## 11 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 2018:

| | Other financial assets $'000 | Investment properties $'000 | Total $'000 |
|---|---|---|---|
| Opening balance 1 July 2018 | 7,065 | 1,169,437 | 1,176,502 |
| Additions | - | 73,490 | 73,490 |
| Transfers | - | (13) | (13) |
| Disposals | - | - | - |
| Gains recognised in other income* | 4 | 6,833 | 6,837 |
| **Closing balance 31 December 2018** | 7,069 | 1,249,747 | 1,256,816 |
| | | | |
| *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 | 4 | 6,833 | 6,837 |

*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 2018 $'000 | Unobservable inputs | Range of inputs | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|
| Investment properties | 1,249,747 | Discount rate | 13.0% - 14.0% | Increase/decrease in discount rate by +/- 50 basis points changes the fair value by -$12.0 million/+$14.6 million (2018: -$11.7 million/+$14.4 million). |
| | | Property growth rate | 1.0% - 4.0% | Increase/decrease in property growth rate by +/- 50 basis points changes the fair value by +$22.1 million/ -$16.2 million (2018: +$21.7 million/ -$19.5 million). |
| | | Average length of residents' stay | 5-8 years for serviced apartments, 9-13 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 platform includes a team that performs the valuations of the retirement village independent living units required for financial reporting purposes, including level 3 fair values. This team reports valuation recommendations to the CEO Independent & Assisted Living, the Chief Financial Officer and the Audit & 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.

## 11 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 2018 | | 30 June 2018 | |
|---|---|---|---|---|
| | **Amortised cost $'000** | **Fair value $'000** | Amortised cost $'000 | Fair value $'000 |
| **Current and non-current assets** | | | | |
| Mortgage loans | **691,014** | **691,484** | 642,388 | 642,798 |
| Advances | **4,111** | **3,868** | 4,148 | 3,814 |
| | **695,125** | **695,352** | 646,536 | 646,612 |
| **Current and non-current liabilities** | | | | |
| Australian Unity Bonds | **247,294** | **260,750** | 246,622 | 258,750 |
| Development finance loans | **9,762** | **9,823** | 6,901 | 6,839 |
| Retirement Village Investment Notes | **42,438** | **42,751** | 43,726 | 43,633 |
| Subordinated capital notes | **-** | **-** | 30,000 | 30,000 |
| Term deposits | **284,159** | **283,816** | 234,249 | 233,847 |
| | **583,653** | **597,140** | 561,498 | 573,069 |

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

## 12 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 2018 $'000** | 30 June 2018 $'000 |
|---|---|---|
| Retirement village independent living units | **817,853** | 792,552 |
| Retirement village property funds | **85,691** | 82,542 |
| Development sites | **346,203** | 294,343 |
| | **1,249,747** | 1,169,437 |

## 12 Non-financial assets - Investment properties (continued)

### (a) Movements of investment properties

| | 31 December 2018 $'000 | 30 June 2018 $'000 |
|---|---|---|
| **At fair value** | | |
| Balance at the beginning of the financial year | **1,169,437** | 976,799 |
| Additions | **73,490** | 185,929 |
| Transfers to property, plant and equipment | **(13)** | (7,100) |
| Disposals | **-** | (506) |
| Net fair value movements | **6,833** | 14,315 |
| Balance at the end of the financial period | **1,249,747** | 1,169,437 |

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

| | Half-year 2018 $'000 | Half-year 2017 $'000 |
|---|---|---|
| Revenue | **24,444** | 31,370 |
| Expenses | **(15,248)** | (14,902) |
| Changes in fair value recognised in profit or loss | **6,833** | 7,500 |
| | **16,029** | 23,968 |

# 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.

## 13 Reconciliation of profit attributable to members of Australian Unity Limited

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

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

| | 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 |

# 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 2018 $'000** | 30 June 2018 $'000 |
|---|---|---|
| *Payable within one year:* | | |
| Investment property | **6,140** | 17,606 |
| Total capital commitments | **6,140** | 17,606 |

## 15 Contingencies

### Contingent liabilities

As at 31 December 2018, the Group had contingent liabilities in relation to future development activities of the Herston Quarter site in Brisbane, Queensland totalling to $155,731,000 (30 June 2018: $88,931,000).

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.

## 15 Contingencies (continued)

**Guarantees**

The Group has entered into bank guarantee arrangements totalling $36,948,000 as at 31 December 2018 (30 June 2018: $36,799,000) as part of its normal operations and under business transfer arrangements in order to secure the Group's performance under contracts. The bank guarantees only become payable upon the non-performance of the Group. Partially offsetting this, the Group is the beneficiary of insurance bonds/guarantees totalling $7,618,000 (30 June 2018: $7,618,000).

The Group had no other contingent assets or liabilities at 31 December 2018.

## 16 Events occurring after the reporting period

The board is not aware of any matter or circumstance arising since 31 December 2018 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 2018 and 2017 were as follows:

- Dividends received from joint ventures, $470,138 (2017: $150,000).
- Investment management fees charged by joint ventures, $296,345 (2017: $411,742).
- Commission, director fees and other costs charged to joint ventures, $136,231 (2017: $294,684).
- Net amount of development loans repaid by related entities, $nil (2017 $16,452,391).
- Investment earnings from related entities, $413,000 (2017: $2,975,205).

Balances with related parties as at 31 December 2018 with comparative amounts as at 30 June 2018 were as follows:

| | **31 December 2018 $** | 30 June 2018 $ |
|---|---|---|
| *Assets* | | |
| Cash and cash equivalents | **896,185,599** | 943,582,809 |
| Trade and other receivables | **4,116,190** | 4,297,379 |
| Financial assets at fair value through profit or loss | **599,620,939** | 638,369,827 |
| | **1,499,922,728** | 1,586,250,015 |
| *Liabilities* | | |
| Trade and other payables | **192,086** | 1,770,248 |
| Loans payable to related entities | **14,790,718** | 11,954,334 |
| | **14,982,804** | 13,724,582 |

### (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 37 are in accordance with the *Corporations Act 2001*, including:

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

  (ii) giving a true and fair view of the Group's financial position as at 31 December 2018 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
27 February 2019

# 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 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors' declaration for Australian Unity Limited. The Group comprises the Company and the entities it controlled during that 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 Group's financial position as at 31 December 2018 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*.

***PricewaterhouseCoopers, ABN 52 780 433 757***
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*T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au*

*Conclusion*

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

1. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date;

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Peter van Dongen
Partner

Andrew Cronin
Partner

Melbourne
27 February 2019