

Australian Unity Limited

ABN 23 087 648 888

Interim financial report for the half-year ended 31 December 2015

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Interim financial report - 31 December 2015

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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 2015 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 24 February 2016.

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 2015.

Directors

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

Glenn Barnes, Chairman
Peter Promnitz, Non-executive Director (appointed Deputy Chairman 28 July 2015)
Rohan Mead, Group Managing Director & CEO
Melinda Cilento, Non-executive Director
Eve Crestani, Non-executive Director
Paul Kirk, Non-executive Director (appointed 1 February 2016)
Su McCluskey, Non-executive Director (appointed 1 September 2015)
Stephen Maitland, 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

During the half-year ended 31 December 2015, the Group reported revenue and other income of \$630 million, a decrease of 2.5 percent compared to the corresponding period last year (31 December 2014: \$647 million).

Revenue attributable to members of Australian Unity was up \$39.8 million to \$576.1 million, which represents an increase of 7.4 percent compared to the same period last year. Benefit fund revenue of \$54.3 million was down 50.8 percent compared to last year due to lower investment returns.

The aggregate adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (adjusted EBITDA) of the Group's operating businesses was \$49.8 million for the six months to 31 December 2015, an 18.8 percent increase on the previous half-year result. The Group uses adjusted EBITDA in assessing the performance of its operating business segments. As the name indicates, this measure excludes the effects of depreciation and amortisation, income tax, interest on external borrowings and investment income. It also excludes other non-recurring expenditure. A reconciliation between adjusted EBITDA and profit after income tax is disclosed in note 1 to the consolidated financial statements.

The Group's operating earnings of \$18.7 million for the half-year ended 31 December 2015 was up 43.7 percent from \$13.0 million reported for the same period last year.

Profit after tax for the period was \$14.2 million, an increase of 18.2 percent compared to the same period last year when \$12.0 million was reported.

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

The Group has made key acquisitions in the areas of trust and estate administration services and allied healthcare during the half-year as detailed in note 9 to the consolidated financial statements. In addition, in August 2015 the Group entered into an agreement to acquire all of the home care operations of the New South Wales Government, a business which provides in-home care services to approximately 50,000 clients through approximately 4,000 employees. This acquisition was completed on 19 February 2016 as detailed in the matters subsequent to the end of the half-year section of this Directors' report and at note 13 to the consolidated financial statements. The acquisitions supplement the Group's continued focus on organic and strategic growth and are consistent with the pursuit of its strategy of serving the wellbeing needs of Australians while developing longer term plans to extend the reach of services and products to enable millions to enjoy wellbeing. This strategy requires us to continue to build a commercial, sustainable portfolio of businesses that foster wellbeing.

The Group's operations are conducted through four business segments: Healthcare, Independent & Assisted Living (formerly Retirement Living), Investments and Personal Financial Services. Healthcare provides private health insurance, dental and other healthcare services, such as preventative health and chronic disease management services. Independent & Assisted Living is a provider of aged care facilities, home care services and independent living units. Investments manages investment funds in property, Australian and international equities, fixed interest and bonds. Through Big Sky Building Society it also provides banking products, investment advice and insurance services. Personal Financial Services provides financial planning and finance broking services.

Operating and financial review (continued)

Key aspects of the operating, financial and strategic performance of each Group business during the half-year are set out below.

Healthcare

Business overview

Australian Unity's healthcare business combines the provision of health insurance, with the delivery of healthcare services including dental services, hospital in the home, rehabilitation in the home, chronic disease management, integrated care and other preventative health services.

The business is one of the nation's largest health insurance providers with 233,003 policyholders throughout Australia. Through its related entity Remedy Healthcare, the business is the largest provider of integrated telephonic and in-home healthcare services in the country.

Australian Unity's healthcare business delivers services to the Australian community across four areas:

1. Retail health insurance;
2. Corporate health insurance (through GU Health);
3. Dental; and
4. Allied Health (through Remedy Healthcare).

Healthcare's strategy is to sustainably grow its retail health insurance business, maintain its market leading position in corporate health insurance and rapidly grow its allied health business.

Financial performance

Healthcare financial results

For the half-year	31/12/15 \$million	31/12/14 \$million	Variance
Revenue	426.4	407.4	4.7%
Operating expenses	(397.5)	(381.7)	(4.1%)
Adjusted EBITDA	28.9	25.7	12.2%

In half-year ended 31 December 2015 adjusted EBITDA for Healthcare was \$28.9 million, up \$3.2 million or 12.2 percent compared to the prior corresponding half-year. This solid result was principally driven by an improved underwriting experience for retail and corporate health insurance. Healthcare's adjusted EBITDA margin for the half-year was 6.8 percent (31 December 2014: 6.3 percent).

Drivers of financial performance

Revenue

Healthcare generated total revenue of \$426.4 million for the half-year ended 31 December 2015, which represents a \$19.0 million or 4.7 percent increase compared to the previous half-year. The main drivers of this increase in revenue were:

- a \$16.6 million, or 4.2 percent increase, in health insurance premium income as a result of an increase in premium rates, net movement in the number of policies, change in policy mix, and changes to policy coverage made by members; and
- a solid increase in allied health revenues of \$2.4 million or 21.5 percent through organic and inorganic growth in Remedy Healthcare.

Expenses

Total operating expenses for Healthcare for the half-year were \$397.5 million which was \$15.8 million or 4.2 percent higher than the previous half-year. This increase was primarily due to:

- \$12.8 million or 3.4 percent increase in health insurance operating expenses-principally due to increased claims net of risk equalisation; and
- \$3.1 million increase in allied health expenses attributed to higher business volumes, expenses associated with acquired businesses and investment growth initiatives in Remedy Healthcare.

Operating and financial review (continued)

Healthcare (continued)

Total policyholders for each fund*

	31/12/15	31/12/14	Variance
Retail	201,411	202,214	0.0%
Corporate	31,592	30,749	2.7%
Total policyholders	233,003	232,963	0.0%

*including Overseas Visitor Cover policyholders

Highlights

Health insurance

Despite challenging market conditions the retail health insurance business continued to focus on sustainable policyholder growth and launched a number of new and innovative products. The business was able to moderate claims inflation by engaging with Remedy Healthcare to lead interventions in chronic disease management and hospital substitution and by reducing claims leakage.

GU Health progressed its strategy to innovate and diversify into communities beyond the corporate sector. By extending and applying its business model advantage, GU Health is exploring new markets and continues to work with its corporate and prospective community stakeholders to underline long-term sustainability as a specialist fund.

Allied health

Remedy Healthcare continues to be an industry leader in the provision of preventative healthcare and hospital discharge support programs that help individuals stay healthy and more effectively self-manage any emerging or existing conditions.

Remedy Healthcare finalised the purchase of Mobile Physio in July 2015 and Lincs Healthcare in December 2015. Mobile Physio specialises in home-based physiotherapy services to South Australians living at home. It provides an efficient, convenient and cost-effective service to aged care providers, public and private organisations, government agencies, and individuals. Lincs Healthcare is a South-East Queensland based nursing organisation providing specialised in-home nursing, allied health and personal care services.

These acquisitions are directly linked to Remedy's strategy to rapidly build scale and extend its service coverage through a diversified and sustainable customer base.

Remedy also successfully launched its mental health program-'MindStep' in November 2015. MindStep is a telephone based program for people suffering from anxiety and depression and was developed in collaboration with Flinders University in South Australia and York University in the United Kingdom. MindStep is based on a successful program being delivered in the United Kingdom. Remedy aims to provide this program to the broader healthcare industry and the public health sectors in addition to Australian Unity members.

Hospitals, GPs and medical professionals can also now refer patients to Remedy through an online referral tool that was launched in November 2015 for programs including Hospital Care at Home, Rehab at Home, and specific allied health brokerage services.

Outlook

The private health insurance environment continues to be very challenging with affordability continuing to be problematic for many consumers. Profitable policyholder growth remains challenging for the industry as a whole.

Industry wide customer churn continues to rise, as it has for the past several years, and consumers are moving from one health insurer to another as they attempt to address affordability issues.

While changing government policy has had adverse impacts on the industry as a whole, it continues to be health cost inflation-currently running at 7-8 percent per annum-that is forcing increases in premiums across the industry.

The flow-on effect of these increases is a growing number of consumers re-assessing their private health insurance and often choosing to downgrade or altogether abandon their cover. As consumers leave private health insurance, pressures mount on both the private and public health systems.

While there are mitigation strategies in place, which can have an immediate and short-term positive impact, they are not permanent solutions. System-wide healthcare reform is needed to address these issues effectively across the industry, and particularly, to halt the impact it is having on consumers forced to reduce or abandon their healthcare cover.

Operating and financial review (continued)

Independent & Assisted Living (formerly Retirement Living)

Overview

Australian Unity Independent & Assisted Living provides Aged Care, Home Care and Retirement communities. These businesses are interconnected, delivering upon a continuum of care to meet the daily living and support needs of clients.

Following a period of extensive consultation, the business decided to change its platform name from Retirement Living to Independent & Assisted Living. With the growth of its Home Care business, it became increasingly clear that the Retirement Living name no longer reflected the diversity of the businesses services and clients, such as disability services, mainstream home care and Aboriginal community services.

During the six month period to 31 December 2015, the business continued to invest significantly in its Home Care service with the successful bid to acquire Home Care NSW from the NSW State Government. The signing of the sale agreement took place on 28 August 2015 and completion occurred on 19 February 2016.

The Independent & Assisted Living business recorded strong growth during the half-year to 31 December 2015. Total segment revenue increased to \$64.0 million (31 December 2014: \$51.9 million), representing growth of 23.3 percent compared to the previous half-year.

Independent & Assisted Living's adjusted EBITDA of \$11.8 million (2014: \$10.5 million) represents a growth of 12.8 percent compared to the previous year.

Retirement Communities

The number of retirement communities at 31 December 2015 remained unchanged from the 19 held at 30 June 2015. A total of 12 additional independent living units/apartments were completed through to 31 December 2015 from the development pipeline taking the total number of independent living units/apartments in the Independent & Assisted Living portfolio to 2,086. The majority of 2016 development deliveries are scheduled for the second half of this financial year.

Development continues at Sienna Grange and The Governors in Port Macquarie, NSW; The Residences at Rathdowne Place in Carlton, Victoria; Campbell Place in Glen Waverley, Victoria; and Lifestyle Manor in Bondi, NSW. The Victoria Grange retirement community in Vermont South, Victoria, where construction was completed in June 2015, was fully occupied with settlement of the units completed by 31 December 2015.

Retirement community occupancy was greater than 97 percent across the six month period to 31 December 2015. Less than 30 independent living units remained unoccupied across the entire portfolio as at 31 December 2015.

Aged Care

The aged care business continues to be an important area of growth for Independent & Assisted Living. During the six month period, its newest facility, Peninsula Grange in Mornington, Victoria achieved 100 percent occupancy more than six months ahead of forecast.

The business also commenced construction of Campbell Place Aged Care facility in Glen Waverley, Victoria in September 2015 on land where the previously decommissioned Wahroonga Aged Care facility had stood.

Occupancy levels at Australian Unity's aged care facilities remained very high at approximately 98 percent when taking into account the fill of the new Peninsula Grange facility.

Home Care

The Home Care business has been an area of strong and continued focus. The business continued to grow organically through filling of Commonwealth government funded programs and packages and through growth in our fee for service offerings. However, the most significant development was the successful bid for the acquisition of Home Care NSW from the NSW State Government. The acquisition adds more than 50,000 clients to Australian Unity's Home care business.

Since this time, significant resources have been applied to preparing for ownership of the business and making the necessary arrangements for 4,000 new employees to join Australian Unity.

The acquisition will benefit from Home Care's recent investment in a new client management and staff rostering software. This system assists in more effectively managing the increasing numbers of staff caring for and supporting clients as the business grows and client needs become more complex.

Operating and financial review (continued)

Independent & Assisted Living (formerly Retirement Living) (continued)

Development Funding

Collaboration with Australian Unity's Investments business continued in the six month period to 31 December 2015 with further development of alternative channels for development funding. In September 2015, the business closed its second Development Fund, encompassing the Campbell Place Wellbeing Precinct. This Development Fund utilised third party capital, in conjunction with support from financiers, to fund the development of the 54 retirement apartments and 102 aged care beds.

Demand from investors to participate in the Campbell Place Development Fund was very strong. Independent & Assisted Living is currently progressing several further development opportunities with the intention of funding via the Development Fund structure.

Outlook

The outlook for the Independent & Assisted Living business remains strong. The accommodation options across the portfolio of Retirement and Aged Care facilities continues to receive very sound market support, and the growth in Home Care continues to strengthen its service offering to support people maintaining independence and quality of life wherever they choose to live.

The successful integration of the Home Care NSW is the priority for the remainder of the 2016 financial year and the following financial year.

Investments

Overview

Australian Unity Investments offers a comprehensive range of financial products and services designed to improve the financial wellbeing of its customers and connect communities.

Through its joint venture partnerships, Australian Unity offers expertise in fixed interest, and Australian, global, Asian and microcap equity investments. This is complemented by an in-house team managing real estate investments, market-leading investment bonds, funeral bonds, and education savings plans through Lifeplan Australia Friendly Society and a wide range of banking services offered by Big Sky Building Society.

For the half-year ended 31 December 2015, the Investments business recorded a 4.7 percent increase in total segment revenue to \$53.4 million (31 December 2014: \$51.0 million). This result reflects a solid performance in a competitive and challenging environment for financial services and banking businesses. Adjusted EBITDA increased to \$7.42 million for the half-year ended 31 December 2015 which represents a 41.2 percent increase compared to last year (31 December 2014: \$5.25 million).

Total funds under management, administration and advice within the Investments business rose to \$9.6 billion at 31 December 2015 (30 June 2015: \$8.7 billion).

The Investments team also manages the investment portfolios of the Australian Unity Group, which achieved a weighted aggregate return of 4.0 percent on the Group's investment assets for the 12 months to 31 December 2015. This result was well above its weighted benchmark return of 3.2 percent.

The Investments business continued to improve the efficiency of its operating platform following the successful completion of the transition of its investment administration to BNP Paribas Securities Services.

Funds Management

Investment returns for the year ending 31 December 2015 have been strong, with the standout performer being the Platypus Asset Management business. Its flagship portfolio strongly outperformed the market, returning 16.3 percent for the 12 months to 31 December 2015 compared to the benchmark return of 2.8 percent for the S&P ASX 300 Accumulation Index.

Operating and financial review (continued)

Investments (continued)

A summary of investment returns for calendar year ending 31 December 2015 for the flagship portfolios of our joint-venture asset management businesses is as follows:

Asset Manager	Portfolio	Return Percent 12 months	Benchmark Percent 12 months	Out/(under) performance Percentage points	Benchmark
Acorn	Microcap Trust (Wholesale)	6.9	10.8	(3.9)	Acorn Capital/AGSM Microcap Accumulation Index
Platypus	Australian Equities Trust (Wholesale)	16.3	2.8	13.5	S&P ASX 300 Accumulation Index
Seres	Asian Equities Opportunity Fund	16.3	11.7	4.6	MSCI ACFM Asia Index
Wingate	Global Equity Fund (Wholesale)	8.9	11.8	(2.9)	MSCI World (ex Aust) \$A Net Dividends Reinvested
Altius	Bond Fund	1.8	2.1 cash 2.6 bonds	(0.3) (0.8)	RBA cash rate Bloomberg AusBond Composite 0+ Year Index

During the past six months Platypus Asset Management and Seres Asset Management have each been awarded new mandates from institutional investors.

Retail and sophisticated investors have also supported this asset management business with \$457 million in gross new flows during the half year.

Real Estate and Mortgages

Total funds under management in Australian Unity's Real Estate Investment portfolio increased to \$1.98 billion (30 June 2015: \$1.88 billion).

Australian Unity's Healthcare Property Trust, the leading fund of its kind in Australia, increased funds under management to \$810 million (30 June 2015: \$697 million) and posted a return of 12.8 percent for the year to 31 December 2015. Its strong growth in assets was aided by the completion of developments at Brisbane Waters Private Hospital and Townsville Private Clinic both in Queensland, and Beleura Private Hospital in Mornington, Victoria.

The Retail Property Fund achieved a 14.7 percent return for investors in the year to 31 December 2015. This follows settlement of the sale of the Sunshine Homemaker Centre in Queensland, and stronger asset valuations.

The Australian Unity Office Property Fund achieved a return of 13.6 percent for the 12 months to 31 December 2015. Australian Unity is developing a proposal to list the Fund on the Australian Securities Exchange, subject to approval by the board of the Responsible Entity and the Fund's unitholders.

The Australian Unity Diversified Property Fund achieved a return of 12.3 percent for the year. Unitholder approval was received for a capital-raising to improve liquidity within the fund.

The second Retirement Village Development Fund was launched during the half-year to 31 December 2015, and a capital-raising was completed to finance the development of 'The Residences' at Campbell Place in Glen Waverley, Victoria.

Equity support for the Australian Unity Select Mortgage Income Fund continues to grow from financial planning groups, generating strong recurring monthly flows. The lending portfolio grew solidly over the period to \$12 million as at 31 December 2015.

Investors in Australian Unity's mortgage trusts continue to receive regular payments in line with the decision to wind up the Trusts and return capital to investors, with repayments to investors totaling \$7.5 million made during the period. The next payments for both the High Yield Mortgage Trust and the Mortgage Income Trust are scheduled for March 2016.

Operating and financial review (continued)

Investments (continued)

Lifepan

Lifepan remains a market leading investment bond provider, with 25 percent market share as at 30 September 2015, and \$1.93 billion funds under management and administration at 31 December 2015 (30 June 2015: \$1.90 billion).

During the half-year Lifepan improved its digital service proposition to advisers with the launch of a new mobile responsive website, better enabling new relationships to be established with advisers and supporting the growth of existing relationships.

During the period, Funeral Plan Management collaborated with both Australian Unity Healthcare and the recently acquired Flinders Australia trust and estate administration business to further diversify its distribution channels.

Big Sky

Big Sky Building Society continues to focus on providing a genuine alternative to the major banks, for Australians' every day banking needs.

During the half-year to 31 December 2015, Big Sky consistently outperformed its competitor groups, with loan growth at record levels (\$116 million of new loans during the period and net loan book growth of 10 percent). Big Sky now also provides its customers with a number of new tools and services, including an upgraded mobile banking application and enhanced online banking capabilities.

Big Sky's total on-balance sheet assets grew to \$827 million as at 31 December 2015 (30 June 2015: \$754 million). Big Sky also oversees \$705 million in funds under advice through its connected Big Sky Financial Planning business (30 June 2015: \$694 million).

Investments Strategy and Outlook

The strategy of Australian Unity's Investments business is to deliver a broad (but specific) range of financial solutions, directly or indirectly, to cater to the needs of our clients over progressive life stages.

Australian Unity Investments' Strategy and Outlook for 2016 will continue to build on delivering differentiated, higher value products and services. During the coming period, we will continue to focus on:

- expanding into client segments which value our specialist skills, such as the middle tier of ultra-high net worth clients, family offices, universities, and the like;
- exploring new capital markets and assets in healthcare and social infrastructure;
- clearly defining and testing our value proposition in banking, with an emphasis on digital delivery to our customers;
- continued execution of prevailing plans while tilting resource investment towards sales, product, marketing and front-end digital tools; and
- further tightening the operating platform for Investments.

The Investments business produced sound results for the half-year ended 31 December 2015, continuing to improve the efficiency of its operating platform, achieving growth in new business in a number of areas, delivering clients very solid investment returns in what remain uncertain and volatile investment markets, and launching a number of new products and technology improvements for the benefit of our customers.

Personal Financial Services

Australian Unity's financial advice business, Personal Financial Services, continued to record strong growth in the first half of the 2016 financial year.

Total segment revenue for the business increased by 51.2 percent to \$33.5 million (31 December 2014: \$22.1 million) largely as a result of the Flinders Australia Limited and Premium Wealth Management acquisitions combined with increased productivity from existing advisers and brokers.

Adjusted EBITDA was \$1.7 million for the half-year to 31 December 2015 compared to \$0.5 million for the prior corresponding period.

Personal Financial Services completed a significant strategic acquisition in July 2015 purchasing estate planning and administration specialists Flinders Australia Limited. This acquisition has provided Australian Unity with a broader platform of in-demand services for clients and members as well as the clients of their financial advisers and accountants.

Operating and financial review (continued)

Personal Financial Services (continued)

Australian Unity believes there has never been a greater need for a member and client focused mutual organisation to provide services to help vulnerable Australians who are unable to manage their own finances. Equally, with the demographically driven transfer of wealth, having an impartial third party who can act as executor of estates, can help protect the fabric of family relationships. These factors underpin the strategic intent of the Flinders Australia acquisition.

Personal Financial Services is in the process of applying for a traditional trustee services licence which will enable the business to provide these services and expand into other states.

Advisers

The number of advisers remained steady at 184 at 31 December 2015 (30 June 2015: 183). The business recruited several new practices during the period under review while a small number of practices left the now wholly-owned Premium Wealth Management business. The recruitment pipeline is strong and adviser numbers are expected to grow in the second half of this financial year.

Financial advice revenue grew by 34 percent in the half-year largely due to the Premium Wealth Management acquisition and the growth of existing practices.

Finance broking

Finance broking achieved revenue of \$1.3 million for the half-year which represents an increase of 9 percent on the corresponding half. This positive revenue result is largely attributable to higher settlements and loan under advice balances from employed brokers. Loans under advice increased to \$775 million at 31 December 2015 compared to \$766 million at 30 June.

General Insurance

General Insurance has focused on transitioning the personal lines insurance business from Calliden and CGU to QBE. This will result in a consolidated insurance offering that delivers improved commercial terms, premium reductions and an improved business partnership. QBE are one of Australia's leading insurers and will assist in the portfolio growth via a wider range of insurance offerings including commercial and business insurances.

The business also has a general insurance broking offering after the successful integration of Waratah Insurance Brokers and the focus is now on engaging with our business partners to offer this service more broadly.

General Insurance achieved significant first half revenue growth to \$1.8 million representing an increase of 137 percent largely due to the acquisition of Waratah Insurance Brokers and a launch fund payment from QBE associated with the personal insurance lines transition.

Regulatory reforms

The business continues to be impacted by a range of regulatory reforms, including the Future of Financial Advice reforms; the MySuper reforms; the proposed introduction of new Professional Standards for Financial Advisers; the finalisation of the recommendations for the Life Insurance Framework, which will result in remuneration changes and accountants' SMSF licensing reforms.

Personal Financial Services is well positioned to take advantage of opportunities arising from the accountants' SMSF licensing reforms due to its strong association with accountants and by offering a limited authorisation solution.

Personal Financial Services' strategies and outlook

Personal Financial Services continues its development into a substantial and diversified financial services business designed to serve the growing needs of the community.

The business is well placed for growth as a result of the Flinders Australia Limited acquisition and the opportunity this provides to offer traditional trust and estate administration services to our network of advisers, accountants, members as well as independent and assisted living clients and in particular new home care clients in NSW.

Matters subsequent to the end of the half-year

On 19 February 2016, Australian Unity Homecare Pty Ltd acquired all of the issued share capital in Australian Unity Homecare Services Pty Ltd (AUHCS) from the New South Wales Government for \$112,320,000. AUHCS provides in-home care services to approximately 50,000 clients across New South Wales and has approximately 4,000 employees. Under the transfer agreement, AUHCS' staff and clients transfer to Australian Unity. The Australian Unity Group operates with a strong social purpose, centred on providing solutions to demographic challenges facing Australia from the ageing population and the rise of chronic disease. The acquisition is in line with the Group's strategy to expand the breadth and scale of its service offerings and create Australia's leading home care business, one that offers a true continuum of client-directed care. In the preliminary accounting for business combination, the net assets recognised included goodwill of \$127,692,000. The accounting will be finalised within 12 months of the acquisition.

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

The board is not aware of any other matter or circumstance arising since 31 December 2015 which has significantly affected or may significantly affect the financial status or results of the Group and which has not been separately disclosed in this report.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 10.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission. Unless otherwise stated, amounts in the directors' report and financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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



Glenn Barnes
Chairman



Rohan Mead
Group Managing Director & CEO

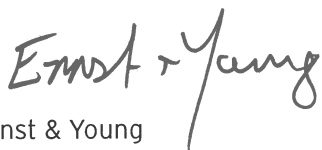
Sydney
24 February 2016

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

As lead auditor for the review of Australian Unity Limited for the half-year ended 31 December 2015, I declare 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 financial period.



Ernst & Young



T M Dring
Partner
Sydney
24 February 2016

Australian Unity Limited
Consolidated statement of comprehensive income
For the half-year ended 31 December 2015

		Half-year	
	Notes	2015 \$'000	2014 \$'000
Revenue and other income	2	630,412	646,690
Expenses, excluding finance costs	3	(600,075)	(608,386)
Finance costs	3	(8,851)	(11,074)
Share of net profit of associates and joint ventures		(400)	881
Profit before income tax		21,086	28,111
Income tax expense		(6,860)	(16,072)
Profit after income tax for the half-year		14,226	12,039
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Cash flow hedges		919	(146)
Income tax relating to components of other comprehensive income		(278)	44
Other comprehensive income for the half-year, net of tax		641	(102)
Total comprehensive income for the half-year		14,867	11,937
Profit for the half-year is attributable to:			
Members of Australian Unity Limited		14,226	12,039
Total comprehensive income for the half-year is attributable to:			
Members of Australian Unity Limited		14,867	11,937

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 10.

Australian Unity Limited
Consolidated balance sheet
As at 31 December 2015

	Notes	31 December 2015 \$'000	30 June 2015 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	4	1,058,481	903,307
Trade and other receivables		88,593	87,774
Loans and advances		24,001	25,510
Financial assets at fair value through profit or loss	5	1,507,972	1,449,182
Held-to-maturity investments		76,679	78,827
Other current assets		22,902	22,721
Total current assets		<u>2,778,628</u>	<u>2,567,321</u>
Non-current assets			
Financial assets at fair value through profit or loss	5	17,696	20,251
Loans and advances		708,903	650,401
Investments in associates and joint ventures		22,542	19,424
Property, plant and equipment		166,715	164,925
Investment properties	8	780,850	745,194
Intangible assets		184,885	160,912
Other non-current assets		2,660	3,211
Total non-current assets		<u>1,884,251</u>	<u>1,764,318</u>
Total assets		<u>4,662,879</u>	<u>4,331,639</u>
LIABILITIES			
Current liabilities			
Trade and other payables		97,673	84,233
Borrowings	6	831,632	827,239
Current tax liabilities		24,183	15,288
Provisions		95,262	84,692
Other current liabilities		745,803	710,250
Benefit fund policy liabilities		181,072	230,430
Total current liabilities		<u>1,975,625</u>	<u>1,952,132</u>
Non-current liabilities			
Borrowings	6	349,905	112,015
Deferred tax liabilities		40,659	50,737
Provisions		2,861	2,895
Other non-current liabilities		2,230	3,779
Benefit fund policy liabilities		1,733,853	1,667,202
Total non-current liabilities		<u>2,129,508</u>	<u>1,836,628</u>
Total liabilities		<u>4,105,133</u>	<u>3,788,760</u>
Net assets		<u>557,746</u>	<u>542,879</u>
EQUITY			
Members' balances		255,919	255,919
Reserves		2,725	1,956
Retained earnings		299,102	285,004
Equity attributable to members of Australian Unity Limited		<u>557,746</u>	<u>542,879</u>
Total equity		<u>557,746</u>	<u>542,879</u>

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

Australian Unity Limited
Consolidated statement of changes in equity
For the half-year ended 31 December 2015

	Members' balances \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2014	255,919	1,866	250,555	508,340
Profit for the half-year	-	-	12,039	12,039
Other comprehensive income	-	(102)	-	(102)
Total comprehensive income	-	(102)	12,039	11,937
Transactions with owners in their capacity as owners:				
Transfers within equity	-	59	(59)	-
	-	59	(59)	-
Balance at 31 December 2014	255,919	1,823	262,535	520,277
Balance at 1 July 2015	255,919	1,956	285,004	542,879
Profit for the half-year	-	-	14,226	14,226
Other comprehensive income	-	641	-	641
Total comprehensive income	-	641	14,226	14,867
Transactions with owners in their capacity as owners:				
Transfers within equity	-	128	(128)	-
	-	128	(128)	-
Balance at 31 December 2015	255,919	2,725	299,102	557,746

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

Australian Unity Limited
Consolidated statement of cash flows
For the half-year ended 31 December 2015

	Half-year	
	2015	2014
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers	749,951	634,108
Claims and benefits paid	(313,371)	(326,102)
Payments to suppliers and employees	(479,467)	(371,722)
Net payments of loans asset	(57,035)	(28,240)
Net receipts of deposits liability	69,031	27,213
Interest received	19,012	20,501
Dividends and distributions received	4,483	4,557
Interest and finance charges paid	(22,172)	(17,249)
Income tax payments	(9,668)	(106)
Net cash outflow from operating activities	<u>(39,236)</u>	<u>(57,040)</u>
Cash flows from investing activities		
Payments for business combination, net of cash receipt	(15,352)	(11,417)
Payments for investments	(357,613)	(354,199)
Payments for property, plant and equipment	(7,003)	(11,067)
Payments for investment properties	(30,699)	(23,011)
Payments for intangible assets	(10,913)	(8,570)
Payments for investments in associates and joint ventures	(3,989)	(2,121)
Payments for loans to related entities	(19)	(854)
Receipts from investments	371,368	354,757
Proceeds from disposal of investment property	3,370	-
Dividends received from associates and joint ventures	270	4,329
Proceeds from disposal of investment in associates	-	12,509
Proceeds from disposal of property, plant and equipment	-	32
Proceeds from disposal of intangible assets	-	130
Net cash outflow from investing activities	<u>(50,580)</u>	<u>(39,482)</u>
Cash flows from financing activities		
Receipts from/(payments of) borrowings	179,337	(6,380)
Receipts from refundable lease deposits and resident liabilities	65,653	39,781
Net cash inflow from financing activities	<u>244,990</u>	<u>33,401</u>
Net increase/(decrease) in cash and cash equivalents	155,174	(63,121)
Cash and cash equivalents at the beginning of the half-year	903,307	974,413
Cash and cash equivalents at the end of the half-year	<u>1,058,481</u>	<u>911,292</u>

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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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 the Group.

1 Segment information

(a) Description of segments

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

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

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

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

1 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 2015 is as follows:

Half-year ended 31 December 2015	Corporate Functions and Eliminations \$'000	Allied Health \$'000	Health Insurance \$'000	Investments \$'000	Personal Financial Services \$'000	Independent & Assisted Living \$'000	Total \$'000
Total segment revenue	(6,834)	13,565	412,811	53,378	33,476	63,969	570,365
Inter-segment revenue	3,479	(2,952)	-	-	(527)	-	-
Revenue from external customers	(3,355)	10,613	412,811	53,378	32,949	63,969	570,365
Adjusted EBITDA	(16,083)	1,623	27,232	7,418	1,693	11,812	33,695
Depreciation and amortisation							(12,649)
Interest expense							(11,841)
Investment income							6,106
Income tax expense							(1,085)
Profit after income tax							14,226
Share of profit/(loss) after tax from associates and joint ventures (included in adjusted EBITDA)							(400)
Total segment assets include:							
Income producing assets	221,407	961	337,713	860,425	4,449	26,301	1,451,256
Working capital assets	25,207	4,762	67,270	27,652	7,789	3,017	135,697
Non-interest bearing assets	115,521	9,329	11,579	54,388	55,982	328,801	575,600
Total segment assets	362,135	15,052	416,562	942,465	68,220	358,119	2,162,553
Total segment liabilities include:							
Borrowings and net inter-segment lending	324,463	3,060	20,000	763,043	8	77,940	1,188,514
Working capital liabilities	60,418	4,060	205,828	19,082	7,596	16,774	313,758
Non-interest bearing liabilities	27,593	678	12,970	5,020	9,382	46,892	102,535
Total segment liabilities	412,474	7,798	238,798	787,145	16,986	141,606	1,604,807

1 Segment information (continued)

(b) Segment information (continued)

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

Half-year ended 31 December 2014	Corporate Functions and Eliminations \$'000	Allied Health \$'000	Health Insurance \$'000	Investments \$'000	Personal Financial Services \$'000	Independent & Assisted Living \$'000	Total \$'000
Total segment revenue	(5,081)	11,168	396,204	50,983	22,137	51,866	527,277
Inter-segment revenue	3,524	(3,211)	-	-	(313)	-	-
Revenue from external customers	(1,557)	7,957	396,204	50,983	21,824	51,866	527,277
Adjusted EBITDA	(17,754)	2,326	23,390	5,253	478	10,468	24,161
Depreciation and amortisation							(9,708)
Interest expense							(13,021)
Investment income							15,326
Income tax expense							(4,719)
Profit after income tax							12,039
Share of profit/(loss) after tax from associates and joint ventures (included in adjusted EBITDA)							881

As at 30 June 2015

Total segment assets include:

Income producing assets	16,715	1,144	346,940	801,936	4,310	18,109	1,189,154
Working capital assets	11,863	3,190	62,621	29,356	9,931	18,867	135,828
Non-interest bearing assets	104,021	5,256	12,603	52,310	41,179	348,152	563,521
Total segment assets	132,599	9,590	422,164	883,602	55,420	385,128	1,888,503

Total segment liabilities include:

Borrowings and net inter-segment lending	121,674	-	20,000	698,470	-	99,109	939,253
Working capital liabilities	49,989	2,374	215,754	23,973	6,794	11,576	310,460
Non-interest bearing liabilities	23,074	235	11,596	5,351	7,590	48,065	95,911
Total segment liabilities	194,737	2,609	247,350	727,794	14,384	158,750	1,345,624

(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.

1 Segment information (continued)

(c) Other segment information (continued)

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

	Half-year	
	2015	2014
	\$'000	\$'000
Adjusted EBITDA	33,695	24,161
Depreciation and amortisation expense:		
Depreciation and amortisation expense (note 3)	(10,523)	(8,746)
Merger and acquisition expenses	(1,600)	(413)
Other	(526)	(549)
	(12,649)	(9,708)
Interest expense		
Finance costs (note 3)	(8,851)	(11,074)
Accommodation bond interest reclassification	(2,871)	(1,956)
Other	(119)	9
	(11,841)	(13,021)
Investment income:		
Dividends and distributions (note 2)	4,483	4,557
Investment income (note 2)	1,740	6,537
Impairment reversal/(impairment) of investments in associates and joint ventures (note 3)	(201)	4,137
Building society investment losses in adjusted EBITDA	84	95
	6,106	15,326
Profit before income tax attributable to members of Australian Unity Limited (note 10)	15,311	16,758
Profit before income tax of benefit funds (note 10)	5,775	11,353
Profit before income tax	21,086	28,111

2 Revenue and other income

	Half-year	
	2015	2014
	\$'000	\$'000
Commission income	30,427	22,967
Allied health revenue	10,613	7,957
Dividends and distributions	4,483	4,557
Fair value gains on investment property	6,891	7,105
Health insurance premium revenue	412,808	396,186
Interest income of building society	15,973	16,556
Investment income	1,740	6,537
Management fees revenue	33,114	30,622
Rental income	1,447	1,194
Independent & assisted living fees and subsidies	52,299	40,729
Revenue of benefit funds	54,317	110,398
Other income	6,300	1,882
	630,412	646,690

3 Expenses

	Half-year	
	2015	2014
	\$'000	\$'000
Expenses, excluding finance costs, included in the profit or loss classified by nature:		
Bank charges	1,417	1,716
Commission expense	28,191	24,456
Communication costs	2,594	1,855
Computer and equipment costs	8,797	6,467
Depreciation and amortisation expense	10,523	8,746
Employee benefits expense	102,037	88,353
Expenses in relation to benefit funds	48,542	99,045
Financial and insurance costs	1,542	1,058
Fund manager and administration fees	9,832	7,370
Health insurance claims expense	354,901	341,976
Health insurance claims recoveries - Net Risk Equalisation Trust Fund	(19,196)	(15,718)
Impairment of investment in associates and joint ventures	201	(4,137)
Interest expense of building society	7,327	8,624
Legal and professional fees	8,562	5,785
Marketing expenses	5,113	6,676
Occupancy costs	7,144	6,168
Other direct expenses	9,633	9,607
Other expenses	12,915	10,339
	600,075	608,386
Profit before income tax includes the following specific expenses:		
Depreciation	3,860	3,320
Amortisation	6,663	5,426
Total depreciation and amortisation	10,523	8,746
<i>Finance costs</i>		
Interest and finance charges	9,597	12,522
Amount capitalised	(746)	(1,448)
Finance costs expensed	8,851	11,074

Financial assets and liabilities

4 Financial assets - Cash and cash equivalents

	31 December 2015 \$'000	30 June 2015 \$'000
Cash at bank and on hand	149	147
Bank balances	91,988	53,073
Deposits at call	966,344	850,087
	<u>1,058,481</u>	<u>903,307</u>

(a) Deposit at call

Deposits at call include \$769,506,000 (2015: \$670,087,000) held in the Australian Unity Wholesale Cash Fund.

(b) Parent Entity's accounts

The balance of cash and cash equivalents as at 31 December 2015 included the Parent Entity's accounts totalling \$224,196,000.

5 Financial assets at fair value through profit or loss

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

	31 December 2015 \$'000	30 June 2015 \$'000
Securities held by benefit funds	1,339,359	1,304,486
Securities held in funds managed by related entities	186,309	164,947
	<u>1,525,668</u>	<u>1,469,433</u>

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

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

	31 December 2015 \$'000	30 June 2015 \$'000
Equities	861,870	818,263
Fixed interest and other debt securities	410,865	416,605
Mortgage trusts	13,107	34,074
Property syndicates and trusts	53,517	35,544
	<u>1,339,359</u>	<u>1,304,486</u>

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

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

	31 December 2015 \$'000	30 June 2015 \$'000
Equities	52,502	48,025
Fixed interest and other debt securities	88,809	80,563
Mortgage trusts	14,448	6,909
Property syndicates and trusts	30,550	29,450
	<u>186,309</u>	<u>164,947</u>

(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 2015 \$'000	30 June 2015 \$'000
Current	1,507,972	1,449,182
Non-current	17,696	20,251
	<u>1,525,668</u>	<u>1,469,433</u>

6 Financial liabilities - Borrowings

	31 December 2015 \$'000	30 June 2015 \$'000
Current		
<u>Secured interest bearing liabilities</u>		
Mortgage offset savings accounts	75,237	63,844
Retirement Village Investments Notes	6,877	18,077
Lease liabilities	-	1
	<u>82,114</u>	<u>81,922</u>
<u>Secured non-interest bearing liabilities</u>		
Retirement Village Investment Notes	6,751	7,045
	<u>6,751</u>	<u>7,045</u>
<u>Unsecured interest bearing liabilities</u>		
Australian Unity Notes	57,407	120,000
Call deposits	317,403	309,867
Term deposits	354,198	294,096
Development finance loans	8,659	9,209
Loan payable to related entity	5,100	5,100
	<u>742,767</u>	<u>738,272</u>
Total current borrowings	<u>831,632</u>	<u>827,239</u>

6 Financial liabilities - Borrowings (continued)

Non-current

Secured interest bearing liabilities

Retirement Village Investment Notes	49,574	45,125
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Unsecured interest bearing liabilities

Australian Unity Bonds	250,000	-
Australian Unity Bonds establishment costs	(6,085)	-
Development finance loans	15,662	16,136
Subordinated capital notes	30,000	30,000
Term deposits	10,754	20,754
Total unsecured non-current borrowings	300,331	66,890

Total non-current borrowings	349,905	112,015
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Total borrowings	1,181,537	939,254
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(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 will be used to refinance the \$120,000,000 Australian Unity Notes (refer to below note), partly finance the acquisition of Home Care NSW and for general corporate purposes.

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

Under the terms of the bonds, Australian Unity Limited is required to maintain a Covenant Gearing Ratio of less than 50% as at 30 June and 31 December each year. The Covenant Gearing Ratio represents the aggregate of interest bearing liabilities and guarantees divided by the aggregate of interest bearing liabilities and guarantees plus total equity. The ratio is calculated based on the financial position of the Group, excluding the Group's authorised deposit-taking institution and benefit funds. Interest bearing liabilities and guarantees are further reduced by cash and cash equivalents of the Company. Junior Ranking Obligations, if any, also reduce interest bearing liabilities and guarantees but increase total equity in the calculation. Junior Ranking Obligations represent equity or subordinated debt of the Company which would, in a winding up situation, rank behind the Company's obligations under the Australian Unity Bonds. As at 31 December 2015, the Australian Unity Bonds Covenant Gearing Ratio was 35.8%.

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) Australian Unity Notes

On 14 April 2011, the Company issued 1,200,000 unsecured redeemable notes at a face value of \$100 each (Australian Unity Notes) pursuant to the prospectus dated 11 March 2011, raising \$120,000,000 (excluding issue costs). The Australian Unity Notes are listed on the Australian Securities Exchange (code: AYUHA) and will mature on 14 April 2016. The notes bear interest at the three month bank bill rate (BBSW) plus a margin of 3.55% per annum. The interest is payable quarterly in arrears on 14 January, 14 April, 14 July and 14 October each year. Given the exposure to interest rate movements, on 9 August 2011 the Company entered into an agreement to swap the variable interest component of \$60,000,000 of the notes at 4.65% per annum maturing on 14 April 2016.

The notes are redeemable by the issuer at the face value and any interest payable plus an early redemption payment pursuant to the prospectus.

6 Financial liabilities - Borrowings (continued)

(b) Australian Unity Notes (continued)

Under the terms of the notes, Australian Unity Limited is required to maintain a Gearing Ratio of less than 45% as at 30 June and 31 December each year. The Gearing Ratio represents the aggregate of interest bearing liabilities and guarantees divided by the aggregate of interest bearing liabilities and guarantees plus total equity. The Gearing Ratio is calculated based on the financial position of the Group, excluding Big Sky Building Society Limited. In November 2015, the trustee of the Australian Unity Notes agreed to an amendment to the Gearing Ratio calculation wherein the interest bearing liability is determined as a net amount after offsetting with the cash proceeds of the Australian Unity Bonds (refer to above note) held as security for the notes. As at 31 December 2015, the Australian Unity Notes Gearing Ratio was 43.6% (30 June 2015: 33.7%).

In November 2015, a reinvestment offer was issued to all eligible holders of Australian Unity Notes to subscribe for the Australian Unity Bonds issued by the Company on 15 December 2015 (refer to above note) and fund their subscriptions by selling their notes to the Company. As a result of the reinvestment offer, 625,934 notes were sold to the Company.

The remaining 574,066 notes will be redeemed for cash on their maturity date of 14 April 2016 at the face value plus the accrued interest up to that date.

(c) Development finance loans

The 2015 balance of development finance loans comprised bank loan facilities for the development of retirement and aged care facilities in Mornington (Peninsula Grange) and a site in Carlton (Carlton RACF).

The loan facility for Peninsula Grange up to \$23.5 million will expire in June 2016. As at 31 December 2015, this loan amounted to \$8,659,000 bearing interest at 4.27% per annum (30 June 2015: \$9,209,000 bearing interest at 4.24% per annum). The Group also has a loan facility for Peninsula Grange up to \$6 million (30 June 2015: \$8.8 million) maturing in August 2017. As at 31 December 2015, the loan amounted to \$6,000,000 bearing interest at 3.82% per annum (30 June 2015: \$7,660,000 bearing interest at 3.84% per annum).

The loan facility for Carlton ACF is up to \$9.7 million maturing in July 2017. As at 31 December 2015, the loan amounted to \$9,662,000 bearing interest at 3.27% per annum (30 June 2015: \$8,476,000 bearing interest at 3.29% per annum).

(d) Retirement Village Investment Notes (RVIN)

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

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

During the half year period, the Group repaid \$7,045,000 RVIN due on 30 June 2015. The Group also issued a prospectus to facilitate the replacement of maturing RVIN totalling \$6,770,000. The RVIN replacements were fully subscribed with the majority of existing investors rolling over into the new issues with a two-year term.

As at 31 December 2015, the total RVIN of \$63,202,000 (30 June 2015: \$70,247,000) represented \$56,451,000 interest bearing liabilities and \$6,751,000 non-interest bearing liabilities. Subsequent to the reporting period, the \$6,751,000 non-interest bearing RVIN were repaid in accordance with the terms of the relevant prospectus.

7 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
- Land and buildings
- Life investment contract policy liabilities

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2015.

(i) Fair value hierarchy

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

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

The following table presents the Group's financial assets and liabilities measured and recognised at fair value at 31 December 2015 and 30 June 2015 on a recurring basis:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
31 December 2015				
<i>Recurring fair value measurement</i>				
Financial assets				
Financial assets at fair value through profit or loss				
Equities	-	914,372	-	914,372
Fixed interest and other debt securities	-	499,674	-	499,674
Mortgage trusts	-	27,555	-	27,555
Property syndicates and trusts	-	84,067	-	84,067
Other financial assets	-	-	320	320
Total financial assets	-	1,525,668	320	1,525,988
Non-financial assets				
Investment properties	-	-	780,850	780,850
Land and buildings	-	-	151,384	151,384
Total non-financial assets	-	-	932,234	932,234
Financial liabilities				
Interest rate swaps	-	2,208	-	2,208
Life investment contract policy liabilities	-	1,914,925	-	1,914,925
Total financial liabilities	-	1,917,133	-	1,917,133

7 Fair value measurements (continued)

(a) Recognised fair value measurements (continued)

30 June 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Recurring fair value measurement				
Financial assets				
Financial assets at fair value through profit or loss				
Equities	-	866,288	-	866,288
Fixed interest and other debt securities	-	497,168	-	497,168
Mortgage trusts	-	40,983	-	40,983
Property syndicates and trusts	-	64,994	-	64,994
Other financial assets	-	-	320	320
Total financial assets	-	1,469,433	320	1,469,753
Non-financial assets				
Investment properties	-	-	745,194	745,194
Land and buildings	-	-	148,855	148,855
Total non-financial assets	-	-	894,049	894,049
Financial liabilities				
Interest rate swaps	-	3,149	-	3,149
Life investment contract policy liabilities	-	796,482	-	796,482
Total financial liabilities	-	799,631	-	799,631

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

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

(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.

7 Fair value measurements (continued)

(a) Recognised fair value measurements (continued)

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

Investment properties

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

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

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

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

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

Development sites are initially recorded at cost. Subsequently the carrying value is measured against the present value of future cash flows, being the final estimated development value less the remaining cost of development, using a value in use calculation in order to determine fair value. This comparison is reassessed at specific milestones during the development process. In the event that carrying value is greater than the present value of future cash flows, an impairment charge is made.

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

Land and buildings

The Group engages accredited independent valuers to obtain an independent valuation for its land and buildings at least every three years. The most recent valuations were done in 2015 by m3 property strategists and in 2013 by CB Richard Ellis (V) Pty Ltd. Fair value is determined using the capitalisation of adjusted net profit approach, discounted cash flows and direct reference to recent market transactions on arm's length terms for land and buildings comparable in size and location to those held by the Group. The independent valuations support the Group's carrying value as at 31 December 2015. All of the resulting fair value estimates are included in level 3 as explained in section (iii) below.

(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 2015:

	Other financial assets \$'000	Investment properties \$'000	Land and buildings \$'000	Total \$'000
Opening balance 1 July 2015	320	745,194	148,855	894,369
Acquisitions	-	30,699	5,891	36,590
Disposals	-	(3,388)	-	(3,388)
Transfers	-	1,454	(1,454)	-
Depreciation	-	-	(1,908)	(1,908)
Gains recognised in other income*	-	6,891	-	6,891
Closing balance 31 December 2015	320	780,850	151,384	932,554
*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 year	-	6,891	-	6,891

7 Fair value measurements (continued)

(a) Recognised fair value measurements (continued)

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

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 2015 \$'000	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair value
Investment properties	780,850	Discount rate	10.0% - 15.0%	Increase/decrease in discount rate by +/- 50 basis points change the fair value by -\$8.7 million/+\$9.6 million (2015: -\$8.0 million/+\$10.0 million).
		Property growth rate	0.0% - 4.5%	Increase/decrease in property growth rate by +/- 50 basis points change the fair value by +\$14.4 million/-\$14.2 million (2015: +\$14.8 million/-\$13.4 million).
		Average length of residents' stay	4-7 years for serviced apartment, 9-14 years for independent living unit	The higher the average length of stay, the lower the fair value.
Land and buildings	151,384	Discount rate	8.25% - 14.0%	The higher the discount rate, the lower the fair value
		Terminal yield	7.4% - 7.6%	The higher the terminal yield, the lower the fair value
		Capitalisation rate	7.5% - 13.5%	The higher the capitalisation rate, the lower the fair value
		Rental growth rate	3.3% - 3.4%	The higher the growth rate, the higher the fair value

Valuation processes

The Group's Independent & Assisted Living business unit includes a team that performs the valuations of the retirement village independent living units required for financial reporting purposes, including level 3 fair values. This team reports valuation recommendations to the CEO 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 draws upon an actuarial model for property valuation. The main level 3 inputs used in measuring the fair value of investment properties, which include resident turnover rates, property growth rates and discount rates, are estimated by management based on comparable transactions and industry data. The key assumptions used in the valuation are reviewed by an independent qualified valuer on a yearly basis.

The Group engages independent accredited valuers at least every three years to determine the fair value of the land and buildings classified as property, plant and equipment and other non-owner occupied investment properties.

7 Fair value measurements (continued)

(b) Disclosed fair values

The Group also has a number of financial assets and liabilities which are not measured at fair value in the balance sheet. The carrying amounts of these assets and liabilities are assumed to approximate their fair values due to their short term nature, except for the financial instruments disclosed below.

	31 December 2015		30 June 2015	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Current and non-current assets				
Mortgage loans	680,408	680,965	622,598	623,173
Advances	4,055	3,948	4,116	3,888
	684,463	684,913	626,714	627,061
Current and non-current borrowings				
Australian Unity Bonds	250,000	252,498	-	-
Australian Unity Notes	57,407	58,153	120,000	123,360
Development finance loans	24,321	23,343	25,345	23,841
Lease liabilities	-	-	1	1
Retirement Village Investment Notes	63,202	63,793	70,247	70,459
Subordinated capital notes	30,000	29,728	30,000	28,188
Term deposits	364,952	364,739	314,850	314,446
	789,882	792,254	560,443	560,295

The fair values of loans, advances and borrowings disclosed above are estimated by discounting the future contractual cash flows at the current applicable market interest rate. These assets and liabilities are categorised under level 3 in the fair value hierarchy.

Non-financial assets

8 Non-financial assets - Investment properties

Investment properties comprise the Group's interests in retirement village independent living units, development sites and other non-owner occupied property as specified below. A number of the retirement village development sites are intended to be sold upon completion and the required occupancy targets being met.

	31 December 2015 \$'000	30 June 2015 \$'000
Retirement village independent living units	476,234	451,494
Retirement village property funds	67,885	63,557
Development sites (including development sites intended to be sold)	232,117	225,529
Non-owner occupied property	4,614	4,614
	780,850	745,194

8 Non-financial assets - Investment properties (continued)

(a) Movements of investment properties

	31 December 2015 \$'000	30 June 2015 \$'000
At fair value		
Balance at the beginning of the financial period	745,194	674,275
Acquisitions	30,699	51,128
Net fair value movements	6,891	12,582
Transfers from property, plant and equipment	1,454	7,209
Disposal	(3,388)	-
Balance at the end of the financial period	<u>780,850</u>	<u>745,194</u>

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

	Half-year 2015 \$'000	2014 \$'000
Revenue	25,227	16,509
Expenses	(13,776)	(10,410)
Changes in fair value recognised in profit or loss	6,891	7,105
	<u>18,342</u>	<u>13,204</u>

Group structure

This section provides information regarding changes to the structure that occurred during the year as a result of business combinations, and reconciliation of profit attributable to members of Australian Unity Limited.

9 Business combination

(a) Personal Financial Services

Flinders Australia

In July 2015 Australian Unity Advice Pty Ltd acquired all of the issued shares in Flinders Australia Ltd (Flinders). Flinders is a group of companies that provides estate planning, administration and estate services to the retail market, mainly in Victoria. The acquisition is intended to grow the financial services business through a diversification into a complementary business in trustee services.

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

	\$'000
Purchase consideration	
Cash consideration	13,000
Deferred payment	1,000
Total	<u>14,000</u>

9 Business combination (continued)

(a) Personal Financial Services (continued)

	\$'000
Net assets recognised as a result of the acquisition	
Cash and cash equivalents	83
Receivables	1,680
Property, plant and equipment	71
Management rights	137
Goodwill	13,640
Deferred tax asset	197
Trade and other payables	(1,006)
Provisions	(477)
Current tax liabilities	(325)
Total	<u>14,000</u>

The goodwill recognised above is related to the value of expected synergy benefits from the acquisition, customer relationships, workforce and other items that do not qualify to be separately recognised. The acquisition accounting will be finalised within 12 months of the purchase.

(b) Healthcare

Lincs Healthcare

In December 2015, Remedy Healthcare Group Pty Ltd (Remedy) acquired the business of Lincs Healthcare Pty Ltd, a home-based nursing, personal care and allied health services provider in South East Queensland. The business assets acquired included goodwill, client contracts, intellectual property, stock, plant and equipment. As part of the agreement, at least 90% of the employees were transferred to Remedy who then assumed the leave liability in relation to the transferring employees. The acquisition is in line with the Group's strategy to rapidly grow the Allied Health business segment and to expand joint initiatives between Healthcare and Independent & Assisted Living businesses. The joint initiatives will give the Group the opportunity to achieve synergies and build a nursing workforce that will support aged care and community care.

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

	\$'000
Purchase consideration	
Cash payment	1,850
Deferred payment	617
Contingent consideration	588
Total	<u>3,055</u>
Net assets recognised as a result of the acquisition	
Property, plant and equipment	98
Customer contracts	1,477
Goodwill	2,038
Deferred tax liability	(443)
Provision	(115)
Total	<u>3,055</u>

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

(c) Cash flow information

	\$'000
Outflow of cash for the above business acquisitions, net of cash acquired	
Cash payments	14,835
Less: cash acquired	(83)
Plus: Direct costs related to the acquisitions	335
Total	<u>15,087</u>

9 Business combination (continued)

(d) Finalisation of accounting for the acquisition in the previous reporting year

INS Healthcare

In September 2014, Australian Unity Retirement Living Management Pty Ltd (AURLM) acquired INS Health Care for \$5,829,000. In the preliminary accounting for the business combination, the Group reported in its financial statements for the year ended 30 June 2015 a total of goodwill and management rights of \$6,138,000. The determination of goodwill and management rights was subject to further clarification in regards to the changes in the allocation of government home care packages to be effective from 1 February 2017. The acquisition accounting was finalised in the current reporting period. The net assets recognised included goodwill of \$4,631,000, management rights of \$887,000 with a finite life of five years and customer contracts of \$886,000 with a finite life of 10 years.

10 Reconciliation of profit attributable to members of Australian Unity Limited

Half-year ended 31 December 2015

	Attributable to members of Australian Unity Limited \$'000	Attributable to benefit fund policyholders \$'000	Consolidated Profit or Loss \$'000
Revenue and other income	576,095	54,317	630,412
Expenses, excluding finance costs	(551,533)	(48,542)	(600,075)
Finance costs	(8,851)	-	(8,851)
Share of net profits of associates and joint ventures	(400)	-	(400)
Profit before income tax	15,311	5,775	21,086
Income tax expense	(1,085)	(5,775)	(6,860)
Profit after income tax for the half-year	14,226	-	14,226

Half-year ended 31 December 2014

	Attributable to members of Australian Unity Limited \$'000	Attributable to benefit fund policyholders \$'000	Consolidated Profit or Loss \$'000
Revenue and other income	536,292	110,398	646,690
Expenses, excluding finance costs	(509,341)	(99,045)	(608,386)
Finance costs	(11,074)	-	(11,074)
Share of net profits of associates and joint ventures	881	-	881
Profit before income tax	16,758	11,353	28,111
Income tax expense	(4,719)	(11,353)	(16,072)
Profit after income tax for the half-year	12,039	-	12,039

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.

11 Commitments

Capital commitments

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

	31 December 2015 \$'000	30 June 2015 \$'000
<i>Payable within one year:</i>		
Investment properties	30,000	21,783
Total capital commitments	<u>30,000</u>	<u>21,783</u>

12 Contingencies

Contingent liabilities

Contingent liabilities exist in relation to future anticipated calls on shares held by the Group in the joint ventures Wingate Asset Management Pty Limited, Seres Asset Management Limited, Altius Asset Management Pty Ltd and FedInvest Pty Ltd.

As at 31 December 2015, the contingent liabilities are as follows:

- Wingate Asset Management Pty Limited - \$558,900 for 6,210,000 shares at 9.0 cents each (30 June 2015: \$496,800 for 6,210,000 shares at 8.0 cents each);
- Seres Asset Management Limited - \$485,608 for 6,250,000 shares at 7.77 cents each (30 June 2015: \$167,683 for 2,750,000 shares at 6.10 cents each);
- Altius Asset Management Pty Ltd - \$nil (30 June 2015: \$339,575 for 425,000 shares at 79.9 cents each);
- FedInvest Pty Ltd - \$282,960 for 314,400 shares at 90.0 cents each as at 31 December 2015 and 30 June 2015.

Legal matters

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

Guarantees

Guarantee for computer equipment

The Parent entity provides a financial guarantee of up to \$5 million for computer equipment lease transactions entered into by a wholly owned subsidiary company. As at 31 December 2015 there was \$394,000 (30 June 2015: \$653,000) of liabilities covered by this guarantee. The guarantee will expire in October 2017.

Bank guarantee

The Group has entered into bank guarantee arrangements totalling \$8,295,000 (30 June 2015: \$6,124,000) as part of its normal operations in order to secure the Group's performance under contracts. The bank guarantees only become payable upon the non-performance of the Group.

12 Contingencies (continued)

Contingent liabilities (continued)

The Group also had a bank guarantee arrangement amounting to \$15,000,000 in relation to the acquisition of Home Care NSW (refer to note 13). The guarantee was provided to secure the Group's performance under the agreement which includes the transition of business processes following completion of the acquisition.

Liquidity support scheme

Big Sky Building Society Limited (BSBS), a wholly owned subsidiary of the Group, is a party to the Credit Union Financial Support Scheme (CUFSS). CUFSS is a voluntary scheme in which all CUFSS participants who are affiliated with Cuscal Limited have agreed to participate. CUFSS is a company limited by guarantee, each guarantee being \$100.

As a CUFSS member, BSBS:

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

At 31 December 2015, no funding was required by and paid to CUFSS (30 June 2015: \$nil).

The Group had no other contingent assets or liabilities at 31 December 2015.

13 Events occurring after the reporting period

Homecare NSW

On 19 February 2016, Australian Unity Homecare Pty Ltd acquired all of the issued share capital in Australian Unity Homecare Services Pty Ltd (AUHCS) from the New South Wales Government. AUHCS provides in-home care services to approximately 50,000 clients across New South Wales and has approximately 4,000 employees. Under the transfer agreement, AUHCS' staff and clients transfer to Australian Unity.

The Australian Unity Group operates with a strong social purpose, centred on providing solutions to demographic challenges facing Australia from the ageing population and the rise of chronic disease. The acquisition is in line with the Group's strategy to expand the breadth and scale of its service offerings and create Australia's leading home care business, one that offers a true continuum of client-directed care.

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

	\$'000
Purchase consideration	
Cash payments	112,320
Net assets acquired based on the provisional fair value at the date of acquisition:	
Cash and cash equivalents	24,205
Receivables	5,496
Property, plant and equipment	10,000
Other assets	8,000
Goodwill	127,692
Trade payables	(7,876)
Unearned income	(22,822)
Provisions	(32,375)
Total	112,320

The goodwill recognised above is related to the value of expected synergy benefits from the acquisition, customer relationships, workforce and other items that do not qualify to be separately recognised. The acquisition accounting will be finalised within 12 months of the purchase.

13 Events occurring after the reporting period (continued)

The board is not aware of any other matter or circumstance arising since 31 December 2015 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.

14 Related party transactions

(a) Transactions and balances with related parties

Transactions between the Group and related parties for the half-years ended 31 December 2015 and 2014 were as follows:

- Dividends received from associates and joint ventures, \$270,138 (2014: \$4,328,571).
- Investment management fees charged by associates and joint ventures, \$2,301,894 (2014: \$2,323,731).
- Commission, director fees and occupancy costs charged to associates and joint ventures, \$94,771 (2014: \$1,103,963).
- Loans provided to related entities, \$19,164 (2014: \$854,681).
- Rental income from related entity, \$177,668 (2014: \$259,998).
- Investment income from related entities, \$1,739,731 (2014: \$6,536,552).

Balances with related parties as at 31 December 2015 with comparative amounts as at 30 June 2015 were as follows:

- Trade and other receivables from related entities, \$305,480 (30 June 2015: \$186,229).
- Trade and other payables to related entities, \$806,228 (30 June 2015: \$670,193).
- Loans receivable from related entities, \$31,336,417 (30 June 2015: \$31,317,253).
- Loan payable to related entity, \$5,100,000 (30 June 2015: \$5,100,000).
- Wholesale cash fund and financial assets at fair values through profit or loss managed by related entities are disclosed in note 5.

(b) Terms and conditions

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

15 Basis of preparation of half-year report

The interim financial report for the half-year reporting period ended 31 December 2015 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 2015 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*.

15 Basis of preparation of half-year report (continued)

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period. Where applicable, the Group has also adopted new or amended accounting standards which have become mandatory for the interim reporting period since its previous financial year which included AASB 2013-9 *Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments* and AASB 2015-3 *Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality*. These standards have been implemented prospectively from 1 July 2015.

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.

In the directors' opinion:

- (a) the financial statements and notes set out on pages 11 to 36 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 2015 and of its performance for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that the Parent entity will be able to pay its debts as and when they become due and payable.

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



Glenn Barnes
Chairman



Rohan Mead
Group Managing Director & CEO

Sydney
24 February 2016

To the members of Australian Unity Limited

Report on the Interim Financial Report

We have reviewed the accompanying interim financial report of Australian Unity Limited, which comprises the consolidated balance sheet as at 31 December 2015, 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, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half year.

Directors' Responsibility for the Interim Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Australian Unity Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

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

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.


Ernst & Young



T M Dring
Partner
Sydney
24 February 2016