

1 March 2017

Australian Unity Group increases first half revenue by 43 percent, profit by 16 percent

Financial services, healthcare and independent & assisted living company Australian Unity Limited (Australian Unity) has reported revenue and other income of \$901.7 million for the six months to 31 December 2016, an increase of 43.0 percent compared to the corresponding period last year (31 December 2015: \$630.4 million).

The revenue increase was due to growth generated by the Group's businesses including health insurance and benefit fund revenue and also a full half-year of revenue from Home Care NSW, which started its transfer to Australian Unity in February 2016.

The Group's operating earnings¹ of \$18.2 million for the half-year were \$0.5 million down on the \$18.7 million reported for the same period last year. This decrease was largely attributable to the significant investment activities the Group has been undertaking as part of its program of integrating the Home Case NSW business into Australian Unity's operations.

The aggregate adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (adjusted EBITDA²) of the Group's operating businesses was \$52.0 million for the six months to 31 December 2016, a 4.4 percent increase on the previous half-year result. Profit after tax was \$16.6 million, an increase of 16.4 percent from \$14.2 million in the prior corresponding period.

ASX code:

AYU

Securities on Issue:

AYUHB – 2,500,000

Issuer:

Australian Unity Limited
ACN 087 648 888

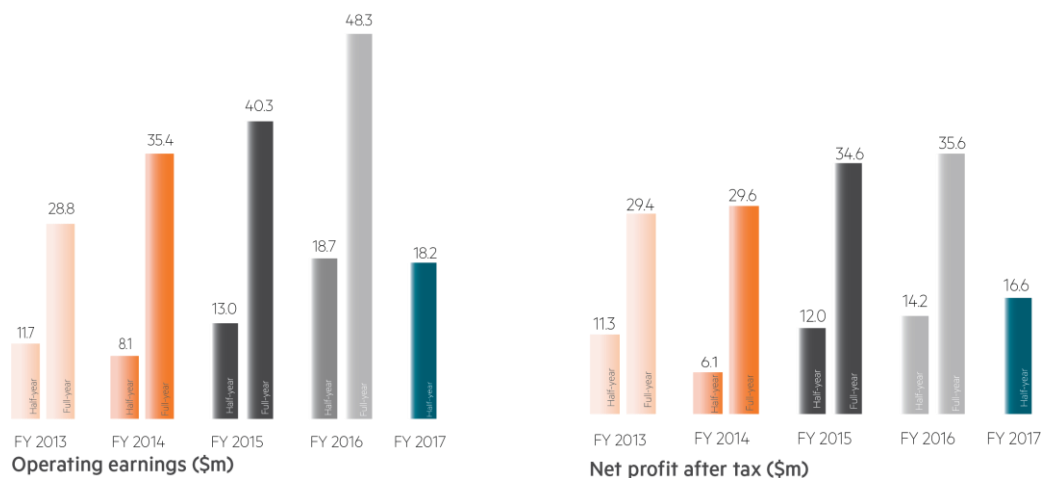
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¹ Operating earnings: Profit before tax less investment income, borrowing costs exclusive of accommodation bond interest reclassification and discontinued operations and business acquisition costs.

² Adjusted EBITDA: the measure the Group uses in assessing the operating performance of its business segments. This measurement basis excludes the effects of depreciation and amortisation, income tax, interest on external borrowings and investment income. It also excludes non-recurring expenditure.

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Group Managing Director Rohan Mead said the company continued investing in growth during the half-year, building positively and strategically on the step-changes that were a feature of the previous year.

“Expansion and organic growth has continued across the Group as it pursues its strategic ambitions. During the half-year, the integration of the Home Care NSW business continued to be a major priority requiring substantial integration investment. Preparations for the launch of the Australian Unity Trustees Limited business was also a priority,” he said.

In addition to these undertakings, significant time and resources were also dedicated to preparing for the execution of agreements with the Queensland Government for the \$1.1 billion Herston Quarter Precinct redevelopment in Brisbane. In August 2016, Australian Unity was announced as the preferred tenderer to lead the development of the site and formal contractual close for the project took place on 23 February 2017.

“Australian Unity is very excited about developing the Herston Quarter precinct and finalising formal agreements for its development represented a vital step on the path to delivering better health outcomes to Queenslanders. This \$1.1 billion precinct is set to provide Queenslanders with access to state-of-the-art health, hospital and aged care services, as well as creating international standard research and educational facilities,” Mr Mead said.

“Combined—Home Care NSW, Herston Quarter and Australian Unity Trustees—are significant growth initiatives and represent the continued unfolding of the company’s strategic ambitions. They address different aspects of the social infrastructure challenge in growing areas of community need.”

Organic growth continued in Australian Unity’s Healthcare platform, which operates two health insurance funds and businesses delivering healthcare services, and in the Wealth platform which manages equity, fixed interest, property and bonds investments as well as operating a building society.

“Solid results for these areas of the company’s operations remain particularly important as expansion occurs across the company,” Mr Mead said

“In the Healthcare business, lower utilisation, driven in part by internal efforts to reduce claims leakage and payments for inappropriate care, has seen the company able to implement the lowest premium increase in a decade and below the industry average.”

“In the context of these pleasing results for members, it was also pleasing to see solid commercial outcomes in this business with a 36.4 percent increase in

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adjusted EBITDA. This combination of results was achieved despite the ongoing challenges that private health insurers have been facing in the past five years.”

Commenting further on the half-year results Mr Mead said “The integration of Home Care NSW into our business has been a major undertaking, involving the transfer of detailed records, rosters and personal arrangements of more than 50,000 clients and 4,000 staff. We have invested millions of dollars in technology and mobile devices (in what was previously a paper-based business) to ensure ongoing employment for staff and continuity of service for our clients.

“On 19 February 2017—which is one year after the first transfer of clients and staff took place—the transition from the NSW Government systems was formally completed. We now look ahead to the full integration of Home Care NSW into Australian Unity—a major project that we can now make our clear focus,” Mr Mead said.

Also subsequent to 31 December 2016, Australian Unity launched Australian Unity Trustees, which will provide estate planning, trustee, attorney, administration, executor, estate administration, philanthropic and native title services.

“Significant effort was dedicated to creating Australian Unity Trustees—securing the first trustee financial services licence issued in many decades, and the first issued since the establishment of a national licensing framework for traditional trustee activities,” Mr Mead said.

“Establishing a trustee services business has been a long-term strategic objective for Australian Unity. There is an increasing need for estate planning and trustee-type services as the Australian population ages and personal circumstances become more complex, for instance with blended families, diseases of ageing such as dementia, and varied superannuation positions.”

The Group will continue to pursue organic growth supplemented by strategic, complementary acquisitions. It seeks to build a portfolio of businesses that provide a diverse, sustainable and commercially valuable suite of health, wealth and living services that create community value. Community value involves providing sought after products and services to individual members and customers, and also contributing to broader social purposes such as the social infrastructure challenge.

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Sector performance for the half-year

Healthcare

The Group's Healthcare operations reported an adjusted EBITDA increase of 36.4 percent, to \$39.4 million (31 December 2015: \$28.9 million). Total segment revenue for the business increased by 6.9 percent to \$455.8 million (31 December 2015: \$426.4 million).

The segment results incorporate activities from the Group's retail health insurance fund, the corporate health insurance fund (GU Health), dental clinics, and allied health operations (Remedy Healthcare).

The half-year saw continued focus on embedding an innovation process that is designed to develop solutions to affordability in the healthcare system. This process adopts a formal, fast-cycle 'test-and-learn' approach that includes experimenting with new concepts to determine customer demand prior to investing in infrastructure. The process seeks to enhance customer engagement in products and services at the design phase.

The Healthcare business also continued its campaign focused on minimising waste in the healthcare system, and scrutinising procedures and services that are delivered unnecessarily. While the number of policyholders in the retail health insurance fund has remained largely stable, the corporate health fund recorded an encouraging annual increase in policyholders of 8.4 percent.

Notwithstanding this very positive half-year result for the Healthcare business, the underlying economics of the Australian healthcare system continue to be under pressure and affordability remains a key concern.

While the Federal Health Minister's announcement during the half-year on prostheses reform was both a necessary and appropriate first step in improving the affordability of private health insurance, Australian Unity notes that this in itself is not sufficient. If lower premium increases are to be sustained, the root causes of high increases in PHI benefits—above general inflation increases in doctors and hospital charges, ageing, supply induced demand and many other factors—need to be addressed.

Wealth

The Group's Wealth platform reported an adjusted EBITDA increase of 17.7 percent, to \$8.7 million (31 December 2015: \$7.4 million). Total segment revenue increased by 12.7 percent to \$60.2 million (31 December 2015:

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\$53.4 million). The segment results incorporate activities from the Group's funds management, real estate investment, bonds and banking operations.

Following a rigorous selection process Australian Unity was selected as the preferred tenderer by the Queensland Government for the Herston Quarter Precinct (adjacent to the Royal Brisbane and Women's Hospital in inner suburban Brisbane) in August 2016. The masterplan for the five hectare site includes a public rehabilitation hospital; a private hospital; residential aged care; retirement living and student accommodation; health research; childcare; a co-working hub and education and training facilities.

Driven by the Wealth platform, Australian Unity plans to develop and then take an ongoing role in this substantial integrated health, ageing and research precinct. Contractual close for this integrated precinct was achieved after the end of the period, on 23 February 2017.

In June 2016, unitholders in the Australian Unity Office Fund (ASX: AOF) voted overwhelmingly to list the fund on the Australian Securities Exchange. AOF has outperformed the S&P/ASX 300 A-REIT Index over the last six months and has upgraded its earnings and distributions guidance for the year, reflecting Australian Unity's active approach to managing the fund.

Australian Unity's investment bonds business continues to be Australia's market leader in investment bonds and funeral bonds, and a leading provider of education investment funds, with \$2.11 billion in funds under management and administration as at 31 December 2016 (30 June 2016: \$1.99 billion).

Despite increasingly competitive market conditions and interest rate margin pressure, the ADI business, Big Sky Building Society, performed credibly and finished the half with \$876.8 million in on-balance sheet assets at 31 December 2016 compared to \$861.6 million at 30 June 2016.

Independent & Assisted Living

The Independent & Assisted Living business increased total segment revenue from \$64.0 million at 31 December 2015 to \$197.7 million at 31 December 2016 which represents a 209 percent increase. This result was largely attributable to the transfer of the Home Care NSW business.

However, the integration costs associated with the transfer contributed to an overall decrease in adjusted EBITDA to \$3.0 million for the half-year to 31 December 2016 compared to \$11.8 million in the corresponding period last year.

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The business segment also includes retirement communities and aged care facilities across NSW and Victoria, as well as growing Home Care businesses in these states.

A highlight of the half-year was the continuing high—and above industry average—occupancy levels which continue to be recorded at both retirement villages and aged care facilities.

The existing Home Care business (excluding Home Care NSW) continued to provide significant growth for the Independent & Assisted Living business. Revenue for the half-year was \$12.9 million representing an increase of \$1.6 million compared to the same period last year. Revenue for the total Home Care business, including Home Care NSW, was \$127.4 million.

Personal Financial Services

A focus for the half-year for the PFS business was acquiring an Australian Financial Services Licence (AFSL) for Trustee Services which was subsequently achieved in February 2017. The business has been renamed Australian Unity Trustees Limited (formerly Flinders Australia Limited) and now operates as a fully licensed trustee business.

For the half-year to 31 December 2016, total segment revenue decreased by 3.7 percent to \$32.2 million (31 December 2015: \$33.5 million). This was largely as a result of a number of practices leaving the now wholly owned Premium Wealth Management business (acquired by Australian Unity in 2014) and the impact of one-off revenue received in the prior comparative period associated with the transition to QBE for personal insurances.

Adjusted EBITDA was \$0.93 million for the half-year compared to \$1.69 million for the prior year's corresponding period. This result was impacted by ongoing investment in the trustee services business and by the decline period on period in the revenue associated with the transition to QBE.

The general insurance broking business has been restructured and new brokers employed with the aim of growing this revenue stream via existing referral networks. General insurance achieved significant first half operating revenue growth to \$1.1 million representing an increase of 31.7 percent compared to the previous half-year largely due to higher broking revenue and improved commercial terms.

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Further information:

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About Australian Unity

Australian Unity is a national health, wealth and living mutual company providing services to almost one million Australians, including 300,000 members. Australian Unity's history as a trust mutual organisation dates back to 1840. It has grown organically —by continually evolving to provide the services and products needed by the communities it serves—as well as through successful strategic mergers and diversification in to new business activities.

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