

ASX Announcement

31 August 2016

Australian Unity reports strong growth in operating earnings, 20 percent year on year, following a year of major expansion

Health, wealth and living company Australian Unity Limited has reported a profit after tax result of \$35.6 million and operating earnings of \$48.3 million following a year of major expansion across key elements of its portfolio.

Group Managing Director Rohan Mead said significant investments for growth and diversification during the year had delivered step-changes in progress of the company's strategies, while somewhat reducing the rate of growth in profit after tax for the year.

Expansion occurred across the company, with significant additions in home care services and trust and estate administration businesses. The transfer to Australian Unity of the New South Wales Government's home care operations (Home Care NSW) alone increased the organisation's total staff levels from 2700 to more than 7000.

"These significant growth initiatives are major steps in the unfolding of the company's strategic ambitions," Mr Mead said. "They strengthen and extend our services in areas of important and growing community need."

Result overview:

- **Revenues¹ \$1.6 billion, up 11.4%**
- **Operating earnings² \$48.3 million, up 19.9%**
- **Profit before tax \$37.3 million, down 13.2%**
- **Profit after tax \$35.6 million, up 2.9%**
- **Members' funds \$579.5 million, up 6.7%**
- **Health gross claims paid \$700.5 million, up 3.1%**
- **Funds under management \$8.2 billion, up 11.9%**
- **Funds under advice \$6.0 billion, up 1.5%**
- **Big Sky Building Society total loans \$731.3 million, up 14.5%**
- **Value of development project pipeline \$579 million, up 24.8%**

ASX code:
AYU

Securities on Issue:
AYUHB – 2,500,000

Issuer:
Australian Unity Limited
ACN 087 648 888

Enquiries:
Australian Unity Registry
1300 554 474

Contact details:
Australian Unity Limited
114 Albert Road
South Melbourne VIC 3205
Tel: 13 29 39

The listing of Australian Unity Securities on the ASX does not affect Australian Unity Limited's status as a mutual organisation

¹ Revenues comprise revenue and other income receipts as shown in the statement of comprehensive income in the Annual Financial Report plus life investment contract premium receipts. The latter receipts are recorded as movements in benefit fund policy liabilities in the balance sheet and not through the statement of comprehensive income.

² Operating earnings: profit before tax attributable to members of Australian Unity less investment income, borrowing costs exclusive of accommodation bond interest reclassification and discontinued operations and business acquisition costs.

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Mr Mead said the revenue increase was positively affected by the company's part-year incorporation of the Home Care NSW operations. Mr Mead also noted each of the company's operating platforms across the health, wealth and living portfolios, reported strong revenue rises.

"This was a year of solid performance by the portfolio of businesses, in support of our ambition to deliver social infrastructure," Mr Mead said.

Strong organic growth was evident in Australian Unity's Healthcare platform, which operates two health insurance funds along with businesses delivering healthcare services; and the Investments platform; which manages equity, fixed interest, property and bonds investments as well as operating a building society.

The positive results for these areas of the company's operations were particularly important in a year of step-change in the two remaining platforms, driven by key acquisitions.

He said two major strategic initiatives—the Home Care NSW transfer on 19 February 2016 and the acquisition of trust and estate administration company Flinders Australia on 1 July 2015—shaped the overall financial result of the relevant platforms and the Group as a whole.

The transfer of Home Care NSW into the Independent & Assisted Living platform in February was reflected in significant revenue increases. The transfer required multi-million dollar initial investments in integration activity. Substantial integration investments will continue in the 2017 financial year.

The project of integrating the 50,000 clients and 4,300 staff on to Australian Unity systems is also focused on transforming the business model of that operation, delivering mobile devices to staff to foster agility and a stronger focus on being responsive to client needs. The ambition of the business is to significantly expand the service offering within the context of the National Disability Insurance Scheme, consumer-directed care in aged care and a strong and culturally-appropriate Aboriginal Home Care business.

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The Flinders Australia acquisition within the company's Personal Financial Services platform led to an increase in revenue for the platform but a reduction in adjusted EBITDA³, due to significant integration costs and investments in aligning risk management systems and processes.

Mr Mead said that the addition of capability to provide trust and estate administration services into the portfolio allows Australian Unity to pursue its long-held ambition to provide trustee services to middle income Australians, a market currently under-served by existing trustee companies. A key focus for the business is to convert the Flinders Australia business to a fully licensed trustee business. Australian Unity has applied to the Australian Securities and Investments Commission for a full trustee licence.

The Group's Investment returns were solid overall, returning some 3.6 percent across the aggregated corporate portfolio. Year-on-year, these returns were down by \$4.2 million, or 10.8 percent, to \$34.6 million. Given the allocations of a large proportion of the Group's portfolios (including its regulated capital reserves) to cash and fixed interest securities, this position was significantly affected by the fall in interest rates during the period and was added to by the volatility of the share market.

Mr Mead said another key feature of the year was the successful implementation of a substantial number of material information technology projects. These ranged from regulatory and compliance systems through to customer service, internet and telephony systems to support "omni-channel" sales and service in health insurance. The company also implemented highly scalable logistics and rostering systems for our mobile workforce, along with a company-wide digital sourcing and procurement system that is transforming the efficiency of the service and supply chain.

"These investments continue a multi-year program of modernising the company's information technology, as we have sought to ready the company for the new pressures and opportunities of the digital economy," Mr Mead said.

Another key focus during the year was work health and safety, with significant investment in new systems to support staff requiring medical attention after an injury at work and the improved recording of near misses.

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³ Adjusted EBITDA: The measure the Group uses in assessing the operating performance of its business segments. This measurement basis excludes the effects of tax, depreciation and amortisation, interest on external borrowing and investment income. It also excludes non-recurring expenditure.

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The expansion of in-home care increased the emphasis on assessing and mitigating risks in this area of the operations.

He said the overall company results were an encouraging demonstration that Australian Unity had an important role to play in the lives of customers and members and of the resonance of its ambition to help people thrive in the areas of health, wealth and living.

Mr Mead said the announcement by the Queensland Premier in August 2016, after the end of the year under review, of Australian Unity as the preferred tenderer to develop a \$1.1 billion health precinct, Herston Quarter in inner-suburban Brisbane, was another positive indication that Australian Unity's ambition to create community value through social infrastructure is recognised.

The Herston Quarter project will include a specialist rehabilitation hospital, a private hospital, aged care and retirement living along with childcare, student housing and an innovation and co-working hub. Australian Unity will both develop the precinct and operate major aspects of the precinct on an ongoing basis, including its aged care elements.

For more detailed information about the results of each of the business segments, please see the following pages.

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Platform Results and Highlights

Independent & Assisted Living (previously Retirement Living)

The Independent & Assisted Living business grew total segment revenue by 108.8 percent to \$223.0 million, driven by the transfer of Home Care NSW from the NSW Government to Australian Unity in February. The platform recorded \$24.8 million in adjusted EBITDA, an increase of 3.6 percent.

In addition to home care and disability services, the platform operates retirement communities, including aged care and independent living units.

The expansion in home care and disability support was a significant contributor to the overall result. In February the Home Care NSW transfer resulted in 50,000 clients and 4,300 staff joining Australian Unity. To support growth and to realise plans to extend and deepen services to clients—new client management and staff rostering software systems were introduced, including planned mobility solutions for all care staff and portal access for clients and their families. The new systems are designed to maximise care workers' time with clients and enable the business to continue to grow in scale and service provision. A 24/7 customer service hub in Parramatta was also established. The roll out of tools to support the business, its growth, service quality and future scale will continue in the 2017 financial year.

The retirement communities operations also had a strong year. Australian Unity owns and operates 19 retirement communities in Victoria and NSW, with a portfolio of 2,110 independent living units and 609 aged care beds. Retirement community occupancy was greater than 97 percent across the 12 month period to 30 June 2016. Fewer than 30 independent living units remained uncontracted across the portfolio as at 30 June 2016.

Development continued during the year at Sienna Grange and The Governors in Port Macquarie, NSW; The Residences at Rathdowne Place in Carlton, Victoria; Campbell Place in Glen Waverley, Victoria; Peninsula Grange in Mornington, Victoria; and Lifestyle Manor in Bondi, NSW. The business, together with the Investments arm of Australian Unity, successfully closed two development funds that raised sufficient external capital to support the Port Macquarie and Glen Waverley developments.

Australian Unity continues to build upon its *BetterTogether* model of client-directed care in its aged care facilities, extending and adapting these principles to home care and disability services.

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Healthcare

The Healthcare business grew total segment revenue by 4.7 percent to \$863.8 million and recorded \$64.9 million in adjusted EBITDA, an increase of 15.4 percent.

The number of retail health fund policyholders increased by 1.6 percent to 205,476 at 30 June 2016, slightly higher than the industry growth rate. Maintaining and slightly improving policyholder numbers was a sound achievement in a challenging year in which health costs continued to rise at a significantly faster rate than the rest of the economy. These additional costs and pressure on premiums continue to drive policyholders to consider downgrading or dropping their insurance cover altogether. In response to growing consumer demand for more affordable products, the business also developed a budget product range.

GU Health, Australian Unity's corporate health insurance provider, is the only fund in Australia that caters exclusively to the corporate market. GU Health increased its policyholders by 7.4 percent to 34,082 during the year.

Remedy Healthcare, Australian Unity's evidence-based chronic disease and preventative health business, had another strong year of growth, passing the milestone of delivering one million episodes of care since its formation.

Remedy successfully launched its mental health program 'MindStep' in November 2015. MindStep is an evidence-based program for people suffering from anxiety and depression that is delivered in a non-traditional, yet demonstrably effective, way. It was developed in collaboration with Flinders University in South Australia and York University in the United Kingdom, having been adapted from a successful program operating 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. By 30 June 2016 the program was being delivered on behalf of six private health insurers and was achieving recovery rates for clinical depression and anxiety of 59 percent. Recovery rates are measured using the PHQ-9 and GAD-7 clinical assessment scores. Remedy's Hospital at Home and Rehabilitation At Home services are now utilised by almost all of Australia's private health insurers and over the past two years these programs have reduced hospital claims by more than \$20 million.

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Personal Financial Services

The Personal Financial Services platform grew total segment revenue by 15.3 percent to \$65.6 million, and recorded an adjusted EBITDA of \$2.2 million, a decrease of 45.2 percent. Funds under advice rose 1.5 percent to \$6.0 billion.

As previously mentioned, the business successfully acquired Flinders Australia on 1 July 2015, a significant event that positions it to build a full trustee services business. Applications for a full trustee licence have been lodged. The new business responds to growing consumer needs, particularly in “middle Australia” for a trusted provider of trust and estate administration services. It also increases the company’s capability in specialised areas, such as supporting native title trusts.

Integration costs associated with the acquisition impacted the financial results of this area of the business. These costs included investments in aligning risk management practices and processes with our existing operations. Also contributing to the results was the impact of the external environment on the financial advice area of the business. Fragile market conditions experienced later in the year under review combined to undermine investor sentiment and constrain the business’ revenue outcomes for the year.

The number of financial advisers decreased marginally to 176 at 30 June 2016 (30 June 2015: 183), due to some practices, as anticipated, leaving the now-wholly owned Premium Wealth Management business after its acquisition in 2015. Offsetting this expected attrition arising from integration, the business recruited 10 new practices during the year. The adviser recruitment pipeline is encouraging and we expect adviser numbers to grow in the 2017 financial year.

The business positioned itself effectively in relation to legislative changes that now require accountants who provide advice in relation to the establishment of Self-Managed Superannuation Funds (SMSF) to either hold an Australian Financial Services Licence (AFSL); or be authorised by an AFSL holder; or work with a licensed or authorised financial adviser when providing SMSF advice. Australian Unity’s ability to offer such support resulted in the induction of 79 accountants during the year. Accountants commercially associated with our advice business now number 354.

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Investments

The Investments platform grew total segment revenue by 14.8 percent to \$123.1 million, and recorded an adjusted EBITDA of \$20.3 million, an increase of 36.8 percent.

The platform, which manages more than \$8.2 billion in funds under management (2015: \$7.3 billion), supports investors to create wealth through equities, property, mortgages, fixed interest and bonds. The Big Sky Building Society is also operated through this platform. The Investments platform also invests money raised from its customers into commercial and social infrastructure assets. It operates in Funds Management, Real Estate and Mortgages, Banking (Big Sky), investment bonds, funeral bonds, and education savings plans.

Conditions during the year included an ongoing downturn in commodity prices, fuller prices in the residential property market and downward movement in interest rates. Given these market conditions, the business focused on developing investment options for clients in specialised investment vehicles, while also building up its office, commercial and retirement village offerings.

A key success during the year was the listing on the Australian Securities Exchange of the Australian Unity Office Fund. This strategic initiative was overwhelmingly supported by a vote of unit holders and designed to increase liquidity and flexibility for investors in this particular fund.

The business also supported the Independent & Assisted Living platform with funding vehicles to fund the development of retirement community assets in Port Macquarie, NSW, and Glen Waverley in Victoria.

The Federation Managed Accounts platform, which is operated by the business, achieved \$290 million in funds under administration and succeeded in its application for a Superannuation licence.

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Big Sky Building Society

Big Sky Building Society recorded another year of record growth, with net loan growth of 14.5 percent. Big Sky's total on-balance sheet assets grew to \$862 million as at 30 June 2016 (30 June 2015: \$754 million).

Big Sky was again rated by S&P and maintained its BBB rating which is a very positive result for an organisation of its size. Mobile and internet banking capability were upgraded and customers are now offered these services at the same standard as that of the four major banks.

—end—

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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