

From the Chairman



Australian Unity has had another successful year. As a mutual, our principal purpose is to deliver high trust services to our members and customers.

We use a range of measures to assess our success, but primarily they relate to the quality of service delivery and growth in the services delivered more than to financial measures such as profit.

We have nonetheless achieved a \$25.6 million result in profit after tax for the year ended 30 June 2011, but I stress that this is all invested back into the growth of the services we deliver.

Throughout our 170-year history, the organisation has existed to provide social infrastructure and services (in a commercially sustainable way) in order to improve the wellbeing of its members and of Australian society generally.

Today, there are many areas in which the objectives of Australian Unity Limited and its subsidiaries are aligned with growing community aspirations about investments in social infrastructure. For example, we are concerned with the implications of the rise of chronic disease and an ageing population on the sustainability of the economy generally and on the Australian way of life.

Part of our response to these concerns is to invest in commercially sustainable initiatives in the health and ageing sphere that seek to ease the pressure on the welfare system and to provide high quality, affordable services to hundreds of thousands of Australians.

It remains the intention of the board of Australian Unity Limited to continue to use profits generated from all of our businesses to further invest in these services for social benefit.

I am also especially proud to report that this year we broke new ground for a mutual by launching the Australian Unity Notes, an unsecured debt instrument quoted on the Australian Securities Exchange. This \$120 million issue enabled us to repay a number of other debt facilities and has also given us additional funds to continue our growth plans.

We are always seeking to improve what we do and although we could always do better, I do feel that overall Australian Unity is recognised as a high quality organisation. We have come a long way in the past 18 years since Australian Unity was formed through merger and since then have had two more substantial mergers. This year we announced that we were in discussions to consider another prospective merger with Big Sky Credit Union. That proposal is currently the continuing subject of examination by Big Sky and its members. Should the respective boards, Big Sky members and regulators approve the merger, the Australian Unity Group will include a significant and highly regarded Authorised Deposit-taking Institution which will add to our strength and value to members.

This update for members is a summary of our formal report for the year ended 30 June 2011, which can be viewed on our website (www.australianunity.com.au). If you have not already opted in to receive a copy of the annual report and would like to do so, please call 03 8682 6701.



Alan Castleman
Chairman

Annual achievements

\$120m

Funding raised through the Australian Unity Notes issue

Won

International Customer Service Professionals' Outstanding Business Award

GOAL Establish new channels and new geographic footprint

RESULTS Extended reach into Queensland and New South Wales in our retail health fund

Achieved 7 percent growth in our retail health fund

Increased GU Health's insurance customers by 19 percent

Established a joint venture to provide financial advice to rural families

Increased accountant referral partners for financial advice from 70 to 163

GOAL Strengthen customer understanding, responsiveness, and build first point resolution in Healthcare

RESULTS Developed first to market iPhone and iPad applications with photographic ability to submit extras claims faster

Won both the International Customer Service Professionals' Platinum (large business) Award and the overall Outstanding Business Award for the second consecutive year

Launched Member Express, a customer service monitoring and improvement program

GOAL Strengthen brand presence

RESULTS Increased the visibility of our brand, including in new markets, by launching a campaign explaining the company's 170-year history of providing social support and infrastructure

GOAL Develop new programs and services connected to wellbeing

RESULTS Increased services at Australian Unity retirement villages and aged care facilities (eye testing, health checks, and computer and technology education)

Developed two new telephone-based support initiatives (Maternity Support Program and the Transition Care Program)

Ninety-seven percent of patients rated the program 'excellent' or 'good' overall

GOAL Build financial strength

RESULTS Achieved 8.3 percent growth in revenue

Funds under advice hits \$1 billion

Funds under management of almost \$12 billion

GOAL Support whole-of-portfolio approach to capital management

RESULTS Issued \$120 million of Australian Unity Notes to support growth plans

GOAL Strengthen our position as a leading employer

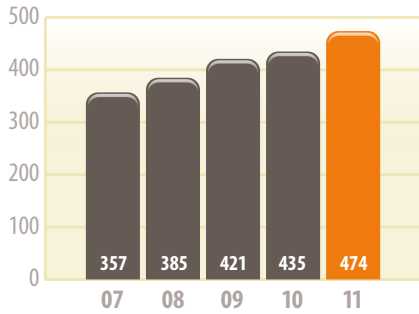
RESULTS Broadened range of benefits available to staff, including 10 weeks paid parental leave

Announced as a 2011 Employer of Choice for Women by the Equal Opportunity for Women in the Workforce Agency

Strengthened development programs for our high performing leaders

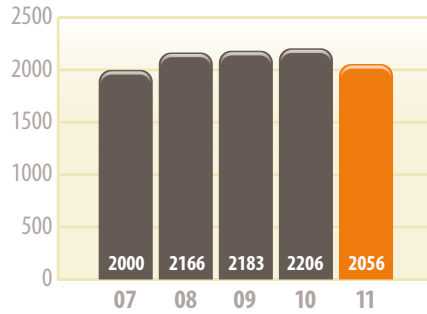
Annual highlights 2011

Health claims paid for members (\$m)



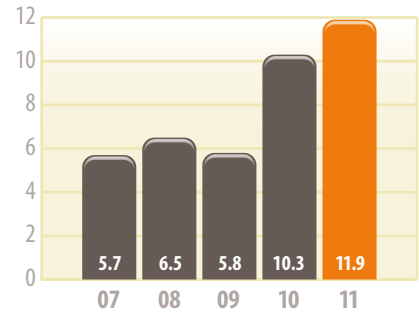
\$474m

Retirement units and aged care beds #



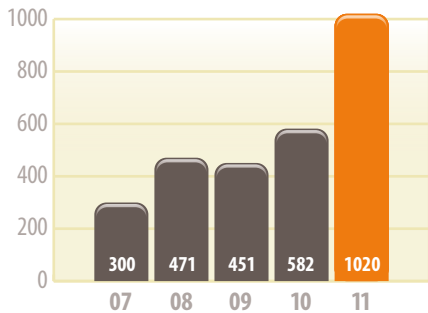
2,056

Funds under management (\$b)



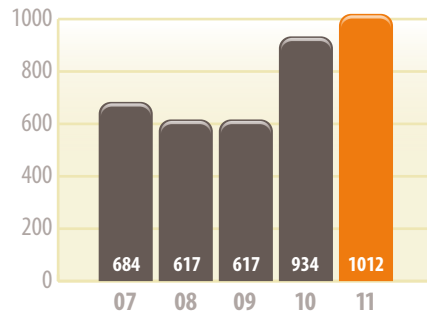
\$11.9b

Funds under advice (\$m)



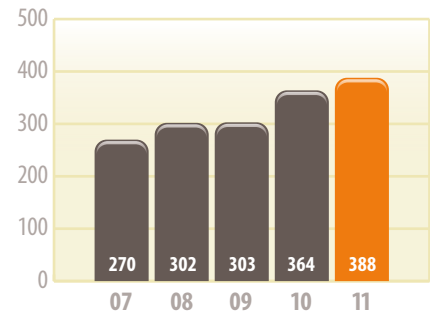
\$1.02b

Revenues (\$m)*



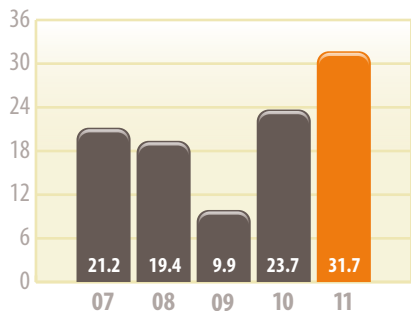
\$1.01b

Members' funds (\$m)



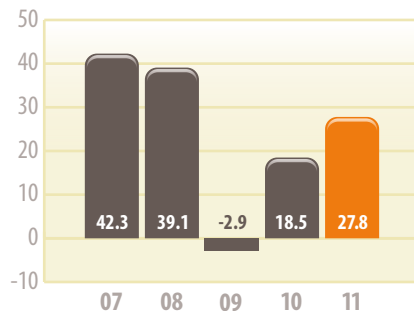
\$388m

Operating earnings (\$m)*



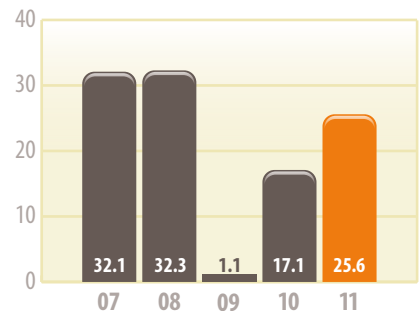
\$31.7m

Profit before tax (\$m)*



\$27.8m

Profit after tax (\$m)*



\$25.6m

Definition of terms

Funds under management: Investors' funds managed by Australian Unity Investments and its joint venture partners.

Funds under advice: The total value of client funds invested through Australian Unity financial planners.

Members' funds: Net assets of the Group attributable to members.

Operating earnings: Profit before tax less investment income, borrowing costs and discontinued operations.

Notes to the annual highlights: Profits before tax and operating earnings exclude the impact of the Benefit funds which are required to be included in the financial statements but which have a zero impact on profit after tax.

*The year 2007 includes the results of the general insurance business which was sold in 2008, materially affecting the comparative results for 2007 and 2008, while 2010 includes 10 months of Lifeplan, following the merger with Lifeplan Australia Friendly Society in August 2009.

#The 2011 total is lower due to a management contract for a 178 unit village not being renewed during the year.

Healthcare

Health insurance—growth in membership

Australian Unity experienced growth outside its main Victorian market, expanding into Queensland and New South Wales, contributing to an overall net growth in membership of 6.9 percent (2010: 1.6 percent). Our corporate health fund—GU Health—increased by 18.9 percent with no drop-off of corporate clients for three consecutive years. By way of comparison, the average for the whole industry this year was some 3 percent.

We also opened our fourth Victorian dental centre in Rowville, Victoria, increasing members' access to dental health.

Service innovation

Australian Unity launched a free iPhone and iPad application allowing customers to view policy details, have claims assessed and processed within one business day and make extras claims by submitting a photo of their invoice.

Remedy Healthcare

Over the past four years we have invested extensively into Remedy Healthcare, a preventative health and chronic disease management business. We are beginning to see some exciting results from Remedy's approach, including demonstrated reductions in hospitalisations of our members on the programs compared to a like group of non participants with similar conditions.

Rehability: care co-ordination for private health insurers

Rehability's flagship Rehabilitation at Home Program offers patients a range of individualised services in the privacy and safety of their own homes, reducing stress and aiding faster recovery, and operates in Victoria, South Australia and New South Wales with plans for further expansion.

Highlights

- > Increased membership in NSW and QLD by 20.9 percent.
- > Grew our retail fund by 6.9 percent and our corporate fund by 18.9 percent.
- > Invested \$36 million over the past four years in preventative health and chronic disease management.
- > Developed two new preventative health programs through Remedy Healthcare.
- > Invested in service and technology to provide members with simple and useful health insurance.
- > Won both the International Customer Service Professionals' Platinum (large business) Award and the overall Outstanding Business Award for the second consecutive year.





Retirement Living

Australian Unity builds and operates retirement communities, many of them integrated with aged care or other support services. The business now runs 16 retirement communities and has \$400 million in development projects under way. Whether new or established, both have the same goal: to create communities that support older Australians to live well.

Village developments updates

The new developments will provide more than 600 independent living units and 238 aged care beds. The business holds 226 Federal Government provisional bed licences for these aged care places, making it possible to offer the places to the community as soon as the buildings are constructed and operational.

- > Peninsula Grange retirement community in Mornington welcomed its first residents. The village will include 278 independent living units and 90 aged care places.
- > The construction of five units at the Oaks in Croydon began in February 2011 to complement the existing established community.
- > We continued to work with the Victorian Government to develop a wellbeing precinct in Carlton, Victoria, which will provide aged and assisted care accommodation options, retirement living and services promoting health and wellbeing.
- > Sienna Grange in Port Macquarie, New South Wales is almost 50 percent complete and once completed will comprise 67 independent living units.

Increased services

During the year, Australian Unity increased the services on offer in its retirement villages and aged care facilities to include eye testing, health checks, and computer and technology education.

Australian Unity's palliative care services received a \$35,000 Federal Government grant to assist residents with high

Highlights

- > Village occupancy rose from 94 percent to 95 percent. Residential care occupancy was maintained at 98 percent.
- > We launched the Retirement Village Property Fund for institutional investors, in conjunction with our Investments business. In August 2011 we entered into a contract to purchase a village and also entered a conditional agreement (subject to due diligence) to purchase a second village. Together, these villages have more than 200 units.
- > Our Victoria Grange development in Vermont, VIC, continues its high market acceptance and the first stages of the new Peninsula Grange development in Mornington, VIC, were fully pre-sold during the year.
- > Our Community Care services continue to expand and represent 5 percent of revenue for the year.

quality care needs to stay in a familiar environment, and reduce the need to seek care in alternative facilities. The palliative care unit is expected to assist the community through better access to information and expertise.

Community care

In June 2011, Australian Unity was awarded six Consumer Directed Care Community Packages for the New South Wales central coast. The company now has 134 active community care and 40 ambulatory care packages across New South Wales and Victoria.

Respite care

Federal funding for the Day Respite Program at Constitution Hill in Parramatta, New South Wales, was extended for another 12 months.

Financial Services

Investments

Our Investments business has continued to develop soundly despite a further year of economic and securities' market volatility, with funds under management increasing to \$11.9 billion.

The business continued to expand, including by building on joint ventures and strategic alliances. This business model provides investors with access to a range of experts. The equity and fixed interest managers include Acorn Capital, Vianova Asset Management, Platypus Asset Management, Wingate Asset Management and Seres Asset Management.

Australian Unity Investments joined with an experienced fixed interest team to launch an additional joint venture: Altius Asset Management. Australians continue to be under-represented in the fixed interest asset class, but over time investors are likely to start moving out of cash holdings into term deposits and other fixed interest investments.

Property funds

As part of its growth strategy, the business purchased the unlisted Diversified Property Fund, previously owned by Westpac, offering investors a broader product range in the sector.

The business also began raising the \$67 million needed for the Retail Property Fund to finance an expansion of the Waurn Ponds Shopping Centre in Geelong, Victoria. As at 30 June 2011, \$43 million had been raised from new and existing investors.

Mortgages

While investors continue to favour Commonwealth Government guaranteed products, mortgage trusts continued as a stable option. With the share market down almost 40 percent from its pre-global financial crisis level, Australian Unity's mortgage trusts held steady, still returning dollar for dollar. Australian Unity continued to improve liquidity for investors in these mortgage trusts. Following the implementation of monthly withdrawal facilities for the Mortgage Income Trust in 2010, a regular monthly withdrawal facility for the High Yield Mortgage Trust was introduced in 2011.

Lifeplan

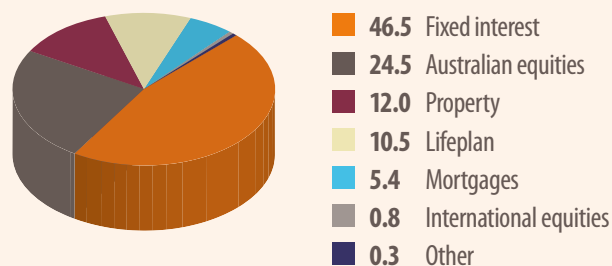
Following the merger with Australian Unity in September 2009, Lifeplan completed a post-implementation optimisation and restructure to ensure the business performs soundly.



Highlights

- > Wingate Asset Management received a special commendation for innovation in investment management from the Australian Centre for Financial Studies.
- > Launched a sixth joint venture partnership, Altius Asset Management.
- > Purchased the unlisted Diversified Property Fund, previously owned by Westpac.
- > Our Retirement Village Property Fund for institutional investors was jointly launched by Retirement Living and Investments.

Funds under management at 30 June 2011 (%)



Personal Financial Services

Increased business

Personal Financial Services almost doubled the size of its business during the year. This was a result of recruiting established advisers, increasing adviser productivity and acquiring financial planning practices.

The mortgage broking division acquired four loan books totalling \$140 million, including 10 finance brokers. This, together with new business, increased the loan book by 107 percent from \$150 million to \$311 million.

Personal Financial Services launched a new joint venture, Next Rural Financial Management. The joint venture will help families to transfer their farms to the next generation while allowing retiring farmers to achieve their lifestyle and retirement goals. It will ensure there are risk protection programs in place to help protect the family members involved, and that debt structuring and financial advice is also available through the restructuring process.

Increased efficiency and productivity

Cost saving initiatives and organisational changes implemented in the 2010 financial year continued to deliver savings, allowing the business to achieve growth with virtually no change in its operating costs.

To improve on efficiencies, the company introduced a new revenue management and reporting system, which has minimised the need for manual intervention. This has reduced the risk of human error and significantly freed up resources. It has automated the revenue sharing process between advisers and their accountant referral partners and has improved reporting capabilities.

Highlights

- > Funds under advice increased from \$582 million to \$1.02 billion.
- > Gross revenue increased by 30 percent.
- > Network of accountant referral partners grew from 70 to 163.
- > Loan book increased from \$150 million to \$311 million.
- > Launched a joint venture 'Next Rural Financial Management' to supply financial advice and finance broking services to agricultural.



Community, Sustainability and People

The Australian Unity Wellbeing Index

The Australian Unity Wellbeing Index celebrated 10 years of research this year with the production of the *'What makes us happy?'* report. The index explores eight domains that contribute to an individual's subjective wellbeing: achievements in life, standard of living, future security, health, safety, relationships, community connectedness, and religion or spirituality.

Leading employer

During the year Australian Unity was recognised as an 'Employer of Choice for Women' from the Equal Opportunity for Women in the Workplace Agency. This commendation recognises, in one aspect, our efforts to create a diverse work environment where different backgrounds, experiences and contributions are valued.

Our community contribution

This year we invested almost \$1 million directly into the community.

We continued our partnership with Swim Australia's Learn To Swim school program—now in its fourth year.

Continuing our support of the arts, we again sponsored Bell Shakespeare and began a new partnership with the Australian Brandenburg Orchestra. The companies performed in retirement villages including Constitution Hill, Willandra, The Governors, Walmsley, Bateau Bay, Lifestyle Manor Bondi and Mt Eymard.

We are working for the fifth year with Greatconnections, a community organisation that pairs retired executive volunteers with not-for-profit organisations in need of their skills.

The Australian Unity Foundation awarded a total of \$147,310 to six groups: Australian Quadriplegic Association Victoria Ltd, Carers Victoria, Australian Community Safety & Research Organisation, The Reach Foundation, the Beacon Foundation and PivotWest Health Services.

Advocacy and public policy

During the year, Australian Unity made representations in multiple forums to ensure Australians' wellbeing on issues such as:

- > The proposed change to the private health insurance rebate.
- > The Productivity Commission's Inquiry, Caring for Older Australians.
- > An increased commitment to investor education including superannuation.

Australia Day

Australian Unity has celebrated Australia Day since 1888 after one of our founding organisations successfully lobbied for a national holiday to celebrate what it meant to be Australian. This year we, again supported the popular Australia Day People's March in Melbourne, and hosted the Great Australia Day Breakfast.

The Australian Unity Great Australia Day Swim increased competitors by 50 percent, and together with Rotary, the event raised \$65,000 for Les Twentyman's 20th Man charity and local Bayside children's charity, Bayciss.

Reducing our footprint

During 2010-2011 Australian Unity continued to seek ways to reduce its environmental footprint across all areas of the business to ensure a sustainable future for current and future generations.

Areas we support 2011 (% of \$)

