

Australian Unity Annual General Meeting
28 October 2015



Glenn Barnes: Chairman's Address

As you know, this year Australian Unity is celebrating its 175th birthday. There are many years over that period that, in hindsight, can be seen as significant turning points in the Company's history. The achievement of the Federation of Australia, for example, was largely driven by the organising efforts of our antecedent company, the ANA. Another example is the merger of the ANA and Manchester Unity in Victoria in 1993 to create Australian Unity. We have celebrated our anniversary year in a number of ways and recently again with two major announcements of strategic importance to the Company. Both of these occurred after the balance date of 30 June 2015, and so neither are detailed in the Company accounts this year. But it is important that we bring them to your attention as they will help to shape the company in the years to come.

The first was the acquisition on 1st July of Flinders Australia Limited—an entity that provides trust and estate administration services. This acquisition will enable us to offer significant additional value to our clients. In due course we hope to be successful in an application for a full trustee services licence which will enable us to offer a broader range of trustee services.

The second was our success in tendering for the NSW Government's entire home care business, which was announced in August. This means that from early next year Australian Unity will be the supplier of in-home care services to more than 50,000 clients across NSW, and an additional 4,000 staff will join our Company from the

department of Family and Community Services in NSW.

Needless to say, both of these changes are important steps for Australian Unity's aim to continue to deliver more wellbeing related services to a wider range of customers and communities. Rohan will have more to say about both of these initiatives shortly.

Even before these were announced, Australian Unity had had a very positive year. You will see in our financial accounts that we posted a profit after tax of \$34.6 million, up 16.6 percent on prior year. And we increased operating earnings by 13.7 percent to \$40.3 million. Among our key successes for the financial year under report was the opening of Peninsula Grange Aged Care in Mornington. We also commenced construction of "The Residences" retirement units at Rathdowne Place in Carlton and preparation for construction of Campbell Place on the site that was formerly the Wahroonga Aged Care facility. This renaming is in honour of Murray and Ann Campbell who have given so much to our Group—with Murray only finally retiring from all formal involvement this year.

In the financial services parts of our business, we experienced strong growth in our Personal Financial Services business and in Big Sky Building Society loans.

It has also been an interesting year in the broader social and political context. Members will be aware that for some time now we have been concerned at the lack of ability of our politicians and policy-makers to tackle what we believe are vital and necessary reforms. Perhaps even more crucial is their inability to engage the electorate in

important conversations and discussions about the future of this country. I am optimistic that we are starting to see some shift in this regard. However, the momentum must be maintained and I trust that Australian Unity will continue to invest in catalysing discussion of ways the political system can be improved.

Later in this meeting you will get an opportunity to consider a number of important resolutions. Two of them relate to our formal presentation to you of the financial report and the remuneration report. These are regular items of business at the AGM.

The third is the election of three directors in accordance with the Company's constitution—Ms Su McCluskey, Mr Greg Willcock and myself. Last year you might recall we had a vote to change the constitution. That vote was successful and the new rules require members to vote on the appointments, even if the number of nominations for directors are fewer than the number of vacancies. This will be the first year that the new rule is activated and so members have the opportunity to vote for each of these directors.

During the year I announced that I would retire as Chairman early in 2016. As detailed in my formal messages to members, I have made this decision with some considerable personal sadness but also a sense of optimism for the future of the Company. As you are aware, for some time now your board of directors has been engaged in a period of board renewal, and as I reflected during the year it became clear to me that the next generation of leadership for this Company was not only in place but ready to take the Company forward through the next stage of its journey. My fellow directors have elected Peter Promnitz as Deputy Chairman and Chairman-Designate. Peter has a depth

of experience in executive and non-executive leadership roles and I am very pleased he has accepted this new responsibility. Initially, I thought it would be timely to retire at next year's AGM, but upon reflection and discussion with my director colleagues, I thought a more appropriate time would be in March next year, which is just prior to the board sitting down and considering the annual strategic review of the business and the implementation plans for the coming years.

As previously indicated, I am also standing for re-election at this AGM, as my current term has expired. So it is my intention to retire at the end of March, and, if re-elected today, I will be spending the next five months continuing to support management in bedding down a number of major initiatives and the board in its ongoing refreshment program—including the transition to new board leadership. I believe this is the right approach to ensure the best and smoothest transition.

The Company is at an exciting time. Australian Unity has generated an enormous amount of momentum over recent years as the result of the foresight of our leaders of the recent past and present and the strategies embraced. I would like to take this opportunity to thank my fellow directors, the management team and all Australian Unity employees for their dedicated hard work and their commitment to the refinement of our strategies and their effective implementation. We need to continue to ensure that Australian Unity, which has been an important Australian institution for 175 years, continues to play its part in building a better Australia.

I will now ask our Group Managing Director, Rohan Mead, to present his report and I

will be back later to continue with the formal business of the meeting.

Rohan Mead: Group Managing Directors' Address

Thank you Chairman. I would like to also extend a special welcome to you all. I am pleased to be able to report on the Company's performance this year.

Turning first to the financial results we have had an increase in revenues of 7.5 percent, to \$1.4 billion.

Operating earnings, which is profit before tax less investment income and borrowing costs, has also increased, by 16.6 percent, to \$40.7 million. This is an important figure as it shows our performance driven by our own trading position, unaffected by the earnings we make on investible funds.

The financial results include a positive growth in our investment income, which is in part due to the strong contribution of our investments asset managers in a year of unstable and uncertain financial markets.

Both profit before tax and profit after tax increased strongly, at \$42.9 million and \$34.6 million respectively.

During the year we invested some \$42 million in growth of key business areas, including a number of small but strategic acquisitions.

The Chairman has already mentioned two large events that occurred after the close of the financial year that consequently aren't reflected in these numbers. Both of these are major initiatives for the Company, and if all goes to plan, will have a significant positive impact on the Group's financial results in the future.

We are also excited about the impact these initiatives will have on individuals. For some time now we have flagged what we describe as the "social infrastructure challenge" facing Australia. This stems from a combination of an ageing population, the rise of chronic disease and an inadequate store of retirement savings for a large percentage of Australia's population. These three issues combined are putting ongoing and increasing financial stress on governments and households.

As you know, Australian Unity has been working on these challenges on a number of fronts. On a policy level, we have been advocating for changing the conversation in reform: from one which focuses on spending (or cutting spending) to one that focuses on outcomes and value for investment. Tomorrow, Australian Unity and the Business Council of Australia will co-host a forum on health reform that aims to start a new conversation about innovation in the health sector. By innovation, we don't mean 3-D printing of prosthetic limbs or robotic surgery—the sector has demonstrated ample sophistication in technical innovation. The innovation we need in the sector is business model innovation and process innovation to remove the blight of poor safety, inappropriateness and inefficiency. As I put it in a recent speech to the Centre for Independent Studies, if we summoned Alexander Graham Bell from the grave and transported him into a modern, yet average, Australian household and asked him to identify the telephone, he'd be stumped. But I suspect that if we summoned Florence Nightingale from the grave and took her to an Australian acute hospital—after an

hour's in-service she would almost be ready to clock on for a shift. She would have identified the location of the nurses' station on the ward, orientated herself to a familiar set of patient beds, with nurses fanning in and out to check temperatures (with slightly fancier thermometers), dispense medications, and update charts at the foot of beds. She would have in no time identified that familiar (still rankling) demarcation between the doctors and nursing staff. Florence wouldn't just be almost ready for work, she would feel right at home.

The resonant truth lurking between these two thought experiments, is that healthcare has innovated its procedural clinical interventions, its curative molecules, its diagnostic capacities, its treatment possibilities, etc—but its managerial and business systems have been glacial in their rate of change and innovation. As a result we are wasting at least 20 percent of the \$150-plus billion we as a nation expend on health annually. This means that consumers, through many things including health insurance premiums, are paying an “inefficiency tax” in their own health costs. We hope that the conversation tomorrow, together with subsequent conversations, can help create a case for action on this front.

This is but one example of our engagement in thought leadership. The senior executives in this Company are engaged on the boards or significant committees of 12 major industry bodies. Through these, and under our own steam, we continue to engage with policymakers on subjects as diverse as aged care funding models, retirement savings, and even the structure of our corporate model itself. For example, this year we presented a submission to the Senate Inquiry into Cooperatives and Mutuals and I have been asked to formally present to that inquiry later this week. Our submission supports the case for the mutual sector playing a strong and important role in the diversity of the

Australian economy.

Why do we think this is so important? We believe, to deal adequately with the major social challenges, including the ones I have outlined, Australians will need to rely on organisations that can deliver high-trust services, reliably and over the long term. Mutuals are well-placed to provide these because their corporate structure can allow them to focus on long-term outcomes rather than short-term financial results.

The social infrastructure challenges we are familiar with are long-range and require this kind of long-range thinking and response. Australian Unity welcomes the announcement by federal Health Minister Sussan Ley today of an inquiry into private health insurance. We believe this will be a valuable forum for the exploration of the extraordinary and relentless inflationary—and too often wasteful and inefficient—elements of our healthcare system.

There is another aspect of environmental challenge that is co-occurring. All four areas of our business operations—healthcare, retirement living, investments and personal financial services—are operating in the volatile and uncertain economic world. Consumers are participating in this same, fluid, economic world with a mixture of anxiety, caution, technological abandon and varying engagement with change and its increasing pace.

To survive in this environment, companies must be agile, adaptive and innovative. These are not just glib words but are a defining context that surrounds not just Australian Unity but individuals, organisations and governments across Australia.

How to mesh these two, apparently conflicting trends? This is at the core of our strategic consideration. As an organisation we need to be both steadfast and reliable as well as dynamic and inventive.

Over recent years we have been progressively developing our approach to the type of environment that I have just sketched. We were one of the first financial planning dealerships to create a fee-for-service model for financial advice. We pioneered the development of joint venture partnerships in our funds management business. We built on a strong innovation culture in GU Health to extend our operations. We used innovation to build our Remedy Healthcare business, which has arguably led the sector in the development of evidence-based chronic disease intervention and management programs. We have designed a model of care for our aged care facilities that firmly places the person and their family in the centre of every decision about their care; and we have backed that up with new developments in the built form that support this model.

The two announcements that the Chairman has mentioned are further developments of these themes. Importantly, we think they will allow us to bring our broader thinking and approach to entirely new sets of clients. In particular, these are largely clients who are potentially vulnerable due to age and/or health related impairment.

Firstly, Home Care NSW.

The NSW government has been providing home care services to the community for 70 years. These are vital and appreciated services are provided to more than 50,000 clients and their families across the state each year. Australian Unity is humbled to be the

successful tenderer for these important services. Our vision is to create Australia's leading home care business—one that offers a true continuum of client-directed care. This is no small task. Over the next 12 months we need to ensure that we transfer these operations in a way that is as seamless as possible for all clients and staff. Our primary objective is to ensure continuity of service. But longer-term, our aim is to create options for clients to have access to an extended continuum of care as their needs change. This means ensuring that clients don't need to move to other services as their health or ability levels change. We are excited about the possibilities this generates. In particular we welcome the opportunity to work with the dedicated staff of Home Care NSW whose understanding of their clients' conditions and needs will be a vital ingredient in building a strong service model across all areas of its operations, including disability services and the significant and specialised Aboriginal Home Care division.

Secondly, our expansion into trust and estate administration services enables us to further add to the suite of in-demand services for clients taking charge of their wellbeing. Flinders Australia Limited has offices in Melbourne, Adelaide and Sydney. It operates a wills bank of 20,000 wills, and this month took over the operations of the Victorian government's residential tenancies fund.

Its expertise in trust administration, agency, administrator, executor and estate planning services complement the strength of the Group. Trust and estate administration services are increasingly in demand as the population ages. With the increase in dementia and other physically limiting and cognitive conditions, individuals and their families need protection, support and certainty through what can be an extremely difficult phase of their lives. Our desire is to retain the Flinders operating model and client proposition, but extend the service offering by becoming a licensed

traditional trustee company. We believe that, as a 175 year old mutual organisation, we have an appropriate corporate structure and the requisite experience to operate as a fiduciary and act in our clients' best interests. Importantly, we believe this kind of trusted service should be available to Australians more broadly and not just high net wealth individuals.

I now turn to each of our businesses and their performance over the 2014-2015 financial year.

Our healthcare business offers a range of financial and direct care services, including retail and corporate health insurance, and chronic disease management, treatment and intervention through our Remedy Healthcare business.

Overall, our healthcare operations recorded a 5 percent increase in total segment revenue to \$828.3 million and adjusted earnings before interest, tax, depreciation and amortisation—or adjusted EBITDA—of \$56.2 million for the year, up from \$43.6 million.

This year, we joined with 14 other not-for-profit and mutual health funds to launch Members Own Health Funds. This initiative is about demonstrating that we offer a real alternative to the larger health funds that are now arguably more focused on generating investor value than member benefits.

Over the financial year, our retail health fund experienced a flat year of growth in policyholders, on the back of a number of high growth years. We are concerned that the industry is accepting an unacceptably high cost of acquisition—driven by advertising expenditure across the sector that we feel is unsustainable.

Our GU Health fund, which is a corporate health fund, achieved a strong growth rate of almost 4 percent. The fund was successful in retaining our mining clients, despite the downturn in this sector, and also attracted new clients from the IT sector, making it the preferred supplier of health insurance in Australia to some of the world's largest technology companies.

Our Remedy Healthcare business continued its expansion into the provision of rehabilitation programs through the acquisition of Physio Connect, which provides physiotherapy services to aged care facilities across Victoria and NSW. Remedy was also successful in winning a tender with Ballarat Health Services to provide physiotherapy to residents of publicly funded aged care facilities in Ballarat. This is an important strategic development as it extends our offering to the public sector.

Remedy is also ready to launch a new mental health program. I am sure that more than half of the people in this room know someone who is close to them who has suffered from mental health issues, particularly anxiety or depression. Unfortunately, mental health continues to be an area that suffers from severe under-funding and acute lack of services despite its incredible prevalence.

In any one year, around one million Australian adults have depression, over two million have anxiety and 45 percent of all Australians will experience a mental health problem over the course of their lives. One in five will do so in any given year and these statistics are not a recent development.

There are enormous economic and personal costs of this inability to tackle the issue.

People find themselves in a mental health facility all too often because there is a very big gap in care between a GP and a mental health facility.

It is a sad fact that people with clinical depression and anxiety who are admitted into a mental health facility are, on average, staying for 20 days. And they often bounce in and out of these facilities because there are very few services available to assist them, and GPs are not trained or equipped to deal with these problems.

It is a very sad reflection on our society. Australian Unity is set to play our part in changing that. We have developed this program, like all of our Remedy Healthcare programs, to be uncompromisingly evidence-based. We trawled the globe looking for appropriate programs to adopt and adapt, but for a long time found nothing. However, a few years ago we came across a UK program that was achieving 45 percent recovery rates, across a cohort of one million people. A pilot conducted in Australia achieved similar, if not better results.

We have successfully negotiated to operate this program in Australia, for our members, and the members of other health funds who have contracted with Remedy. The beauty of the program is that it can be delivered anywhere in Australia.

And now I would like to move to the Retirement Living business. That part of the organisation is so named because of its historical focus on our older customers, and particularly on our accommodation options. We operate a large suite of retirement villages and aged care facilities across Victoria and NSW. About ten years ago we came

to realise that these services needed to be provided in the one location, so that someone could age in place and receive the level of care they need while retaining as much independence as they need. First, this approach formed our thinking around co-locating retirement villages and aged care. More recently, we have focused on growing our home care operations as well, responding to a greater and growing need for people to receive support in their suburban homes.

Overall, our retirement living operations recorded a 19.7 percent increase in total segment revenue to \$106.8 million and a 12.2 percent increase in adjusted EBITDA of \$23.9 million for the year, up from \$21.3 million.

We have mentioned Home Care NSW a number of times. But our focus on growing this business was evident even before the announcement in August. During the year under review, the existing Australian Unity Home Care operations almost doubled its revenue, due to small acquisitions and organic growth.

The business also began work on “The Residences” at Rathdowne Place, an inner-urban retirement living option co-located with the flagship aged care facility we opened last year in Melbourne’s Carlton.

During the year we opened the Peninsula Grange Aged Care in Mornington. Like Rathdowne Place, this is a facility entirely designed around our Better Together model of person-centred care. Despite only being opened a few months, it has achieved a remarkable rate of occupancy and very positive feedback from residents and families.

During the year we decommissioned the out of date Wahroonga Aged Care facility in

Melbourne's Glen Waverley in preparation for redevelopment. All residents were successfully relocated to alternative care facilities. A few weeks ago we were proud to turn the sod on the new development, which will be named Campbell Place. This is in honour of Murray Campbell who dedicated 50 years of his working life to this organisation. He started as a group accountant at Manchester Unity Victoria in 1965, and went on to become managing director for many years. After the merger with the ANA in 1993 Murray joined the Australian Unity board and served for 13 years. His final formal involvement with the Company was as a director of the Australian Unity Foundation, from which he retired this year. I believe Murray is in the audience so again want to acknowledge your loyal and outstanding contribution to the development of Australian Unity as it is today.

The Investments business covers our funds management, specialised products, real estate investment and the Big Sky Building Society.

The business reported a 3.9 percent increase in total segment revenue to \$107.2 million and a 7.9 percent increase in adjusted EBITDA to \$14.8 million.

This business grew funds under management, administration and advice by \$140 million to \$8.65 billion.

The business performed well across its suite of products, returning results favourable to the benchmarks for its leading products, broadly providing very good returns for customers while contributing positively to the Group's financial performance.

Big Sky Building Society performed strongly, increasing its loans by 10.7 percent compared to 8 percent for the broader sector.

The Investments team also achieved a capital raising for the new Retirement Village Development Fund, a tailored investment vehicle to finance the development of The Residences at Rathdowne Place. The \$12 million raising did two positive things for our strategy. First, it created a new product that didn't formerly exist in the market, enabling investors exposure to the burgeoning retirement accommodation market, and secondly, it enabled Australian Unity to commence construction of these important village units without having to add the entire large investment to our balance sheet.

Australian Unity also expanded its presence in the mortgage fund market with the acquisition of Owenlaw Trust Limited. These mortgage funds include contributory funds, where investors can invest in individual mortgages for up to two years.

Australian Unity's Personal Financial Services business is focused on delivering the best possible advice to clients to enable their financial wellbeing. This includes financial advice, finance broking and general insurance broking. With the acquisition of the estate planning and administration services, the business is well-placed to continue to offer high-trust and important fiduciary services to its client base.

Once again, the Personal Financial Services business had a very positive year.

Total segment revenue was \$56.9 million, up 42.7 percent; and adjusted EBITDA increased to \$3.9 million, up from \$2.3 million in the prior year.

This positive result is also reflected in an increase in funds under advice of 70.2 percent, to \$5.9 billion.

The business completed two important acquisitions, in addition to the Flinders Australia Limited already mentioned. During the year the acquisition of Premium Wealth Management was finalised, bringing 58 new advisers into the organisation.

In addition, the business acquired a general insurance broking firm, Waratah Insurance Brokers. Acquiring this capability had been a long-term objective, and responds to the identified needs of our small business client base.

Ladies and Gentlemen, I have covered a lot of territory in this address to you, and I hope that through it you can understand the breadth of the Company's activities but also the depth of its ambitions to positively contribute to the lives of customers, members, clients and the broader community.

But we believe we continue to grow and develop an important institution that has a sincere desire to create community value.

END GROUP MANAGING DIRECTOR'S ADDRESS