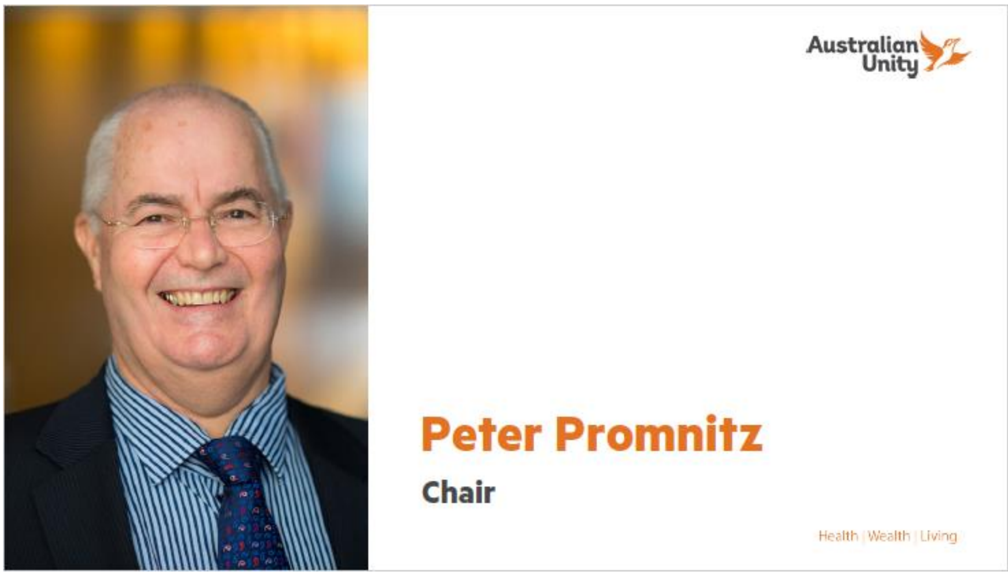
Australian Unity Annual General Meeting

31 October 2018

The purpose of this AGM is to discuss the events and achievements of the financial year ending on the 30th of June this year. Members have received the Annual Report and we will discuss the material contained within it during the course of this meeting.



This is the third time I've stood at this lectern as Chair of Australian Unity Limited. It is a moment to pause and reflect on what a genuine honour and privilege this is.

I think of the almost one million customers we serve each year, many of whom are our members. I think of the opportunity, and the responsibility, we have to make a real and lasting difference throughout their lives. It may be providing care and support for people with disability or in older age. Or offering quality accommodation options for those in retirement or needing aged care. It may be the peace of mind of high-quality private health insurance for more than 190,000 policyholders. Or the comfort of trusted financial advice. It may be the security of holding one of our high-performing investment products. Or the provision of insurance, banking services, or education and funeral bonds.

Australian Unity is there, reliably in service, as it has been for the past 178 years. I am proud of this, but I am also acutely aware of mine and the Board's responsibilities to you, our members.

Like all companies, we know our members' and customers' needs are rapidly evolving. The social, demographic and technological changes that face us only seem to accelerate each year.

Some research we commissioned earlier this year showed the scale of this social infrastructure challenge.

As I note in the annual report, this research found that Australia would need to invest an additional $24 billion in capital costs and $13 billion a year in operating costs by the year

2025, just to meet projected gaps in residential aged care, community aged care and hospital beds. This is just seven years from now.

While I characterise this social infrastructure gap as a challenge for the nation, it is also an opportunity for our business. And I would venture to say that our mutual structure provides us with a distinct advantage in this regard.

As a mutual, we can make considered decisions about the long-term health, financial and care needs of our members, customers and the community, without the expectations of external shareholders looking for short-term returns. It is not my place to comment on how this pressure manifests within shareholder-listed organisations. But I will say that we have closely followed the proceedings of the Hayne Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. A number of our businesses operate in these fields. And there is clearly much for corporate Australia to consider about organisational culture as the Hayne Royal Commission continues and ultimately reports.

On the topic of Royal Commissions, I would also like to briefly update members about our position on the recently announced Royal Commission into Aged Care Quality and Safety.

Australian Unity actively supports any inquiry or process that could lead to better outcomes for older Australians, and notes a number of inquiries have been held in recent times. These include the 2017 Review of Aged Care by David Tune, and the Aged Care Workforce Strategy review by John Pollaers, which reported in July.

We have already provided our views regarding the Royal Commission's Terms of Reference. This included a submission that it examine the aged care sector in search of best practice to showcase what is possible, rather than focus only on examples of poor care or abuse, as horrific and shocking as these are.

Beyond the aged care and finance sectors, we have also been advocating on behalf of our private health insurance members—helping to ensure that recent reforms by the government are able to be implemented in a way that is in the best interest of consumers and our health insurance members.

As I mentioned, my sense is that Australian Unity's member-based mutual structure gives it a strong platform to compete in markets providing modern social infrastructure. But to make best use of this position, we need to continue to transform our organisation to meet and anticipate these challenges.

The recent divestment of the Grand United Corporate Health Limited business, and an extensive internal transformation program, have been undertaken very deliberately with this social infrastructure challenge in mind.

There are some other specific initiatives within the business that I do wish to highlight today. Those who were here last year may recall me talking about the early stages of construction of our Herston Quarter project in inner-suburban Brisbane. This complex project, undertaken through an agreement with the Queensland Government, will eventually see the construction of a public rehabilitation hospital, a private hospital, a wellbeing precinct including aged care and retirement living, as well as student and other accommodation.

I can advise the public hospital is now well and truly underway, and I'm pleased to say there are now more construction workers employed on the project than lawyers!

The Board is also pleased with the progress and trajectory of a number of other significant businesses in the Australian Unity portfolio.

Our investment in the construction of new and refurbishment of existing retirement communities, including The Grace, our new multi-level retirement village in Albert Park, Melbourne. This building has now topped out, and we expect the first occupants to be in place from around April next year. The continued investment in our Home & Disability Services business is another example. This business provides care to tens of thousands of vulnerable Australians, including those from the New South Wales government's home care service as part of our transfer arrangement over the past few years.

The internal business transformation process I mentioned earlier to reorient the organisation to capitalise on future growth opportunities has continued apace. Rohan will provide more detail on this, but from the Board's perspective, the effort to maximise efficiencies and customer experience will stand the Group in good stead in coming years.

This is not to say that the Board isn't mindful of the commercial risks involved in the execution of the business transformation, and it must be said, more generally in the business sectors in which Australian Unity operates.

The current volatile regulatory and political environment, particularly for health insurance, financial services and aged and disability services, certainly adds a layer of complexity to these businesses.

In light of this environment, I made it clear in this year's annual report that as a Board, we are highly mindful of the ongoing need for effective governance. And as a Board, we have accepted the need to carry greater levels of risk than in recent years. The Board will continue to work with management to identify and manage these risks, and I acknowledge Rohan and his executive team's significant efforts in this regard.

I will now ask Rohan to present his report on the performance of the Group, and I will be back later to continue with the formal business of the meeting.

Thank you, and I'll now hand over to Rohan.

Thank you, Chair. I would like to also extend a special welcome to everyone here, and to those listening on the webcast.

I too would like to acknowledge the traditional owners of the land on which we meet, the people of the Kulin nations. I pay my respects to their Elders, past, present and emerging, and acknowledge any other Elders from other Nations who may be present.

Members, I am pleased to report to you on the Group's performance this year. And I note that we have members here from a number of the Group's key areas of operation—health insurance, retirement communities, and investments and financial services.

The 2018 financial year saw the Group's longer term strategic ambitions significantly advanced. We seek to provide highly valued services to you, our members, our customers and the community, in the areas of health, wealth and living. In doing so, we will be doing our part to address Australia's social infrastructure challenge. This is a challenge, and, as the Chair said, an opportunity, driven in large part by demographic factors.

Our ageing population is consuming ever more health and care resources, and the commitment of both public and private capital is failing to keep pace. This applies to both soft infrastructure, such as workforce requirements, and hard infrastructure, such as the construction of health and aged care facilities.

In addition to health resources, longer lives also require more financial resources, and greater planning to support the various stages of life. Trusted advice and quality financial products are highly valued in the marketplace.

It is in these, and selected other market gaps, where our strategic ambitions lie.

Our key business decisions during the year in review reflected this.

- We adjusted our portfolio of businesses, including the sale of Grand United Corporate Health Limited, our corporate health fund.
- We made further investments in our human services operations, particularly our Home and Disability Services business.
- And, as mentioned by the Chair already, we effected the restructure of the Group's operations through a significant transformation program.

I will provide more information on these matters shortly. But turning first to the overall financial results of the Group for the year in review.

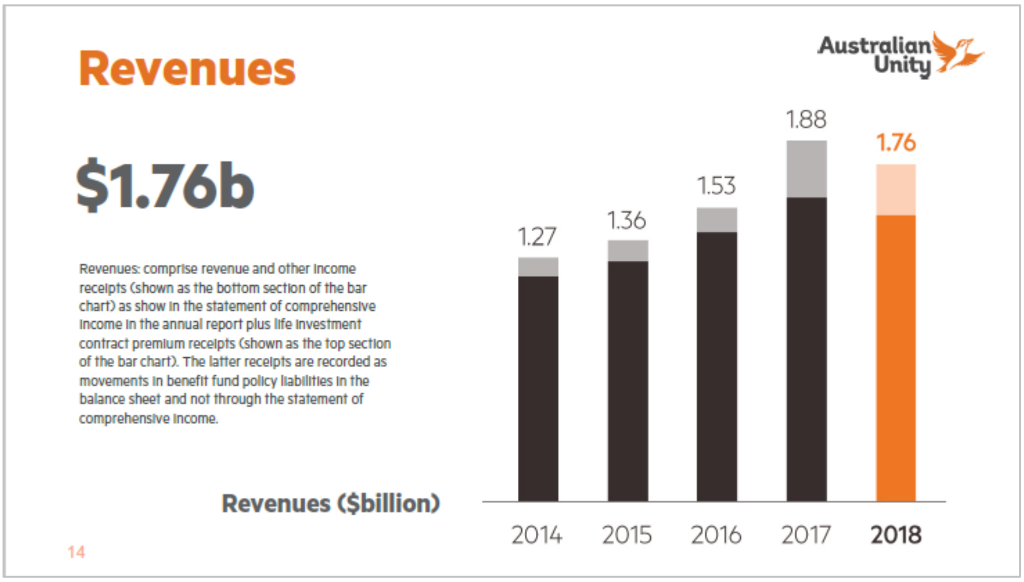
The Group recorded an overall profit after income tax of $51.5 million, up 10 percent on the previous year, driven by the sound operating performance of most of the Group's businesses.

It is important to note that this overall profit figure includes a significant profit from discontinued operations, derived primarily from the sale of Grand United. I will go into some detail on that transaction shortly.

If we set aside these profits, there was an overall loss from continuing operations of $15.3 million, reflecting the significant investment in our Group-wide business transformation program. As I explained at the AGM last year, this transformation is designed to drive operational efficiencies and an even greater customer focus.

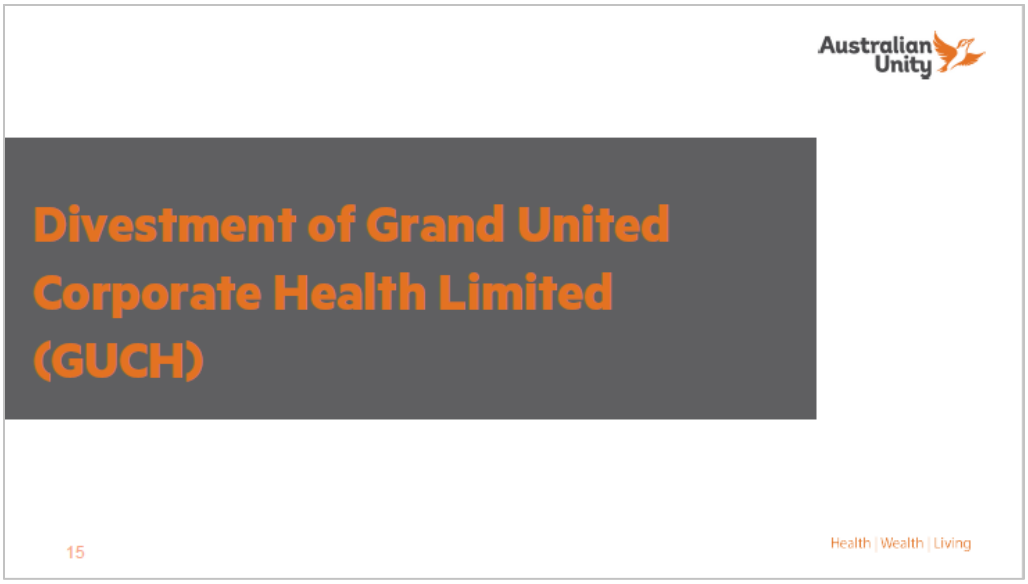
Close to $15 million was invested in delivering this transformation program, which added capability in customer service, digital, business intelligence systems, strategy, data analytics and risk management. We are confident these investments position us for future multi-year efficiency savings and products and services that meet the needs and demands of our members and customers.

Profit for the year under review was also impacted through our decision to make further multi-million dollar investments in the Home & Disability Services business, in particular to improve the operations of our branches and provide new technology and business systems.



Revenues decreased by 6 percent to $1.76 billion. This figure includes the sale of Grand United. This decrease in revenues was primarily driven by a reduction in benefit fund revenue of $79.7 million compared to the 2017 financial year, a year which saw a very significant one-off client investment that was not repeated in 2018.

Another area that impacted overall revenue during the year in review was the lower year-on-year development revenue from the Independent & Assisted Living business. There were significantly fewer retirement and aged care properties brought into operation during the year in review compared to the 2017 year, accounting for a revenue differential of some $29 million. This is an area of our business activity that is lumpy from one year to the next, given its very nature.



As I've already mentioned, another significant activity that occurred in the year under review was the sale of the Grand United to the insurer NIB.

Why did we sell? For two reasons.

First, because our overall strategic direction is determinedly aimed at supporting personal wellbeing, and delivering community value, and we took the view that a fund servicing corporate clients sat outside those parameters.

Second, for technical financial reasons, a smaller fund such as Grand United can be volatile in terms of its needs and performance in more challenging times. We anticipate such times and would rather focus our resources on the needs of Australian Unity retail health fund members.

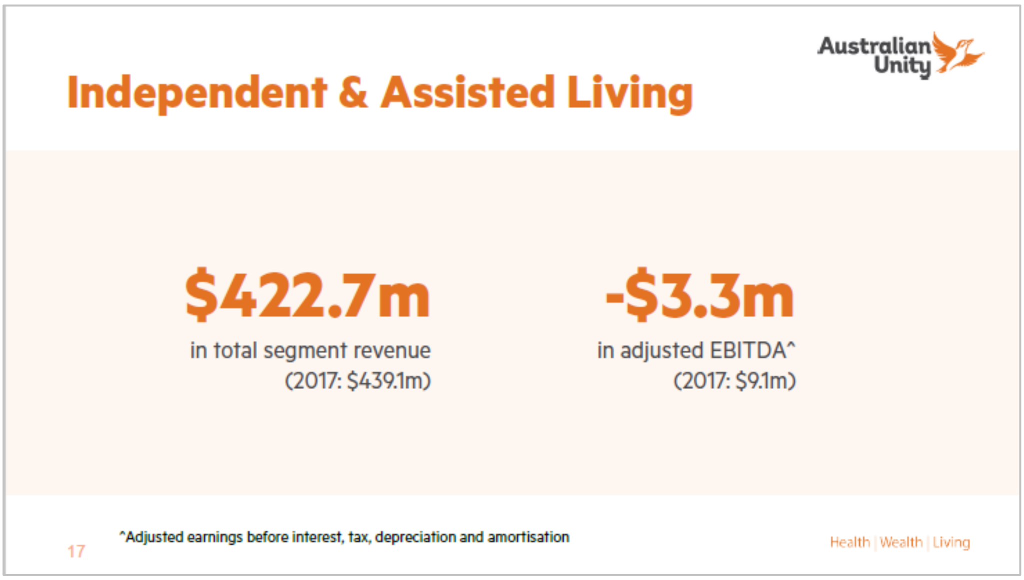
You may well add a third reason to these two, that we achieved a very good price, $155.7 million, which realised a gain on sale of $61.6 million. This provided some additional balance sheet strength and has opened up future investment possibilities.

As previously mentioned, another key change has been a realignment of our business operations to group businesses with relevant synergies. This drove the change in structure from four business platforms to three.

I will now report on each of the newly transitioned platforms for the year in review.

Our Independent & Assisted Living platform now operates our retirement living and aged care assets, our Home & Disability Services, our dental clinics and our Remedy Healthcare business.

Also under the IAL umbrella is our new Aboriginal Home Care Services business, which started operation from July 1 this year. This includes the provision of services for more than 3,000 Aboriginal clients and employs over 250 carers who identify as being of Aboriginal and/or Torres Strait Islander descent.



Overall the IAL platform recorded a small decrease in total segment revenue to $423 million, compared to $439 million the previous year. As mentioned earlier, this figure reflects the relatively fewer retirement and aged care properties brought into market during the year in review compared to the 2017 year.

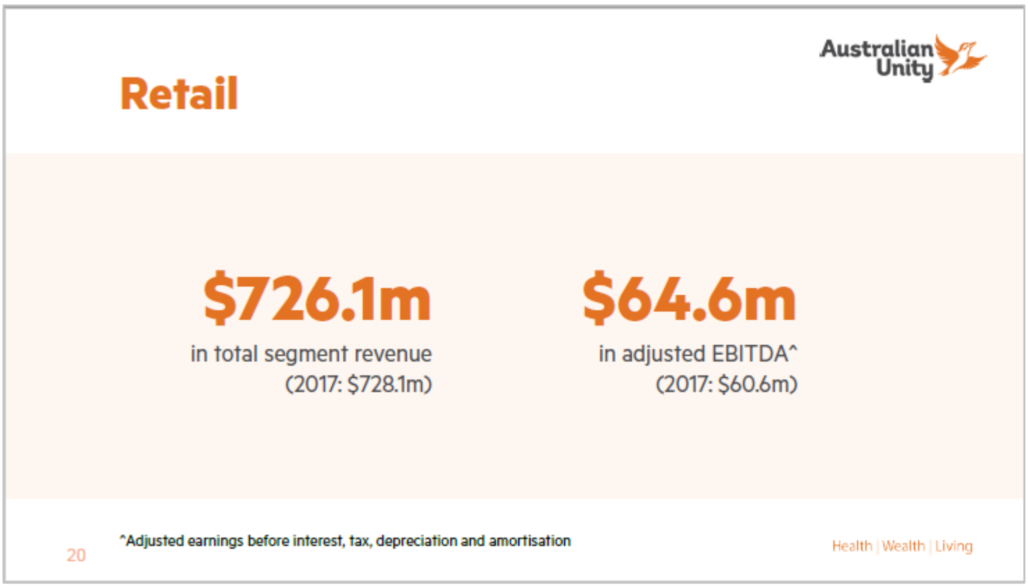
IAL's adjusted EBITDA of negative $3.3 million represents a decrease of $13.0 million compared to the previous year. In addition to matters mentioned, this reflects the costs associated with the continued integration of the Home Care NSW service and our National Disability Insurance Scheme clients. It was also affected by the closure of our call centre in Parramatta, NSW.

There was also positive financial news in this platform, with the Home & Disability Services business growing its aged home care packages from around one percent market share to approximately four percent during the year in review. Australian Unity is now one of the top five providers in this highly fragmented market.

Also pleasing was the Retirement Community business which continued to record very high occupancy rates, around 95 percent, across its 2,370 units.

Our former Healthcare business is now known as Retail, and encompasses private health insurance and banking services. And as a side note, there has been a recent change to the name of our banking services, which is no longer Big Sky Building Society but has been rebranded to Australian Unity.

Retail's two main operations were issues-rich in terms of regulatory, policy and environmental circumstances, as they traded amid consultation and lobbying on significant changes to the health insurance rules, and also against the backdrop of the Financial Services Royal Commission.



Overall, while revenues were marginally down for the year, by some 0.3 percent, the platform recorded an adjusted EBITDA of $64.6 million, up $4 million or close to 7 percent year on year. This was an extremely creditable result.

While the year in review saw policyholder numbers decreased by 3.8 percent, this was broadly in proportion to the rest of the industry. We chose to endure some reduction in policyholder numbers rather than spend further on advertising and commission payments at the potential future expense of benefits to members. Our approach supported us in achieving a lower than industry premium increase for the past three years and for 11 of the past 15 years.

We welcome all efforts to reduce the inflation of health insurance premiums. We also seek a stable sector, continuing its support for millions of Australians—including the majority of day cancer therapies and orthopaedic joint interventions. Healthcare costs have been inflating at a multiple of inflation or GDP since WWII. If we are to reduce premium inflation we must reduce the underlying causes of that inflation.

On behalf of our members, we will continue to advocate through our own efforts and through industry channels for sensible reform in this space.

The Chair has already noted our views on the Hayne and Aged Care Royal Commissions, and we would certainly welcome a Productivity Commission review on the costs of the private health sector. Commercially, we will continue to work across the broader healthcare sector to create value-based, and evidence-based healthcare solutions.

Our Remedy Healthcare business is a live example of this. This is a business, which during the year under review, passed the milestone of delivering over 2 million episodes of care and saw some of its programs, notably the Rehab at Home program, reduce hospital admissions by providing in-home services.

The majority of our former Personal Financial Services business joined our previous Investments business to become Wealth & Capital Markets. As a result, this platform now covers the management of investments, property assets and developments, and also provides advice and trustee services.

The year under review was solid for Wealth & Capital Markets, again in a challenging environment, with a 1.6 percent increase in segment revenue to $170.4 million.

Adjusted EBITDA was a strong result, up by 25.5 percent to $36.9 million, driven by a streamlining of costs and good performance in the property and investment bonds areas.

Overall funds under advice and trusteeship stood at $6.78 billion at 30 June this year, up by almost 4 percent.

Our Trustee Services operation had a mixed year, leading us to book an impairment charge of $6 million, notwithstanding its significant revenue growth and good progress on new client appointments. We look forward to its continuing positive development in 2019 and beyond.

The Herston Quarter in Brisbane, as the Chair noted, is progressing well, and will be an exemplar of what Australian Unity can offer when it comes to the development and operation of integrated health and wellbeing precincts. This is one of the leading pieces of hard social infrastructure currently under construction in Australia.

Another highlight was the Healthcare Property Trust, which recorded an investment return of 12.8 percent over the year, as well as raising around $240 million in capital and negotiating some $740 million in financing arrangements.

Ladies and Gentlemen, thank you for your attention. Our Group's operations are diverse, as you can see, but are connected by a common theme—to valuably support the wellbeing of our members, customers and their communities.

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