Australian Unity Annual General Meeting

26 October 2016

Peter Promnitz: Chair's Address

Good afternoon Ladies and Gentlemen, and welcome to the 2016 Annual General Meeting of Australian Unity Limited. My name is Peter Promnitz, the Chair of the Company and of this meeting.

Before I officially declare the 2016 Annual General Meeting of Australian Unity Limited open, I would first like to acknowledge the traditional owners of the land on which we meet, the Wurundjeri people of the Kulin nation and pay my respects to their Elders, past and present, and acknowledge any other Elders from other Nations who may be present.

I would also like to mention that the audio of this AGM is being streamed live so that members who are unable to attend today can listen to it as we speak or catch up later.

A quorum is present and therefore, I formally declare the 2016 Annual General Meeting of Australian Unity Limited open. It is great to see such a strong and continuing level of interest in the Company from our members.

Before we go further, let me introduce my fellow directors. On the table to my left is Melinda Cilento, the Chair of our Human Resources, Remuneration and Nominations Committee and also of our Investments Committee. Next to Melinda is Greg Willcock, who is the Chair of our Risk Committee and the Chair of Big Sky Building Society.

Beside him is Su McCluskey, who is a member of our Human Resources, Remuneration and Nominations Committee, our Investments Committee, our Audit & Compliance Committee and Chair of Big Sky Building Society Risk Committee.

On the table to my right is Stephen Maitland, the Chair of our Audit and Compliance Committee. Stephen's three year term has completed and he is standing for re-election today so you will hear a few words from him later in this meeting. To his right is Paul Kirk, who was appointed to the board in February of this year, and, in accordance with our procedures, will be standing for re-election at this AGM. Paul will introduce himself later in this meeting and I would like to personally welcome him to his first AGM as a director.

Rohan Mead, our Group Managing Director, is also seated at this table. Rohan will shortly outline the major activities and achievements of the Company during the year. We are also joined by Melinda Honig, our Company Secretary, General Counsel and Chief Risk Officer.

I have invited some of the key members of the Group Leadership Team on to the stage. They won't play a formal role in the proceedings today, but we are hoping that you will feel able to approach any of them during the refreshments should you have any specific questions about the areas of operations for which they are responsible. I might call on them, if appropriate, to assist me with answering any general business-related questions from the floor during this meeting. Firstly, let me introduce our Chief Financial Officer, Kevin McCoy. I now introduce the four CEOs of the various divisions we call our platforms. These form the broad areas of our operations. Firstly, the CEO of our Investments platform, David Bryant, who is also our Chief Investments Officer.

David is sitting to my far left. Beside him is the CEO of our Personal Financial Services platform, Steve Davis. The CEO of our Independent & Assisted Living platform, Derek McMillan, is sitting on the table to my right. Beside him is Amanda Hagan, the CEO of our Healthcare platform. Amanda is now also responsible for our Digital Transformation Centre.

Other members of our executive team are in the front row.

We also welcome representatives from the Company’s auditors, regulators, advisers and other consultants.

The Notice of Meeting has been given in accordance with the Company’s Constitution and copies are available in the foyer.

I will accordingly take the Notice of Meeting as read.

The minutes of the 2015 Annual General Meeting of Australian Unity Limited have been reviewed by the board and recorded as a true and correct proceeding, in accordance with the Corporations Act.

The minutes are tabled and there are copies available with our Company Secretary should any member wish to see them.

Today we have a number of items of business to cover. These are set out in the Notice of Meeting.

Before we move to these formal items of business, however, I propose to talk to you about the Company and some of its achievements.

Following this, the Group Managing Director Rohan Mead will report to you on the operations of the Group for the past year.

Before I leave the subject of directors, I would like to acknowledge the former Chair of the company, Glenn Barnes, who retired from the board in March. Glenn had been a director since 2009 and chaired the company for four years. Glenn contributed to the board and the company in many ways. I would like to mention two. First, he presided over the introduction of expanded and enhanced tools for management accounting reporting, allowing the board and executives to understand more fully the financial performance of various business and product areas. Second, he embarked on a program of board renewal. This was important because the board he joined had, on average, a very long tenure. While that had its advantages, Glenn rightly observed that the board would benefit from new experience and perspectives. In undertaking the renewal, he sought to balance the need to retain experience and knowledge of the company's activities with the importance of attracting directors with "fresh eyes" and experience from a broader range of sectors and other boards. His work culminated in his own planned retirement earlier this year. As a result of this period of renewal, members who have been to AGMs over the past few years will have noticed that each year we have introduced new directors. This year is no exception, with Paul Kirk joining the board during the year. Eve Crestani, a director who served for more than 20 years, also retired during the year and I thank her for her work on the board and also as chair of a number of board committees over the years. While there will obviously be the need from time to time to introduce or farewell directors, the board believes the work of renewal is now substantially done, and we intend to keep the board at its current level of six non-executive directors plus the Group Managing Director for the foreseeable future.

As you know, each director serves a three-year term before retiring or offering themselves for re-election. In addition to Stephen and Paul, I am retiring at this meeting and offering myself for re-election. I became Chair of the company in April as part of the succession planning that Glenn oversaw. I am honoured to have this opportunity to serve the company and its members in this capacity, and, with the agreement of members through this vote, look forward to continuing this work.

Along with the election of directors, the purpose of this Annual General Meeting is to discuss the events and achievements of the financial year ending on 30 June of this year. Members have received the annual report and we will discuss the material contained within it during the course of this meeting.

I would like, however, to mention a significant event that occurred after 30 June. That is the announcement by the Queensland Government that Australian Unity is the preferred tenderer for the $1.1 billion "Herston Quarter" development in inner-suburban Brisbane. We are progressing our conversations with the Queensland Government to finalise the contracts for this development. Our submitted proposal included a public rehabilitation hospital, a private hospital, a wellbeing precinct including aged care and retirement living, as well as student accommodation and a co-working hub. Our plans also include the significant restoration of a number of heritage buildings on that site. This announcement recognises the breadth of our activities. To be successful in this project, we will need to become the master developer of a number of highly significant public works projects. We will need to continue to develop financing solutions and capital funding solutions for the project. We will also be a key operator on the site, with our role in the ongoing operations of the wellbeing precinct a key component of our proposal.

This development will take the best part of ten years to complete, so it is a major ongoing project for us, and will support our plans to further extend our services into Queensland. Around 10 percent of our members already live in Queensland, and we are excited by the opportunity to further extend our brand into that part of the country.

This development comes after a significant announcement last year concerning the transfer of the NSW Government's Home Care business to Australian Unity. We discussed that announcement at last year's AGM and the transfer was completed, as planned, in February of this year. The Group Managing Director will give you more of a flavour of the extensive integration and business transformation efforts that are going into that project.

Our Personal Financial Services platform also completed a major strategic initiative this year with the acquisition of Flinders Australia, a trust and estate administration business. Again, this is in line with long-held strategic plans for the organisation.

In order to fund these important strategic acquisitions, our finance and legal teams worked hard during the year to establish the first Simple Corporate Bond to occur under new government legislation. The legislation allows for an organisation such as ours to issue a bond series under a prospectus, and then follow up with further issuances over three years under the same prospectus. Our bond was a $250 million capital raising that was strongly supported by investor markets and also by members and retail investors. It enabled us to finance our growth initiatives, but also be a leader in the provision of the new form of capital raising.

I want to emphasise that while these major and important developments have required significant attention and investment, this has not occurred at the expense of our existing portfolio. We continue to invest in the development of our private health insurance businesses, our banking arm, our investment bonds and funeral products, and our funds management operations. We believe these areas are important and vital components of the company. Each of them plays an important part in supporting our overall ambition.

Our role as a mutual does not restrict us to the provision of products and services. We also play our part in contributing to a vision of a better Australia, and as such, we participate in and contribute to public policy. During the year we were successful in having our views put forward to the Senate Economics Committee inquiry into cooperatives and mutuals. One of our key recommendations was to create new possibilities for mutual companies to raise equity. This recommendation appeared in the final report. We continue to work towards fleshing out that proposal together with the industry group, the Business Council of Cooperatives and Mutuals.

Another area of advocacy we continue to be active in is in the area of healthcare wastage. Health Minister Sussan Ley recently spoke at a conference and said that there was a potential 30 percent of health dollars that are effectively wasted due to inefficiencies in the health system. Australia spent over $150 billion last year on healthcare, so 30 percent of that is significant.

When we talk about waste in the healthcare system, it is not an abstract concept. It is people being in hospital a second time after the first procedure failed due to an avoidable event. These avoidable events are far too common. Without wanting to scare anyone, they range from surgical mistakes such as operating on the wrong limb, through to hospital-acquired infections. A common avoidable event is the misadministration of medications.

One of the most egregious examples of waste in the healthcare system has deservedly had some recent press coverage. This is in the growing area of prostheses provision. Prostheses are devices used to replace failing body parts. Artificial hips and knees, along with stents and defibrillators, are prominent examples.

Under the current laws, private health insurers are required to pay hospitals a minimum price for prostheses supplied to private patients with appropriate health insurance. These prices appear on a list produced by the Department of Health known as the Prostheses List. Many of the listed device prices were set a number of years ago, when the cost of these devices were very high. In the intervening years, with the advances in technology, the cost of these devices has come down, but the current list continues to reflect those historical higher prices. The minimum price that private hospitals charge private health insurers is often a higher price than public sector prices for the same piece of equipment. Sometimes it is a multiple of that price.

One of many examples is a ceramic-on-metal hip, which if implanted in a public hospital costs $4,900. A private hospital treating a patient with private health insurance can charge the health fund as much as $11,000 for the exact same device. Private health insurers like Australian Unity are required to pay these higher prices. We have no choice.

Prostheses account for some 14 per cent of the almost $20 billion in annual health fund benefits paid. This is in the order of $3 billion a year.

The federal government has finally recognised the need to reduce the inflated prices on the Prostheses List. Just last week Health Minister Sussan Ley announced that the costs of some of the items would be reduced by up to 10 per cent. We are told the change will save insurers an estimated $86 million in 2017. Provided the relevant instruments are enacted in parliament, the changed price list is set to begin from February.

We are pleased the government recognises the cost pressures on health insurance premiums, and give it due credit for taking this initial step. However there is much, much more policy work to be done, both on prostheses pricing and in other areas of the health system, to rein in health inflation.

This is not an esoteric debate. Health inflation places pressure on health insurance premiums. I know that many members are concerned about the affordability of health insurance, and these concerns are leading many to consider their type or level of cover. We will continue to advocate for health system reform in the best interests of our members.

I will return to the podium later in the meeting to conduct the business part of the proceedings. I will first hand you over to the Group Managing Director, Rohan Mead, to discuss the performance of the company.

Rohan Mead: Group Managing Directors' Address

Thank you, Chair. I would like to also extend a special welcome to everyone here. 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 11.4 percent, to almost $1.6 billion.

Operating earnings, which is profit before tax less investment income and borrowing costs, has also increased, by 19.9 percent, to $48.3 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.

Profit before tax dropped 13.2 percent to $37.3 million, while profit after tax increased by 2.9 percent to $35.6 million.

The profit figures were strongly affected by our material investments in integrating the two strategic additions to our portfolio that the Chair has already mentioned. I will come to those in more detail later in this presentation.

The financial results were also affected by our decision to launch a Simple Corporate Bond. The $250 million capital raising was a powerful enabler of our strategy, as it allowed us to repay the existing instrument, the Australian Unity Notes, some six months ahead of schedule. It also created a funding source for the $114 million investment in Home Care NSW. The decision to launch the bond last December, however, also resulted in slightly higher financing costs for the year. This was because we undertook the capital raising in advance of both the transfer date for Home Care

NSW and the final repayment date for the Notes. The decision to proceed with the raising in December meant that we were able to undertake these strategic initiatives with certainty, and to capitalise on strong conditions at that time in the capital markets.

Members would be aware that for some time now Australian Unity has been concerned with the “social infrastructure challenge”. Put simply, we believe this challenge stems from the ageing population and the rise of chronic disease. Social infrastructure is the interdependent mix of facilities, services and networks that maintain and improve the quality of life in a community. We believe that in order to cope with the rapidly increasing demand and subsequent strain on our health system, we need both new built infrastructure, as well as services infrastructure such as new business models, new incentive systems and new ways to support the paid and unpaid care workforce.

Australian Unity has a rare perspective on this set of challenges. We are involved in many aspects of the social infrastructure conundrum. From capital formation, the development of hospitals and retirement communities, asset management, funds management (including of external investors), personal healthcare financing, care delivery and care service operations. We see the issues through each of these prisms, in perhaps ways that few other organisations do.

Consequently, our strategic approach in recent years has been to play our part in solving the social infrastructure challenge. I think there are two key examples from the year just gone that give practical evidence of how we are doing that.

The first is the delivery of services into the homes of people with needs stemming from their age or disability. In transferring the operations of Home Care NSW into Australian

Unity, we haven't just sought to conduct a "lift and shift" exercise. We have a vision for the provision of these services that revolves around developing a business that is truly responsive to client needs and the principle of user-directed care. Already – and please remember that we are at the beginning of this journey, since the transfer only occurred in February – we have invested significantly in transferring the rostering and client care systems from a paper-based system to a mobile device-supported digital system. This means that care workers spend more time with clients and less time driving to their regional or local office to pick up or deliver paper-based rosters or care plans.

We are determined to make those care plans strongly client directed. We want to provide services when the client wants them by the carer the client prefers wherever possible. This brings logistical challenges for us, but our digital systems are designed to help us allocate resources efficiently.

Secondly, we have launched a 24/7 customer hub based in Parramatta, Sydney. Clients can now contact us any time to reschedule services or ask for additional assistance. Formerly, the service could only be contacted during office hours and that meant that if a client, say, with a disability, wished to change their mind about the time they would like assistance to get out of bed in the morning – say plan a sleep in, or an early morning outing – they wouldn't be able to do this. Our 24/7 line is designed to ensure that we are able to respond to such requests.

This approach is in accord with the stated objectives of the national disability insurance scheme, which is designed to ensure that people with disabilities are able to direct and control their own funding and their own services. We are strong advocates of this philosophy. Members would already be aware that this is the core of our approach to our model of aged care.

Another major component of the Home Care operations is the provision of services to Aboriginal communities in culturally respectful ways. As part of the transfer of Home Care NSW, we now have an Aboriginal Home Care business with some 3000 clients and some 350, mainly Aboriginal, staff. We intend to continue to invest in this area of our operations and expand the service depth and breadth to this community. We take on these responsibilities with a strong sense of partnership with our clients and with our staff.

A further example of services infrastructure is in the continuing investment and development of our Remedy Healthcare business. This year Remedy launched the Mindstep program, an innovative program to treat depression and anxiety in ways that demonstrably reduce hospitalisations. It goes without explaining that reduced hospitalisations, as a result of improved health, gives a net benefit to the person involved, their family and other members of their community. But there are also broader community benefits. Our program is based on the insight that many people suffering from depression and anxiety are bouncing in and out of acute hospital settings because there is very little community-based support. This is an awful situation for them and their family, and it puts significant strain on the hospital system. Our program aims to aid recovery from these conditions, so that hospitalisations are unnecessary. A recent analysis of our program after the first 8 months by Flinders University has highlighted some very encouraging results. The program has achieved a statistically significant reduction in length of stays in hospital and a statistically significant reduction in re-admissions within 28 days of a previous discharge. Both of these measures translate to amenity improvements for the individual and significant cost savings for the community.

During the year, as the Chair has also mentioned, we acquired a trust and estate administration services company, Flinders Australia. Last year I announced that our strategic objective was to obtain a trustee licence and to develop these important services. We have made significant progress on this front and we hope to make a formal announcement soon.

We believe there is a gap in the market for middle-income Australians to access these important estate and fiduciary services. Like other products and services Australian Unity provides, these offerings are high-trust services. We believe our history of a mutual serving the community for more than 175 years will place us in good stead as we build these client relationships and expand these services to our existing clients.

These are just some examples of how we are supporting new business models and services infrastructure.

As I mentioned, however, we do believe that hard assets are also needed to meet the demands of Australia's growing and ageing population. The Chair has already mentioned that in August of this year the Queensland government announced Australian Unity as the preferred tenderer of the Herston Quarter precinct in inner-suburban Brisbane. This was after the close of the financial year under review, but is nonetheless an important development for the company.

Our master plans for that site include extensive social infrastructure. A public rehabilitation hospital and a private hospital. Aged care and retirement accommodation. Student accommodation. Child care. A co-working and innovation hub. Community spaces that support the broader and surrounding community. We are very proud to have had our master plan be preferred by the Queensland Government and we are in the process of finalising the plans and the contracts with them. The site will be constructed in multiple stages over five to ten years, but we hope to get under way early in the 2017 calendar year. The first component will be the new specialist rehabilitation and ambulatory care hospital.

Australian Unity will act as master developer for the site and attract and manage investor funding. But more than that, we will remain an operator on the site for decades to come through the ongoing operations of the Wellbeing precinct, which will include aged care and retirement units. This will be our first retirement community in Queensland, and I am very pleased to be standing here today to announce it, due to the number of members who have asked me at AGMs over the years when we are likely to have such facilities in the sunshine state. The answer is, it will be a few years yet but our plans are now very real.

What all of these initiatives have in common is an unashamed focus on the customer, and on delivering the best possible customer service and customer experience, continuously learning from our mistakes and from our successes. We are also aware that as a company, we must continue to focus on future opportunities. To support both these aims, this year we launched a digital transformation centre within our support services, and Amanda Hagan, who is also the CEO of our healthcare platform, agreed to take on this additional role. The purpose of the centre is to focus our abilities as a company to consider and take advantage of strategic opportunities in the digital environment that will ensure the company remains sustainable – and customer centric –

into the future. All of us in business understand that disruption is inevitable, and change is the only constant. Our hope is that we can be front-footed in the design of digital products and services that support our customers in new and valuable ways.

I now turn to each of our business platforms and their performance over the 2016 financial year.

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

Overall, our healthcare operations recorded a 4.7 percent increase in total segment revenue to $863.8 million and adjusted earnings before interest, tax, depreciation and amortisation—or adjusted EBITDA—of $64.9 million for the year, up 15.5 percent.

In the year under review our retail health fund experienced a small growth in policyholders. We are aware that customers are experiencing difficulty in covering insurance costs since means testing on the private health insurance rebate was introduced in 2012. This has led to an ongoing and escalating tendency for customers across the sector to downgrade their cover or abandon health insurance altogether, as has already been discussed.

Our GU Health fund, which is a corporate health fund, on the other hand achieved a strong growth rate of 7.4 percent in policyholders. This was a result of acquiring a large new IT client. As members may be aware, the corporate business involves companies purchasing health insurance on behalf of their stakeholders, usually employees. In this instance 2000 new policies were brought into GU Health from its client acquisition activities.

As part of our ongoing commitment to identifying the cost drivers of health inflation, and therefore health insurance premiums, we initiated a campaign to identify wastage in the healthcare system. More than 900 policyholders responded to our request for information about their experiences of healthcare system wastage and we have collated these stories and provided a summary to the federal government.

During the year our Remedy Healthcare business delivered its one millionth episode of care. This business aims to improve health outcomes for individuals with evidence-based chronic disease programs. It also delivers hospital in the home programs. By so doing, it also contributes to reducing the burden of costs on the health system. This milestone gives you some idea of the number of people Remedy has positively touched.

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

The platform reported a 14.8 percent increase in total segment revenue to $123.1 million and a 36.8 percent increase in adjusted EBITDA to $20.3 million.

One of the significant highlights for the year was the listing of the Australian Unity Office Property Fund on the Australian Securities Exchange. This was previously an unlisted trust and its listing followed feedback from unitholders wishing to have access to a vehicle that provided greater liquidity. The proposal to list on the ASX received a 97 percent "yes" vote from unitholders and the subsequent listing was well oversubscribed, with a high level of interest from both institutional and retail investors. The fund is now known as the Australian Unity Office Fund, with an ASX code of AOF.

Overall, the platform grew funds under management, administration and advice by almost $1 billion to $9.6 billion. This includes funds in our Platypus joint venture, our Federation Alliance and the Big Sky financial planning business.

Big Sky Building Society had another strong year, increasing its net loan book by 15 percent, or $93 million, and growing its total on-balance sheet assets to $862 million, up from $754 million. Big Sky improved customer experience through upgraded mobile and internet banking facilities.

The Investments team raised a further $16.5 million in third-party capital for investing in two retirement village developments in NSW and Victoria. The ability to raise external capital allows us to build and develop further villages, utilising our balance sheet efficiently. Australian Unity retains the relationship with residents. Potential investors are able to invest in this important market that is strongly connected with the demographic changes Australia is experiencing.

Continued strong investor interest in the Healthcare Property Trust saw that trust's funds under management increase from $697 million to more than $1 billion, and achieve a return of 20 percent for the year. As a result of very elevated levels of interest, sales of new units in the trust were suspended in March. The Healthcare Property Trust will be a key component of the future Herston Quarter precinct that the Chair and I have already mentioned.

Another area of success for the Investments platform was Lifeplan. Lifeplan is Australia's largest provider of investment bonds and funeral bonds and a leading provider of education savings plans. During the year sales of education investment funds increased by 23 percent.

I now turn to the Personal Financial Services platform. The year was made significant by the acquisition, on 1 July 2015, of Flinders Australia, a trust and estate administration business. This is a new area of business for Australian Unity, and one that we have had a strategic plan to pursue. We believe that there has been a gap in this important market for estate and trust administration services that cater to the needs of middle income Australians. We are delighted to now have the opportunity to offer these services. During the year the business focused on progressing an application to the Australian Securities and Investment Commission for a full trustee licence. We were also focused on ensuring the risk management approach and processes of the new business are aligned with those of the broader Australian Unity Group.

Total segment revenue of the Personal Financial Services platform increased by 15.3 percent to $65.6 million. It recorded an adjusted EBITDA of $2.2 million, a decrease of 45.2 percent. This was largely a result of integration costs associated with the acquisition. 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 platform's revenue outcomes for the year.

Notwithstanding, funds under advice rose 1.5 percent, topping $6 billion for the first time, while general insurance revenues rose 67 percent.

The platform also strongly positioned itself effectively in relation to legislative changes concerning accountants who provide advice to people with self-managed super funds. These changes now mean that accountants either need to hold an Australian Financial Services Licence, be authorised by a holder of such a licence, or work with a licenced adviser when providing that advice. Australian Unity has long worked closely with accountants to provide services to clients and we now have 354 such relationships. We believe that these complementary skill sets and relationships will continue to evolve in order to support client needs.

I now move to our Independent & Assisted Living platform. This platform has been renamed this year, and was previously known as Retirement Living. This area of our operations used to focus primarily on accommodation-based care options, such as aged care and retirement communities. For many years our strategic approach in this area has been what we call a "continuum of service". This means we have aimed to support older Australians as they transitioned from their own home, to perhaps a retirement community, and, if and when necessary, an aged care facility. As part of this continuum of services strategy we have been building a business that delivers services into the homes of older Australians. Until this year, that business was relatively small. But as you know we were the successful tenderers of the NSW Government's Home Care service. Part of that expansion included a significant increase in the number of clients living with a disability.

This platform recorded a 108.8 percent increase in total segment revenue to $223 million and a 3.6 percent increase in adjusted EBITDA of $24.8 million for the year, up from $23.9 million. The reason the revenue numbers increase is so much larger than the underlying result increase is due to the transfer of Home Care NSW. This transfer occurred with significant revenues. But it has also involved significant costs in integrating the business and transforming the operations to a digital platform, as I discussed earlier, for some 50,000 clients and 4,500 staff.

We maintained higher than 97 percent occupancy rates across our retirement communities, both in independent living units and in aged care facilities.

We progressed our plans to develop two important retirement communities, with the assistance of investor funds that I've mentioned. The Sienna Grange retirement village in Port Macquarie, NSW, and the Campbell Place village here in Melbourne, in Glen Waverley are projects that are now well under way and receiving strong interest from potential residents.

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.

We believe we continue to grow and develop an important institution that has a sincere desire to help people thrive and contribute to creating community value.

END GROUP MANAGING DIRECTOR'S ADDRESS