ASX Announcement

26 February 2020

Australian Unity Limited – Half-Year Investor Update

Please find **attached** Australian Unity Limited's Investor Update relating to the financial results for the half-year ended 31 December 2019.

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This announcement has been authorised for distribution to the ASX by:

Melinda Honig

General Counsel and Company Secretary

T: +61 3 8682 6802

If bondholders or other interested parties require further information please contact:

Michael Moore

General Manager – Public Affairs & Communications

T: 1300 408 776

E: media@australianunity.com.au

ASX code:
AYU

Securities on Issue:
AYUHB – 713,257
AYUHC – 1,150,192
AYUHD – 2,070,000

Issuer:
Australian Unity Limited ACN 087 648 888

Enquiries:
Australian Unity Registry
1300 554 474

Contact details:
Australian Unity Limited
271 Spring Street
Melbourne VIC 3000
Tel: 13 29 39

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

180 YEARS Australian Unity Real Wellbeing

Australian Unity Limited

Investor update

Financial results for the half-year ended 31 December 2019

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Australian Unity Limited is pleased to invite you to our investor presentation teleconference for the half-year ended 31 December 2019

If you are unable to attend, you are welcome to email any queries you may have to:

tisteer@australianunity.com.au

We will endeavour to respond to your queries by email or during the teleconference.

Date
27 February 2020

Time
9.30am to 10.30am AEDST

To access the teleconference participants must register in advance via the link below:

https://apac.directeventreg.com/registration/event/2877900

Once registered each participant will be provided with dial in numbers, an event passcode and a participant PIN.

Please dial in 10 minutes prior to the scheduled start of the event.

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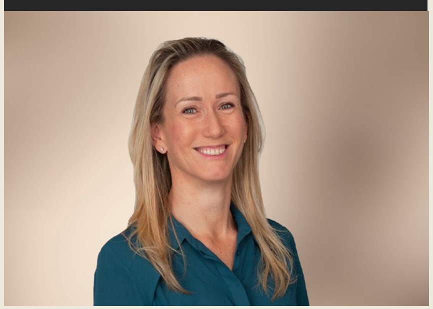
1. Overview and Group highlights
2. Business results
3. Summary and outlook

Esther Kerr-Smith
Group Executive,
Finance & Strategy



Darren Mann
Deputy Head of Finance &
Chief Financial Officer

Alex Smith
General Manager Commercial,
Finance & Strategy - IAL

Paul Ryan
General Manager Commercial,
Finance & Strategy - Retail

Overview and Group highlights

Overview of Australian Unity

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Mutual with a commitment to members, customers and community

- Established in 1840, a member-owned company with about 270,000 members and more than 700,000 customers
- Diversified but thematically-linked portfolio of health, wealth and living businesses that provides member, customer and community value and is supportive of personal and community wellbeing.

Strategic priorities

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FY20 and beyond

Private Health Insurance sector reforms

- Working with government and industry to influence and drive structural and policy reform

Realising the HDS and AHC opportunity

- Orientating around the needs of customers and the key stakeholders in their wellbeing

Capability, innovation and cost

- Enabling and leading operational agility, resilience, efficiency and optionality

Social infrastructure

- Progressing development portfolio and pipeline

Capital and funding

- Continued growth and maturity in our investments and financial strategies

Sound progress in FY20 first half

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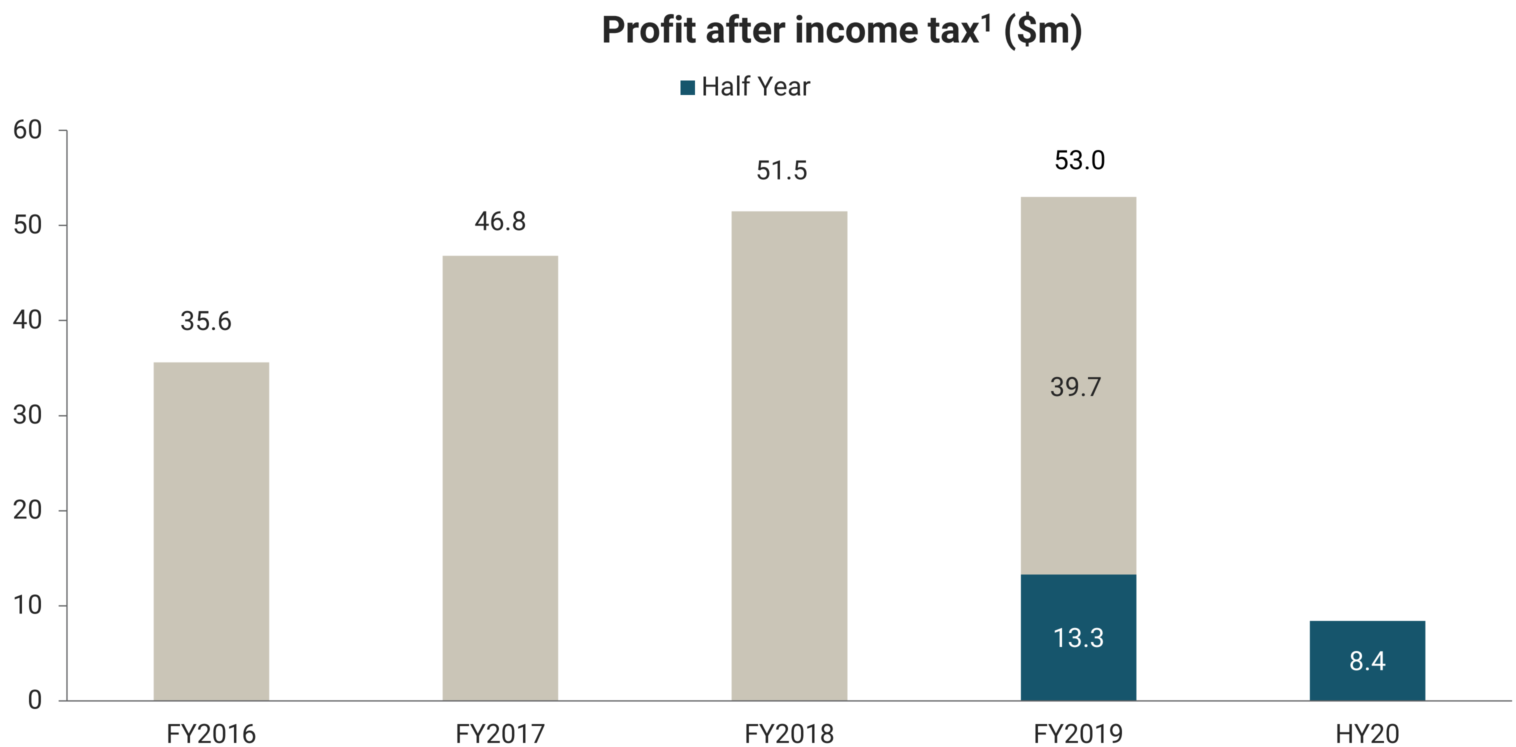
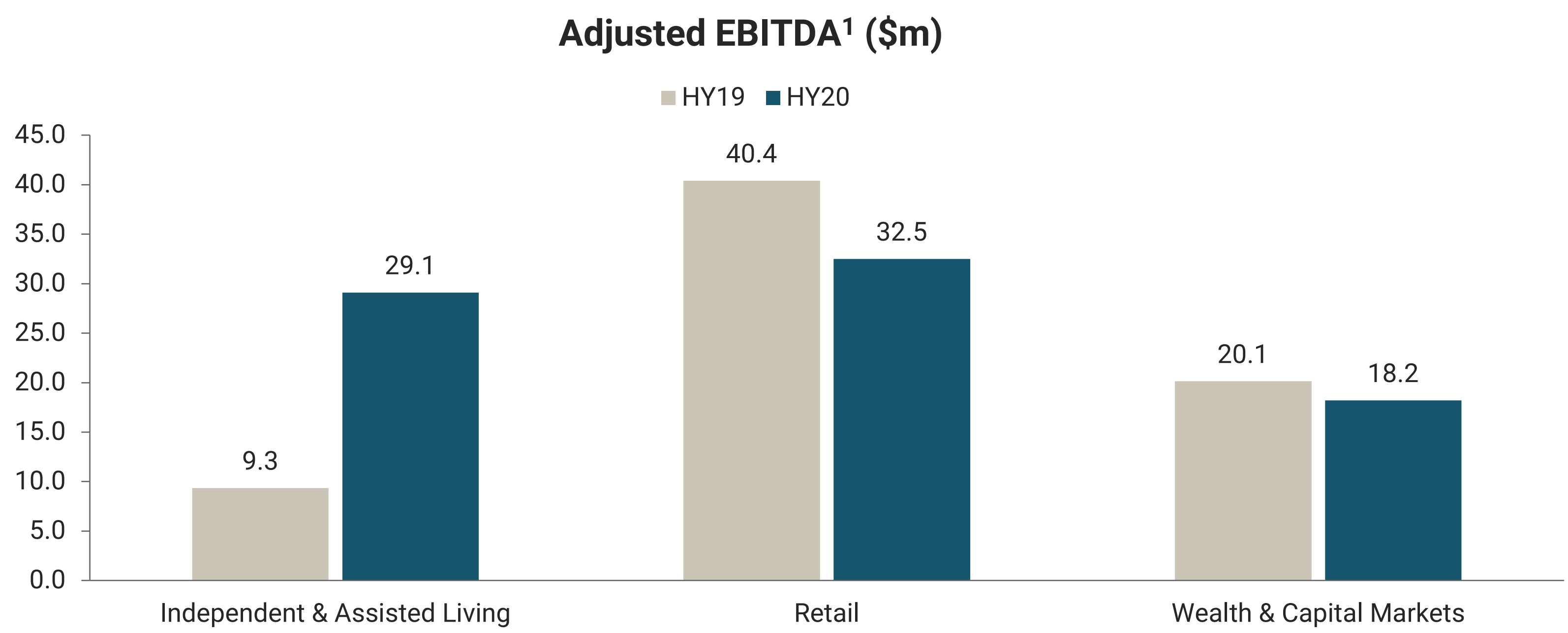
Progressing strategic ambitions	• Further progressed strategy of building a commercially sustainable portfolio of businesses that provides member, customer and community value and support personal and community wellbeing. • Improvements in Home Care Services and work on patient and outcome-focused healthcare services showing results. • Bonds issue contributed to maintenance of solid balance sheet position. • Continued progression of Brisbane's Herston Quarter social infrastructure project.
Revenue and other income of $764.9 million, up 9.4%	• Overall revenue growth generated by operating businesses (up $17.8 million) and solid investment returns (up $3.2 million) supported by $44.5 million increase in benefit fund revenue. • A 2.8 percent ($18.5 million) increase in overall operating expenses included higher health insurance net claims (up $8.6 million). Benefit fund expenses up $23.5 million.
Operating earnings of $18.5 million, up 18.0%	• Operating earnings of $18.5 million—an increase of $2.8 million. • Overall outcome a significant improvement in the aggregate trading position.
Profit after tax of $8.4 million, down 36.8%	• Net profit after tax was $8.4 million—a $4.9 million decrease on the prior corresponding period. • Movement includes $2.0 million adverse new lease accounting impact, as well as costs associated with relocation of the Group's head office and no equivalent this half-year to the legal settlement received in the Life & Super business in the prior corresponding period.

FY20 key metrics



[1] Included in the FY2018 result was a profit from discontinued operations of $66.9 million from the divestment of the Group's corporate health insurance subsidiary, Grand United Corporate Health Limited (GUCH) completed 31 October 2017.

HY20 segment earnings growth

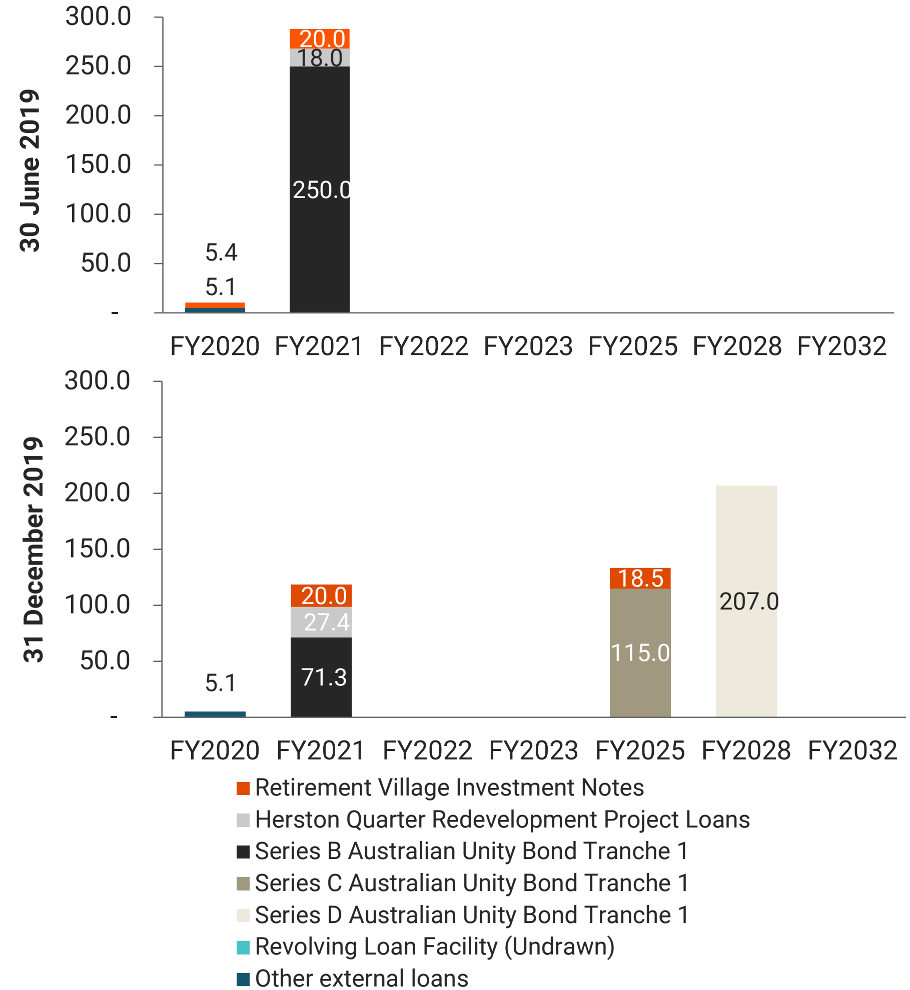


[1] Adjusted EBITDA: the measure the Group uses in assessing the operating performance of its business segments. This measurement basis excludes the effects of tax, depreciation and amortisation, interest expense and investment income. It also excludes material non-recurring expenditure and shared services costs. See note 3 to the Consolidated Financial Statements in Australian Unity Limited's Interim Financial Report for the half-year ended 31 December 2019.

Building balance sheet flexibility and resilience

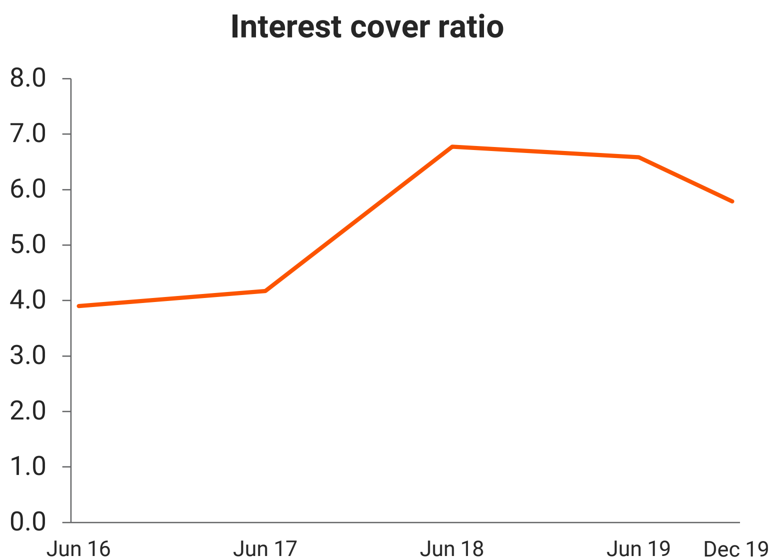
- Continued to prioritise financial balance sheet flexibility and resilience.
- Successfully raised $322 million in Australian Unity Bonds–Series C & D and $18.5m in Retirement Village Investment Notes which:
    - Significantly increased tenor of the debt portfolio and improved the Group's refinancing profile
    - Refinanced a significant portion of the Series B Australian Unity Bonds
    - Substantially reduced the Group's cost of funds, after refinancing costs are digested in FY20 and HY21.
- Australian Unity's constitution was amended at the October AGM, allowing for the issuance of mutual capital instruments and positioning the Group to potentially access permanent capital, furthering the funding and capital management strategy.

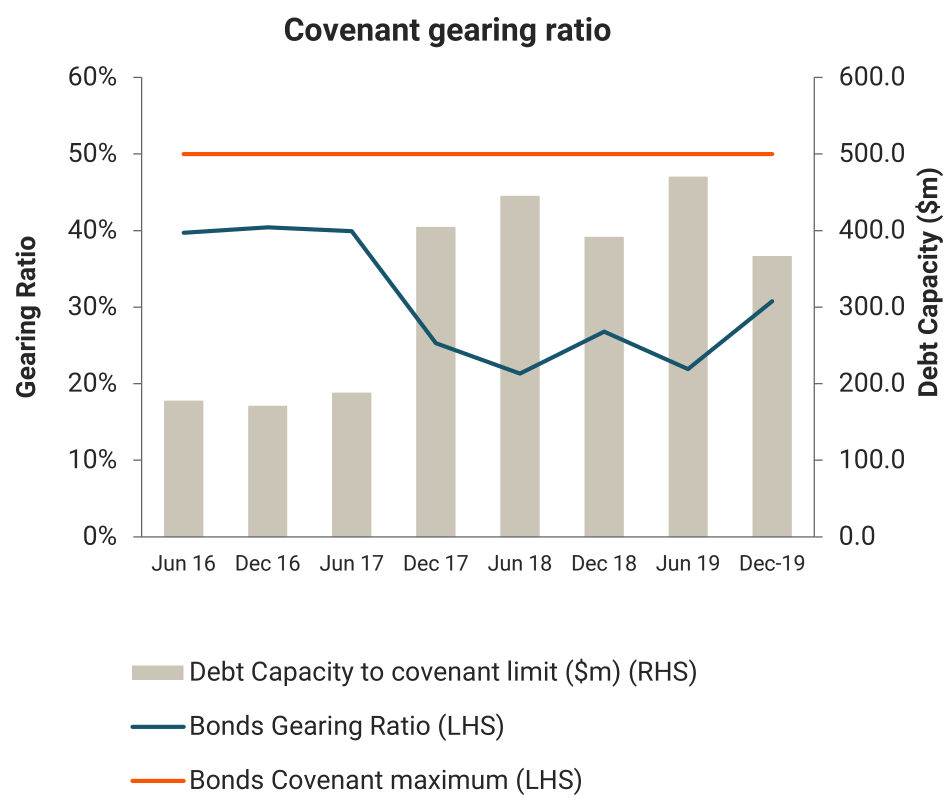
Change in debt maturity profile[1] ($m)



[1] Funding maturity profile shows consolidated interest bearing liabilities as at 30 June 2019 and 31 December 2019 that contribute to the gearing ratio, excluding Authorised deposit-Taking Institution (ADI) borrowings
[2] Loan facilities from a related entity for the development of the Herston Quarter health precinct in Brisbane, Queensland. The facilities are sized to cover development costs of car park and public domain assets at Herston Quarter that are scheduled for practical completion in Q2FY21, and are expected to be up to $45 million
[3] $25 million revolving loan facility maturing March 2021

Gearing analysis and interest cover





Ratios at 30 June 2019:

- Covenant Gearing Ratio 31% based on covenant gearing calculations
- Interest Cover Ratio[1] 5.79 times

[1] Interest cover ratio is calculated on a rolling 12 month basis and has been adjusted to exclude the impact of AASB16 Leasing.

Independent & Assisted Living

Investment for sustainable growth

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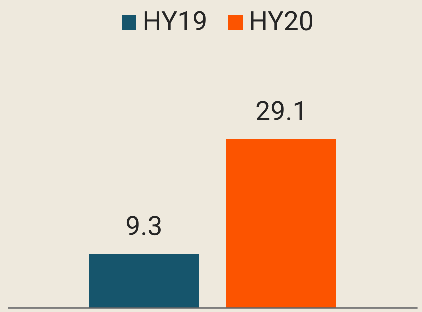
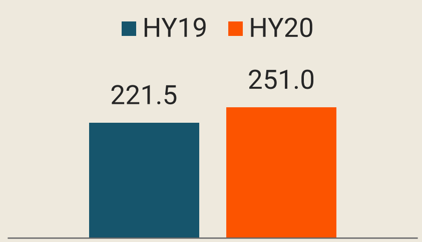
Independent & Assisted Living

Adjusted EBITDA ($m)



Segment Revenue ($m)



- Improved operating model to drive customer-centred continuum of care across the home care, residential care and Remedy Healthcare businesses
- Pursued opportunities to further develop Integrated Care Model between Remedy Healthcare and Residential Communities and Home Care Services
- Total segment revenue increase of 13.3 percent reflected platform-wide growth, with the exception of Residential Communities, which saw a decline in part due to challenges with aged care sector and property market
- Increase of $19.8 million in adjusted EBITDA reflected ongoing investment into the sustainability of Home Care Services

* Figures at 31 December 2019, unless otherwise noted

IAL highlights*

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Home Care Services

- EBITDA gain of $13.6 million achieved through a mix of growth and operational efficiency initiatives
- Approximately 1.4 million hours of care were delivered to 49,000 clients by 3,400 care workers
- Total Home Care Packages under management increase of 1,097 package clients in the half-year to 31 December 2019
- Aboriginal Home Care business unit delivered 144,000 hours of care to 3,299 clients

Residential Communities

- Owns and operates 20 retirement communities across Victoria and NSW, comprising 2,460 independent living units (December 2018: 2,368)
- Occupancy levels across the portfolio's mature facilities remained high at above 96.0%
- Owns and operates seven aged care facilities in Victoria and NSW, incorporating 786 aged care beds (December 2018: 591)
- Mature aged care portfolio continued to achieve top-quartile occupancy at 96.5%

Development

- Continued to focus on its development pipeline of aged care and retirement communities during the half-year under review
- In addition to developments underway across the eastern states, IAL is reviewing acquisition opportunities that would provide an immediate growth avenue for both the retirement community and aged care portfolios

Remedy Healthcare

- Further extended allied health 'continuum of care' strategy, consolidating integration with HDS to deliver more than 8,000 service hours to NSW Home Care Package clients (increase of 5,559 hours)
- Continued adapting to an evolving market, where health fund customers in PHI market focused on cost reduction measures to offset high claims volumes, resulting in Health Coaching volume declining 14.9% to 1,276 (December 2018: 1,500) and hospital substitution program volumes growing 10.3% to 2,211 (December 2018: 2,005)

Dental

- Six dental clinics operating in Victoria
- Overall patient visits declined by 2.2% to 27,008 (December 2018: 27,623) primarily due to disruption caused by relocation of the South Melbourne clinic to Spring Street, Melbourne in June 2019

* Figures at 31 December 2019, unless otherwise noted

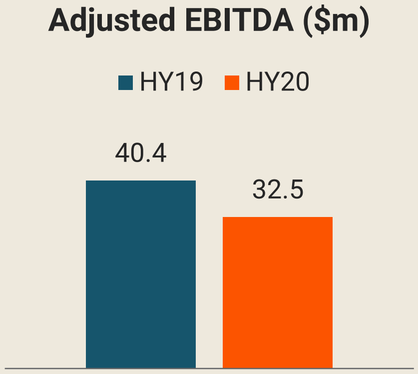
IAL outlook

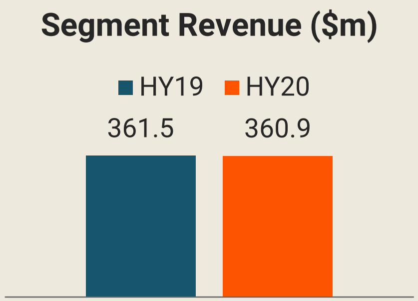
- Orientating around needs of customers and the key stakeholders in their health and wellbeing–families, primary carers, communities and government agencies
- Continue resizing disability business footprint, while growing Home Care Package business
- Expand the allied health service offering across the Home Care Services network, as well as hospital-in-the-home services
- Maintain high occupancy levels in a challenging residential aged care market, with new sales initiatives, and the resurgent property market in NSW and Victoria, underpinning sales growth
- Continue actively and constructively participation in the Royal Commission into Aged Care Quality and Safety and if required, the Royal Commission into Violence, Abuse, Neglect and Exploitation of People with Disability

Retail

Challenging half-year amidst mixed operating conditions

Retail





- Adjusted EBITDA down by $7.9 million or 19.4 percent to $32.5 million compared to the prior corresponding period-driven by higher health insurance claims expenses principally due to an under estimation of claims in the prior year

- Banking business continued its strong growth, increasing loan book by 13.8 percent and exceeded $1.01 billion in total assets milestone

- Total operating expenses of $328.4 million, 2.3 percent higher than prior corresponding period, reflected $8.6 million increase in health insurance claims net of risk equalisation and $1.3 million decrease in other operating expenses

* Figures at 31 December 2019, unless otherwise noted

Retail highlights*

Health insurance

- 2.6% decrease in policyholders reflected declining industry growth, strategy to limit distribution through unprofitable channels, and further simplification of product range.
- AUHL 2020 premium round submission approved with average increase of 2.79%
  - Below announced sector average of 2.92%
  - Lowest average AUHL increase in 19 years
- Completed private health insurance industry reforms (effective 1 January 2020)

Banking

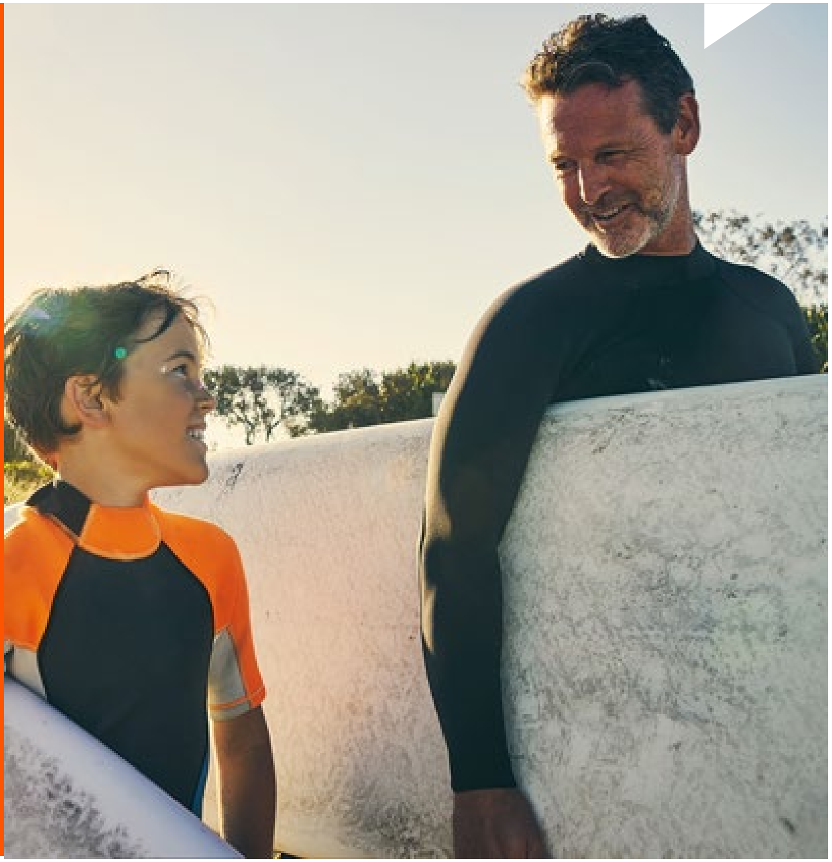
- More than 24,400 customers, with total assets growth of $125.0 million to $1.01 billion (30 June 2019: $886.0 million)
- Gross Loan Portfolio grew by $101.6 million to $852.7 million (30 June 2019: $751.1 million)
- Standard & Poor's (S&P) Ratings upgraded Australian Unity Bank's issuer credit rating to 'BBB+'
- Implemented program to comply with the new Banking Executive Accountability Regime and remained responsive to government, regulatory and community expectations

* Figures at 31 December 2019, unless otherwise noted

Retail outlook

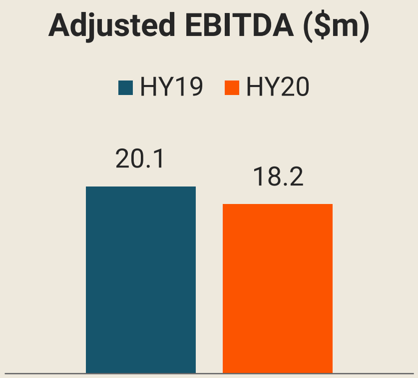
- Cautiously positive, notwithstanding headwinds facing a private health insurance sector given the increasingly self-evident need for effective reform
- Political environment and desire of major political parties for lower premiums will require significant consideration and response
- With trust and affordability concerns in the community, opportunities arising from health insurance and banking adjacencies

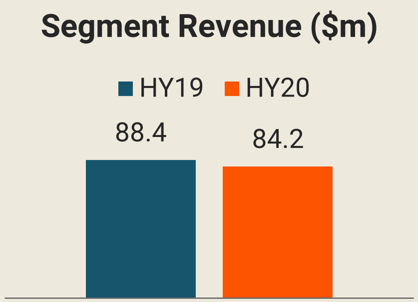
Wealth & Capital Markets



Building sustainable growth

Wealth & Capital Markets





- 4.7 percent decrease in total segment revenue to $84.2 million (31 December 2018: $88.4 million)
- Adjusted EBITDA decreased to $18.2 million. After adjusting for prior corresponding period one-off revenue and related costs, adjusted EBITDA showed growth of 54.5 percent compared to the prior period
- Managed investments, property assets and developments (and associated debt facilities), and provides advice and trustee services, totalling $21.91 billion (30 June 2019: $20.71 billion)

* Figures at 31 December 2019, unless otherwise noted

Wealth & Capital Markets highlights*

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Property

- Assets under management (including completed investments) increased to $3.37 billion (30 June 2019: $2.99 billion)
- Property development of $1.00 billion (30 June 2019: $1.26 billion)
- Managing lending and debt facilities on behalf of investors of $1.54 billion (30 June 2019: $1.59 billion)
- Healthcare Property Trust increased FUM to $1.99 billion (30 June 2019: $1.63 billion) with a return of 11.1% for the year and raised capital of $291.0 million to fund acquisition opportunities
- Retail Property Fund and Australian Unity Diversified Property Fund merged to become the Diversified Property Fund with FUM of $559.7 million and one-year performance of 7.3% (benchmark 5.2%)

Life & super

- Assets under management and administration of $2.39 billion (30 June 2019: $2.34 billion)
- Sales reached $124.6 million (31 December 2018: $117.1 million)
- As at 30 September 2019, the business remained number one in the investment bond sector with 27.2% of FUM and in sector inflows for the year to 30 September 2019 with 32.2% of inflows
- FUM for education solutions increased to $239.5 million (30 June 2019: $229.2 million)
- Launched 10Invest, a low-cost investment bond available to direct investors, with positive support
- Continued leading position in pre-paid funeral market with more than $689.4 million in FUM (30 June 2019: $699.5 million)

Investments

- Funds under management (FUM) of $6.59 billion (30 June 2019: $6.00 billion)
- Platypus Asset Management outperformed Australian share market with its flagship portfolio returning 27.4% for the year to 31 December 2019, compared to the benchmark return of 23.8% for the S&P ASX 300 Accumulation Index. It has returned 16.7% for the three years to 31 December 2019 exceeding the benchmark by 6.4 percentage points per annum.
- Strong inflows for Platypus and Australian Unity Property Income Fund

Advice

- Increase in adviser numbers (including limited authorised representatives) to 191 (30 June 2019: 184)
- Funds under advice increased to $6.68 billion (30 June 2019: $6.20 billion), including strong growth in separately managed accounts to $280.0 million (30 June 2019: $201.0 million)
- Exited the Corporate Risk Insurance business. With business sold to former joint venture partner

Trustees

- Funds under management and trusteeship increased to $343.8 million (30 June 2019: $325.2 million) and included $130.9 million invested in three common investment funds established for the benefit of trustee clients
- Demand for estate planning, protected person, and taxation services was strong as the support for these services through the network of advisers, accountants and other centres of influence continued to increase
- Growth seen in the Residents Trust Fund business, with strong relationships in this area

* Figures at 31 December 2019, unless otherwise noted

W&CM outlook

- Opportunities ahead to offer customers valuable investment and financial opportunities, and to deliver important benefits to many areas of the community

- Herston Quarter project will continue as a key focus, unfolding as a unique response to Australia's social infrastructure challenge, while other areas of social infrastructure need and asset management are being explored

- Ability to identify assets and partnerships, and access debt and equity from a more diverse range of sources, important to launching further initiatives in social infrastructure, sustainable and responsible investing

- Well positioned to benefit from collective impact of rising and better-planned wealth accumulation, challenges and opportunities presented by ageing population, and changing regulatory landscape and community expectations

ESG – Focusing on S = Wellbeing

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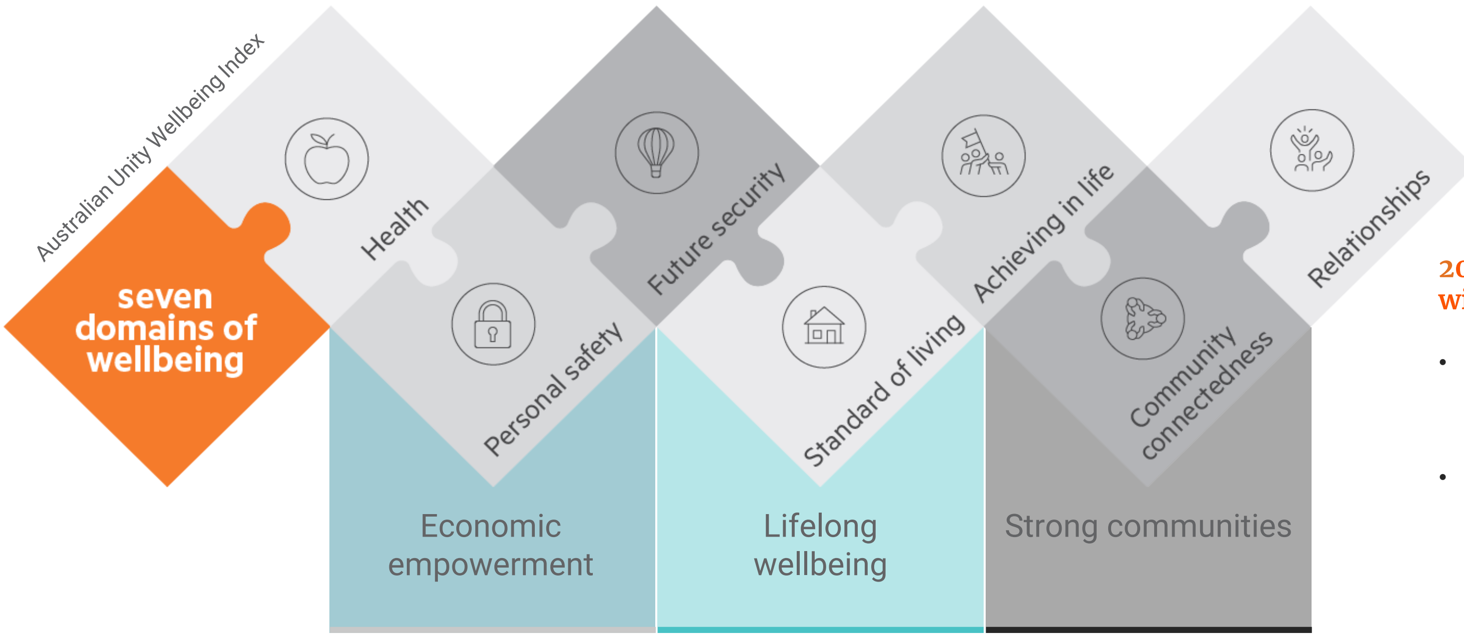

Illustrative business unit:	**Indigenous procurement**	**Private Health Insurance**	**Better Together® (Retirement Communities)**
Examples measures:	$ value of investment in social procurement as a % of total spend	# preventative health interventions	# community engagements

Australian Unity outcomes framework (emerging)

20-year study partnered with Deakin University

- Measures the level of satisfaction across seven aspects of personal life (domains of wellbeing)
- Since 2002, 35 cross sectional surveys of over 50,000 Australians have been conducted

180 YEARS

Australian Unity

Real Wellbeing