



2017 Full Year Results Investor Presentation

25 August 2017

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Agenda

Highlights

Craig Drummond

Financial results

Mark Rogers

Outlook

Craig Drummond

Q&A

Executive Leadership Team

Highlights

Craig Drummond – Chief Executive Officer

FY17 result summary

Operating result modestly ahead of guidance and reflects cost of increased investment in customer initiatives

Group NPAT

\$449.5m

up 7.6%

Health Insurance
operating profit

\$497.5m

down 2.6%

Full year dividend

12.0cps

up 9.1%

- Group net profit after tax (NPAT) \$449.5m, up 7.6% from \$417.6m in FY16
- Underlying NPAT¹ of \$418.7m, down 0.9% from \$422.4m in FY16
- Health Insurance result reflects increased investment in customer benefits, customer initiatives and new IT system amortisation
 - Premium revenue of \$6,244.9m, up 1.2%
 - Gross margin of 17.1%, up from 16.6% in FY16
 - Management expense ratio of 9.1%, compared to 8.4% in FY16, largely reflecting \$21m of investment in customer initiatives and new IT system amortisation
 - Operating margin of 8.0%, down from 8.3% in FY16
- Medibank Health: 44.0% increase in operating profit to \$35.7m reflects divestments in FY16
- Net investment income: \$139.3m, up from \$59.3m in FY16 due to higher equity market returns and stronger credit markets

¹ Refer to appendix slide 35 for further detail on Underlying NPAT

Milestone scorecard

Tangible indicators of progress; remain on track to meet milestones

Customer

Objectives to reach by 2019

FY17 update

Financial

Objectives to reach by 2019

FY17 update

<p>PHIO complaints less than market share (by December 2017 survey)</p>	<p>PHIO complaints reduced: Jun-17 quarter: 35.6% share Sep-16 quarter: 60.7% share</p>	<p>Maintain operating margin³ above major private health insurance peers¹</p>	<table border="1"> <thead> <tr> <th></th> <th>FY17</th> <th>FY16</th> </tr> </thead> <tbody> <tr> <td>Medibank</td> <td>7.7%</td> <td>8.1%</td> </tr> <tr> <td>Major peers</td> <td>N/A</td> <td>5.8%</td> </tr> </tbody> </table>		FY17	FY16	Medibank	7.7%	8.1%	Major peers	N/A	5.8%
	FY17	FY16										
Medibank	7.7%	8.1%										
Major peers	N/A	5.8%										
<p>Brand NPS best in class against major private health insurance peers¹</p>	<p>Brand NPS remains negative, albeit improved vs. peer average. Service NPS has improved and is now positive.</p>	<p>Maintain ROE above cost of capital and major listed insurance peers⁴</p>	<table border="1"> <thead> <tr> <th></th> <th>FY17</th> <th>FY16</th> </tr> </thead> <tbody> <tr> <td>Medibank</td> <td>27.3%</td> <td>27.6%</td> </tr> <tr> <td>Major peers</td> <td>17.0%</td> <td>14.3%</td> </tr> </tbody> </table>		FY17	FY16	Medibank	27.3%	27.6%	Major peers	17.0%	14.3%
	FY17	FY16										
Medibank	27.3%	27.6%										
Major peers	17.0%	14.3%										
<p>Market share stabilised²</p>	<p>30-Jun-17: 26.93% 2H17: down 27bps 2H16: down 57bps 1H17: down 36bps 1H16: down 51bps</p>	<p>More than double Medibank Health share of segment operating profit from FY16</p>	<p>FY17: 6.7% FY16: 4.6%</p>									

1 Bupa, HCF and nib
2 Based on number of Policyholders
3 Australian residents only
4 nib, AMP, IAG and QBE

Foundations for growth laid in FY17

Providing customers with more value, better service and improved transparency; DelPHI starting to deliver benefits

DelPHI into BAU and digital accelerated

Digital enablement allows more meaningful interactions with customers

Benefits of DelPHI now starting to come through

- More personalised and proactive customer communications
- Easier integration and faster product development
- Improved customer segmentation

Significantly improved functionality and speed of MyMedibank and App

Customer service overhauled

Enhanced service and support to drive improved customer advocacy and retention

Further significant reduction in customer pain points

Average speed of answer down more than 80% to two minutes; call abandonment rate down 75%

24/7 webchat launched

Expansion of health concierge program

Product development more customer-orientated

Customer value proposition now well positioned to help improve market share trajectory

New products launched across both brands with strong early results

Choice review – Medibank only fund recommended in all four hospital categories

Value back to 1.6m customers including dental 100% back offer, Accident & Ambulance coverage

Transparency agenda prioritised

Improved transparency will increase competitive pressure in the health system and drive better customer outcomes

Healthshare – Medibank gap scheme participation now available

Working with health stakeholders to improve available performance information

Ongoing simplification of customer communications and product information

Strategy and FY18 priorities

Major focus is to accelerate the improvement in market share trajectory and expand health services




Strong purpose - Better Health for Better Lives

Strategic pillar	Deliver enhanced products and services for customers	Continue to improve healthcare value for customers	Expand the offering for customers and grow the business
FY18 priorities	<ul style="list-style-type: none"> • More proactive and personalised communication • Continue digital enablement as part of channel strategy • Expand breadth and reach of health and wellbeing advice • Enhance offering to recognise and reward membership 	<ul style="list-style-type: none"> • Expand payment integrity program to parts of the claims portfolio historically less of a focus • Focus on reducing low value care and improving customer health outcomes • Lead health system reform 	<ul style="list-style-type: none"> • Further distribution partnerships • Grow non-resident business • Expand diversified insurance offer and increase take-up • Health services expansion (refer next page)
Enablers	Drive simplicity and productivity Further leverage data Accountability		

Health services expansion

Integrating health into the customer experience is a key strategic element transforming Medibank into a broader health services company

Medibank - Better Health for Better Lives

	 Prevent	 Support	 Choice
Focus	Prevent avoidable hospital admissions and manage chronic conditions	Support customers to understand and take control of their health and wellbeing	Provide choice over how and where healthcare is delivered
FY18 priorities	<ul style="list-style-type: none"> Continue to grow CareComplete program Drive awareness and auditing of quality standards to reduce low value care 	<ul style="list-style-type: none"> Broaden and scale health concierge programs Grow healthcare services for non-PHI customers 	<ul style="list-style-type: none"> Expand healthcare in the home Integrate HealthStrong Further (modest) healthcare services acquisitions

Benefits	Strengthen customer relationships (retention and advocacy)	Expand and differentiate PHI offer	Reduce claims
	Align with purpose	Expand healthcare capability	Grow and diversify earnings



- Australia's leading provider of mobile allied healthcare services to residents of aged-care facilities and in the home
- Track record of standalone growth
- Synergy opportunities, including expansion of home-based offering

Key points

- Pleasing financial result modestly ahead of guidance
- Strong execution of meaningful customer experience improvement; more to be done
- DelPHI now BAU and starting to deliver benefits for our customers
- Early but clear signs of improving market share trajectory
- Increasing focus on health services expansion

Financial results

Mark Rogers – Chief Financial Officer

Group financial summary

Financial year ended 30 June (\$m)	2017	2016	Change
Health Insurance premium revenue	6,244.9	6,172.5	1.2%
Medibank Health revenue ¹	552.1	569.3	(3.0%)
Revenue	6,797.0	6,741.8	0.8%
Health Insurance operating profit	497.5	510.7	(2.6%)
Medibank Health operating profit	35.7	24.8	44.0%
Segment operating profit	533.2	535.5	(0.4%)
Corporate overheads	(32.7)	(30.0)	9.0%
Group operating profit	500.5	505.5	(1.0%)
Net investment income	139.3	59.3	134.9%
Amortisation of intangibles	(7.0)	(7.6)	(7.9%)
Other income/(expenses)	(4.1)	(10.9)	(62.4%)
Profit before tax	628.7	546.3	15.1%
Income tax expense	(179.2)	(128.7)	39.2%
NPAT	449.5	417.6	7.6%
EPS (cents)	16.3	15.2	7.6%
Underlying² NPAT	418.7	422.4	(0.9%)
Underlying ² EPS (cents)	15.2	15.3	(0.9%)
Dividend per share (cents)	12.0	11.0	9.1%
Dividend payout ratio	79%	72%	10.1%

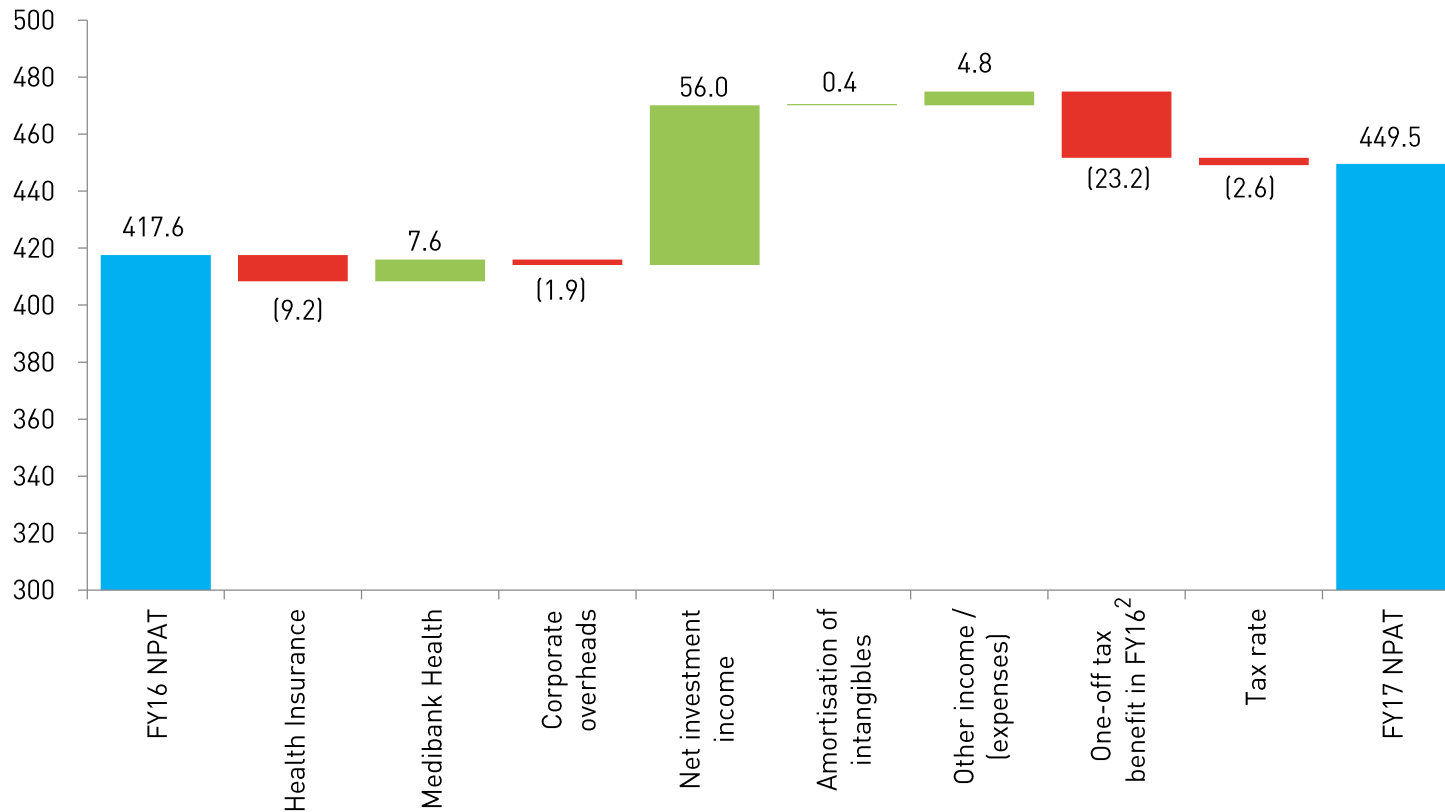
1 Net of intercompany eliminations

2 Refer to appendix slide 35 for further detail on Underlying NPAT

Group NPAT – FY17 vs FY16

Operating result reflects cost of increased investment in customer initiatives

FY17 NPAT result analysis (\$m)¹



¹ For all items other than one-off tax benefit and other tax, amount is based on pre-tax movement less 30% allowance for tax

² Medibank was successful in having a change in tax position for prior periods endorsed by the Australian Taxation Office in December 2015 resulting in a previously unclaimed tax deduction being allowed. This deduction was booked in FY16

Health Insurance result

Financial year ended 30 June (\$m)	2017	2016	Change
Premium revenue	6,244.9	6,172.5	1.2%
Net claims expense (including risk equalisation)	(5,179.0)	(5,145.8)	0.6%
Gross profit	1,065.9	1,026.7	3.8%
Management expenses	(568.4)	(516.0)	10.2%
Operating profit	497.5	510.7	(2.6%)
Gross margin ¹	17.1%	16.6%	50bps
MER ¹	9.1%	8.4%	70bps
Operating margin ¹	8.0%	8.3%	(30bps)

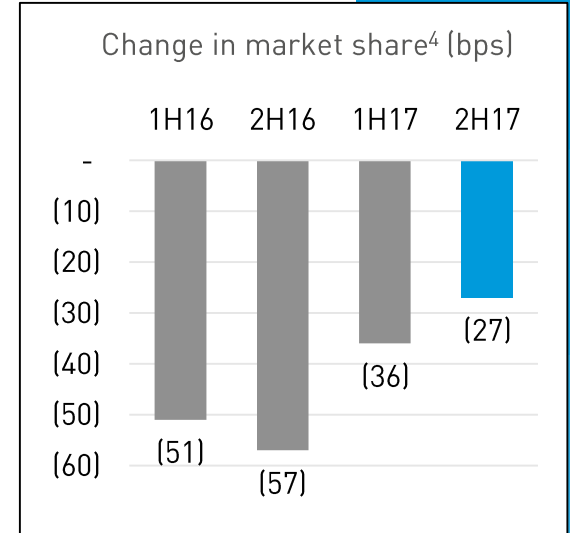
¹ Includes Australian residents, OSHC and OVHC. The gross margin for Australian residents only was 16.1% in FY16 and 16.5% in FY17, the MER for Australian residents only was 8.0% in FY16 and 8.8% in FY17, and the operating margin for Australian residents only was 8.1% in FY16 and 7.7% in FY17

Health Insurance – premium revenue

Encouraging improvement in trajectory despite continued slowing of market

- Industry volumes were relatively flat
- Medibank
 - Strong performance from new products helped drive stronger acquisition in 2H17
 - Lapse up slightly in line with industry
- ahm
 - Strong growth in all channels, especially direct channels in 2H17
 - Significant improvement in both acquisition and lapse rates
- Revenue per Policy Unit up 3.8% but lower than blended rate rise of 5.4% due to continuing cover reductions and sales mix changes

Financial year ended 30 June	2017	2016	Change
Premium revenue (\$m)	6,244.9	6,172.5	1.2%
Policyholders¹ (thousand):			
Opening balance	1,800.3	1,846.0	(2.5%)
Acquisitions	190.5	179.8	6.0%
Lapses	(214.7)	(225.5)	(4.8%)
Closing balance	1,776.1	1,800.3	(1.3%)
- Medibank	1,451.2	1,512.7	(4.1%)
- ahm	324.9	287.6	13.0%
Acquisition rate ²	10.7%	9.9%	80bps
Lapse rate ²	12.0%	12.4%	(40bps)
Policyholder growth	(1.3%)	(2.5%)	120bps
Average Policy Units ^{1,3} (thousand)	4,702.7	4,824.4	(2.5%)
Average revenue per Policy Unit^{1,3} (\$)	1,327.9	1,279.4	3.8%



1 Consistent with reported industry data, Policyholder numbers only include resident business whereas total Policy Units include both resident and non-resident business (i.e. OSHC and OVHC)

2 Consolidated lapse and acquisition rates exclude transfers of Policyholders between ahm and Medibank at a combined brand level. Lapse and acquisition rates are based on the average of the opening and closing balances for the period

3 Policy Units or Policy Single Equivalent Units (PSEUs) – refer to glossary for definition. Based on average of the month-end balances over the reporting period

4 Based on number of Policyholders

Health Insurance – claims

Drawing rate increase continues to be driven by hospital utilisation growth

- Hospital
 - Higher growth in hospital utilisation rate, coming off a low base in FY16
 - Expected savings from prostheses pricing reform emerging
 - Public hospital costs decrease reflects continued reductions in average length of stay
 - Risk equalisation up due to claims growth and increased spend on CareComplete
- Extras
 - Payment integrity program continued to help moderate overall cost growth
 - Dental cost growth also reflected increased benefits paid from the 100% back offer
- Claims cost growth continues to be partially offset by mix changes and cover reductions
- Claims provision release (net of risk equalisation) of \$16m from 30 June 2016 balance vs. \$20m from 30 June 2015 balance

Financial year ended 30 June (\$m)	2017	2016	Change
Claims expense	(5,276.9)	(5,209.3)	1.3%
Risk equalisation	97.9	63.5	54.2%
Net claims expense (including risk equalisation)	(5,179.0)	(5,145.8)	0.6%
- Hospital	3,915.4	3,887.8	0.7%
- Extras	1,263.6	1,258.0	0.4%
Average net claims expense per Policy Unit ¹ (\$)	(1,101.3)	(1,066.6)	3.3%
Hospital utilisation ² growth	3.6%	2.4%	120bps

1 Policy Units or Policy Single Equivalent Units (PSEUs) refer to glossary for definition. Policy Units include both resident and non-resident business (i.e. OSHC and OVHC). Based on average of the month-end balances over the reporting period

2 Hospital utilisation is defined as the number of hospital admissions per hospital Policy Unit

Health Insurance – management expenses

Increase driven by investments in customer; significant future productivity savings expected

- Reported cost growth of 10.2% reflects:
 - DelPHI amortisation commenced
 - Increase in Deferred Acquisition Costs (DAC) amortisation reflects first full 4-year run rate
 - Additional investment in customer initiatives; majority not expected to recur
- Other management expenses growth contained to 1.6%
- Target of \$50m (up from \$40m) in cumulative productivity savings by 2020
 - Savings of \$20m expected in FY18
- Enterprise Resource Planning project costs still being capitalised – amortisation to commence in 2Q18 (FY18: \$6m)

Financial year ended 30 June (\$m)	2017	2016	Change
Premium revenue	6,244.9	6,172.5	1.2%
Management expenses	(568.4)	(516.0)	10.2%
- Depreciation and amortisation	(41.6)	(26.6)	56.4%
- DAC amortisation	(33.9)	(25.2)	34.5%
- Announced customer initiatives	(21.2)	-	n.m.
- Other management expenses	(471.7)	(464.2)	1.6%
MER	9.1%	8.4%	70bps

Medibank Health

(formerly Complementary Services)

Reported profit increase due to divestments in FY16; ongoing business profit steady

- Reported revenue decline due to divested businesses (Workplace Health, Travel Doctor) in latter part of 1H16
- Ongoing Medibank Health businesses delivered steady operating profit whilst investing in future growth opportunities and implementing an improved service delivery model for the Australian Defence Force contract.
- Post balance date acquisition (3 July 2017) of HealthStrong for \$36.9m
 - FY17 Revenue \$27.6m
 - FY17 EBITDA \$3.8m

Financial year ended 30 June (\$m)	2017	2016	Change
Revenue ¹	552.1	569.3	(3.0%)
Gross profit	121.0	113.1	7.0%
Management expenses	(85.3)	(88.3)	(3.4%)
Operating profit	35.7	24.8	44.0%
Operating margin	6.5%	4.4%	210bps

Medibank Health (ongoing businesses)²

Financial year ended 30 June (\$m)	2017	2016	Change
Revenue ¹	552.1	530.1	4.2%
Operating profit	35.7	35.4	0.8%
Operating margin	6.5%	6.7%	(20bps)

1 Net of intercompany eliminations

2 Comprises Population Health, Telehealth and Diversified Consumer businesses

Investment portfolio

Target asset allocation revised following continued strength of equity markets

- Target asset allocation revised in June 2017 to 80% defensive, 20% growth (from 75% defensive, 25% growth)
- More defensive portfolio positioning in response to elevated equity valuations and continued global uncertainties
 - Expected return lowered by c.30bps
 - Target return of 1.5% to 2.0% above RBA cash rate
- Foreign currency exposures fully hedged (except for international equities – 50% hedged)

As at 30 June 2017	Balance (\$m)	Portfolio composition	Previous target asset allocation	New target asset allocation
Australian Equities	126.5	5.0%	6.0%	5.0%
International Equities	147.9	5.8%	8.0%	6.0%
Property ¹	168.9	6.7%	8.0%	7.0%
Infrastructure	49.5	2.0%	3.0%	2.0%
Growth	492.8	19.5%	25.0%	20.0%
Fixed income ²	1,261.8	49.8%	50.0%	52.0%
Cash ³	776.0	30.7%	25.0%	28.0%
Defensive	2,037.8	80.5%	75.0%	80.0%
Total	2,530.6	100.0%	100.0%	100.0%

1 Includes Wollongong property (\$27.2m)

2 Target asset allocation comprises floating rate notes and asset-backed investments (32.0%) and other fixed income (20.0%). Average credit duration is 3 years and the average credit rating is 'A'

3 For investment portfolio purposes, calculated as cash and cash equivalents (\$594.6m) plus cash with maturities of 3-12 months (\$310.8m) less cash held for day to day operations of the business (\$124.9m)

Net investment income

Investment returns buoyed by higher equity market returns and stronger credit markets

- Net investment income above FY16 due to higher investment market returns
 - Growth assets up due to above average equity market returns in FY17 and below average returns in FY16; benefits from lower Australian Dollar
 - Defensive assets up due to stronger credit markets more than offsetting a lower cash rate
- Increase in underlying return premium over cash rate
 - Strong property returns
 - Enhanced premium on cash portfolio

Financial year ended 30 June (\$m)	2017	2016	Change
Average monthly balance:			
Growth	591.2	568.6	4.0%
Defensive	1,794.8	1,720.2	4.3%
Total average monthly balance	2,386.0	2,288.8	4.2%
Net investment income:			
Growth	76.3	14.8	415.5%
Defensive	67.0	48.1	39.3%
Investment expenses	(4.0)	(3.6)	11.1%
Total net investment income	139.3	59.3	134.9%
Return:			
Growth	12.9%	2.6%	1030bps
Defensive	3.7%	2.8%	90bps
Total net return - reported	5.8%	2.6%	320bps
Total net return - underlying ¹	4.0%	3.7%	30bps
RBA cash rate (average)	(1.5%)	(2.0%)	50bps
Premium over RBA cash rate	2.5%	1.7%	80bps

¹ Adjusted to normalise equity returns in FY16 and FY17 and credit spread movement in FY17. Refer to appendix slide 35 for details

Financial summary – group

Corporate overheads, other expenses, tax

- Corporate overheads increased by 9.0% due to project costs and costs associated with senior executive changes
- Other income/(expenses)
 - FY17: \$2.8m in legal costs regarding ACCC court case
 - FY16: \$14.0m one-off regarding system migration adjustment
- Normalised tax rate² up slightly to 28.5% due to reduction in non-assessable investment gains

Financial year ended 30 June (\$m)	2017	2016	Change
Segment operating profit	533.2	535.5	(0.4%)
Corporate overheads	(32.7)	(30.0)	9.0%
Group operating profit	500.5	505.5	(1.0%)
Net investment income	139.3	59.3	134.9%
Amortisation of intangibles	(7.0)	(7.6)	(7.9%)
Other income/(expenses)	(4.1)	(10.9)	(62.4%)
Profit before tax	628.7	546.3	15.1%
Income tax expense ¹	(179.2)	(128.7)	39.2%
NPAT	449.5	417.6	7.6%
Effective tax rate	(28.5%)	(23.6%)	(490bps)
Normalised tax rate²	(28.5%)	(27.8%)	(70bps)

1 As per note 15 of the 30 June 2016 Consolidated Financial Statements, Medibank was successful in having a change in tax position for prior periods endorsed by the Australian Taxation Office in December 2015, resulting in a previously unclaimed tax deduction being allowed and booked in FY16

2 FY16 normalised tax rate adjusted for one-off tax benefit

Balance sheet

Strong, debt free balance sheet

- Higher cash balance reflects new strategic asset allocation and funding for HealthStrong acquisition
- Unearned premium liability increase reflects growth in overseas customers
- Deferred acquisition costs up due to continued growth of ahm
- Other liabilities increased due to the timing of tax payments
- Balance sheet remains debt free

(\$m)	30 June 2017	30 June 2016	Change
Cash and cash equivalents	594.6	438.7	35.5%
Financial assets at fair value through profit or loss	2,038.1	2,015.8	1.1%
Trade and other receivables	317.0	313.1	1.2%
Deferred acquisition costs	36.6	31.1	17.7%
Other	14.1	13.8	2.2%
Current assets	3,000.4	2,812.5	6.7%
Property, plant and equipment	87.3	93.3	(6.4%)
Intangible assets	321.1	312.9	2.6%
Deferred acquisition costs	50.9	45.0	13.1%
Other	2.8	2.5	12.0%
Non-current assets	462.1	453.7	1.9%
Total assets	3,462.5	3,266.2	6.0%
Trade and other payables	334.8	333.9	0.3%
Claims liability	388.4	396.3	(2.0%)
Unearned premium liability	685.7	664.0	3.3%
Other	155.8	124.3	25.3%
Current liabilities	1,564.7	1,518.5	3.0%
Trade and other payables	32.9	34.7	(5.2%)
Claims liability	16.0	21.3	(24.9%)
Unearned premium liability	73.2	65.3	12.1%
Other	55.9	47.7	17.2%
Non-current liabilities	178.0	169.0	5.3%
Total liabilities	1,742.7	1,687.5	3.3%
Net assets	1,719.8	1,578.7	8.9%

Cash flow

Improvement in operating cash flow driven by normalisation of key working capital movements

- Working capital in the prior year impacted by the timing of payments
- Operating assets and liabilities movement reflects higher prepayments of premiums
- Post Project DelPHI, capital expenditure now broadly in line with depreciation and amortisation
- Increase in income tax due to significant FY16 profit increase, and one-off tax benefit of \$23.2m in FY16
- Change in sale of investments related to investment portfolio reweighting to defensive assets

Financial year ended 30 June (\$m)	2017	2016	Change
Profit before net investment income and income tax	489.4	487.0	0.5%
Changes in working capital ¹	(13.7)	(64.9)	(78.9%)
Customer acquisition costs	(11.4)	(8.3)	37.3%
Changes in other operating assets and liabilities	20.4	(14.7)	(238.8%)
Depreciation and amortisation	51.6	38.6	33.7%
Net cash flows from operations	536.3	437.7	22.5%
Income tax	(142.9)	(85.4)	67.3%
Capital expenditure	(48.8)	(78.2)	(37.6%)
Proceeds from sale of assets	2.9	29.8	(90.3%)
Net cash flows before investment related items and dividends	347.5	303.9	14.3%
Net realised investment income	34.7	38.5	(9.9%)
(Purchase) / sale of investments	87.1	(28.7)	(403.5%)
Purchase of shares to settle share-based payment	(3.6)	-	n.m.
Net cash flows before dividends	465.7	313.7	48.5%
Dividends paid	(309.8)	(283.7)	9.2%
Net increase / (decrease) in cash and cash equivalents	155.9	30.0	419.7%
Cash and cash equivalents at beginning of the period	438.7	408.7	7.3%
Cash and cash equivalents at end of the period	594.6	438.7	35.5%

1 Working capital comprises trade and other payables, trade and other receivables and other current assets as per the consolidated statement of financial position

Capital

Modest unallocated capital; some already used in HealthStrong acquisition

- Health Insurance capital at the top end of 12-14% target range, supported by strong investment returns (normalisation adjustment of \$30.8m) and reflective of level of revenue growth
- Unallocated capital defined as:
 - Health Insurance capital above the 12-14% target range (FY17: 13.9%)
 - Other capital above operational requirements
- Unallocated capital reduced by \$36.9m to a notional \$35.3m following the acquisition of HealthStrong on 3 July 2017

(\$m)	30 June 2017	30 June 2016
Total equity	1,719.8	1,578.7
Less: Intangible and illiquid assets	(451.6)	(437.5)
Total tangible and liquid assets	1,268.2	1,141.2
Less: Allowance for declared but unpaid dividends	(185.9)	(165.2)
Less: Allowance for cost of product bonus additions ¹	(17.0)	(18.4)
Total tangible adjusted capital	1,065.3	957.6
Required capital		
- Health Insurance	878.7	816.1
- Other	114.4	} 141.5
Unallocated capital	72.2	
Health Insurance (%) ²	13.9%	12.7%

1 Policies that include a product bonus receive an entitlement every 1 January to spend on otherwise uncovered expenses. The allowance is booked on 1 January each year

2 Calculated as required Health Insurance related capital post dividends divided by the last 12 months' Health Insurance premium revenue inflated by the growth rate in Health Insurance premium revenue over the same 12 month period

Dividend

Final dividend brings payout ratio to upper end of 70-80% target

- Final dividend of 6.75 cents per ordinary share for the six month period ending 30 June 2017, bringing the full year FY17 dividend to 12.0 cents per share fully franked
- Payable: 28 September 2017 (ex-dividend date: 6 September 2017)
- Final payout ratio of 79% of Underlying NPAT¹, at the upper end of the full year target payout ratio of 70-80% of Underlying NPAT

**Full year
dividend**

12.0cps

**FY17 payout
ratio**

79%

Outlook

Craig Drummond – Chief Executive Officer

Regulatory landscape

Significant reform needed to help address rising affordability challenge

Broader regulatory landscape



- Senate Inquiry into PHI
- Medicare Benefits Schedule Review
- Prosthesis List Advisory Committee
- Private Health Ministerial Advisory Committee

Medibank submission to senate inquiry

Transparency	Affordability	Value
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- Reduce prosthesis prices paid by private health insurers
- More informed choice for consumers using private health insurance in public hospitals
- Reform second-tier default
- Greater transparency of healthcare costs and quality
- Maintain effective and ongoing incentives for the take-up of private health insurance
- Better preventative programs for chronic disease
- Classification for private health insurance policies to not add to premiums or restrict product innovation
- More rigorous and periodic audits of MBS claims

FY18 Health Insurance outlook

- Flat overall market volumes expected due to further declines in the participation rate
- Continued improvement expected in market share trajectory (stabilisation targeted by the end of 2019)
- No material change expected in hospital utilisation growth rate from FY17 level
- Management expenses expected to be lower, including the benefit of \$20m in productivity savings
- Regulatory environment expected to be supportive with a focus on affordability and industry sustainability

Q&A

Executive Leadership Team

Appendices

Group financial summary – half by half

(\$m)	2H17	1H17	2H16	1H16	Change 2H17 vs. 2H16	Change 2H17 vs. 1H17	Change 1H17 vs. 1H16
Health Insurance premium revenue	3,127.0	3,117.9	3,092.5	3,080.0	1.1%	0.3%	1.2%
Medibank Health revenue	272.8	279.3	268.7	300.6	1.5%	(2.3%)	(7.1%)
Revenue	3,399.8	3,397.2	3,361.2	3,380.6	1.1%	0.1%	0.5%
Health Insurance operating profit	248.1	249.4	239.0	271.7	3.8%	(0.5%)	(8.2%)
Medibank Health operating profit	18.4	17.3	15.6	9.2	17.9%	6.4%	88.0%
Segment operating profit	266.5	266.7	254.6	280.9	4.7%	(0.1%)	(5.1%)
Corporate overheads	(16.2)	(16.5)	(16.4)	(13.6)	(1.2%)	(1.8%)	21.3%
Group operating profit	250.3	250.2	238.2	267.3	5.1%	0.0%	(6.4%)
Net investment income	62.5	76.8	40.7	18.6	53.6%	(18.6%)	312.9%
Amortisation of intangibles	(3.5)	(3.5)	(3.7)	(3.9)	(5.4%)	-	(10.3%)
Other income/(expenses)	(3.9)	(0.2)	(11.1)	0.2	(64.9%)	n.m.	(200.0%)
Profit before tax	305.4	323.3	264.1	282.2	15.6%	(5.5%)	14.6%
Income tax expense	(87.8)	(91.4)	(74.1)	(54.6)	18.5%	(3.9%)	67.4%
NPAT	217.6	231.9	190.0	227.6	14.5%	(6.2%)	1.9%
EPS (cents)	7.9	8.4	6.9	8.3	14.5%	(6.2%)	1.9%
Underlying NPAT	207.8	210.9	206.9	215.5	0.4%	(1.5%)	(2.1%)
Underlying EPS (cents)	7.5	7.7	7.5	7.8	0.4%	(1.5%)	(2.1%)
Dividend per share (cents)	6.75	5.25	6.00	5.00	12.5%	28.6%	5.0%
Dividend payout ratio	89%	69%	80%	64%	12.0%	n.m.	7.3%

Health Insurance result – half by half

(\$m)	2H17	1H17	2H16	1H16	Change 2H17 vs. 2H16	Change 2H17 vs. 1H17	Change 1H17 vs. 1H16
Premium revenue	3,127.0	3,117.9	3,092.5	3,080.0	1.1%	0.3%	1.2%
Net claims expense (incl. risk equalisation)	(2,589.1)	(2,589.9)	(2,594.7)	(2,551.1)	(0.2%)	(0.0%)	1.5%
Gross profit	537.9	528.0	497.8	528.9	8.1%	1.9%	(0.2%)
Management expenses	(289.8)	(278.6)	(258.8)	(257.2)	12.0%	4.0%	8.3%
Operating profit	248.1	249.4	239.0	271.7	3.8%	(0.5%)	(8.2%)
Gross margin	17.2%	16.9%	16.1%	17.2%	110bps	30bps	(30bps)
MER	9.3%	8.9%	8.4%	8.4%	90bps	40bps	50bps
Operating margin	7.9%	8.0%	7.7%	8.8%	20bps	(10bps)	(80bps)

Health Insurance premium revenue – half by half

	2H17	1H17	2H16	1H16	Change 2H17 vs. 2H16	Change 2H17 vs. 1H17	Change 1H17 vs. 1H16
Premium revenue (\$m)	3,127.0	3,117.9	3,092.5	3,080.0	1.1%	0.3%	1.2%
Policyholders¹ (thousand):							
Opening balance	1,782.2	1,800.3	1,823.3	1,846.0	(2.3%)	(1.0%)	(2.5%)
Acquisitions	113.7	76.8	98.2	81.6	15.7%	48.0%	(5.9%)
Lapses	(119.8)	(94.9)	(121.2)	(104.3)	(1.2%)	26.2%	(9.0%)
Closing balance	1,776.1	1,782.2	1,800.3	1,823.3	(1.3%)	(0.3%)	(2.3%)
- Medibank	1,451.2	1,483.9	1,512.7	1,547.2	(4.1%)	(2.2%)	(4.1%)
- ahm	324.9	298.3	287.6	276.1	13.0%	8.9%	8.0%
Acquisition rate ²	6.4%	4.3%	5.4%	4.4%	100bps	210bps	(10bps)
Lapse rate ²	6.7%	5.3%	6.7%	5.7%	-	140bps	(40bps)
Policyholder growth	(0.3%)	(1.0%)	(1.3%)	(1.2%)	100bps	70bps	20bps
Average Policy Units ^{3,4} (thousand)	4,680.6	4,724.7	4,797.1	4,851.9	(2.4%)	(0.9%)	(2.6%)
Annualised average revenue per Policy Unit (\$)	1,336.2	1,319.8	1,289.3	1,269.6	3.6%	1.2%	4.0%

1 Consistent with reported industry data, Policyholder numbers only include resident business whereas total Policy Units include both resident and non-resident business (i.e. OSHC and OVHC)

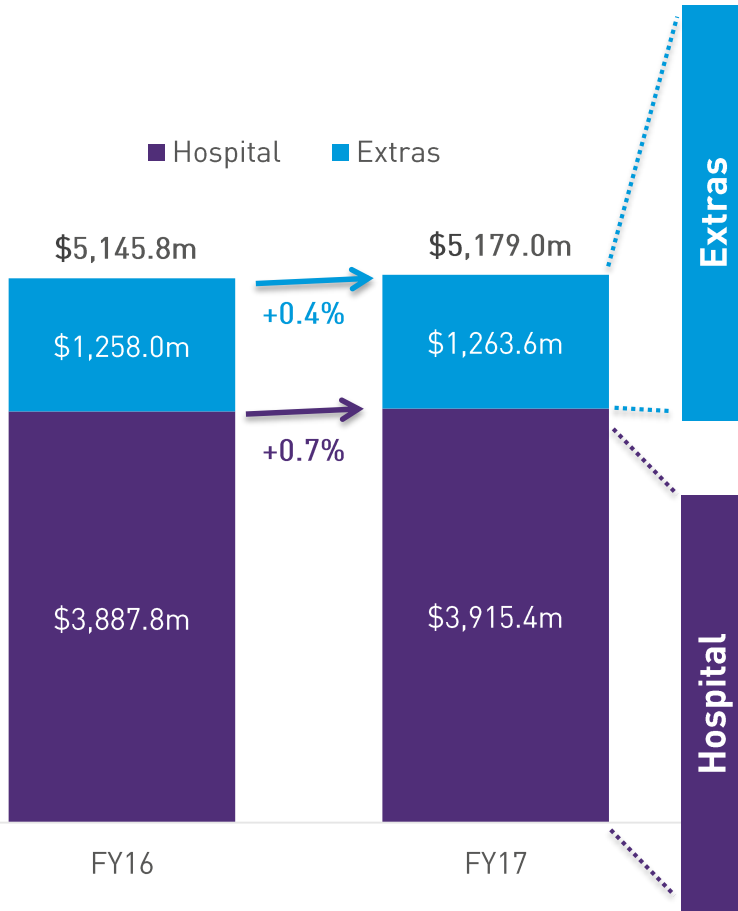
2 Consolidated lapse and acquisition rates exclude transfers of Policyholders between ahm and Medibank at a combined brand level. Lapse and acquisition rates are based on the average of the opening and closing balances for the period

3 Policy Units or Policy Single Equivalent Units (PSEUs) – refer to glossary for definition

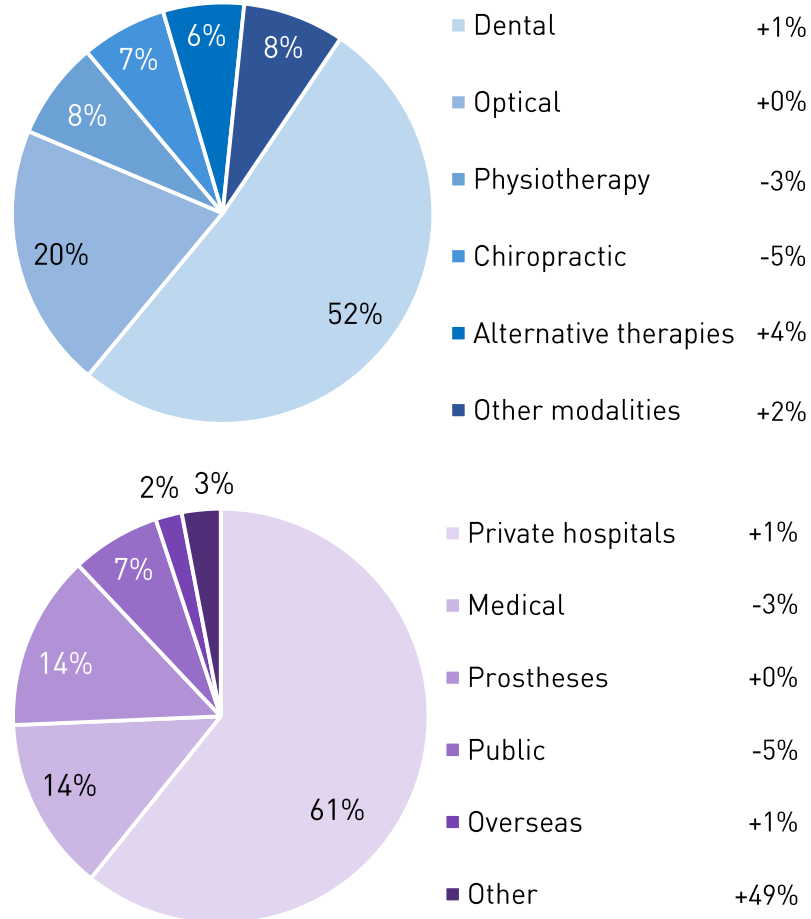
4 Average of the month-end balances over the reporting period

Health Insurance – claims

Net claims expense (including risk equalisation)



Indicative composition and movement in dollar value vs. FY16



Underlying NPAT

(\$m)	FY17	2H17	1H17	FY16	2H16	1H16
Group NPAT	449.5	217.6	231.9	417.6	190.0	227.6
Normalisation of equity returns	(18.8)	(6.3)	(12.5)	18.2	7.1	11.1
Normalisation for credit spread movement ¹	(12.0)	(3.5)	(8.5)	-	-	-
System migration adjustment	-	-	-	9.8	9.8	-
One-off tax benefit relating to prior years	-	-	-	(23.2)	-	(23.2)
Underlying NPAT	418.7	207.8	210.9	422.4	206.9	215.5

¹ Impacts from credit spread movements were not normalised as part of 1H17 reporting due to materiality considerations and the possibility that they may reverse in 2H17. The impact of credit spread movements increased further in 2H17, leading to an adjustment in Underlying NPAT for FY17. The above table applies this adjustment retrospectively to 1H17

Glossary

Term	Definition
1H	Six months ended/ending 31 December of the relevant financial year
2H	Six months ended/ending 30 June of the relevant financial year
2Q	Three months ended/ending 31 December of the relevant financial year
Brand NPS	A measure of the likelihood of an existing customer to recommend the brand
BAU	Business as usual
bps	Basis points (1.0% = 100 bps)
DAC	Deferred acquisition costs
cps	Cents per share
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
FY	Financial year ended/ending 30 June 20XX
MER	Management expense ratio
MPL	Medibank Private Limited
n.m.	Not meaningful
NPAT	Net profit after tax
NPS	Net promoter score
OSHC	Overseas students hospital cover
OVHC	Overseas visitor hospital cover
PHI	Private Health Insurance

Term	Definition
PHIO	Private Health Insurance Ombudsman
Policyholder	The primary person who is insured under a private health insurance policy (other than in relation to overseas students or visitors), who is not a dependent child, and who is responsible for paying the premium
PSEUs or Policy Units	Policy Single Equivalent Units are used by Medibank as a standard measure of income units. They take into account the number of adults on a policy, and whether they have Hospital Cover or Extras Cover or both. For example, a household with two parents and three children, all of which had both Hospital and Extras Cover, would represent four Policy Units (2 adults x 2 types of Cover = 4; no premium payable in relation to children)
RACS	Royal Australasian College of Surgeons
ROE	Return on equity
Service NPS	A measure of the likelihood of an existing customer to recommend the brand immediately following a service interaction
Underlying NPAT	Underlying NPAT is calculated based on statutory NPAT adjusted for short-term outcomes that are expected to normalise over the medium to longer term, most notably in relation to the level of gains or losses from equity investments, and for one-off items, especially those that are non-cash, such as asset impairments