

2018 Full Year Results Investor Presentation

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Friday 24 August 2018

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Highlights

Craig Drummond – Chief Executive Officer

FY18 results summary

Solid result driven by turnaround in customer advocacy, enhanced productivity and softer claims

medibank

Group NPAT

\$445.1m

↓ 1.0%

Group operating profit

\$548.8m

↑ 9.7%

Full year dividend

12.70cps

↑ 5.8%

- \$5.3 billion in benefits paid to customers
- Health Insurance result (\$535.6m, +7.7%) reflects:
 - Premium revenue \$6,319.5m, up 1.2%
 - Management expenses \$557.2m, down from \$568.4m in FY17
 - Management expense ratio 8.8%, down from 9.1% in FY17
 - Operating margin 8.5%, up from 8.0% in FY17
- Medibank Health operating profit up 32.5% to \$47.3m, including HealthStrong contribution
- Net investment income \$95.6m, down from \$139.3m in FY17, principally due to lower market returns
- Strong improvement in customer advocacy, lower than average premium increases, and commitment to give back approximately \$35m¹ of additional value to customers

¹ Breakdown of \$35m value back in FY18: One-off loyalty bonus \$20m, 100% dental give back (FY17 pro-rated) \$11m, Medibank at Home / Health Concierge programs \$4m

Revised milestone scorecard

Focus of new milestones on real differentiation in our PHI offering and health services transformation

Objectives

1. Customer advocacy

Drive Service and Brand NPS for Medibank and ahm to be best in class¹

2. Health interactions

By 2020 every Medibank customer³ has at least one health interaction⁴ through the year with our company

3. Market share⁵

To grow market share in FY19

4. Medibank at Home

More than double the number of customers receiving Medibank at Home services in FY19

5. Medibank Health

More than double Medibank Health's segment share of operating profit from FY16 to FY19

6. Productivity

\$50m 3 year target increased by \$10m to \$60m

FY18 update

Brand NPS (Gap to peers)

c. 20% YoY improvement

Avg Service NPS

	FY17	FY18
Medibank	+1.5	+15.3
ahm	+26.7	+28.1

PHIO complaints

FY18: 24.4% share

Customer cover check-ins²

FY18 390,000

FY17 FY18 FY20

<100k c. 500k target c.1.5 million

Policyholder growth

FY17 vs FY18

+0.3% / +5k

Market share

1H17	2H17	1H18	2H18
down 36bps	down 27bps	down 13bps	up 5bps

FY18

936 customers

FY19

target 2,000 customers

FY16 FY17 FY18

4.6% 6.7% 8.1%

FY18

\$20m productivity delivered

FY19 - FY20

productivity target increased to \$40m

1 Against major private health insurance peers (Bupa, HCF, nib) by the end of CY19

2 Inbound or outbound conversations with customers about the appropriateness of their cover

3 Based on number of policyholders that consent to Medibank contact

4 Includes CareComplete, Medibank at Home, Health Concierge, Health Advice Line, and personalised health communications

5 Based on number of policyholders

Strategy and FY19 priorities

Medibank is now positioned for growth with a focus on leveraging our dual brands, building competitive advantage in PHI and transforming into a broader health services company

Better Health for Better Lives

Strategic pillar	Deliver differentiated products and services for customers	Continue to improve healthcare value for customers	Expand the offering for customers and grow the business
FY19 priorities	<ul style="list-style-type: none">• Personalise and integrate health into our customers' experience• Simplify and enhance our cover options• Enhance loyalty offering to recognise and reward membership	<ul style="list-style-type: none">• Focus on reducing low value care and improving customer health outcomes by providing greater choice and transparency• Lead health system reform• Expand the scope of our payment integrity program	<ul style="list-style-type: none">• Strengthen our distribution partnerships• Grow corporate, non-resident and diversified portfolios• Health services expansion – build scale and grow capability• Investment in core enablers (below)
Enablers	People Data Simplicity		

Delivering differentiated products and services

Transforming our relationship with customers to a more personalised and proactive experience

Personalising and integrating health into our customers' experience

- Providing healthcare services at the customers' choice of location, including the home
- Several trials underway (nurses in the contact centre, nurse webchat) to integrate health expertise across the frontline, in addition to our Health Concierge program

Simplifying and enhancing our cover options

- Implementation of sector reform alongside scale-up of 'Right Cover Program' (customer cover check-ins)
- Providing better information and new tools to help customers make more informed healthcare choices
- Ongoing investment in digital self service enhancements and an increasing number of customers registered to use our digital channels (Medibank +40%, ahm +7% over pcp)

Recognising and rewarding customer loyalty

- Priority program (10+ year members) launched in 2H18 alongside a \$20m one-off customer giveback
- Expanding Live Better loyalty offering to reward customers for taking healthy actions – target launch March 2019 quarter
- Partnering with some of Australia's leading health and wellbeing brands

Continuing to improve healthcare value

Deliver the triple aim of healthcare – enhance patient experience, health outcomes, and at a lower cost

Delivering greater value to customers

- Continuing to progress Medibank's value-based purchasing to improve outcomes for customers
- Working with providers to offer customer's choice through delivery of care in the home and community setting

Improving transparency

- Reducing unexpected out-of-pocket costs for our customers through the delivery of Medibank's Procedure Cost Estimator
- Our People Like You interactive tool is helping customers understand their potential health needs and understand the common hospital procedures within their demographic, based on our claims data
- In consultation with hospitals around publishing Patient Reported Experience Measures Survey (PREMS) data

Ensuring that customers are being provided with the care that they need

- Continuing focus to prevent improper claims from providers, and expand the program into ahm and non-resident businesses
- Ensuring customers are receiving value and quality for the care they are paying for

Expanding and growing the business

Growth agenda focused on broadening and creating real differentiation of our customer offering

Broaden the health insurance business

- Leveraging our dual brand strategy to grow the core PHI business remains our largest growth option
- Strengthen relationships with distribution partners including Flybuys, Amcal, and Kogan
- Continued investment and momentum in the corporate, non-resident, and diversified portfolios

Health services expansion continues

- Medibank at Home trials expanded to include dialysis, in addition to chemotherapy and palliative care
- Rehabilitation in the home delivered services to 850 customers during the financial year
- HealthStrong delivered a significant increase in episodes of care during the financial year (+16% over pcp). We expect to complete an acquisition in the near term of a national in home care business with clinical expertise for around \$70m total consideration
- Health Concierge engaged with more than 13,000 customers during the financial year, including several new customer groups
- CareComplete has enrolled more than 21,000 customers through the initial pilots and rollout to date
- Telehealth handled over 1.8m interactions via telephone, chat and email during the financial year (+6.3% over pcp)

Investment in our core enablers

- Significant improvement in the stability and capability of our people (engagement up strongly to 85%)
- Using our data to integrate more personalisation and health into our customers' experience
- Driving simplicity across our products and services, processes and infrastructure

Financial results

Mark Rogers – Chief Financial Officer

Group financial summary

Financial year ended 30 June (\$m)	2018	2017	Change
Health Insurance premium revenue	6,319.5	6,244.9	1.2%
Medibank Health revenue ¹	586.9	552.1	6.3%
Revenue	6,906.4	6,797.0	1.6%
Health Insurance operating profit	535.6	497.5	7.7%
Medibank Health operating profit	47.3	35.7	32.5%
Segment operating profit	582.9	533.2	9.3%
Corporate overheads	(34.1)	(32.7)	4.3%
Group operating profit	548.8	500.5	9.7%
Net investment income	95.6	139.3	(31.4%)
Amortisation of intangibles	(7.6)	(7.0)	8.6%
Other income/(expenses)	(8.5)	(4.1)	107.3%
Profit before tax	628.3	628.7	(0.1%)
Income tax expense	(183.2)	(179.2)	2.2%
NPAT	445.1	449.5	(1.0%)
Effective tax rate	29.2%	28.5%	70bps
EPS (cents)	16.2	16.3	(1.0%)
Underlying² NPAT	436.4	418.7	4.2%
Underlying ² EPS (cents)	15.8	15.2	4.2%
Dividend per share (cents)	12.70	12.00	5.8%
Dividend payout ratio	80%	79%	1.3%

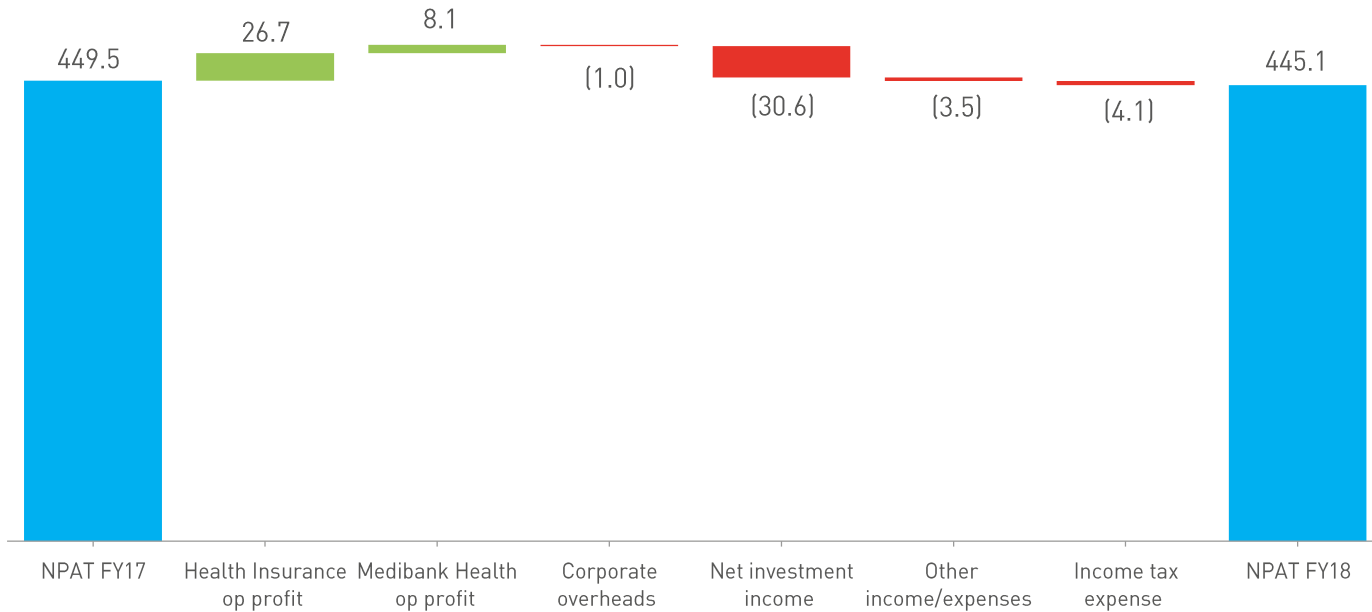
¹ Net of intercompany eliminations

² Dividend payout ratio based on underlying NPAT, refer to appendix slide 34

Group NPAT – FY18 vs FY17

Solid financial performance – improved Health Insurance result and growth in Medibank Health

FY18 NPAT result analysis (\$m)¹



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

Health insurance result

Increase in operating profit – driven by higher gross profit and improved management expenses

Financial year ended 30 June (\$m)	2018	2017	Change
Premium revenue	6,319.5	6,244.9	1.2%
Net claims expense (including risk equalisation)	(5,226.7)	(5,179.0)	0.9%
Gross profit	1,092.8	1,065.9	2.5%
Management expenses	(557.2)	(568.4)	(2.0%)
Operating profit	535.6	497.5	7.7%
Gross margin¹	17.3%	17.1%	20bps
MER¹	8.8%	9.1%	(30bps)
Operating margin^{1,2}	8.5%	8.0%	50bps

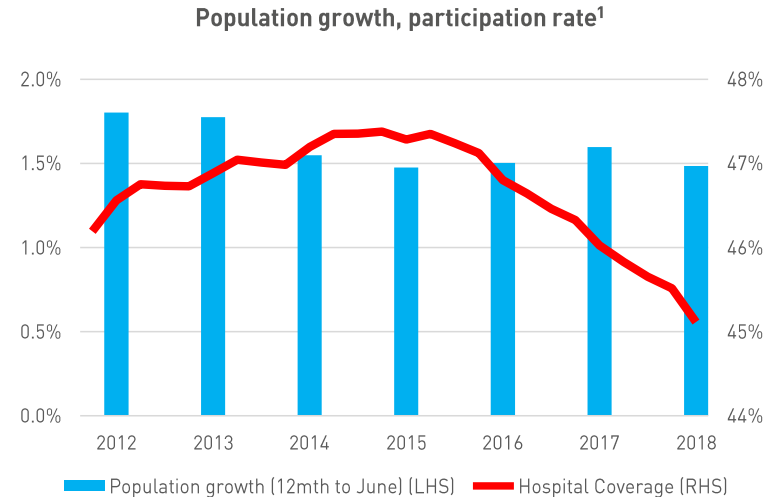
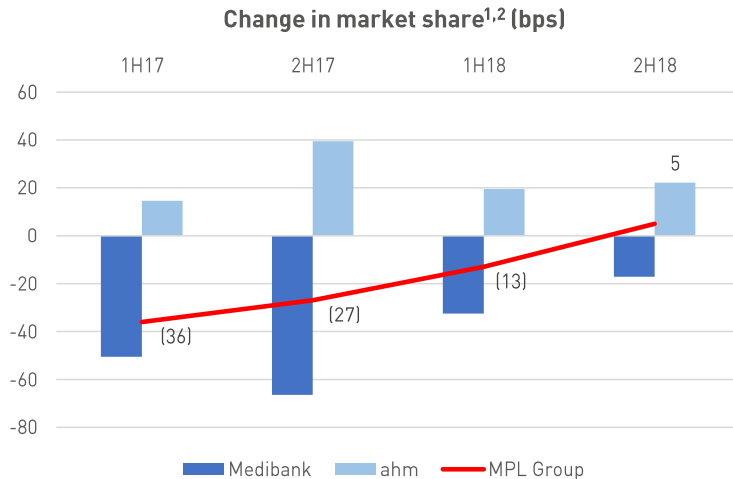
1 Includes Australian residents, OSHC and OVHC. The gross margin for Australian residents only was 16.5% in FY17 and 16.6% in FY18, the MER for Australian residents only was 8.8% in FY17 and 8.4% in FY18, and the operating margin for Australian residents only was 7.7% in FY17 and 8.2% in FY18

2 The reported result includes the benefit of a \$42 million provision release which was partially offset by the one-off \$20 million loyalty investment. By way of comparison, there was a \$23.6 million release last year

Resident health insurance – market share

Market share growth achieved in the second half of FY18

- Industry growth continues to slow
- 5 basis point improvement in overall market share compared to December 2017
- Medibank brand loss slowing, driven by improved acquisition and retention
- Reduction in Medibank brand policyholders slowed, from 4.1% in FY17 to 2.2 % in FY18
- ahm market share up significantly since prior comparable period, added over 36,000 policies in the last 12 months



¹ Sources: hospital coverage and market share data; APRA. Population growth rate; Australian Bureau of Statistics
² Based on number of policyholders

Health insurance – policyholders

Resident policyholders up 0.3%

medibank

Financial year ended 30 June (\$m)	2018	2017	Change
Policyholders ¹ (thousand)			
Opening balance	1,776.1	1,800.3	(1.3%)
Acquisitions	204.8	190.5	7.5%
Lapses	(200.0)	(214.7)	(6.8%)
Closing balance	1,780.9	1,776.1	0.3%
- Medibank	1,419.6	1,451.2	(2.2%)
- ahm	361.3	324.9	11.2%
Acquisition rate²	11.5%	10.7%	80bps
- Medibank	8.5%	7.8%	70bps
- ahm	26.9%	27.9%	(100bps)
Lapse rate²	11.2%	12.0%	(80bps)
- Medibank	10.7%	12.0%	(130bps)
- ahm	16.3%	15.8%	50bps
Policyholder growth	0.3%	(1.3%)	160bps
Total Policy Units ^{1,3} (thousand)			
Closing balance	4,668.0	4,674.9	(0.1%)
Average balance	4,669.2	4,702.7	(0.7%)
Average revenue per Policy Unit^{1,3} (\$)	1,353.4	1,327.9	1.9%
			Ex-loyalty (\$20m)
			2.3%

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

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

3 Refer to glossary for definition of Policy Units

Health insurance – claims

Average net claims expense per policy unit up 1.6%, or 2.6% adjusted for provision releases

- Hospital Claims – flat, reflecting:
 - Lower resident hospital policy numbers
 - Favourable policy mix impacts
 - Lower resident hospital utilisation growth due to subdued underlying demand and an increase in ahm policies
 - Lower reliance on risk equalisation reflects ahm mix effect
- Extras Claims – up 3.9%, reflecting:
 - Implementation of live limits encouraging usage across all modalities
 - Increase in dental benefits outlay due to the 100% back dental offer

Financial year ended 30 June (\$m)	2018	2017	Change	Change Per PSEU adjusted for provision release
Claims expense	(5,281.1)	(5,276.9)	0.1%	
Risk equalisation	54.4	97.9	(44.4%)	
Net claims expense (includes risk equalisation)	(5,226.7)	(5,179.0)	0.9%	
- Hospital	(3,914.3)	(3,915.4)	(0.0%)	2.1%
- Extras	(1,312.4)	(1,263.6)	3.9%	4.3%
Average net claims expense per Policy Unit¹ (\$)	(1,119.4)	(1,101.3)	1.6%	2.6%
Resident hospital utilisation growth ² (As at 30 June 2018)	1.1%	2.3%	(120bps)	

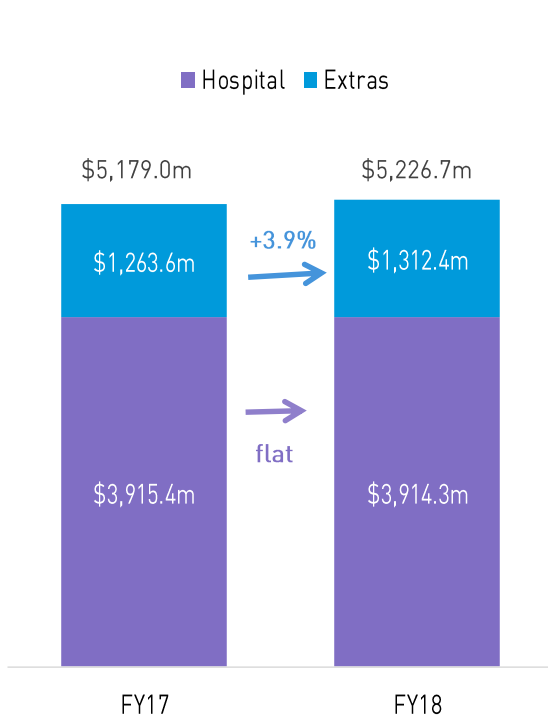
1 Refer to glossary for definition of Policy Units. Policy Units include both resident and non-resident business (i.e. OSHC and OVHC). Based on average of the month-end balances over the reporting period. This basis changed in 2H17; previously calculated as average of the opening and closing balances for the period

2 Estimated hospital utilisation is defined as the number of hospital admissions per hospital Policy Unit and includes a provision for IBNR. Actual utilisation growth of 2.3% for FY17 compares to the previous estimate of 3.6% as at 30 June 2017. Actual utilisation growth for 1H18 was 0.8% compared to the estimate of 2.6% as at 31 December 2017. Estimated utilisation differs from actual utilisation largely as a result of the claims provision releases

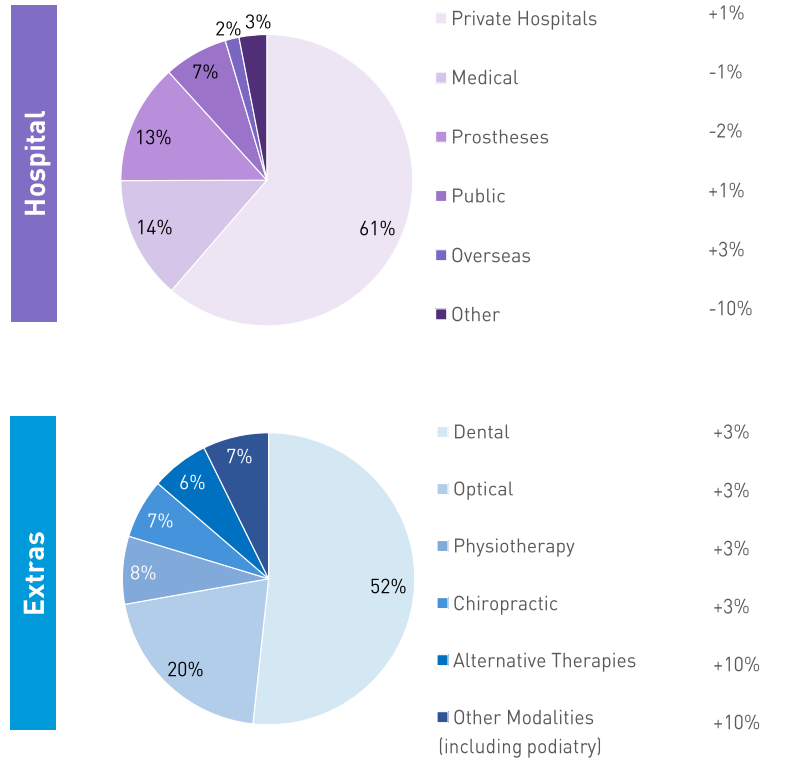
Health insurance – claims

Modest growth in private hospital utilisation, higher usage across discretionary modalities

Net claims expense
(including risk equalisation)



Indicative composition and
movement in dollar value vs. FY17



Health insurance – management expenses

Overall decrease in management expenses includes a 1.9% reduction in operating expenses

- Productivity savings of approximately \$20m driven by benefits in procurement, technology, automation and consulting spend, more than offsetting cost inflation
- Strong customer growth in ahm has resulted in an increase in Deferred Acquisition Costs (DAC) amortisation, however we expect the growth of these costs to moderate in FY19
- Lower spending on previously announced initiatives to embed IT system

Financial year ended 30 June (\$m)	2018	2017	Change
Premium revenue	6,319.5	6,244.9	1.2%
Management expenses	(557.2)	(568.4)	(2.0%)
- Depreciation and amortisation	(43.9)	(41.6)	5.5%
- DAC amortisation	(39.7)	(33.9)	17.1%
- Customer remediation initiatives	(11.0)	(21.2)	(48.1%)
- Operating expenses	(462.6)	(471.7)	(1.9%)
MER	8.8%	9.1%	(30bps)

Medibank Health

Increased revenue, profit and margin

- Higher revenue reflects a 12 month contribution from HealthStrong, and growth in our Diversified business¹
- Gross margin improvement predominantly reflects the change in business mix
- Management expense increase reflects additional costs associated with HealthStrong and increased D&A, partially offset by efficiency benefits

Financial year ended 30 June (\$m)	2018	2017	Change
Revenue	615.9	576.1	6.9%
Gross profit	136.3	121.0	12.6%
Management expenses	(89.0)	(85.3)	4.3%
Operating profit	47.3	35.7	32.5%
Gross margin	22.1%	21.0%	110bps
MER	14.5%	14.8%	(30bps)
Operating margin	7.7%	6.2%	150bps

¹ Diversified Insurance includes non private health insurance products such as travel, life and pet insurance

Investment portfolio and investment income

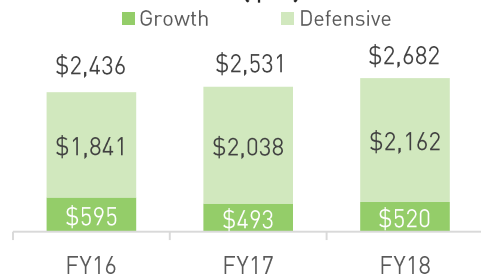
Reduction in investment income driven by lower equity and credit market returns

- Lower market returns, more conservative asset allocation strategy lead to a \$43.7m decline in investment income
- International equities portfolio transitioned to low carbon investments in March 2018
- Underlying portfolio return of 3.2% is a 1.7% premium above the RBA cash rate – within our target range of 1.5% – 2.0% above the benchmark

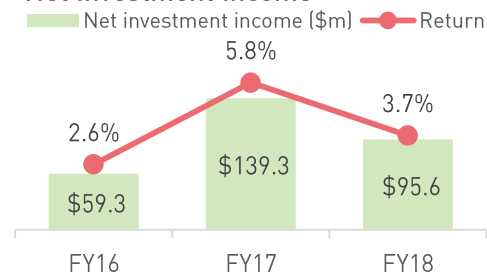
Financial year ended 30 June (\$m)	2018	2017	Change
Portfolio balance:			
Growth	520.2	492.8	5.6%
Defensive (incl. other investment assets)	2,161.5	2,037.8	6.1%
Total	2,681.7	2,530.6	6.0%
Net investment income ¹	95.6	139.3	(31.4%)
Total net return – reported²	3.7%	5.8%	(210bps)
Total net return – underlying ^{2,3}	3.2%	4.0%	(80bps)
RBA cash rate (average)	1.5%	1.5%	-
Underlying premium over RBA cash rate	1.7%	2.5%	(80bps)

Total net return – reported ²	
2018	2017
9.7%	12.9%
2.5%	3.7%
3.7%	5.8%

Portfolio balance (\$m)



Net investment income



- 1 Net investment income includes interest income from non health fund investments and operational cash. This was \$2.2m in FY18 and \$1.2m in FY17
- 2 Reported and underlying returns are calculated using total average monthly balances. Refer to appendix slide 37 for details
- 3 Adjusted to normalise equity returns and credit spread movement. Refer to appendix slide 34 for details

Cash flow

Improved cash flow from operations

Financial year ended 30 June (\$m)	2018	2017	Change
Profit before net investment income and income tax	532.7	489.4	43.3
Changes in working capital	32.3	(13.7)	46.0
Customer acquisition costs	2.5	(11.4)	13.9
Changes in other operating assets and liabilities	16.2	20.4	(4.2)
Depreciation and amortisation	55.6	51.6	4.0
Net cash flows from operations	639.3	536.3	103.0
Income tax	(231.0)	(142.9)	(88.1)
Capital expenditure	(43.8)	(48.8)	5.0
(Purchase) / sale of business	(37.5)	2.9	(40.4)
Net cash flows before investment related items and dividends	327.0	347.5	(20.5)
Net realised investment income	35.7	34.7	1.0
(Purchase) / sale of investments ¹	(145.2)	87.1	(232.3)
Purchase of shares to settle share-based payment	(4.6)	(3.6)	(1.0)
Net cash flows before dividends	212.9	465.7	(252.8)
Dividends paid	(337.4)	(309.8)	(27.6)
Net increase / (decrease) in cash and cash equivalents	(124.5)	155.9	(280.4)
Cash and cash equivalents at beginning of the period	594.6	438.7	155.9
Cash and cash equivalents at end of the period	470.1	594.6	(124.5)

- Working capital impacted by the timing of contract receipts in Medibank Health
- Customer acquisition cost amortisation exceeded capitalisation resulting in DAC balance reducing by \$2.6m
- Capital expenditure lower than in FY17 and lower than D&A
- Income tax paid reflects the timing of tax instalment payments
- Movement in purchase of investments largely reflects the rebalancing of the investment portfolio in FY17 and a lengthening in the duration of money market investments in FY18

¹ Includes \$33.3 million in proceeds from the sale of Wollongong property

Capital

Strong capital generation and a continuing focus on capital efficiency

- Balance sheet remains debt free
- Position adjusted for 100% of deferred acquisition costs, capitalised software and all other intangible assets in-line with the practice used in the life and general insurance industry
- Health Insurance capital continues to be at the top of the 12-14% target range
- Unallocated capital up \$71m since 30 June 2017
- Adjusting for the acquisition of an in home care business, expected to be completed in the near-term, unallocated capital reduces by approximately \$70m

(\$m)	30 Jun 2018	30 Jun 2017
Total equity	1,829.2	1,719.8
Less: Intangible and illiquid assets	(448.0)	(451.6)
Total tangible and liquid assets	1,381.2	1,268.2
Less: Allowance for declared but unpaid dividends	(198.3)	(185.9)
Less: Allowance for cost of product bonus additions ¹	(14.8)	(17.0)
Total tangible adjusted capital	1,168.1	1,065.3
Required capital		
- Health Insurance	895.3	878.7
- Other	129.5	114.4
Unallocated capital	143.3	72.2
Health Insurance (%)²	14.0%	13.9%

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

Full year dividend increased by 0.7 cents to 12.7 cents, final dividend of 7.2 cents

- Final dividend of 7.2 cents per ordinary share for the six month period ending 30 June 2018, bringing the full year FY18 dividend to 12.7 cents per share (fully franked)
- Payment date of 27 September 2018 (ex-dividend date: 5 September 2018)
- Final dividend represents a payout ratio of 80% of Underlying NPAT¹

Full year dividend

12.7cps

FY18 payout ratio

80%

Results summary & outlook

Craig Drummond – Chief Executive Officer

Result summary

Pleasant progress

- Solid operating result for FY18:
 - The core health insurance business is back on track
 - We have grown our market share by 5 bps over the past six months, which is the first time we have grown market share over a half year in at least a decade
 - Medibank Health continues its sound operating performance
 - We remain debt free and our capital position remains strong
- We have delivered these outcomes alongside strong improvement in our customer advocacy and commitment to give back approximately \$35m of additional value to customers
- We have made good progress in achieving our milestones. As such it was time to revisit the priorities
- We are now positioned for growth with a focus on leveraging our dual brands, building competitive advantage in PHI and transforming into a broader health services company
- We expect to complete an acquisition of a national in home care business in the near term. This acquisition is in line with Medibank's strategy to provide customers with choice over how and where healthcare is delivered Australia wide

Regulatory update

Sector reform required to drive sustainable change in affordability and increased participation

Improving affordability through reform

- The private health system has experienced more reform in the last 10 months than it has in the previous 18 years
- We know reform can work based on the effectiveness of prostheses and mental health reforms

Reform coming in over the next 12 months

- Gold/Silver/Bronze/Basic product categories, youth discounting, and excess increases are designed to drive transparency and affordability within the sector
- The Government's commitment to examine low value care and out-of-pocket costs has potential to make a real difference for customers

Additional reform priorities – more prostheses reform, greater transparency in fees, reduce low value care

- Addressing the drivers of rising health costs is the only way to create sustainable change
- We must tackle how care is delivered into the community and resource preventative health practices
- To achieve the shared goal of a quality health care system at a more affordable cost, the health sector, business and government must work together

Outlook

- Expect flat overall PHI market volumes to persist
- Targeting modest market share growth in FY19
- Expect hospital utilisation growth to remain subdued. Ancillary utilisation growth is expected to be slightly lower
- Management expenses for FY19 are targeted to be modestly above those recorded in FY18
- Expect our dividend payout ratio to remain at the top end of our stated target range of 70-80%
- Expect to make 1-2 more small acquisitions in FY19 to continue to build our health services capability

Appendices

Existing milestone scorecard

Tangible indicators of progress – achieved or on track to meet milestones

Customer

Objectives to reach by 2019

FY18 update

PHIO complaints less than market share (by December 2017 survey)

PHIO complaints below share

Jun 18 qtr	Mar 18 qtr	Dec 17 qtr
25.2%	22.8%	23.5%
share	share	share

Brand NPS best in class against major private health insurance peers¹

Brand NPS

Gap to peers:
c. 20% YoY improvement

Service NPS

	FY18	FY17
Medibank	+15.3	+1.5
ahm	+28.1	+26.7

Market share stabilised²

On track

30-Jun-18 26.9%

1H17	2H17	1H18	2H18
down	down	down	up
36bps	27bps	13bps	5bps

Financial

Objectives to reach by 2019

FY18 update

Maintain operating margin³ above major private health insurance peers¹

On track

	FY18	FY17
Medibank	8.2%	7.7%
Major peers	n.a.	5.7%

Maintain ROE above cost of capital and major listed insurance peers⁴

On track

	FY18	FY17
Medibank	25.1%	27.3%
Major peers	16.1%	17.0%

More than double Medibank Health share of segment operating profit from FY16

On track

FY18	FY17	FY16
8.1%	6.7%	4.6%

1 Bupa, HCF and nib

2 Based on number of policyholders

3 Australian residents only

4 nib, AMP, IAG and QBE

Leveraging the core enablers of the business

Investment in core enablers over the last two years will support the execution of our strategy

People

- Significant improvement in stability and capability of our Senior Leader Group:
 - Turnover 8.8% in FY18 vs average of 32.1% p.a. in prior three years
 - Two thirds of group have an average of 6.5 years tenure with Medibank
 - One third recruited into Medibank in past 2 years build on this expertise
- Number of health professionals almost doubled over the past 3 years to around 1,300
- Increased investment in frontline capability, including accreditations with Swinburne University
- Employee engagement score increased to 85% in FY18, an improvement of 4% on the previous year

Data

- Customer experience improvement by using predictive analytics, behavioral data, and triggers to identify:
 - Prospective customers most likely to join
 - Customers that may require a cover review, are considering their product options or taking up a diversified product
 - Customers that would benefit from our Health Concierge, Care Complete, and Medibank at Home programs
- Improved transparency for customers via Procedure Cost Estimator and People Like You tool using claims data
- Leveraging our population health data to help drive positive health system change

Simplicity

- Continued focus on making our products and services simpler and easier to use, including revamping customer journeys and re-writing over 300 documents in plain English
- Ongoing investment in digital self service enhancements, meaningfully increasing the number of registered digital users across both brands
- Reduced complexity across all aspects of our technology footprint to enable speed, ease of use and innovation
- Improved execution capability by reducing the number of projects by 40% and taking out 20% of recurring meetings
- Process excellence capability (Lean Six Sigma team) introduced and being embedded within our culture

Group financial summary – half by half

(\$m)	2H18	1H18	2H17	1H17	Change 2H18 vs. 2H17	Change 2H18 vs. 1H18	Change 1H18 vs. 1H17
Health Insurance premium revenue	3,144.4	3,175.1	3,127.0	3,117.9	0.6%	(1.0%)	1.8%
Medibank Health revenue	295.0	291.9	272.8	279.3	8.1%	1.1%	4.5%
Revenue	3,439.4	3,467.0	3,399.8	3,397.2	1.2%	(0.8%)	2.1%
Health Insurance operating profit	258.3	277.3	248.1	249.4	4.1%	(6.9%)	11.2%
Medibank Health operating profit	22.1	25.2	18.4	17.3	20.1%	(12.3%)	45.7%
Segment operating profit	280.4	302.5	266.5	266.7	5.2%	(7.3%)	13.4%
Corporate overheads	(17.7)	(16.4)	(16.2)	(16.5)	9.3%	7.9%	(0.6%)
Group operating profit	262.7	286.1	250.3	250.2	5.0%	(8.2%)	14.3%
Net investment income	35.9	59.7	62.5	76.8	(42.6%)	(39.9%)	(22.3%)
Amortisation of intangibles	(4.1)	(3.5)	(3.5)	(3.5)	17.1%	17.1%	-
Other income/(expenses)	(12.3)	3.8	(3.9)	(0.2)	n.m.	n.m.	n.m.
Profit before tax	282.2	346.1	305.4	323.3	(7.6%)	(18.5%)	7.1%
Income tax expense	(82.7)	(100.5)	(87.8)	(91.4)	(5.8%)	(17.7%)	10.0%
NPAT	199.5	245.6	217.6	231.9	(8.3%)	(18.8%)	5.9%
EPS (cents)	7.2	8.9	7.9	8.4	(8.3%)	(18.8%)	5.9%
Underlying NPAT	202.0	234.4	207.8	210.9	(2.8%)	(13.8%)	11.1%
Underlying EPS (cents)	7.3	8.5	7.5	7.7	(2.8%)	(13.8%)	11.1%
Dividend per share (cents)	7.20	5.50	6.75	5.25	6.7%	30.9%	4.8%
Dividend payout ratio	98%	65%	89%	69%	10.1%	50.8%	(5.8%)

Health insurance result – half by half

(\$m)	2H18	1H18	2H17	1H17	Change 2H18 vs. 2H17	Change 2H18 vs. 1H18	Change 1H18 vs. 1H17
Premium revenue	3,144.4	3,175.1	3,127.0	3,117.9	0.6%	(1.0%)	1.8%
Net claims expense (incl. risk equalisation)	(2,602.1)	(2,624.6)	(2,589.1)	(2,589.9)	0.5%	(0.9%)	1.3%
Gross profit	542.3	550.5	537.9	528.0	0.8%	(1.5%)	4.3%
Management expenses	(284.0)	(273.2)	(289.8)	(278.6)	(2.0%)	4.0%	(1.9%)
Operating profit	258.3	277.3	248.1	249.4	4.1%	(6.9%)	11.2%
Gross margin	17.2%	17.3%	17.2%	16.9%	-	(10bps)	40bps
MER	9.0%	8.6%	9.3%	8.9%	(30bps)	40bps	(30bps)
Operating margin	8.2%	8.7%	7.9%	8.0%	30bps	(50bps)	70bps

Health insurance policyholders – half by half

Financial year ended 30 June (\$m)	2H18	1H18	2H17	1H17	Change 2H18 vs. 2H17	Change 2H18 vs. 1H18	Change 1H18 vs. 1H17
Premium revenue (\$m)	3,144.4	3,175.1	3,127.0	3,117.9	0.6%	(1.0%)	1.8%
Policyholders¹ (thousand):							
Opening balance	1,771.9	1,776.1	1,782.2	1,800.3	(0.6%)	(0.2%)	(1.3%)
Acquisitions	116.5	88.3	113.7	76.8	2.5%	31.9%	15.0%
Lapses	(107.5)	(92.5)	(119.8)	(94.9)	(10.3%)	16.2%	(2.5%)
Closing balance	1,780.9	1,771.9	1,776.1	1,782.2	0.3%	0.5%	(0.6%)
- Medibank	1,419.7	1,431.9	1,451.2	1,483.9	(2.2%)	(0.9%)	(3.5%)
- ahm	361.3	340.0	324.9	298.3	11.2%	6.3%	14.0%
Acquisition rate²	6.6%	5.0%	6.4%	4.3%	20bps	160bps	70bps
- Medibank	4.9%	3.6%	4.5%	3.4%	40bps	130bps	20bps
- ahm	15.0%	12.0%	17.8%	10.3%	(280bps)	300bps	170bps
Lapse rate²	6.1%	5.2%	6.7%	5.3%	(60bps)	90bps	(10bps)
- Medibank	5.8%	5.0%	6.7%	5.3%	(90bps)	80bps	(30bps)
- ahm	8.9%	7.5%	9.2%	6.7%	(30bps)	140bps	80bps
Policyholder growth	0.5%	(0.2%)	(0.3%)	(1.0%)	80bps	70bps	80bps
Total Policy Units^{3,4} (thousand):							
Closing balance	4,668.0	4,662.9	4,674.9	4,701.1	(0.1%)	0.1%	(0.8%)
Average balance	4,665.7	4,671.8	4,680.6	4,724.7	(0.3%)	(0.1%)	(1.1%)
Annualised average revenue per Policy Unit^{1,3} (\$)	1,347.9	1,359.3	1,336.2	1,319.8	0.9%	(0.8%)	3.0%

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. Figures at brand level include these transfers. 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

Underlying NPAT

(\$m)	FY18	2H18	1H18	FY17	2H17	1H17
Group NPAT	445.1	199.5	245.6	449.5	217.6	231.9
Normalisation of equity returns	(8.6)	0.4	(9.0)	(18.8)	(6.3)	(12.5)
Normalisation for credit spread movement	(0.1)	2.1	(2.2)	(12.0)	(3.5)	(8.5)
Underlying NPAT	436.4	202.0	234.4	418.7	207.8	210.9
Dividend payout ratio	80%	98%	65%	79%	89%	69%

Balance sheet

[\$m]	30 June 2018	30 June 2017	Change
Cash and cash equivalents	470.1	594.6	(20.9%)
Financial assets at fair value through profit or loss	2,276.5	2,038.1	11.7%
Trade and other receivables	292.2	317.0	(7.8%)
Deferred acquisition costs	36.2	36.6	(1.1%)
Other	16.0	14.1	13.5%
Current assets	3,091.0	3,000.4	3.0%
Property, plant and equipment	53.6	87.3	(38.6%)
Intangible assets	350.1	321.1	9.0%
Deferred acquisition costs	48.7	50.9	(4.3%)
Other	1.5	2.8	(46.4%)
Non-current assets	453.9	462.1	(1.8%)
Total assets	3,544.9	3,462.5	2.4%
Trade and other payables	350.6	334.8	4.7%
Claims liability	365.6	388.4	(5.9%)
Unearned premium liability	689.5	685.7	0.6%
Other	128.3	155.8	(17.7%)
Current liabilities	1,534.0	1,564.7	(2.0%)
Trade and other payables	41.0	32.9	24.6%
Claims liability	14.2	16.0	(11.3%)
Unearned premium liability	83.4	73.2	13.9%
Other	43.1	55.9	(22.9%)
Non-current liabilities	181.7	178.0	2.1%
Total liabilities	1,715.7	1,742.7	(1.5%)
Net assets	1,829.2	1,719.8	6.4%

Investment portfolio

As at 30 Jun 2018	Balance (\$m)	Portfolio composition	Target asset allocation
Australian Equities	143.2	5.6%	5.0%
International Equities	168.8	6.6%	6.0%
Property	158.4	6.2%	7.0%
Infrastructure	49.8	2.0%	2.0%
Growth	520.2	20.4%	20.0%
Fixed income ¹	1,278.0	50.1%	52.0%
Cash ²	751.6	29.5%	28.0%
Defensive	2,029.6	79.6%	80.0%
Total Fund	2,549.8	100.0%	100.0%
Non health fund investments ³	131.9	-	-
Total Investment Portfolio	2,681.7	-	-

1 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'

2 For investment portfolio purposes, cash comprises cash and cash equivalents (\$470.1 million), cash with maturities between 3-12 months (\$478.3 million) less non health fund investments (\$131.9 million) less operational cash (\$64.9 million)

3 The fund's strategic asset allocation does not apply to the non health fund investments

Net investment income

Financial year ended 30 June (\$m)	2018	2017	Change
Average monthly balance:			
Growth	501.6	591.2	(15.2%)
Defensive	2,059.6	1,794.8	14.8%
Total average monthly balance	2,561.2	2,386.0	7.3%
Net investment income:			
Growth	48.5	76.3	(36.4%)
Defensive	51.5	67.0	(23.1%)
Investment expenses	(4.4)	(4.0)	10.0%
Total net investment income¹	95.6	139.3	(31.4%)
Return:			
Growth	9.7%	12.9%	(320bps)
Defensive	2.5%	3.7%	(120bps)
Total net return – reported²	3.7%	5.8%	(210bps)
Total net return – underlying ^{2,3}	3.2%	4.0%	(80bps)
RBA cash rate (average)	1.5%	1.5%	-
Underlying premium over RBA cash rate	1.7%	2.5%	(80bps)

¹ Net investment income includes interest income from non health fund investments and operational cash. This was \$2.2m in FY18 and \$1.2m in FY17

² Reported and underlying returns are calculated using total average monthly balances

³ Adjusted to normalise equity returns and credit spread movement. Refer to appendix slide 35 for details

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
APRA	Australian Prudential Regulation Authority
Brand NPS	A measure of the likelihood of an existing customer to recommend the brand
bps	Basis points (1.0% = 100 bps)
DAC	Deferred acquisition costs
Central estimate	Estimate of the level of claims liability
cps	Cents per share
EPS	Earnings per share
FY	Financial year ended/ending 30 June
IBNR	Incurred but not reported
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). This measure includes residents and non-resident policies.
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
Working capital	Working capital comprises trade and other receivables, other assets, trade and other payables other than balances relating to customer acquisition costs and operating assets and liabilities