

14 November 2018

ASX release

CHAIRMAN AND CHIEF EXECUTIVE OFFICER AGM PRESENTATIONS

CHAIRMAN

Good morning ladies and gentlemen, welcome to the 2018 Medibank Annual General Meeting. My name is Elizabeth Alexander and I am the Chairman of Medibank.

I wish to acknowledge the Wurundjeri people of the Kulin Nation who are the traditional owners of the land on which we meet today and pay my respects to their Elders past, present and emerging. We also recognise the health gap that continues to exist between Indigenous and other Australians, and acknowledge those people working in their communities to help close this gap.

Joining me this morning are my fellow directors.

On my far right is Dr Tracey Batten, followed by Linda Nicholls who is Chair of our People and Remuneration Committee. Next is Peter Hodgett who is Chairman of the Investment and Capital Committee and standing for re-election today, followed by our Chief Executive Officer Craig Drummond.

On my far left is David Fagan, the chair of our Risk Management Committee, followed by Anna Bligh and Mike Wilkins. We also have our chair of the Audit Committee Christine O'Reilly, who is also standing for re-election today. Finally to my left, is our Company Secretary Mei Ramsay.

I now formally declare the meeting open.

I also declare the poll on the resolutions open, so that any shareholders who need to leave the meeting may lodge their voting cards as they leave.

2018 has been a turning point for our company.

In line with our Better Health for Better Lives purpose, we remained focused on delivering for our customers, and progressing our transformation into a broader health services company.

This purpose is embedded across our company and is apparent in the decisions we make, in the engagement of our people, and in the experiences of our customers.

This focus has enabled our company to deliver a strong result across both our Health Insurance and Medibank Health businesses and helped us deliver a Group net profit after tax of \$445.1 million.

It also helped us pay, to you our shareholders, a total dividend of 12.7 cents per share fully franked. This represents 80% of underlying NPAT which is at the upper end of our target payout ratio.

These results are only possible though, if we are providing our customers with the value and service that they expect from us.

In 2018 we have seen our customers use their health insurance for more than 1.3 million hospital admissions and 23.8 million extras services.

At the same time we have delivered our lowest premium increase in 17 years, which was below market average, improved the customer experience and launched our Priority program, recognising long-term Medibank customers. And in April we acted to remove waiting periods for psychology services to give customers quicker access to urgent mental health support.

Pleasingly all of these initiatives are delivering.

For the first time in a decade, we have seen market share grow over a six-month period, complaints to the Ombudsman fall and our Service Net Promoter Score improve.

These improvements have assisted Medibank in delivering against the milestones set out by the management team two years ago. In some instances, almost 18 months ahead of time.

Of course, there is always more to be done, and so at the company's full year results the management team announced a number of new milestones. These will ensure we maintain our trajectory of growth and accelerate Medibank's shift to become a health services company.

We recognise, that in order to achieve these goals, we need to continue our work to ensure that our customers both value and have the choice that they are looking for, in their health insurance.

Healthcare costs in Australia have been tracking at 4.5% above inflation each year over the past 25 years, largely driven by more frequent and more expensive hospital admissions and a population that is getting older.

There can be little doubt, that rising costs such as these, have placed unsustainable pressure on our customers. In order to maintain the quality of the Australian health system, we all need to work harder to ensure that private health remains accessible to the collective 13.5 million private health insurance customers.

This means looking at all parts of the health sector for long lasting opportunities to make the fundamental changes required to keep Australia's health system a world leader.

Government reform plays an important role in delivering on this objective.

Prostheses reform allowed us to pass on \$50 million in savings to our customers through our lowest average premium increase in 17 years. Likewise, recent mental health reform, and the removal of waiting periods on psychology services which Medibank introduced on top of this, is making a real difference to our customers' lives.

We will continue to actively advocate for further reform, including through the two Federal Government committees reviewing out-of-pocket costs and low value care, and the ongoing Medicare Benefits Schedule Review.

Of course, the challenge remains, as to how we can continue to deliver quality healthcare in Australia, at an affordable price. And it is a challenge shared by both major political parties. The Coalition, has

implemented significant reform to drive down costs and simplify private health insurance through the introduction of Gold, Silver, Bronze, Basic, while the Australian Labor Party's policy is to place a 2% cap on premiums for two years.

Real and substantive change will only come about if we are prepared to re-think the way in which we service our customers.

As Medibank transitions to a health services company, we have recognised that we need to design care pathways that meet the changing needs of our customers, where clinically appropriate.

Hospital is no longer the only option. We are now providing choice over when and where care is received. This is a key differentiator for us in the market.

We are pleased with the progress we have made in the scaling of the services that we offer. Through our Medibank at Home program, rehabilitation in the home is now operating nationally and delivered services to 850 customers in 2018 at about one third the average cost of inpatient services. We also expanded chemotherapy trials to several new states – Liam who you saw on the video earlier has benefited from this program – and we are now trialling dialysis in a number of states. We have also added two additional services, which Craig will talk to shortly.

In August we were delighted to announce our acquisition of one of Australia's leading national providers of in home care, Home Support Services.

Home Support Services delivers scale and capability, and will accelerate our expansion to provide care services to Australians in their own home.

Head quartered in Adelaide, Home Support Services delivers in excess of 100,000 episodes of care each year, around Australia. It is also a key provider to the South Australia Government's Community Care program.

These measures are designed to improve the strength and sustainability of our company. We know that is what our customers, and you, the owners of our company expect. Medibank's focus on sustainability starts with your Board, and extends through to how our business is managed, the investments that we make, and the impact that we have in our community.

For the first time we formally reported on the full extent of Medibank's activities in our 2018 annual report against the four pillars of Customers, Employees, Community and Environment.

Our focus on this last pillar is one we have been looking at closely over the past few years.

As a health services company, Medibank recognises the science of climate change and its impacts on human health. Medibank's head office continues to carry a five-star environmental rating and we remain committed to carbon neutrality within our direct emissions and energy consumption by the end of 2018. To help us do this, we undertook our first greenhouse gas inventory during the year which we published in our annual report, and will continue to publish to show Medibank's progress in this area.

Environmental considerations including the UNPRI signatory status of our asset managers are incorporated in our decision making for our investment portfolio. Climate change risks are considered by our investment managers within our internally managed investments and factored into Medibank's investment strategy. We will continue to invest in green bonds that fund projects with positive environmental benefits.

In relation to our equity investments, in March 2018 we were pleased to achieve our target to move our international equity investments to a low carbon portfolio. Just as importantly though, we remain on track

to make the transition, this financial year, within our domestic equity portfolio. Meaning that by the end of the 2019 financial year our entire equity investment portfolio will be low carbon.

This work aligns with our commitment to the health and wellbeing of our customers and the community. We realise that our responsibility to customers is wide reaching and that sometimes we need to back them during the tougher times. Recently we demonstrated this commitment in announcing a financial relief package and mental health support for drought-affected customers in the New South Wales and Queensland farming communities.

More broadly, our community investment included a \$1 million commitment to establish the Medibank Mental Health & Wellbeing Fund, in recognition of the critical role mental health plays in the overall wellbeing of the community. We also announced a five-year commitment to get 1.5 million Australians active by 2022 through Medibank Free + Active.

Delivering sustainable value and maintaining community trust will only be achieved if the Board makes decisions in the interests of our customers, our employees and our shareholders.

I would like to thank my fellow directors whose integrity and diverse range of expertise and experience continues to set this tone across the company. Two of these directors, Peter Hodgett and Christine O'Reilly, stand for re-election today with the Board's full support, with each to address you shortly.

I would also like to thank Craig Drummond and the management team for their leadership and commitment, and of course our employees for the vital role they play in delivering for the business and for our customers.

There are some challenges ahead but I am confident Medibank is strongly placed to navigate them and draw out opportunities for the benefit of our customers, and in turn you, our shareholders. Your ongoing support continues to be central to these efforts, and I thank you for being part of our company now and for the exciting times ahead.

I will now hand over to Craig Drummond.

CHIEF EXECUTIVE OFFICER

Good morning, and thank you for joining us today.

I am pleased to be able to provide you with an update on the progress our company has made in 2018.

As our Chairman has outlined, we have spent the last 12 months continuing to focus on delivering for our customers, responding to their needs and improving our offering.

Without doubt, the highlight of the year has been the substantial turnaround in customer retention, which has seen us grow our market share over the past six months for the first time in a decade, demonstrating that our core health insurance business is back on track.

For the full year we delivered a Group net profit after tax of \$445.1 million, down 1 per cent on the prior period, with the reduction due to a decrease in net investment income.

Health insurance operating profit increased to \$535.6 million, up from \$497.5 million in 2017. This reflected growth in policy numbers, benefits from our productivity program, which saw management expenses decline by \$11.2 million, and the impact of a softer claims environment.

These outcomes have not come at the expense of our customer offering – we delivered a lower than the industry average premium increase for the second consecutive year.

In November 2016, we set milestones for our company to be measured against. They were deliberately focused on reorienting our business to provide better service and value for our customers, and transitioning towards becoming a broader health services company.

As a business we had been losing market share for a decade, with too many complaints, and we knew that the relentless cost increases within the health system was the key concern for our customers.

Today I am pleased to report that we have stabilised our market share, 18 months ahead of our initial milestone. The most recent APRA data shows that we grew our market share by 5 basis points in the second half of the financial year.

Furthermore, our Service NPS, or net promoter score, continued to improve across both ahm and Medibank, and our Brand NPS recorded a 20 per cent improvement relative to peers over the year. We have also seen further progress into the start of 2019, meaning our customers are more positive about their interactions with us.

Our customer complaint numbers are now well below our market share, and have been for more than 15 months. And we continued to improve our service with better digital channels, reduced call wait times and gave more personalised health and wellbeing advice.

Looking ahead, we have now established a new range of milestones to be assessed against.

Firstly, we have established a broader Customer Advocacy milestone, which will encompass NPS, complaints and a new metric of check-ins, ensuring that our customers are matched to the right level of cover. We'll have 500,000 check-in conversations with our customers about the appropriateness of their cover this financial year, up from 390,000 in 2018.

Secondly, with our market share having stabilised ahead of our initial milestone, we are now targeting modest market share growth in the current financial year.

Thirdly, health services expansion is central to differentiating our customers' experience.

We continued to build our health services capability this year, with the valuable additions of HealthStrong 16 months ago and Home Support Services in August. These acquisitions give us a national platform for the continued expansion of our in home care options to offer these services to more customers.

As such, we wanted to better reflect this in our milestones, beyond more than the existing commitment of doubling Medibank Health's share of operating profit, which remains on track.

We have two new ambitious milestones in health services. We will more than double the number of customers receiving Medibank at Home services by the end of the current financial year. And by the end of 2020, every Medibank customer will have at least one health interaction with us each year.

Finally, we know affordability continues to be a key concern for our customers, so productivity improvements remain an important target for the team. We will have cut \$60 million from our management costs in the three years to the end of the 2020 financial year, an increase of \$10 million on the previous target.

Our key focus, however, remains on our 3.7 million customers. We're personalising their experience, and offering better health services and advice – this is central to attracting and retaining customers, and supporting them as they navigate the health system.

Earlier this year, we launched our Priority program for hospital and extras customers that have been with Medibank for more than 10 years, and we are rolling out a \$20 million one-off loyalty bonus for these customers.

Additionally, in the first quarter of 2019, we will provide access to a broader set of offers with leading health and wellbeing brands to expand our Live Better loyalty program.

Earlier this year, we launched our new Procedure Cost Estimator and People Like You tools that help customers ask the right questions of their practitioner, to understand potential out-of-pocket costs and inform their health needs. Since that time more than 100,000 customers have accessed these tools.

More recently, in October we launched a new feature on the Medibank app, 'Estimate a claim'. Customers can now get a quote of their extras out-of-pocket expense without ringing us. This will help the more than 12,000 customers a month who call our team for extras quotes.

I'm also pleased to announce that from today, you'll be able to see information online about what patients thought of their overnight hospital stay. By making this patient experience data available and empowering our customers, we can improve the value and quality of their healthcare.

While all of these enhancements have been extremely well received, the game changer for our customers over the coming years is the Medibank in home services offering. In consultation with their treating doctor, customers are offered real choice about where their healthcare is delivered, and at an affordable price. Medibank at Home services now include rehabilitation, dialysis, chemotherapy, reconditioning rehab and palliative care, with an infusions trial to commence shortly.

Australia has one of the best health systems in the world due to the strength of the dual public and private structure.

Private health insurance pays for close to two thirds of non-emergency surgery in Australia, 50% of all mental health admissions, 60% of chemotherapy and 70% of all joint replacements.

But, there is a big job ahead for all of us, if we are to ensure that the quality and affordability of the system is to be maintained for future generations. We are working hard as a business to reduce our own costs, and work with our partners to ensure that we can deliver choice in healthcare at an affordable price.

But, the reality remains, that substantive change in affordability can only come about through reform. Medibank and others in the health industry have been working with the Federal Government to reduce costs and simplify the health system. As a result, we've seen more reform in the last 12 months than in the past 18 years.

And it's delivering for our customers. This year Medibank passed on our lowest premium increase in 17 years, as a result of the work done to save our customers \$50 million through prostheses reform. We have also been able to make it easier for customers to access in-hospital mental health services and we've removed the two-month waiting period on psychology services on current Extras products.

The incoming Gold-Silver-Bronze-Basic changes should make a real difference to transparency in healthcare, and we're committed to minimising any disruption that implementation may cause to our customers.

Both major political parties acknowledge that the current industry cost structure is not sustainable. Additional reform to prostheses pricing, greater transparency in fees, more affordable care pathways and reducing low value or inappropriate care are critical to promoting sustainability in the sector and we look forward to working with the Government to make further progress on these issues.

Critical to this sustainability will be a much stronger focus on health prevention. The statistics are alarming. Around 50 per cent of Australians live with a chronic disease and we have one of the highest rates of obese and overweight adult populations in the world. We must change this trajectory.

As we have previously said the Labor Party's policy to cap premium increases at 2 per cent, is an ambition we can appreciate, but it will be challenging. As our Chair has mentioned, over the last decade the cost of healthcare in Australia has risen by 4.5 per cent per annum above inflation, and unfortunately capping premiums will not change these costs.

In order to maintain the quality health system we have in Australia, an ongoing concerted and collaborative effort is required from the health sector, business and the government.

Turning now to the outlook for the 2019 financial year.

Pleasingly the improvement in policyholder momentum that we experienced in the second half of fiscal 2018, has continued into the current financial year.

For the first four months of this current financial year, we have experienced modest growth of around 8,000 resident policyholders. This is approximately 9,000 higher than the prior corresponding period in 2017 when we experienced a decline of around 1,000 resident policyholders. We remain confident that this positive momentum supports our milestone of modest market share growth this year, against a backdrop of likely flat overall market volumes.

There is no change in the guidance we provided relating to hospital and ancillary utilisation with our Full Year 2018 results in August. Namely that our hospital utilisation growth remains subdued and ancillary utilisation in the 2019 financial year is expected to be slightly lower than in 2018. This trend has resulted in us booking a claims provision release of approximately \$10 million as at October year to date, from our 30 June provision.

Additionally, there is no change in our expectations previously communicated relating to our management expenses, dividend payout ratio or building out our health services capability with 1 – 2 more small acquisitions.

Importantly our capital position remains strong and provides us with financial and strategic flexibility, which we see as a competitive advantage at a time when APRA has committed to review capital standards for the Private Health sector.

We have set ambitious goals for 2019 and 2020, but I am confident in the team we have at Medibank. Our employees, including 1,500 health professionals, are committed to improving the health and wellbeing of our customers and to building a strong and sustainable business.

They strive to meet our purpose every day; better health for better lives. I would like to thank our people for their incredible work.

Our business is now stronger and more sustainable. There is a lot to be proud of and importantly, Medibank is back on track.

Thank you.

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FY19 outlook

Full year outlook at FY18 Result	AGM Comment
Expect flat overall PHI market volumes to persist	No change in expectations
Targeting modest market share growth in FY19	No change in expectations. Modest growth of 8k resident policyholders in the first four months of fiscal 2019, which is approximately 9k higher than the prior corresponding period in 2017. We remain confident that this positive momentum in policyholder growth supports our milestone of modest market share growth in FY19.
Hospital utilisation growth to remain subdued. Ancillary utilisation growth is expected to be slightly lower	No change in expectations. We have booked a claims provision release of approximately \$10 million as at October year to date from our 30 June provision.
Management expenses for FY19 are targeted to be modestly above those recorded in FY18	No change in expectations
Dividend payout ratio to remain at the top of our stated target range of 70% - 80%	No change in expectations
Expect to make 1-2 more small acquisitions in FY19 to continue to build our health services capability	No change in expectations