

9 November 2016

ASX release

AGM – CHAIRMAN AND MANAGING DIRECTOR PRESENTATIONS

Note: An update on the Health Insurance outlook for the year ending 30 June 2017 is included under “Outlook” on page 7.

CHAIRMAN

Good morning. My name is Elizabeth Alexander. As Chairman of Medibank, I welcome you all, including those watching via the webcast, to our 2016 annual general meeting.

I wish to acknowledge that we are meeting on the land of the Wurundjeri People and pay my respects to their Elders – both past and present.

The annual general meeting is a special day for our company, and it is wonderful to see so many shareholders here. Thank you for coming along, and I hope you enjoy the morning and learn more about your company.

Now to introduce you to the Board members, who will each stand to identify themselves. On my extreme right is Anna Bligh, next is Linda Nicholls, the chairman of the People and Remuneration Committee and who is standing for election today, then Christine O’Reilly who is the chairman of the Audit and Risk Management Committee. Next is our Managing Director and Chief Executive Officer, Craig Drummond, who joined Medibank and the Board in July. On my extreme left is Peter Hodgett, chairman of the Investment and Capital Committee, then Cherrell Hirst, and David Fagan who also stands for election today. Next to David 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.

2016 financial results

In the 2016 financial year Medibank reported a sound financial result, with a net annual profit after tax of \$417.6 million, up 46.4% on the previous year. This result reflected our continued commitment to finding efficiencies in provision of healthcare services, as well as our progress on management costs, which saw our management expense ratio decrease from 8.6% to 8.4%. Our result was also supported by lower growth in hospital utilisation rates across the industry.

However, our business is not without its challenges. Revenue growth remained soft in 2016, with Health Insurance premium revenue up 4%. We know that there is a significant opportunity to enhance the way that we service our customers to better meet their needs, and your CEO, Craig Drummond, will explain in more detail our recent initiatives to improve our business and service to our customers.

As you know, in August, the Board declared a final dividend of 6 cents per share fully franked, which brought the full-year total dividend to 11 cents per share fully franked. This total dividend represents a final payout ratio of 71.7% of underlying net profit after tax. This payout ratio is in line with the 2016 full-

year target payout ratio of 70-75% of underlying net profit after tax. The Board remains committed to an ongoing full-year target payout ratio between 70-80% of annual underlying net profit after tax.

In addition, Medibank continues to have a healthy balance sheet, with the Health Insurance business-related capital as at 30 June 2016 being approximately 12.7% of premium revenue. This 12.7% is within Medibank's target capital range of 12 to 14%.

Craig Drummond will take you through Medibank's financial performance in greater detail shortly.

Continued focus on transparency, affordability and value – important to a sustainable health system

During the year, the issues of transparency, affordability and value in the health sector continued to be front and centre in the community. At the core of this is the ongoing sustainability of Australia's world class health system. We know that a sustainable health system is important to all Australians, including our customers, and maintaining the value and affordability of our products for our customers is a key part of this sustainability.

Private health insurance plays a significant role in easing the pressure on Australia's healthcare system. For example, private health insurance paid for 30% of all days in hospital in Australia in 2015. This equates to \$18 billion of healthcare services per year that governments were not required to fund. For this to continue, private health insurance premiums must stay affordable.

This is why we are working at a healthcare system level, and at a Medibank level, to do everything we can to ensure our customers receive the right care, at the right place, and at the right price.

Initiatives to find efficiencies in the provision of healthcare services continued to be an important focus for Medibank. During the year Medibank made a number of recommendations to the Australian Government on a range of areas impacting not only Medibank's own customers, but also the overall sustainability of the sector. These recommendations included supporting an industry-wide approach to making health insurance easier to understand, making prostheses pricing fairer and improving information sharing between consumers and insurers.

There is no doubt that to ensure the continued sustainability of the healthcare sector and affordability of healthcare services in Australia, regulatory reform is required. We are very supportive of the work that all governments are doing to improve the system in the areas of sustainability and affordability, and we urge all governments to continue to vigorously pursue their work in these areas.

At a Medibank level, we have been focused on building stronger relationships with hospitals to improve our customers' health outcomes and healthcare experiences. These improvements must be made while maintaining the value and affordability of our customers' private health insurance.

To this end, we continue to address improper hospital, medical and ancillary claims through our payment integrity program.

We have also worked with governments and GPs to deliver a suite of programs, called CareComplete, that support the better management of chronic and complex health conditions. This initiative is part of Medibank's broader commitment to supporting primary care and improving healthcare and health outcomes for Australians living with chronic conditions. A recent report released by the Grattan Institute estimated that the ineffective management of chronic conditions such as heart disease, asthma and diabetes, costs the Australian health system more than \$320 million each year in avoidable hospital admissions. Our CareComplete programs are designed to not only support people living with chronic conditions, but to also take pressure off the healthcare system by reducing such avoidable costs.

Corporate social responsibility

Our commitment to better health extends beyond our customers. We're working within the community to support the health and wellbeing of more Australians. Over the last five years, the Medibank Community Fund has provided over \$15 million in funding towards programs and partnerships to build better health in the community.

One area of focus for the year was on our Growing Healthy Kids program. Childhood obesity is a significant issue in Australia, affecting one in four Australian children. Overweight and obese children are more likely to stay obese into adulthood, which presents a range of serious long-term issues for the individual, but also for the community and health sector.

To encourage healthy and active lifestyles in childhood, Medibank has been partnering with the Stephanie Alexander Kitchen Garden Foundation, a school-based healthy living program that educates children about the importance of healthy eating. I am delighted that we are now reaching over 100,000 children through this program.

Corporate social responsibility also extends to how we invest. As part of our continual review of our investment policies Medibank took the step to divest itself of tobacco investments. Medibank transitioned its managed funds to completely exclude tobacco manufacturing companies from its investment portfolio. This has been led by the Board's Investment and Capital Committee, and carries through Medibank's commitment to 'better health' not just to our customers and employees, but also indirectly through our investments.

Corporate governance

Finally, I would like to talk about the Board's commitment to sound corporate governance. It is important to your Board that our approach to good governance is understood by stakeholders both inside and outside the company.

Our corporate governance statement, which is contained in the 2016 Annual Report, sets out our governance policies and practices. These policies and practices demonstrate our commitment to good corporate governance and compliance with the ASX Corporate Governance Principles and Recommendations. Also, as now required of all private health insurers, we comply with the industry-specific governance standard issued by the Australian Prudential Regulation Authority, or "APRA".

Throughout the 2016 financial year, the Board comprised seven non-executive directors and an executive Managing Director and Chief Executive Officer. As you know, Craig Drummond has been our Managing Director and CEO since July, following the retirement of George Savvides in March this year.

I believe that the skills and experience of my colleagues on the Board, which they have diligently applied throughout the year to the governance of your company, are complemented and strengthened by a truly collaborative and cooperative approach.

To ensure the Board continues to effectively oversee and govern Medibank's operations, we are committed to periodic reviews of the Board and review of directors. The Board, based on this ongoing evaluation of the balance and diversity of the skills and experience of the directors, are confident that collectively the Board has good industry and operational experience in insurance, healthcare, investment and public policy. As the company and industry evolve and technology continues to change, the Board has identified that it needs to enhance its skills and operational expertise in the areas of building customer engagement and the application of digital technologies.

Accordingly, the creation of an extra Board position will enable the Board to address this issue. In response to this need the Board is proposing in resolution 6 to increase the maximum number of directors on the Board from eight to nine.

Strong leadership

In conclusion, Medibank has strong leadership in place to maximise our business performance and deliver the benefits of this performance to you as shareholders.

Since Craig Drummond commenced as CEO in July, he has been reviewing all aspects of our business to develop a robust strategy to strengthen Medibank's performance. He has also made changes to the executive leadership team to ensure Medibank has the right people and clear accountabilities in place to drive performance.

Craig provides the strategic and operational leadership to deliver on the strategy, together with an unwavering focus on our customers. He leads a strong executive leadership team that is committed to this strategy to sustain the success of Medibank.

I want to thank Medibank's management team and our employees for their hard work and commitment in 2016. Every one of them has made a valuable contribution to the business, and has shown their commitment to our strategic direction.

And, on behalf of the Board, I thank you, our shareholders, for your participation and continued support.

I will now pass to Craig Drummond, who will talk to Medibank's performance in the 2016 financial year, and outline our strategic focus and the outlook.

MANAGING DIRECTOR

Thank you Elizabeth. It's a pleasure to be with you all today for my first annual general meeting with Medibank.

Medibank celebrated its 40th anniversary last month and I am proud to lead a company that has such a significant history and founding role in the Australian health insurance sector.

In my first four months at Medibank, I have witnessed the commitment the business has to delivering better health to our customers and all Australians. In the 2016 financial year we paid a record \$5.1 billion in benefits to our 3.8 million members. These benefits covered more than 1.3 million hospital admissions, 500,000 surgeries and more than 26 million ancillary services. Many of these were major and even life changing events for people, and we're proud to play this supporting role in their lives.

Group performance

In the 2016 financial year Medibank reported a sound financial result, with robust financial metrics and a debt-free balance sheet. Our Group net profit after tax was \$417.6 million, up 46% compared to the previous year.

This result was largely driven by the Health Insurance business, which reported an operating profit of \$510.7 million, up 55%.

There were a number of drivers of this result. Firstly, the business's ongoing focus on health cost management has continued to reduce waste and inefficiency in the healthcare system. Secondly, through 2016 there was lower growth in hospital utilisation rates than expected across the whole industry. These two factors helped lift the gross margin (which, put simply, is the difference between our premium income and the benefits we pay out to customers) to 16.6%, up from 14.2%.

Management expenses in dollar terms increased only marginally due to the business's ongoing cost discipline, with operating efficiencies driving a 20 basis point improvement in the Health Insurance business's management expense ratio to 8.4%.

Looking at revenue, the industry experienced its slowest growth in 10 years. Our premium revenue grew by 4% over the year, but with slower growth of 3.4% in the second half. The number of members at a Group level decreased by 2.5%, and while ahm brand volumes continued to grow, this growth was slower than in the previous year. Volumes for the Medibank brand were down, performing below peers in attracting new customers and retaining existing ones. This shows that Medibank's customer engagement and service experience, and our investment in this area, was not where it needed to be.

For our Complementary Services business, operating profit increased by 75% to \$25 million. This was largely driven by the divestment of unprofitable businesses, which Medibank flagged last year.

Our investment income decreased by 37% to \$59 million and was impacted by lower equity market returns compared to the prior year.

Strategy

Looking at our strategy for 2017 and beyond, there are a number of areas we will focus on which will strengthen our core business and drive a more sustainable performance.

In order to successfully execute our strategy we need to have the right team in place with clear accountabilities. I am confident that the changes to the Executive Leadership Team, which were announced in mid-September, will help deliver this.

Let me now take the opportunity to introduce you to Medibank's leadership team:

We have David Koczkar, our Chief Customer Officer who is leading the work to drive a better experience for our customers.

Dr Andrew Wilson leads our Provider Networks and Integrated Care and is also now accountable for Medibank's strategy and innovation.

Mei Ramsay, our Company Secretary, is now leading Legal, Governance and Regulatory Affairs.

Kylie Bishop continues to lead People and Culture, while John Goodall will join the company in December as Group Executive – Technology and Operations.

Finally, we have our Acting Chief Financial Officer Tom Exton, and we expect to announce Medibank's new Chief Financial Officer in the coming weeks.

This team appreciates that we clearly need to do more for our customers, ensuring they are at the very core of our business. This means we need to provide greater value for our customers and make it easier for them to do business with us.

Enhancing our products and services is a priority and is the basis for our customer investment program, which we announced at our full year results in August. This program is focused on providing greater value and considerably enhanced service.

So far this year, more than one million of our customers have seen increased value through new and extended benefits within their policies.

For example, every Medibank extras customer now has a dental check up on top of their existing extras balance, available at any of our 6,300 Members' Choice providers. This can save a family of four up to \$400 a year. Likewise, every Medibank member with a hospital product is now covered in the event of an accident, no matter what level of cover they have. All Medibank members also now have unlimited emergency ambulance included in their cover.

Making interaction with our company easier for customers is something we categorically need to deliver on, and which I am committed to addressing.

In 2016 Medibank implemented its new core policy management system, DelPHI. While there have been some initial implementation issues which have impacted customer experience, we expect that in 2017 DelPHI will become fully operational and customers will start to appreciate the benefits of the new platform.

These implementation issues have had a big impact on call waiting times, which are a major point of frustration for our customers and we are working to resolve this as a matter of priority. This includes hiring 20% more contact centre service staff by Christmas, extending our customer service phone lines to open on Saturdays, introducing 24/7 online support and investing in coaching staff whose sole focus is to help our people deliver a better customer experience. We're also investing in our Customer Care team to enhance how we manage complaints and more complex enquiries.

Our digital platforms are another area that we need to get right for our customers. This is important in its own right, but also to relieve pressure on the contact centre. We're moving to make claiming easier, having updated our app so customers can manage their information online, and we are piloting mail, email and SMS reminders to help customers monitor their claims and keep track of their extras limits.

To get our customers' experience right, we have to have the right measurements. In 2017 the Net Promoter Score, a widely used business metric that gauges customers' satisfaction and loyalty, will be included as a component of all employees' performance incentives.

The purpose of this is to ensure that every employee in our company is focused, and rewarded, for improving the customer experience. This behavioural change will help drive sustainable business results which will deliver long-term benefits for our shareholders.

We recognise that customer experience extends beyond better service. We have to ensure that not only do we provide value for money, but that our products also remain affordable.

Australians have experienced sustained average increases in their premiums of around 6% per annum over the last decade. Understandably, this is driving affordability concerns.

Regulatory reform of the health industry, therefore, is critical to reducing premium increases. Medibank has continued to work with the Australian Government to promote reform that will help ease this pressure.

One area we're focused on is making the price of prostheses fairer. Several factors suggest that prostheses reimbursement levels could be lowered by an average of 45%. We've recommended to government that the price of prostheses be set against domestic and international benchmarks, to give our customers a better deal and return as much as \$800 million in value to consumers. The Minister for Health announced the first stage of reforming the prostheses list in October, which we applaud, and Medibank has committed to returning every dollar of savings to our customers.

We are also committed to maintaining our own health cost leadership. Initiatives such as our payment integrity program, which focuses on identifying, preventing and recovering improper claiming, will continue to deliver incremental benefits.

Medibank has a clear role to play in healthcare affordability, but this is not at the expense of better health. We can, and are, using our expertise and relationships across the health sector to support improved health outcomes for our customers.

We will continue to partner with private hospitals on our value-based contracting and ongoing work to drive better health outcomes.

Partnerships like these increase transparency and information sharing. This has benefits for all parts of the health system which flow through to customers – in the form of better choice, better care and better value. The real value for our customers is to receive better health outcomes, at more affordable prices.

We're also committed to finding innovative ways to help our customers, and indeed all Australians, manage their health and stay out of hospital. This is why we're investing in primary care with CareComplete.

These programs focus on improving the outcomes and quality of life for Australians living with chronic conditions. Through the initial pilots and rollout of CareComplete, we have already enrolled more than 5,500 patients and worked with more than 1,400 GP clinics and 2,600 GPs to deliver the programs.

Collaboration has been the key, and we have partnered with other organisations, including the Victorian and Western Australian governments, to pilot the CareComplete programs. Our expertise in this area has also been recognised. Medibank is one of only two health insurers sitting on a working group to advise the Federal Government on the implementation of their Health Care Homes program, which will be trialled with around 65,000 Australians from mid-2017.

Obviously, a key focus for the Executive Leadership Team is how we continue to grow our business in a sustainable manner. We will be providing more detail on this at Medibank's Investor Day on 30 November. For interested shareholders, this will be webcast.

Outlook

Looking to the 2017 financial year, I expect that the environment will continue to be challenging.

On the revenue side, we expect market growth to slow in response to ongoing affordability concerns and slowing population growth. Our lowest average premium increase in four years, which we applied to premiums in April this year, will also have an impact.

On the cost side, industry conditions are likely to be more comparable to the second half of the 2016 financial year, with hospital utilisation rates to further normalise. We will continue to get incremental benefits from the payment integrity program and accumulating benefits from our hospital contracting.

We will also invest in our organisational capability and in our customers - in the value they see, in the service they receive, and in the experience they get.

In the first four months of this financial year, revenue has been slightly below our initial expectations with premium revenue growth of 1.3%. That said, we expect the 2017 Health Insurance operating profit to be broadly in line with last year's result, excluding the 2016 claims provision release of \$20 million, which equates to a Health Insurance operating profit of approximately \$490 million.

Conclusion

My focus is on laying the foundation to build a sustainable and more customer-focused business. There is a lot of work to do, and the benefits will not be realised immediately. Nevertheless, a renewed and relentless focus on offering our customers' enhanced value and service is absolutely fundamental to further strengthening our business.

We are not here to play the short game. Our focus is on building a sustainably successful business. I am confident we deliver on this objective for the benefit of all shareholders.

I now hand back to the Chairman.

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2016 Annual General Meeting

9 November 2016



medibank
For Better Health

Outline

- FY16 result
- Strategy
 - Management and accountability
 - Customer focus
 - Making it easy
 - Affordability
 - Expertise & partnerships
- FY17 Health Insurance outlook

FY17 Health Insurance outlook

- Premium growth
 - Slowing market growth and continued market share loss
 - 2016 premium increase lower than 2015
- Operating margin
 - Further normalisation of the growth in hospital utilisation rates
 - Benefits from payment integrity program and hospital contracting
 - Increased investment in customers

FY17 Health Insurance outlook: Update

- Four months to 31 October 2016
 - Revenue slightly below initial company expectations
 - Premium revenue growth of 1.3%
- Health Insurance operating profit for FY17 expected to be broadly in line with FY16, excluding the claims provision release of \$20 million (ie c.\$490 million)