medibank

2018 Half Year Results Investor Presentation

16 February 2018

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Highlights

Craig Drummond – Chief Executive Officer

1H18 result summary

Solid first half operating result. Focus remains on customer initiatives to grow our PHI and health services business

Group NPAT	Health Insurance operating profit	Interim dividend
$245.6m	**$277.3m**	**5.5cps**
↑5.9%	↑11.2%	↑ 4.8%

- **Group net profit after tax** (NPAT) $245.6m, up 5.9% ($231.9m 1H17)
- **Interim dividend** up 0.25cps to 5.5cps
- **Health Insurance** result reflects encouraging improvement in revenue trajectory, the initial benefit from our productivity program, moderate underlying claims growth and higher claims provision release
  - Premium revenue $3,175.1m, up 1.8%
  - Gross margin 17.3%, up from 16.9% in 1H17, assisted by claims provision release
  - Management expense ratio 8.6%, down from 8.9% in 1H17
  - Operating margin 8.7%, up from 8.0% in 1H17
  - Adjusting for claims provision release, operating profit $243.5m, operating margin up 20bps to 7.7%
- **Medibank Health** operating profit up 45.7% to $25.2m, including HealthStrong contribution
- **Net investment income** $59.7m, down from $76.8m in 1H17, due to lower market returns and a more defensive investment portfolio

Milestone scorecard

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

Customer

Objectives to reach by 2019 | **1H18 update**

PHIO complaints less than market share (by December 2017 survey)[2]

PHIO complaints below share

Sept 17 qtr 26.1% share

Sept 16 qtr 60.7% share

Brand NPS best in class against major private health insurance peers[1]

Brand NPS

Medibank improved vs peer average, although remains negative

Service NPS

	1H18	1H17
Medibank	+15.6	+1.5
ahm	+30.4	+29.4

Market share stabilised[2]

On track

Dec 17 26.80%

1H18 down 13bps

2H17 down 27bps

1H17 down 36bps

2H16 down 57bps

Financial

Objectives to reach by 2019 | **1H18 update**

Maintain operating margin[3] above major private health insurance peers[1]

On track

	1H18	FY17
Medibank	8.4%	7.7%
Major peers	n.a.	5.7%

Maintain ROE above cost of capital and major listed insurance peers[4]

On track

	1H18	FY17
Medibank	28.1%	27.3%
Major peers	n.a.	17.0%

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

On track

1H18	8.3%
FY17	6.7%
FY16	4.6%

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[1] Bupa, HCF and nib

[2] Based on number of policyholders

[3] Australian residents only

[4] nib, AMP, IAG and QBE. 1H18 ROE is annualised

Strategy and FY18 priorities

Major focus on reinvesting in our customer offer, improving market share and growing our health services business

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	• 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	• 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	• Further distribution partnerships • Grow non-resident business • Expand diversified insurance offer • Health services expansion
Enablers	Drive simplicity and productivity	Further leverage data	Accountability

Delivering enhanced products & services

Improving customer engagement benefits retention and conversion. Building competitive advantage through loyalty recognition and a strong health agenda

- Launch of Priority program
  - Recognise and thank Medibank members with 10+ years tenure
  - Access to a dedicated service line, health professionals and exclusive partner offers
  - $20m one-off loyalty bonus to Medibank customers in June this year, starting with Priority members
- More proactive customer communication
  - 250,000 proactive customer interactions targeted in FY18
  - Health Concierge services expanded for health pathway guidance
  - Quarterly activity statements sent to nearly one million customers across Medibank and ahm, extras limits and health reminders
- Customer-led channel strategy
  - Retail, contact centre and digital – offering choice and flexibility
  - Medibank digital registrations doubled to 50% of policyholders and ahm at 75%. Enabling other channels to increase focus on retention, sales, service and health interactions

Continuing to improve healthcare value

Reinvesting and advocating for our customers

- Lowest average premium rise in 17 years
  - 100% prostheses savings passed directly to customers
  - Payment integrity program expansion to medical, ahm and non-resident claims
- Leader in value-based healthcare purchasing
  - Strong agenda enabled by data analytics aimed at reducing low value care through sector collaborations and contracts
- Active role in health system reform
  - Recent Government reforms a positive first step
  - Greater transparency of costs and healthcare outcomes an important focus for providers and consumers
  - Advisory committees on low value care and out-of-pocket costs require urgency to address industry sustainability

Expanding and growing the business

Leveraging our scale to grow the core business and transform into a broader health services company

- Further opportunities to grow the core business
  - Improving market share in corporate, non-resident and diversified portfolios
  - New distribution partnerships – Kogan, Amcal (Sigma)

- Health services expansion on track
  - Health Concierge extended to pregnancy and supporting tenured customers undergoing major surgery
  - Scaling of rehab in the home underway and trialling chemotherapy and palliative care in the home
  - HealthStrong integration proceeding in line with expectations
  - CareComplete continuing to deliver favourable patient outcomes
  - 1-2 modest acquisitions possible in 2H to grow our out of hospital services for customers

Financial results

Mark Rogers – Chief Financial Officer

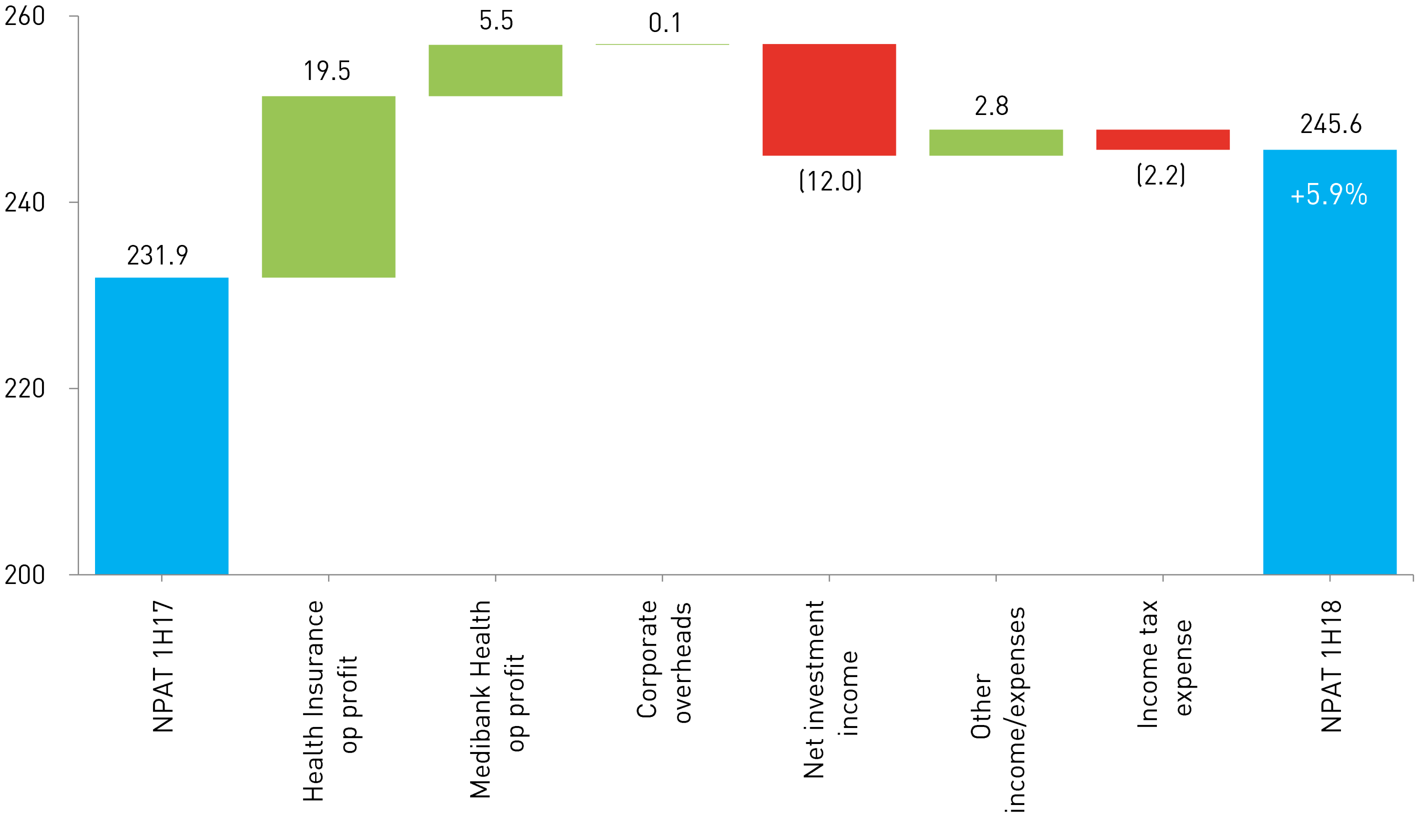
Group financial summary

Six months ended 31 Dec ($m)	1H18	1H17	Change
Health Insurance premium revenue	3,175.1	3,117.9	1.8%
Medibank Health revenue[1]	291.9	279.3	4.5%
Revenue	**3,467.0**	**3,397.2**	**2.1%**
Health Insurance operating profit	277.3	249.4	11.2%
Medibank Health operating profit	25.2	17.3	45.7%
Segment operating profit	**302.5**	**266.7**	**13.4%**
Corporate overheads	(16.4)	(16.5)	(0.6%)
Group operating profit	**286.1**	**250.2**	**14.3%**
Net investment income	59.7	76.8	(22.3%)
Amortisation of intangibles	(3.5)	(3.5)	-
Other income/(expenses)	3.8	(0.2)	n.m.
Profit before tax	**346.1**	**323.3**	**7.1%**
Income tax expense	(100.5)	(91.4)	10.0%
NPAT	**245.6**	**231.9**	**5.9%**
Effective tax rate	(29.0%)	(28.3%)	70bps
EPS (cents)	8.9	8.4	5.9%
Underlying[2] NPAT	**234.4**	**210.9**	**11.1%**
Underlying[2] EPS (cents)	8.5	7.7	11.1%
Dividend per share (cents)	**5.50**	**5.25**	**4.8%**
Dividend payout ratio[3]	64.6%	68.6%	(5.8%)

[1] Net of intercompany eliminations
[2] Refer to appendix slide 33 for further detail on Underlying NPAT
[3] The dividend payout ratio reported in 1H17 was 65.9%. This was before the adjustment for credit spread movements was made in 2H17

Group NPAT – 1H18 vs 1H17

1H18 NPAT result analysis ($m)[1]



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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 margin – reported up 70 basis points and adjusted up 20 basis points

Six months ended 31 Dec ($m)	1H18	1H17	Change
Premium revenue	3,175.1	3,117.9	1.8%
Net claims expense (including risk equalisation)	(2,624.6)	(2,589.9)	1.3%
Gross profit	550.5	528.0	4.3%
Management expenses	(273.2)	(278.6)	(1.9%)
Operating profit	277.3	249.4	11.2%
Gross margin[1]	**17.3%**	**16.9%**	**40bps**
MER[1]	8.6%	8.9%	(30bps)
Operating margin[1]	**8.7%**	**8.0%**	**70bps**

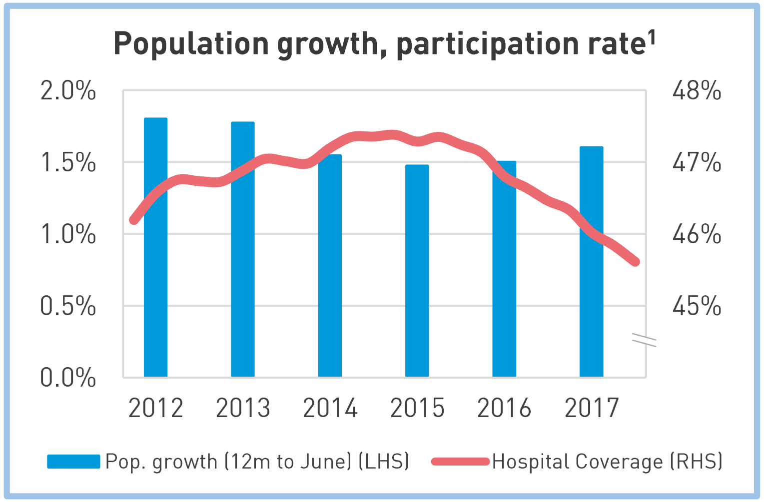
Adjusted for claims provision release

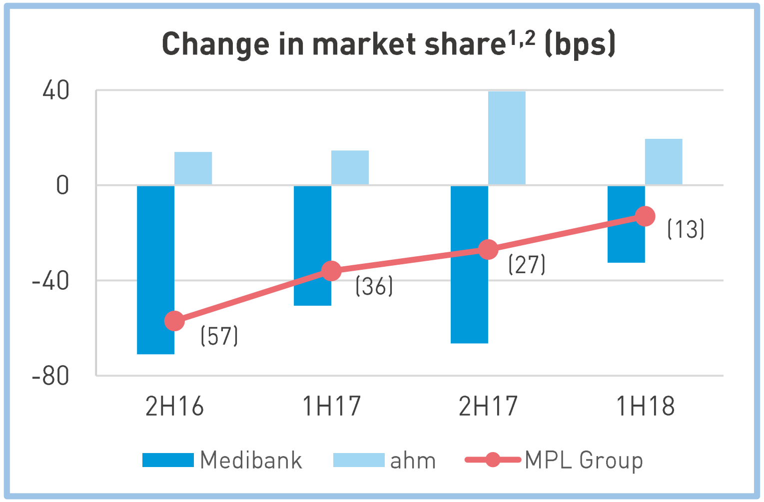
Six months ended 31 Dec ($m)	1H18	1H17	Change
Operating profit	277.3	249.4	11.2%
Amount over provided on central estimate	(33.8)	(15.2)	n.m.
Adjusted operating profit	243.5	234.2	4.0%
Adjusted operating margin	**7.7%**	**7.5%**	**20bps**

[1] Includes Australian residents, OSHC and OVHC. The gross margin for Australian residents only was 16.4% in 1H17 and 16.8% in 1H18, the MER for Australian residents only was 8.7% in 1H17 and 8.4% in 1H18, and the operating margin for Australian residents only was 7.7% in 1H17 and 8.4% in 1H18

Resident Health Insurance – market share

Encouraging improvement in market share trajectory


Population growth, participation rate[1]


Change in market share[1,2] (bps)

Medibank

- Brand loss slowing, driven by improved acquisition and retention
- Reduction in Medibank policyholders slowed, from 4.1% in 1H17 to 3.5% in 1H18
- Performance driven by improved customer service, new product performance and investment in retention activities
- $20m one-off loyalty bonus to help maintain positive brand momentum

ahm

- Market share up significantly since prior comparable period
- Continued strong performance in acquisition, up 170 basis points
- Sustaining strong growth in both direct and third-party channels
- Customer service initiatives and new distribution partnerships to sustain performance

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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

Continued improvement in trajectory despite continued slowing of market

Six months ended 31 Dec ($m)	1H18	1H17	Change
Policyholders[1] (thousand):			
Opening balance	1,776.1	1,800.3	(1.3%)
Acquisitions	88.3	76.8	15.0%
Lapses	(92.5)	(94.9)	(2.5%)
Closing balance	1,771.9	1,782.2	(0.6%)
- Medibank	1,431.9	1,483.9	(3.5%)
- ahm	340.0	298.3	14.0%
Acquisition rate[2]	**5.0%**	**4.3%**	**70bps**
- Medibank	3.6%	3.4%	20bps
- ahm	12.0%	10.3%	170bps
Lapse rate[2]	**5.2%**	**5.3%**	**(10bps)**
- Medibank	5.0%	5.3%	(30bps)
- ahm	7.5%	6.7%	80bps
Policyholder growth	**(0.2%)**	**(1.0%)**	**80bps**
Total Policy Units[1,3] (thousand)			
Closing balance	4,662.9	4,701.1	(0.8%)
Average balance	4,671.8	4,724.7	(1.1%)
Annualised average revenue per Policy Unit[1,3] ($)	**1,359.3**	**1,319.8**	**3.0%**

Revenue per Policy Unit up 3.0%, lower than applicable rate rise of 4.6% due to continuing cover reductions and sales mix changes

[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.

Health Insurance – claims

Average net claims expense per policy unit up 2.5%, or 3.2% net of provision releases

- Hospital – up 0.5%
  - Realised benefits from prostheses pricing reform
  - Public hospital costs decrease reflects continued reductions in average length of stay
  - Continued utilisation growth in public and private hospitals, partially offset by the impact of mix changes and policyholder cover reductions
  - Risk equalisation down due to stronger ahm performance whose members are generally younger and lower claiming, and claims growth from the 55+ segment being lower than industry growth
- Extras – up 4.1%
  - Increase in dental benefits outlay due to 100% back dental offer
  - The implementation of live limits has encouraged usage across all modalities
- Adjusting for the impact of the claims provision release, the average net claims growth per policy unit is up 3.2%, with hospital claims up 2.8% and extras claims up 4.9%

Six months ended 31 Dec ($m)	1H18	1H17	Change	Change Per PSEU (net of provision release)
Claims expense	(2,655.0)	(2,642.0)	0.5%	
Risk equalisation	30.4	52.1	(41.7%)	
Net claims expense (includes risk equalisation)	**(2,624.6)**	**(2,589.9)**	**1.3%**	
- Hospital	(1,993.3)	(1,983.5)	0.5%	2.8%
- Extras	(631.3)	(606.4)	4.1%	4.9%
Average net claims expense per Policy Unit[1]	**(1,123.6)**	**(1,096.3)**	**2.5%**	**3.2%**
Resident hospital utilisation[2] growth[3]	2.6%	2.6%	-	

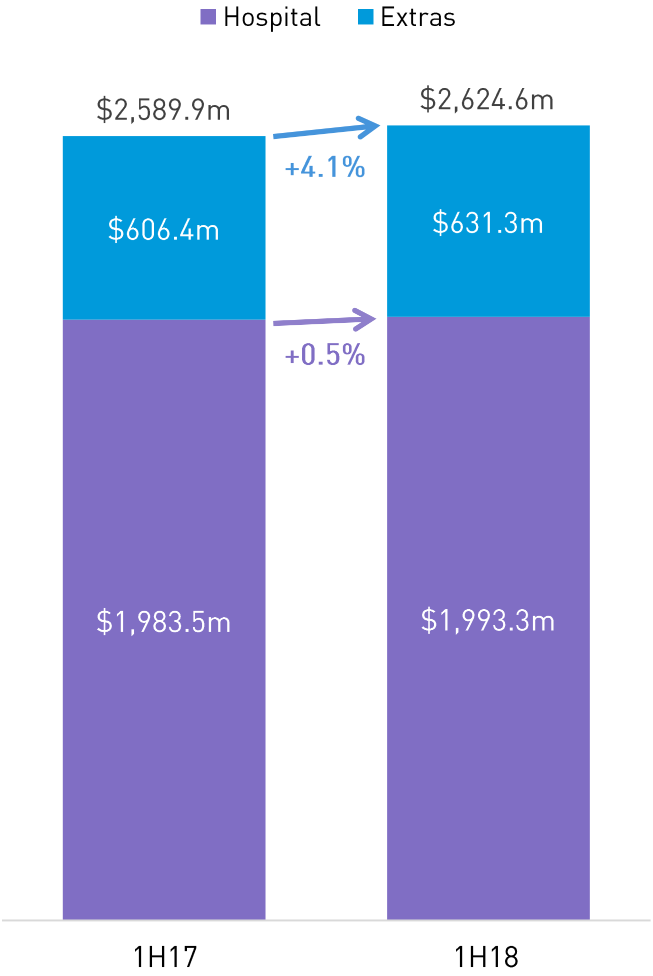
[1] Policy Units or Policy Single Equivalent Units (PSEUs) refer to glossary for definition. Policy Units include both resident and non-resident business (i.e. OSHC and OVHC). Based on average of the month-end balances over the reporting period. This basis changed in 2H17; previously calculated as average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

[2] Estimated hospital utilisation (rolling 6 month to end of December) is defined as the number of hospital admissions per hospital Policy Unit and includes a provision for IBNR

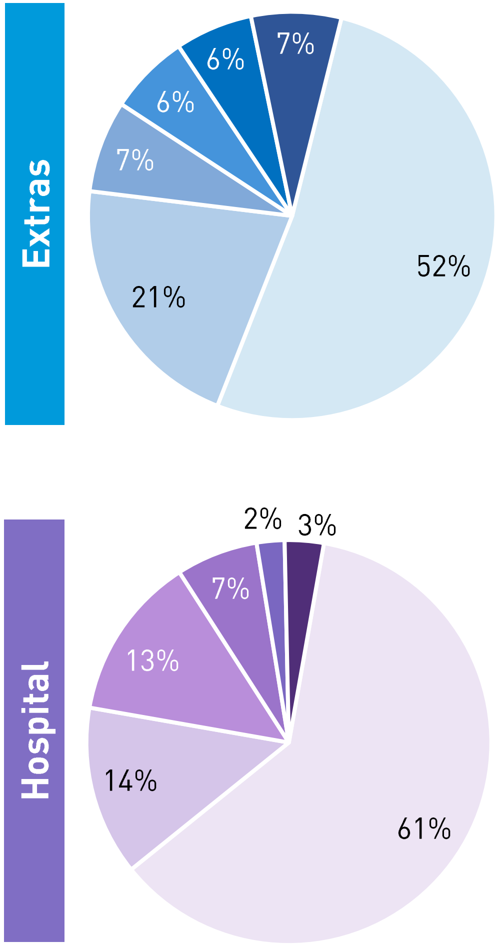
[3] The actual utilisation growth for FY17 was less than 3.6% largely as a result of the claims provision release in the current period

Health Insurance – claims

Net claims expense (including risk equalisation)



Indicative composition and movement in dollar value vs. 1H17



Dental	+3%
Optical	+4%
Physiotherapy	+3%
Chiropractic	+4%
Alternative therapies	+11%
Other modalities (including podiatry)	+8%

Private hospitals	+2%
Medical	-1%
Prostheses	-3%
Public hospitals	-10%
Overseas	+12%
Other	+10%

Health Insurance – management expenses

Delivering on productivity agenda; on track to deliver $20m savings by year end

- Productivity program a major driver of the 1.9% decrease in management expenses
- Overall decrease in management expenses driven by a 3.4% reduction in operating expenses
- Productivity benefit of approximately $8m in the first half driven by savings in procurement, technology and consulting spend.
- Depreciation increase mainly due to commencement of amortisation for Enterprise Resource Planning (ERP) system – additional $3m expected in 2H18
- Ongoing strong sales performance in ahm resulted in an increase in Deferred Acquisition Costs (DAC) amortisation
- Spending on previously announced initiatives to embed the new IT system reduced by $3m reflecting that the system is now out of hypercare

Six months ended 31 Dec ($m)	1H18	1H17	Change
Premium revenue	3,175.1	3,117.9	1.8%
Management expenses	**(273.2)**	**(278.6)**	**(1.9%)**
- Depreciation and amortisation	(21.1)	(19.0)	11.1%
- DAC amortisation	(19.7)	(16.2)	21.6%
- Customer initiatives	(5.0)	(8.0)	(37.5%)
- Operating expenses	(227.4)	(235.4)	(3.4%)
MER	**8.6%**	**8.9%**	**(30bps)**

Medibank Health

Profit increase driven by improved operating performance

- Strong operating performance across portfolio of health services business including:
  - HealthStrong performing in line with our expectations established at the time of acquisition
  - Increased contribution from Diversified insurance
- Management expense increase reflects additional costs associated with HealthStrong, further investment in the business, partially offset by lower D&A
- Reinvestment in technology, infrastructure and business development expected in 2H18
- First half continues to include a seasonal benefit relating to Telehealth revenue

Six months ended 31 Dec ($m)	1H18	1H17	Change
Revenue[1]	291.9	279.3	4.5%
Gross profit	67.9	57.6	17.9%
Management expenses	(42.7)	(40.3)	6.0%
Operating profit	25.2	17.3	45.7%
Operating margin	**8.6%**	**6.2%**	**240bps**

[1] Net of intercompany eliminations

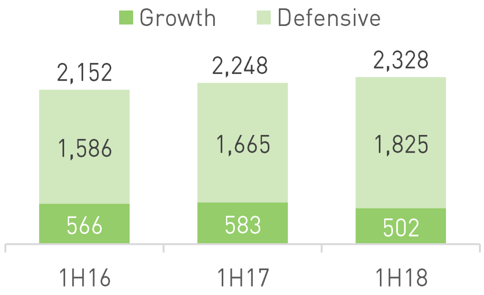
Investment portfolio & investment income

Asset allocation remains unchanged

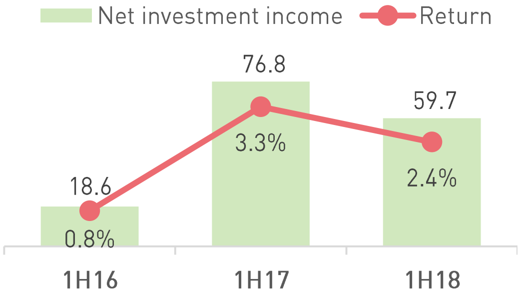
- Maintained 80% defensive, 20% growth target asset allocation that was implemented in June 2017
- Net investment income below very strong investment returns achieved in 1H17 as a result of lower equity and fixed interest returns partly offset by stronger property returns
- Underlying portfolio return of 1.8% is a 1.0% premium above the RBA cash rate for the period – when annualised is in line with our targeted return of 1.5%-2.0% above the benchmark

Six months ended 31 Dec ($m)	1H18	1H17	Change	Portfolio composition		Net investment income	
				1H18	1H17	1H18	1H17
Portfolio balance:							
Growth	502.1	583.1	(13.9%)	21.6%	26.0%	6.4%	7.1%
Defensive	1,825.4	1,665.1	9.6%	78.4%	74.0%	1.5%	2.0%
Total	**2,327.5**	**2,248.2**	**3.5%**	**100.0%**	**100.0%**	**2.4%**	**3.3%**
Net investment income	59.7	76.8	(22.3%)				
Total net return – reported[1]	**2.4%**	**3.3%**	**(90bps)**				
Total net return – underlying[2]	1.8%	2.0%	(20bps)				
RBA cash rate (average)[3]	0.75%	0.77%	(2bps)				
Underlying premium over RBA cash rate	**1.0%**	**1.2%**	**(20bps)**				

Portfolio balance



Net investment income



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1 Reported net return is calculated using total average monthly balance. This was $2,459.1m in 1H18 and $2,361.0m in 1H17

2 Adjusted to normalise equity returns and credit spread movement. Refer to appendix slide 33 for details

3 RBA cash rate pro-rata for 6 months

Summary balance sheet

Strong balance sheet

Compared to the prior corresponding period:

- Higher level of cash reflects new asset allocation
- Trade and other receivables down partly due to a reduction in RE receivable
- Intangibles increase reflects acquisition of HealthStrong
- Strong growth of ahm brand drove increase in DAC
- Decrease in property, plant & equipment reflects sale of Wollongong property

($m)	31 Dec 2017	30 Jun 2017	31 Dec 2016	Change vs. 31 Dec 2016
Cash and cash equivalents	610.0	594.6	524.5	16.3%
Financial assets at fair value through profit or loss	1,843.9	2,038.1	1,740.3	6.0%
Trade and other receivables	281.2	317.0	302.9	(7.2%)
Property, plant and equipment	55.4	87.3	86.6	(36.0%)
Intangible assets	353.8	321.1	319.7	10.7%
Deferred acquisition costs[1]	83.4	87.5	74.3	12.2%
Other[1]	13.5	16.9	18.5	(27.0%)
Total assets	3,241.2	3,462.5	3,066.8	5.7%
Trade and other payables[1]	329.9	367.7	321.0	2.8%
Claims liability[1]	398.9	404.4	382.3	4.3%
Unearned premium liability[1]	579.6	758.9	560.9	3.3%
Other[1]	153.9	211.7	159.0	(3.2%)
Total liabilities	1,462.3	1,742.7	1,423.2	2.7%
Net assets	**1,778.9**	**1,719.8**	**1,643.6**	**8.2%**

[1] Includes both current & non-current

Cash flow

Increase in cash and cash equivalents – up 16.3%

- Positive working capital driven by the reduction in receivables including risk equalisation
- Operating assets and liabilities result in line with seasonal 1H/2H split driven by timing of premium prepayments
- Income tax increased in line with profit and partly due to lag in the timing of payments to the ATO
- Capital expenditure decrease reflects finalisation of our infrastructure cycle relating to ERP system
- Decrease in sale of investments reflects changes to our investment portfolio and the sale of our Wollongong property

Six months ended 31 Dec ($m)	1H18	1H17	Change
Group operating profit	**286.1**	**250.2**	14.3%
Changes in working capital[1]	2.4	(47.8)	(105.0%)
Customer acquisition costs	4.1	1.8	127.8%
Changes in other operating assets and liabilities	(191.7)	(209.1)	(8.3%)
Depreciation and amortisation	26.0	25.6	1.6%
Net cash flows from operations	**126.9**	**20.7**	**513.0%**
Income tax	(148.0)	(96.5)	53.4%
Capital expenditure	(23.3)	(26.8)	(13.1%)
Purchase of business	(37.5)	-	n.m.
Net cash flows before investment related items and dividends	**(81.9)**	**(102.6)**	**(20.2%)**
Net realised investment income	17.2	18.3	(6.0%)
(Purchase) / sale of investments	270.3	338.9	(20.2%)
Purchase of shares to settle share-based payment	(4.3)	(3.6)	19.4%
Net cash flows before dividends	**201.3**	**251.0**	**(19.8%)**
Dividends paid	(185.9)	(165.2)	12.5%
Net increase / (decrease) in cash and cash equivalents	15.4	85.8	(82.1%)
Cash and cash equivalents at beginning of the period	594.6	438.7	35.5%
Cash and cash equivalents at end of the period	610.0	524.5	16.3%

[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

Strong capital generation and disciplined approach to capital management

- Health Insurance capital at the top end of 12-14% target range
- Increase in intangible assets and other required capital driven by HealthStrong acquisition
- Unallocated capital defined as:
  - Health Insurance capital above the top end of target range (1H18: 14.0%)
  - Other capital above operational requirements
- Unallocated capital up $26.2m since 30 June 2017 – further small acquisitions possible

($m)	31 Dec 2017	30 Jun 2017	31 Dec 2016
Total equity	**1,778.9**	**1,719.8**	**1,643.6**
Less: Intangible and illiquid assets	(475.7)	(451.6)	(438.1)
Total tangible and liquid assets	**1,303.2**	**1,268.2**	**1,205.5**
Less: Allowance for declared but unpaid dividends	(151.5)	(185.9)	(144.6)
Less: Allowance for cost of product bonus additions[1]	(34.0)	(17.0)	(36.7)
Total tangible adjusted capital	**1,117.7**	**1,065.3**	**1,024.2**
Required capital			
- Health Insurance	895.3	878.7	870.6
- Other	124.0	114.4	153.6
Unallocated capital	98.4	72.2	
Health Insurance (%)[2]	14.0%	13.9%	13.7%

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[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

Increase in interim dividend

- Interim dividend up 0.25 cents to 5.5 cents (fully franked)
- Payable 28 March 2018 (ex-dividend date: 6 March 2018)
- Interim dividend represents a payout ratio of 64.6% of Underlying NPAT[1], normalising for investment market returns
- For FY18 we expect to pay towards the top end of the 70-80% range

Interim dividend	1H18 payout ratio
5.5cps	64.6%

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[1] Refer to appendix slide 33 for further detail on Underlying NPAT

Result summary & outlook

Craig Drummond – Chief Executive Officer

Result summary

- Solid first half operating result, with Group NPAT up 5.9% versus pcp
- Milestones achieved or on track to be met
- Continuing to strengthen and grow the core business
  - Differentiation through launch of our Priority program and bringing health into the customer experience
- Expanding our customer offering and transforming into a broader health services company
  - Continue to invest in and scale our out of hospital network and services
- Urgent need for structural industry change to drive affordability
  - Collaboration with providers on greater transparency of costs, outcomes and low value care critical

Outlook

- We expect similar underlying revenue trends to the first half, adjusted for the 3.88% rate change on April 1
- No material change is expected in hospital utilisation growth in the second half, while ancillary utilisation growth is expected to be moderately lower
- Management expenses are expected to be slightly higher in the second half for seasonal reasons and a full six months of ERP amortisation. Full year management expenses are expected to be below those recorded in 2017
- We expect to account for the $20m customer loyalty bonus in the current six months
- For FY18 we expect our dividend payout to be towards the top end of our stated target range

Q&A

Medibank Executive Team

Appendices

Group financial summary – half by half

($m)	1H18	2H17	1H17	Change 1H18 vs. 1H17	Change 1H18 vs. 2H17
Health Insurance premium revenue	3,175.1	3,127.0	3,117.9	1.8%	1.5%
Medibank Health revenue	291.9	272.8	279.3	4.5%	7.0%
Revenue	**3,467.0**	**3,399.8**	**3,397.2**	**2.1%**	**2.0%**
Health Insurance operating profit	277.3	248.1	249.4	11.2%	11.8%
Medibank Health operating profit	25.2	18.4	17.3	45.7%	37.0%
Segment operating profit	**302.5**	**266.5**	**266.7**	**13.4%**	**13.5%**
Corporate overheads	(16.4)	(16.2)	(16.5)	(0.6%)	1.2%
Group operating profit	**286.1**	**250.3**	**250.2**	**14.3%**	**14.3%**
Net investment income	59.7	62.5	76.8	(22.3%)	(4.5%)
Amortisation of intangibles	(3.5)	(3.5)	(3.5)	-	-
Other income/(expenses)	3.8	(3.9)	(0.2)	n.m.	n.m.
Profit before tax	**346.1**	**305.4**	**323.3**	**7.1%**	**13.3%**
Income tax expense	(100.5)	(87.8)	(91.4)	10.0%	14.5%
NPAT	**245.6**	**217.6**	**231.9**	**5.9%**	**12.9%**
EPS (cents)	8.9	7.9	8.4	5.9%	12.9%
Underlying NPAT	234.4	207.8	210.9	11.1%	12.8%
Underlying EPS (cents)	8.5	7.5	7.7	11.1%	12.8%
Dividend per share (cents)	5.50	6.75	5.25	4.8%	(18.5%)
Dividend payout ratio[1]	64.6%	89.0%	68.6%	(5.8%)	(27.4%)

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[1] The dividend payout ratio reported in 1H17 was 65.9%. This was before the adjustment for credit spread movements made in 2H17

Group Health Insurance result – half by half

($m)	1H18	2H17	1H17	Change 1H18 vs. 1H17	Change 1H18 vs. 2H17
Premium revenue	3,175.1	3,127.0	3,117.9	1.8%	1.5%
Net claims expense (incl. risk equalisation)	(2,624.6)	(2,589.1)	(2,589.9)	1.3%	1.4%
Gross profit	550.5	537.9	528.0	4.3%	2.3%
Management expenses	(273.2)	(289.8)	(278.6)	(1.9%)	(5.7%)
Operating profit	277.3	248.1	249.4	11.2%	11.8%
Gross margin	**17.3%**	**17.2%**	**16.9%**	**40bps**	**10bps**
MER	**8.6%**	**9.3%**	**8.9%**	**(30bps)**	**(70bps)**
Operating margin	**8.7%**	**7.9%**	**8.0%**	**70bps**	**80bps**

Health Insurance – policyholders

	1H18	2H17	1H17	Change 1H18 vs. 1H17	Change 1H18 vs. 2H17
Premium revenue ($m)	**3,175.1**	**3,127.0**	**3,117.9**	**1.8%**	**1.5%**
Policyholders[1] (thousand):					
Opening balance	1,776.1	1,782.2	1,800.3	(1.3%)	(0.3%)
Acquisitions	88.3	113.7	76.8	15.0%	(22.3%)
Lapses	(92.5)	(119.8)	(94.9)	(2.5%)	(22.8%)
Closing balance	1,771.9	1,776.1	1,782.2	(0.6%)	(0.2%)
- Medibank	1,431.9	1,451.2	1,483.9	(3.5%)	(1.3%)
- ahm	340.0	324.9	298.3	14.0%	4.6%
Acquisition rate[2]	**5.0%**	**6.4%**	**4.3%**	**70bps**	**(140bps)**
- Medibank	3.6%	4.5%	3.4%	20bps	(90bps)
- ahm	12.0%	17.8%	10.3%	170bps	(580bps)
Lapse rate[2]	**5.2%**	**6.7%**	**5.3%**	**(10bps)**	**(150bps)**
- Medibank	5.0%	6.7%	5.3%	(30bps)	(170bps)
- ahm	7.5%	9.2%	6.7%	80bps	(170bps)
Policyholder growth	**(0.2%)**	**(0.3%)**	**(1.0%)**	**80bps**	**10bps**
Total Policy Units[3,4] (thousand)					
Closing balance	4,662.9	4,674.9	4,701.1	(0.8%)	(0.3%)
Average balance	4,671.8	4,680.6	4,724.7	(1.1%)	(0.2%)
Annualised average revenue per Policy Unit ($)	**1,359.3**	**1,336.2**	**1,319.8**	**3.0%**	**1.7%**

[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)	1H18	2H17	1H17	Change 1H18 vs. 1H17	Change 1H18 vs. 2H17
Group NPAT	**245.6**	**217.6**	**231.9**	**5.9%**	**12.9%**
Normalisation of equity returns	(9.0)	(6.3)	(12.5)	(28.0%)	42.9%
Normalisation for credit spread movement[1]	(2.2)	(3.5)	(8.5)	(74.1%)	(37.1%)
Underlying NPAT	**234.4**	**207.8**	**210.9**	**11.1%**	**12.8%**

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[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

Investment portfolio

As at 31 Dec 2017	Balance ($m)	Portfolio composition	Target asset allocation
Australian Equities	137.2	5.9%	5.0%
International Equities	160.1	6.9%	6.0%
Property[1]	155.0	6.7%	7.0%
Infrastructure	49.8	2.1%	2.0%
Growth	**502.1**	**21.6%**	**20.0%**
Fixed income[2]	1,257.1	54.0%	52.0%
Cash[3]	568.3	24.4%	28.0%
Defensive	**1,825.4**	**78.4%**	**80.0%**
Total	**2,327.5**	**100.0%**	**100.0%**

[1] Post sale of Wollongong property (previous carrying value $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 ($610.0m) plus cash with maturities of 3-12 months ($84.6m) less cash held for day to day operations of the business ($126.3m)

Net investment income

Six months ended 31 Dec ($m)	1H18	1H17	Change
Average monthly balance:			
Growth	497.8	596.7	(16.6%)
Defensive	1,961.3	1,764.3	11.2%
Total average monthly balance	**2,459.1**	**2,361.0**	**4.2%**
Net investment income:			
Growth	31.8	42.4	(25.0%)
Defensive	30.0	36.1	(16.9%)
Investment expenses	(2.1)	(1.7)	23.5%
Total net investment income	**59.7**	**76.8**	**(22.3%)**
Return:			
Growth	6.4%	7.1%	(70bps)
Defensive	1.5%	2.0%	(50bps)
Total net return – reported[1]	**2.43%**	**3.25%**	**(82bps)**
Total net return – underlying[2]	1.78%	1.98%	(20bps)
RBA cash rate (average)[3]	0.75%	0.77%	(2bps)
Underlying premium over RBA cash rate	**1.03%**	**1.21%**	**(18bps)**

[1] Reported net return is calculated using total average monthly balance. This was $2,459.1m in 1H18 and $2,361.0m in 1H17

[2] Adjusted to normalise equity returns and credit spread movement. Refer to appendix slide 33 for details

[3] RBA cash rate pro-rata for 6 months

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
BAU	Business as usual
bps	Basis points (1.0% = 100 bps)
DAC	Deferred acquisition costs
Central estimate	Estimate of the level of claims liability
cps	Cents per share
EBITDA	Earnings before interest, tax, depreciation and amortisation
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

Term	Definition
PHI	Private Health Insurance
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)
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