

20 February 2015

**HALF YEAR RESULTS (1H15) ANNOUNCEMENT****Medibank on track to deliver FY15 Prospectus earnings forecast**

Medibank Private Limited (Medibank) (ASX: MPL) today announced its results for the six months ended 31 December 2014 (1H15), its first financial result since listing on the Australian Securities Exchange (ASX) on 25 November 2014.

**Results Overview**

- Group net profit after tax (NPAT) on a pro forma<sup>1</sup> basis up 10.8% to \$151.2 million
- Health Insurance
  - Premium revenue growth of 5.2% – Principal Policyholders up 0.9%<sup>2</sup>
  - Gross margin up from 13.7% to 13.9% assisted by claims provision release<sup>3</sup>
  - Management expense cost down – Management Expense Ratio (MER) improved from 9.2% to 8.0% due to continued cost reductions, and marketing and project spend being skewed to the second half
  - Operating profit up 37.1% to \$173.5 million
  - Operating margin up from 4.5% to 5.9%
- Complementary Services operating profit up for ongoing businesses; strategic review continues
- Investment income down due to relatively lower equity market growth and lower interest rates
- Health Insurance related capital of 12.6% of premium revenue, within targeted 12% to 14% range
- On track to deliver 2015 financial year (FY15) Prospectus NPAT forecast, excluding the benefit of an estimated \$10 million release of claims provision (net of risk equalisation and tax)<sup>3</sup>
- Confirm current intention to pay first dividend in September 2015

Commenting on the result, Managing Director, Mr George Savvides, said, “Last year was a historic year for Medibank as we transitioned to a major listed company and welcomed a large number of new shareholders, many of whom are also health fund members. We are pleased to report our first result as a listed company and confirm that we are on track to deliver our 2015 financial year Prospectus earnings forecast.

“The level of product downgrading and churn across the industry is a clear sign that affordability remains an important issue for customers. We are proactively addressing rising healthcare costs through our health cost leadership initiatives and a disciplined focus on finding efficiencies and reducing management expenses. Delivering affordable and high quality healthcare for policyholders is our clear priority.”

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<sup>1</sup> Consistent with the Prospectus, pro forma financial information is derived from the statutory consolidated income statement adjusted to reflect the half year of corporate costs as a publically listed entity and the exclusion of the one-off costs of the IPO and certain significant and other items.

<sup>2</sup> 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.

<sup>3</sup> In each period there will almost certainly be variances in actual outcomes compared with the central estimate for outstanding claims. These variances can be either positive or negative. As per note 11 of the 31 December 2014 consolidated interim financial report, \$21.8 million of the 30 June 2014 central estimate for outstanding claims was subsequently released to reflect the actual outcome. Net of the estimated related reduction in risk equalisation receivable, the amount is approximately \$14 million before tax (or \$10 million after tax).

## Group

Statutory group NPAT was up 102.5% to \$143.8 million due primarily to the \$80.0 million write-down of goodwill in 1H14 associated with the Telehealth business.

Pro forma group NPAT was up 10.8% to \$151.2 million due primarily to the improved result of the Health Insurance segment.

The commentary below relates to the pro forma financial results.

## Health Insurance

Health Insurance premium revenue was up 5.2% to \$2,943.3 million.

While Medibank brand volume has declined slightly, the ahm brand delivered strong growth, now at over 500,000 members, and an increasing proportion of sales through the company's direct channels.

Health Insurance operating profit increased 37.1% to \$173.5 million, with the operating margin up from 4.5% to 5.9%. Gross margin increased from 13.7% to 13.9%, assisted by a \$14 million (pre tax) release of the 30 June 2014 central estimate for claims provisions, net of risk equalisation. On an adjusted basis<sup>4</sup>, the gross margin decreased marginally from 13.6% to 13.4%. Health cost leadership initiatives continue to benefit margins, but are currently being offset by the industry-wide trends of product downgrading and churn activity.

Continued good progress was made on cost reduction initiatives. The MER reduced from 9.2% to 8.0%, a management expense decrease of \$22.3 million, including some assistance from planned timing differences for project and marketing spend which is more heavily skewed to the second half. The full year (FY15) expectation is for the MER to be slightly better than the Prospectus forecast of 8.7%.

## Complementary Services

Complementary Services revenue declined 10.1% to \$331.5 million and operating profit declined 50.3% to \$7.2 million, reflecting the impact of non-renewal of the Immigration Contract with effect from July 2014. Ongoing businesses revenue<sup>5</sup> was flat at \$328 million and operating profit increased from \$3.3 million to \$6.6 million.

This improvement was largely driven by the operating efficiencies delivered by the key businesses within Complementary Services, namely the Australian Defence Force contract, Telehealth and Diversified Consumer Business, which represent 88% of the ongoing businesses' revenue.

The strategic review of the various businesses within Complementary Services continues, as part of driving further performance improvements.

## Investment Income

Investment income fell from \$64.7 million to \$43.4 million, primarily due to relatively lower returns from equity markets and lower interest rates compared to the prior corresponding period. A revised strategic asset allocation was implemented during the period which saw an increase in the targeted allocation to growth assets from 17% to 25%.

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<sup>4</sup> 1H14 gross profit adjusted downwards by a net \$3 million to reflect the impact of outstanding claims releases, changes in accounting for the bonus provision and the increase in the risk margin on outstanding claims from 5.0% to 7.7%. 1H15 gross profit adjusted downwards by a net \$14 million to reflect the impact of outstanding claims release.

<sup>5</sup> Excludes the Immigration Contract (not renewed with effect from July 2014) and the dental and eyewear practice (divested June 2014)

## Capital

Health Insurance related capital as at 31 December 2014 was \$773.6 million, which represents approximately 12.6% of premium revenue, which is within the Board's stated target range of 12% to 14%.

## Outlook

Management expects health insurance industry headwinds to continue with rising healthcare costs challenging affordability for customers, resulting in further product downgrades and churn.

Medibank will continue to address these challenges by focussing on membership growth through its two-brand strategy, product design, ongoing health cost leadership initiatives and continued control of management expenses.

The pro forma full year profit result is expected to be skewed towards the first half, primarily due to the claims provision release and timing of management expenses.

Subject to investment market conditions, Medibank is on track to meet statutory \$250.9 million and pro forma \$258.2 million NPAT forecasts in relation to FY15, excluding the benefit of an estimated \$10 million release of the 30 June 2014 claims provision (net of risk equalisation and tax).

The Board confirms its current intention is to pay the first dividend as a public company in September 2015, subject to forecasts being achieved and other relevant factors.

## Investor Briefing

As previously advised, at 9.30am (AEDT) today Medibank will conduct an investor briefing on the 1H15 results. The associated investor presentation has today been lodged with the ASX and is available, along with access to the webcast of the briefing, on Medibank's website at <http://www.medibank.com.au/about/investor-centre/results-reports>.

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## About Medibank:

Medibank is Australia's largest private health insurer, providing private health insurance to nearly 3.9 million people through its Medibank and ahm brands. Customers can access Medibank's products and services through over 90 retail stores, as well as digital and telephone platforms. Medibank also provides a range of complementary healthcare services including healthcare management services for government and corporate clients, online and telephone-based health services and the distribution of travel, life and pet insurance. Medibank employs more than 3,000 people and is headquartered in Melbourne. Medibank listed on the Australian Securities Exchange in November 2014.

## APPENDIX:

### SUMMARY OF FINANCIAL RESULTS

Six months ended 31 December (\$ million)	Pro forma <sup>6</sup>		Change %
	1H14	1H15	
<b>Group:</b>			
Revenue	3,148.5	3,269.7	3.8
Health Insurance operating profit	126.5	173.5	37.1
Complementary Services operating profit	14.5	7.2	(50.3)
<b>Segment operating profit</b>	<b>141.0</b>	<b>180.7</b>	<b>28.1</b>
Corporate overheads	(11.8)	(10.9)	(7.6)
<b>Total operating profit</b>	<b>129.1</b>	<b>169.7</b>	<b>31.4</b>
Net investment income	64.7	43.4	(33.0)
Other income/(expenses)	(2.9)	(0.4)	(86.2)
<b>Profit before tax</b>	<b>190.9</b>	<b>212.6</b>	<b>11.4</b>
Income tax expense	(54.4)	(61.4)	12.9
<b>NPAT</b>	<b>136.5</b>	<b>151.2</b>	<b>10.8</b>
Implied EPS (cents)	5.0	5.5	10.8
Annualised return on equity	n/a	20.3%	n/a
<b>Health Insurance:</b>			
Premium revenue	2,797.4	2,943.3	5.2
Net claims expense (incl. risk equalisation)	(2,413.9)	(2,535.1)	5.0
Gross profit	383.5	408.2	6.4
<i>Gross margin (%)</i>	<i>13.7%</i>	<i>13.9%</i>	<i>20bps</i>
Management expenses	(257.0)	(234.7)	(8.7)
<i>MER (%)</i>	<i>9.2%</i>	<i>8.0%</i>	<i>(120bps)</i>
Operating profit	126.5	173.5	37.1
<i>Operating margin (%)</i>	<i>4.5%</i>	<i>5.9%</i>	<i>140bps</i>

<sup>6</sup> Consistent with the Prospectus, pro forma financial information is derived from the statutory consolidated income statement adjusted to reflect the half year of corporate costs as a publically listed entity and the exclusion of the one-off costs of the IPO and certain significant and other items.

## GROUP NPAT RECONCILIATION: STATUTORY TO PRO FORMA

Six months ended 31 December (\$ million)	1H14	1H15	Change %
<b>Statutory NPAT</b>	<b>71.0</b>	<b>143.8</b>	<b>102.5</b>
Impairment expenses <sup>7</sup>	80.0	-	n/a
IPO transaction costs <sup>8</sup>	-	5.8	n/a
1H14 risk margin adjustment <sup>9</sup>	(15.8)	-	n/a
Other <sup>10</sup>	1.3	1.6	n/a
<b>Pro forma NPAT</b>	<b>136.5</b>	<b>151.2</b>	<b>10.8</b>

<sup>7</sup> Write-down of goodwill associated with the Telehealth business.

<sup>8</sup> IPO transaction costs net of IPO reimbursement income (post tax).

<sup>9</sup> A risk margin is generally required above the central estimate for outstanding claims. The risk margin estimated at the time of preparation of the 31 December 2013 consolidated interim financial report was \$15.8m. When this report was approved in August 2014 there was no risk margin booked as the passage of time between the balance date and approval of the report allowed for certainty in deriving the central estimate.

<sup>10</sup> Melbourne premises establishment costs, accounting change and deferred acquisition costs, public company costs, removal of dental and eyecare loss.