

19 August 2016

FULL YEAR (FY16) RESULTS

Medibank net profit up to \$417.6 million
\$5.1 billion paid on behalf of our customers

Medibank Private Limited (Medibank) (ASX: MPL) today announced its results for the year ended 30 June 2016 (FY16).

Results Overview

- Group NPAT of \$417.6 million, up 46.4% from \$285.3 million in FY15
- Final dividend of 6.0 cents per share, fully franked
- Health Insurance
 - \$5.1 billion paid on behalf of our customers
 - Increase in operating profit to \$510.7 million, reflecting continued focus on health claims management and lower growth in industry-wide hospital utilisation rates
 - Premium revenue growth of 4.0%
 - Gross margin at 16.6%
 - Management expense ratio (MER) at 8.4%
- Complementary Services operating profit up to \$24.8 million
- Investment income down to \$59.3 million due to lower equity markets

Commenting on his first result since commencing on 4 July 2016, Chief Executive Officer Craig Drummond said that the solid 2016 result reflected Medibank's commitment to finding efficiency in healthcare services and making continued progress on management costs.

Lower than expected growth this year in hospital utilisation rates across the industry has also contributed to the growth in profit. However, revenue growth remained soft due to underperformance of the Medibank brand and a slowing market.

"While Medibank has paid \$5.1 billion in claims this year on behalf of our customers, some challenges remain with the value we offer to our customers. What is clear is that we need to put our customers at the centre of everything we do. Customers' needs and outcomes have to be our number one priority.

"To deliver on this we will need to increase our investment in our customer service and product offering. We know that we need to do more, and that we need to be easier to deal with. Key to this is the implementation of our new core policy management system, Project DelPHI. Despite initial implementation issues, we expect that in 2017 this system will be fully operational and will deliver a significant improvement to our customer experience.

"It is important to recognise that despite these challenges our business is strong. We have a healthy balance sheet and a leading market position. Our challenge is to improve our customer offering, to make the right investments and to ensure that our customers experience meaningful and positive change in our relationship and the way we service them. As a result, in 2017 net promoter score measurement will be introduced into the determination of management incentives to ensure that we remain completely focused on our customers," Mr Drummond said.

Group

Group NPAT was up 46.4% to \$417.6 million (FY15: \$285.3 million), due primarily to the improved operating profit of the Health Insurance business.

Health Insurance

Health Insurance operating profit increased to \$510.7 million, up from \$332.2 million in FY15, reflecting the continued focus on health claims management and lower growth in industry-wide hospital utilisation rates. While health claims rose to a record \$5.1 billion for the year, the rate of growth was limited to 1.0%. Gross margin increased from 14.2% to 16.6%.

Health Insurance premium revenue was up 4.0% to \$6,172.5 million. Industry growth continued to slow amid ongoing affordability challenges from the passing on of rising costs. Growth was impacted by below market performance in both the acquisition and lapse of members. While Medibank brand volumes were down, the ahm brand continued to grow, albeit at a slower rate. Member switching between health insurers increased further in the period and the Medibank brand's underperformance in this segment was the largest contributor to the market share reduction in 2016.

Management expenses were up 1.2% to \$516.0 million, reflecting continued investment in enhancing operational capability, as well as increased reinvestment in marketing. Additional operating efficiencies drove the reduction of the MER from 8.6% in FY15 to 8.4% in FY16.

Complementary Services

Complementary Services revenue declined 11.2% to \$569.3 million, however operating profit rose 74.6% to \$24.8 million, primarily due to the divestment of underperforming businesses and a solid result from ongoing businesses. **Following completion of a strategic review in 2015, Medibank's Workplace Health and Travel Doctor businesses were sold in October 2015.**

Investment Income

Investment income fell to \$59.3 million in FY16 due to relatively lower equity market returns, as well as lower interest rates compared to the prior corresponding period.

Capital

Health Insurance related capital as at 30 June 2016 was \$816.1 million, representing approximately 12.7% of premium revenue, which is within the Board's stated target range of 12% to 14%.

Dividend

The Board has declared a final dividend of 6.0 cents per share, fully franked, bringing the full year FY16 dividend to 11.0 cents per share. This represents a final payout ratio of 71.7% of underlying NPAT, in line with the FY16 full year target payout ratio of 70-75% of underlying NPAT. The Board remains committed to an ongoing full year target payout ratio between 70-80% of annual underlying NPAT.

Health Insurance Outlook

The FY17 Health Insurance operating result is expected to be impacted by a variety of factors, including:

Premium growth

- Slowing market growth reflecting slowing population growth but relatively steady health insurance participation rate
- Continued market share loss, following weak 2H16
- 2016 rate rise (5.64%) significantly lower than in 2015 (6.59%)

Operating margin

- Industry conditions in FY17 likely to be more comparable to 2H16 than 1H16, with further normalisation of the growth in hospital utilisation rates
- Incremental benefits from the payment integrity program
- Accumulating benefits from hospital contracting
- Increased investment in value for customers, the customer experience and organisational capability.

Investor Briefing

Medibank will conduct an investor briefing on the FY16 results today at 9.30am (AEST). The associated investor presentation will be 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 Private Limited is Australia's leading private health insurer, with close to 40 years of experience delivering better health to all Australians. We look after the unique and individual health cover needs of 3.8 million members through our Medibank and ahm brands and deliver a wide range of programs to support health and wellbeing in the community. Members can access our products and services via an extensive retail, online or telephone network. We also deliver a range of complementary services including health management for government and other clients, and distribute travel, life and pet insurance. We are a strong advocate for a sustainable private health system that delivers value, transparency and affordability. Medibank Private Limited is listed on the Australian Securities Exchange and is headquartered in Melbourne. For more information, visit www.medibank.com.au

APPENDIX:

SUMMARY OF FINANCIAL RESULTS

Financial year ended 30 June (\$ million)	2016	2015	Change
Group:			
Revenue	6,741.8	6,576.0	2.5%
Health Insurance operating profit	510.7	332.2	53.7%
Complementary Services operating profit	24.8	14.2	74.6%
Segment operating profit	535.5	346.4	54.6%
Corporate overheads	(30.0)	(33.6)	(10.7)%
Total operating profit	505.5	312.8	61.6%
Net investment income	59.3	93.8	(36.8)%
Other income/(expenses)	(18.5)	(10.0)	85.0%
Profit before tax	546.3	396.6	37.7%
Income tax expense	(128.7)	(111.3)	15.6%
Net profit after tax (NPAT)	417.6	285.3	46.4%
EPS (cents)	15.2	10.4	46.4%
Dividend	11.0	5.3	n.m.
Health Insurance:			
Premium revenue	6,172.5	5,934.8	4.0%
Net claims expense (incl. risk equalisation)	(5,145.8)	(5,092.8)	1.0%
Gross profit	1,026.7	842.0	22.0%
<i>Gross margin (%)</i>	<i>16.6%</i>	<i>14.2%</i>	<i>240bps</i>
Management expenses	(516.0)	(509.8)	1.2%
<i>MER (%)</i>	<i>8.4%</i>	<i>8.6%</i>	<i>(20bps)</i>
Operating profit	510.7	332.2	53.7%
<i>Operating margin (%)</i>	<i>8.3%</i>	<i>5.6%</i>	<i>270bps</i>