

21 August 2015

FULL YEAR (FY15) RESULTS – MEDIA RELEASE

Medibank delivers result ahead of Prospectus earnings forecast having paid record health benefits for its members

Medibank Private Limited (Medibank) (ASX: MPL) today announced its results for the year ended 30 June 2015 (FY15), its first annual financial result since listing on the Australian Securities Exchange (ASX) on 25 November 2014.

Results Overview

- Pro forma¹ Group NPAT of \$291.8 million, 13.0% ahead of Prospectus forecast and up 12.9% on FY14
- Inaugural dividend of 5.3 cents per share, fully franked, ahead of Prospectus forecast
- Health Insurance
 - Record \$5.1 billion paid in member benefits
 - 33.8% increase in operating profit reflects the focus on improved claims management processes and management expense improvements
 - Premium revenue growth of 5.1% (lower than Prospectus forecast) was impacted by cover reductions and changes to sales mix
 - Gross margin improved to 14.2%
 - Management expense ratio (MER) down to 8.6%
- Investment income of \$93.8 million, ahead of Prospectus forecast

Commenting on the result, Managing Director George Savvides, said, “We are pleased to report our first annual result as a listed company, delivering ahead of our prospectus earnings and dividend forecasts. While there have been changes associated with our transition to being a publicly listed company, our purpose of delivering high quality, affordable healthcare for our members remains unchanged. This year we paid out a record \$5.1 billion in member benefits and supported our members through over 400,000 surgeries, more than 1.2 million admissions to hospital and over 27 million ancillary services, including dental, optical, physio and chiro.

“We continue to focus on improving our claims management processes, minimising our management overheads and improving our hospital contracting to keep health insurance affordable for our members and to deliver value to our shareholders.

“As an industry it is important that we focus on both quality and affordability to ensure that we maintain a strong and sustainable Australian healthcare system.”

¹ Consistent with the Prospectus, pro forma financial information is derived from the statutory consolidated income statement adjusted for the one-off costs of the IPO and certain significant and other items.

Group

Pro forma group NPAT was up 12.9% to \$291.8 million (FY14: \$258.5 million), due primarily to the improved operating profit of the Health Insurance business. Statutory group NPAT was up to \$285.3 million (FY14: \$130.8 million). The FY14 result was impacted by \$121.0 million (post-tax) of non-recurring impairment and reorganisation expenses.

The commentary below relates to the pro forma financial results.

Health Insurance

Health Insurance operating profit increased 33.8% to \$329.3 million, with operating margin up from 4.4% to 5.5%. This reflected a strong focus on claims management processes and further reductions in management expenses.

Health Insurance premium revenue was up 5.1% to \$5,934.8 million, which was below Prospectus forecast. Lapse was impacted by Medibank-driven product management as product repositioning and optimisation programs were progressed, while the ahm brand continued to deliver strong volume growth. Gross margin increased from 13.5% to 14.2%. This result also benefited from a better claims outcome than provided for in the 30 June 2014 claims provision.

Management expenses were down 1.1% to \$512.6 million, reflecting continued progress on the cost reduction program. The MER of 8.6% was down from 9.2% in the prior year.

Complementary Services

Complementary Services revenue declined 10.7% to \$641.2 million and operating profit declined 57.7% to \$14.2 million, primarily reflecting the non-renewal of the Immigration Contract with effect from July 2014. Excluding the impact of the non-renewal of the Immigration Contract, revenue was down 1.6% to \$638.5 million and operating profit increased from \$11.5 million to \$13.5 million due to increased operating efficiencies.

The strategic review of the Complementary Services segment is complete, with management now focused on driving further performance improvements in FY16.

Investment Income

Investment income of \$93.8 million was ahead of the Prospectus forecast of \$89.7 million due to favourable currency movements. Investment income fell from \$113.9 million in FY14 due to relatively lower equity market returns and lower interest rates compared to the prior corresponding period. A revised strategic asset allocation was implemented during the period which increased the targeted allocation to growth assets from 17% to 25%.

Capital

Health Insurance related capital as at 30 June 2015 was \$774.0 million, representing approximately 12.3% of premium revenue, which is within the Board's stated target range of 12% to 14%.

Dividend

The Board has declared Medibank's inaugural dividend as a publicly listed company in respect of the seven-month period from 1 December 2014 to 30 June 2015. The inaugural dividend is 5.3 cents per share, fully franked. This implies a full year dividend of 7.4 cents per share (inclusive of the pre-IPO dividend to the Commonwealth) and represents a payout ratio of 70%.

Health Insurance Outlook

The following outlook relates to the company's Health Insurance business.

- Premium revenue growth target above 5.5% in FY16
- Management expense ratio target of 8.3% in FY16 and below 8.0% in FY17
- Health Insurance operating profit target above \$370 million in FY16

Investor Briefing

As previously advised, at 11.30am (AEST) today Medibank will conduct an investor briefing on the FY15 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>.

Further enquiries:

For media

Colin Neathercoat
Senior Corporate Affairs Manager
Tel: 03 8622 5553 | Mob: 0412 076 622
Email: colin.neathercoat@medibank.com.au

For investors/analysts

Chris Richardson
General Manager, Investor Relations
Tel: 03 8622 5834 | Mob: 0410 728 427
Email: chris.richardson@medibank.com.au

About Medibank:

Medibank is Australia's largest private health insurer, providing private health insurance to approximately 3.9 million people through its Medibank and ahm brands. Customers can access Medibank's products and services through 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 approximately 3,000 people and is headquartered in Melbourne. Medibank listed on the Australian Securities Exchange in November 2014.

APPENDIX:

SUMMARY OF FINANCIAL RESULTS

Financial year ended 30 June (\$ million)	Pro forma ²		Change %
	2015	2014	
Group:			
Revenue	6,576.0	6,367.1	3.3
Health Insurance operating profit	329.3	246.2	33.8
Complementary Services operating profit	14.2	33.6	(57.7)
Segment operating profit	343.5	279.8	22.8
Corporate overheads	(23.5)	(24.5)	(4.1)
Total operating profit	320.0	255.3	25.3
Net investment income	93.8	113.9	(17.6)
Other income/(expenses)	(8.0)	(8.1)	(1.2)
Profit before tax	405.8	361.1	12.4
Income tax expense	(114.0)	(102.6)	11.1
NPAT	291.8	258.5	12.9
EPS ³ (cents)	10.6	9.4	12.9
Dividend⁴	5.3		
Health Insurance:			
Premium revenue	5,934.8	5,648.7	5.1
Net claims expense (incl. risk equalisation)	(5,092.9)	(4,884.3)	4.3
Gross profit	841.9	764.4	10.1
<i>Gross margin⁵ (%)</i>	<i>14.2%</i>	<i>13.5%</i>	<i>70bps</i>
Management expenses	(512.6)	(518.2)	(1.1)
<i>MER⁵ (%)</i>	<i>8.6%</i>	<i>9.2%</i>	<i>(50bps)</i>
Operating profit	329.3	246.2	33.8
<i>Operating margin⁵ (%)</i>	<i>5.5%</i>	<i>4.4%</i>	<i>120bps</i>

² 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 publicly listed entity and the exclusion of the one-off costs of the IPO and certain significant items.

³ Assumes 2,754,003,240 shares on issue for the entire period

⁴ The inaugural dividend for FY15 is payable in respect of the seven-month period from 1 December 2014 to 30 June 2015

⁵ Numbers may not add due to rounding

GROUP NPAT RECONCILIATION: STATUTORY TO PRO FORMA

Financial year ended 30 June (\$ million)	2015	2014	Change %
Statutory NPAT	285.3	130.8	118.1
Impairment expenses ⁶	-	96.4	-
Net IPO transaction costs ⁷	5.6	2.4	133.3
Reorganisation expenses ⁸	-	24.6	-
Other ⁹	0.9	4.3	(79.1)
Pro forma NPAT	291.8	258.5	12.9

⁶ Primarily in relation to write-down of goodwill associated with the Telehealth business.

⁷ IPO transaction costs net of IPO reimbursement income (post tax).

⁸ The adjustment in FY14 reflects the removal of the costs incurred in relation to the reorganisation within Complementary Services primarily due to the non-renewal of the Immigration Contract.

⁹ Melbourne premises establishment costs, accounting change in deferred acquisition costs, public company costs, removal of dental and eyecare loss.