

MEDIBANK

2015 Half Year Results

20 February 2015

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GROUP SUMMARY

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ON TRACK TO DELIVER PROSPECTUS EARNINGS FORECAST

- Group NPAT on a Pro forma basis up 10.8% to \$151.2m
- Health Insurance:
 - Premium revenue up 5.2% – Principal Policyholders up 0.9%
 - Gross margin up from 13.7% to 13.9% assisted by claims provision release¹
 - Management expense cost down – MER improved from 9.2% to 8.0% due to continued cost reductions, and marketing and project spend being skewed to second half
 - Operating profit up 37.1% to \$173.5m
 - 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 interest rates
- Health Insurance related capital at 12.6% of premium revenue, within targeted range of 12% to 14%
- On track to deliver FY15 Prospectus NPAT forecast, excluding the benefit of an estimated \$10m release of claims provision (net of risk equalisation and tax)¹
- Confirm current intention to pay first dividend in September 2015

1. 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, \$21.8m 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 \$14m before tax (or \$10m after tax)

GROUP FINANCIAL SUMMARY

PRO FORMA

Six months ended 31 Dec – Pro forma ¹ (\$m)	1H14	1H15	Change %
Revenue	3,148.5	3,269.7	3.8
Health Insurance operating profit	126.5	173.5	37.1
Complementary Services operating profit ²	14.5	7.2	(50.3)
Segment operating profit	141.0	180.7	28.1
Corporate overheads	(11.8)	(10.9)	(7.6)
Total operating profit	129.1	169.7	31.4
Net investment income	64.7	43.4	(33.0)
Other income/(expenses)	(2.9)	(0.4)	(86.2)
Profit before tax	190.9	212.6	11.4
Income tax expense	(54.4)	(61.4)	12.9
NPAT	136.5	151.2	10.8
Implied EPS ³ (cents)	5.0	5.5	10.8
Return on equity ⁴	n/a	20.3%	n/a

1. 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
2. See page 14 for further detail
3. Assumes 2,754,003,240 shares on issue for the entire period
4. Calculated by dividing Pro forma NPAT for the 12 months ended 31 December 2014 by the average of total equity as at 31 December 2013 and 31 December 2014

GROUP NPAT RECONCILIATION:

STATUTORY TO PRO FORMA

Six months ended 31 Dec (\$m)	1H14	1H15	Change %
Statutory NPAT	71.0	143.8	102.5
Impairment expenses ¹	80.0	-	n/a
Net IPO transaction costs ²	-	5.8	n/a
1H14 risk margin adjustment ³	(15.8)	-	n/a
Other ⁴	1.3	1.6	n/a
Pro forma NPAT	136.5	151.2	10.8

1. Write-down of goodwill associated with the Telehealth business
2. IPO transaction costs net of IPO reimbursement income (post tax)
3. 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
4. Melbourne premises establishment costs, accounting change and deferred acquisition costs, public company costs, removal of dental and eyecare loss

A photograph of a modern office interior. A large white sign with the 'medibank' logo in red and blue is suspended from the ceiling. The office has glass walls, red and black partitions, and recessed ceiling lights. A person is partially visible on the right side of the frame.

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HEALTH INSURANCE

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HEALTH INSURANCE RESULT

CONSTRAINED REVENUE GROWTH OFFSET BY MARGIN IMPROVEMENT

- Premium revenue growth slowed reflecting product downgrading and slight decline in market share
- Continued industry-wide product downgrading and churn in response to rising healthcare costs challenging affordability for consumers
- Health cost leadership initiatives delivering results
- Gross margin assisted by release of claims provision
- Good progress on management cost reduction initiatives
- 1H15 MER further benefited from planned timing differences

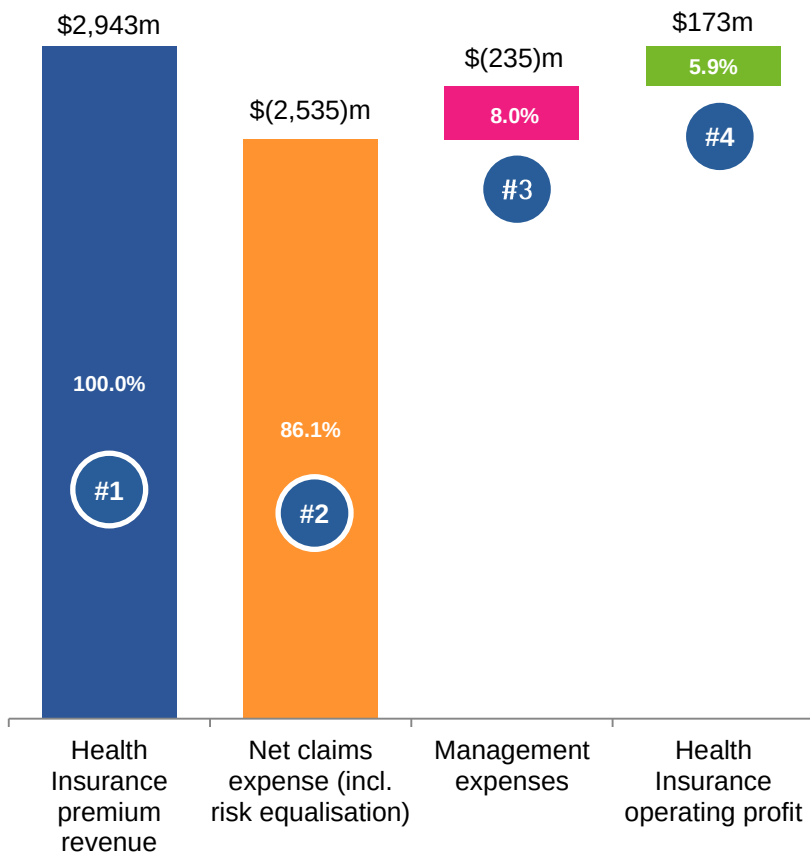
Six months ended 31 Dec – Pro forma (\$m)	1H14	1H15	Change %
Premium revenue	2,797.4	2,943.3	5.2
Net claims expense (incl. risk equalisation)	(2,413.9)	(2,535.1)	5.0
Gross profit	383.5	408.2	6.4
Management expenses	(257.0)	(234.7)	(8.7)
Operating profit	126.5	173.5	37.1
Gross margin¹ (%)	13.7%	13.9%	20bps
MER¹ (%)	9.2%	8.0%	(120bps)
Operating margin¹ (%)	4.5%	5.9%	140bps

1. Includes Australian residents, OSHC and OVHC. The gross margin for Australian residents only was 13.1% in 1H14 and 13.3% in 1H15, the MER for Australian residents only was 8.8% in 1H14 and 7.7% in 1H15, and the operating margin for Australian residents only was 4.3% in 1H14 and 5.7% in 1H15

DRIVERS OF HEALTH INSURANCE RESULT

FOCUS ON PROFITABLE GROWTH

1H15 Pro forma Health Insurance operating profit



Drivers of Health Insurance result

#1

Premium revenue

- Population growth
- Policyholder retention and growth
- Premium rate rises
- Downgrading / rebate erosion

1H15 Pro forma
Health Insurance metrics

Premium revenue growth of 5.2%

#2

Claims management

- Product design
- Contract negotiation / procurement
- Benefit utilisation
- Cost inflation

Gross margin up to 13.9%¹

#3

Management expenses

- Operational efficiencies
- Cost reductions

Management expenses down 8.7%¹

MER down to 8.0%¹

#4

Operating profit

Operating profit up 37.1%¹

Operating margin up to 5.9%¹

1. Refer pages 10-12 for commentary on one-off and strategic timing differences impacting 1H15 margins

POLICYHOLDERS

MEMBERSHIP GROWTH...BEING PROACTIVELY MANAGED

- Industry growth slowed and churn increased
- Continued focus on Medibank brand share
 - Improved customer satisfaction
 - Call centre revamp
 - Increased investment in retention
 - Primary focus on sustainable profitable growth
- ahm brand well positioned and continues strong growth
 - Increased proportion of sales through company direct channels
 - Passed 500,000 members, up 53% since acquisition in 2009
- Downgrading impacted growth in revenue per PSEU

Six months to 31 Dec	1H14	1H15	Change %
Principal Policyholders¹ (thousand):	1,818.4	1,834.6	0.9
- Medibank-branded policies	1,613.0	1,589.0	(1.5)
- ahm-branded policies	205.4	245.6	19.6
Acquisition rate (%)^{2,3}	5.4%	5.2%	(20bps)
- Medibank-branded policies	4.4%	4.0%	(40bps)
- ahm-branded policies	15.3%	15.5%	20bps
Lapse rate (%)^{2,3}	4.6%	5.0%	40bps
- Medibank-branded policies	4.5%	4.9%	40bps
- ahm-branded policies	6.8%	6.9%	10bps
Principal Policyholder growth (%)	0.8%	0.3%	(50bps)
Total members ¹ (thousand)	3,870.2	3,890.6	0.5
Total PSEUs ¹ (thousand)	4,824.0	4,856.5	0.7
Annualised average revenue per PSEU (\$)	1,163.3	1,213.3	4.3

1. Principal Policyholder numbers only include resident business whereas total members and total PSEUs includes both resident and non-resident business (i.e. OSHC and OVHC)
2. Consolidated lapse and acquisition rates exclude transfers of Principal Policyholders between ahm and Medibank at a combined brand level. Figures at brand level include these transfers
3. Lapse and acquisition rates are based on the average of the opening and closing balances for the period

HEALTH CLAIMS COSTS

PNIC DELIVERING; NORMALISED GROSS MARGIN SLIGHTLY DOWN

- Health claims costs industry-wide continue to be driven by
 - Increasing hospital utilisation rates
 - Health cost contract inflation
- Low claims growth influenced by
 - Improved health cost management
 - Low membership growth
 - Product downgrading
- Risk equalisation receipt down as a consequence of growth in ahm
- Excluding impact of provision release and accounting adjustments, gross margin slightly down from 13.6% to 13.4%¹

Six months ended 31 Dec – Pro forma (\$m)	1H14	1H15	Change %
Claims expense	(2,468.7)	(2,568.9)	4.1
Risk equalisation	54.8	33.8	(38.3)
Net claims expense (incl. risk equalisation)	(2,413.9)	(2,535.1)	5.0
Annualised net claims expense per PSEU (\$)	(1,003.8)	(1,045.1)	4.1
Gross margin (%)	13.7%	13.9%	20bps

1. 1H14 gross profit adjusted downwards by a net \$3m 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 \$14m to reflect the impact of outstanding claims release. Also refer to footnote on page 4 for further explanation

MANAGEMENT EXPENSES

CONTINUED REDUCTION IN MER

- Continued reduction in management expenses and MER due to the cost reduction program
 - Employee costs down
 - Improved efficiency
- Management expense reduction assisted by planned timing differences
 - Phasing of marketing
 - Project spend skewed to second half
- Ongoing investment in strategic areas to enhance capability (eg. PNIC, IT renewal program)
- Full year expectation for MER slightly better than Prospectus forecast of 8.7%

Six months ended 31 Dec – Pro forma (\$m)	1H14	1H15	Change %
Premium revenue	2,797.4	2,943.3	5.2
Management expenses	(257.0)	(234.7)	(8.7)
MER (%)	9.2%	8.0%	(120bps)



COMPLEMENTARY SERVICES

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COMPLEMENTARY SERVICES

ONGOING BUSINESSES PROFIT UP; STRATEGIC REVIEW CONTINUES

- Ongoing businesses¹ revenue was flat at \$328m and operating profit up from \$3.3m to \$6.6m
- Improvement largely driven by operating efficiencies in the key businesses
 - ADF Health Services Contract, Telehealth, Diversified Consumer Businesses represent 88% of the ongoing businesses' revenue
 - Corporate Health Services performance below expectations
- Strategic review of the various businesses within Complementary Services continues, as part of driving further performance improvements

Six months ended 31 Dec – Pro forma (\$m)

	1H14	1H15	Change %
Revenue	368.8	331.5	(10.1)
Gross profit	92.6	68.0	(26.6)
Management expenses	(78.1)	(60.8)	(22.2)
Operating profit	14.5	7.2	(50.3)
Operating margin (%)	3.9%	2.2%	(170bps)

1. Excludes the Immigration Contract (not renewed with effect from July 2014) and the dental and eyewear practice (divested June 2014)

A group of cyclists are racing on a road, passing under a large red and white inflatable archway. The archway features the medibank logo and the tagline "For Better Health". The cyclists are wearing various team jerseys, including BMC and others. In the background, there are residential houses and a yellow road sign. The scene is set on a paved road with a white line marking.

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INVESTMENT PORTFOLIO & CAPITAL

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INVESTMENT PORTFOLIO

GROWTH ASSET ALLOCATION INCREASED TO 25%

- Revised strategic asset allocation implemented during the period
- Growth asset allocation target increased from 17% to 25%
- FX hedge on international equities reduced to 50%

As at 31 Dec 2014	Balance (\$m)	Portfolio composition	Previous target asset allocation	Current target asset allocation
Australian equities	121.3	6.5%	5.5%	6.0%
International equities	158.2	8.5%	3.5%	8.0%
Property	112.2	6.0%	5.0%	8.0%
Infrastructure	68.0	3.7%	3.0%	3.0%
Growth	459.7	24.7%	17.0%	25.0%
Fixed income	965.4	51.9%	38.0%	50.0%
Cash	434.2 ¹	23.4%	45.0%	25.0%
Defensive	1,399.6	75.3%	83.0%	75.0%
Total	1,859.3	100.0%	100.0%	100.0%

1. Excludes cash held for day to day to operations of the business (\$36.6m)

INVESTMENT INCOME

BROADLY ON TRACK AT THE HALF

- Investment income down primarily due to relatively lower returns from equity markets and lower interest rates
- Relative to Prospectus forecasts:
 - Outperformance from unhedged international equities (Growth) given AUD decline
 - Underperformance primarily in relation to absolute return funds (Defensive)

Six months ended 31 Dec – Pro forma (\$m)	1H14	1H15	Change %
Average monthly balance:			
Growth	398.0	463.7	16.5
Defensive	1,665.4	1,644.6	(1.2)
Total average monthly balance	2,063.4	2,108.3	2.2
Net investment income¹:			
Growth	31.2	22.7	(27.2)
Defensive	36.0	23.2	(35.5)
Investment expenses	(2.4)	(2.5)	2.9
Total net investment income	64.7	43.4	(33.0)
Net return:			
Growth	7.8%	4.9%	(37.5)
Defensive	2.2%	1.4%	(34.7)
Total net return	3.1%	2.1%	(34.4)
Annualised investment yield (%)	6.2%	4.2%	200bps

1. The sum of net unrealised investment portfolio gains/(losses) and realised investment portfolio gains/(losses) for the period net of costs

CAPITAL

HEALTH INSURANCE RELATED CAPITAL WITHIN TARGET RANGE

- Health Insurance related capital of 12.6% of premium revenue within targeted range of 12% to 14%
- Capital position reflects the approximate full cost of product bonus additions in the second half

(\$m)	30 Jun 2014	31 Dec 2014
Total equity	1,393.9	1,298.9
Total qualifying subordinated debt	-	-
Total capital	1,393.9	1,298.9
Less: Intangible and illiquid assets	(356.0)	(367.1)
Total tangible and liquid assets	1,037.9	931.8
Less: Allowance for declared but unpaid dividends to Commonwealth	(180.0)	-
Less: Allowance for approximate cost of product bonus additions ¹	-	(41.0)
Total tangible and liquid capital after allowance for declared but unpaid dividends	857.9	890.8
Comprises:		
Health Insurance – related capital	745.0	773.6
Other capital	112.9	117.2
Health Insurance – related capital (%)	12.4%	12.6%²

- 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
- Calculated as \$773.6m of Health Insurance related capital divided by an estimate for the next 12 months Health Insurance premium revenue



OTHER FINANCIAL INFORMATION

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FINANCIAL SUMMARY: GROUP

CORPORATE OVERHEADS, OTHER EXPENSES, TAX

- Corporate overheads skewed to second half due primarily to costs of being a listed entity
- Other income one-off in nature, offset by \$8.8m of amortisation of customer contracts and acquired software
- Effective tax rate 29%

Six months ended 31 Dec – Pro forma (\$m)		1H14	1H15	Change %
Segment operating profit		141.0	180.7	28.1
Corporate overheads		(11.8)	(10.9)	(7.6)
Total operating profit		129.1	169.7	31.4
Net investment income		64.7	43.4	(33.0)
Other income/(expenses)		(2.9)	(0.4)	(86.2)
Profit before tax		190.9	212.6	11.4
Income tax expense		(54.4)	(61.4)	12.9
NPAT		136.5	151.2	10.8

BALANCE SHEET

STRONG, DEBT FREE BALANCE SHEET

- Seasonal prepayments mean that most comparable balance sheet is 31 December 2013
- Non-current trade and other payables increase primarily due to lease incentive with respect to new Melbourne head office
- Significant cash decrease from 30 June 2014 primarily due to \$238.8m dividend paid to the Commonwealth pre IPO and change in strategic asset allocation
- Balance sheet remains debt free

- Includes inventories, other assets and assets held for sale
- Other and deferred tax assets
- Includes provisions and tax liability

(\$m)	31 Dec 2013	30 Jun 2014	31 Dec 2014	Change vs 31 Dec 2013 (%)
Cash and cash equivalents	752.7	708.0	470.8	(37.5)
Financial assets at fair value through profit or loss	1,135.9	1,490.6	1,425.5	25.5
Trade and other receivables	319.8	338.6	301.8	(5.6)
Deferred acquisition costs	4.2	11.3	14.9	255.8
Other ¹	15.6	9.0	20.9	35.4
Current assets	2,228.3	2,557.5	2,233.9	0.3
Property, plant and equipment	115.2	138.0	123.5	7.2
Intangible assets	262.8	243.5	252.7	(3.8)
Deferred acquisition costs	18.7	26.7	31.1	66.1
Other ²	1.5	8.6	3.5	139.7
Non-current assets	398.2	416.8	410.8	3.2
Total assets	2,626.4	2,974.3	2,644.7	0.7
Trade and other payables	257.7	345.1	272.2	5.6
Claims liability	338.4	380.6	362.3	7.1
Unearned premium liability	460.1	621.4	484.3	5.3
Other ³	87.4	116.8	85.1	(2.6)
Current liabilities	1,143.6	1,463.9	1,203.9	5.3
Claims liability	13.1	26.5	19.4	48.1
Unearned premium liability	39.1	43.5	44.4	13.6
Provisions	33.3	45.2	41.5	24.6
Trade and other payables	1.3	1.3	36.6	2,715.4
Non-current liabilities	86.8	116.5	141.9	63.5
Total liabilities	1,230.4	1,580.4	1,345.8	9.4
Net assets	1,396.0	1,393.9	1,298.9	(7.0)

CASH FLOW

HEAVY SKEW TO SECOND HALF

- Change in operating assets and liabilities typically negative in first half and positive in second half as premium prepayments generally made in second half
- Majority of capex in 1H15 due to IT renewal program (1H14 majority due to building fitout)
- Decrease in sale of investments primarily due to higher funding requirement for dividends to the Commonwealth in 1H14

Six months ended 31 Dec (\$m)	1H14	1H15	Change %
Operating profit¹	69.8	154.1	120.8
Changes in working capital ²	(29.7)	(40.4)	36.0
Customer acquisition costs	(10.5)	(7.8)	(25.7)
Changes in other operating assets & liabilities	(84.5)	(183.4)	117.0
Depreciation and amortisation	20.0	19.3	(3.5)
Fit out reimbursement	-	30.4	n/a
Net cash flows from operations	(34.9)	(27.8)	(20.3)
Income tax	(35.4)	(57.1)	61.4
Capital expenditure	(58.5)	(20.5)	(64.9)
Proceeds from sale of assets	3.7	-	n/a
Net cash flows before investment related items and dividends	(125.1)	(105.4)	(15.7)
Net realised investment income	23.7	23.1	(2.6)
(Purchase) / sale of investments	337.1	83.9	(75.1)
Net cash flows before dividends	235.7	1.6	(99.3)

1. Operating profit is the statutory profit before tax adjusted to remove net investment and other income and the amortisation of acquired intangible assets

2. Working capital comprises trade and other payables, trade and other receivables, other current assets and other current liabilities



OUTLOOK

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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 focusing 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 (\$250.9m) and Pro forma (\$258.2m) NPAT forecasts in relation to FY15, excluding the benefit of an estimated \$10m release of the 30 June 2014 claims provision (net of risk equalisation and tax)¹
- 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

1. Refer footnote on page 4 for further explanation

Q&A

2015 Half Year Results

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APPENDIX

2015 Half Year Results

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CHANGE IN PRINCIPAL POLICYHOLDERS

Six months ended 31 Dec (thousand)	1H14	1H15	Change %
Opening balance (Principal Policyholders ¹)	1,803.7	1,830.0	1.5
Acquisitions ²	98.3	95.6	(2.8)
Lapses ²	83.5	91.0	8.9
Closing balance	1,818.4	1,834.6	0.9
– Acquisition rate ³	5.4%	5.2%	(20bps)
– Lapse rate ³	4.6%	5.0%	40bps
Medibank-branded policies:			
Opening balance	1,615.0	1,604.5	(0.6)
Acquisitions	70.5	63.3	(10.1)
Lapses	72.5	78.9	8.8
Closing balance	1,613.0	1,589.0	(1.5)
– Acquisition rate ³	4.4%	4.0%	(40bps)
– Lapse rate ³	4.5%	4.9%	40bps
ahm-branded policies:			
Opening balance	188.7	225.5	19.5
Acquisitions	30.2	36.4	20.7
Lapses	13.5	16.3	21.0
Closing balance	205.4	245.6	19.6
– Acquisition rate ³	15.3%	15.5%	20bps
– Lapse rate ³	6.8%	6.9%	10bps

1. Principal Policyholder numbers only include resident business whereas total members and total PSEUs includes both resident and non-resident business (i.e. OSHC and OVHC)
2. Consolidated acquisition and lapse volumes will differ to the aggregation of the brands due to the elimination of intrabrand transfers
3. Lapse and acquisition rates are based on the average of the opening and closing balances for the period

GLOSSARY

ADF Health Services Contract	The contract between the Commonwealth and Medibank Private Limited for the provision of a national integrated healthcare service to the Australian Defence Force
bps	Basis points (1.0% = 100 bps)
Commonwealth	The Commonwealth of Australia
Dec	December
EPS	Earnings per share
FY	Financial year ending 30 June 20XX
1H	6 months ending 31 December 20XX
2H	6 months ending 30 June 20XX
Immigration Contract	The contract between the Commonwealth and Medibank Private for the provision of pre-migration visa health screening services to prospective Australian migrants on behalf of the Commonwealth which expired with effect from July 2014 (with a transition period to November 2014)
MER	Management expense ratio
MPL	Medibank Private Limited
NPAT	Net profit after tax
n/a	Not applicable
OSHC	Overseas students hospital cover
OVHC	Overseas visitors hospital cover
Policyholder	A Principal Policyholder and any other individuals covered under the same PHI policy
PNIC	Provider Networks & Integrated Care
Principal 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
Pro forma	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
Prospectus	The Medibank Private Limited Prospectus dated 20 October 2014
PSEU	Policy Single Equivalent Units take into account the number of adults on a policy, and whether they have Hospital Cover or Extras Cover or both
RE	Risk equalisation