

19 February 2016

FIRST HALF (1H16) RESULTS – MEDIA RELEASE

**Medibank net profit up strongly to \$228 million
\$2.6 billion paid in member benefits**

Medibank Private Limited (Medibank) (ASX: MPL) today announced its results for the six months ended 31 December 2015 (1H16).

Results Overview

- Group NPAT of \$227.6 million, up from \$143.8 million in 1H15
- Interim dividend of 5.0 cents per share, fully franked
- Health Insurance
 - \$2.6 billion paid in member benefits – record for first half
 - Increase in operating profit to \$271.7 million, reflecting continued success of health cost leadership strategy
 - Premium revenue growth of 4.6%
 - Gross margin improved to 17.2%
 - Management expense ratio (MER) up to 8.4%
- Complementary Services operating profit up to \$9.2 million
- Investment income down to \$18.6 million due to lower equity market returns

Commenting on the result, Managing Director George Savvides said he was pleased that the business' commitment to health cost leadership initiatives had delivered an improved result that will enable Medibank to deliver more value to members.

"Medibank has been working hard to address private health insurance affordability at its source by working with hospitals and other providers to reduce waste and inefficiency in the healthcare system. Medibank members will directly benefit from the savings achieved as we invest in delivering more value to our members through enhanced product benefits and more competitive pricing."

"We are really pleased with the engagement with government and other stakeholders about healthcare reform, such as the recent announcement of the creation of a working group to look at changes to prosthetics pricing. A constructive reform agenda can support improved quality and affordability, and take pressure off future rate changes to deliver better value, better outcomes and a better healthcare experience for all Australians."

Group

Group NPAT was up 58.3% to \$227.6 million (1H15: \$143.8 million), due primarily to the improved operating profit of the Health Insurance business. The 1H16 result reflects a \$23.2 million one-off tax benefit relating to the Company's success in having a change in tax position for prior periods endorsed by the Australian Taxation Office in December 2015. This resulted in a previously unclaimed tax deduction being allowed.

Health Insurance

Health Insurance operating profit increased to \$271.7 million, up from \$171.1 million in 1H15, driven by the success of a range of health cost management initiatives.

While health benefit claims rose to a record \$2.6 billion for the half, the rate of growth was limited to 0.6%. This reflects Medibank's payment integrity program, improved hospital contracting, and product and mix changes, as well as a slowdown in the growth of hospital utilisation rates, which is expected to moderate in the second half. Gross margin increased from 13.9% to 17.2%.

Health Insurance premium revenue was up 4.6% to \$3,080.0 million. Industry growth continued to slow. Acquisition of new members was down as the business maintained its disciplined approach to profitable growth. Lapse rates were impacted by Medibank-driven product management as product repositioning and optimisation programs were progressed. The ahm brand continued to deliver good growth.

Management expenses were up 8.5% to \$257.2 million, and the MER was up from 8.1% to 8.4%. Management expenses in FY15 were more heavily weighted to the second half reflecting the timing of project and marketing spend due, in part, to the company's November 2014 float.

Complementary Services

Complementary Services revenue declined 7.9% to \$300.6 million, however operating profit rose 27.8% to \$9.2 million. This reflected changes in response to the Company's strategic review, most notably the October 2015 sale of the Workplace Health and Travel Doctor businesses.

Investment Income

Investment income fell to \$18.6 million in 1H16 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 31 December 2015 was \$818.7 million, representing approximately 12.8% of premium revenue, which is within the Board's stated target range of 12% to 14%.

Dividend

The Board has declared an interim dividend of 5.0 cents per share, fully franked. Whilst this represents a first half dividend payout ratio of 64%, the Board remains committed to a full year target payout ratio of 70% to 75% of Underlying NPAT.

Health Insurance Outlook

The Board confirms its recently updated targets relating to the Company's Health Insurance business for the year ending 30 June 2016:

- Premium revenue growth of between 4.5% and 5.0%
- Management expense ratio of 8.5%
- Operating profit above \$470 million.

These targets anticipate that the second half operating profit will be lower than the first half due to increased marketing and brand investment, and some normalisation of the growth in hospital utilisation rates.

Investor Briefing

As previously advised, at 10.00am (AEDT) today Medibank will conduct an investor briefing on the 1H16 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 approximately 3.9 million people through its Medibank and ahm brands. Customers can access Medibank's products and services through more than 80 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. For more information, visit www.medibank.com.au

APPENDIX:

SUMMARY OF FINANCIAL RESULTS

Financial year ended 31 December (\$ million)	1H16	1H15	Change %
Group:			
Revenue	3,380.6	3,269.7	3.4
Health Insurance operating profit	271.7	171.1	58.8
Complementary Services operating profit	9.2	7.2	27.8
Segment operating profit	280.9	178.3	57.5
Corporate overheads	(13.6)	(10.8)	25.9
Total operating profit	267.3	167.5	59.6
Net investment income	18.6	43.4	(57.1)
Other income/(expenses)	(3.7)	(8.8)	(58.0)
Profit before tax	282.2	202.1	39.6
Income tax expense	(54.6)	(58.3)	(6.3)
Net profit after tax (NPAT)	227.6	143.8	58.3
EPS ¹ (cents)	8.3	5.2	58.3
Dividend	5.0	n/a	n/a
Health Insurance:			
Premium revenue	3,080.0	2,943.3	4.6%
Net claims expense (incl. risk equalisation)	(2,551.1)	(2,535.2)	0.6
Gross profit	528.9	408.1	29.6
<i>Gross margin (%)</i>	<i>17.2%</i>	<i>13.9%</i>	<i>330bps</i>
Management expenses	(257.2)	(237.0)	8.5%
<i>MER (%)</i>	<i>8.4%</i>	<i>8.1%</i>	<i>30bps</i>
Operating profit	271.7	171.1	58.8
<i>Operating margin (%)</i>	<i>8.8%</i>	<i>5.8%</i>	<i>300bps</i>

¹ Based on 2,754,003,240 shares on issue