

19 August 2016

# 2016 full year results

investor presentation

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# executive summary

# FY16 result summary

strong NPAT result driven by a mix of industry and medibank-specific factors

Group NPAT

**\$417.6m**

Health Insurance  
operating profit

**\$510.7m**

Final dividend

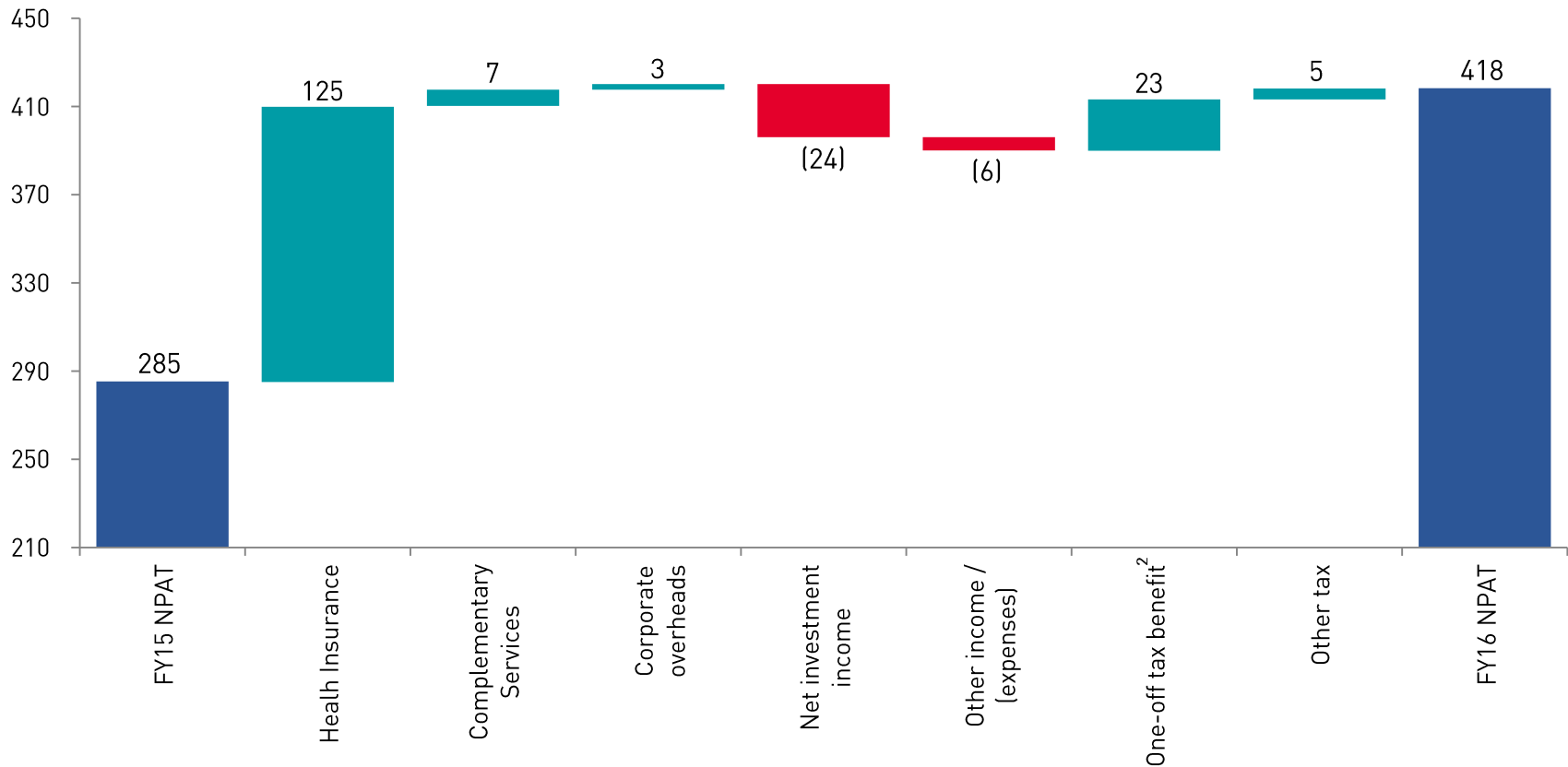
**6.0cps**

- Group net profit after tax (NPAT) \$417.6m, up from \$285.3m in FY15
- Health Insurance: 53.7% increase in operating profit to \$510.7m from \$332.2m in FY15, reflecting continued focus on health claims management and lower growth in industry-wide hospital utilisation rates
  - Premium revenue of \$6,172.5m, up 4.0%
  - Gross margin of 16.6%, improved from 14.2% in FY15
  - Management expense ratio of 8.4%, compared to 8.6% in FY15
  - Improvement in operating margin to 8.3%, compared to 5.6% in FY15
- Complementary Services: 74.6% increase in operating profit to \$24.8m reflects divestments in response to the Company's strategic review
- Investment income: 36.8% decrease to \$59.3m due to lower equity market returns
- Final dividend of 6.0 cents per share, bringing the full year dividend to 11.0 cents per share (fully franked)

# group NPAT: FY16 vs FY15

growth underpinned by strong health insurance result

FY16 NPAT result analysis (\$m)<sup>1</sup>



1 For all items other than one-off tax benefit and other tax, amount is based on pre-tax movement less 30% allowance for tax

2 Refer footnotes on page 19 for further details

# group financial summary

Financial year ended 30 June (\$m)	2016	2015	Change
Health Insurance premium revenue	6,172.5	5,934.8	4.0%
Complementary Services revenue	569.3	641.2	(11.2)%
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)%
Group 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%
NPAT	417.6	285.3	46.4%
EPS (cents)	15.2	10.4	46.4%
Dividend (cents per share)	11.0	5.3	n.m.



health insurance

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# health insurance result

claims management has delivered top tier industry margins earlier than expected; focus on improving top line performance to increase

- Premium revenue growth reflects:
  - Slowing market growth amid ongoing affordability challenges
  - Below market performance in both acquisition and lapse
- Gross margin improvement from:
  - Product optimisation
  - Medibank's leadership in health claims management
  - Lower growth in industry-wide hospital utilisation rates
- Decrease in management expense ratio due to ongoing cost discipline and operational improvements

Financial year ended 30 June (\$m)	2016	2015	Change
Premium revenue	6,172.5	5,934.8	4.0%
Net claims expense (including risk equalisation)	(5,145.8)	(5,092.8)	1.0%
Gross profit	1,026.7	842.0	22.0%
Management expenses	(516.0)	(509.8)	1.2%
Operating profit	510.7	332.2	53.7%
Gross margin <sup>1</sup>	16.6%	14.2%	240bps
MER <sup>1</sup>	8.4%	8.6%	(20bps)
Operating margin <sup>1</sup>	8.3%	5.6%	270bps

<sup>1</sup> Includes Australian residents, OSHC and OVHC. The gross margin for Australian residents only was 13.6% in FY15 and 16.1% in FY16, the MER for Australian residents only was 8.2% in FY15 and 8.0% in FY16, and the operating margin for Australian residents only was 5.4% in FY15 and 8.1% in FY16. Numbers may not add due to rounding



# premium revenue and policyholders

growth trajectory declined due to challenging industry conditions and below market performance in both acquisition and lapse

- Slowing PHI industry growth driven by cost growth and affordability pressures
  - Higher churn rates; fewer new-to-industry (NTI) customers
- Medibank Consumer: underweight in acquisition in switcher segment; traditionally relatively stronger in NTI segment which is slowing
- Medibank Corporate: volume up since revision of Corporate offer
- ahm: continued but slower growth
- Revenue per Policy Unit lower than approved rate change due to mix changes and cover reductions

Financial year ended 30 June	2016	2015	Change
Premium revenue (\$m)	6,172.5	5,934.8	4.0%
Policyholders <sup>1</sup> (thousand):			
Opening balance	1,846.0	1,830.0	0.9%
Acquisitions	179.8	218.0	(17.5)%
Lapses	(225.5)	(202.0)	11.7%
Closing balance	1,800.3	1,846.0	(2.5)%
- Medibank	1,512.7	1,572.1	(3.8)%
- ahm	287.6	273.9	5.0%
Acquisition rate <sup>2</sup>	9.9%	11.9%	(200bps)
Lapse rate <sup>2</sup>	12.4%	11.0%	140bps
Policyholder growth	(2.5)%	0.9%	(340bps)
Total Policy Units <sup>1,3</sup> (thousand):			
Closing balance	4,746.1	4,872.1	(2.6)%
Average balance	4,809.1	4,859.4	(1.0)%
Average revenue per Policy Unit <sup>3</sup> (\$)	1,283.5	1,221.4	5.1%

1 Consistent with reported industry data, Policyholder numbers only include resident business whereas total Policy Units include both resident and non-resident business (i.e. OSHC and OVHC)

2 Consolidated lapse and acquisition rates exclude transfers of Policyholders between ahm and Medibank at a combined brand level. Lapse and acquisition rates are based on the average of the opening and closing balances for the period

9 3 Policy Units or Policy Single Equivalent Units (PSEUs) – refer to glossary for definition

# health claims

## continued margin improvement but some normalisation of claims growth in 2H16

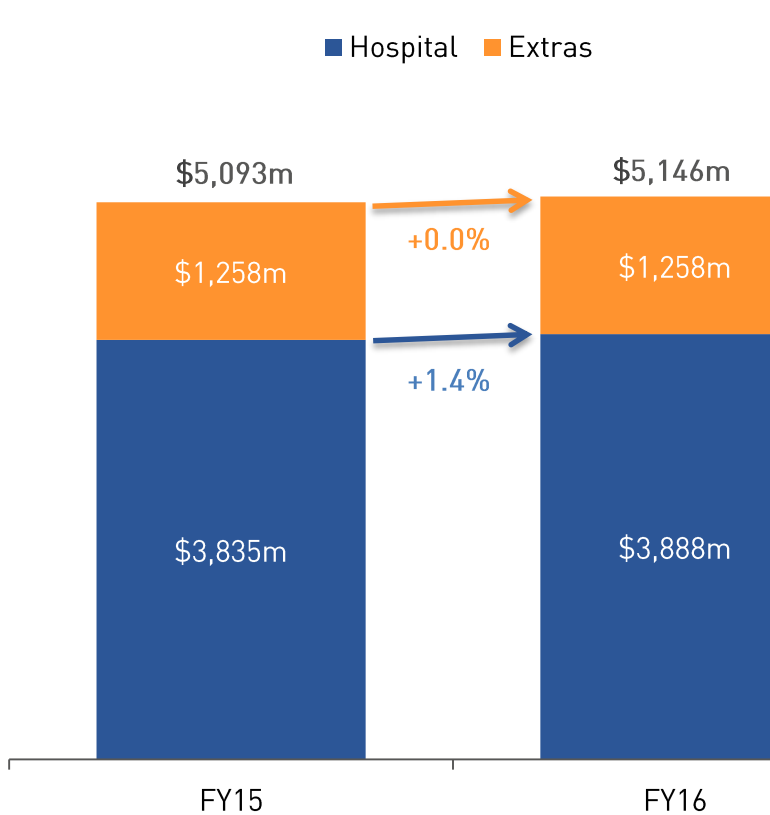
- Improving health claims management program
  - Further improvement in targeted areas from payment integrity program
  - Increasing contribution from improved hospital contracting (e.g. audits)
- Product optimisation
- Slowdown in the growth of hospital utilisation rates
- Some normalisation of claims growth in 2H16
- Claims provision release of \$20m from 30 June 2015 balance

Financial year ended 30 June (\$m)	2016	2015	Change
Claims expense	(5,209.3)	(5,170.2)	0.8%
Risk equalisation	63.5	77.4	(18.0)%
Net claims expense (including risk equalisation)	(5,145.8)	(5,092.8)	1.0%
Average net claims expense per Policy Unit <sup>1</sup> (\$)	(1,070.0)	(1,048.0)	2.1%
Gross margin	16.6%	14.2%	240bps

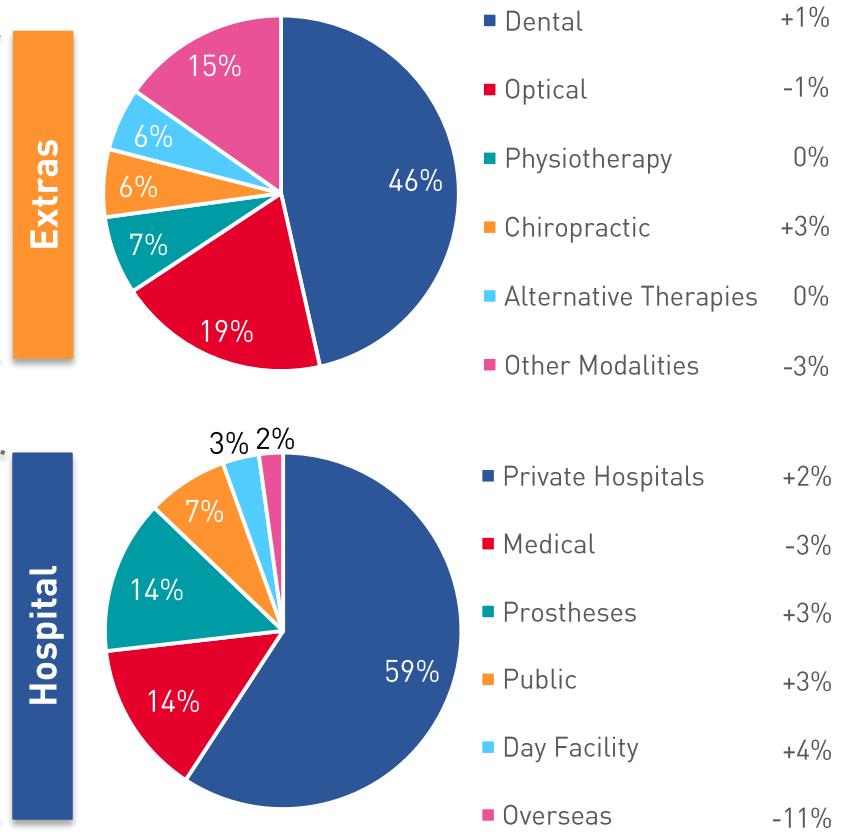
# health claims

continued margin improvement driven by product management and payment integrity program

Net claims expense (incl. risk equalisation)



Indicative composition and movement in dollar value vs. FY15<sup>1</sup>



11 1 Numbers may not add due to rounding

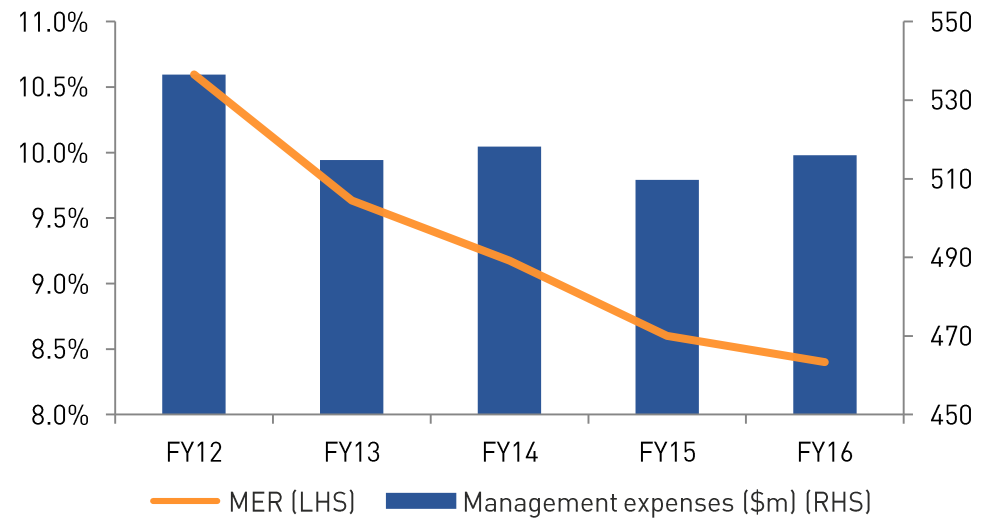
# management expenses

MER reduced further, but growing need for greater reinvestment to address top line performance

- MER down 20bps to 8.4%
- Further operational improvements
- Some reinvestment of improvements from health claims management into:
  - customer service and engagement
  - retention team
  - further capability enhancement in PNIC
  - Medibank brand relaunch

Financial year ended 30 June (\$m)	2016	2015	Change
Premium revenue	6,172.5	5,934.8	4.0%
Management expenses	(516.0)	(509.8)	1.2%
MER	8.4%	8.6%	(20bps)

MER, Management expenses



# complementary services



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# complementary services

profit improvement reflects divestments and solid result from ongoing businesses

- Refocused Complementary Services business delivered healthy profit growth
- Following completion of strategic review, Workplace Health and Travel Doctor businesses were sold to Sonic Healthcare in October 2015
- Revenue decline due to divested businesses. ADF Garrison Health Services Contract, Telehealth, Diversified Consumer Businesses represent 92% of FY16 revenue
- Continued investment in national roll out of CareComplete programs

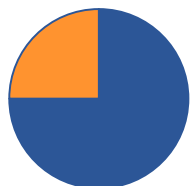
Financial year ended 30 June (\$m)	2016	2015	Change
Revenue	569.3	641.2	(11.2)%
Gross profit	113.1	133.2	(15.1)%
Management expenses	(88.3)	(119.0)	(25.8)%
Operating profit	24.8	14.2	74.6%
Operating margin	4.2%	2.2%	200bps

# investment portfolio

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# investment portfolio

target asset allocation remains unchanged



Target asset allocation unchanged at 75% defensive, 25% growth



Foreign currency exposures fully hedged (except for international equities – 50% hedged)

Year ended 30 June 2016	Balance (\$m)	Portfolio composition	Current target asset allocation (as at 30 June 2016)
Australian Equities	179.9	7.4%	6.0%
International Equities	191.5	7.9%	8.0%
Property <sup>1</sup>	152.1	6.2%	8.0%
Infrastructure	71.9	3.0%	3.0%
<b>Growth</b>	<b>595.4</b>	<b>24.5%</b>	<b>25.0%</b>
Fixed income <sup>2</sup>	1,201.7	49.3%	50.0%
Cash <sup>3</sup>	638.8	26.2%	25.0%
<b>Defensive</b>	<b>1,840.5</b>	<b>75.5%</b>	<b>75.0%</b>
<b>Total</b>	<b>2,435.9</b>	<b>100.0%</b>	<b>100.0%</b>

1 Includes Wollongong property (\$24.4m)

2 Target asset allocation comprises floating rate notes and asset-backed investments (30.0%) and other fixed income (20.0%). Average credit duration is 3 years and the average credit rating is 'A'

3 For investment portfolio purposes, calculated as cash and cash equivalents (\$438.7m) plus cash with maturities of 3-12 months (\$243.1m) less cash held for day to day operations of the business (\$43.0m)



# investment income

investment returns affected by lower equity markets and interest rates

- Investment income below FY15 due to lower investment market returns
  - Growth assets down due to weak equity markets in FY16
  - Defensive assets down due to lower interest rates and weaker credit markets
- Average investment assets up due to period profitability and timing of equity market movements

Year ended 30 June (\$m)	2016	2015	Change
<b>Average monthly balance:</b>			
Growth	568.6	496.3	14.6%
Defensive	1,720.2	1,649.5	4.3%
<b>Total average monthly balance</b>	<b>2,288.8</b>	<b>2,145.8</b>	<b>6.7%</b>
<b>Net investment income:</b>			
Growth	14.8	46.2	(68.0)%
Defensive	48.1	52.6	(8.6)%
Investment expenses	(3.6)	(5.0)	(28.0)%
<b>Total net investment income</b>	<b>59.3</b>	<b>93.8</b>	<b>(36.8)%</b>
<b>Return:</b>			
Growth	2.6%	9.3%	(670bps)
Defensive	2.8%	3.2%	(40bps)
<b>Total net return</b>	<b>2.6%</b>	<b>4.4%</b>	<b>(180bps)</b>



# other financial information & capital

# financial summary: group

## corporate overheads, other expenses, tax

- Corporate overheads decreased by 10.7% due to operational efficiencies.
- Increase in other expenses reflects the net effect of:
  - one-off system migration adjustment charge of \$14.0 million in FY16<sup>1</sup>
  - one-off costs of \$8.0m in FY15 relating to the IPO
- Effective tax rate 23.6% largely due to one-off tax benefit of \$23.2m relating to a change in tax position for prior periods<sup>2</sup>
  - Normalised tax rate of 27.8% excluding this one-off benefit

Financial year ended 30 June (\$m)	2016	2015	Change
Segment operating profit	535.5	346.4	54.6%
Corporate overheads	(30.0)	(33.6)	(10.7)%
Group operating profit	505.5	312.8	61.6%
Net investment income	59.3	93.8	(36.8)%
Other income/(expenses) <sup>1</sup>	(18.5)	(10.0)	85.0%
Profit before tax	546.3	396.6	37.7%
Income tax expense <sup>2</sup>	(128.7)	(111.3)	15.6%
NPAT	417.6	285.3	46.4%

<sup>1</sup> As per note 2(c)ii) million relating to of the 30 June 2016 consolidated financial report, FY16 amount includes a system migration adjustment of \$14.0 million (2015: nil) relating to the Group revising the basis for determining the unearned premium liability

<sup>2</sup> As per note 15(a) of the 30 June 2016 annual financial report, Medibank was successful in having a change in tax position for prior periods endorsed by the Australian Taxation Office in December 2015, resulting in a previously unclaimed tax deduction being allowed

# balance sheet

## strong, debt free balance sheet

- Deferred acquisition costs increase reflects full year effect of prior period activity
- Intangible increase due to final phases of Project DelPHI (amortisation commenced in June 2016)
- Complementary Services divestments resulted in lower PP&E and provisions
- Unearned premium liability flat due to a moderation in level of prepayments
- Balance sheet remains debt free

(\$m)	30 June 2016	30 June 2015	Change
Cash and cash equivalents	438.7	408.7	7.3%
Financial assets at fair value through profit or loss	2,015.8	1,971.8	2.2%
Trade and other receivables	313.1	301.2	4.0%
Deferred acquisition costs	31.1	22.4	38.8%
Other	13.8	22.5	(38.7)%
<b>Current assets</b>	<b>2,812.5</b>	<b>2,726.6</b>	<b>3.2%</b>
Property, plant and equipment	93.3	106.1	(12.1)%
Intangible assets	312.9	261.8	19.5%
Deferred acquisition costs	45.0	45.3	(0.7)%
Other	2.5	1.1	127.3%
<b>Non-current assets</b>	<b>453.7</b>	<b>414.3</b>	<b>9.5%</b>
<b>Total assets</b>	<b>3,266.2</b>	<b>3,140.9</b>	<b>4.0%</b>
Trade and other payables	333.9	383.0	(12.8)%
Claims liability	396.3	387.5	2.3%
Unearned premium liability	664.0	668.4	(0.7)%
Other	124.3	96.1	29.3%
<b>Current liabilities</b>	<b>1,518.5</b>	<b>1,535.0</b>	<b>(1.1)%</b>
Trade and other payables	34.7	36.1	(3.9)%
Claims liability	21.3	23.1	(7.8)%
Unearned premium liability	65.3	57.2	14.2%
Other	47.7	47.5	0.4%
<b>Non-current liabilities</b>	<b>169.0</b>	<b>163.9</b>	<b>3.1%</b>
<b>Total liabilities</b>	<b>1,687.5</b>	<b>1,698.9</b>	<b>(0.7)%</b>
<b>Net assets</b>	<b>1,578.7</b>	<b>1,442.0</b>	<b>9.5%</b>

# cash flow

## operating cash flow impacted by working capital movements

- Working capital movements impacted by:
  - timing and quantum of claims payments
  - complementary services
- Decrease in customer acquisition cost adjustment due to both higher DAC (non-cash) and lower payments due to time spent off aggregator channel
- Change in other operating assets and liabilities due to significant increase in FY15 in premium prepayments
- Decrease in purchase of investments due to funding in FY15 of FY14 dividend payment

Financial year ended 30 June (\$m)	2016	2015	Change
Operating profit <sup>1</sup>	487.0	302.8	60.8%
Changes in working capital <sup>2</sup>	(64.9)	79.4	(181.7)%
Customer acquisition costs	(8.3)	(29.7)	(72.1)%
Changes in other operating assets & liabilities	(14.7)	42.2	(134.8)%
Depreciation and amortisation	38.6	49.3	(21.7)%
Fit out reimbursement	-	30.4	n.m.
<b>Net cash flows from operations</b>	<b>437.7</b>	<b>474.4</b>	<b>(7.7)%</b>
Income tax	(85.4)	(97.3)	(12.2)%
Capital expenditure	(78.2)	(52.9)	47.8%
Proceeds from sale of assets	29.8	4.0	n.m.
<b>Net cash flows before investment related items and dividends</b>	<b>303.9</b>	<b>328.2</b>	<b>(7.4)%</b>
Net realised investment income	38.5	41.4	(7.0)%
(Purchase) / sale of investments	(28.7)	(430.1)	(93.3)%
<b>Net cash flows before dividends</b>	<b>313.7</b>	<b>(60.5)</b>	<b>n.m.</b>
Dividends paid	(283.7)	(238.8)	18.8%
Net increase / (decrease) in cash and cash equivalents	30.0	(299.3)	(110.0)%
Cash and cash equivalents at beginning of the period	408.7	708.0	(42.3)%
Cash and cash equivalents at end of the period	438.7	408.7	7.3%

# capital

health insurance capital within medibank target range of 12–14%

(\$m)	30 June 2016	30 June 2015
Total equity	1,578.7	1,442.0
Less: Intangible and illiquid assets	(437.5)	(393.7)
<b>Total tangible and liquid assets</b>	<b>1,141.2</b>	<b>1,048.3</b>
Less: Allowance for declared but unpaid dividends	(165.2)	(146.0)
Less: Allowance for approximate cost of product bonus additions <sup>1</sup>	(18.4)	(20.0)
<b>Total tangible and liquid capital after allowance for declared but unpaid dividends</b>	<b>957.6</b>	<b>882.3</b>
Comprises:		
Health Insurance	816.1	774.0
Other capital	141.5	108.3
<b>Health Insurance [%]<sup>2</sup></b>	<b>12.7%</b>	<b>12.4%</b>

1 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

22 2 Calculated as Health Insurance related capital post dividends divided by the last 12 months' Health Insurance premium revenue inflated by the growth rate in Health Insurance premium revenue over the same 12 month period

# dividend

final dividend brings payout ratio within FY16 full year target of 70-75%

- Final dividend of 6.0 cents per share fully franked for the six month period ending 30 June 2016, bringing the full year FY16 dividend to 11.0 cents per share
- Final payout ratio of 71.7% of underlying NPAT<sup>1</sup> – in line with FY16 full year target payout ratio of 70-75% of underlying NPAT
- Ongoing full year target payout ratio: 70-80% of underlying NPAT

Final dividend  
**6.0cps**

FY16 payout ratio  
**71.7%**

23 1 Underlying NPAT of \$422.4m = Statutory NPAT of \$417.6m + \$18.2m to normalise profit for unusually low equity returns + \$9.8m for system integration adjustment - \$23.2m one-off tax benefit relating to prior years

A close-up portrait of a man with long, light brown hair and a mustache, looking directly at the camera with a slight smile. The background is a solid, vibrant red color.

# initial impressions, priorities & outlook

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# initial impressions

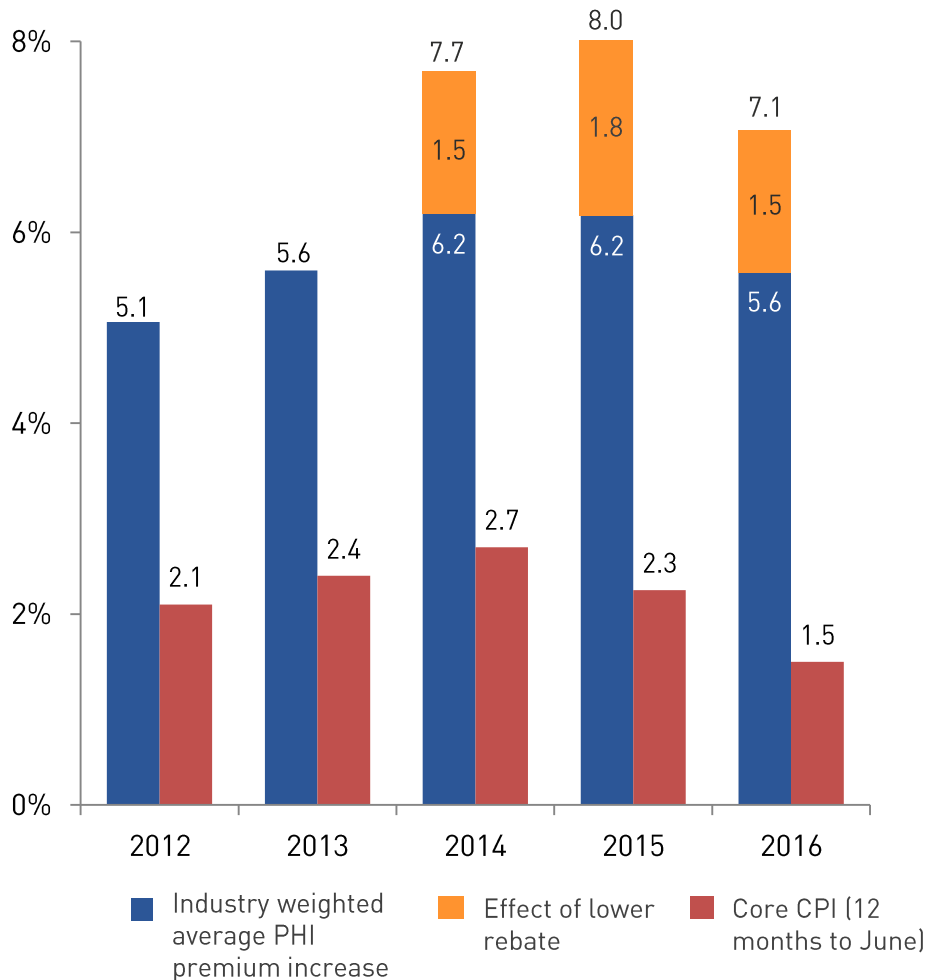
major focus on customer value and experience

Strengths	Opportunities
Robust 2016 financial metrics and balance sheet	Customer engagement and experience uplift
Strong capability in payment integrity and a developing integrated care model	Agile technology
Large member base	Execution quality
Big data capability leveraged to deliver 'best in class' claims management	Whole of business data insights
Dual brand strategy	Medibank brand health
Healthcare sector partnerships to drive value (outcomes, experience, cost)	

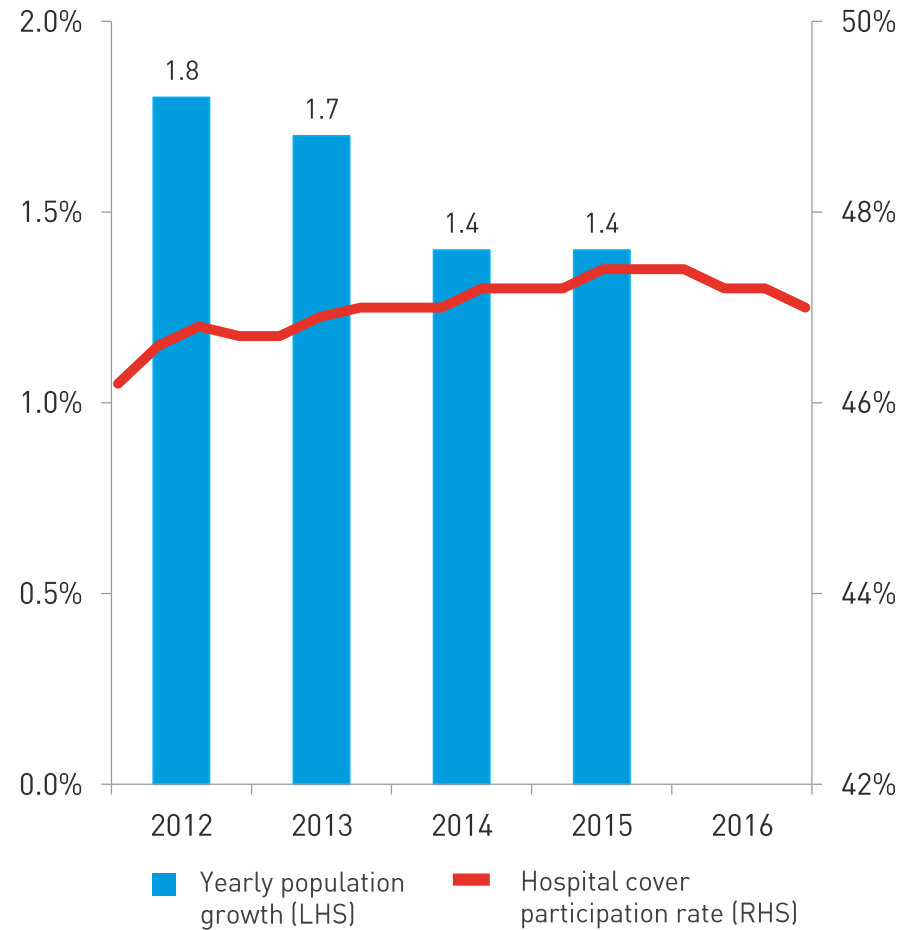
# industry context

affordability pressures rising; market growth slowing

Premium increase vs core CPI



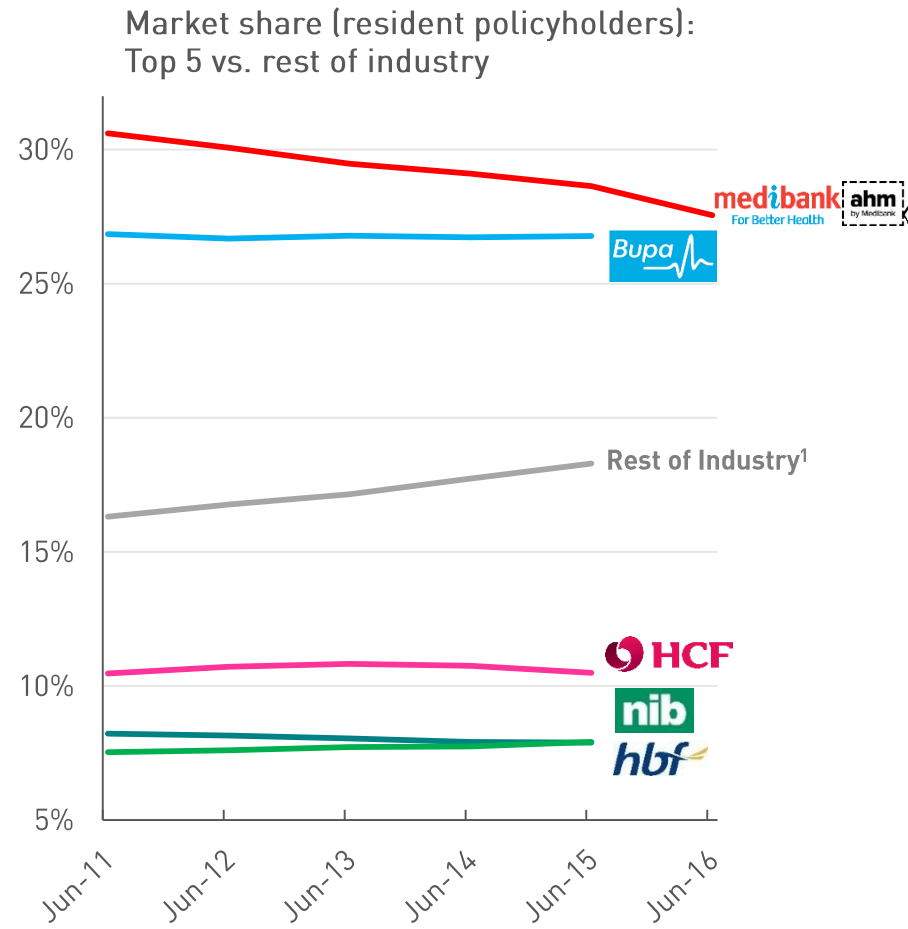
Population growth, Participation rate



# #1 priority

must prioritise customers' needs and outcomes to restore health of medibank brand and sustainably address top line performance

- PHI as a sector has challenges re transparency, affordability and value
- Medibank-specific challenges include negative perceptions around lack of customer centricity and value for money
- Core of solution is to prioritise our customers' needs and outcomes:
  - Improve the value we offer to our customers
  - Reduce average call waiting times
  - Make claiming easier
  - Strengthen member engagement through digital
- DelPHI system to be bedded down
- Net Promoter Score (NPS) to be a key metric for remuneration to reinforce increased focus on our customers
- Change and investment required to deliver



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# FY17 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 payment integrity program
- Accumulating benefits from hospital contracting
- Increased investment in value for customers, the customer experience and organisational capability



q&a

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# appendix



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# group financial summary: half by half

(\$m)	FY16	2H16	1H16	FY15	2H15	1H15
Revenue	6,741.8	3,361.2	3,380.6	6,576.0	3,306.3	3,269.7
Health Insurance operating profit	510.7	239.0	271.7	332.2	161.1	171.1
Complementary Services operating profit	24.8	15.6	9.2	14.2	7.0	7.2
<b>Segment operating profit</b>	<b>535.5</b>	<b>254.6</b>	<b>280.9</b>	<b>346.4</b>	<b>168.1</b>	<b>178.3</b>
Corporate overheads	(30.0)	(16.4)	(13.6)	(33.6)	(22.8)	(10.8)
<b>Group operating profit</b>	<b>505.5</b>	<b>238.2</b>	<b>267.3</b>	<b>312.8</b>	<b>145.3</b>	<b>167.5</b>
Net investment income	59.3	40.7	18.6	93.8	50.4	43.4
Other income/(expenses)	(18.5)	(14.8)	(3.7)	(10.0)	(1.2)	(8.8)
<b>Profit before tax</b>	<b>546.3</b>	<b>264.1</b>	<b>282.2</b>	<b>396.6</b>	<b>194.5</b>	<b>202.1</b>
Income tax expense	(128.7)	(74.1)	(54.6)	(111.3)	(53.0)	(58.3)
<b>NPAT</b>	<b>417.6</b>	<b>190.0</b>	<b>227.6</b>	<b>285.3</b>	<b>141.5</b>	<b>143.8</b>

# health insurance result: half by half

(\$m)	FY16	2H16	1H16	FY15	2H15	1H15
Premium revenue	6,172.5	3,092.5	3,080.0	5,934.8	2,991.5	2,943.3
Net claims expense (incl. risk equalisation)	(5,145.8)	(2,594.7)	(2,551.1)	(5,092.8)	(2,557.6)	(2,535.2)
Gross profit	1,026.7	497.8	528.9	842.0	433.9	408.1
Management expenses	(516.0)	(258.8)	(257.2)	(509.8)	(272.8)	(237.0)
Operating profit	510.7	239.0	271.7	332.2	161.1	171.1
Premium revenue growth	4.0%	3.4%	4.6%	5.1%	4.9%	5.2%
Total Policy Units <sup>1</sup> (thousand):						
Closing balance	4,746.1	4,746.1	4,826.3	4,872.1	4,872.1	4,856.5
Average balance	4,809.1	4,786.2	4,849.2	4,859.4	4,864.3	4,851.6
Gross margin <sup>2</sup>	16.6%	16.1%	17.2%	14.2%	14.5%	13.9%
MER <sup>2</sup>	8.4%	8.4%	8.4%	8.6%	9.1%	8.1%
Operating margin <sup>2</sup>	8.3%	7.7%	8.8%	5.6%	5.4%	5.8%



# glossary

<b>1H</b>	Six months ended/ending 31 December 20XX
<b>2H</b>	Six months ended/ending 30 June 20XX
<b>ADF Health Services Contract</b>	The contract between the Commonwealth and Medibank Private Limited for the provision of a national integrated healthcare service to the Australian Defence Force
<b>bps</b>	Basis points (1.0% = 100 bps)
<b>EPS</b>	Earnings per share
<b>FY</b>	Financial year ended/ending 30 June 20XX
<b>Member</b>	A Policyholder and any other individuals covered under the same PHI policy
<b>MER</b>	Management expense ratio
<b>MPL</b>	Medibank Private Limited
<b>NPAT</b>	Net profit after tax
<b>n.m.</b>	Not meaningful
<b>OSHC</b>	Overseas students hospital cover
<b>OVHC</b>	Overseas visitors hospital cover

<b>Policyholder</b>	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
<b>PSEUs or Policy Units</b>	Policy Single Equivalent Units are used by Medibank as a standard measure of income units. They take into account the number of adults on a policy, and whether they have Hospital Cover or Extras Cover or both. For example, a household with two parents and three children, all of which had both Hospital and Extras Cover, would represent four Policy Units (2 adults x 2 types of Cover = 4; no premium payable in relation to children).
<b>RE</b>	Risk equalisation
<b>Underlying NPAT</b>	Underlying NPAT is calculated based on statutory NPAT adjusted for short-term outcomes that are expected to normalise over the medium to longer term, most notably in relation to the level of gains or losses from equity investments, and for one-off items, especially those that are non-cash, such as asset impairments.