

Press Statement



Australian Health Management Board unanimously recommends Medibank proposal

14 July, 2008

Australian Health Management Group Ltd (**ahm**) today announced that it has entered into a Merger Implementation Deed (**MID**) in relation to a proposal under which ahm will demutualise and be acquired by Medibank Private Ltd (**Medibank**) (the **Transaction**).

The directors of ahm intend to unanimously recommend that members vote in favour of the Transaction. The Transaction is recommended in the absence of a superior proposal and subject to an Independent Expert reporting that the transaction is in the best interests of members.

If approved by members, Medibank will pay a total of \$367 million in cash, which will be allocated among eligible ahm members. The amount of the cash payment to each eligible member will depend on their entitlements under ahm's allocation rules which are yet to be approved. ahm members' existing health insurance policies and benefits will remain unchanged as a result of the Transaction.

Chris Doogan, Chairman of ahm, said, *"The board firmly believes that this proposal is in the best interests of ahm members. Members will benefit from the financial strength and market presence of Medibank, which will help ensure that the quality of health insurance coverage and other health services currently provided by ahm will remain at high levels. Medibank's size will also assist in keeping any future premium rate increases lower than ahm would be able to achieve if it continued as an independent private health insurer."*

Medibank recognises ahm's strong standing in the Illawarra region and intends to maintain the ahm brand and ahm's Wollongong office as a major operational centre, which is expected to lead to an increase in employee numbers based in Wollongong."

Key aspects of the Transaction include:

- A cash payment to eligible members of \$367 million. Eligible members will receive their entitlement under ahm's allocation rules which are yet to be approved.
- Retention of the ahm brand.
- Retention of existing ahm products and services across all operational divisions, including health insurance, dental and eyecare practices and Total Health – ahm's health management service.
- Maintenance and expansion of ahm's presence in Wollongong as an operational hub.
- Expansion of Total Health capability to service Medibank membership requirements.

An Information Memorandum will be issued to all ahm members which will outline, among other things, the details of the Transaction, the reasons for the ahm Board's recommendation and the allocation rules. The Information Memorandum will also include details on the approvals and procedures required to implement the Transaction, as well as reports from the Independent Expert, and the Appointed and Consulting Actuaries (who will report on the allocation rules).

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The Information Memorandum is expected to be issued to ahm members in early October 2008, with a vote on the demutualisation and Scheme of Arrangement to be held in late November and early December 2008.

Cut-off date

The ahm board has resolved that the cut-off date for the purpose of determining those ahm members who will be eligible to receive a cash payment under the allocation rules will be 13 July 2008, provided those persons are also ahm members at the time of voting on the Scheme of Arrangement. Accordingly, any persons who become principal policyholders of ahm after 13 July 2008 will not become members of ahm, and therefore will not be entitled to receive any cash payment as a result of the proposal.

Transaction terms

The Transaction will be implemented in two phases. The first phase requires, in accordance with ahm's constitution, member approval for ahm to demutualise. This member approval will be determined by a postal ballot of members (to be conducted pursuant to procedures determined by the ahm board). Under ahm's constitution only persons who have been ahm members for 12 months or more before the conduct of the postal ballot are eligible to vote. For demutualisation to occur those members eligible to vote must pass a special resolution conducted by postal ballot under which not less than:

- 25% of all members entitled to vote must vote; and
- 75% of all eligible members who have voted, must vote in favour of the demutualisation of ahm.

The second phase, which will only proceed if the demutualisation vote is approved by members, involves various amendments to ahm's constitution to effect the demutualisation and Medibank's acquisition of ahm by way of a Scheme of Arrangement. The amendments to ahm's constitution will require approval by 75% of all members present and voting in person or by proxy. The Scheme of Arrangement must be approved by the court and more than 50% of all ahm members present and voting in person or by proxy.

The Transaction is subject to approval from the Australian Competition and Consumer Commission, and other customary conditions for transactions of this kind. ahm will also consult throughout the Transaction with the Private Health Insurance Administration Council to ensure that it is implemented in accordance with the Private Health Insurance Act.

Pier Capital are the financial advisers and Jones Day are the legal advisers to ahm on the Transaction.

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For further information please contact:

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