

ANNUAL REPORT 2002



 **Medibank Private**
feel better now



*Medibank Private will leverage its
brand asset and Australia-wide identity to
strengthen its leadership
of the health insurance industry.*

Overview



In light of a challenging health insurance environment, including a severe downturn in our own financial performance, we have re-focussed our priorities to better manage our core business and to work harder at providing leadership in the delivery of private health insurance excellence to our members.

At an industry level, we will strive to be a concept and practice leader in moving the private health insurance sector to a sustainable and valued alternative to the public health system.

We will demonstrate leadership to providers and members by creating innovative funding solutions and service delivery channels. We will also leverage our national brand and scale advantages to ensure members have choice and access to the best private health insurance health solutions, defined as value for money and innovative products.

Key initiatives include:

- Maintaining our share of the private health insurance market, through a focussed retention strategy, to support ongoing business development;
- Reducing the management expense ratio to industry best practice within two years through investment in information technology and business process re-engineering;
- Managing benefit outlay expenditure more effectively through enhanced e-commerce claims processing capability, improved risk management and pro-active contractual relationships with providers that share efficiency gains and preserve quality standards;

- Simplifying and better managing the margin performance of our portfolio of products;
- Investing in a Customer Relationship Management (CRM) system, which will be rolled out in early 2003 and will substantially improve our ability to more effectively service individual customer needs and manage provider claims with greater scrutiny; and

- Investing in an enhanced retail branch network starting in late 2002, that will increase members' access to our services and to a broad array of health information services that will assist them in managing their personal health and wellbeing.

By exercising leadership over these key business competencies, we will deliver better service outcomes for members and contribute to a sustainable and profitable Australian private health insurance industry, as well as restoring our own financial performance.

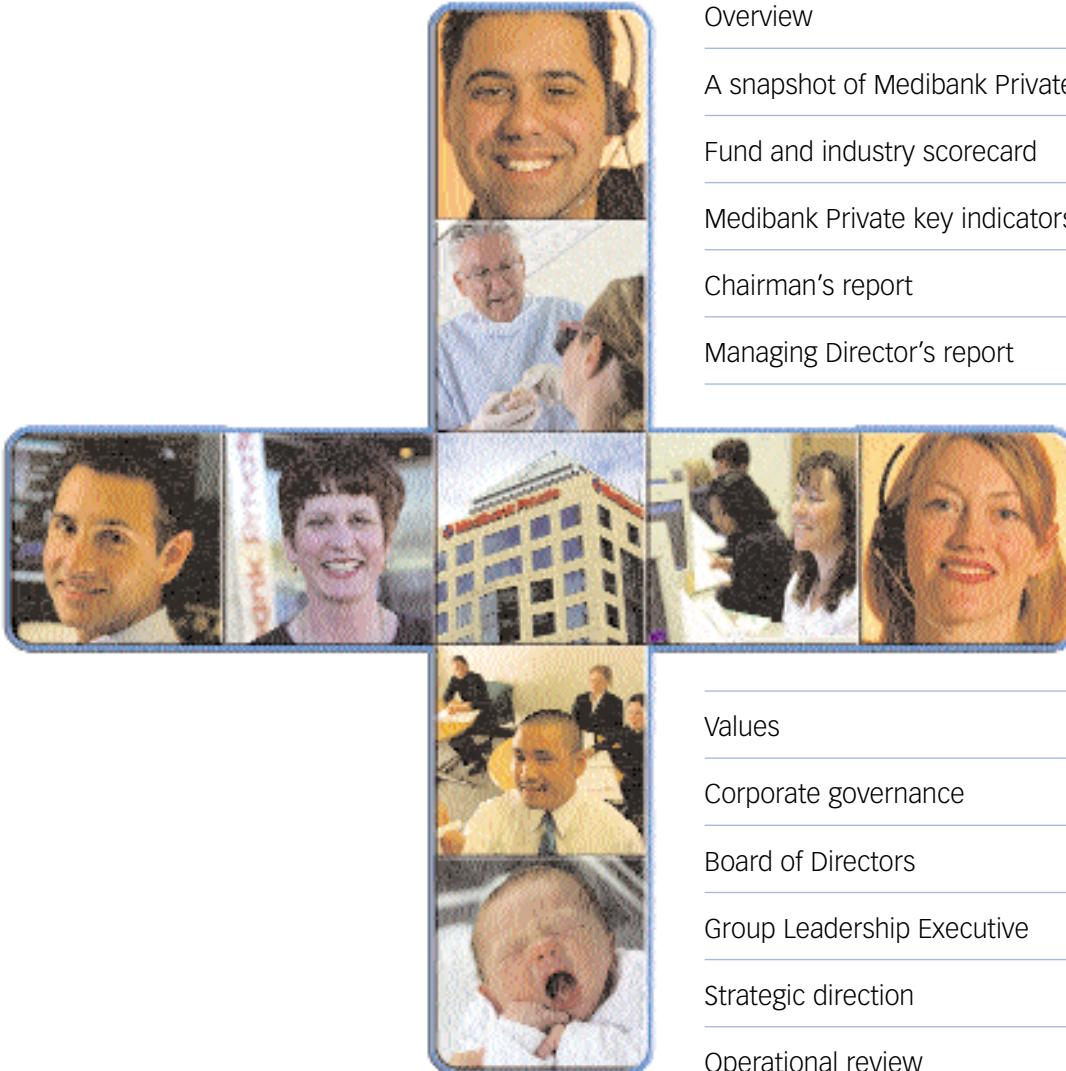
Accordingly, we have re-focussed our vision and mission statements to better reflect our leadership aspirations. Our vision is ***"When Australians think of leadership in health and wellbeing they think Medibank Private"*** while our business mission states ***"We will strive to provide our members with access to the best health solutions"***.



We are the only *genuinely national*
private health insurance business,
and offer our members the most
extensive network of health care
providers available from any fund.

New retail store design launched in Parramatta in September 2002.

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A snapshot of Medibank Private

Medibank Private is Australia's largest and only genuinely national private health insurer, with significant membership in every state and territory, totalling nearly three million members.

We are a not-for-profit private health insurer, and a national market leader, with in excess of 30 per cent of the private health insurance market.

Medibank Private was established as a private health fund in 1976 and operated as the commercial arm of the Health Insurance Commission (HIC) for more than 21 years. By May 1998, Medibank Private Limited had separated from the Health Insurance Commission and became an independent, wholly-owned Commonwealth company and Government Business Enterprise (GBE).

The company constitution was amended in 2001 to offer us greater operating flexibility.

Over the period June 1999 - June 2002, we increased our resident market share from 26.9% to 30.5% and membership has grown from 945,159 to over 1.4 million membership policies. Total individuals covered have grown from 1,962,129 to 2,921,444.

We provide private health cover in the following areas:

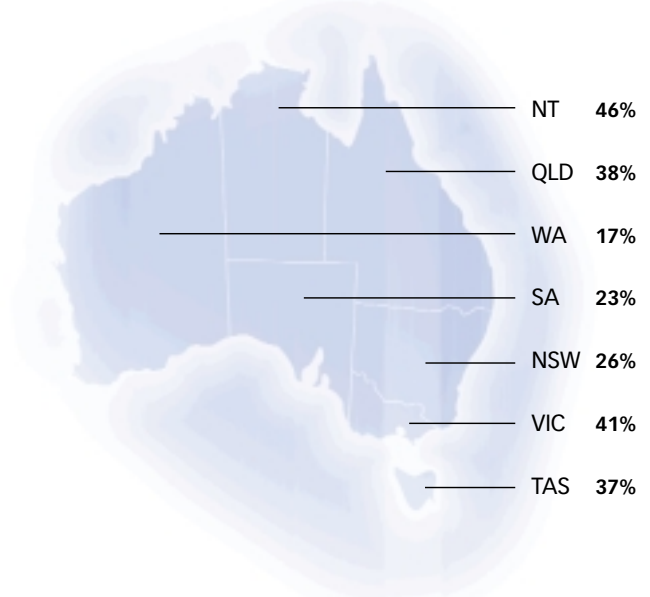
- Hospital cover for private patients
- Ancillary or "extras" cover
- Ambulance transport (some states)
- Private health insurance to overseas students visitors to Australia.

We have contracts with over 90% of private hospitals and day surgeries and 3,581 ancillary health care providers in Australia.

Services are provided through a national distribution network of Medibank Private retail outlets, cash-paying and collection agents, Medibank Private call centres, and through its website, www.medibank.com.au.

In the last four years, we paid \$5.9 billion of member hospital and ancillary claims.

Medibank Private market share (by contributors) as at 30 June 2002



Fund and industry scorecard

Over the three years (1999-2000 to 2001-2002), covering the introduction of Lifetime Health Cover, Medibank Private's cumulative financial result was \$30 million, or an average of \$10 million per annum. This result is consistent with Medibank Private's "not-for-profit" status. During that period the fund increased membership by approximately 50% to cover almost three million individuals, whilst increasing premiums by an average of 3% per annum over the three years, or 9% in total.

In 2001-2002 financial year, Medibank Private:

- Membership decreased slightly, consolidating to 1.4 million membership policies, covering 2.9 million Australians.
- Maintained position as Australia's largest private health insurer and only national fund, with a market share of 30.5%.

- Contributions from members grew to \$2,017.9 million.
- Benefits grew to a total payable of \$1,967.0 million, or 97.5% of member contributions.
- Management expense ratio (MER) decreased significantly to 10.6% from 12.2%.
- Maintained Standard and Poors rating of Api (as of 19 April 2002).
- Claims processed grew to 7,892,286 from 6,059,498 in 2000-2001.
- Received 3,730,340 Call Centre member and provider calls.

On average, Medibank Private members paid 12.8% less than the rest of the industry in 2001-2002 (this figure is based on Private Health Insurance Administration Council provisional data).

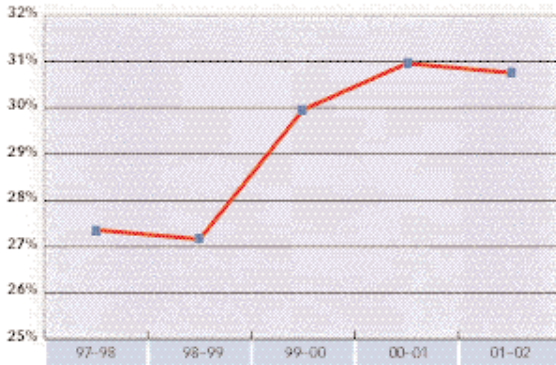
Medibank Private (MPL) and the industry comparative performance 1998-1999 to 2001-2002

		1998-1999	1999-2000	2000-2001	2001-2002
Contributions per membership \$	MPL	1,336	1,347	1,391	1,429
	Others	1,445	1,530	1,617	1,639
	Industry	1,415	1,480	1,548	1,575
Management expenses per membership \$	MPL	140	186	170	151
	Others	181	198	189	185
	Industry	170	194	183	174

(2001-2002 data based on Private Health Insurance Administration Council provisional data)

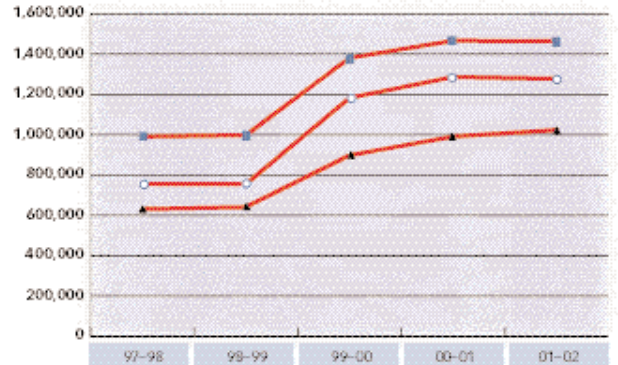
Medibank Private key indicators

Chart 1:
Market Share % at 30 June (contributors)*



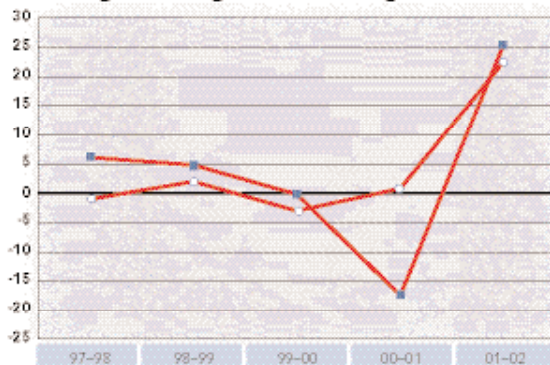
*Excluding non-residents

Chart 2
Membership at 30 June*



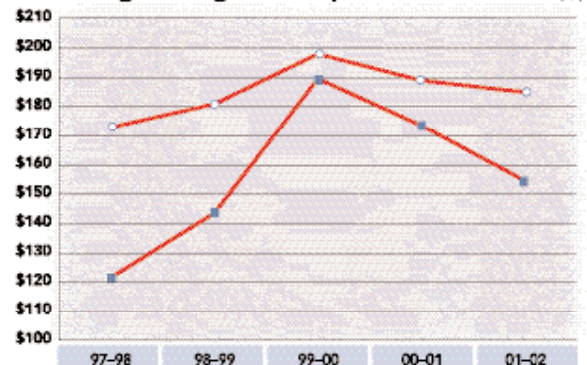
*Excluding non-residents

Chart 3
Average Drawing Rate (%) Change



— Hospital — Ancillary

Chart 4
Average Management Expenses Per Member (\$)



— Medibank Private — Others

Chart 5
Investment and Other Income (\$m)

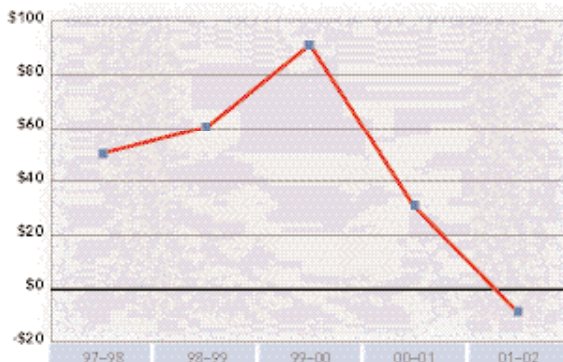


Chart 6
Underwriting result (\$m) at 30 June

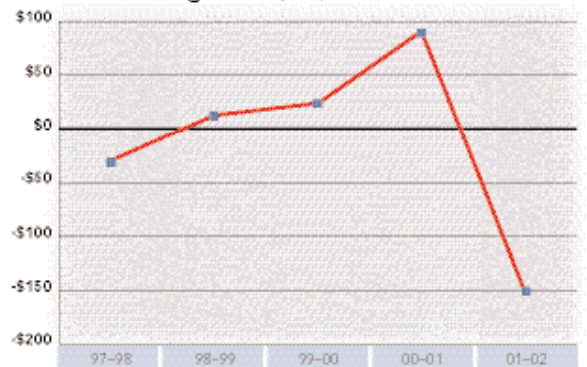


Chart 7
Average Investment Return (%)

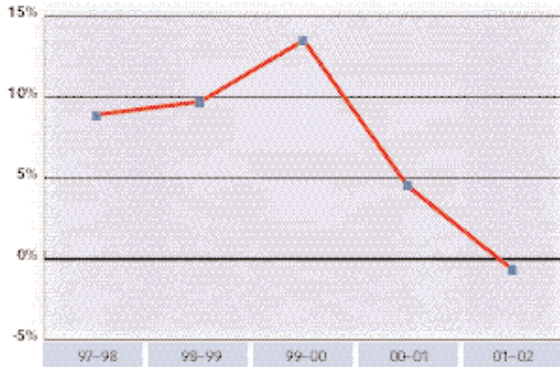


Chart 8
Medibank Private Financial Reserves (\$m) at 30 June

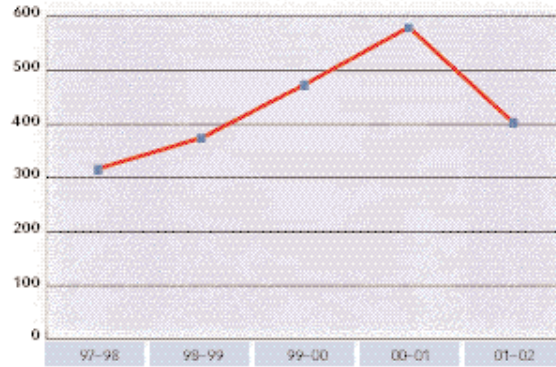


Chart 9
Management Expense Ratio (MER) % of Contributions

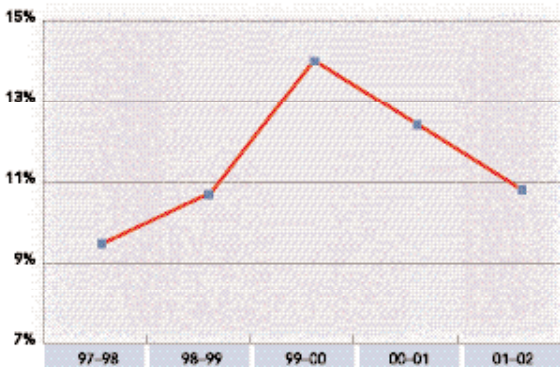


Chart 10
Medibank Private Limited Results 1997-2002 (\$m)

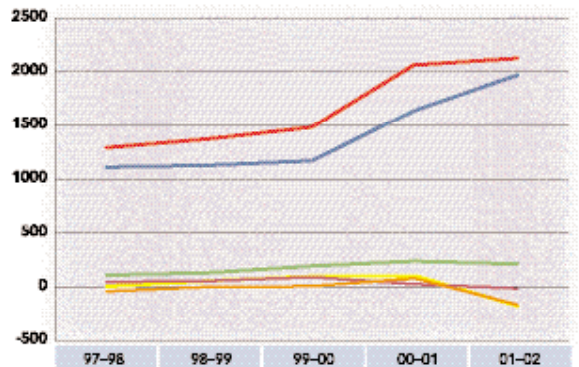
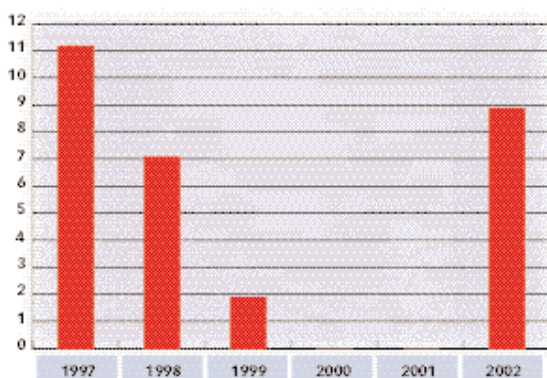


Chart 11
Average Premium Increase (%) in Each Calendar Year



— Contribution Income — Investment Income
— Benefits — Underwriting Result
— Management Expenses — Financial Result

Chairman's report



We continue to build on member value by developing industry-leading services.

In 2001-2002, Medibank Private, along with the entire health insurance industry, was confronted with a number of substantial and unforeseen challenges. To meet these challenges your Board has appointed a new Managing Director and has recently been re-invigorated by three new non-executive directors appointed in late June 2002. With the support of the Board, Management has developed a new Corporate Plan, which we believe will successfully pave the way for a stronger financial performance in 2002-2003, and also create a solid base to successfully compete in an increasingly competitive private health insurance market place in the longer term.

Our financial result, which was a deficit of \$175 million and included an underwriting loss of \$162 million following two record trading years, was impacted by two significant factors.

Firstly, in 2001-2002 we paid over \$1.9 billion in hospital, medical and ancillary claims on behalf of our members – approximately 20% more than in the previous year. We have seen a significant growth both in utilisation and the cost of health services, including the growth in and cost of GapCover.

Secondly, the September 11 terrorist attacks in the United States led to a dramatic fall in world equity markets and, in particular, the US and Australian invested funds in the company's pooled investment portfolios. This was evidenced by the \$13 million loss in the company's investment income compared to highly successful positive profit performances in previous years.

During the second half of the year your Board moved the company's investment portfolio of some \$900 million to more secure investments in short term money and fixed interest markets, to ensure that the company was prudently protected and did not suffer further deterioration of its portfolio resulting from the current unsettled international investment climate. This strategy has proved particularly successful when compared against the further deterioration that has occurred in equity markets since that decision was implemented.

During the year, an area of major attention for the company was in driving down the level of management expense costs. This has included the implementation of a major corporate restructure, which not only resulted in cost reductions but also elevated to greater emphasis our operational and customer focussed support units. In the coming year we will continue to focus on this area of cost, and we plan to further reduce this expense category to match, if not better, industry best practice.

While benefit outlays increased, I am pleased to report that the substantial growth in membership achieved during Lifetime Health Cover has delivered a stable contribution base. Approximately 3 million Australians are now protected by Medibank Private's comprehensive range of health cover products. Our national market share also remained steady at 30.5%.

Key factors in retaining our strong national and leadership position is our continuing commitment to, and investment in, enhancing our service to our members and to health services providers. In 2001-

2002, we strengthened our Customer Care Centre and now have approximately 180 staff dedicated to servicing member telephone enquiries. In 2002-2003, we will roll out a Customer Relationship Management system to further improve our service capability.

We will strive to deliver innovations in health care service to our members to ensure they receive excellent value for their membership with Medibank Private. To that end, we will pro-actively move to develop additional health information services to better support members who suffer chronic health conditions. In addition, we intend to explore expanding the role of the Fund to enable members to improve their health through our established provider networks.

The Board and Management have worked hard to ensure that both management costs and member service levels are properly balanced moving forward, and that the quality of contracted provider services meet member expectations.

The Board appointed non-Executive Director, George Sawvides, in April 2002 as Managing Director on an interim basis while the Board formally pursues a permanent appointment.

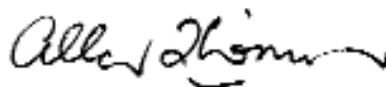
The Board is confident that, with his assistance, the Company will continue to effect the necessary changes to Medibank Private's performance to achieve continuing improvement and stable growth,

restoring the fund to an acceptable level of performance.

I would like to extend my appreciation to my fellow Board members for their support in a busy year. I would especially like to acknowledge the professional counsel and service offered by the outgoing non-Executive Directors Mr Cliff Breeze, Mr Ian Fraser and Dr Ron Meikle. To the new Board members I extend my welcome – Professor Just Stoelwinder, Mr Peter Wade and Mr Adrian Brien.

The Board also thanks our Shareholder Ministers, Senator Kay Patterson, the Minister for Health and Ageing, and Senator Nick Minchin, the Minister for Finance and Administration, and their staff for their support throughout the year.

Finally, to Medibank Private's Management and Staff, I extend my appreciation for their continuing efforts and loyalty through what has been a difficult year, and look forward to working with them as we move into the new financial year.



D A W Thomson AM
Chairman

Managing Director's report



We will deliver core business excellence to our members and develop Medibank Private into an admired and respected private health insurance fund.

Medibank Private had a difficult year in 2001-2002 evidenced by our financial result of a \$175 million deficit. The two variables that generated the deficit were the dramatic growth in benefit outlays to \$1.9 billion, 20% higher than the previous year, that reduced our underwriting result to a loss of \$162 million, and the negative \$13 million result in our investment income.

The effects of the terrorist attacks in the USA caused global equity markets to tumble, and impacted our investment income, which is derived from local and international equity investments. This was further compounded by benefit outlay growth from members who joined during the Lifetime Health Cover period who commenced claiming as waiting periods lifted.

Our \$2 billion in member contributions for 2001-2002 is testimony to the benefit that the company derived from the Federal Government's Lifetime Health Cover and 30% Rebate initiatives. However, the investment market crisis and benefit outlay growth combined with no rate increase for almost three years, took its toll on the company's financial result. As such it was necessary for an average 8.9% premium increase to be introduced in April 2002, to assist in returning the fund back to surplus.

Despite these financial constraints, we retained our position as market leader with 30.5% market share, and remain the only genuinely national private health insurer, with a network of 99 retail outlets and six corporate offices across Australia. Medibank Private is the market leader in each of the east coast states, Queensland, Victoria and New South Wales, with some 1.4 million policyholders and almost 3 million lives covered on a national basis.

Since assuming the role of Managing Director for an interim period, I have worked with the management

team to develop a Corporate Plan that will deliver core business service excellence to our members and restore product margins to make Medibank Private a sustainable and competitive private health insurance fund. Major initiatives include:

Management Expense Ratio

We will pursue the achievement of an industry leadership management expense ratio of 9% within two years, after finishing the financial year on 10.6% reduced from 12.2% in the prior year. We expect that this will deliver the lowest management/administrative cost of private health insurance policies in Australia. We will aim to achieve this through strategic investment in information technology and business process re-engineering. A major organisational restructure took place in June, that led to a 12% reduction in employee positions, mainly management positions in corporate roles.

Benefit Outlay Management

Last financial year we spent over \$1.9 billion on paying claims for members using our extensive provider network. We will deliver even more effective benefit outlay expenditure through further investment in e-commerce claims processing technology, improved risk management and pro-active contractual relationships with providers that share efficiency gains that preserve quality standards. Medibank Private has put in place new organisational initiatives to ensure these improvements in 2003.

Product Portfolio Performance

Our portfolio of products continued to outperform our competitors on an average basis for affordability and benefits paid. In the year ahead, our product management team will focus their efforts on

managing the margin performance of our package products and simplifying the product range we offer our members, making our policies more transparent and easier to understand, and making it easier for consumers to make decisions on choice and comparison of health insurance products.

With opportunities for further improvement through regulatory reform, Medibank Private will have the ability to further streamline its products and clarify policy benefits to assist members in product selection.

Product Innovation

The rapid rate of technological change within the healthcare sector has changed the nature of many medical interventions. At Medibank Private we are investigating innovative post-operative service delivery, supported by evidence-based methodologies, which will be better suited to delivering improved patient outcomes. Similarly, we are working to provide accredited health information protocols that will inform members about ways they can partake in pro-active risk minimisation.

Leadership in Member Service

Three major initiatives, which commenced in 2002, further demonstrate our commitment to excellence in service delivery to our members:

- We made a \$22 million investment in a Customer Relationship Management (CRM) system that we have called "Relationship 1st". This system will substantially improve Medibank Private's ability to service individual customer needs as well as manage provider claims with greater scrutiny.

- Our new retail store program was developed in 2002 and will roll out late this year. The new store design will provide a broad array of health information services to assist our members in accessing solutions for their personal health and wellbeing. These services will mirror our online health and wellbeing services that can be accessed through our website, www.medibank.com.au.
- The commitment to improve the grade of service for members accessing our call centres was reflected in a substantial upgrade in call handling technology which will lift service level performance significantly by late 2002.

Looking forward, in May 2002, I appointed a new Group Leadership Executive team to deliver our strategic plan. The key focus for the Group Leadership Executive will be on operational performance, in particular on costs efficiency, managing benefit outlay performance, and service innovation through continuous improvement.

At Medibank Private, successful achievement of our business objectives and service goals will be delivered through our employees. Our challenge is to provide the environment and leadership conducive to that outcome.

I wish to thank Medibank Private staff and management for their hard work and continued focus during a challenging year, and look forward to seeing the fruits of their efforts in the year ahead.



G Savvides
Managing Director



We endeavour to act
with *integrity*, respect all people,
care about your needs and be *innovative*.

Values

Medibank's Group Leadership Executive has reviewed our organisational values and behaviours to ensure that the existing values remain valid. We added new emphasis to the "Act with Integrity" value, committing the business to being a prudent "steward of members' contributions", conveying our focus on reducing management expenses and overheads as a percentage of contribution income, and improving the effectiveness of our benefit outlay contractual expenditure.

We endeavour to:

Act with Integrity

This means we:

- Do what we say
- Treat people fairly
- Conduct ourselves ethically
- Be a steward of members' contributions.

Respect All People

This means we:

- Really listen, really hear and really respond
- Respect individuality and diversity
- Recognise and reward achievement
- Be a respected part of the community.

Care About Your Needs

This means we:

- Understand members, be attuned to their needs and provide the right health solutions
- Go the extra mile to meet members' needs
- Communicate in a timely, clear, regular and honest way
- Provide the support and tools that our staff need to do their jobs.

Be Innovative

This means we:

- Encourage creativity and initiative
- Make high quality decisions based on superior knowledge and experience
- Adapt to change and recognise opportunities
- Adopt leading-edge technology and processes.

The Medibank Private leadership team accepts the responsibility that these desired values and behaviours must be reflected in the leadership of the organisation if we are to expect our employees to do the same.



Corporate governance

The Board of Directors and its Committees

The Board of Directors is responsible for the overall corporate governance of Medibank Private. In partnership with management, it sets the values, goals and strategic direction of the Company. Progress against agreed strategic and business plans is monitored at Board meetings.

To assist in the execution of its responsibilities, the Board has established four Board Committees:

- Audit & Compliance Committee;
- Health Innovations Committee;
- Investments Committee; and
- Remuneration Committee.

Each Committee operates under a charter approved by the Board. Board Committees have no delegated authority, but may make recommendations to the Board of Directors. Further details on these Committees are provided below.

Company Composition

As determined by the Company's Constitution, the Board comprises a Chairman, and up to seven non-executive Directors, one of which is an executive Managing Director. Articles 29 to 32 of the Company's Constitution provide for the appointment and removal of Directors, including the Managing Director.



All shares in Medibank Private are held by the Commonwealth, with shareholder responsibility retained jointly between the Minister for Health and Ageing and the Minister for Finance and Administration.

New Directors are informally inducted into the Company and are encouraged to visit front line retail centres, back office work places and to meet with employees across all areas of the business.

Appointment details and the Managing Director's powers are outlined in Articles 46 and 47 of the Company's Constitution.

Directors' details, Board and Committee meetings held during the 2001-2002 financial year and Director attendance at those meetings is included in the Directors' Report within the Financial Report section of this report.

Conflicts of Interest

All Medibank Private Directors are required to disclose to the Board details of transactions which may create a conflict of interest for them in the decisions placed before the Board, in accordance with the Corporations Act. Directors do not participate in discussions and abstain from voting on any decisions in which they may have a material personal interest.

Board and Management

Following a review of operations and in an attempt to reduce overhead costs and management expenses, a corporate restructure has been implemented to re-focus the organisation in line with the Corporate Plan 2002-2005. A greater emphasis has been placed on operational and customer focussed units, with the Chief Operating Officer coordinating the areas of Sales and Retail, Virtual and Provider Relations.

These operational units are supported by Finance, IT, PHI Services, Human Resources, Legal, Compliance and Corporate Development & Marketing.

In addition, the Board and Management are supported directly by the Company Secretariat and Management Assurance.

Divisional Managers and the Managing Director comprise the Group Leadership Executive, which oversees the company operations and strategy development.

Code of Governance

The Board of Medibank Private has approved and implemented a Code of Governance. The purpose of the Code of Governance is to identify the key governance policies and procedures the Board has put in place.

The Board reviews the Code of Governance annually, and amends the Code as required to ensure that high governance standards are maintained throughout the business.

Director Education

Directors are provided with detailed briefings on corporate strategy and current issues affecting Medibank Private and the private health insurance industry generally. They are regularly updated on corporate activity by responsible managers, and visit Medibank Private facilities around Australia. Opportunities are also provided to Directors to attend conferences and seminars to update their skills and knowledge. A Board performance appraisal process is conducted each year with identified improvements implemented as a consequence.

Independent Professional Advice

Each Director has the right to seek independent professional advice at Medibank Private's expense where appropriate. Prior approval of the Chairman is required, which is not unreasonably withheld.

Audit & Compliance Committee

The Audit & Compliance Committee comprises a minimum membership of three non-executive Directors. The primary role of the Committee is to advise on the establishment and maintenance of a framework of internal control and standards for the management of Medibank Private. This ensures effective management of financial and non-financial risks, compliance with relevant laws, regulations and codes, and reliable management and financial reporting. The Internal Auditor Rob Gill reports directly to the Audit and Compliance Committee.

Corporate governance (continued)

Health Innovations Committee

The Health Innovations Committee (formerly called the Health Solutions Committee) comprises both non-executive Directors and the Managing Director. The primary purpose of the Committee is to monitor and review health industry issues and strategies relating to both members and providers. Its objective is to ensure that members are provided with quality health options and benefits. The Committee is mindful of the importance of creating value, addressing members' needs and ensuring quality assured products.

Investment Committee

The Investment Committee comprises three non-executive Directors and the Managing Director. The primary role of the Committee is to monitor the effectiveness of the investment strategy in achieving optimum return relative to risk.

Remuneration Committee

The Remuneration Committee comprises three non-executive Directors and, where appropriate, the Managing Director. The primary role of the Committee is to review and make recommendations on Board size and composition, Board and senior executive remuneration, Board and senior management succession planning, and insurance requirements as they relate to Directors and employees.

Board Reporting

Management provides monthly submissions to the Board on the operations of Medibank Private as well as reporting on performance against the Corporate Plan target objectives. The Corporate Plan includes company objectives, business strategies and major projects, financial targets and non-financial performance measures. Management submissions also highlight key or emerging issues and trends.

Under the Government Business Enterprise governance arrangements, a Corporate Plan is submitted annually to shareholder Ministers. A high level summary of the plan (known as a Statement of Corporate Intent) is tabled in Parliament. Quarterly reports on progress against the Corporate Plan are made to shareholder Ministers.

Medibank Private's Annual Report is submitted to the Commonwealth Parliament in accordance with Section 36 of the *Commonwealth Authorities and Companies Act 1997(Cth)*.

Internal Control Framework

Medibank Private's Group Leadership Executive meets at least monthly to review Medibank Private's operational performance and progress against the Corporate Plan.

Management Assurance within Medibank Private conducts internal audits in accordance with a risk-based Internal Audit Plan, which is reviewed annually. Its reports are reviewed by the Audit & Compliance Committee and approved by the Board. Management Assurance reports to the Board, through the Audit & Compliance Committee.

Compliance Framework

Medibank Private has procedures in place to minimise legal risk. An organisation-wide review of the legal compliance program has been undertaken to ensure compliance with all relevant legislation and regulations affecting the Company. This review was undertaken following Medibank Private providing an undertaking to the ACCC under S87B of the Trade Practices Act in relation to compliance.

The Compliance Unit, which is part of the Legal Division and reports to the General Counsel, is responsible for designing, implementing and maintaining a comprehensive compliance reporting process within Medibank Private to mitigate legal risk. This includes the development of an Operational Compliance Plan, which is reviewed by the Board on an annual basis. The Compliance Unit also provides advice and training to ensure that Medibank Private is ready to meet all legislative and regulatory requirements.

Business Risk Management

Medibank Private is committed to risk management as an integral part of its operations.

As a key component of strategic planning and operational reviews, potential business risks are identified and evaluated. These risks comprise both economic risks, such as actions by competitors and the investment environment and also other public health issues such as developments in medical science and technology including the social



implications to members of such developments. The Management Assurance Unit,

together with senior management identifies and facilitates action plans to mitigate these risks as they arise. The progress of these action plans is reported regularly at Management Meetings and quarterly to the Board via the Audit &

Compliance Committee, to ensure that appropriate corrective action is being taken in a timely manner.

Medibank Private's risk management methodology is based on the Australian and New Zealand Risk Management Standard.

Ethical Standards

Medibank Private's ethical standards are enshrined in the values outlined in the Corporate Plan and internal publications. All Directors, managers and employees are expected and encouraged to act in accordance with these values.

Occupational Health and Safety

Medibank Private's operations are consistent with Commonwealth Government Occupational Health and Safety requirements.

Environment

Medibank Private's operations are consistent with Commonwealth Government environmental requirements.

Board of Directors



D A W Thomson
AM, MAICD, FCPA
Chairman

Managing Director from 12 February 1999 to 31 July 1999. Appointed Chairman from 1 December 1997. Current term expires 7 November 2003. Chair of the Remuneration Committee.

Currently:

- Chairman of the Australian Shipowners Association.
- Director of Australian Industry Development Corporation and Australian River Co Ltd (previously ANL Limited).

Formerly:

- Chairman of the Health Insurance Commission to 29 July 1998.
- Director Australian Submarine Corporation Pty Limited.
- National Executive Director, Royal Flying Doctor Service of Australia.
- Director and Chief Executive of Howard Smith Ltd and Director of Howard Smith Ltd group of companies including Coal and Allied Industries Ltd and J Blackwood & Son Ltd.



P F E Hutchinson
BA (Hons), CA, AMusa, MAICD
Deputy Chairman
Non-Executive Director

Director from 1 December 1997. Current term expires 7 November 2003. Chair of Audit and Compliance Committee.

Currently:

- Director Arts Victoria.
- Council Member Victorian College of the Arts.
- Council Member Monash University.
- Member Institute of Chartered Accountants.

Formerly:

- Partner BDO Nelson Parkhill.
- Chair of Victorian Public Transport Forum.
- Director, Swanston Trams.
- Director, Federal Airports Corporation.
- Chair of Victorian Rehabilitation Services Pty Ltd.



P B Wade
BComm (Hons), MA, FCPA,
MAICD
Non-Executive Director

Appointed Director from 26 June 2002. Current term expires 28 June 2005.

Currently:

- Chairman, Open Learning Agency of Australia Pty Ltd.
- Director of Banksia Wines Limited.
- Director of CASS Foundation Limited.
- Director of The Knox School Limited.
- Director of KPA Consulting Pty Ltd.



M D Bollen
AM, MB BS (Adel),
FRACGP D Obst RCOG, MAICD
Non-Executive Director

Director from 7 July 1998. Current term expires 27 August 2004. Chair of Health Innovations Committee.

Currently:

- Director, BMP Healthcare Consulting Pty Ltd.
- Member of the National Health and Medical Research Council.
- Member, Australian Medical Association.

Formerly:

- General Practitioner, Chairman Department of Primary and Emergency Care, John Hunter Hospital.
- Secretary General (1993-1997) and CEO (1997-1998), Royal Australian College of General Practitioners.



J U Stoelwinder
MD (Monash), MBBS (W.A.),
FRACMA, FACHSE, FAFPHM
Non-Executive Director

Appointed Director from 26 June 2002. Current term expires 28 June 2005.

Currently:

- Professorial Fellow in the Department of Epidemiology and Preventive Medicine, Monash University.
- Director of Birans Pty Ltd.

Formerly:

- CEO / Director of the Southern Health Care Network.
- Director, Kitaya Holdings Pty Ltd.
- CEO, Monash Medical Centre.
- CEO, Queen Victoria Medical Centre (Melbourne).
- Member of the Private Health Insurance Administration Council.
- Professor and Head, Health Services Management Development Unit at Flinders University, School of Medicine.
- Professorial Fellow at the Institute of Public Health and Health Services Research, Monash University Faculty of Medicine.



A H Brien AM
Non-Executive Director

Appointed Director from 26 June 2002. Current term expires 28 June 2005. Chair of the Investments Committee.

Currently:

- Life Governor, Flinders Medical Centre Research Foundation.
- Member, Pooled Development Funds Board (Venture Capital) – Dept Aus Industry and the Advisory Board Mitsubishi Motors Australia.
- Trustee, Les Favell Cricket Foundation.
- Director of The Liberal Club Ltd.
- Director and Chairman, Adrian Brien Pty Ltd.

and Group Leadership Executive



G Savvides
BE (Hons) (UNSW),
MBA (UTS), FAICD
Managing Director

Director from 6 September 2001. Interim appointment as Managing Director from 19 April 2002 to 31 March 2003. Current term as Non-Executive Director expires 27 August 2004.

Currently:

- Non-Executive Director, World Vision International.
- Non-Executive Director, World Vision Australia.
- Executive Member of AHIA (Australian Health Insurance Association).

Formerly:

- Chairman, Medicines Partnership of Australia.
- Managing Director, Healthpoint Technologies.
- Managing Director and CEO, Sigma Co Ltd.
- Managing Director, Smith+Nephew Pty Ltd Australasia.
- General Manager, CIG Healthcare Australia.

Group Leadership Executive

The Group Leadership Executive (GLE) was established in June 2002 as part of the organisational restructure. GLE replaces the previous Executive Management Team, and has been structured to ensure more effective representation by the areas responsible for operational performance.

The GLE members bring to Medibank Private combined expertise in the areas of health, finance, customer sales and service, and technology. Their brief is to lead the organisation in more effectively managing our operational

performance, benefit outlays and customer service, and to develop a culture of innovation and continuous improvement.

Chief Operating Officer, Simon Blair, has three GLE members reporting to him:

- General Manager, Benefit Outlays, Bruce Levy (not pictured) has just been appointed and will manage the risk and expenditure associated with benefit outlays.
- General Manager, Sales and Retail, Pat McKinney is nationally accountable for contribution income and the Medibank physical retail network.
- National Manager, Customer Care, Jill FitzRoy is responsible for all customer contact centre activity, including member enquiries.

Group Manager Corporate Development & Marketing, Steve Boomert manages customer segmentation and product development strategy, while General Manager, Private Health Insurance Services, Peter McNeil manages the national claims processing and member servicing.

Group Manager Human Resources, Andrea Thistlethwayte, Group Manager Information Technology, Surinder Singh, Chief Financial Officer, Cecil Piccinino and General Counsel & Company Secretary, Sarah Bussey provide corporate support to the operational divisions of the business. Innovation and Continuous Improvement Advocate, Derek Linsell, is facilitating the national network of staff quality improvement teams that drive the quality management culture within Medibank Private.



Standing (L to R): Derek Linsell - Innovation & Continuous Improvement Advocate; Simon Blair - Chief Operating Officer; Pat McKinney - General Manager, Sales & Retail; Peter McNeil - General Manager, PHI Services; Steve Boomert - Group Manager, Corporate Development & Marketing.

Seated (L to R): Surinder Singh - Group Manager, IT; Jill FitzRoy - National Customer Care Manager; Andrea Thistlethwayte - Group Manager, Human Resources; George Savvides - Managing Director; Cecil Piccinino - Chief Financial Officer; Sarah Bussey - General Counsel & Company Secretary. **Bruce Levy** - General Manager, Benefit Outlays (*absent*)



In the short-term, we will **consolidate our leadership** in the delivery of private health insurance - measured in both market share and quality. Our mid-term goal is to offer **innovative health solutions** that differentiate Medibank Private from other major market participants.

Strategic direction

Challenges to private health insurance

This financial year has seen a downturn in the private health insurance industry. In 2000-2001, the industry flourished within the context of strong market share growth and operating surpluses, which were aided by member contributions outweighing benefit payments that lagged due to waiting periods. This year, the industry was impacted by member contributions stabilising, waiting periods ending and a collapsing investment market that eroded investment income.

The major business challenges facing the industry are:

Benefit outlays increase – benefit payments to members in 2001-2002 surpassed industry expectations, with Medibank Private payments for the fourth quarter \$40 million higher than the third quarter.

Capital adequacy requirements – stringent minimum solvency levels were introduced in early 2001 to better protect member interests. These requirements will provide increasing challenges for health funds as they enter an environment of increased competition, stabilised membership and rising consumer expectations for product value.

Acquisition and retention – as member entry into private health insurance stabilises, the strategic focus for health funds will be to retain members as well as acquire new ones. The challenge will be to ensure our members receive value for money for their membership, either as users or convinced of the value of the protection they enjoy in their insurance product.

Increased consumer expectations – research indicates that consumers continue, not unreasonably, to focus on extracting value for their membership and demand better clarity in regard to private health insurance services. There is opportunity for health funds to better promote their brands in an environment where clarity of offering, selection entitlement and choice are increasing in importance.

Our response

As a substantial Government Business Enterprise, Medibank Private adopts a formal Corporate Planning

process. Within our Corporate Plan we have outlined a series of initiatives to realign the core business, restore positive operating margins, pursue a service leadership position in the health insurance industry, and ensure that members receive value for money for their membership of Medibank Private.

The five core strategies underpinning the 2002-2005 Corporate Plan are:

Market development – sustain Medibank Private's market leadership through ability to better understand and meet our members' needs.

Product and service innovation – offer a superior product range that matches the right product to the right member, so as to establish Medibank Private as an Australian leader and innovator in health insurance solutions.

Provider relationships – contain growth in benefit outlays through the development and implementation of commercially robust purchasing models and benefit risk management programs that deliver consistent quality and value for our members.

Member delivery – consolidate our industry leadership in member service delivery by on-going investments in our extensive network of customer contact points (retail centre, call centre and web/virtual), supporting the member engagement strategy of virtual to physical service engagement.

Process efficiency – achieve industry best practice for insurance claims processing efficiency and industry benchmark for member satisfaction, developing a platform that enables Medibank Private to leverage its scale advantage through e-commerce transactions.

After successfully building a platform of private health insurance service and operational leadership, we will then devote resources to offering our members access to complementary health solutions and associated services. We will selectively partner with quality providers to develop innovative health service delivery and adopt funding models that support these initiatives.



Operational review

Medibank Private 2001-2002 year at a glance

Total assets	\$992.3 million
Net assets	\$382.4 million
Total benefits	\$1,967.0 million
Total contributions	\$2,017.9 million
% of contributions paid back as benefits to members	97.5%
Number of memberships*	1.4 million
Number of people covered*	2.9 million
Underwriting loss	\$162.6 million
Total administrative costs	\$213.4 million
Number of full-time equivalent staff as at 30 June 2002	1,179
Market share	30.5%
MER (Management Expense Ratio to Contribution Income)	10.6%

Health Cover

Hospital episodes	554,216
Ancillary services	12.9 million
Hospital beds days	1.9 million
Number of Private Hospitals contracted	more than 90%
Number of Ancillary Providers contracted	3,581

Total benefits

Hospital	\$1,428.3 million
Ancillary	\$489.0 million
Overseas students/visitors	\$49.7 million
GapCover (medical)	69% of claims
Service calls received to 30 June 2002	3,730,340
Number of claims processed to 30 June 2002	7,892,286
Number of Retail Outlets	99

**Excluding non-residents, consistent with industry reporting*

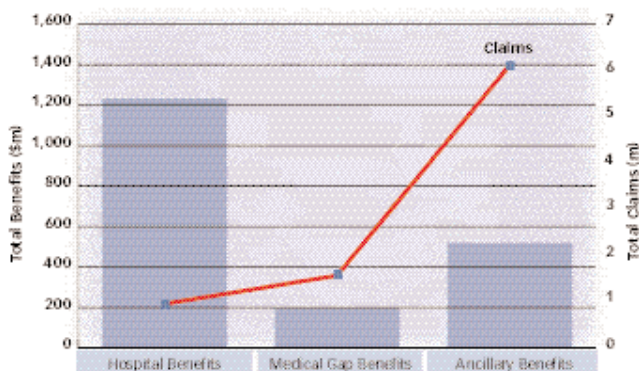


Going forward we will reduce benefit claims leakage and costs whilst developing pro-active contractual relationships with providers that share efficiency gains, uphold quality standards and recognise the need to maintain value to members.

Benefits and provider relationships



Total Benefits and Total Claims 2001-2002



We introduced an average 8.9% premium increase in 2001-2002, our first in nearly three years, in response to the increase in benefit outlays and reduction in investment income.

We removed the waiver of same day excess and introduced co-payments for same day hospital admissions for those products where excesses and co-payments apply. This was in response to a dramatic increase in number and range of same day procedures provided.

Members were given time to change their cover to a non-excess and co-payment hospital product, without being disadvantaged by the pre-existing ailment (PEA) rule for same-day admissions. These changes brought us in-line with the majority of Australia's leading private health insurance funds.

Despite these changes, we retained our market share with a negligible change in memberships, reinforcing the competitiveness of our product offering.

- During 2001-2002, Medibank Private incurred \$1,967.0 million in benefits paid to members (or 97.5% of premium income), an increase of 20% over the previous year
- Benefits for hospital products were \$1,428.3 million, or 73% of total benefits (includes medical gap payments)
- Benefits for ancillary products were \$489.0 million, or 25% of total benefits
- Benefits for overseas students and visitors were \$49.7 million or 2% of total benefits
- Medibank Private contracts with over 90% of hospitals
- A total of 3,581 agreements with ancillary providers Australia-wide.

Benefits and provider relationships



POSITIVE PRODUCT CHANGES DURING THE 2001-2002 FINANCIAL YEAR

- **Introduction of a no excess package product called PremierPlus**
- **Payment of remedial massage under Blue Ribbon Extras Plus, Blue Ribbon Extras and the Flexi-Fund for Smart Choice Extras**
- **Reduction in a number of benefit limitation periods and waiting periods**
- **Increases in extras benefits for podiatry and dental services**

Hospital benefits for 2001-2002 were \$1,428.3 million. The average benefit per episode compared to the previous year for acute overnight private hospital admissions and same-day admissions increased by approximately 4.4% and 11% respectively.

These increased benefits were largely influenced by utilisation of hospital cover, technological advances, higher prosthetic costs and continued growth in same-day facilities.

Our commitment to member value is evidenced with Medical Gap payments, which increased to \$190.0

million in 2001-2002, from \$132.0 million the previous year. This increase is due to the growth in GapCover arrangements, mainly in the areas of obstetrics, gynaecology, ophthalmology, orthopaedic surgery, ear, nose and throat surgery and anaesthetics.

Number of GapCover claims processed since November 1999 is 1,110,220. Utilisation of GapCover and Simplified Billing increased to 69% against a 60% target, and number of specialists now participating in the scheme number 6,893.

Our Members' Choice network continued to expand with over 98% of hospital benefits and 36% of ancillary benefits paid under these arrangements.

Investigations into benefit fraud were conducted in 2001-2002 to help better manage benefit outlays. We investigated 60 cases of suspected fraud across all modalities and among our own members, and four cases were prosecuted by the Police, three of these being Medibank Private members. While a greater majority of providers are honest, we have a responsibility to our broader membership to protect the premiums they pay us by ensuring we only pay legitimate claims.

Going forward, our major focus for managing growth in benefit outlay expenditure more effectively is reducing benefit leakage through pro-active contractual relationships with providers that share efficiency gains, preserve quality standards and recognise the need to maintain value to members.

Investments

The 2001-2002 investment performance was significantly affected by the downturn in local and offshore equity markets. This resulted in a net loss on investments of \$12.9 million (equating to a -1.3% return) for the 2001-2002 financial year.

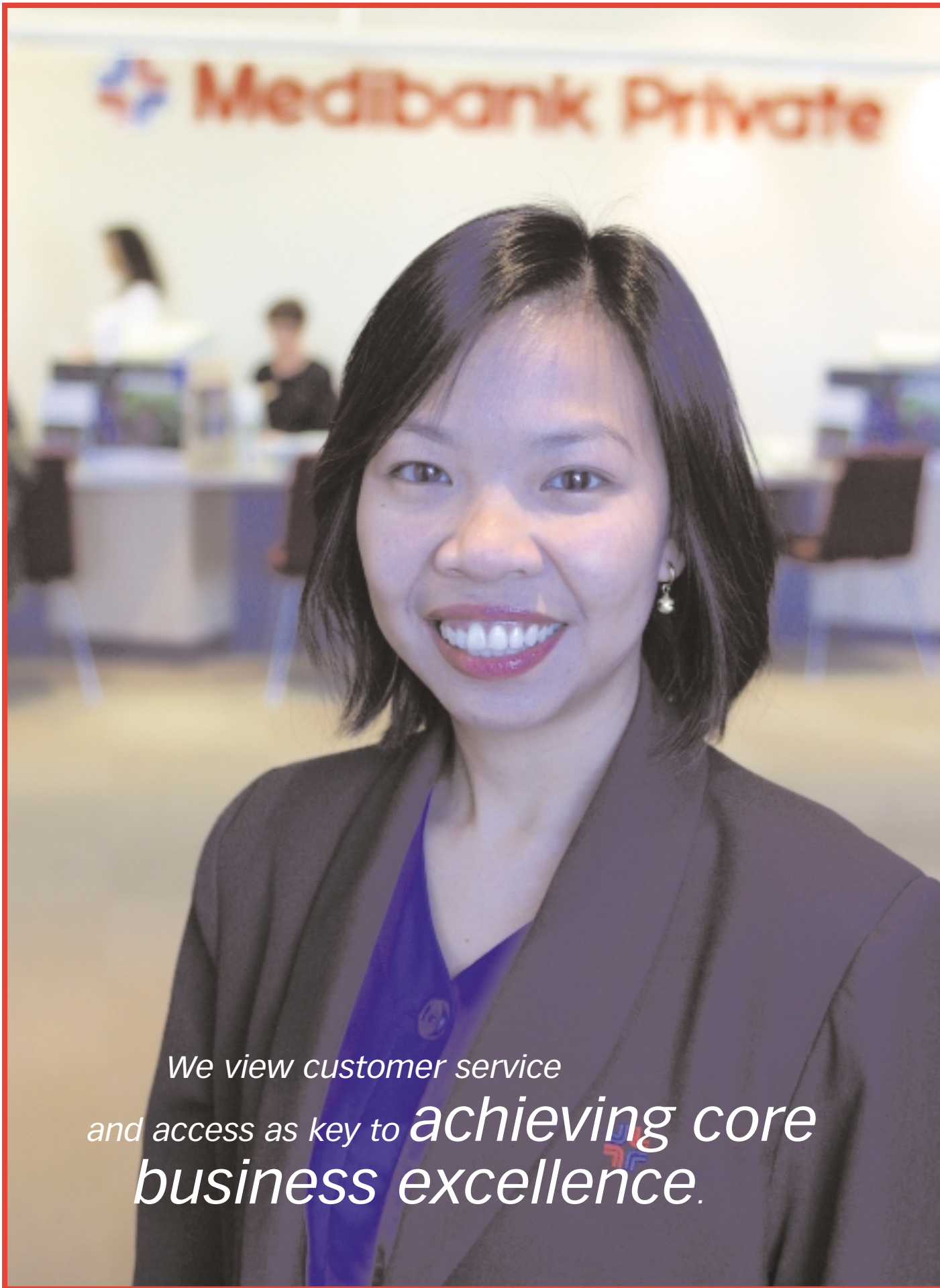
The investment portfolio at 30 June 2002 stood at \$900.0 million. The investment portfolio is the aggregate of investments and cash at call.

Investment Policy

Medibank Private manages its investment portfolio to balance risk and return, incorporating up to date information on the business strategy, financial circumstances and capital adequacy requirements.

Taking these criteria into account, the Medibank Board resolved during May 2002 to place all investment assets into defensive instruments. By 30 June 2002, 90% of Medibank Private's Investment assets were held in cash and cash equivalents. The remaining 10% of the portfolio was invested in Australian Fixed Interest and Australian Inflation Linked Bonds. No allocation or holdings existed in Australian Equities, International Equities or Listed Property Trusts.

Medibank Private's current strategic asset allocation policy retains a 100% allocation to defensive assets. This can be broken down to a 90% allocation to cash and a 10% allocation to fixed interest. A variance to these allocations of no greater than + /- 2% is permissible.



*We view customer service
and access as key to **achieving core
business excellence.***

Member relationships

- **1.4 million memberships, excluding non-residents, as at 30 June 2002**
- **77,047 new memberships in 2001-2002**
- **2.9 million people covered as at 30 June 2002**
- **766,000 visits to www.medibank.com.au in 2001-2002**

We are committed to making health insurance simple for our members and in the longer-term, providing them with access to health solutions that best meet their individual health requirements.

In 2001-2002, we strengthened our position in the health information field through forming partnerships with the National Heart Foundation and National Asthma Council. Health information on cardiac conditions and asthma via the Medibank Private website is the first step in the three-year alliance with these two peak health bodies.

Longer-term, we will work with both associations to develop new initiatives tailored to help prevent and manage asthma and heart conditions and encourage general health and wellbeing.

These alliances match the growing attitude by consumers to have more control over their own health and wellbeing. We first tapped into this demand when we launched our partnership with the Cochrane Collaboration in 2000-2001. This partnership continues to be a success in delivering health information to members, with over 1000 professional medical reviews available via the Medibank Private website.

While many businesses tend to reduce their physical branch or access points for customers during challenging times, we have chosen differently. We view customer service and access as key to achieving core business excellence or sustainability. In 2002-2003, we will increase our retail network and offer members a broad array of health information services. These services will mirror our on-line health and wellbeing services accessed through our website: www.medibank.com.au.

A new product 'PremierPlus' was introduced on 15 April 2002, in response to market demand. It is the most comprehensive package product in the Medibank Private product range. The key product features that differentiate PremierPlus from the other products in the package range (AdvantagePlus, SmartPlus and HealthyPlus) are :

- members do not have to pay an excess on hospital accommodation; and
- it includes comprehensive top extras cover (ie equivalent to Blue Ribbon Extras Plus, our top extras product).

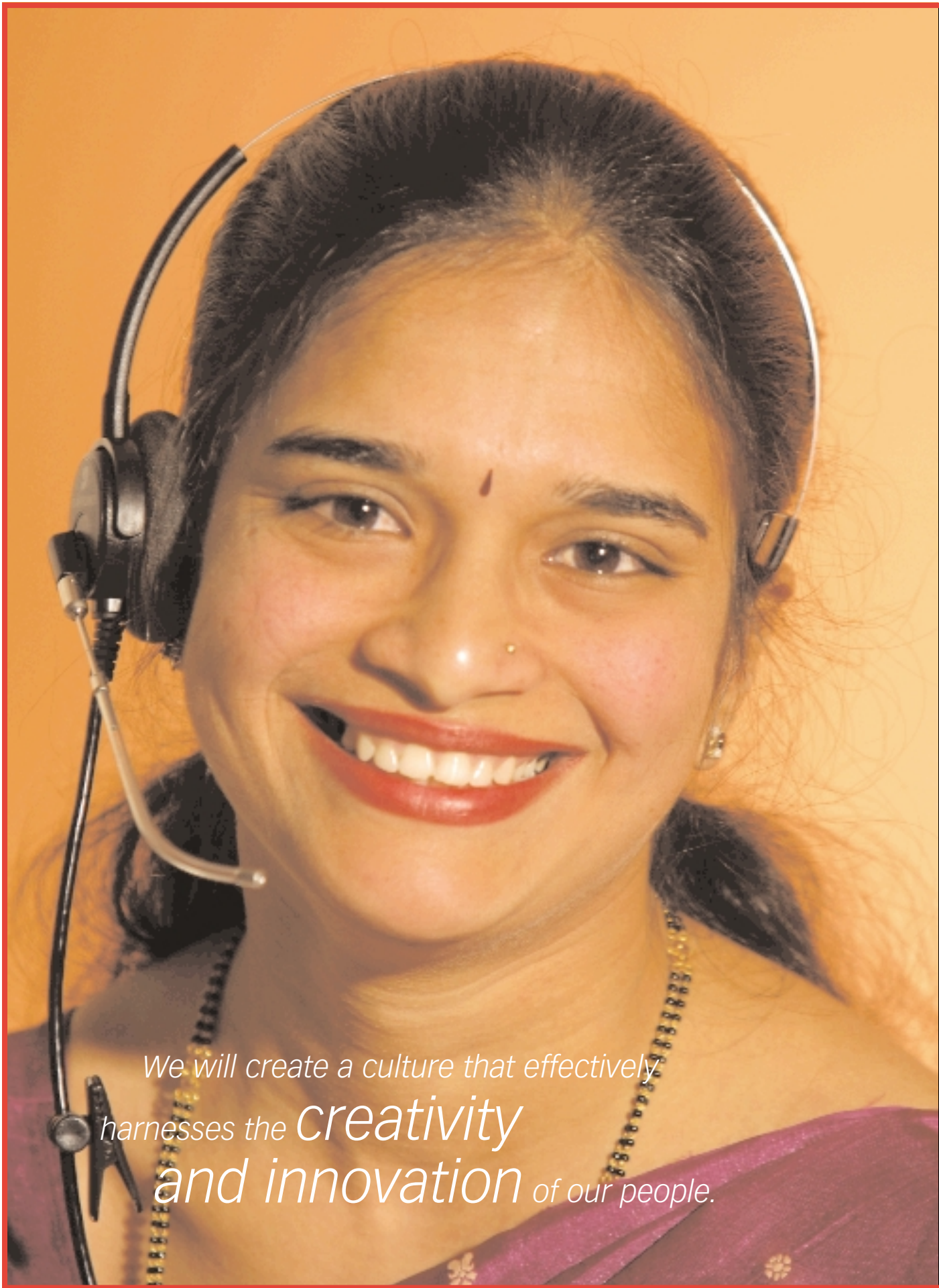
In the short 10-week period to 30 June 2002, some 2,990 memberships were issued for PremierPlus.

Other notable features in 2001-2002 include:

- Release of a new series of product brochures to make health insurance easier for our members to understand.
- Retaining our number one ranking in the "health and medical – health insurance" category of websites for the majority of last financial year. This assessment was provided by HitWise, an organisation that monitors Internet traffic Australia-wide and internationally, and they ranked us based on the number of user visits the website receives.
- A new member feedback and complaints management system was introduced to better understand member concerns about Medibank Private products and services. This system will be linked in with the "Relationship 1st" customer relationship management system when it is rolled out in 2002-2003, to ensure a cohesive approach to servicing our members.

Going forward, we will continue to build our health information services, to ensure they meet member needs and align with the key health priorities of the Australian community.





We will create a culture that effectively
harnesses the *creativity*
and innovation of our people.

Our people

We recognise the critical need to empower our people and continue to build a culture based on performance recognition, continuous improvement and innovation, respect and caring for our members' needs.

In June 2002, Medibank Private's corporate office was restructured to realign our management focus on achieving greater balance between long-term strategic goals and short-term operational performance. The organisational structure now contains a new division focussed on provider relations and the stronger management over benefit outlays.

Our commitment to our people is also quite intentional. By engaging our employees, we have sought to create an organisational culture of quality and continuous improvement. A broad network of Quality Action Teams has been formed as the means of involving employees in identifying waste and process inefficiencies and delivering improvement initiatives. Altogether, 20 teams, involving 200 employees, have been formed. Each team is set a business process target to improve the company's bottom line through waste reduction or process re-engineering, enabling our employees to contribute to making Medibank Private a great company in the eyes of all its stakeholders.

At 30 June 2002, we employed a total of 1,179 (full-time equivalent) staff across the following business divisions:

- Retail
- Customer Care
- Human Resources
- Provider Relations
- Information Technology
- Corporate Development and Marketing
- Finance
- Legal & Company Secretary
- PHI Services.

We used the Balanced Scorecard approach to measure both organisational and individual performance across four key areas: Financial, Customer, Operational and Organisation Learning and

Growth. This has been further refined and in June 2002, a Corporate Dashboard was introduced to track key performance measures across the business, and link our Corporate Plan objectives to drive individual performance measures. These are cascaded from Group Leadership Executive through to our front line service teams. These objectives are captured in individual Personal Development Programs, which form the basis of individual assessment and appraisal.



To engage employees in these key performance measures, we refined our internal communications model to support the need for timely communication across the business. This has involved greater accountability for each division to develop and implement their communication messages to engage employees through regular Intranet newsletter dialogue.

We are continuing to ensure appropriate capability is available for roles that are considered critical to the business. In particular, a Talent Management strategy has been developed to identify and develop high potential individuals across the organisation.

In 2002-2003, we will develop and implement a competency framework. This framework will be used to drive leadership and key business competencies that support the priorities outlined in the Corporate Plan.

We continue to work closely and pro-actively with the Community and Public Service Union (CPSU) on issues that affect Medibank Private employees. In January 2002, a new employment agreement between the CPSU and Medibank Private was certified.

Our Occupational Health and Safety record in 2001-2002 was an improvement on the previous year's results both in the number of claims and the average duration of incapacity. This will continue to improve as senior management drive more employee awareness and prevention strategies.

At Medibank Private, successful achievement of our business objectives and service goals will come from our employees.



We support non-profit activities that
aim to improve the *general health*
and wellbeing of the Australian community.

(Juvenile Diabetes) "Walk to Cure Diabetes" Oct 2001

Community support

As a company, we believe it is important to support non-profit activities that aim to improve the general health and wellbeing of the Australian community. Medical research, in particular, does not always yield quick results, so without guaranteed funding support, the work that researchers are doing today could not be continued in the future.

Based on this philosophy, we provided support through donations and staff fundraising to the following organisations in 2001-2002:

- The Bonnie Babes Foundation, which raised over \$100,000 for perinatal research and provision of vital medical equipment;
- The Silagy Foundation, which supports the work of the Cochrane Collaboration;
- The Children's Medical Research Institute (CMRI) through its "Jeans for Genes" day appeal; and
- The "Young Medical Researcher of the Year" Awards, which supports the careers of young researchers in Australia.

Over 250 Medibank Private staff and family/friends also took part in the Juvenile Diabetes Research Foundation's "Walk to Cure Diabetes" in October 2001. The Walk is JDRF's major fundraiser and all money raised goes towards research into finding a cure for juvenile diabetes, which affects over 100,000 Australians. Staff raised \$9,000 as part of their fundraising efforts for the Walk.



We also coordinated a competition, in conjunction with The Royal Australian College of General Practitioners, to identify the "GP of the

Year" in Australia. The competition's aim is to recognise and reward the work done by medical professionals.

In June 2002, our staff took part in a corporate blood drive to support the Australian Red Cross Blood Service. The drive exceeded expectations, with 113 (23%) staff in Melbourne donating blood. The regional blood drive will run until late 2002, enabling mobile blood banks to reach all parts of regional Australia where our staff are based.



*We now have 180 staff dedicated
to servicing member telephone enquiries.*



Financial statements

Directors' report

The Board of Directors of Medibank Private Limited (Medibank Private) has pleasure in submitting its report.

BOARD OF DIRECTORS

The names and details of the Directors in office during the financial year and until the date of this report are as follows.

CURRENT DIRECTORS

Name and qualification

Experience and special responsibilities

D A W Thomson AM, MAICD, FCPA

Chairman

Managing Director from 12 February 1999 to 31 July 1999. Appointed Chairman from 1 December 1997. Current term expires 7 November 2003. Chair of the Remuneration Committee.

Currently Chairman of the Australian Shipowners Association; Director of Australian Industry Development Corporation and Australian River Co Ltd (previously ANL Limited).

Formerly Chairman of the Health Insurance Commission to 29 July 1998; Director Australian Submarine Corporation Pty Limited; National Executive Director Royal Flying Doctor Service of Australia; Director and Chief Executive of Howard Smith Ltd and Director of Howard Smith Ltd group of companies including Coal and Allied Industries Ltd and J Blackwood & Son Ltd.

P F E Hutchinson BA (Hons), CA, AMusA, MAICD

Deputy Chairman

Non-Executive Director

Director from 1 December 1997 and Chair of Audit and Compliance Committee. Current term expires 7 November 2003. Currently Director Arts Victoria; Council Member Victorian College of the Arts; Council Member Monash University; Member Institute of Chartered Accountants.

Formerly Partner BDO Nelson Parkhill; Chair of Victorian Public Transport Forum; Director Swanston Trams; Director Federal Airports Corporation; Chair of Victorian Rehabilitation Services Pty Ltd.

M D Bollen AM MB BS (Adel), FRACGP D Obst RCOG, MAICD

Non-Executive Director

Director from 7 July 1998 and Chair of Health Innovations Committee. Current term expires 27 August 2004. Currently Director BMP Healthcare Consulting Pty Ltd; Member of the National Health and Medical Research Council; Member Australian Medical Association.

Formerly General Practitioner, Chairman Department of Primary and Emergency Care, John Hunter Hospital; Secretary General (1993-1997) and CEO (1997-1998), Royal Australian College of General Practitioners.

G Savvides BE (Hons) (UNSW), MBA (UTS), FAICD

Managing Director

Director from 6 September 2001. Interim appointment as Managing Director commenced 19 April 2002 to 31 March 2003. Current term expires 27 August 2004. Currently Non-Executive Director, World Vision Australia and World Vision International; Executive Member of AHIA (Australian Health Insurance Association).



Formerly Chairman, Medicines Partnerships of Australia; CEO Healthpoint Technologies; Managing Director and CEO, Sigma Co Ltd; Managing Director Smith+Nephew Pty Ltd Australasia; General Manager, CIG Healthcare Australia.

J U Stoelwinder MD(Monash), MBBS (W.A.), FRACMA, FACHSE, FAFPHM

Appointed Director from 26 June 2002. Current term expires 28 June 2005. Currently Professorial Fellow in the Department of Epidemiology and Preventive Medicine, Monash University; Director of Birans Pty Ltd.

Non-Executive Director

Formerly CEO / Director of the Southern Health Care Network; Director, Kitaya Holdings Pty Ltd; CEO, Monash Medical Centre; CEO, Queen Victoria Medical Centre (Melbourne); Member of the Private Health Insurance Administration Council; Professor and Head, Health Services Management Development Unit at Flinders University, School of Medicine; Professorial Fellow at the Institute of Public Health and Health Services Research, Monash University Faculty of Medicine.

P B Wade BComm (Hons), MA, FCPA, MAICD

Appointed Director from 26 June 2002. Current term expires 28 June 2005. Currently Chairman, Open Learning Agency of Australia Pty Ltd; Director of Banksia Wines Limited; Director of CASS Foundation Limited; Director of The Knox School Limited; Director of KPA Consulting Pty Ltd.

Non-Executive Director

A H Brien AM

Appointed Director from 26 June 2002. Current term expires 28 June 2005. Chair of the Investments Committee. Currently Life Governor, Flinders Medical Centre Research Foundation; Member, Pooled Development Funds Board (Venture Capital) – Dept Aus Industry and the Advisory Board Mitsubishi Motors Australia; Trustee, Les Favell Cricket Foundation; Director of The Liberal Club Ltd; Director and Chairman, Adrian Brien Pty Ltd.

Non-Executive Director

**FORMER DIRECTORS:
Name and qualifications**

Experience and special responsibilities

**C W Breeze
FAIB, FCIS, FAICD Dip, FAMI
Non-Executive Director**

Director from 1 December 1997. Resigned on 1 October 2001.

**M W Burrowes, BEc, GAICD
Managing Director**

Managing Director from 1 September 1999. Resigned on 19 April 2002.

**I L Fraser FCPA, FAICD
Non-Executive Director**

Director from 1 December 1997. Term expired on 31 May 2002.

**R G Meikle MB, ChB (Otago), DDR,
FRACR Non-Executive Director**

Director from 1 December 1997. Term expired on 31 May 2002.

Directors' report (continued)

DIRECTORS' INTERESTS

The Commonwealth of Australia is the sole shareholder in the company. No director holds shares or options in Medibank Private.

DIRECTORS' MEETINGS

The number of meetings of the Board of Directors and Board Committees during the year, and attendance by Directors at those meetings, are shown below.

Director	Board Meeting		Audit & Compliance Committee (a)		Health Innovations Committee (b)		Investment Committee (c)		Remuneration Committee (d)	
	A	B	A	B	A	B	A	B	A	B
D A W Thomson	18	18	5	5	4	6	2	3	2	2
M W Burrowes	14	15	4	5	4	5	2	3	1	2
G Savvides	13	15	3	3	4	4	3	3	-	-
M D Bollen	13	18	4	5	5	6	2	3	-	2
C W Breeze	6	6	2	2	2	2	1	1	2	2
I L Fraser	17	18	5	5	6	6	-	3	-	2
P F E Hutchinson	17	18	5	5	3	6	1	3	-	2
R G Meikle	14	18	4	5	6	6	2	3	-	2
J U Stoelwinder	-	-	-	-	-	-	-	-	-	-
P B Wade	-	-	-	-	-	-	-	-	-	-
A H Brien	-	-	-	-	-	-	-	-	-	-

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the year

(a) Ms Hutchinson is Chair of the Audit & Compliance Committee.

(b) Dr Bollen is Chair of the Health Innovations Committee; Mr Fraser was Chair until 31 May 2002.

(c) Mr Breeze was Chair of the Investments Committee until 1 October 2001; Dr Meikle was Chair until 31 May 2002. Mr Brien was appointed the Chair of the Investments Committee on 3 July 2002.

(d) Mr Thomson is Chair of the Remuneration Committee.

At the date of this report, the Company had an Audit & Compliance Committee, a Health Innovations Committee, an Investment Committee and a Remuneration Committee. The role of these committees is outlined in the Corporate Governance section of this report. All directors are members of the Audit & Compliance Committee. Not all directors are members of each of the other committees, however all Directors are welcome to attend any of the meetings of these Committees.

PRINCIPAL ACTIVITIES

The principal activity of Medibank Private, during the financial year was to operate a registered health benefits organisation in accordance with the National Health Act 1953. The company provides a range of private health insurance services:

- hospital insurance for private patients;
- ancillary or extras cover;
- ambulance transport; and
- private health insurance to overseas students and visitors to Australia.

RESULTS

Medibank Private's 2001/02 operating loss was \$175,474 thousand. The Fund operates on a not-for-profit basis and does not pay income tax.

DIVIDENDS

Medibank Private is a not-for-profit entity, and paid no dividends during the year.

REVIEW OF OPERATIONS

A review of Medibank Private's operations is contained in the Chairman's and Managing Director's Reports, and the Operational Review.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the company that occurred during the financial year, and which are reported in the financial statements were:

- benefit outlays have increased significantly, primarily due to the expiry of waiting periods for Lifetime Health Cover members, which has significantly affected the surplus from ordinary activities;
- contribution rates were increased on 15 April 2002. This was the first increase since 1999;
- a strategic defensive change to our investment mix, in the light of declining returns. This resulted in a significant transfer of investments to cash towards the end of the financial year; and
- change to our registered office and principal place of business.

MATTERS SUBSEQUENT TO THE END OF FINANCIAL YEAR

No matters or circumstances have arisen since the end of the financial year which will significantly affect the operations, the results of those operations, or the state of affairs of Medibank Private subsequent to 30 June 2002.

LIKELY DEVELOPMENTS AND FUTURE RESULTS

Medibank Private is presently reviewing its product range with the aim of rationalisation and simplification. There are a number of regulatory reviews currently under way that may lead to changes in the private health insurance regulatory environment. The Federal Government has announced that a scoping study will be undertaken to consider the Commonwealth's future interest in Medibank Private.

Directors' report (continued)

DIRECTORS' REMUNERATION AND BENEFITS

Remuneration and allowances for non-executive directors is \$32,200 a year. The Chairman receives \$55,200. Members of the Audit & Compliance Committee receive an additional committee fee of \$5,000 per annum and the Chair of the Audit & Compliance Committee receives an additional fee of \$10,000 per annum. The Managing Director's package is set in consultation with the Remuneration Tribunal under its advisory jurisdiction. Travel allowances, also set by the Remuneration Tribunal, are payable to directors.

Directors may purchase private health insurance cover on the same terms as employees. Directors receive no benefits other than those stated above and detailed in Note 18 of the financial statements.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

An indemnity agreement has been entered into between Medibank Private and each of the directors of the company. Under the agreement, to the fullest extent allowed by law, the company has agreed to indemnify those officers against any claim or for any expenses or costs which may arise as a result of work performance in their respective capacities. There is no monetary limit to the extent of this indemnity. There have been no claims made pursuant to the above indemnity arrangements.

Medibank Private paid an insurance premium of \$46,457 in respect of a contract insuring each of the directors of Medibank Private and each full-time executive and secretary of the company, against liabilities and expenses arising as a result of work performed in their respective capacities to the extent permitted by law with a limit of \$15 million on any one claim and in aggregate.

ROUNDING OF AMOUNTS TO NEAREST THOUSAND DOLLARS

Medibank Private is a company of the kind specified in Australian Securities and Investment Commission class order 98/0100. In accordance with that class order, amounts in the financial statements and the Directors' Report have been rounded to the nearest thousand dollars unless specifically stated to be otherwise.

AUDITOR

Medibank Private is audited by the Auditor General. The Australian National Audit Office has contracted performance of this audit to Ernst & Young.

RESOLUTION OF DIRECTORS

This report is made in accordance with a resolution of the Directors.



D A W Thomson AM
Chairman



G Savvides
Managing Director

Melbourne, 14 August 2002

Statement of financial performance

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2002

	Note	2002 \$'000	2001 \$'000
REVENUES FROM ORDINARY ACTIVITIES			
Member contributions	2	2,017,862	1,954,575
Proceeds from disposal of other financial assets	2	1,219,341	38,803
Other revenue	2	42,948	81,490
		3,280,151	2,074,868
EXPENSES FROM ORDINARY ACTIVITIES			
Member benefits	3 (c)	(1,967,018)	(1,636,457)
Employee benefits expense		(89,512)	(87,796)
Information and technology expense		(35,132)	(34,048)
Marketing expense		(15,706)	(32,039)
Office and administration expense		(52,114)	(66,421)
Depreciation expense	3 (a)	(3,754)	(3,107)
Investment administration expenses		(2,343)	(3,258)
Other expenses from ordinary activities	3 (a)	(17,337)	(16,009)
Book value of other financial assets sold		(1,272,709)	(89,814)
(Loss)/profit from ordinary activities		(175,474)	105,919
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS		(175,474)	105,919

The above statement should be read in conjunction with the accompanying notes.

Statement of financial position

AS AT 30 JUNE 2002

	Note	2002 \$'000	2001 \$'000
CURRENT ASSETS			
Cash assets		791,158	120,665
Receivables	4	75,128	78,080
Other financial assets	5	70,088	916,179
Other	6	28,869	24,243
Total Current Assets		965,243	1,139,167
NON-CURRENT ASSETS			
Other financial assets	5	190	205
Plant and equipment	7	26,880	8,386
Total Non-Current Assets		27,070	8,591
Total Assets		992,313	1,147,758
CURRENT LIABILITIES			
Payables	8	40,945	63,523
Provisions	9	294,063	257,960
Other	10	273,330	267,326
Total Current Liabilities		608,338	588,809
NON-CURRENT LIABILITIES			
Provisions	9	1,585	1,085
Total Non-Current Liabilities		1,585	1,085
Total Liabilities		609,923	589,894
NET ASSETS		382,390	557,864
EQUITY			
Contributed equity	11	–	–
Retained profits	12	382,390	557,864
TOTAL EQUITY		382,390	557,864

The above statement should be read in conjunction with the accompanying notes.

Statement of cash flows

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2002

	Note	2002 \$'000	2001 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		2,024,642	1,912,696
Payments to suppliers and employees		(2,164,551)	(1,680,945)
Net cash flow (used in)/from operating activities	16(b)	(139,909)	231,751
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of other financial assets		1,219,341	38,803
Dividends received		10,748	12,230
Interest received		31,602	27,339
Proceeds from sale of plant and equipment		–	820
Purchase of other financial assets		(426,284)	(242,816)
Purchase of plant and equipment		(25,005)	(5,447)
Net cash flow from/(used in) investing activities		810,402	(169,071)
Net increase in cash held		670,493	62,680
Cash at the beginning of the financial year		120,665	57,985
Cash at the end of the financial year	16(a)	791,158	120,665

The above statement should be read in conjunction with the accompanying notes.

Notes to the financial statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2002

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of accounting

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report has been prepared on the basis of historical costs and, except where stated, does not take into account changing money values or current valuations of non-current assets.

b) Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the statement of cash flows, cash includes deposits at call with financial institutions and other highly liquid investments with short periods to maturity which are readily convertible to cash on hand and are subject to insignificant risk of changes in value, net of outstanding bank overdrafts.

c) Receivables

Contribution in Arrears

Contributions in arrears include contributions for groups and contributions for members that are less than 42 days in arrears.

Provisions

The collectability of all debts is assessed at balance date and specific provision is made for any doubtful accounts.

d) Investments

Current investments are recorded at market value and shown as other financial assets. Changes in net market value are recognised as revenue or expense in the statement of financial performance for the period. Non-current investments are recorded at cost.

The gain or loss on disposal of all investments is calculated as the difference between the carrying amount of the investment at the time of disposal and the proceeds on disposal.

e) Recoverable amount of non-current assets

Non-current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount assets are written down. In determining the recoverable amount, the expected net cash flows have not been discounted to their present value.

f) Plant and equipment

Cost and valuation

All classes of plant and equipment are measured at cost.

Purchases of plant and equipment are recognised initially at cost, except for purchases costing less than \$1,000 which are expensed in the year of acquisition (other than where they form part of a group or similar items which are significant in total).

Notes to the financial statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2002

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Plant and equipment (continued)

Depreciation

Depreciation is provided on a straight-line basis on all plant and equipment. The expected useful lives are as follows:

Leasehold improvements	The lease term
Plant and equipment:	
- Software	3 - 5 years
- Plant and equipment	6 - 6.5 years

g) Acquisition of assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

h) Operating leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the lease item, are recognised as an expense on a straight-line basis.

Contingent rentals are recognised as an expense in the financial year in which they are incurred.

i) Foreign currencies

Transactions

The Fund Managers appointed to manage the international sector of the Medibank Private investment portfolio invest in selected foreign securities.

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the date of the transaction. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange on that date.

Exchange differences relating to amounts receivable and payable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change.

No foreign currency transactions were in place as at balance date.

Hedges

All hedge transactions are initially recorded at the spot rate at the date of the transaction. Hedges outstanding at balance date are translated at the rates of exchange ruling on that date, and any exchange differences are brought to account in the statement of financial performance. Balances outstanding on foreign exchange contracts are shown on a net basis where the payables and receivables are offset against each other. Costs or gains arising at the time of entering into the hedge are deferred and amortised over the life of the hedge.

No hedges were in place as at balance date.

Notes to the financial statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2002

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to Medibank Private and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Member Contributions

Contribution income comprises contributions received from members, inclusive of the 30% Government Rebate. Contribution income is recognised when earned over the period of the membership.

Other Income

Dividend income and unit trust distribution income is recognised when declared. Interest income and rental income is recognised as it accrues.

k) Reinsurance benefits

Under the provisions of the National Health Act 1953, some hospital benefits may be charged to the reinsurance account. All health insurers must participate in the Reinsurance Trust Fund, which shares a proportion of the hospital claims of all persons aged 65 years and over and those memberships with more than 35 days of hospitalisation in any one year between all health insurers.

The amount payable to or receivable from the Reinsurance Trust Fund is determined by the Private Health Insurance Administration Council after the end of each quarter. Estimated provisions for amounts payable or receivable are provided for periods for which determinations have not yet been made.

The net reinsurance amount expensed for 2001/02 was \$18,391 thousand (\$12,960 thousand was expensed during 2000/01) and is included as part of Benefits.

l) Provision for unrepresented and outstanding claims

The provision for unrepresented and outstanding claims provides for claims received but not assessed and claims incurred but not received. The provision is based on an actuarial assessment taking into account historical patterns of claim incidence and processing. No discounting is applied to the provision due to the generally short time period between claim incidence and settlement. The provision also provides for the expected payment to or receipt from the Reinsurance Trust Fund in relation to the amount provided for unrepresented and outstanding claims.

The provision also allows for an estimate of operating expenses to cover the cost of processing outstanding claims. Medibank Private's policy is to reflect only the proportion of management expenses associated with the processing of benefits. The ratio at 30 June 2002 is 3.21% (30 June 2001: 3.91%).

In 2000, Medibank Private launched a new Package Plus product range which included a benefit category, Package Bonus, covering additional health related services. A feature of this benefit category is that any unused Package Bonus in a calendar year is carried forward to future calendar years subject to a maximum limit. Accordingly, 75% of the package bonus amount, less the amount paid, has been included in provisions to reflect the expected future utilisation of this benefit in respect of membership up to 30 June 2002.

m) Taxes

Medibank Private pays all relevant taxes and charges, including goods and services tax, fringe benefits tax, and payroll tax. As Medibank Private is a not-for-profit health fund, it is exempt from income tax.

Notes to the financial statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2002

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Taxes (continued)

Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- (i) where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- (ii) receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

n) Payables

These amounts represent liabilities for goods and services provided to Medibank Private prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

o) Employee entitlements

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Provisions made in respect of wages and salaries, annual leave, and long service leave expected to be settled within 12 months, are measured at their nominal values. All other employee entitlement liabilities are measured at the present value of the estimated future cash flows to be made in respect of services provided by employees up to the reporting date.

p) Restructuring provision

An internal management review has resulted in the adoption of a new organisational structure which upgrades its focus on relationships with health care providers, on benefit outlays management and on cost containment. As a consequence of this, a provision for restructuring has been established. The provision is based on the best estimate of the direct expenditures to be incurred which are both directly and necessarily caused by the restructuring and not associated with the on-going activities of Medibank Private.

q) Comparatives

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

r) Rounding of amounts

In accordance with Class Order 98/0100, all amounts are rounded to the nearest \$1 thousand.

Notes to the financial statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2002

NOTE 2: REVENUES FROM ORDINARY ACTIVITIES

	2002 \$'000	2001 \$'000
Revenue from operating activities		
Member contributions	2,017,862	1,954,575
Revenue from non-operating activities		
Proceeds from disposal of other financial assets	1,219,341	38,803
Rent	128	944
Interest	31,602	27,399
Dividends	10,748	11,798
Unrealised gain on other financial assets	316	39,335
Proceeds from disposal of plant and equipment	–	820
Other	154	1,194
	1,262,289	120,293
REVENUE FROM ORDINARY ACTIVITIES	3,280,151	2,074,868

NOTE 3: EXPENSES AND LOSSES

(a) Expenses

Depreciation of non-current assets:

- Plant and equipment	335	438
- Software	709	115
- Leasehold improvements	2,710	2,554
Total depreciation of non-current assets	3,754	3,107

Bad and doubtful debts	26	260
Operating lease rental expense	14,574	14,386
Plant and equipment asset written off	2,643	–

(b) Losses

Net loss on disposal of other financial assets	53,368	51,011
Net loss on disposal of plant and equipment	114	543

(c) Member benefits

The revision of the estimate of the package bonus provision, as noted in *Note 1 (l) provision for unrepresented and outstanding claims*, is included in the member benefits line in our statement of financial performance.

Notes to the financial statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2002

NOTE 4: RECEIVABLES

	2002 \$'000	2001 \$'000
Contributions in arrears	18,605	17,159
Provision for groups in arrears	(528)	(1,820)
	18,077	15,339
Sundry debtors	3,463	8,667
Provision for doubtful debts	(450)	(450)
	3,013	8,217
Goods and service tax	1,124	1,136
Government rebate schemes	52,914	53,388
	75,128	78,080

NOTE 5: OTHER FINANCIAL ASSETS

Current

At market value:

Government securities	50,419	243,853
Shares and unit trusts	–	488,312
Debentures, notes and bills	19,669	172,354
Property	–	11,660
	70,088	916,179

Current financial assets are valued at quoted market value (refer to Note 14 for more detailed information).

During the financial year there was a change in our strategic asset mix, which resulted in a significant movement of investments to cash.

Non-Current

At cost:

Other	190	205
	190	205

Notes to the financial statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2002

NOTE 6: OTHER ASSETS

	2002 \$'000	2001 \$'000
Advance payments to hospitals	27,274	23,780
Prepayments	1,595	463
	28,869	24,243

NOTE 7: PLANT AND EQUIPMENT

	Plant and Equipment \$'000	Leasehold Improvements \$'000	Software \$'000	Assets under Construction \$'000	Total \$'000
Gross Carrying Amount					
Balance at 30 June 2001	4,657	12,663	3,448	–	20,768
Additions	2,122	1,031	701	21,151	25,005
Disposals	(1,468)	(1,163)	–	–	(2,631)
Recoverable amount writedowns	–	–	(3,448)	–	(3,448)
Balance at 30 June 2002	5,311	12,531	701	21,151	39,694
Accumulated depreciation					
Balance at 30 June 2001	(3,618)	(8,649)	(115)	–	(12,382)
Depreciation expense	(335)	(2,710)	(709)	–	(3,754)
Disposals	1,425	1,092	–	–	2,517
Recoverable amount writedowns	–	–	805	–	805
Balance at 30 June 2002	(2,528)	(10,267)	(19)	–	(12,814)
Net Book Value					
AS AT 30 JUNE 2001	1,039	4,014	3,333	–	8,386
AS AT 30 JUNE 2002	2,783	2,264	682	21,151	26,880

Aggregate depreciation allocated during the year is recognised as an expense and disclosed in Note 3 (a) to the financial statements.

NOTE 8: PAYABLES

	2002 \$'000	2001 \$'000
Trade creditors - unsecured	18,133	24,296
Other creditors and accruals	22,812	39,227
	40,945	63,523

Notes to the financial statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2002

NOTE 9: PROVISIONS

	2002 \$'000	2001 \$'000
Current		
Unpresented and outstanding claims	278,089	239,478
Employee entitlements	9,547	10,482
Restructuring	6,427	8,000
	294,063	257,960
Non-Current		
Employee entitlements	1,585	1,085

NOTE 10: OTHER LIABILITIES

Contributions in advance	273,330	264,019
Net foreign exchange contracts	–	3,307
	273,330	267,326

NOTE 11: CONTRIBUTED EQUITY

Medibank Private has paid up capital of 100 \$1 shares held by the Commonwealth of Australia. Due to rounding, this figure does not appear on the Statement of Financial Position.

NOTE 12: RETAINED PROFITS

Balance at the beginning of the financial year	557,864	451,945
Net (loss)/profit for the financial year	(175,474)	105,919
Balance at the end of the financial year	382,390	557,864

NOTE 13: EMPLOYEE ENTITLEMENTS

The aggregate employee entitlement liability recognised and included in the financial statements is as follows:

Provision for employee entitlements:

Current (Note 9)	9,547	10,482
Non-current (Note 9)	1,585	1,085
	11,132	11,567

Employee numbers

	2002 (number)	2001 (number)
Average number of employees during the financial year	1,156	1,045

Notes to the financial statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2002

NOTE 14: FINANCIAL INSTRUMENTS

(a) Interest rate risk exposure

Medibank Private's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the reporting date, are as follows:

	Floating Interest Rate (b)		Fixed Interest Maturing in :						Non Interest Bearing		Total	
	2002	2001	1 year or less		Over 1 to 5 years		Over 5 years		2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets												
Cash (a)	788,329	17,860	-	100,435	-	-	-	-	2,829	2,370	791,158	120,665
Receivables (Note 4)	-	-	-	-	-	-	-	-	75,128	78,080	75,128	78,080
Other financial assets (Note 5)	1,729	521	510	67,919	32,900	111,601	34,949	177,061	-	559,077	70,088	916,179
Total financial assets	790,058	18,381	510	168,354	32,900	111,601	34,949	177,061	77,957	639,527	936,374	1,114,924
Weighted average interest rate:	4.71%	5.83%	5.11%	5.03%	5.86%	5.54%	6.17%	4.89%				
Financial liabilities												
Payables (Note 8)	-	-	-	-	-	-	-	-	40,945	63,523	40,945	63,523

(a) The cash figure includes monies at call and short dated discounted securities.

(b) Floating interest rates represent the most recently determined rate applicable to the instrument at balance date.

(b) Credit risk exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

On-Balance Sheet Financial Instruments

The credit risk on financial assets, excluding investments, of Medibank Private which have been recognised on the statement of financial position, is the carrying amount of receivables, net of any provision for doubtful debts. Medibank Private minimises concentrations of credit risk by undertaking transactions with a large number of customers and counterparties across Australia. Medibank Private is not materially exposed to any individual customer and counterparty.

Forward Foreign Exchange Contracts

Foreign exchange contracts are subject to credit risk in relation to the relevant counterparties, which are principally financial institutions. The maximum credit exposure to foreign currency contracts is the amount expected to be paid to Medibank Private on the receivable component of each contract. As there is an offsetting payable component to each contract, this exposure only exists for short periods of time on the day of settlement. The full amount of this exposure at 30 June 2002 is \$nil (30 June 2001: \$134,815 thousand). The offsetting payable component at 30 June 2002 is \$nil (30 June 2001: \$138,120 thousand).

Notes to the financial statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2002

NOTE 14: FINANCIAL INSTRUMENTS (CONTINUED)

(c) Net fair values of financial assets and liabilities

On-balance sheet

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of Medibank Private approximates their carrying amounts.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices prevailing at balance date, adjusted for transaction costs necessary to realise the investment.

The carrying amounts and net fair values of financial assets and liabilities at balance date are:

	2002		2001	
	Carrying amount \$'000	Net fair value \$'000	Carrying amount \$'000	Net fair value \$'000
On-balance sheet financial instruments				
Financial assets				
Cash	791,158	791,158	120,665	120,665
Receivables	75,128	75,128	78,080	78,080
Non-traded financial assets	866,286	866,286	198,745	198,745
Traded investments				
Government securities	50,419	50,419	243,853	243,853
Shares and unit trusts	–	–	488,312	488,312
Debentures, notes and bills	19,669	19,669	172,354	172,354
	936,374	936,374	1,103,264	1,103,264
Financial liabilities				
Trade creditors	18,133	18,133	24,296	24,296
Other creditors	22,812	22,812	39,227	39,227
	40,945	40,945	63,523	63,523

The listed shares in other corporations, redeemable preference shares and convertible notes are readily traded on organised markets in standardised form.

Forward Foreign Exchange Contracts

The valuation of forward foreign exchange contracts detailed in this note reflects the estimated amounts which Medibank Private expects to pay or receive to terminate the contracts (net of transaction costs) or replace the contracts at their current market rates as at the reporting date. This is based on independent market quotations and determined using standard valuation techniques. The carrying amount of the forward foreign exchange contracts is adjusted accordingly at balance date to reflect its market value.

Notes to the financial statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2002

NOTE 14: FINANCIAL INSTRUMENTS (CONTINUED)

(c) Net fair values of financial assets and liabilities (cont'd)

The market value of forward foreign exchange contracts held as at the reporting date is:

	2002 \$'000	2001 \$'000
Forward foreign exchange contracts payable	–	3,307

(d) Foreign Exchange Risk

Medibank Private enters into forward foreign exchange contracts to hedge a proportion of the international sector of its investment portfolio. The terms of these contracts are normally 3 months. Investments in European Monetary Union countries are recorded at the individual countries currency.

The following table sets out Medibank Private's interests in foreign currency investments and the amounts receivable on the forward foreign exchange contracts (Australian dollar equivalents). All amounts are recoverable within 12 months:

	Investments in foreign currencies		Amounts receivable in foreign currencies hedged		Amounts receivable in foreign currencies not hedged	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
United States dollars	–	114,792	–	67,158	–	47,634
Japanese yen	–	52,219	–	25,878	–	26,341
Pounds sterling	–	27,767	–	14,367	–	13,400
Swiss franc	–	6,710	–	3,623	–	3,087
Hong Kong dollar	–	8,252	–	–	–	8,252
Swedish krona	–	2,580	–	–	–	2,580
Greek drachma	–	4	–	–	–	4
Danish kroner	–	512	–	–	–	512
Canadian dollar	–	2,837	–	–	–	2,837
Other emerging currencies	–	22,953	–	–	–	22,953
Euro (a)	–	–	–	23,789	–	(23,789)
Deutsche mark	–	8,348	–	–	–	8,348
Spanish peseta	–	2,883	–	–	–	2,883
Finnish markka	–	2,005	–	–	–	2,005
French francs	–	16,577	–	–	–	16,577
Irish punt	–	1,602	–	–	–	1,602
Italian lira	–	5,561	–	–	–	5,561
Netherlands guilder	–	8,194	–	–	–	8,194
Portuguese escudo	–	560	–	–	–	560
	–	284,356	–	134,815	–	149,541

Notes to the financial statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2002

NOTE 14: FINANCIAL INSTRUMENTS (CONTINUED)

(d) Foreign Exchange Risk (cont'd)

(a) Hedged positions for investments in European Monetary Union countries are against the Euro. During the financial year there was a change in our strategic asset mix, which resulted in a significant movement of investments to cash.

NOTE 15: COMMITMENTS

	2002 \$'000	2001 \$'000
(a) Capital expenditure commitments		
Estimated capital expenditure contracted for at balance date, but not provided for, payable:		
Not later than one year	53	–
Later than one year and not later than five years	75	–
Later than five years	–	–
	128	–
(b) Operating lease commitments		
Future operating lease rentals not provided for, payable:		
Not later than one year	10,249	11,061
Later than one year and not later than five years	10,064	14,318
Later than five years	511	–
	20,824	25,379

Operating leases are entered into as a means of acquiring access to retail property, office equipment, and motor vehicles. Rental payments are generally fixed, with differing clauses to adjust the rental to reflect increases in market rates. These clauses include fixed incremental increases, market reviews and inflation escalation clauses during a lease on which contingent rentals are determined. For the majority of operating leases for retail property there are renewal options, purchase options exist in relation to operating leases for motor vehicles at the end of their term. No renewal or purchase options exist in relation to operating leases for office equipment. No operating leases contain restrictions on financing or other leasing activities.

Notes to the financial statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2002

NOTE 15: COMMITMENTS (CONTINUED)

	2002 \$'000	2001 \$'000
(c) Other commitments		
Other commitments not provided for, payable:		
Not later than one year	26,720	19,286
Later than one year and not later than five years	57,237	69,084
Later than five years	–	–
	83,957	88,370
Other commitments consist of IT outsourcing, security and cleaning commitments.		
TOTAL COMMITMENTS PAYABLE	104,909	113,749

NOTE 16: NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of Cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

CASH	791,158	120,665
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Notes to the financial statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2002

NOTE 16: NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

	2002 \$'000	2001 \$'000
(b) Reconciliation of the net (loss)/profit to the net cash flows from operations		
(Loss)/profit	(175,474)	105,919
Non-cash items:		
Depreciation	3,754	3,107
Loss on disposal of plant and equipment	114	543
Unrealised gain on other financial assets	(316)	(49,207)
Realised loss on other financial assets	53,368	51,011
Interest income reinvested	(10,748)	(12,230)
Dividends income reinvested	(31,602)	(26,149)
<i>Amounts written off:</i>		
- Bad debts	26	67
- Plant and equipment	2,643	-
<i>Transfers to/(from) Provisions:</i>		
Doubtful debts	-	193
(Increase)/decrease in assets:		
Current receivables	2,926	(33,612)
Other current assets	(4,626)	1,033
Increase/(decrease) in liabilities:		
Payables	(22,578)	61,433
Provisions	36,600	111,483
Other liabilities	6,004	18,160
NET CASH FLOW (USED IN)/FROM OPERATING ACTIVITIES	(139,909)	231,751
(c) Financing Facilities		
Unsecured overdraft credit facility, reviewed annually:		
Amount used	-	-
Amount unused	5,150	5,000
	5,150	5,000

Notes to the financial statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2002

NOTE 17: CONTINGENT LIABILITIES

The Australian Competition and Consumer Commission (ACCC) commenced an Action in October 2000 against Medibank Private in the Federal Court of Australia, alleging breaches of the Australian Securities and Investments Commission Act arising from two advertising campaigns. Medibank Private is also defending an Action alleging defamation and a breach of the Trade Practices Act in relation to a publication on Medibank Private's website. These Actions are still in progress and it is currently not possible to predict an outcome in these matters. Consequently, no liability has been recognised in the financial statements in relation to these Actions.

The Private Health Insurance Administration Council (PHIAC) has advised that a claim made from another registered fund for adjustment to the reinsurance reimbursement calculations for the years 1998 and 1999, is under review. As this matter is still under consideration by PHIAC, it is currently not possible to predict the final outcome. Consequently, no liability has been recognised in the financial statements.

NOTE 18: REMUNERATION OF DIRECTORS

	2002 \$	2001 \$
Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of Medibank Private, directly or indirectly, by Medibank Private or by any related party	1,294,746	733,252

The number of directors of Medibank Private whose income (including superannuation contributions) falls within the following bands is:

	No.	No.
\$0 - \$9,999	3	–
\$10,000 - \$19,999	1	1
\$30,000 - \$39,999	3	5
\$40,000 - \$49,999	1	–
\$60,000 - \$69,999	1	1
\$80,000 - \$89,999	1	–
\$460,000 - \$469,999	–	1
\$920,000 - \$929,999 *	1	–

* the total remuneration included within this income band includes a termination payment made in accordance with the employment contract.

Notes to the financial statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2002

NOTE 19: RELATED PARTIES DISCLOSURES

The directors of Medibank Private during the financial year were:

D A W Thomson

M D Bollen

P F E Hutchinson

R G Meikle (term expired 31 May 2002)

G Savvides (appointed 6 September 2001)

J U Stoelwinder (appointed 26 June 2002)

P B Wade (appointed 26 June 2002)

A H Brien (appointed 26 June 2002)

C W Breeze (resigned 1 October 2001)

M W Burrowes (resigned 19 April 2002)

I L Fraser (term expired 31 May 2002)

NOTE 20: AUDITORS' REMUNERATION

Amounts received or due and receivable by the auditor, Australian National Audit Office, for:

	2002 \$	2001 \$
Auditing the financial report	145,000	140,000
Other services	25,000	20,000
	170,000	160,000

NOTE 21: SEGMENT REPORTING

Medibank Private operates in the business of providing private health insurance in Australia.

NOTE 22: ADDITIONAL COMPANY INFORMATION

Medibank Private is a registered not-for-profit health benefits organisation, incorporated and operating in Australia.

Registered Office and Principal Place of Business

Level 20

459 Collins Street

MELBOURNE VIC 3000

Tel: (03) 8605 2400

Directors' declaration

In accordance with a resolution of the directors of Medibank Private, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2002 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that Medibank Private will be able to pay its debts as and when they become due and payable.

On behalf of the Board



D A W Thomson AM



G Savides

Melbourne, 14 August 2002



INDEPENDENT AUDIT REPORT

To the members of Medibank Private Limited

Scope

I have audited the financial report of Medibank Private Limited for the financial year ended 30 June 2002. The financial report comprises:

- Directors' Declaration;
- Statements of Financial Performance, Financial Position and Cash Flows; and
- Notes to and forming part of the Financial Statements.

The company's directors are responsible for the financial report. I have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company.

The audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, to provide reasonable assurance whether the financial report is free of material misstatement. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with my understanding of the company's financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In my opinion, the financial report of Medibank Private Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2002 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

Australian National Audit Office



Greg Welsh
Executive Director

Delegate for the Auditor-General
Canberra

14 August 2002

Medibank Private retail outlets

VICTORIA

Melbourne

Airport West
Bourke Street
Camberwell
Centrepoint
Chadstone
Chirnside Park
Coburg
Dandenong
Doncaster
Elsternwick
Forest Hill
Fountain Gate
Frankston
Glen Waverley
Greensborough
Highpoint
Knox City
Northland
Prahran
Ringwood
Southland

Regional Victoria

Ballarat
Bendigo
Geelong

SOUTH AUSTRALIA

Adelaide

Marion
Modbury
Rundle Mall
West Lakes
Unley

TASMANIA

Hobart

Launceston

WESTERN AUSTRALIA

Perth

Booragoon
Cannington
Fremantle
Joondalup
Karrinyup
Morley
Wesley

NORTHERN TERRITORY

Casuarina

NEW SOUTH WALES

Sydney

Bankstown
Blacktown
Bondi Junction
Brookvale
Burwood
Campbelltown
Castle Hill
Chatswood
Eastwood
Hornsby
Hurstville
Liverpool
Martin Place
Miranda
North Ryde
North Sydney
Pagewood
Parramatta
Penrith
Roselands
University of NSW
Wynyard
Warriewood

Regional NSW

Albury
Armidale
Broken Hill
Charlestown
Coffs Harbour
Dubbo
Erina
Gosford
Lismore
Orange
Tamworth
Wagga Wagga
Wollongong

ACT

Canberra

Belconnen
Civic
Woden

QUEENSLAND

Brisbane

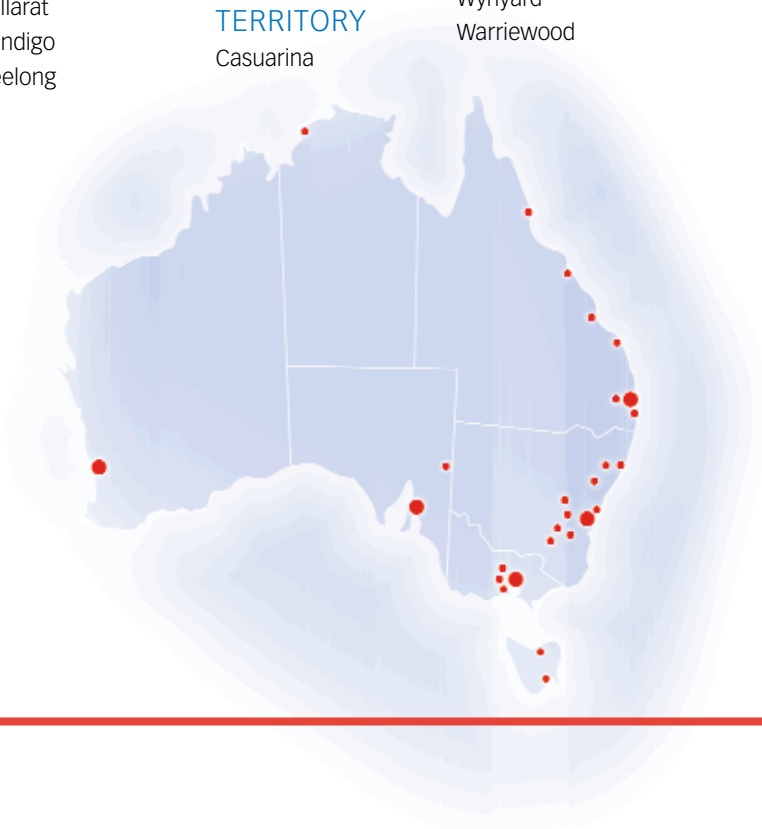
Brookside
Capalaba
Carindale
Chermside
Garden City
Indooroopilly
Kippa-Ring
Loganholme
Wintergarden

Gold Coast

Pacific Fair
Southport
Tweed Heads

Regional Qld

Bundaberg
Cairns
Gladstone
Ipswich
Mackay
Maroochydore
Rockhampton
Toowoomba
Townsville





MEDIBANK PRIVATE LIMITED

ABN 47 080 890 259

is a registered not-for-profit
health benefits organisation.

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Melbourne VIC 3000

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Eastwood SA 5063
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Fax: (08) 9464 4695



National Member Enquiry Line
132 331

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