

leading the way

Annual Report 2005



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leadership / *n.* strength,
decisiveness, empathy,

Medibank Private

Our vision

to be recognised as the leader in private health insurance in Australia

Our mission

to be a **profitable** and **sustainable** business, with the capacity to invest and **innovate** for the benefit of our members

to build a **high-performance** organisation that unites, **engages**, empowers and recognises our people

to deliver a **great** member product and provide benefits at affordable prices through a consistent and **excellent service** experience

to be a growing and efficient business with improving **shareholder value**

to give life to the statement '**I feel better now**'

Our values

act with integrity • care about your needs • respect all people • be innovative • be stewards of members' contributions

passion, prudence, ethics,
innovation, advocacy

About Medibank Private

Medibank Private is Australia's largest and only national private health insurer, with nearly three million members.



Davina
Communications Coordinator

Medibank Private covers almost 30 per cent of the Australian private health insurance market, and has a significant presence in every state and territory of Australia.

Our members have access to an Australia-wide service centre network consisting of over 100 retail outlets, approved agents, a national customer care contact centre and online access via our website at www.medibank.com.au

Our Members' Choice network of health care providers covering hospitals and ancillary providers extends across Australia and is the largest health care network available.

Medibank Private offers private health cover for hospital and ancillary services to all Australians, as well as a range of health insurance products to overseas students and visitors. In addition, we have a new product featuring an innovative range of services for our corporate members.

Our corporate vision is 'to be recognised as the leader in private health insurance in Australia'.

This vision continues to challenge us to be a leader not only in market share, but in financial performance, service delivery and reputation among our members, our peers, the broader public and in the corporate arena.

2005 at a glance

Total assets	\$1,348.5 million
Net assets	\$653.3 million
Market share	29%
People covered	3 million
Acute procedures paid	697,774
Ancillary services paid	14,350,577

Performance highlights – 30 June 2005

Total revenue	\$2.8 billion
Benefits paid to members	\$2.3 billion
Operating profit	\$130.8 million
Underwriting profit	\$62.5 million
Investment income	\$68.3 million
Management expense ratio	9.2%
Return on equity	25%
Contracted private hospitals	435
Contracted ancillary providers	3,369

Chairman's report

"In 2004/05, the management at Medibank Private and their team exceeded the challenging targets set by the Board, resulting in a strong profit result of \$130.8 million. This is more than double last year's effort. More importantly, Medibank Private recorded a strong underwriting profit for its core health insurance business while paying a record \$2.3 billion in claims on behalf of our members."

I am delighted with this high-performance result for 2005 and, on behalf of the Board, I would like to thank all of the employees of Medibank Private for their valuable contribution to such an outstanding year.

With \$2.8 billion in total revenue, and a sustainable level of capital accumulation, Medibank Private has witnessed the most dramatic turnaround in performance in its 29-year history. We are now well placed to continue the implementation of our long-term strategic plan, which aims to consolidate our position as Australia's leading private health insurer offering affordable private health insurance for all Australians.

I am pleased to report that Medibank Private's excellent bottom-line result was achieved without sacrificing member service or product offering.

On the contrary, Medibank Private continues to make significant improvements in customer service, with our Service Edge staff training initiative and improved knowledge management system producing measurable improvements in both retail centre and call centre member servicing.

Meanwhile, improvements in our professional approach to purchasing hospital and ancillary services have Medibank Private well positioned to reduce premium increases, thereby improving the affordability of private health insurance. This is no easy task in an environment in which technological developments are causing significant increases in the cost of treatment, and therefore the cost of benefits, paid out by private health insurers.

From an organisational perspective, the introduction of six strategic business units has enabled Medibank Private to apply a much sharper focus to specific market segments. These units will continue to refine our product offering in the year ahead as we look to increase market share by delivering a range of simplified, relevant products that are more attractive to our existing and future members.

While the management team focuses on the operational side of the business, the Board of Medibank Private has worked with management to ensure focus on the twin prudential objectives of ensuring sound capital adequacy coverage, while applying a cautious risk profile to our investment policy.



This year the Board obtained an equity injection of \$85 million from our shareholder, the Federal Government, to consolidate a capital structure more consistent with industry practice. Prior to this, Medibank Private had almost 30 per cent of the health insurance market risk, but only 16 per cent of its capital. Upon receiving these funds, the Board agreed to a range of financial and non-financial targets and a rigorous reporting regime, including rate of return on equity.

Medibank Private met all these criteria, with investment income growing by 39 per cent to \$68 million. This was achieved as a result of good returns and a growing investment pool, assisted by good cash and working capital management.

Despite our ungeared balance sheet, return on equity lifted to 25 per cent for the year.

The Board has also maintained its focus on governance, management accountability and disclosure. Medibank Private benchmarks itself against the top 150 ASX companies. We have therefore actively applied reporting standards consistent with ASX guidelines to all aspects of

the business that are not precluded as a result of our structure as a Government Business Enterprise.

Medibank Private will also continue to be an advocate for our members, by working in partnership with the community and the Government, to seek private health insurance industry reforms to ensure we continue to meet the needs of all Australians.

This is an important aspect of Medibank Private's position as a leader in the private health insurance market. Leadership is not just about size. It is about reforming an industry and making things happen to produce better outcomes. The Board of Medibank Private is committed to playing a role in this process of industry reform.

At this point I would like to acknowledge Medibank Private's shareholder minister, Senator the Hon. Nick Minchin, the Minister for Finance and Administration, and thank him and his staff for their continued support and co-operation during the past year.

To my fellow Board members, including the Managing Director, I extend my appreciation for all your hard work and commitment in a year of excellent business performance. In particular, I would like to thank retiring Board member Dr Michael Bollen for his dedicated service since 1998. Dr Bollen has made a significant contribution to Medibank Private in this time.

I also welcome Mr Roger Harley and Mr Brian Keane, who bring to the Board new skills and a fresh outlook to the existing team.

It is a privilege to lead a Board with such depth of talent and experience, and I look forward to working with them in the year ahead as Medibank Private continues to lead the way to a sustainable and affordable future for private health insurance in Australia.

Peter M. Kirby
Chairman

Managing Director's report



"I am delighted to report that, for the third consecutive year, Medibank Private has delivered a significant improvement in both our underwriting profit and net financial result, confirming our position as Australia's leading private health insurer."

In the 2004/05 financial year, Medibank Private achieved a net profit of \$130.8 million, a 192 per cent increase on the previous year. This is a \$306 million improvement compared to the bottom-line result for 2002.

Part of this improvement came from an increase in the investment income produced from the management of \$1.2 billion of investments. Our investment income increased by 39 per cent over the previous year to \$68.3 million.

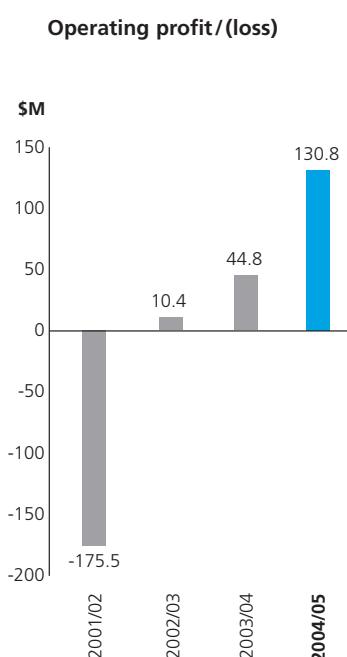
Of greater significance to our continued sustainability is the strong move to positive underwriting profit, in stark contrast to the historical performance of the fund. Medibank Private generated an underwriting profit of \$62.5 million, an improvement of \$67 million over the previous financial year. Medibank Private's underwriting margin is now competitive with the market.

Medibank Private's contribution revenue in 2005 climbed to \$2.6 billion, an increase of 7.6 per cent over the previous year, with gross profit margin increasing by 47 per cent or \$96 million over the previous year.

The increase in underwriting profit is particularly pleasing for the Board and management of Medibank Private, as members will directly benefit from this strong performance. Larger cash reserves will assist us to reduce the future growth in premium increases, which were below the industry average for the past year. This will help us to deliver on our commitment to making private health insurance more affordable for current and future members.

The improved underwriting profit result was driven in part by containment of the company's management expenses to 9.2 per cent of premium income, some 16 per cent below the average for other funds on a per resident membership basis. This reduction was achieved despite an increased investment in expenditure on marketing the Medibank Private brand and new products, an important part of our ongoing strategy to grow market share and attract and retain members.

We have also made significant improvements to the competitiveness of our contracted hospital services. Containing the growth in the cost of these services is the most significant challenge any health fund undertakes. The excellent work of our Health Services team has contributed



to a two per cent reduction in the growth of provider costs. This was achieved despite the increased utilisation of hospital services by members and the ongoing introduction of new, expensive medical technology, which further contribute to the cost of claims.

Medibank Private still paid a record \$2.3 billion in claims on behalf of our members during 2005, representing over 89 per cent of premium income received from members.

Affordability of private health insurance remains a key priority, and we have introduced a number of initiatives to improve the quality of our service and product offering:

- *My Options*, a new product designed to attract younger members that will ensure the risk profile of our members remains competitive;
- *Priority*, a comprehensive cover for corporate members;
- *On-line member services*, enabling members to access services on the internet rather than visiting a Medibank Private retail centre; and
- *Member well-being programs*, to keep members healthier through a variety of proactive health management initiatives.

We are continuing the process of replacing our core IT legacy system, having successfully separated from the Health Insurance Commission's mainframe platform this year, and moved onto our own autonomous technology platform. This has laid the foundation for the implementation of a new health insurance management system, which will improve the efficiency of our processes and drive future productivity improvement.

In September 2004, we relocated almost half our employees to our new national operations centre located at the edge of the Melbourne Docklands precinct. This has significantly improved our working environment, and has given the organisation a much stronger sense of identity and teamwork.

Finally, but very importantly, we expanded our commitment to being a good corporate citizen with the launch of *Medibank Community*, a program designed to make our community a healthier place to live and enable our staff to make a positive contribution to the community in which we operate.

None of these achievements would have been possible without the dedication of our staff and I would like to thank all Medibank Private employees for their efforts over the past year. They have embraced the opportunity to make a real contribution to the improved performance of the business.

I also wish to thank the Chairman and Board of Directors for their leadership, good governance and support as we have consolidated the turnaround in business performance. The guidance of my fellow Directors and the support of our shareholder has been invaluable in achieving the best results from our organisation.

A strong foundation has been built for a successful and exciting future.

George Savvides
Managing Director

Key performance indicators

Building a high performance organisation benefits members, as improved results reduce pressure on future premiums.

Building a better business

The 2004/05 financial year signals the completion of the turnaround for Medibank Private, with a net profit of \$130.8 million, a dramatic change in performance since 2002 (Chart 1). This year's performance continues the strong upward trend that has been established over the past three years, which is attributable to a number of factors.

One important factor is our underwriting performance, with the fund moving to positive underwriting profit for the first time in four years (Chart 2). This result highlights the outstanding work by our Health Services team in containing the growth in benefit outlays.

Efficient management practices also contributed to the positive underwriting result. This is evidenced by our management expense ratio, which was contained to 9.2 per cent, some 16 per cent below the average for other funds on a per resident membership basis (Chart 3).

Our investment portfolio earned \$68.3 million, a return of 6.2 per cent (Chart 4). While the investment portfolio is still predominantly in cash, this improved position has enabled

us to increase our exposure to the equity markets over the past year.

Our members can look to the future secure in the knowledge that Medibank Private has secured a strong future, thanks to the substantial increase in net assets this year (Chart 5). The continued upward trend in the solvency multiple (Chart 6) illustrates that the fund is in a strong position to meet its benefit obligations.

Delivering better value to our members

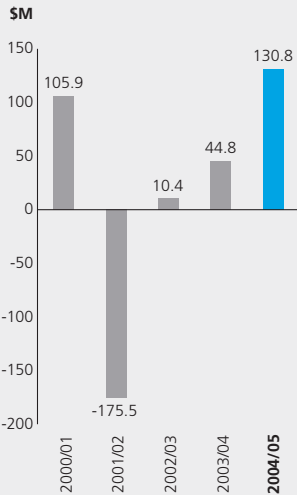
Our members are the main beneficiaries of our strong financial result.

The most significant outcome for members is the continued reduction in annual premium growth, with this year's increase of 7.9 per cent marginally below the industry average (Chart 7). This is further evidence that we are striving to deliver member affordability and member value.

While containing premium growth, Medibank Private has continued to pay more benefits to members (Chart 8), with a record high of \$2.3 billion paid in member benefits in 2004/05.

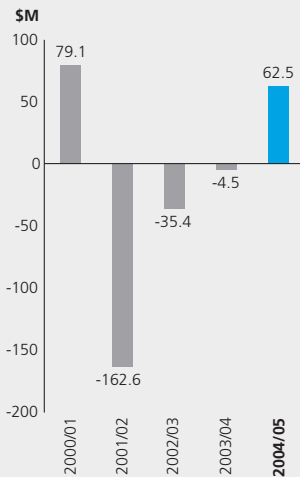
**Chart 1
Operating profit/loss**

Strong and consistent improvement to net profit for the third consecutive year.



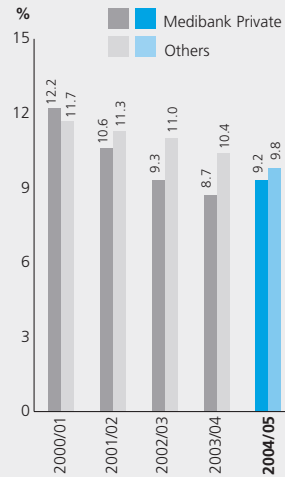
**Chart 2
Underwriting performance**

A strong underwriting profit performance.



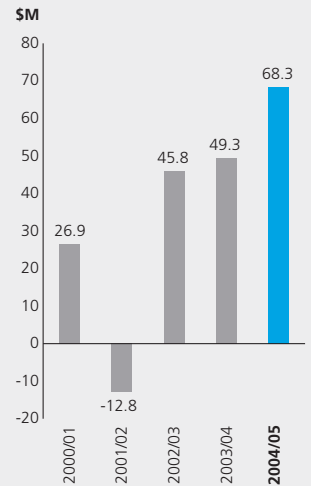
**Chart 3
Management expense ratio (MER)**

MER remains below industry average.



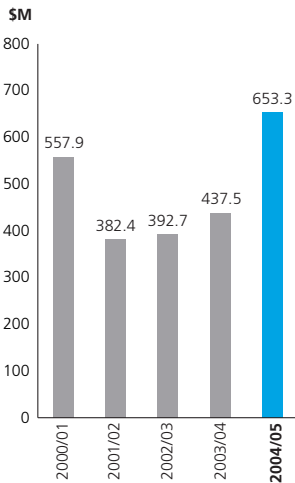
**Chart 4
Investment and other income**

Strong investment markets and cash flow drive high investment income growth.



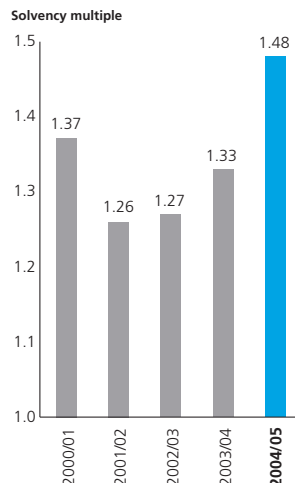
**Chart 5
Net assets**

Strong growth in net assets.



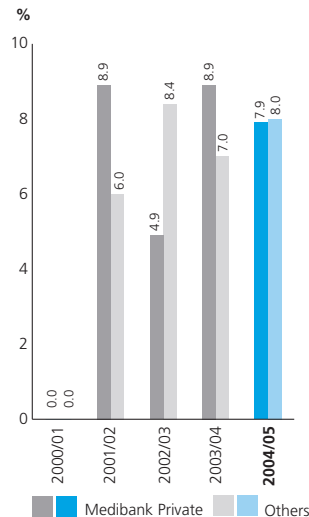
**Chart 6
Solvency multiple**

Continued improvement in prudential strength.



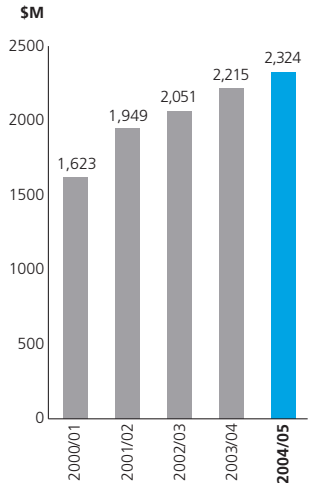
**Chart 7
Average contribution rate increases**

The average contribution rate increase was below industry average.



**Chart 8
Benefits paid**

A record amount was paid for member benefits (excluding reinsurance) this year.



Meeting the needs of our members

Our business is about our members' well-being – helping them to keep healthy, and helping them to return to good health when they are not. By listening to our members, we have strengthened the value we offer – by providing improved service, increased focus on well-being and new products to meet their different needs.

Simplifying the complex

Consumers often describe the health sector as complex. Medibank Private's response to this challenge has been to better understand the needs of our members and continually seek new ways to make the complex, simple. It is not an easy challenge, but one we continue to pursue on behalf of our members.

Our team has established processes to capture member feedback, whether through informal interaction or via formal communication channels such as market research. More than 15,000 members had their say over the last year. This valuable information is used to design enhancements to our products and to improve the value we provide to our members. For example, member feedback helped us identify the need for a new 'welcome' pack. Due later this year, it has been designed using member feedback to provide a clear explanation of their chosen health cover.

In short, we demonstrate leadership through listening to our customers so we can continue to meet their needs.

Meeting the needs of a new generation – with innovative new products

Most people under 35 like to think of themselves as indestructible. Unfortunately, ill health or accidents can strike at any age. Medibank Private is committed to encouraging young and healthy people to protect their health and lifestyles with private health insurance.

Through listening to our own employees, along with market surveys, Medibank Private has developed a new health insurance product to suit the unique needs of this group of people.

My Options, targeted at singles and couples aged under 35, is a clever combination of hospital and extras cover that includes services this age group is more likely to use, such as hospital cover for knee surgery and extras cover for alternative therapies such as acupuncture. We were able to reduce the cost of this product by excluding expensive services that younger members are unlikely to use.

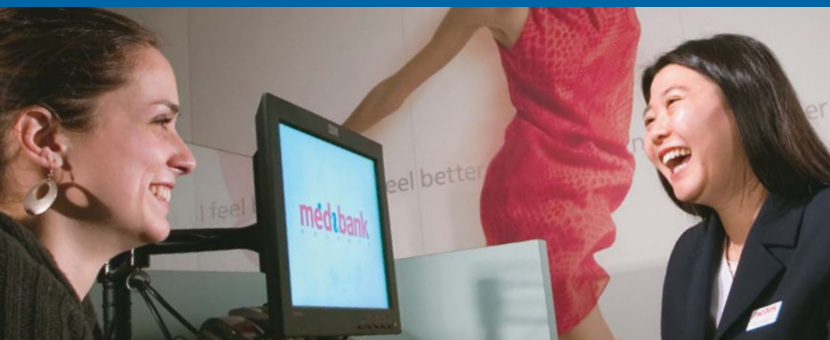
“Behind our great results are great front-line employees who deliver on customer expectations.”

Simon Blair, Chief Operating Officer



Above: Our customer care line is at the forefront of providing excellent customer experiences.

Left: Members have access to over a hundred Medibank Private retail centres across Australia.



Since its launch in May 2005, *My Options* has been embraced by thousands of young Australians each month, exceeding forecasts by 86 per cent, helping us to lift our market share of the younger adult population.

Meeting the needs of Australian families

Last year, Medibank Private introduced **Families with Adult Children**, a product that offers parents the opportunity to keep their adult children on their family cover until the age of 25. This product recognises that children are staying at home longer, and enables parents to provide health cover for their children into adulthood. This product is being taken up by over one thousand families each month.

In March 2005, we introduced another benefit improvement to ease the burden on families: **No Excess for Children**. The unique initiative, which applies to all Medibank Private package products with an excess, means members are not required to pay an excess for a dependent child or dependent adult who is treated in a hospital or day hospital facility. More than 340,000 children are covered by products with this benefit improvement.

Meeting the needs of corporate Australia

Medibank Priority is the latest innovation from Medibank Private. It is a combined health cover and well-being program for corporations to offer to their employees.

Medibank Priority benefits the employer by providing a tailored staff benefit that helps keep staff healthier and an absenteeism module to measure how their organisation is tracking.

Priority members also benefit from exclusive corporate rate premiums, life insurance, choice of cover and access to online health support via Priority Heartbeat.

Medibank Priority was introduced in May 2005.

The year ahead

- Continue our vigilance to contain escalating health care costs
- Attract and retain members by offering improved services, competitive premiums and easy-to-understand products.



A commitment to service excellence

Improved products are only part of the equation. Medibank Private recognises that a consistent and excellent standard of service is also essential to retaining our leadership position in the private health insurance industry.

Last year, we introduced the *Service Edge Program* to equip staff to deliver consistent and excellent service to members and health service providers, as well as to colleagues.

The ongoing training program introduced stringent benchmarks that measure performance in all areas of customer service, including call response times and customer satisfaction.

In December 2004, we took a further step forward by publishing our *Member Service Charter*. The charter spells out our written commitment to serving our members – what we promise to do and when we promise we'll do it.

Having a charter is only the start of offering service excellence. Demonstrating we are delivering on our promises is equally important. We have therefore committed to an annual

review by an independent authority in customer service excellence. (A summary of the results is on page 32 and the full results are available on our website.)

Unparalleled access

Medibank Private is the only national health insurance fund. With over 100 retail centres covering every Australian state and territory, our reach is unparalleled.

Our accessibility was further enhanced with the introduction of on-line member services in December 2004. This enables members to review and change their cover, update their details and receive personalised responses to their on-line queries. More than 40,000 members accessed this new service in its first six months.

Our commitment to providing unparalleled access continues with the introduction of two new retail centres. The new store in Haymarket, Sydney (the heart of the Chinese community), has employees who speak Cantonese or Mandarin. Our other new flagship centre is in the heart of Melbourne, providing convenient access for busy CBD workers.

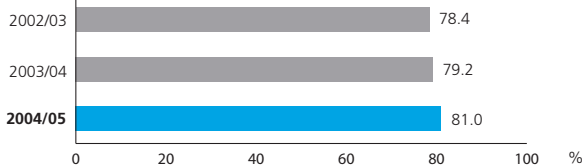


Above: With over 100 retail centres Australia-wide, we provide unparalleled access for our members.

Left: Medibank Private's retail centre in Haymarket, Sydney (in the heart of Chinatown), caters for Cantonese and Mandarin-speaking communities.

Customer service

Member satisfaction with customer service continues to improve.



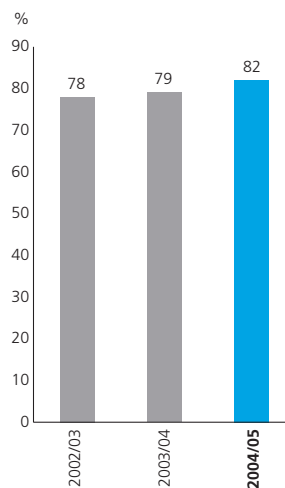
Market share

Medibank Private market share (by resident contributors) and market position remain strong.

	Market share	Position
New South Wales/ACT	23%	1
Victoria	38%	1
Northern Territory	44%	1
Queensland	36%	2
Western Australia	20%	2
South Australia	21%	2
Tasmania	36%	2

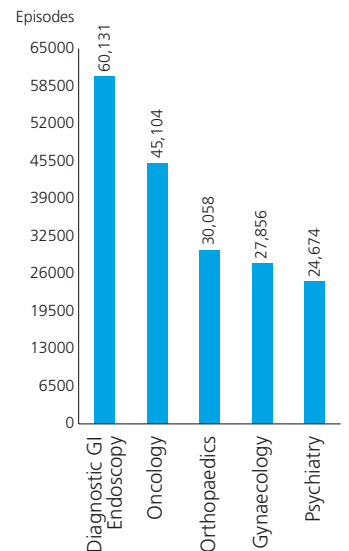
Call resolution

A high level of member calls are resolved at first contact.



Top five claims categories

Top five areas of hospital claims (overnight and same day private hospitals July 04 to April 05).



Promoting member well-being

“I was having a health crisis at the time and the program helped me focus on where I was up to. The phone support was really good.”

Julie, program participant

Prevention is better than cure

Australians have a great lifestyle. However, increasingly poor dietary habits and low levels of physical activity are impacting upon our health. This is reflected in the disturbing increase in health problems and diseases such as obesity and Type II diabetes.

At Medibank Private, we believe prevention is better than cure. That's why we've trialled three new programs that empower members to better manage their health.

By helping our members keep healthy, and delaying the onset of age and lifestyle diseases, we will not only meet our members' need for more affordable insurance, but we will also have a lasting positive impact on our members' health.

Member well-being pilot

More than 3,000 Queensland members took part in an assessment to identify their health risks and then received advice on the necessary steps to reduce these risks. The results of this pilot have been extremely positive, with over 50 per cent of participants enrolled in a risk program reporting increased levels of physical activity and improved health over a 12-month period.

The pilot also included a complex care program that provided a customised health management program for people experiencing multiple health conditions. Participants in this program reported a significant reduction in emergency department presentations and hospital admissions.

This means participants improved the way they manage their conditions, which resulted in lower claims, which in turn benefits all our members by taking pressure off future premium growth.

'On Track' diabetes pilot program

This 12-month program helped 485 members with diabetes to better self-manage their condition and undertake the care recommended by their doctor. While a complete survey of the program outcomes is not due until late 2005, initial results are positive.



On-line health risk assessment and health program

This on-line program helped members to manage their diet and weight and to maintain a reasonable level of physical fitness. The most pleasing aspect of this pilot was that, of the 1530 members who participated, over half were in the 18–34 year age bracket. Ten per cent of members who enrolled in an active health program reported an increase in physical activity and 12 per cent reported an average weight loss of 4.6 kilograms.

Following the success of these pilots, Medibank Private is now in the process of rolling-out a range of health programs to a broader number of members.

In the past year, Medibank Private is proud to have worked together with the following organisations to improve the well-being of our members:



Contributing to our industry

Our industry leadership brings with it the responsibility to advocate for our members to ensure they have access to the best health care possible, and to support necessary industry reform to make that happen. At Medibank Private, we take this responsibility very seriously.



Philip
Customer Service Officer,
National Provider Helpdesk

Working with hospitals for a fairer deal

In the past year, health care costs have risen up to three times faster than the Consumer Price Index (CPI). Medibank Private has identified a number of ways to address part of this price escalation.

Recent Medibank Private research indicates that differences in hospital charges of up to 25 per cent for the same procedures can occur between private hospitals in the same local area.

Through Medibank Private's Members' Choice hospital network, we are negotiating better prices while also enshrining quality and safety standards into the contracts we have with hospitals.

Our aim is to negotiate fairer contracts that provide our members with access to the majority of private hospitals, while taking some of the pressure off future premium growth.

Driving e-business with hospitals

Medibank Private has initiated a program to help hospitals reduce processing costs and improve operational efficiencies by encouraging the use of an electronic claims management system called THELMA.

The take-up of electronic hospital claims in Australia has been surprisingly slow. Medibank Private is seeking to increase this by introducing hospital incentives that result in reduced fees associated with using e-claim technology. We are also working with the Health Insurance Commission to introduce the 'eclipse' claiming system, which has a similar goal of improving technology uptake.

The resulting reduction in administrative costs will benefit both hospitals and Medibank Private.

The year ahead

- Actively work with health care providers to reduce the rate of growth in health care costs
- Invest in our member well-being programs and continue to advocate for better health outcomes for all Australians
- Undertake regular member satisfaction surveys to help contracted hospitals meet our members' expectations.



Managing internal expenses

A key indicator of the financial health of any fund is its Management Expense Ratio (MER). This shows the fund's ability to efficiently manage its business overheads to maximise the value it delivers to members.

Highlighting our position as a lean and efficient business, we have cut our MER from 13.8 per cent in 2000 to 9.2 per cent this year, which is one of the lowest in the industry.

This result has been achieved despite the fact Medibank Private supports the largest, and the only national, retail centre network. We have also recently invested in new information technology systems and increased our expenditure on marketing the Medibank Private brand, an important part of our ongoing strategy to attract and retain members.

Advocating for better outcomes for Australians

Australia has one of the best health care systems in the world. However, as an industry leader, we are always looking for ways to improve the system for the benefit of Australians.

Looking forward, our business and the industry at large must tackle the issues of affordability and health care quality standards. We are passionate about these issues and are working hard with our health partners, government and the industry to find the answers.

We are actively involved in industry reform regarding portability, informed financial consent and prostheses.

For example, Medibank Private contributes to prostheses reform through our membership of the Prostheses Committee, which was established by the Federal Health Minister to effect reform on the cost of, and access to, prostheses devices. The committee comprises representatives from the health insurance industry, clinicians, hospitals and manufacturers.

“We lead our industry by engaging stakeholders and advocating for our members.”

Tony Jones, Group Manager, Corporate Strategy and Communications



Above: Medibank Private is developing incentives with health care providers to ensure that our members receive quality care and health outcomes.

Left: Members have a wide choice of health care providers to help them better manage their health.

Medibank Private is one of only four health funds representing the interests of Australian health fund members to ensure fair and equitable access to prostheses devices. This is an opportunity for us to help contain future premium increases by addressing one of the major drivers of health care cost escalation, without depriving members of innovative health solutions.

Loyalty benefit reform for members

In February 2005, the Hon. Tony Abbott, Minister for Health and Ageing, commissioned a review of the existing policy and legislation underpinning loyalty bonus schemes.

The review included an exploration of the operation of loyalty bonus schemes, the policy and legislative framework that supports loyalty schemes, and the extent to which there is scope to improve loyalty schemes in aiding member retention.

We believe this is an important issue, as recognition for customer loyalty rewards those who have participated in the private health system over time and encourages younger and healthier members to take up private health insurance earlier, thereby lessening the premium burden for others.

Members' Choice and GapCover providers

Medibank Private provides value to our members by offering choice and minimising out-of-pocket expenses.

	Members' Choice hospitals	GapCover medical providers	Members' Choice ancillary provider locations
ACT	7	54	23
NSW	148	1,741	829
NT	1	34	11
QLD	78	1,248	756
SA	49	1,097	379
TAS	9	184	121
VIC	114	2,644	1,010
WA	29	710	240
Australia	435	7,712	3,369

Innovating our business

Leadership requires being a step ahead. By focusing on the fundamentals of our business delivery, raising the profile of our brand and investing in innovation, Medibank Private will continue to build a firm foundation of business improvement that leads the industry.



Matt
eBiz Analyst

Medibank Private provides excellent value with over 89 per cent of income from member contributions paid out for member claims each year and management expenses kept low (16 per cent below the average per resident membership for other funds).

To maintain value for members, our team must be innovative and continually look for cost-effective ways to serve, attract and retain members.

A technology revolution

With nearly three million members, over 100 retail centres, more than 11,000 registered health service providers and over 15 million claims paid each year, Medibank Private depends on its IT infrastructure.

To ensure we can continue to meet the needs of our members and the health professions, a major technology investment is underway at Medibank Private. The Business Systems Renewal (BSR) project will replace dated software systems with leading-edge technology that will increase efficiency and improve service, as well as reduce operating costs across the company.

Having completed tender selection by early 2005, the BSR project will be delivered in two phases – one in 2006 and the other in 2007. The investment will cover expanded financial systems, data warehousing, an upgraded member service system platform and a new health management and claims system.

In 2005, we successfully separated our mainframe infrastructure from the Health Insurance Commission (HIC), completing the business separation that occurred in 1998 and creating an independent IT environment that has removed substantial risk.

Achieved without disrupting services to our members or providers, this separation allows us to implement the changes necessary for the BSR project, ensuring continued improvement to member servicing.

The year ahead

- Continue to improve efficiencies in business processes, allowing savings to be reinvested in core business growth initiatives
- Increase our brand promotion to drive member growth and retention
- Continue to build health insurance partnerships with the business community.

The HIC separation project, which commenced last year and was completed in March 2005, also involved taking charge of formerly outsourced IT activities. This shift has improved our responsiveness, internal service levels and knowledge management, resulting in cost savings for the business.

MAX-imum impact knowledge tool for staff

To address the need for improved knowledge management and reduce complex information overload, we have developed a new knowledge management system, known as MAX. Launched in 2004, MAX is delivering timely and accurate information to hundreds of employees, helping them deliver better service. MAX was created by one of our Quality Action Teams (see page 27 for more information).

Protecting our members from fraud

Fraud management is a very real problem in the health insurance industry. While the vast majority of members and health professionals do the right thing, a very small number attempt to exploit the system. In the past four years, recoveries against claims with misrepresentation of services



Medibank Private supported Juvenile Diabetes Research with the D-pod man Jelly Babies promotion
Photography by Andrew Finnegan

received by members or performed by providers have grown exponentially, with the amount in recoveries for this financial year estimated at nearly \$20 million.

Medibank Private utilises the services of data-mining specialists, private investigators and recovery specialists to uncover a variety of fraudulent and inappropriate practices.

With an average return of \$13.50 per \$1 spent in investigations, it is an important part of our stewardship of member contributions and keeping our premiums affordable.

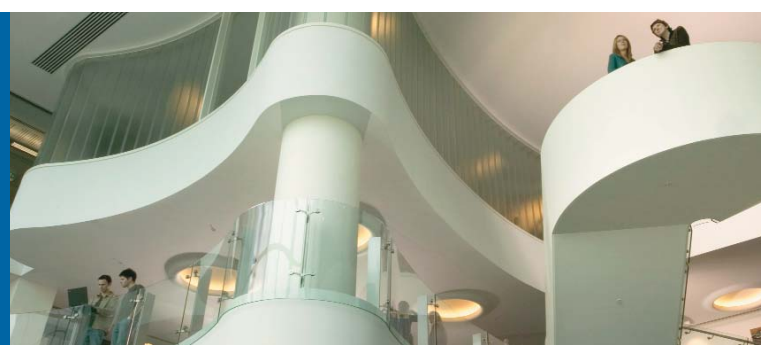
Medibank Private will continue to protect member premiums from fraudulent activity.

Launching into travel insurance

In April 2005, we successfully launched a range of domestic and international travel insurance products in the Western Australian market.

“Our improved underwriting performance positions us for sustainable profitability.”

Cecil Piccinino, Chief Financial Officer



Above: A view of the new Medibank Head Office located in Melbourne's Dockland precinct.

Left: The layout of the new head office encourages a flexible and integrated work environment.

Underwritten by Allianz, Medibank Private travel insurance is part of a broader strategy to improve member value and increase revenue in markets adjacent to our core business.

Offering a choice of domestic and international travel cover, the customer response has been extremely positive, with member take-up far exceeding expectations. The modest launch, backed by high-quality employee training, has produced a strong endorsement by members for the product. Given the success of the pilot program, Medibank Private is evaluating the possibility of rolling out travel insurance nationally during 2005/06.

Drawing the team together

In September 2004, Medibank Private relocated its three Melbourne offices to one location at 700 Collins Street in Melbourne's Docklands precinct. The company has signed a ten-year lease to occupy five levels of the building, consolidating all Melbourne office staff (including call centre and claims processing) in a single quality location without incurring increased overheads.

The move is also financially sound due to the removal of the duplication in service costs, such as security, technology, reception and maintenance, that were incurred in previous multiple locations.

The office was officially opened on 27 October 2004 by our shareholder minister, Senator the Hon. Nick Minchin, Minister for Finance and Administration.

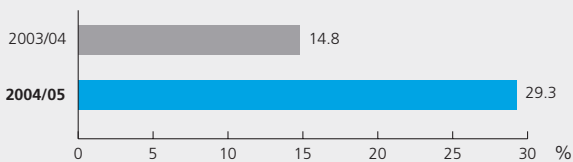
Maximising the Medibank Private brand

A characteristic of the private health insurance industry is that, to remain competitive and provide existing members with affordable premiums, you have to attract and retain new, younger and healthier members. With 40 funds to choose from, every fund is actively seeking to win the minds of people planning to join or switch funds.

There are two approaches we have adopted to reach new members: build the Medibank Private brand as one that can be trusted, and identify innovative cost-effective ways in conjunction with our mainstream advertising, to reach and influence potential members.

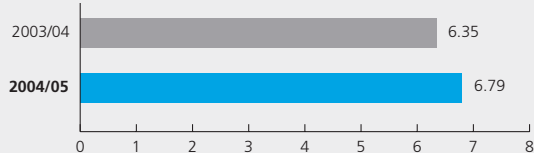
Share of voice (% of industry marketing expenditure)

Medibank Private's marketing presence more accurately reflects its size and position in the marketplace.



Brand value index (consumer perception of our brand on a 10 point scale)

The Medibank Private brand has strengthened its position in the minds of consumers.



Below: A still from the *My Options* television advertisement, targeted at members aged under 35 years.



Reinforcing the trusted brand – in October 2004, a new campaign was launched with the message: ‘it’s important to look after your health and even better to look after your health cover’.

This campaign has had a positive effect in promoting Medibank Private’s brand and retaining our membership market position.

For several years, Medibank Private has underspent in its brand support as a percentage of market share, but in 2004/2005, we have more vigorously promoted our offerings through the launch and marketing of our new health insurance products.

Reaching and influencing potential members – Sponsorships can provide a greater return on investment than other forms of advertising. When combined with a balanced marketing program, as is the case with Medibank Private, the results can be even more significant.

Some of the partnerships in which we have invested in this financial year include:

- **Medibank International Tennis Tournament** – This nationally televised event reached an estimated aggregated audience of 20 million people, providing wide-reaching brand exposure;
- **Juvenile Diabetes Research Foundation (JDRF)** – Medibank Private has developed a long-term partnership with JDRF in support of programs and research aimed at finding a cure for diabetes. In May, Medibank Private supported the annual Jelly Baby Appeal by selling jelly babies in retail outlets across Australia;
- **YMCA** – The YMCA plans a loyalty program for their 40,000 members and has chosen Medibank Private as their health insurer of choice; and
- **Melbourne Tigers** – Through our partnership with the Melbourne Tigers, Medibank Private had access to highly influential role models such as Andrew Gaze and Mark Bradtke, to help promote our business and health issues, especially in the southern states.

Maintaining the right focus

“The Strategic Business Units established a market-focused business structure for Medibank Private.” *Simon Blair, Chief Operating Officer*

Understanding and responding to local needs

Being the only national player in the private health insurance market has its advantages. The economies of scale in corporate services such as finance, human resources, technology, marketing and legal leads to efficiencies that enable us to deliver improved value for money to members in all states and territories of Australia.

However, it takes more than efficiency to succeed in private health insurance. More importantly, the elements that drive success vary from one market to the next.

Our desire to understand and engage with our members in diverse market segments – to become a truly market-focused organisation – underpinned the establishment of our Strategic Business Units (SBUs) in July 2004.

Each SBU is led by a general manager who is directly involved in, and accountable for, the total performance of the business in their nominated market territory.

This is good for members, as it fosters a detailed understanding of local market requirements and enables us to respond promptly and appropriately to meet the needs of members in each market.

It is also good for the business, as it enables Medibank Private to deploy tailored strategies within local markets and compete more effectively against local competitors.

These changes have placed our staff and the leadership team much closer together, enabling staff to feel empowered in the business and make a real contribution in areas such as marketing campaigns and customer service.

John Belleville
Overseas students
and visitors

Anthony Goldman
Corporate

Brian Loo
Queensland

Frank Levene
NSW/ACT

Peter McNeil
VIC/TAS/SA

Bob Payne
WA/NT



Empowering our people

Medibank Private is focused on building a high-performance organisation that unites and empowers our people. We want our staff to be proud that they work for Medibank Private and to be advocates for their company.



Kirsten
Internal
Communications
Manager

Creating the place to be

Medibank Private is creating a culture where people are engaged in their work. The principles that guide the way we operate include:

- engaging employees in shaping the future of the company;
- rewarding the performance of employees in an open and transparent way;
- encouraging employees to connect with the community in which they live and work;
- communicating and listening to employees so that everyone shares the Medibank Private vision; and
- building supportive workplace practices.

Our success in delivering on these principles was recognised by a strong result in the Reputex Social Responsibility Ratings for 2004¹, which recently upgraded Medibank Private's rating to an 'A', and rated our workplace practices as one of the highest in the broader insurance industry.

1 Reputex is an independent private company committed to the provision of quality research and rating services in the area of corporate social responsibility and reputation.

Developing our leaders

In recognising that Medibank Private's current and future success is dependent upon our leaders across the business (from our front-line supervisors to our business unit managers), we have established programs to improve the skills of our current leaders and to identify and develop tomorrow's leaders.

Fostering today's leaders – The **Leadership Enhancement Program** is an initiative that will further improve the leadership capabilities of our senior leaders. It provides them with practical leadership skills, translating into a better ability to drive business performance, build capability and achieve individual and organisational growth.

Recognising tomorrow's leaders today – The **Professional Enhancement Program** was introduced to identify talented employees with the potential to become future leaders and managers of Medibank Private, creating a talent pool for ongoing business growth.

“A great leader is a good listener, keeps an open mind and motivates others to be their best.”

Debra Brown, Medibank Private Sales Consultant TAS



Above: The inaugural ‘Kids at Work Day’ in Melbourne’s head office brought Medibank Private staff and their children together for fun at work.

Left: Medibank Community planted over 4,000 trees on Hindmarsh Island, in South Australia, as part of a Grow West land restoration program.



These programs are part of Medibank Private’s policy of nurturing people’s strengths and fostering committed employees who stay with, and move forward within, the company.

With organisational success critically dependent on the effectiveness of our leaders, our other development programs are aimed at placing Medibank Private at the cutting edge of leadership development.

Recognising exceptional performance

Last year, 42 staff from across Australia received awards in recognition of their leadership, continuous improvement, service and sales excellence, or for being a ‘local hero’. One staff member received a national award, the Managing Director’s Award, acknowledging outstanding professionalism and for living the company’s vision and mission.

Connecting to our own backyard

At the core of the Medibank Private culture is the passion to work with and for the community. **Medibank Community** provides formal recognition of this commitment and

provides support and encouragement to our staff to make a positive impact in their local community.

Launched in Melbourne on 18 November 2004 and subsequently rolled out in all other states, Medibank Community encourages staff to connect to their community. Every staff member has an additional half-day paid leave each year to undertake community work of his or her choice.

We have established community teams with Wesley Mission Melbourne (a leading advocate for social justice), Urban Seed (delivering education programs for homeless youth), Grow West (managing one of the most extensive land restoration programs ever undertaken), and Guide Dogs South Australia.

Our staff have also made contributions to World Vision, the Juvenile Diabetes Research Foundation and the Salvation Army Christmas appeal, among others.

Clea
Human Resources
Officer



The year ahead

- Continue our focus on developing leaders
- Reinforce Medibank Private as an employer of choice
- Cultivate a work environment that stimulates and facilitates our team's best performance.

Work and family

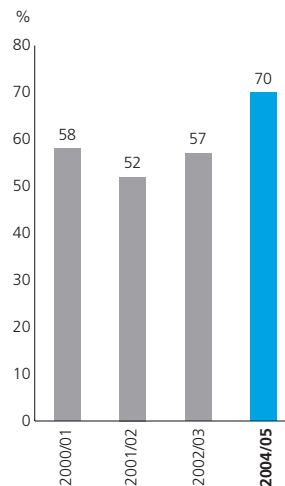
Positive workplace practices can make the difference in retaining people and developing a reputation as an employer of choice. This is a journey with much more work to do.

Our first **Kids at Work Day** was held in Melbourne on 15 April 2005. As part of celebrating the move to our new corporate office, 80 children spent part of the day with their mum or dad to discover more about what their parent does at work.

Staff retention has improved by 5.2 per cent, a clear indication that Medibank Private is continuing to improve as an employer of choice.

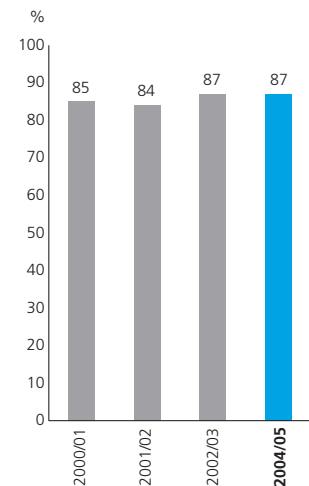
Job satisfaction

A record-high level of job satisfaction among employees.



Management effectiveness

Employees' perception of their immediate manager's style and effectiveness remains very positive.



Empowering employees

“To lead a successful organisation, you need to capture the hearts and minds of your employees. You need to inspire and motivate them to be their best.” George Sawides, Managing Director

Shaping the business from the inside out

Quality Action Teams (QATs) are small work teams established by staff members with a mission to solve a problem or pursue a business improvement. Participation in the teams is voluntary and the process is intentionally kept as informal as possible.

This approach recognises that innovation comes most easily when we give employees the opportunity to express their problem-solving and creativity skills in an environment with few limitations or boundaries.

The teams have two to three months to develop their ideas, before presenting to senior management for an on-the-spot decision as to whether or not they should proceed. This immediacy of decision-making is a real strength in winning staff confidence.

Our employees have embraced this opportunity to help shape the direction of the business. Staff feel empowered, leading to a healthier, happier organisation.

Since the initiative began in April 2002, 61 QATs have been created with over a third of our employees involved. QATs have identified solutions to 125 business and service issues, most of which have now been implemented.

This Sydney-based QAT Team is exploring ways to improve communication around membership renewals.



A snapshot of the work of our QATs

Issue	Action	Outcome
To access GapCover information, doctors and hospital staff had to request an information pack be mailed to them.	A QAT of eight staff developed on-line GapCover kits, easily downloadable from our website.	Along with faster delivery of information, this initiative saved \$150,000 per annum in printing and postage.
Encouraging younger people to take out private health insurance.	A youth forum was established in 2004 to develop the perfect health insurance product for 25 to 35 year olds.	The result was Medibank Private's <i>My Options</i> , a new product targeted at younger adults launched in May 2005.
Providing staff with access to timely, accurate information to provide excellent customer service.	A QAT of six staff proposed an online knowledge management system with information staff need to answer customer queries.	The new database is now the central source for all operational knowledge, empowering employees to find the right information quickly and accurately.

Board of Directors



1

Peter Kirby BEcon (Rhodes), BEcon (Hons) (Natal), MA (Econ) (Manchester), MBA (Witwatersrand), AMP (Harv)

Non-Executive Chairman

Appointed Director and Chairman from 8 February 2004. Current term expires 7 February 2007. Chair of the Nomination, Remuneration & Human Resources Committee.

Mr Kirby has substantial leadership, management and marketing expertise both internationally and in Australia. He is a Director of Orica Ltd, Macquarie Bank Ltd, the Beacon Foundation and Member of the Advisory Council of MIR Investment Management Ltd.

He is former Managing Director and Chief Executive Officer of CSR Ltd and member of the Board of the Business Council of Australia, and spent 25 years with the Imperial Chemical Industries PLC group ('ICI').

2

Julia Bowen MAICD
Non-Executive Director

Appointed Director from 3 November 2003. Current term expires 2 November 2006. Chair of the Business Enablement Committee.

Ms Bowen has extensive executive and consulting experience, with particular proficiency in information technology. She is currently an independent consultant.

Her former positions include Director, Systems and Programmes, Cable & Wireless Optus; Manager, Aspect Computing; and Support Program Manager for the Royal Navy Nuclear Submarine Weapons Systems.

Ms Bowen is a Foundation member of the Ernst & Young Worldwide Masters Program.

3

Roger Harley BScience
Non-Executive Director

Appointed Director from 30 August 2004. Current term expires 29 August 2007.

Mr Harley has many years executive experience in investment banking and finance.

He is former Director of Equity Capital Markets, Deutsche Bank Group.

He is currently a Director of Fawkner Capital; Board Member of Pooled Development Funds Board (Venture Capital); and member of the Funds Management Committee of the Industry Research & Development Board. He is also a Trustee of the Yarra Bend Park Trust and the Alfred Deakin Trust.

4

Adrian Brien AM
Non-Executive Director

Appointed Director from 26 June 2002. Current term expires 28 June 2008. Chair of the Investment Committee.

Mr Brien brings to Medibank Private experience from his successful business career. He is currently a Member of Pooled Development Funds Board (Venture Capital), Department of Australian Industry; Trustee, Les Favell Cricket Foundation; Life Governor, Flinders Medical Centre Research Foundation; and Chairman and Director, Equitrade Ltd.

Former positions include CEO of Adrian Brien Automotive Group; Member, Board of Governors, Flinders University; and Member, Board of Management, Flinders Medical Centre, South Australia.



5

**George Savvides B Econ (Hons)
(UNSW), MBA (UTS), FAICD**

Managing Director

Appointed Director from 6 September 2001. Current term expires 31 March 2006. Appointed Managing Director 1 April 2003.

Mr Savvides has a wealth of corporate leadership experience with over 17 years in the health care industry. He is currently Executive Member of AHIA (Australian Health Insurance Association); Non-Executive Director, World Vision Australia and World Vision International; Member Advisory Committee, Genepharm Ltd; and Councillor, International Federation of Health Plans.

Former positions include Managing Director of Healthpoint Technologies Ltd; Managing Director and CEO, Sigma Co Ltd; and Managing Director, Smith+Nephew Pty Ltd, Australasia.

6

Brian Keane FAICD
Non-Executive Director

Appointed Director from 30 August 2004. Current term expires 29 August 2007.

Mr Keane has executive experience in corporate leadership and marketing, specifically in the insurance industry.

He is currently a Director of CSIRO; RAC Insurance Ltd; and Aurora Energy Pty Ltd and Law Corex Pty Ltd. Mr Keane is a Fellow of the AICD and the Australian Marketing Institute and Member of the Australian Competition Tribunal.

Formerly CEO of national general insurance company AAMI Ltd; and Director, Royal & Sun Alliance Australia Ltd and TAB Ltd.

He is a former Director and President of the Insurance Council of Australia.

7

**Just Stoelwinder MD
(Monash), MBBS (WA),
FRACMA, FACHSE, FAFPHM**

Non-Executive Director

Appointed Director from 26 June 2002. Current term expires 28 June 2008. Chair of the Product, Benefits & Innovation Committee.

Professor Stoelwinder has extensive experience in medical and health care roles and is currently Chair of Health Services Management, Department of Epidemiology and Preventive Medicine, Monash University.

His former positions include CEO and Director of the Southern Health Care Network; CEO, Monash Medical Centre, Queen Victoria Medical Centre (Melbourne); Member, Private Health Insurance Administration Council (PHIAC); and Professor and Head, Health Services Management Development Unit, Flinders University, School of Medicine.

8

**Peter Wade BComm (Hons),
MA, FCPA, FAICD**

Non-Executive Director

Appointed Director from 26 June 2002. Current term expires 28 June 2008. Chair of the Audit & Risk Management Committee.

Mr Wade is a qualified accountant and has enjoyed a successful career in both the public and corporate sectors.

He is currently Chairman, Open Universities Australia Pty Ltd; Director, CASS Foundation Limited, The Knox School Ltd, and Phillips KPA Consulting Pty Ltd.

Former positions include General Manager, Monash University; Deputy Chairman, VicGrain Ltd; Director, Graincorp Ltd; and Director, Banksia Wines Ltd.

Directors' complete details and experience are located in the Directors' Report on page 39.

Group Executive



1

1
George Savvides
Managing Director

Commenced role
April 2002

George has over 17 years experience in the health care industry, including Managing Director of Sigma, Regional Managing Director for Smith + Nephew and General Manager CIG Healthcare. George is currently Executive Member of AHIA (Australian Health Insurance Association) and Councillor, International Federation of Health Plans.

2

2
Simon Blair
Chief Operating Officer

Commenced role
July 2002

Simon previously worked as Lead Health Specialist for the World Bank. Prior to that he was the CEO of Australia's largest public hospital group. As Chief Operating Officer, Simon is responsible for marketing, customer services, distribution and the Strategic Business Units.

3

3
Tony Jones
Group Manager –
Corporate Strategy &
Communications

Commenced role
May 2005

Tony has over 15 years experience in investment banking, including over 10 years with Deutsche Bank AG where he was co-head of their consumer, healthcare and leisure investment banking team in Australia and New Zealand. Tony has also worked with BRL Hardy, Sigma, Mayne, Aristocrat, Sky City, AWB and ANZ. His division manages corporate planning, strategy development and communications.

4

4
Bruce Levy
Group Manager,
Health Services

Commenced role
October 2002

Prior to joining Medibank Private, Bruce was General Manager of the Alfred Hospital, for which he drove a financial turnaround, redeveloped models of care delivery and managed community interest groups. His area is responsible for claims processing, managing our hospital and provider relations, as well as driving our member well-being and quality and safety initiatives.

5

5
Cecil Piccinino
Chief Financial Officer

Commenced role
November 2001

Having previously worked with KPMG and other large financial institutions, Cecil brings his financial, treasury, risk management and audit experience of public and private sector organisations to Medibank Private. As Chief Financial Officer, Cecil is responsible for the financial standing of the company and the actuarial services vital to our ongoing success.

Corporate Executive



1

**1 Sarah Bussey
General Counsel**

Commenced role
October 2001

Sarah brings a range of legal experience to Medibank Private, having previously been a partner with Phillips Fox Lawyers, and a solicitor with Blake Dawson Waldron.

2

**2 Andrew Gale
Chief Actuary**

Commenced role
November 2000

Andrew has 20 years experience in the insurance and financial services sector, including a number of roles within the AXA Group. He brings actuarial and financial skills to his statutory role as Medibank Private's Appointed Actuary.

3

**3 Neil Greenaway
Company Secretary**

Commenced role
March 2004

Neil has extensive experience in secretarial practice, corporate governance and healthcare. Prior to Medibank Private, Neil held senior positions with St. Vincent's Health, Tupperware International and KPMG.

5

**4 Derek Linsell
Innovation &
Continuous
Improvement Advocate**

Commenced role
April 2002

Prior to joining Medibank Private, Derek worked with Burns Bridge developing and implementing change management programs. Derek's experience extends to large organisations in the public, private and not-for-profit sectors.

7

**5 Michael Sammells
National Hospital
Manager**

Commenced role
August 2003

Michael brings over eight years experience in the health industry, in both financial and operational roles, to his current position. He has worked in both the public and private sector. In his most recent role, as a Director of both finance and operations at Southern Health, his responsibilities included overseeing the development of the new public hospital in Berwick. Prior to this, Michael had 15 years with Mayne Group in the health and logistics area.

8

**6 Andrea Thislethwayte
Group Manager –
Human Resources**

Commenced role
March 2002

From Andrea's roles at Laminex Industries, Containers Packaging and Kraft Foods, she brings experience across a variety of HR and management consulting activities including cultural change, organisation/people development and employee relations.

**7 Surinder Singh
Chief Information
Officer**

Commenced role
June 2002

Prior to joining Medibank Private, Surinder managed IT for organisations within the health care industry, and with distribution and software development organisations.

**8 Tony Dudley
Financial Controller**

Joined July 1990

Prior to joining Medibank Private, Tony was in internal audit at ACT Electricity and Water Authority. Tony joined Medibank Private in 1990 as Assistant Financial Accountant and, since then, he has held senior positions in finance, financial information and analysis, and marketing.

Member service charter review

Our member service charter is our written commitment to provide our members with service excellence.

The Medibank Private *Member Service Charter* was implemented in January 2005. The creation of the charter represents our commitment to delivering service excellence to our members.

Our organisation strives to be the best, and we have set ourselves challenging targets. Each year, our performance against these targets is reviewed by an independent authority in customer service excellence.

In the first of these reviews, capturing the period from January to June 2005, Medibank Private delivered on 21 of 24 promises (see the column to the right).

While we are pleased with this result, we aim to do better. Over the next year, our goal is to achieve a 100 per cent success rate and completely deliver on all of the promises outlined in the charter.

For a full report on the Medibank Private Member Service Charter audit, please visit our website www.medibank.com.au



- ✓ Promise consistently fulfilled for the period January to June 2005
- ✓ Promise fulfilled for four of six months
- ✓ Promise fulfilled for one of six months

- 1 Lifetime protection**
 - Meeting changing customer needs ✓
 - Ensuring quality healthcare ✓
- 2 Quality service**
 - Answering calls within one minute ✓
 - Service within five minutes at retail centres ✓
 - Responding to emails within one working day ✓
 - Responding to letters within five working days ✓
- 3 Honesty and transparency**
 - Changes to policy and premiums are transparent ✓
 - Reference numbers provided to customers ✓
 - Reasons provided for all decisions ✓
 - Membership information in plain English ✓
- 4 Supporting our community**
 - Acting responsibly in the community ✓
 - Working with charity partners ✓
 - Encouraging staff to be involved in the community ✓
- 5 Resolving concerns promptly**
 - Problems resolved on the spot ✓
 - Complaints handled within 10 working days ✓
 - Referral to Ombudsman where required ✓
- 6 Respecting your privacy**
 - Information not passed to another organisation for marketing purposes ✓
 - Member information kept up-to-date ✓
- 7 Accessibility**
 - Largest retail network ✓
 - Member information available on-line and through call centre ✓
 - Claims less than \$200 paid on the spot ✓
 - Ancillary claims processed within 10 working days of receipt ✓
- 8 We really want to hear what you think of us**
 - Quarterly customer surveys ✓
 - Medibank Private contact information ✓



Financial report 2005

Corporate Governance Statement

Medibank Private is a wholly-owned Commonwealth Company as defined in the *Commonwealth Authorities and Companies Act 1997* (Cth), a Government Business Enterprise, and a Company subject to the *Corporations Act 2001* (Cth).

Governance at Medibank Private

Medibank Private is committed to implementing the highest standards of corporate governance. The governance practices derive principally from the provisions of the *Commonwealth Authorities and Companies (CAC) Act 1997* (Cth) and requirements of the *Governance arrangements for Commonwealth Government Business Enterprises* (1997).

The Company is also committed to reporting in accordance with the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations* (ASX Guidelines) in so far as they are applicable to an unlisted government business enterprise (GBE) such as Medibank Private.

During the financial year, the Company continued to implement the ASX Guidelines. As at 30 June 2005, the Company is in compliance with the ASX Guidelines, except for Principle 5 "make timely and balanced ASX Listing Rules disclosures", which is not applicable to an unlisted GBE, such as Medibank Private.

A dedicated corporate governance section on the Medibank Private website (www.medibank.com.au) provides a detailed description of the Company's governance framework and associated practices with links to key documents. During the year, this section of the website was expanded

to include specific disclosures for recommendations:

- 1.1 – Summary of matters reserved for the Board;
- 2.5 & 9.5 – Nomination, Remuneration & Human Resources Committee Charter;
- 3.3 & 10.1 – Medibank Private Code of Conduct; and
- 4.5 – Audit & Risk Management Committee Charter.

Our Shareholder

Ownership and shareholder minister

The Commonwealth of Australia holds all the shares in Medibank Private Limited. The responsible shareholder minister is the Minister for Finance and Administration, Senator the Hon. Nick Minchin.

Shareholder communication

The shareholder minister is briefed on a regular basis on the performance of Medibank Private and any significant financial, operational or strategic issues as they arise.

Under the Commonwealth Government Business Enterprise governance arrangements, a rolling three year corporate plan is submitted annually to the shareholder minister. A high level summary of the plan (the *Statement of Corporate Intent*) is tabled annually in Parliament. Quarterly reports on progress against the corporate plan are made to the shareholder minister.

Medibank Private's annual report is submitted to the Commonwealth Parliament in accordance with section 9 of the *Commonwealth Authorities and Companies (CAC) Act 1997* (Cth).

Board of Directors

Role and responsibilities

The Board of Directors is responsible for the overall corporate governance of Medibank Private, including the Company's performance, and is accountable to the shareholder minister.

In carrying out its governance role, a key task of the Board is to drive the performance of the Company. The Board must also ensure that the Company complies with all of its contractual, statutory and other legal obligations, including the requirements of all applicable regulatory bodies. The Board has overall responsibility for the successful operations of the Company.

The powers and duties of the Board are specified in the Constitution of Medibank Private, the *Corporations Act 2001* (Cth), the *National Health Act 1953* (Cth), and other relevant legislation and law.

Key accountabilities and matters reserved for the Board include:

- setting and reviewing objectives, goals and strategic direction, and assessing performance against these benchmarks;
- ensuring the Company is financially sound, meets prudential requirements and has appropriate financial reporting practices;
- ensuring a process is in place for the maintenance of the integrity of internal controls, risk management, delegations of authority and financial and management information systems;
- appointing, supporting, evaluating and rewarding the Managing Director;
- monitoring the executive succession plan and ensuring

- a process of evaluating and rewarding key executives;
- ensuring high business standards, ethical conduct and fostering a culture of compliance and accountability; and
- reporting to the shareholder minister on the Board's stewardship of the Company and monitoring the achievement of the corporate plan.

The Chairman leads the Board. He has responsibility for ensuring the Board receives accurate, timely and clear information to enable the directors to analyse and constructively critique the performance of management and the Company as a whole. The Chairman is responsible for representing the Board to the shareholder.

The Company Secretary is appointed by the Board and reports directly to the Chairman. The Company Secretary is responsible for developing and maintaining information systems that are appropriate for the Board to fulfil its role. The Company Secretary is also responsible for ensuring compliance with Board procedures, and provides advice to the Board, via the Chairman, on governance matters.

Board composition

The Board of Medibank Private comprises up to seven non-executive directors, including a non-executive Chairman and an executive Managing Director. All current non-executive directors are independent in accordance with the ASX Guidelines criteria for independence.

Details of the directors and company secretaries, including names and qualifications, are included in the Directors' Report, together with directors' remuneration.

Directors are appointed by the responsible shareholder minister in accordance with the Company's Constitution. Current practice is for terms of appointment to be of three years duration and reappointment is permissible.

Director induction and education

Medibank Private has an induction program for new directors, which is reviewed periodically by the Board Nomination, Remuneration and Human Resources Committee.

Directors are provided with detailed briefings by management on corporate strategy and current issues affecting Medibank Private and the private health insurance industry generally. All directors are encouraged to visit retail centres, call centres and operational and support divisions, and to meet with employees across the business.

In order to achieve continuing improvement in Board performance, all directors are encouraged to undergo continual professional development. Specifically, directors are provided with the resources and training to address skills gaps where they are identified.

Conflicts of interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. All 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 2001* (Cth). Directors do not participate in discussions, and abstain from voting on any decisions, in which they may be perceived to have a material personal interest.

Independent professional advice and access to company information

The Board and its Committees may seek advice from independent experts whenever it is considered appropriate. With the consent of the Chairman, individual directors may seek independent professional advice at the expense of the Company on any matter connected with the discharge of their responsibilities.

Each director has the right of access to all relevant Company information and to the Company's management.

Director dealings in company shares

As the Commonwealth of Australia holds all the shares in Medibank Private, no trading in the shares is allowed.

Board meetings

The Board scheduled ten Board meetings during the year, with additional meetings for strategic planning. The Board met 12 times during the year.

The agenda for Board meetings is prepared in conjunction with the Chairman, the Managing Director and the Company Secretary. Board reports are circulated in advance of Board meetings. Management executives are regularly involved in Board discussions.

Board performance

The Board has adopted contemporary performance measures in assessing the effectiveness of the Board.

A review of Board performance is conducted annually by way of alternate formal and informal assessment. The aim is to undertake an objective assessment of the performance of the Board as a whole. A formal independently facilitated review was conducted during the year ended 30 June 2004.

During the year ended 30 June 2005, an informal review was conducted. This comprised confidential interviews with the Chairman and each director. Feedback from this review was provided to the full Board as part of its continuous improvement program.

Board Committees

To assist in the performance of its responsibilities, the Board has established a number of Board committees, being:

- Audit & Risk Management Committee;
- Business Enablement Committee;
- Investment Committee;
- Nomination, Remuneration and Human Resources Committee; and
- Product, Benefits and Innovation Committee.

Each Committee operates under a charter approved by the Board, which is reviewed periodically. Copies of the charters can be found in the corporate governance section of the Company's website. Board committees have no delegated authority, but make recommendations and report to the Board of Directors on appropriate and relevant issues.

Details of committee membership and attendance are included in the Directors' Report.

Audit & Risk Management Committee

All non-executive directors are currently members of the Audit & Risk Management Committee. The Managing Director attends Audit & Risk Management Committee meetings by invitation. The Chair of this Committee is an independent non-executive Director who is not the Chair of the Board.

The Committee Charter recommends that the committee meet at least four times per year. The committee met four times during the year.

The External Auditor met with the Audit & Risk Management Committee twice during the year and was invited to meet the committee without management being present. The External Auditor declined the invitation as they deemed it was not necessary.

The role of the Audit & Risk Management Committee is to assist the Board in relation to the reporting of financial information, risk management and compliance.

Key responsibilities include:

- reviewing the annual financial report;
- approving and monitoring the annual risk assessment plan;
- monitoring the activities of the internal audit and compliance functions;
- reviewing the performance of the external auditor;
- monitoring the effectiveness of the internal control framework;
- monitoring the effectiveness of the Company's fraud control policies and procedures; and
- monitoring the procedures in place to ensure compliance with the legislation, regulations and codes.

Business Enablement Committee

Four non-executive directors are currently members of the Business Enablement Committee. The Chair of the Committee is an independent non-executive Director.

The primary role of the committee is to:

- enable Board overview of IT strategy, project management and implementation;

- provide advice to the Board on productivity and business improvement initiatives ; and
- monitor the management of IT project risk, compliance, business cases and post implementation reviews.

The Committee Charter recommends that the committee meet at least four times during the year. The Committee met seven times during the year.

Investment Committee

The Investment Committee comprises four non-executive Directors and the Managing Director. The Chair of the Committee is an independent non-executive director.

The primary role of the Committee is to set the investment strategy and to monitor the effectiveness of that strategy to achieve optimum return relative to risk whilst meeting the Company's prudential capital requirements.

The Committee Charter recommends that the committee meet at least three times a year. The committee met four times during the year.

Nomination, Remuneration & Human Resources Committee

The Nomination, Remuneration and Human Resources Committee comprises four non-executive directors. The Managing Director attends committee meetings by invitation. The Chair of the Committee is an independent non-executive Director.

The primary role of the committee is to review and make recommendations on Board composition and nomination, Board and senior executive remuneration, Board and senior executive succession planning, and insurance requirements as they relate to directors and officers of the Company.

The Committee Charter recommends that the committee meet at least twice a year. The committee met six times during the year.

The Commonwealth Remuneration Tribunal sets remuneration and travel allowances for non-executive directors, including the Chairman. The Managing Director's remuneration package is set in consultation with the Remuneration Tribunal under its advisory jurisdiction. No retirement benefits, other than statutory superannuation, are payable to Directors upon expiry of office.

Details of directors' remuneration are included in the Directors' Report and in the Financial Statements.

The Committee sets the policy and guidelines for the performance evaluation of the Managing Director and key executives, and reviews these guidelines regularly to ensure alignment with industry best practice.

The Committee also sets the policy and guidelines for the remuneration and performance evaluation of all other employees within the framework of individual Australian Workplace Agreements or Certified Agreements.

Product, Benefits & Innovation Committee

The Product, Benefits & Innovation Committee comprises four non-executive directors and the Managing Director. The Chair of the Committee is an independent non-executive director.

The primary role of the committee is to review on behalf of the Board the strategic direction of product design, purchasing strategies and other initiatives in health services delivery aimed at improving value to members.

The Committee Charter recommends that the committee meet at least four times a year. The committee met seven times during the year.

Accountability and Audit

External audit

In accordance with the *Commonwealth Authorities and Companies (CAC) Act 1997* (Cth), the Commonwealth Auditor-General audits the records and financial statements of the Company. The Australian National Audit Office (ANAO) has appointed Ernst & Young to conduct the audit on behalf of the Auditor-General.

The Board has a policy of auditor independence. This policy prohibits the engagement of the appointed external auditors for the provision of non-audit-related services. The external audit partner is rotated in accordance with the provisions of CLERP 9.

The Audit & Risk Management Committee meets with the external auditors during the year:

- to discuss the external audit and internal audit plans, identify any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements;
- to review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made; and
- to finalise annual reporting, review the preliminary financial report prior to sign-off, and any significant adjustments required as a result of the auditor's findings.

Internal control framework

The Board is responsible for the overall internal control framework and for

reviewing its effectiveness but recognises that no cost-effective internal control system will preclude all errors and irregularities. The systems are intended to provide appropriate assurance on:

- accuracy and completeness of financial reporting;
- safeguarding of assets;
- maintenance of proper accounting records;
- compliance with applicable legislation, regulation and best practice; and
- identification and mitigation of business risks.

The key features of the control environment include the Charters for the Board and each of its Committees; a clear organisational structure with documented delegation of authority from the Board to Executive Management; and defined procedures for the approval of major transactions and capital expenditure.

Certification by Managing Director and Chief Financial Officer

In accordance with Board policy, the Managing Director, Chief Financial Officer and other senior executives provide a self-assessment sign-off regarding the controls and activities of the Company, including assurance as to the Company's financial condition.

This process was expanded during the year to support the Managing Director and Chief Financial Officer's written certification to the Board under ASX Guideline Recommendation 7.2 that the certifications they give to the Board under ASX Guideline Recommendation 4.1 (as to the integrity of the Company's financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board, and that the Company's

risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Based on the evaluation performed as at 30 June 2005, the Managing Director and Chief Financial Officer concluded that as at the evaluation date, such risk management and internal compliance and control systems were reasonably designed to ensure that the financial statements and notes of the Company are in accordance with the *Corporations Act 2001* and there are reasonable grounds to believe the Company will be able to pay its debts as and when they become due and payable.

While the core financial information systems of the Company are considered to be controlled effectively, there remains scope for a range of improvements. The Company has embarked upon a journey of system renewal that will result in greater internal control over its financial reporting process.

Internal audit and risk management

The Audit & Risk Management Unit conducts internal audits in accordance with a risk-based Internal Audit Plan. This Plan is reviewed and approved annually by the Audit & Risk Management Committee. All audit reports are reviewed by the Audit & Risk Management Committee and approved by the Board.

The Audit & Risk Management Manager reports directly to the Chair of the Audit & Risk Management Committee.

As a key component of strategic planning and operational reviews, potential business risks are identified and evaluated. The risk management

methodology is based on Australian and New Zealand Risk Management Standards.

Business risk management

The Board has in place a system of business risk management, which forms part of the business planning and monitoring process across all key business units. Each business unit is responsible for assessing and updating its risk profiles, including related mitigation programs.

The Audit & Risk Management Committee advises the Board and reports on the status of business risks. Each year a full risk assessment and mitigation plan is prepared and endorsed by the Board.

The Board regularly receives updates on the status of key business risks.

Compliance

The Compliance Unit, which reports to the General Counsel, is responsible for designing, implementing and maintaining a comprehensive compliance training and reporting process to mitigate legal risk. This includes the development of an Operational Compliance Plan, which is reviewed and approved by the Board on an annual basis.

As part of its commitment to trade practices compliance, the Company conducts an annual independent organisation-wide review of the trade practices compliance program. The program is supported by an active trade practices compliance training program, which is completed annually by all staff.

The Compliance Unit is responsible for a privacy compliance program. There are four staff available, including a dedicated privacy officer, to answer all privacy related queries. Privacy policies,

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

P M Kirby BEcon (Rhodes), BEcon (Hons) (Natal), MA (Econ) (Manchester), MBA (Witwatersrand), AMP (Harv)

Non-Executive Chairman

Director and Chairman from 8 February 2004. Current term expires 7 February 2007. Chair of the Nomination, Remuneration & Human Resources Committee.

Mr Kirby has extensive corporate leadership experience internationally and in Australia and is currently a Director of Orica Ltd, Macquarie Bank Ltd, Beacon Foundation and a Member of the Advisory Council of MIR Investment Management Ltd.

Formerly Managing Director and Chief Executive Officer of CSR Ltd (1998 to 2003) and a member of the Board of the Business Council of Australia (2001 to 2003). Prior to joining CSR, Mr Kirby was with the Imperial Chemical Industries PLC group ('ICI') for 25 years in a variety of senior management positions around the world, including CEO of ICI Paints, responsible for the group's coatings businesses worldwide and a member of the Executive Board of ICI, with responsibility for ICI Americas and the western hemisphere.

J Bowen MAICD Non-Executive Director

Director from 3 November 2003. Current term expires 2 November 2006. Chair of Business Enablement Committee.

Ms Bowen has executive and consulting experience in information technology and is currently an independent consultant.

Formerly Director, Consulting Services, Asia Pacific, Cerner Corporation. Director, Systems and Programmes, Cable & Wireless Optus; Foundation member of the Ernst & Young Worldwide Masters Program; Manager of business consulting group, Aspect Computing; and Support Program Manager for the Royal Navy Nuclear Submarine Weapons Systems.

A H Brien AM Non-Executive Director

Director from 26 June 2002. Current term expires 28 June 2008. Chair of the Investment Committee.

Mr Brien has a successful career in business and is currently a Member of Pooled Development Funds Board (Venture Capital), Department of Australian Industry; Trustee, Les Favell Cricket Foundation; Life Governor, Flinders Medical Centre Research Foundation; and Chairman and Director, Equitrade Ltd.

Formerly CEO of Adrian Brien Automotive Group; Member, President's Advisory Board, Mitsubishi Motors Australia; National Chair, Australian Ford National Dealer Council; Member, Board of Governors, Flinders University, South Australia; Member, Board of Management, Flinders Medical Centre, South Australia; Member, Vehicle Licensing Board of South Australia;

Chairman, Australian Ford Dealer Credit Dealer Council; and Governor, Fordstar Board of Governors.

R D Harley BScience Non-Executive Director

Director from 30 August 2004. Current term expires 29 August 2007.

Mr Harley has executive experience in investment banking and finance and is currently a Director of Fawkner Capital; Board Member, Pooled Development Funds Board (Venture Capital); Funds Management Committee of the Industry Research & Development Board and Director of related investment holding companies. Trustee Yarra Bend Park Trust and Alfred Deakin Trust.

Formerly Director of Equity Capital Markets, Deutsche Bank Group.

B F Keane FAICD Non-Executive Director

Director from 30 August 2004. Current term expires 29 August 2007.

Mr Keane has executive experience in corporate leadership and marketing in the insurance industry and is currently a Director of CSIRO; Law Cover Pty Ltd; RAC Insurance Ltd; and Aurora Energy Pty Ltd. Fellow, Australian Marketing Institute, Member Australian Competition Tribunal.

Formerly CEO AAMI Ltd; Director: Royal & Sun Alliance Australia Ltd; AAI Ltd (Australian Pensioners Insurance); IEC Ltd; Motor Accidents Authority of NSW; TAB Ltd. Director and President of Insurance Council of Australia.

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

Managing Director

Director from 6 September 2001. Current term expires 31 March 2006. Appointed as Managing Director 1 April 2003.

Mr Savvides has over 17 years corporate leadership experience in the health care industry and is currently Executive Member of AHIA (Australian Health Insurance Association); Non-Executive Director, World Vision Australia and World Vision International; Member Advisory Committee, Geneparm Ltd; and Councillor, International Federation of Health Plans.

Formerly Managing Director of Healthpoint Technologies Limited, Managing Director and CEO, Sigma Co Ltd; Managing Director, Smith+Nephew Pty Ltd, Australasia; General Manager, CIG Healthcare Australia; Chairman, Medicines Partnerships of Australia; and Member, CSIRO Health Sector Advisory Council.

J U Stoelwinder MD (Monash), MBBS (WA), FRACMA, FACHSE, FAFPHM

Non-Executive Director

Director from 26 June 2002. Current term expires 28 June 2008. Chair of the Product, Benefits and Innovation Committee.

Professor Stoelwinder has had extensive experience in medical and health care roles and is currently Chair of Health Services Management, Department of Epidemiology and Preventive Medicine, Monash University.

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

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

Non-Executive Director

Director from 26 June 2002. Current term expires 28 June 2008. Chair of the Audit & Risk Management Committee from 8 February 2004.

Mr Wade is a qualified accountant and has had a successful career in the public and corporate sectors. He is currently Chairman, Open Universities Australia Pty Ltd; Director, CASS Foundation Ltd, The Knox School Ltd, and Phillips KPA Consulting Pty Ltd.

Formerly General Manager, Monash University; Deputy Chairman, VicGrain Ltd; Director, Graincorp Ltd; and Director, Banksia Wines Ltd.

Company Secretary

N K Greenaway FCIS, FCA, FCPA, FAICD

Company Secretary

Company Secretary from 2 April 2004.

Mr Greenaway has been a Chartered Accountant for over 25 years and a Chartered Secretary for eight years. Formerly held executive financial and secretarial positions with St Vincent's Health, Tupperware International and KPMG.

S L Bussey MA (Cantab), Solicitor, MAICD

General Counsel

Company Secretary from 19 October 2001.

Ms Bussey, a practising lawyer for over 15 years, has been practising in Australia for nine years. She is a member of the Australian Corporate Lawyers Association and the Law Institute of Victoria. Formerly a partner with Phillips Fox Lawyers.

Former Director

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

Non-Executive Director

Director from 7 July 1998 to 27 August 2004.

Dr Bollen has had extensive experience in medical and health care roles and is currently Director, BMP Healthcare Consulting Pty Ltd; Chair, Victorian WorkCover Authority Independent Medical Examiner Selection & Quality Assurance Committee; and Member, Board of the Aged Care Standards & Accreditation Agency.

Formerly Member, National Health and Medical Research Council; Foundation Chairman, Department of Primary and Emergency Care and Director of Primary Care, John Hunter Hospital; Secretary General, Royal Australian College of General Practitioners; part-time Commissioner, South Australian Health Commission; Clinical Lecturer in General Practice, University of Adelaide; Foundation Chair and Executive Director, Ingle Farm Community Health Centre; and General Practitioner.

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 & Risk Management Committee ^(a)		Business Enablement Committee ^(b)		Product Benefits & Innovation Committee ^(c)		Investment Committee ^(d)		Nomination, Remuneration & Human Resources Committee ^(e)	
	A	H	A	H	A	H	A	H	A	H	A	H
P M Kirby	12	12	4	4	7	7	7	7	4	4	6	6
G Savvides ^(f)	12	12	4	4	7	7	7	7	4	4	5	6
J Bowen	12	12	4	4	7	7	6	7	1 ^(g)	4	— ^(g)	6
A H Brien	11	12	4	4	2 ^(g)	7	5 ^(g)	7	4	4	3	6
R Harley	11	11	2	2	4 ^(g)	6	2 ^(g)	5	3	4	4	4
B Keane	10	11	1	2	4	6	2	5	3 ^(g)	4	— ^(g)	4
J U Stoelwinder	11	12	3	4	2 ^(g)	7	7	7	4 ^(g)	4	3	6
P B Wade	12	12	4	4	7	7	2 ^(g)	7	4	4	2 ^(g)	6
M D Bollen ^(h)	2	2	2	2	1	1	2	2	—	—	— ^(g)	1

A – Number of meetings attended

H – Number of meetings held during the time the director held office during the year.

(a) Mr Wade is Chair of the Audit & Risk Management Committee.

(b) Ms Bowen is Chair of the Business Enablement Committee.

(c) Professor Stoelwinder is Chair of the Product, Benefits & Innovation Committee.

(d) Mr Brien is Chair of the Investment Committee.

(e) Mr Kirby is Chair of the Nomination, Remuneration & Human Resources Committee.

(f) Mr Savvides attends the Audit & Risk Management Committee, Business Enablement Committee and Nomination, Remuneration & Human Resources Committee meetings by invitation.

(g) Director is not a member of this Committee.

(h) Director term expired during the year.

At the date of this report, Medibank Private has the following Committees:

- Audit & Risk Management Committee;
- Business Enablement Committee;
- Product, Benefits & Innovation Committee;
- Investment Committee; and
- Nomination, Remuneration & Human Resources Committee.

The role of these committees is outlined in the Corporate Governance Statement section of the Annual Report. All non-executive directors are members of the Audit & Risk Management Committee. Not all directors are members of each of the other committees. However, all directors are welcome to attend any 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 (Cth)*. 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 for overseas students and visitors to Australia.

Results

Medibank Private's 2004/05 operating profit was \$130,802,000 (2003/04 \$44,801,000). The Fund does not pay income tax.

Dividends

Medibank Private paid no dividends during the year. Any profit on operations the Company generates is transferred to retained earnings.

Review of Operations

A review of Medibank Private's operations is contained in the Chairman's and Managing Director's Reports, and other sections of the Annual Report.

Significant Changes in the State of Affairs

Total equity increased by \$215,802,000 during the year, including \$85,000,000 as a result of the issue of 85 million shares to the Commonwealth of Australia on 13 July 2004.

Other major contributing factors were:

- increased revenue from contribution rate increases with a negligible net membership change;
- an improvement in investment income as a result of increased funds available for investment, increased exposure to growth assets and favourable investment markets;
- containment of benefit payment growth to hospital and ancillary providers;
- realignment of product pricing and benefits resulting in a strong underwriting performance; and
- continued containment of management expenses.

Significant Events after the Balance Date

No matters or circumstances have arisen since the end of the financial year that will significantly affect the operations, the results of those operations, or the state of affairs of Medibank Private subsequent to 30 June 2005.

Likely Developments and Future Results

Directors anticipate that the improvement in financial performance will be sustained in the 2006 financial year, following the launch of three new product streams at the end of the 2005 financial year, including *My Options* (young adult), *Medibank Priority* (corporate members) and travel insurance. The benefits of the 2005 hospital contracting strategy tender will flow into future years and be complemented by improvements in our ancillary services purchasing performance. Medibank Private will continue the rationalisation and simplification of its hospital product portfolio, the modernisation of its retail centre network and the investment in information technology capabilities.

Remuneration Report

This report outlines the remuneration arrangements in place for directors and executives of Medibank Private.

Remuneration philosophy

The performance of Medibank Private depends upon the quality of its directors, executives and contribution of its staff. To prosper, Medibank Private must attract, motivate and retain highly skilled directors, executives and staff.

To this end, Medibank Private embodies the following principles in its remuneration framework:

- provide competitive rewards to attract and retain high-calibre executives;
- link executive rewards to business performance;
- place 'at risk' a meaningful proportion of executive remuneration, dependent upon achievement of

predetermined performance hurdles and benchmarks;

- establish appropriate, demanding performance hurdles in relation to variable executive remuneration;
- defer a meaningful proportion of executive remuneration to encourage long-term commitment and sustained performance; and
- have no equity-based plan in the form of share options or performance shares. The Commonwealth of Australia owns all of the equity of Medibank Private.

Nomination, Remuneration and Human Resources Committee

The role of this Committee is outlined in the Corporate Governance Statement section of the Annual Report.

Remuneration structure – non-executive directors and managing director

As determined by the Commonwealth Remuneration Tribunal, remuneration for non-executive directors is \$46,700 per annum. The Chairman receives \$93,380 per annum. Additional fees are paid to the Audit & Risk Management Committee. The Chair receives \$10,910 and other members receive \$5,454. Travel allowances, also set by the Remuneration Tribunal, are payable to directors.

The Managing Director's package is set in consultation with the Commonwealth Remuneration Tribunal under its advisory jurisdiction. Details can be found on the Tribunal's website www.remtribunal.gov.au.

Directors are entitled to life insurance cover and may purchase private health insurance cover on the same terms as employees. Directors do not receive any retirement benefits, other than statutory superannuation.

The remuneration of non-executive directors for the period ending 30 June 2005 is detailed in Table 1 on page 45 of this report.

Executive remuneration

Objective

Medibank Private aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within Medibank Private and so as to:

- reward executives for company, business unit/division and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of the executives to award growth in shareholder value;
- link reward with the strategic goals and performance of Medibank Private;
- ensure total remuneration is competitive by market standards.

Structure

In determining the level and makeup of executive remuneration, the Committee engaged external consultants to provide independent advice on market levels and mix of remuneration for comparable executive roles.

The proportion of fixed remuneration and variable remuneration (potential short-term and long-term incentives) is established for each executive by the Committee. Table 1 on page 45 details the variable component for executives.

Fixed remuneration

Objective

The level of fixed remuneration is set so as to provide a base level of remuneration that is appropriate to the position, consistent with the incumbent's skills and experience and is competitive in the market.

Fixed remuneration is reviewed annually by the Committee and the process consists of a review of company-wide, business unit/division and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices.

Structure

Executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and packaged benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient, without creating undue cost for Medibank Private.

The fixed remuneration component for executives is detailed in Table 1 on page 45.

Variable remuneration – short-term incentive (STI)

Objective

The objective of the STI program is to link the achievement of overall company performance with individual performance outcomes that are over and above the competent objectives of the role. The total potential STI available is set at a level so as to provide sufficient incentive to the executive to achieve the targets and such that the costs of the STI are fully funded by business performance.

Structure

Actual STI payments granted to each executive depend on the extent to which specific targets set at the beginning of the financial year are met. The targets consist of a number of key individual performance objectives covering both financial and non-financial measures of performance.

There is a qualifying hurdle which must be met in order to trigger payments under the short-term incentive scheme of budgeted financial result plus the cost of the scheme.

On an annual basis, the performance of the executive against individual performance objectives and general performance, and the overall company performance, is assessed by the Committee to determine the STI payment to each executive.

The aggregate of annual STI payments available for executives across the company is subject to the approval of the Committee. Payments are in the form of a cash bonus.

Variable pay – long-term incentive (LTI)

Objective

To encourage a longer-term perspective on the part of executives, an LTI plan has been introduced for a limited number of executives. The LTI plan aligns this element of remuneration to the sustained achievement of corporate plan objectives.

Structure

The LTI accrues an annual incentive over three years, the cumulative total of which is to be payable at the conclusion of the three-year period. The LTI is linked to the achievement of predetermined performance hurdles, namely, capital adequacy targets and financial result. The executive must be employed as at the third anniversary of the LTI plan to receive payment.

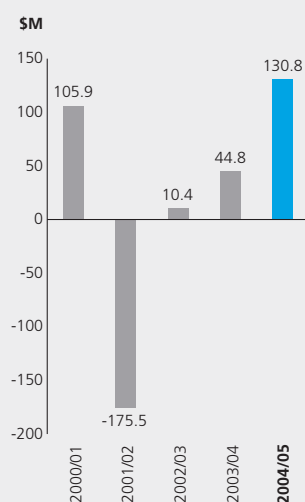
The accumulated amount of LTI accrued to 30 June 2005 for executives, which remains restricted and not paid, is detailed in the following table:

Name and position	Balance of LTI at 30 June 2004	Amount credited to LTI for the financial year	Balance of accrued LTI at 30 June 2005	Years entitlement accrued over
S Blair, Chief Operating Officer	60,114	73,349	133,463	2
B Levy, Group Manager Health Services	29,500	49,560	79,060	2
C Piccinino, Chief Financial Officer	32,150	50,154	82,304	2

Company performance

The graph below shows the performance of Medibank Private for the current year and the previous four financial years.

Operating Profit/(Loss)



Employment contracts

The Managing Director, Mr George Savvides, is employed under contract. The terms of the contract are set by the Commonwealth Remuneration Tribunal. The current employment contract commenced on 1 April 2003 and terminates on 31 March 2006.

The employment contract provides that during the period 1 October 2005 to 31 December 2005, either party may notify the other that they wish to extend the term of the contract or enter into a new employment contract. Under the terms of the current contract:

- Mr Savvides may resign from his position and thus terminate this contract by giving three months' notice in writing;
- Medibank Private may terminate this employment agreement by providing one month's notice in writing or provide payment in lieu of notice (based on the fixed component of Mr Savvides' remuneration); and
- Medibank Private may terminate the contract at any time, without notice, if serious misconduct has occurred.

At the time of presenting this report, the Board was in the process of renewing the Managing Director's contract.

Table 1: Directors' and executives' remuneration for the year ended 30 June 2005

Name	Primary benefits			Post-employment		Other ^(b)	Total remuneration	
	Salary & fees \$ ^(c)	Cash STI \$	LTI \$ ^(e)	Non-monetary benefits \$	Superannuation \$			Retirement benefits \$
Specified directors^(a)								
P M Kirby (Chairman)	102,447	–	–	9,142	9,220	–	1,004	121,813
G Savvides (Managing Director)	458,759	168,000	–	14,071	39,768	–	1,890	682,488
M Bollen ¹	10,331	–	–	–	930	–	75	12,036
J Bowen	54,060	–	–	2,126	4,865	–	1,103	62,154
A H Brien	–	–	–	2,126	58,925	–	1,158	62,209
R D Harley ²	43,730	–	–	6,904	3,936	–	806	55,376
B F Keane ²	43,730	–	–	2,126	3,936	–	144	49,936
J U Stoelwinder	54,060	–	–	4,902	4,865	–	653	64,480
P Wade	59,716	–	–	5,654	5,374	–	894	71,638
Total remuneration	826,833	168,000	–	47,051	131,819	–	8,427	1,182,130
Specified executives^(d)								
S Blair	359,077	128,625	73,349	6,583	31,434	–	1,272	600,340
S Boomert ³	235,457	78,586	–	6,583	21,191	–	203,989 ⁶	545,806
T Jones ⁴	94,616	61,250	–	–	2,896	–	530	159,292
B Levy	312,128	140,640	49,560	6,971	28,007	–	530	537,836
C Piccinino	329,043	117,026	50,154	6,793	28,909	–	1,272	533,197
P McKinney ⁵	109,355	–	–	4,004	26,368	366,791	1,846	508,364
S Singh	288,273	93,184	–	5,266	24,916	–	530	412,169
Total remuneration	1,727,949	619,311	173,063	36,200	163,721	366,791	209,969	3,297,004

(a) Directors comprise all those who acted at any time during the reporting period.

(b) Other benefits include salary and continuance insurance and subsidised health insurance.

(c) Salary and fees for specified directors and specified executives includes accruals for annual leave.

(d) Specified executives includes the five highest paid executives and those executives with greatest influence over the management of Medibank Private.

(e) LTI plan amounts have been accrued and are not payable until the third anniversary of the plan.

1 Retired 27 August 2004

2 Appointed 30 August 2004

3 Left employment 30 June 2005

4 Appointed 30 March 2005

5 Retired 31 December 2004

6 Includes a termination payment of \$202,717

Table 2: Directors' and executives' remuneration for the year ended 30 June 2004

Name	Salary & fees \$(^(c))	Primary benefits			Post-employment	Other ^(b)	Total remuneration
		Cash STI \$	LTI \$(^(e))	Non-monetary benefits \$	Superannuation \$	\$	\$
Specified directors^(a)							
P M Kirby (Chairman) ¹	33,737	–	–	528	3,036	266	37,567
D A W Thomson (Chairman) ²	44,632	–	–	9,646	4,017	136	58,431
G Sawides (Managing Director)	435,917	153,510	–	15,934	36,271	1,174	642,806
M Bollen	44,064	–	–	–	3,966	679	48,709
J Bowen ³	29,615	–	–	518	2,665	136	32,934
A H Brien	23,402	–	–	1,860	24,894	136	50,292
P F Hutchinson ⁴	29,785	–	–	–	2,681	136	32,602
J U Stoelwinder	44,064	–	–	518	3,966	720	49,268
P Wade	45,858	–	–	–	4,127	724	50,709
Total remuneration	731,074	153,510	–	29,004	85,623	4,107	1,003,318
Specified executives^(d)							
S Blair	320,564	113,750	60,114	7,297	28,752	1,128	531,605
S Boomert	269,255	70,200	–	8,639	22,456	1,128	371,678
B Levy	268,828	122,350	29,500	7,297	24,194	530	452,699
C Piccinino	308,745	105,291	32,150	7,297	26,401	1,128	481,012
S Singh	271,157	86,800	–	7,297	22,960	530	388,744
Total remuneration	1,438,549	498,391	121,764	37,827	124,763	4,444	2,225,738

(a) Directors comprise all those who acted at any time during the reporting period.

(b) Other benefits include salary and continuance insurance and subsidised health insurance.

(c) Salary and fees for specified directors and specified executives includes accruals for annual leave.

(d) Specified executives includes the five highest paid executives and those executives with greatest influence over the management of Medibank Private.

(e) LTI plan amounts have been accrued and are not payable until the third anniversary of the plan.

1 Appointed 8 January 2004

2 Term expired 7 February 2004

3 Appointed 3 November 2003

4 Term expired 7 February 2004

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 a premium of \$161,197 in respect of insurance covering each of the directors and executive officers of Medibank Private against liabilities and expenses arising from any claim(s) made against them as a result of work performed in their respective capacities to the extent permitted by law with a limit of \$25 million in aggregate over two policies.

Rounding

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 Independence and Non-Audit Services

The directors received a declaration from the Auditor General.

A copy of the Auditor's Independence Declaration appears on page 48.

Resolution of Directors

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





P M Kirby
Chairman



G Savvides
Managing Director

Melbourne, 12 August 2005

Auditor's independence declaration



Mr Neil Greenaway
Company Secretary
Medibank Private Limited
GPO Box 9999
MELBOURNE VIC 3001


Dear Mr Greenaway

Auditor's Independence Declaration to the Directors of Medibank Private Limited

In relation to our audit of the financial report of Medibank Private Limited for the year ended 30 June 2005, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) no contravention of any applicable code of professional conduct.

Australian National Audit Office



Michael J Watson
Group Executive Director

For the Auditor-General

Canberra
12 August 2005

GPO Box 707 CANBERRA ACT 2601
Centenary House 19 National Circuit

Statement of financial performance

For the financial year ended 30 June 2005

	Note	2005 \$'000	2004 \$'000
Revenues from ordinary activities			
Member contributions	2	2,598,658	2,414,845
Proceeds from disposal of other financial assets	2	93,589	52,271
Other revenue	2	73,691	49,581
		2,765,938	2,516,697
Expenses from ordinary activities			
Member benefits		(2,298,027)	(2,210,014)
Employee benefits expense		(103,417)	(94,254)
Information and technology expense		(36,386)	(31,790)
Marketing expense		(28,603)	(16,759)
Office and administration expense		(41,425)	(46,866)
Depreciation expense	3 (a)	(10,799)	(6,811)
Investment expense		(5,259)	(187)
Other expenses from ordinary activities	3 (a)	(17,596)	(13,166)
Book value of other financial assets sold		(93,624)	(52,049)
		130,802	44,801
Profit from ordinary activities		130,802	44,801
Total changes in equity other than those resulting from transactions with owners as owners		130,802	44,801

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

Statement of financial position

As at 30 June 2005

	Note	2005 \$'000	2004 \$'000
Current assets			
Cash assets	15	905,867	795,141
Receivables	4	90,873	86,213
Inventories	5	164	–
Other financial assets	6	288,892	117,546
Other	7	3,136	16,122
Total current assets		1,288,932	1,015,022
Non-current assets			
Other financial assets	6	246	190
Plant and equipment	8	59,305	37,254
Total non-current assets		59,551	37,444
Total assets		1,348,483	1,052,466
Current liabilities			
Payables	9	53,973	36,293
Provisions	10	330,046	289,244
Other	11	308,365	287,375
Total current liabilities		692,384	612,912
Non-current liabilities			
Provisions	10	2,778	2,025
Other	11	20	30
Total non-current liabilities		2,798	2,055
Total liabilities		695,182	614,967
Net assets		653,301	437,499
Equity			
Contributed equity	12	85,000	–
Retained earnings	13	568,301	437,499
Total equity		653,301	437,499

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

Statement of cash flows

For the financial year ended 30 June 2005

	Note	2005 \$'000	2004 \$'000
Cash flows from operating activities			
Receipts from customers		2,626,801	2,419,639
Interest received		774	1,213
Payments to suppliers, employees and members		(2,467,177)	(2,423,527)
Net cash flow from/(used in) operating activities	17(b)	160,398	(2,675)
Cash flows from investing activities			
Proceeds from sale of other financial assets		93,589	52,271
Trust distributions received		4,854	188
Interest received		57,913	47,363
Interest received on special purpose fund		87	–
Investment expense		(1,492)	(187)
Proceeds from sale of plant and equipment		–	3
Purchase of other financial assets		(255,851)	(141,621)
Purchase of plant and equipment		(33,772)	(15,754)
Net cash flow used in investing activities		(134,672)	(57,737)
Cash flows from financing activities			
Proceeds from issue of shares		85,000	–
Net cash flow from financing activities		85,000	–
Net increase/(decrease) in cash held		110,726	(60,412)
Cash at the beginning of the financial year		795,141	855,553
Cash at the end of the financial year	17(a)	905,867	795,141

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

Notes to the financial statements

For the financial year ended 30 June 2005

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 cost convention and, except where stated, does not take into account changing money values or current valuations of non-current assets.

b) Change in accounting policies

The accounting policies adopted are consistent with those of the previous year.

c) Cash and cash equivalents

Cash assets include cash on hand, short-term bank bills, commercial notes and restricted funds held in a special purpose fund account and are stated at nominal value (generally maturing within 90 days).

For the purposes of the Statement of Cash Flows, cash includes all cash assets as described above which are readily convertible to cash on hand and are subject to insignificant risk of changes in value, net of outstanding bank overdrafts. Further, cash includes restricted funds held in a special purpose fund for future settlement of claims under the Australian Competition and Consumer Commission 'Principles of Settlement' agreement.

d) Receivables

Contribution in arrears

Contributions in arrears are assessed based on the likelihood of collection established from past experience.

Provisions

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

e) Inventories

During the financial year, Medibank Private established a member loyalty scheme. As part of this program, Medibank Private commenced selling member loyalty scheme tickets to members through the retail centre network.

The member loyalty scheme tickets at 30 June 2005 are valued at the lower of cost and net realisable value.

f) Investments

Current investments are recorded at market value and shown as other financial assets.

Current investments consist of externally managed equity trusts, both domestic and international, an internally managed floating rate note portfolio (that resets monthly, quarterly and bi-annually, with an average duration of 661 days) and an internally managed cash portfolio (that consists of 11am, bank bills and commercial paper with an average duration of 42 days). 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.

As at 30 June 2005, Medibank Private had a receivable of \$421,000 in relation to the interest received leg of an interest-equity swap (Note 4). Offsetting this was \$2,968,000 in relation to the equity return payment leg of the same swap (Note 9). In addition, there was an Australian equity call payable of \$572,000 (Note 9).

g) Derivative financial instruments

Medibank Private enters into option arrangements that are used to protect its investment portfolio. As at 30 June 2005, options 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.

h) Foreign currencies

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 transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of the 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.

Notes to the financial statements

For the financial year ended 30 June 2005

i) Advances to hospitals

Advances to hospitals are measured at cost. Funds are forwarded to hospitals which are subsequently reduced by member benefits incurred.

j) Recoverable amount

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, the asset is written down. In determining the recoverable amount, the expected net cash flows have not been discounted to their present value.

k) 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). Current legacy system costs have also been expensed due to the write down of certain Business System Renewal Project related costs.

Depreciation

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

	2005	2004
Leasehold improvements:		
– Retail centres	5 years	5 years
– All other improvements	the lease term	the lease term
Plant and equipment:		
– Software	3-5 years	3-5 years
– Plant and equipment	6-6.5 years	6-6.5 years

l) 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.

m) 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.

Lease incentives

In the event that lease incentives are received to enter into non-cancellable operating leases, such incentives are recognised as a liability. Lease payments are allocated between the rental expense and the reduction of the liability over the term of the lease.

n) 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%, 35% or 40% Government Rebate. Contribution income is recognised when earned over the period of the membership. Contribution income relating to future financial periods is classified as contributions in advance and is measured on a daily pro rata time basis between the reporting date and the premium due date.

Sale of non-current assets

The gross proceeds of non-current asset sales are included as revenue at the date on which control of the asset passes to the buyer. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

Other income

Unit trust distribution income is recognised when received. Interest income and rental income is recognised as it accrues.

o) Reinsurance trust fund

Under the provisions of the *National Health Act 1953*, some hospital benefits may be charged to the reinsurance account. All health

Notes to the financial statements

For the financial year ended 30 June 2005

insurers must participate in the Reinsurance Trust Fund, which shares, between all health insurers, 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.

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, including an estimate of reinsurance for unrepresented and outstanding claims.

The net reinsurance revenue for 2004/05 was \$25,652,000 (\$4,635,000 revenue during 2003/04) and is included as part of Member Benefits. The net amount receivable from the Reinsurance Trust Fund at 30 June 2005 was \$7,879,000 (2004: \$1,384,000) and is included in sundry debtors (Note 4).

p) Provisions

Provisions are recognised when Medibank Private has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events; it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

The following provisions are recognised in the Statement of Financial Position.

(i) 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 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 2005 is 2.79% (30 June 2004: 3.11%).

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, 85% (30 June 2004: 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 2005.

(ii) Restructuring provision

An internal management review has resulted in the consolidation and relocation of our processing sites

and the Melbourne head office. This will improve service and processing efficiency for the benefit of our members and health care providers. As a result, 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) Taxes

Medibank Private pays all relevant taxes and charges, including goods and services tax, fringe benefits tax, and payroll tax. Medibank Private is exempt from income tax.

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

Notes to the financial statements

For the financial year ended 30 June 2005

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.

r) Payables

Liabilities for trade creditors and other creditors are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to Medibank Private.

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.

s) Employee benefits

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.

Liabilities arising in respect of wages and salaries, annual leave, and other employee benefits which are expected to be settled within 12 months of the reporting date, are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting

date on national government bonds, which have terms to maturity approximating the terms of the related liability, is used.

Employee benefit expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave; and
- other types of employee benefits, including short and long term incentive plans

are recognised against profits on a net basis in their respective categories.

t) Contributed equity

Issued and paid-up capital is recognised at the fair value of the consideration received by Medibank Private.

u) Comparatives

Where necessary, comparative information has been reclassified for consistency with current financial year disclosures.

v) Rounding of amounts

In accordance with Class Order 98/0100, all amounts are rounded to the nearest \$1,000.

Notes to the financial statements

For the financial year ended 30 June 2005

Note 2: Revenues from Ordinary Activities

	Note	2005 \$'000	2004 \$'000
Revenue from operating activities			
Member contributions		2,598,658	2,414,845
Interest		774	1,213
		2,599,432	2,416,058
Revenue from non-operating activities			
Proceeds from disposal of other financial assets		93,589	52,271
Rent		48	311
Interest		57,913	47,363
Interest on special purpose fund		87	–
Trust distributions		4,854	188
Unrealised gain on interest equity swap		421	–
Unrealised gain on other financial assets		8,844	480
Unrealised foreign currency gain on other financial assets		558	–
Proceeds from disposal of plant and equipment		–	3
Other		192	23
		166,506	100,639
Revenue from ordinary activities		2,765,938	2,516,697

Note 3: Expenses and Losses

(a) Expenses

Depreciation of non-current assets:			
– Plant and equipment		1,384	870
– Software	(i)	5,886	3,928
– Leasehold improvements		3,529	2,013
Total depreciation of non-current assets		10,799	6,811
Bad and doubtful debts			
Operating lease rental expense		11,076	11,123
Plant and equipment assets written off	(i)	7,041	1,647

Notes to the financial statements

For the financial year ended 30 June 2005

Note 3: Expenses and Losses (continued)

(i) Significant software expenses

As a result of Medibank Private updating its financial and core computer systems, costs associated with existing legacy systems have been expensed as incurred during the financial year. These costs have been recorded in the statement of financial performance for the year ending 30 June 2005 and amount to \$8,091,000. These costs have been treated as accelerated software depreciation expenses of \$895,000, plant and equipment assets written off of \$7,041,000 and information and technology expenses of \$155,000. The comparative period is not affected.

	Note	2005 \$'000	2004 \$'000
(b) (Gains)/losses			
Net (gain)/loss on disposal of other financial assets		35	(222)
Net loss on disposal of plant and equipment		100	27
Unrealised loss on foreign currency put option		227	–
Unrealised loss on interest equity swap and equity call		3,540	–
(c) Foreign exchange (gains)/losses			
Unrealised foreign exchange gain		(558)	–
Note 4: Receivables			
Contributions in arrears	(i)	9,514	14,072
Provision for groups in arrears		(387)	(528)
		9,127	13,544
Sundry debtors	(ii)	17,613	8,109
Provision for doubtful debts		(485)	(1,106)
		17,128	7,003
Interest equity swap receivable	(iii)	421	–
Goods and services tax		3,491	2,212
Government rebate scheme	(iv)	60,706	63,454
		90,873	86,213

Terms and conditions relating to the above financial instruments:

- (i) Contributions in arrears are non-interest bearing.
- (ii) Sundry debtors are non-interest bearing and generally on 30 day terms and includes net reinsurance receivable.
- (iii) Interest equity swap receivable is non-interest bearing and settlement is three days after the option expiry date of 30 June 2005.
- (iv) Government rebate scheme is non-interest bearing and generally 15 day terms.

Notes to the financial statements

For the financial year ended 30 June 2005

	Note	2005 \$'000	2004 \$'000
Note 5: Inventories			
Current			
Member loyalty scheme – tickets			
At cost		192	–
Provision for diminution in value		(28)	–
		164	–
Note 6: Other Financial Assets			
Current			
<i>At market value:</i>			
Foreign currency put option	15(d)	333	–
Unit trusts	(i)	168,367	5,669
Debentures, notes and bills	(ii)	120,192	111,877
		288,892	117,546
Terms and conditions relating to the above financial instruments:			
(i) Unit trusts are readily saleable with no fixed terms.			
(ii) Debentures, notes and bills are interest bearing and are reset either monthly, quarterly or bi-annually with an average maturity of 661 days.			
Non-current			
<i>At cost:</i>			
Other		246	190
Note 7: Other Assets			
Advance payments to hospitals		–	13,616
Prepayments		3,136	2,506
		3,136	16,122

Notes to the financial statements

For the financial year ended 30 June 2005

Note 8: Plant and Equipment

	Note	Plant and equipment \$'000	Leasehold improvements \$'000	Software \$'000	Assets under construction \$'000	Total \$'000
Gross carrying amount						
Carrying amount at start of financial year		7,532	16,518	20,976	8,698	53,724
Transfers in/(out)		141	5,039	1,734	(6,914)	–
Additions		4,080	10,885	6,598	18,428	39,991
Disposals		(2,027)	(2,141)	–	–	(4,168)
Recoverable amount writedowns	3(a)(i)	–	–	(6,694)	(1,726)	(8,420)
Balance at 30 June 2005		9,726	30,301	22,614	18,486	81,127
Accumulated depreciation						
Carrying amount at start of financial year		(3,700)	(8,177)	(4,593)	–	(16,470)
Depreciation expense		(1,384)	(3,529)	(5,886)	–	(10,799)
Disposals		1,996	2,072	–	–	4,068
Recoverable amount writedowns	3(a)(i)	–	–	1,379	–	1,379
Balance at 30 June 2005		(3,088)	(9,634)	(9,100)	–	(21,822)
Net book value						
As at 30 June 2004		3,832	8,341	16,383	8,698	37,254
As at 30 June 2005		6,638	20,667	13,514	18,486	59,305

Note 9: Payables

	Note	2005 \$'000	2004 \$'000
Trade creditors	(i)	22,664	15,915
Other creditors	(ii)	27,769	20,378
Equity call option payable	(iii)	572	–
Interest equity swap payable	(iv)	2,968	–
		53,973	36,293

Terms and conditions relating to the above financial instruments:

(i) Trade creditors are non-interest bearing and are normally settled up to 30 days.

(ii) Other creditors are non-interest bearing.

(iii) Equity call option payable is non-interest bearing and settlement is three days after the option expiry date of 30 June 2005.

(iv) Interest equity swap payable is non-interest bearing and settlement is three days after the option expiry date of 30 June 2005.

Notes to the financial statements

For the financial year ended 30 June 2005

Note 10: Provisions

	Note	2005 \$'000	2004 \$'000
Current			
Unpresented and outstanding claims	(i), (ii)	306,762	270,582
Employee benefits		17,715	15,812
Restructuring	(iii)	353	1,619
Other	(iv)	5,216	1,231
		330,046	289,244
Non-current			
Employee benefits		2,778	2,025

(i) Unpresented and outstanding claims

Change in package bonus utilisation rate

The expected utilisation rate of the package bonus benefit at 30 June 2005 is 85% (30 June 2004: 75%). The change in expected utilisation rate has resulted in an increase in the provision for unpresented and outstanding claims of \$30,912,000. The revised expected utilisation is the result of a review of expected member claiming pattern experience for the package bonus entitlements.

Movement in provisions

	2005 \$'000
(ii) Unpresented and outstanding claims	
Carrying amount at beginning of the financial year	270,582
Additional provision	296,147
Amounts utilised during the year	(239,567)
Reversal of unused provision	(20,400)
Carrying amount at end of the financial year	306,762
(iii) Restructuring	
Carrying amount at beginning of the financial year	1,619
Additional provision	353
Amounts utilised during the year	(1,068)
Reversal of unused provision	(551)
Carrying amount at end of the financial year	353
(iv) Other (a)	
Carrying amount at beginning of the financial year	1,231
Additional provision	5,216
Amounts utilised during the year	(1,085)
Reversal of unused provision	(146)
Carrying amount at end of the financial year	5,216

(a) Other provisions include adjustments made to contributions revenue.

Notes to the financial statements

For the financial year ended 30 June 2005

Note 11: Other Liabilities

	2005 \$'000	2004 \$'000
Current		
Contributions in advance	308,346	287,338
Lease incentives	19	37
	308,365	287,375
Non-current		
Lease incentives	20	30

Note 12: Contributed Equity

(a) Issued and paid-up capital

Ordinary shares fully paid	85,000	–
----------------------------	--------	---

(b) Movements in shares on issue

	2005		2004	
	Number of shares	\$'000	Number of shares	\$'000
Beginning of the financial year	100	–	100	–
Issued during the financial year				
– equity injection by Commonwealth of Australia	85,000,000	85,000	–	–
Balance at end of the financial year	85,000,100	85,000	100	–

(c) Terms and conditions of contributed equity

Ordinary shares

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company, and in a winding up or reduction of capital, the right to repayment of the capital paid up on the share.

Ordinary shares do not have the right to receive dividends and, in the event of winding up the company or reduction of capital, do not have the right to participate in the distribution of the surplus assets of the company.

Note 13: Retained Earnings

	2005 \$'000	2004 \$'000
Balance at the beginning of the financial year	437,499	392,698
Profit for the financial year	130,802	44,801
Balance at the end of the financial year	568,301	437,499

Notes to the financial statements

For the financial year ended 30 June 2005

Note 14: Employee Benefits

	2005 \$'000	2004 \$'000
The aggregate employee benefits liability is comprised of:		
Provisions – Current (Note 10)	17,715	15,812
Provisions – Non-current (Note 10)	2,778	2,025
	20,493	17,837
Employee numbers	2005 (number)	2004 (number)
Average number of full-time equivalent employees during the financial year	1,290	1,251

Note 15: 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 (ii)		Fixed interest maturing in:				Non-interest bearing		Total			
	2005 \$'000	2004 \$'000	1 year or less 2005 \$'000	2004 \$'000	Over 1 to 5 years 2005 \$'000	2004 \$'000	Over 5 years 2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000		
Financial assets												
Cash assets (i)	903,342	792,095	–	–	–	–	–	–	2,525	3,046	905,867	795,141
Receivables (Note 4)	–	–	–	–	–	–	–	–	90,873	86,213	90,873	86,213
Other financial assets (Note 6)	–	–	21,096	19,650	96,582	92,227	2,514	–	168,946	5,859	289,138	117,736
Total financial assets	903,342	792,095	21,096	19,650	96,582	92,227	2,514	–	262,344	95,118	1,285,878	999,090
Weighted average interest rate:	5.77%	5.58%	6.15%	5.88%	6.30%	5.95%	9.00%	–				
Financial liabilities												
Payables (Note 9)	–	–	–	–	–	–	–	–	53,973	36,293	53,973	36,293

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

(ii) 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. Medibank Private is not materially exposed to any individual customer and counterparty.

Notes to the financial statements

For the financial year ended 30 June 2005

Note 15: 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:

	Note	2005		2004	
		Carrying amount \$'000	Net fair value \$'000	Carrying amount \$'000	Net fair value \$'000
On-balance sheet financial instruments					
Financial assets					
Cash		905,867	905,867	795,141	795,141
Receivables		90,873	90,873	86,213	86,213
Other financial assets		246	246	190	190
Foreign currency put option		333	333	–	–
Unit trusts		168,367	168,367	5,669	5,669
Debentures, notes and bills		120,192	120,192	111,877	111,877
		1,285,878	1,285,878	999,090	999,090
Financial liabilities					
Trade creditors	9(i)	22,664	22,664	15,915	15,915
Other creditors	9(ii)	27,769	27,769	20,378	20,378
Equity call option payable	9(iii)	572	572	–	–
Interest equity swap payable	9(iv)	2,968	2,968	–	–
		53,973	53,973	36,293	36,293

The unit trusts and debentures, notes and bills are readily traded on organised markets in standardised form.

(d) Hedging instruments

General Hedge

Medibank Private has entered into a US dollar put option contract designed as a hedge over US dollar currency exposure.

The premium associated with this contract at inception was \$560,000. The put option is being held at market value and at 30 June 2005 is valued at \$333,000.

The US dollar put option expires on 31 March 2006.

Notes to the financial statements

For the financial year ended 30 June 2005

Note 16: Commitments

	2005 \$'000	2004 \$'000
(a) Capital expenditure commitments		
Estimated capital expenditure contracted for at balance date, but not provided for, payable:		
Not later than one year	2,635	8,883
Later than one year and not later than five years	60	60
Later than five years	–	–
	2,695	8,943
(b) Operating lease commitments		
Future operating lease rentals not provided for, payable:		
Not later than one year	14,983	12,181
Later than one year and not later than five years	38,014	26,581
Later than five years	18,148	25,086
	71,145	63,848
Operating leases are entered into as a means of acquiring access to corporate and 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.		
(c) Other commitments		
Other commitments not provided for, payable:		
Not later than one year	18,612	27,715
Later than one year and not later than five years	22,659	11,806
Later than five years	781	1,123
	42,052	40,644
Other commitments consist of Australian Competition and Consumer Commission 'Principles of Settlement' commitments, IT outsourcing, security and cleaning commitments.		
Total commitments payable	115,892	113,435

Notes to the financial statements

For the financial year ended 30 June 2005

Note 17: Notes to the Statement of Cash Flows (continued)

	2005 \$'000	2004 \$'000
(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	902,772	793,541
Special purpose fund (restricted funds) (i)	3,095	1,600
Total cash	905,867	795,141
(b) Reconciliation of the net profit to the net cash flows from operations		
Profit	130,802	44,801
Non-cash items:		
Depreciation	10,799	6,811
Net loss on disposal of plant and equipment	100	27
Unrealised gain on interest equity swap	(421)	–
Unrealised loss on interest equity swap and equity call	3,540	–
Unrealised gain on other financial assets	(8,844)	(480)
Unrealised foreign currency gain on other financial assets	(558)	–
Unrealised loss on foreign currency put option	227	–
Realised loss/(gain) on other financial assets	35	(222)
<i>Non-operating cash flows:</i>		
Interest income	(57,913)	(47,363)
Interest income on special purpose fund	(87)	–
Trust distribution	(4,854)	(188)
Investment expense	1,492	187
<i>Amounts written off:</i>		
Plant and equipment	7,041	1,647
<i>Transfers to/(from) provisions:</i>		
Diminution in inventory value	28	–
Groups in arrears	(141)	–
Doubtful debts	(621)	366
(Increase)/decrease in assets:		
Current receivables	(3,477)	(15,105)
Inventories	(192)	–
Other current assets	12,986	5,093
Increase/(decrease) in liabilities:		
Payables	7,921	(27,009)
Provisions	41,555	11,899
Other liabilities	20,980	16,861
Net cash flow from/(used in) operating activities	160,398	(2,675)

Notes to the financial statements

For the financial year ended 30 June 2005

Note 17: Notes to the Statement of Cash Flows (continued)

	2005 \$'000	2004 \$'000
c) Financing facilities		
Unsecured overdraft credit facility, reviewed annually:		
Amount used	–	–
Amount unused	16,000	16,000
	16,000	16,000

(i) On 20 February 2004, Medibank Private reached agreement on a 'Principles of Settlement' with the Australian Competition and Consumer Commission regarding an Action in October 2000. The settlement requires payment of \$5 million to a special purpose fund account to be paid out over three years. These funds are classified as restricted funds by Medibank Private. The fund will continue to operate until the monies are fully expended through the payment of member settlement claims made against the fund.

Note 18: Remuneration of Directors

	2005 \$	2004 \$
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	1,182,131	1,003,319

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

	No.	No.
\$10,000-\$19,999	1	–
\$30,000-\$39,999	–	3
\$40,000-\$49,999	1	2
\$50,000-\$59,999	1	3
\$60,000-\$69,999	3	–
\$70,000-\$79,999	1	–
\$120,000-\$129,999	1	–
\$640,000-\$649,999	–	1
\$680,000-\$689,999	1	–

There have been no loans or transactions with directors that require disclosure.

Note 19: Related Party Disclosure

There were no related party transactions that required disclosure during the financial year ended 30 June 2005.

Note 20: Auditors' Remuneration

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

Auditing the financial report	160,000	154,500
Other services – regulatory reporting	66,357	62,200
Other services – assurance related	–	11,600
	226,357	228,300

Notes to the financial statements

For the financial year ended 30 June 2005

Note 21: Solvency Requirement

Medibank Private's solvency requirement, as per the Health Benefits Organisations – Solvency Standard 2003, is \$922,344,000. Total fund assets are \$1,348,483,000 representing an excess of \$426,139,000 over the solvency requirement.

Note 22: Segment Reporting

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

Note 23: Additional Company Information

Medibank Private is a registered health benefits organisation, incorporated and operating in Australia.

Registered Office and Principal Place of Business

Level 17 700 Collins Street
DOCKLANDS VIC 3008 AUSTRALIA
Tel: (03) 8622 5222

Note 24: Impact of Adopting Australian Equivalents to IFRS

Medibank Private is in the process of transitioning its accounting policies and financial reporting from current Australian Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS), which will be applicable for the year ended 30 June 2006. Medibank Private has allocated internal resources to conduct impact assessments to isolate key areas that will be impacted by the transition to AIFRS. As a result, Medibank Private has graded impact areas as either high, medium or low. As Medibank Private has a 30 June year end, work is being performed to determine the opening balance sheet in accordance with AIFRS as at 1 July

2004, Medibank Private's transition date to AIFRS. This will form the basis of accounting for AIFRS in the future, and is required when Medibank Private prepares its first fully AIFRS compliant financial report for the year ended 30 June 2006.

Management has assessed AASB 1023 *General Insurance Contracts* and AASB 139 *Financial Instruments: Recognition and Measurement* as high impact and has disclosed below their best estimates of the quantitative impact of the changes arising from these standards as at the date of preparing the 30 June 2005 financial report. Medibank Private's preliminary assessment of all other accounting standards has been determined as medium or low impact. The quantitative effects have not been disclosed, as the work has not been completed. Management are still in the process of finalising their assessment but do not expect these impacts to be material. The actual effects of transition to AIFRS may differ from the estimates disclosed due to (a) ongoing work undertaken by the AIFRS project team; (b) potential amendments to AIFRS and interpretations thereof being issued by the standard-setters and IFRIC; and (c) emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.

(a) First-time adoption of AIFRS

The effective date for first-time application of AASB 1023 *General Insurance Contracts*, AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial*

Instruments: Recognition and Measurement, commences in the first reporting period beginning on or after 1 January 2005.

Insurance contracts, issued by organisations registered under the *National Health Act 1953* as Registered Health Benefit Organisations (RHBOs), are now included under AASB 1023 *General Insurance Contracts*.

Medibank Private has decided to apply the exemption provided in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, which provides an exemption from the requirements to restate comparatives for the above standards. If Medibank Private had restated comparatives then the nature of the adjustment at the date of transition (1 July 2004) would have been:

AASB 1023 General Insurance Contracts

(i) Premium revenue

Premium revenue shall be measured from the attachment date, over the period of the contract, in accordance with the pattern of the incidence of risk expected under the contract. This is a departure from our current accounting policy, which measures premium revenue on a daily pro rata time basis over the period of the contract.

(ii) Risk margin on outstanding claims

The outstanding claims liability shall include a risk margin that relates to inherent uncertainty in the central

Notes to the financial statements

For the financial year ended 30 June 2005

Note 24: Impact of Adopting Australian Equivalents to IFRS (continued)

estimate of the present value of the expected future payments. This is a departure from our current accounting policy, where no risk margin is included in the outstanding claims liability.

(iii) Discount rates

The outstanding claims liability shall be discounted for the time value of money using risk-free discount rates. This is a departure from our current accounting policy, where no discounting is applied to the outstanding claims liability.

(iv) Liability adequacy test

A test is required to be performed to determine whether the unearned premium liability (contributions in advance liability) is adequate to cover the present value of expected cash flows relating to future claims arising from rights and obligations under current insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate. This is a departure from our current accounting policy, where no test is required to be performed.

(v) Assets backing general insurance liabilities

Financial assets that back general insurance liabilities, are within the scope of AASB 139 *Financial Instruments: Recognition and Measurement* and are permitted to be designated as 'at fair value through profit or loss', shall be designated as

'at fair value through profit or loss' under AASB 139 *Financial Instruments: Recognition and Measurement* on first application of AASB 1023 *General Insurance Contracts* or on initial recognition of the asset.

Medibank Private has determined that its cash and investments, that have a quoted market price in an active market and whose fair value can be reliably measured, are financial assets that meet the conditions of AASB 139 *Financial Instruments: Recognition and Measurement*, and are permitted to be designated as asset backing general insurance liabilities. This is a change from our current accounting policy, where financial assets are measured at market value instead of fair value.

AASB 139 *Financial Instruments: Recognition and Measurement*

Refer to comments under assets backing general insurance liabilities above.

(b) Adjustments to equity under AIFRS on 1 July 2005

The estimated impact on equity of applying the measurement requirements of AASB 1023 *General Insurance Contracts* and AASB 139 *Financial Instruments: Recognition and Measurement* at 1 July 2005 is estimated to be:

	Note	\$'000
Total equity at 1 July 2005		653,301
Adjustments		
Premium revenue	a (i)	220
Risk margin on outstanding claims	a (ii)	(8,800)
Discount rates	a (iii)	1,100
Adjusted equity under AIFRS		645,821

As these standards will be first applied at 1 July 2005, there is no profit and loss impact on the statement of financial performance for the year ended 30 June 2005.

Directors' declaration

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

In the opinion of the directors:

- (1) (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 2005 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 the company will be able to pay its debts as and when they become due and payable.
- (2) This declaration has been made after receiving the declarations required to be made to the directors by the Managing Director and Chief Financial Officer in accordance with section 295A of the *Corporations Act 2001* for the financial period ending 30 June 2005.

On behalf of the Board



P M Kirby



G Savvides

Melbourne, 12 August 2005

Independent audit report



INDEPENDENT AUDIT REPORT

To the members of Medibank Private Limited

Matters relating to the Electronic Presentation of the Audited Financial Report

This audit report relates to the financial report of Medibank Private Limited (the company) for the year ended 30 June 2005. The company's directors are responsible for the integrity of both the annual report and its web site.

The audit report refers only to the financial report named below. It does not provide an opinion on any other information which may have been hyperlinked to/from the audited financial report.

If the users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report in the company's annual report.

Scope

The financial report and Directors' responsibility

The financial report comprises:

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

of Medibank Private Limited for the year ended 30 June 2005.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company, and that complies with accounting standards and other mandatory financial reporting requirements in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

I have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of

internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

While the effectiveness of management's internal controls over financial reporting was considered when determining the nature and extent of audit procedures, the audit was not designed to provide assurance on internal controls.

I have performed procedures to assess whether, in all material respects, the financial report gives a true and fair view, in accordance with the *Corporations Act 2001*, including compliance with accounting standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the company's financial position, and of its performance as represented by the statements of financial performance and cash flows.

The audit opinion is formed on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by management.

Independence

Independence requirements of the Australian professional ethical pronouncements and the *Corporations Act 2001* have been met. I have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

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 Medibank Private Limited's financial position as at 30 June 2005 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 financial reporting requirements in Australia.

Australian National Audit Office



Michael J Watson
Group Executive Director
for the Auditor-General

Canberra
12 August 2005

Retail centres

Victoria

Airport West
Ballarat
Bendigo
Broadmeadows
Camberwell
Chadstone
Cheltenham (Southland)
Dandenong
Doncaster (Westfield Shoppingtown)
Elsternwick
Forest Hill
Fountain Gate
Frankston
Geelong
Glen Waverley
Greensborough
Maribyrnong (Highpoint)
Melbourne
Preston (Northland)
Prahran
Ringwood
Shepparton
Traralgon
Wantirna South (Knox)
Warrnambool
Taylors Lakes (Watergardens)
Werribee

Western Australia

Booragoon
Cannington
Fremantle
Joondalup
Karrinyup
Midland
Morley
Perth

South Australia

Adelaide
Modbury
Oaklands Park (Westfield)
Unley
West Lakes

Tasmania

Glenorchy
Hobart
Kingston
Launceston
Rosny Park

New South Wales

Albury
Armidale
Bankstown
Blacktown
Bondi Junction
Broken Hill
Brookvale
Burwood
Campbelltown
Castle Hill
Charlestown
Chatswood
Coffs Harbour
Dubbo
Erina
Haymarket
Hornsby
Hurstville
University of NSW
Lismore
Liverpool
Miranda
North Ryde
North Sydney
Orange

Pagewood Eastgardens
Parramatta
Penrith
Sydney
Tamworth
Tweed Heads
Wagga Wagga
Wollongong

ACT

Belconnen
Civic
Woden

Queensland

Brisbane (Wintergarden)
Broadbeach (Pacific Fair)
Bundaberg West
Cairns
Capalaba
Chermside
Carindale
Gladstone
Indooroopilly
Ipswich
Kippa-Ring
Loganholme
Mackay
Maroochydore
Michelton (Brookside)
Rockhampton
Southport (Australia Fair)
Toowoomba
Townsville
Upper Mt Gravatt (Garden City)

Northern Territory

Casuarina



Maya
Member and Medibank
Private staff member



Phone 132 331
Email ask_us@medibank.com.au
Visit us www.medibank.com.au

