A good year For Better Health

Annual Report 2011

For every breath

medibank
For Better Health

Contents

Our Belief

In a world where we fly people into space and build buildings to the sky, why is it that somehow, good health has become optional - rather than a basic right?

In the 'lucky country', good health can't just be about good luck – or beating the system, or who you know.

In fact, the system should never get in the way of simple care and peace of mind.

That's why we exist to use our strength, our experience, our smarts - to ensure people feel safe and are better off, inside a health system that can sometimes forget our human dignity.

We exist, so when a parent looks into the eyes of their sick child, that's all they're thinking about.

And when it's 2am and someone doesn't feel quite right, we exist to provide some practical peace of mind.

When all's said and done, we exist so when Australians and New Zealanders are worried about health, whether at home, work or play, they're not alone.

And when we seek to lead a healthier life, we can.

Medibank.
For Better Health. We can.

Our Purpose

Our Values


AUS WORLD ROWING

Chairman's Report

Medibank's 2011 annual report presents a company in transformation. Our evolution into a fully-fledged healthcare company – one offering both health insurance ***and*** health solutions - is clearly evident in the Managing Director's report that follows as well as the commentary about the organisation's activities and achievements during the past 12 months.

Driving our business expansion and change process is our commitment to standing For Better Health for our customers at all ages and stages in their lives.

Medibank understands that meeting the health needs of our nearly four million health insurance customers, let alone the general community served by our health triage business, requires a very different approach. The Australian health system faces huge challenges from the issues associated with an ageing population, increasing chronic illness and the cost and opportunities that come with new technologies. Health insurers must share the leadership in developing appropriate responses and this is the impetus for our own transformation at Medibank.

The key to being able to commit to standing For Better Health is a capacity to assist individual customers to navigate the increasingly complex health system, and to do so in a way which complements the advice given to them by their own health professionals.

Driving our business expansion and change process is our commitment to standing For Better Health for our customers...

As health insurers, we have a distinct advantage in that we focus on individual customers and delivery to them of high quality services and guidance. We are currently using that foundation, combined with our leadership position in the industry and the expertise of our health professionals, to build a strong health services business.

A few years ago, we had only a handful of medical and allied health professionals in our ranks, but now boast some 1,500 such employees. The strength and expertise we have in our leadership team, with the combination of existing and new talent, gives us the chance to see our customer value proposition very differently and we are determined to play a wider role in our customers' health needs.

New organisational structures and acquisitions do not in themselves change our core business - the real impact will come when our customers see and feel they are obtaining better value in the services they receive and the products we offer.

We have invested heavily in the past year in turning our 'For Better Health' commitment into a customer reality, and we look forward to the evidence of that work rolling out in the year ahead.

I am pleased that the challenge of corporate change has not detracted our management's focus on achieving strong operational and financial performance from our existing business. Our profit before tax of $428 million reflects strong performance by both the Private Health Insurance and Health Solutions divisions, as well as from our investment portfolio. Our conversion by the Government to a commercial entity during the year means that we now need to fulfil the financial commitments (to the Government) set down in our Corporate Plan, including annual payment of tax and dividends.

A key achievement was finalising our McKesson Asia-Pacific acquisition that has seen significant growth in our telephone and online medical services capability and expansion into the New Zealand market through the delivery of telephone nurse triage services. 2010/11 also saw the extension of our footprint into India with our unique CareEnhance Call Centre (CECC™) software platform being utilised by MEDI-CALL to manage 24-hour triage and health information calls.

In our health insurance business, we grew our memberships of Medibank Private and ahm by more than 16,000. Medibank Private also recently launched a range of products that bring a new level of simplicity and usability to the private health insurance industry.

A strong team

I wish to take this opportunity to show my gratitude to my fellow Directors and make particular mention of Professor Just Stoelwinder - Medibank's longest-serving Board member who concluded his exceptional directorship on 30 June 2011. I would like to recognise the special contribution that Just has made to Medibank over the past nine years – a period during which the organisation has grown and flourished, evolving from being merely a payer of bills on behalf of our members to being a provider of a broad range of health services and a leader in Australia's health landscape.

Just has provided invaluable health expertise to the Board and senior management and I hope that he will remain involved in Medibank's future as we continue to realise many of the goals that he helped form.

I would like to thank our former minister Lindsay Tanner who retired from Parliament during the past year. His support during the organisation's change process and particularly in relation to our acquisitions, played a big part in what has been achieved.

I would like to thank Managing Director George Savvides and the senior leadership team for their ongoing commitment to working together to ensure Medibank's success and sustainability.

I also extend my appreciation to all staff for their efforts and dedication throughout the year to Medibank's Vision.

Governance and sustainability

The Corporate Governance Statement and Directors' Report contained later in this document illustrate the high standards practised by the Company as well as the Board's dedication to upholding the principles of the organisation.

I congratulate the Company on the launch of the Medibank Community Fund (MCF) earlier this year and its demonstrated commitment to corporate social responsibility. The Fund has been established to encourage healthy living by getting people moving, promoting healthier eating and connecting to the community. The Board is proud to pledge one percent of Medibank's pre-tax profits each year to the program and looks forward to seeing the positive impacts that the Fund will have on the lives of many Australians.

Finally, I would like to thank our customers for their loyalty during difficult economic times. I assure you that we are committed to maintaining a customer focus and enhancing the products and services we can offer as well as the experience you have when dealing with Medibank - whether it be at one of our retail centres, over the phone or on the internet.

We will strive to bring to life our Purpose, create value, deliver superior health outcomes and advocate for a stronger and sustainable health system.

Paul McClintock

Paul McClintock AO
Chairman

Managing Director's Report

At Medibank we stand For Better Health.

Better health for nearly four million people who we cover through private health insurance.

Better health for 26 million people in Australia and New Zealand by providing government-funded telehealth, nurse and doctor triage services.

Better health by building a better health system with innovative health solutions that operate 24 hours a day, every day of the year, providing immediate access to the health system.

We are transforming health insurance to health assurance.

The pressures of an ageing population, increasing prevalence of chronic disease and rising costs of treatments have encouraged Medibank to undertake further transformational change over the past year. On 1 July 2010 we acquired McKesson Asia-Pacific, Australasia's leading provider of telephone and online health services. This acquisition has enabled Medibank to expand its services such as phone and web-based healthcare services, telephone nurse triage, health and wellness advice, chronic disease management and mental health services. These services benefit the public health system as well as the health of our customers, helping us to continue offering affordable health cover.

In 2010/11 Medibank has delivered its best financial performance in its 35-year history, with group revenue passing the $5 billion mark and profit before tax and dividends lifting to $428 million, an increase of 13 percent or $48 million on last year's record result. It was pleasing to note that this result was achieved whilst keeping Medibank Private premium increases below industry average for the fourth consecutive year. The strong profit result included $280 million of operating profit and $162 million investment income.

Medibank has continued to invest in improving productivity, reflected in our Private Health Insurance division management expense ratio of 9.5 percent.

We have continued to increase the number of hospitals from which we receive ECLIPSE (e-commerce gateway) claims. This has resulted in a 36 percent increase in the number of hospital claims processed through ECLIPSE in the past year. We also expanded our system's capability to enable medical specialist claims to be submitted via the ECLIPSE channel. Overall, 71 percent of our total claims (hospital, medical and ancillary) are now processed electronically, increasing efficiency, shortening processing times, providing faster reimbursement to members, and removing the need for unnecessary administration.

Medibank's 2010/11 revenue included $4.7 billion from the Private Health Insurance division and $258 million from Medibank Health Solutions, the latter growing by 53 percent.

In 2010/11, Medibank Private paid out $3.6 billion in health benefit claims on behalf of our members. This represents a 6.7 percent increase on the previous year and is higher than our average premium increase of 5.35 percent.

After speaking with more than 5,000 customers to better understand how to improve benefits and simplify our health cover, we proceeded to complete the design of our new Medibank Private products so that our members can select the level of benefits they want to receive on both hospital and extras services. Our new health covers are simpler and provide greater clarity for members on benefit entitlement and reimbursement. The new policies were launched in January 2011 and have been a great success.

At Medibank, our Purpose is 'For Better Health' – we aspire for our customers to live longer and healthier lives with Medibank. It's pleasing to report that more members are now benefiting from our Purpose commitment, with almost 50,000 customers participating in our health and wellbeing programs, a 50 percent increase on last year. Such programs offer a range of health and wellbeing information including: the screening, prevention and early detection of disease; awareness raising and education; health advice and referral; health system navigation; and chronic disease prevention.

Medibank grew the size of our corporate health and wellbeing business during the year, assisting more than 3,500 businesses to protect the health of employees by delivering over 82,000 flu shots and helping over 54,000 people return to work though workplace injury treatment programs. We also check the health of prospective Australian citizens, conducting over 230,000 visa medical assessments each year.

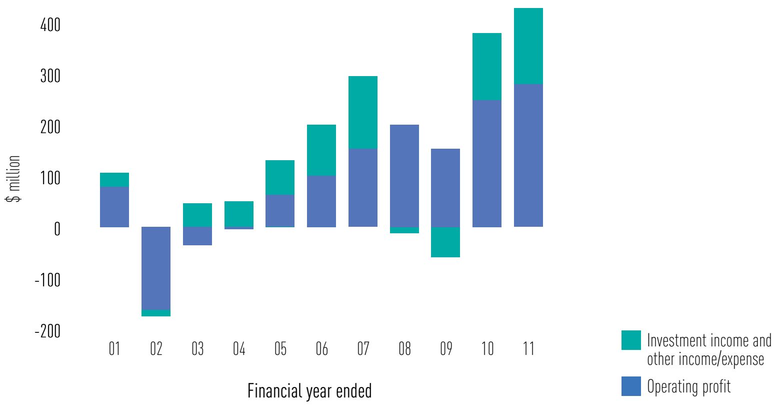
This has been an exciting year for health innovation. From 1 July 2011, Medibank's Health Solutions division commenced operating Australia's first national doctor on-call service, 'GP After Hours', providing better health for all Australians through the National Health Call Centre Network. This free public service, run on behalf of the Australian Government, makes it possible for most Australians to pick up the phone and talk to a nurse or be escalated to a GP for advice and be referred to their nearest after-hours service if required.

Medibank has been partnering with the Department of Health and Ageing (DoHA) and National eHealth Transition Authority (NeHTA) in the development of a Personally Controlled Electronic Health Record (PCEHR) to provide better health outcomes to our members who are being treated for chronic disease. We know from evidence in other countries that electronic health records improve health outcomes for those with chronic diseases and can save lives in acute care settings.

The international competitiveness of our innovative telehealth business is evident with Medibank having been contracted to provide better health in India through a joint licencing agreement with Religare Health Insurance Co Ltd and leading Indian telecommunications company, Bharti Airtel. Our nurse and doctor triage systems are now supporting a telephone health advice and referral service for the Indian customers of our commercial partners.

We want everyone in Australia and New Zealand to benefit from our innovative health solutions. In February 2011, we launched the Medibank Community Fund (MCF). Through the MCF, one percent of

Net profit before tax (2000/01 to 2010/11)



Medibank has delivered its best financial performance in its 35-year history...

Medibank's pre-tax profit (around $4 million annually) is redistributed back into the community through flagship partnerships with the Heart Foundation, Healthy Parks Healthy People, and a study grants program in conjunction with The Smith Family and Indigenous foundation, Yalari. Disaster relief funding for those affected by the devastating Queensland floods and Christchurch earthquake was made available through the MCF. Numerous community projects were also assisted at a local level through our grassroots grants program.

It has been an exciting year of growth and transformation at Medibank. I would like to acknowledge the superb job performed by our 4,500 staff and management in producing both exceptional financial results as well as providing innovative health services for customers while embracing major transformational change across the Medibank group. I sincerely thank them for their tireless efforts and commitment to better health. I also wish to thank Chairman Paul McClintock and our Board of Directors who have provided both encouragement and wise counsel throughout the year.

George Savvides
Managing Director

Cherrell Hirst AO
MBBS, BEdSt D, Univ (Hons), FAICD

Non-Executive Director

Appointed Director 16 December 2009.

Current term expires 15 December 2012.

Chairman of the Health and Business Innovation Committee from 24 March 2011.

Dr Hirst currently holds directorships of Avant Mutual Group, Avant Insurance Limited, ImpediMed Limited, Tissue Therapies Limited and Xenome Limited. Dr Hirst is also Deputy Chair and part-time CEO of Queensland Biocapital Funds.

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

Managing Director

Appointed Director 6 September 2001.

Appointed Managing Director 19 April 2002.

Current term expires 11 December 2011.

Mr Savvides is currently a Member of the Business Council of Australia and Vice President of the International Federation of Health Plans.

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

Non-Executive Director

Appointed Director 26 June 2002.

Current term expired 30 June 2011.

Chairman of the Health and Business Innovation Committee until 24 March 2011.

Professor Stoelwinder is currently Chair of Health Services Management and Head, Division of Health Services and Global Health Research, School of Public Health and Preventive Medicine, Monash University.

Leanne Rowe AM
MBBS, MD, FRACGP, FAICD

Non-Executive Director

Appointed Director 17 December 2008.

Current term expires 16 December 2011.

Professor Rowe is currently Deputy Chancellor of Monash University and Director, Medical Consulting Victoria.

Board of Directors

Philip Twyman
BSc, MBA, FAICD

Non-Executive Director

Appointed Director
21 September 2007.

Current term expires
20 December 2012.

Chairman of the Investment Committee.

Mr Twyman is currently Chairman of ANZ Lenders Mortgage Insurance Pty Limited and Swiss Reinsurance Company (Australian Board of Advice) and Director, Perpetual Limited, Swiss Re Life & Health Australia Limited, and Insurance Australia Group Limited (IAG).

Paul McClintock AO
BA LLB (Sydney), FAICD

Non-Executive Chairman

Appointed Chairman
19 March 2007.

Current term expires
18 March 2013.

Chairman of the Nomination Committee.

Mr McClintock is currently Chairman of Thales Australia Limited and the COAG Reform Council. He is also Director of the European Australian Business Council and Perpetual Limited.

Jane Harvey
BCom (Melb), MBA (Melb), FCA, FAICD

Non-Executive Director

Appointed Director
21 September 2007.

Current term expires
20 December 2013.

Chairman of the Audit and Risk Management Committee.

Ms Harvey is currently a Director of IOOF Holdings Limited, Colonial Foundation Trust, and Telecommunications Industry Ombudsman.

Elizabeth Alexander AM
BCom, FAICD, FCA, FCPA

Non-Executive Director

Appointed Director
23 October 2008.

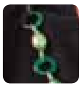
Current term expires
22 October 2011.

Chairman of the Human Resources Committee.

Ms Alexander is currently Chairman of CSL Limited and DEXUS Wholesale Property Limited, a Director of DEXUS Property Group, and serves on the Board of the Australian International Health Institute.

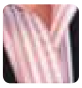
She is the Chancellor of the University of Melbourne and Chair of its Finance Committee.

Group Executive


Mei Ramsay
Group General Counsel

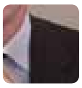

Michael Sammells
Chief Financial Officer


Andrew WIlson
Group Executive
Strategy and Innovation


Ilona Charles
Group Executive
People and Culture


George Savvides
Managing Director


Cindy Shay
Group Executive
Provider Relations


Matthew Cullen
Group Executive
Medibank Health Solutions


Bruce Levy
Chief Executive Officer
Private Health Insurance

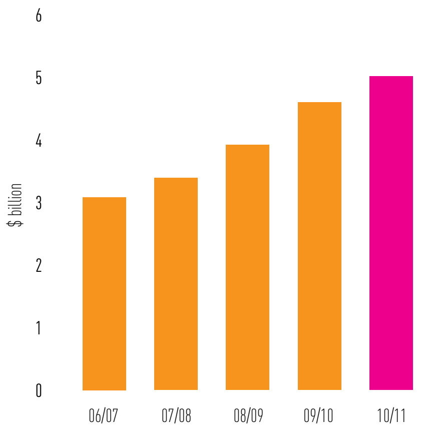

Terry Snyders
Chief Information Officer

Key achievements for 2010/11

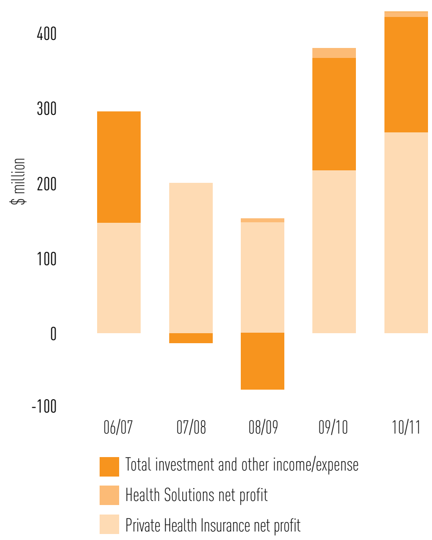
- Medibank finalised its acquisition of McKesson Asia-Pacific, resulting in significant growth in our telephone and online medical services capability and expansion into the New Zealand market through the delivery of telephone nurse triage services.
- Medibank continued to grow our workforce. Our 4,500-strong team is better equipped to develop and deliver innovative health solutions and customer-focussed products and services to Medibank's Australian, New Zealand and international customers.
- Medibank has been contracted to provide better health in India through a joint venture with Religare Health Insurance and leading Indian telecommunications company, Bharti Airtel. Our unique medical triage software is being utilised to provide 24-hour telephone health advice for consumers in India.
- Medibank is partnering with the DoHA and NeHTA to develop a PCEHR to assist our members who have chronic diseases. During the past year Medibank was awarded one of the first eHealth grants by the Australian Government to develop the Medibank Healthbook, an electronic record of an individual's or family's health information. Since then, Medibank has been successful in gaining further Commonwealth funding to continue with the build of the project and will enable Medibank to utilise its knowledge and experience and provide customers with a secure health record that will be controlled by the individual or parent.
- Medibank consolidated its four recently acquired health service companies – Total Health, Carepoint, McKesson Asia-Pacific and the former Health Services Australia – into an integrated health division – Medibank Health Solutions.

Group results

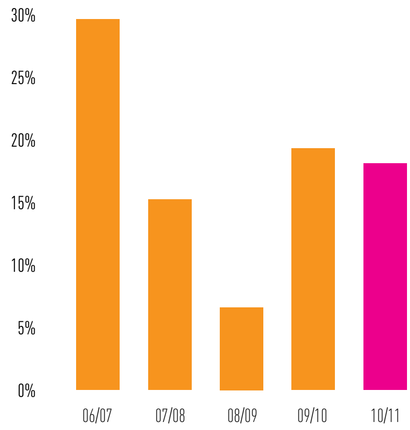
Revenue



Net profit before tax



Return on equity

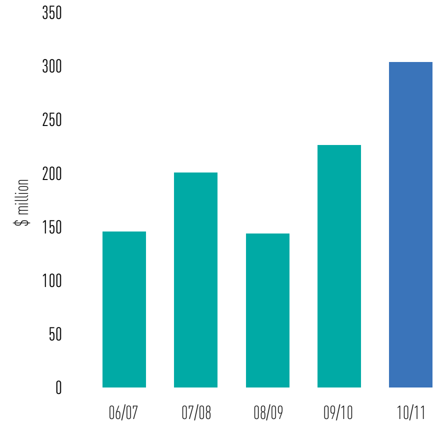


- Medibank announced its partnership with US-based telehealth solutions company, American Well. This affiliation unites two of the biggest players in telehealth provision, combining their expertise to deliver a sophisticated and innovative service for government and business. Through this collaboration, Medibank continues to expand our innovative healthcare capabilities, enabling health professionals to conduct online video medical consultations with patients in Australia and New Zealand, in both metropolitan and regional areas.
- Medibank Health Solutions is a representative on Connecting Telehealth Services, the advisory council to the Royal Australian College of General Practitioners (RACGP) on telehealth investments and solutions.
- Medibank Health Solutions was appointed sole provider of the GP After Hours service, the Australian Government's new medical advice and diagnostic service that provides the public with telephone access to GPs free-of-charge.
- On 1 January 2011, Medibank Private introduced a product range designed to remove the confusion and uncertainty that currently exists for many Australians in relation to private health insurance. Driven by the desire to increase value for its members and improve understanding of their health cover, the new hospital and extras policies give members greater certainty about what they are covered for and how much they get back as well as creating better value on the services they use most – dental, optical and physiotherapy.
- Medibank Private delivered a below industry-average premium rise for its fund membership for the fourth consecutive year.
- Over 2010/11 ahm experienced growth in private health insurance policies of 2.2 percent - over 3,500 memberships.
- Medibank Private members have responded strongly to our improvements in our Online Member Services, with claiming through the website increasing 454 percent on last year and 373,000 new registrations during 2010/11.
- During the past year, we have focussed on reform within Medibank - identifying ways to support equity and access across the healthcare system for all Australians.
- In March 2011 ahm marked 40 years of caring for members. The fund was established by Roy Johnson in 1971 who was inspired to start a health fund in Wollongong that put members first after the death of his daughter Lynne from Hodgkin's Lymphoma. ahm celebrated this milestone with a number of key events involving members and the community including a commemorative tree planting ceremony and morning tea with the founding members. Forty years on, ahm cares for the health of more than 360,000 people Australia-wide, and employs 566 staff. A pioneer in the provision of health management programs, medical research and innovative services, ahm still embodies Roy's founding vision of member care and ongoing wellness.

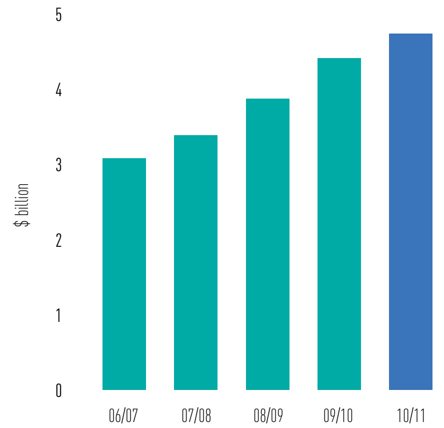
Business results

Private Health Insurance

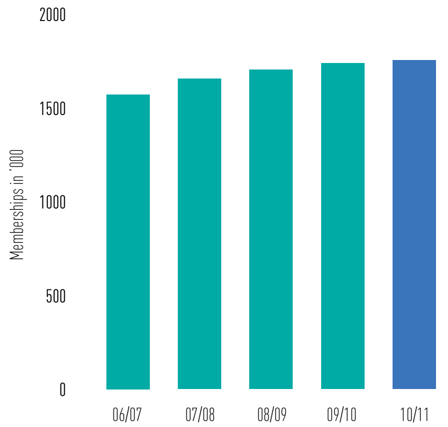
Private Health Insurance underwriting result after expenses



Private Health Insurance revenue



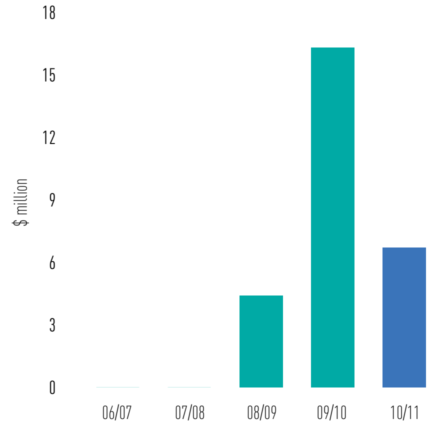
Private Health Insurance resident memberships



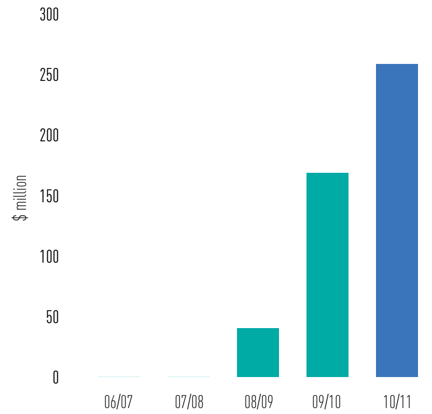
Private Health Insurance includes both Medibank Private and ahm.

Medibank Health Solutions

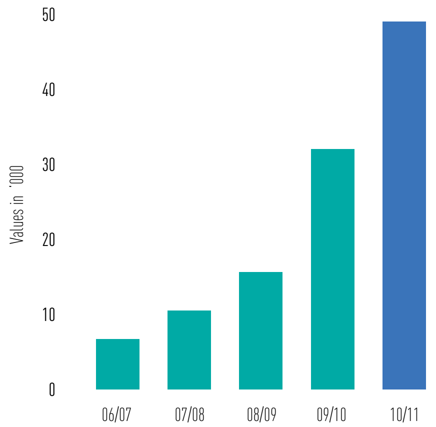
Medibank Health Solutions operating profit



Medibank Health Solutions revenue



Medibank Health Solutions number of members in health programs



Medibank Health Solutions operations began in 2008/09.

Private health insurance

Whilst the organisation continues to expand beyond its traditional offering, delivering a quality and comprehensive suite of private health insurance products remains our number one priority.

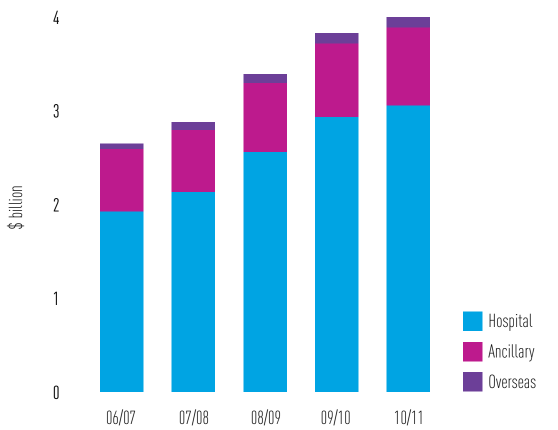
In 2010/11 both the Medibank Private and ahm brands listened to customer feedback asking for simpler, better value policies and have reinvigorated their products and services.

Benefit payments continue to rise and during the past 12 months almost $4 billion was paid to hospitals, ancillary providers, specialists and other health professionals on behalf of Medibank Private and ahm members.

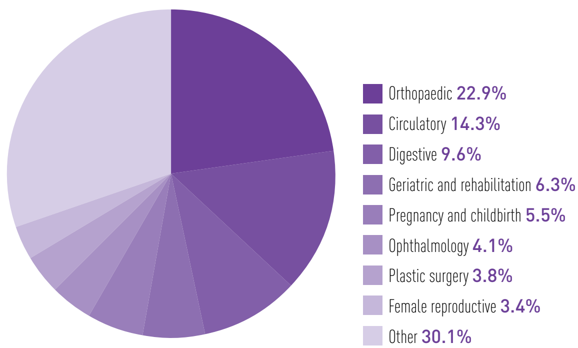
As a business group, Medibank continues to seek innovative and effective means to reduce pressure on premiums, whilst influencing better clinical outcomes and providing choice and access to members. The pressure on health costs from increased utilisation, chronic disease and an ageing population is a constant challenge for both the public and private sectors.

Medibank is tackling rising cost issues in a number of ways and our members benefit from our purchasing strength as well as our belief that both Medibank and our network providers need to effectively manage costs. Our expanded capability in telephone and online coaching and services has encouraged more members to participate in health management programs. We intend to continue playing an active role in improving the health and wellbeing of our customers in the immediate and long-term future. In 2010/11 the Medibank group supported almost 50,000 members through its programs – a figure that demonstrates our genuine service offering to address chronic disease amongst our membership and importantly, reflects our members' desire to be healthier.

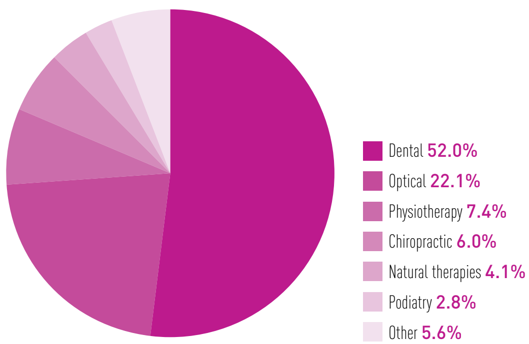
Member benefits



Hospital benefits by type



Ancillary benefits by type



**Private Health Insurance includes both Medibank Private and ahm. Graphs exclude risk equalisation.*

Medibank Private

In January 2011, Medibank Private took positive steps to remove the confusion and uncertainty that exists for many Australians with private health insurance, completing our introduction of a new range of hospital and extras policies. These policies better meet member needs and represent an exciting direction for the industry which will be welcomed by consumers.

Over 11 million Australians have private health insurance and many of them find it unclear. Medibank is taking a leadership role in removing the complexity, so that Australians can make better choices for themselves and their families.

After speaking to more than 5,000 customers who said they wanted better value on the services they use most – dental, optical and physiotherapy – that's what Medibank Private has done. Designed with input from members, the new products provide clear benefits on both hospital and extras services and give members certainty about what they are covered for and how much they get back. Confusing features have been removed and the policy names have changed to better reflect the level of cover a customer can expect.

Medibank has also introduced a special addition to its policy suite – Ultra Health Cover – which includes: getting 100 percent back on a comprehensive range of extras services at Members' Choice providers; coverage on the widest range of extras services at Medibank, including laser eye surgery; no hospital excess; and a bonus to help cover any medical gaps incurred whilst in hospital.

Members' Choice

Medibank Private has enhanced its Members' Choice network so it now provides members with even greater convenience and savings. For example, Medibank Private now has arrangements with more optical providers than any other health fund, meaning that our members with extras cover are clearly better off. Whether members require single, bifocal or multifocal lenses, they can now purchase their glasses without an out-of-pocket cost.

The Members' Choice network covers most private hospitals and the widest range of extras services of any health fund.

Medibank Private's hospital products cover almost 2.7 million residents who can benefit from our network of 450 private hospitals and day surgeries throughout Australia. With such facilities, Medibank Private has negotiated agreed fees on behalf of our members so the hospital costs are fixed and any out-of-pocket expenses are kept to a minimum and communicated to patients prior to treatment. Importantly, it means that, in many cases, there is no gap or limited out-of-pocket expense.

Our hospital liaison service, operating within 19 Members' Choice hospitals across Australia, continues to provide an important link between Medibank and our members when they need us. With Medibank Private staff based on hospital wards, we can provide members with a greater level of support and ensure they receive timely assistance for any health cover queries they have during their admission.

During 2010/11, the majority of Medibank Private members with extras cover claimed on their memberships, with over 68.4 percent receiving benefits for services such as optical, dental, physiotherapy, chiropractic and natural therapies. This equates to almost $865 million in services delivered at more than 95,200 provider locations throughout Australia.

Cover for Visitors To Australia (OVC)

This portfolio of products for visitors to Australia has achieved strong revenue growth in 2010/11. The main focus in this market is on Temporary Business Long Stay Visas (457) as employers seek skilled workers to meet demand in the mining and minerals, IT, engineering and healthcare sectors. Medibank has also extended its partnership with the Migration Institute of Australia for a further term.

Overseas Student Health Cover (OSHC)

Medibank Private is a leading provider of OSHC to all four education sectors of higher education, vocational education and training, English language courses and schools. The international education market has been under significant pressure in recent times with a reduction in demand for places from overseas students. Medibank Private has continued to invest in its service offering, with student members now able to claim through Online Member Services (OMS). A 'whole of university' proposition that combines the capabilities of Medibank Private and Medibank Health Solutions has also been developed to meet the needs of students, employees, visiting academics and research staff. Medibank Private maintains strong relationships with education providers in all education sectors.

ahm

In 2010/11 ahm experienced considerable growth and consolidated our position as an alternative choice to the mainstream health insurance funds.

In March 2011, ahm celebrated 40 years of caring for members and throughout the year we have focused on engaging members, enabling ease in member interactions and providing a diverse and valued suite of products. We are very proud of this milestone and have recognised the significant number of members who have been with us since our inception back in 1971.

Over 2010/11 we continued to refine ahm's product hierarchy, with pricing changes designed to improve benefits for members, provide greater value and ensure sustainability of the fund and products. The past year saw the implementation of service and web-based initiatives that aim to provide personalised, interactive, easy-to-use product and benefit comparisons for members.

Additional benefit amounts have been introduced to most of ahm's extras products to reward loyalty of members of five or more years. ahm has also eliminated all two- and six-month waiting periods on extras covers, further improving the value proposition for new and existing members.

In order to provide improved member value and exceptional customer experience through operational efficiencies, ahm has focused on process improvement and cost leadership with a move to automated processing of claims. To date, ahm has successfully partnered with major hospital groups well ahead of schedule.

ahm also sought to increase customer value in 2010/11 by contacting members who had not made an extras claim in some time, assisting them to access their entitlements, and promoting the ways in which they can maximise benefits from their extras cover.

Over the past year, ahm supported members by paying nearly $384 million in claims.

In 2010/11 we also launched our new logo and refreshed the identity of the brand in order to better communicate ahm's competitive spirit and community-minded approach to customer service. We are extremely proud that ahm continues to lead the industry in net promoter scores and that our members have become advocates for our products and services.

Hospital cover

More than 305,000 people are covered by ahm's hospital products, with nearly $270 million paid on behalf of ahm members for hospital episodes in 2010/11.

Over the past year, close to 3,000 mothers participated in ahm's pregnancy program which sees experienced midwives providing advice, education, information and support to new parents.

Extras cover

The most claimed extras items for ahm members were dental and optical, with nearly $49 million paid in benefits for these services and a total of nearly $77 million paid on behalf of members across all extras products.

ahm continues to provide access to quality, affordable dental and eye care through our Dental and Eyecare Practices in Parramatta, Haymarket and Wagga Wagga. Over 173,450 services were provided to ahm members across the practice network in 2010/11, assisting customers to build long-term oral and eye health.

ahm Overseas Student Health Cover

ahm has invested in the development of platforms to engage offshore education agents and directly connect with students as part of our institutional search and enrolment process. A 'member focus' proposition has been developed to reposition ahm's value away from education providers and to focus on members.

Supporting members' good health

In addition to providing support during hospitalisation and pregnancy, ahm offers members support in managing chronic illness and getting their health back on track. With help from ahm's expert health consultants, over 3,900 members have been supported in identifying health goals, developing action plans and achieving better health.


For guidance
1,500 health professionals

Advocating for quality healthcare services

To ensure we purchase best value services for our members, we believe it is important to advocate for high quality healthcare that delivers superior health outcomes. Monitoring members' satisfaction with their hospital care provides Medibank with key indicators and perceptions of the quality and effectiveness of the healthcare provided by private hospitals around Australia.

The Medibank Private Hospital Experience Survey is the only national survey of patient experiences at private hospitals in Australia. The survey provides benchmarking and tracking data on a variety of topics such as: hospital staff; communications; accommodation and amenities; treatment and personal issues; pre-admission and admission; and discharge and follow up.

The survey results are highly valuable to Medibank and the industry as they provide a complete and objective picture of our patients' perspective of private healthcare services. Sharing this information with our providers enables us to constructively work together to improve various aspects of care.

Patients' satisfaction with their overall hospital experience was rated very high at eight out of ten.

The latest survey results showed that patients were extremely satisfied with the standard of accommodation provided and the length of their hospital stay.

Continued improvement can be achieved by hospitals in the areas of transparent communication, particularly in the regard to consistency of information, explanation of side effects and clarification of hospital routines and procedures.

The survey also revealed that confusion exists around who is responsible for communication regarding gap payments, with over a third of patients experiencing negative feelings towards Medibank as a result.

The skills and knowledge of doctors were especially highly regarded, with 92 percent of patients rating them 'good' or better. Similarly high levels of satisfaction were achieved for the level of care and compassion that patients were shown by doctors, with 90 percent rating their treatment as 'good' or better. The attitudes of nurses were also highly rated, with 92 percent of patients satisfied with the care and compassion provided and 89 percent satisfied with the levels of clinical skill and knowledge of nurses (rated 'good' or better).

The top performing hospitals in Australia as rated by our members, based on the Member Experience Index, are as follows.

National

1. Mater Misericordiae Hospital Redland	QLD
2. Mater Mothers' Private Hospital	QLD
3. The Burnside War Memorial Hospital Inc	SA

Rural

1. Armidale Private Hospital	NSW
2. Shepparton Private Hospital	VIC
3. Mater Misericordiae Hospital - Gladstone	QLD

The Medibank Private Hospital Experience Survey is conducted by independent market research company Ipsos and is now in its fourth year. For the period of October 2009 to September 2010, we received 22,668 responses to the survey.

Advocating for healthier workplaces

As part of Medibank's commitment to raising awareness of workplace health and promoting the benefits of a healthy work environment, this year we conducted an update of our 2007 study which identified the costs and impacts of presenteeism on the Australian workforce and economy. Presenteeism is the productivity that is lost when employees come to work but, as a consequence of illness or other medical conditions, are not fully productive. Our 2011 research also estimated the impact of an ageing working population and considered the cost of presenteeism in the context of the recent global financial crisis.

The results showed that in 2009/10, the total cost of presenteeism to the Australian economy was estimated to be $34.1 billion, with 6.5 working days of productivity lost per employee annually. This revealed that, further to our 2007 study, presenteeism has remained a constant and ongoing problem, and one that needs to be addressed by employers to further minimise the effects.

The report forms a strong argument for greater investment in strategies to support and improve employee health and wellbeing, which will lead to a happier workforce and consequently, a more productive business.

Diversified insurances

Life Insurance

Since launching in October 2008, over 40,000 individuals have been insured with Medibank's Life Insurance business which continues to show substantial revenue and policy growth. As part of Medibank's continued commitment to our customers, we are planning to introduce further products that will complement the existing product suite and grow the business into the future. Medibank continues to support the not-for-profit Financial Services Council (FSC) industry initiative 'Lifewise' to assist Australians in bridging the under-insurance gap.

Travel Insurance

Medibank offers access to competitive and comprehensive travel insurance and support through both its Medibank Private and ahm brands.

Through Medibank's continued investment in the Travel Insurance business, we have experienced strong sales that resulted in good overall year-on-year growth in the business. We continue to hold a strong competitive position in the market which we are looking to increase through further marketing investment in the future.

Pet Insurance

Our Pet Insurance business has continued to show growth in an increasingly competitive market. Pleasingly, we have had relatively even policy take-up amongst members and non-members. We have made changes to pet insurance products to respond to rising veterinary services fees to ensure the premiums remain competitive. Medibank continues to pursue development opportunities to expand our pet insurance business.

For advice

For peace of mind


For extra motivation
For support

Medibank Health Solutions

Government and public health services

Medibank Health Solutions, our newest division, works in partnership with a wide range of clients including public sector healthcare organisations, national and State governments, and other health organisations. Delivering invaluable health services to government clients via telephone, online and face-to-face interactions, we offer innovative solutions that reduce health costs and support the health and wellbeing of individuals and families across Australia and New Zealand.

Health advice, consultations and referral services over the phone

With the growing demand for health services, being able to deliver health advice and referral services via the telephone is an important tool in providing cost-effective, accessible health services - in cities as well as rural and remote areas.

Our programs, including *healthdirect Australia*, NURSE-ON-CALL, GP After Hours and Healthline (which operates in New Zealand) assist people to access quality health advice, no matter where they live, at a time that is convenient for them, regardless of whether or not they have private health insurance.

We have a national network of general practitioners and registered nurses, supported by sophisticated clinical decision software, who can quickly and safely assess the urgency and severity of callers' injuries, symptoms or concerns. We pride ourselves on providing accurate, professional health advice and referrals, enabling consumers to take appropriate steps to manage their health.

Recognising face-to-face consultations with doctors and other health professionals remain necessary, giving direct access to health professionals via the telephone facilitates broader access to services and promotes efficiency in the healthcare system.

Medibank was recently appointed provider of the GP After Hours service that was launched on 1 July 2011. GP After Hours is the Australian Government's new medical advice and diagnosis service that provides free telephone access to GPs outside of regular hours. Medibank recruited around 100 qualified GPs who use Medibank's unique CECC™ platform to manage the triage process to provide appropriate advice and diagnosis.

The Get Healthy Information and Coaching Service addresses the health issues associated with rising numbers of overweight and obese adults in our population. Medibank secured a further two-year contract to deliver the Service in NSW and also extended the program to Tasmania and the Australian Capital Territory. The free telephone-based service, which has been operating since February 2009, has assisted over 8,500 people across the three regions, and preliminary results indicate significant health benefits to participants.

A new telephone counselling service for Australians who have experienced, or are at risk of, physical or sexual violence was launched in October 2010. Medibank operates the phone helpline - 1800RESPECT – on behalf of the Australian Government. The free and confidential service is staffed by qualified, specialist counsellors and is available 24 hours a day, seven days a week. Through 1800RESPECT, callers can access information, advice, counselling and referrals.

Medibank also announced a partnership with US-based telehealth solutions company, American Well. This affiliation unites two of the biggest players in telehealth provision, combining our expertise to deliver a sophisticated and innovative service for government and business. Through this collaboration, Medibank will continue to expand its innovative healthcare capabilities, enabling health professionals to conduct online video medical consultations with patients in Australia and New Zealand, in both metropolitan and regional areas. Medibank's online healthcare initiative will connect patients and healthcare professionals, including doctors, nurses and other clinicians via a secure technology platform. Using two-way video, secure text chat or phone discussions, healthcare professionals will be able to review patients' clinical information, discuss symptoms, provide medical advice, diagnose and prescribe medications as appropriate.

Clinical decision support software - physical and mental health

Medibank Health Solutions offers clinically proven software platforms to help practitioners deliver cost-effective, quality healthcare and better patient outcomes. Our software – developed to world's best practice standard – offers innovative functionality to support the delivery of health advice, referral and management services.

The software improves call centre efficiency by providing comprehensive cost/benefit reporting, automatically capturing data and communications tracking as well as configuring information and services to each caller. Protocols ensure that callers who have serious and immediate needs are identified then referred to the appropriate healthcare delivery point to be seen for care within the appropriate timeframe to receive safe, accurate health advice.

Health coaching over the phone and online

Our health coaching programs are designed to reduce the risks of chronic disease by identifying health issues, maintaining motivation and providing solutions to participants at risk of developing chronic disease. Our qualified health coaching team supports participants to make sustainable healthy lifestyle changes.

Common goals that we help participants to achieve include:

- self management of chronic diseases including diabetes, arthritis, asthma and heart disease
- increasing physical activity
- weight loss or maintenance
- healthy eating
- minimising stress
- quitting smoking
- reducing alcohol consumption.

Health coaching is also available to organisations seeking to support the health of their employees.

Visa medical assessments

Medibank Health Solutions continues to be the only service provider contracted by the Australian Government to undertake visa health assessments. In 2010/11 Medibank conducted 230,000 examinations, including screening for conditions such as tuberculosis and HIV which are required by Australian law for anyone wanting to immigrate, work or study in Australia for more than three months.

What we deliver

2.5 million+ healthcare interactions per year

1.5 million health triage calls per year

150,000 mental health calls per year

50,000 chronic disease calls per year

Corporate and industry health services

Medibank's offering to corporate and government clients is a true representation of our integrated health insurance and health solutions approach. We currently partner with more than 4,000 corporate and government clients Australia-wide to drive better health for employees and to improve workforce productivity and wellbeing.

Our services to industry and workplaces include our traditional private health insurance products as well as a broad range of health and wellbeing services encompassing pre-employment medical screenings, health coaching, injury treatment and rehabilitation.

Corporate health cover

Medibank Private's corporate health cover can be offered as part of a voluntary or subsidised scheme, and can be tailored to meet the objectives of a broad employee health and wellbeing program. Medibank has strong relationships across all major industry sectors, with a focus on mining, financial and professional services, communications and travel.

Pre-employment medicals

Our staff are experienced in designing tailored pre-employment medical assessments that respect privacy, workplace relations and anti-discrimination legislation. At the same time, our pre-employment assessments give employers valuable health information about applicants to inform their recruitment decisions.

For example, in early 2011, the Australian Maritime Safety Authority (AMSA) exclusively appointed Medibank Health Solutions to coordinate and administer all of its medical examinations Australia-wide. AMSA requires that all seafarers and coastal pilots working under its jurisdiction hold a Certificate of Medical Fitness.

Injury prevention

We provide occupational health consulting services to assist companies to identify and assess workplace health risk. We help companies manage their legal duty of care responsibly to protect employees from physical and psychological hazards and infectious disease.

Our prevention programs and services include:

- flu and occupational vaccination
- psychological resilience
- ergonomic work-station assessment and training
- functional capacity and fitness assessment
- disability accessibility assessment
- driver ergonomic assessment and training
- job task analysis
- safe work procedure development.

Injury treatment, management and occupational rehabilitation

We offer acute workplace injury management in many of our workplace health clinics and are equipped to treat and manage most occupational injuries and illnesses. Unlike general practice clinics, we only treat workplace and occupational injuries. This means we provide a high level of expertise in workplace health and a focus on early return to work whenever possible. In 2010/11 we delivered over 40,000 work injury treatments including: suturing lacerations; treating fractures and spike, crush and head injuries; treating insect bites, skin reactions, burns and skin conditions; and physiotherapy.

A new Medibank workplace health clinic opened in Karratha, Western Australia on 27 June 2011. A number of vital workplace health services are provided by the new clinic, including treatment for workplace injuries, occupational rehabilitation services, WorkCover WA audiometric testing, injury prevention programs, acute injury treatment, return to work planning, physiotherapy, and rehabilitation. Health and wellbeing initiatives, flu and occupational vaccinations, and travel health services are also available to companies operating in the Pilbara region.

Health and wellbeing

The wellbeing of employees can often mean the difference between a positive contribution in the workplace and a loss of productivity. Further, poor lifestyle choices affect people's health in a variety of ways. To help companies improve workplace health and productivity, we offer corporate health and wellness programs that are evidence-based, results-driven and delivered across entire organisations that are often geographically dispersed. We provide:

- online health risk assessments
- flu vaccinations at a workplace or in our clinics
- employee and organisational health profiling
- onsite health checks
- health coaching over the phone
- health seminars and health fairs
- health promotion programs focused on physical activity, healthy eating, mental health and preventative healthcare.

Psychology

Employee emotional wellbeing directly impacts the performance of a business. We offer companies a range of comprehensive programs and services to encourage resilience, wellbeing and performance at work. From recruitment to retirement, we have the experience and expertise to provide companies with psychological services which include training, consulting, assessment and treatment - all tailored to each business's individual needs.

Travel health

The Travel Doctor-TMVC, short for 'Traveller's Medical and Vaccination Centre', is the travel health arm of Medibank Heath Solutions. For many years, The Travel Doctor-TMVC has supplied travel health-related services to government agencies and corporate Australia as well as locally-based international aid organisations and volunteer agencies. Over the past year we have provided over 72,000 travel health consultations to help travellers stay healthy and safe when working or holidaying overseas. Our services include:

- pre- and post-travel medical consultations, including fitness for deployment or posting reviews
- destination-specific travel health consultations and vaccinations
- psychological services to both ease the transition with overseas postings, as well as critical incident support and review
- up-to-date international health advice and destination-specific fact sheets
- specially designed travellers' medical kits.

What we deliver

82,000 flu vaccinations (February to June 2011)
160,000 employment-related health assessments per year
54,000 work injury treatments per year
72,000 travel health consultations per year


For family
For community

Medibank community

Medibank Community Fund (MCF)

- medibankcf@medibank.com.au

Medibank's involvement with the community has always been an important focus for the organisation. With a strong commitment to preventative health and a legacy of providing significant contributions in the form of gifting, sponsorships, donations and community grants to a range of organisations, Medibank decided in late 2010 to become even more engaged in the community and establish the MCF.

The MCF was officially launched in February 2011. It is overseen by the Medibank Board and governed by a management committee. The MCF's charter is to support initiatives that encourage people to live longer and in good health by staying mentally and physically active.

As part of this commitment, one per cent of Medibank's pre-tax profit is being invested in the community via the Fund. The MCF has three strategic priorities:

- to encourage people to adopt healthier eating habits
- to encourage the take-up of physical activity
- to encourage greater community connectedness.

MCF partnerships

Fundamental to the MCF's development are formal partnerships with four organisations to encourage new levels of physical activity in the community and provide study grants to help disadvantaged Australians gain skills and qualifications in health-related vocations.

The Fund's flagship community programs are long-term partnerships with leading not-for-profit organisations the Heart Foundation and Healthy Parks Healthy People. Approximately $1.4 million per year is allocated to these two organisations.

Study grants are seen as an investment in the future skills and capabilities of the health sector. Around $500,000 per year is allocated to such programs through two partners, The Smith Family and Indigenous organisation, Yalari.

In addition to formal partnerships, the MCF strengthens Medibank's involvement in grassroots community through a national community grants program. The community grants program is designed to support local community initiatives to promote healthy eating and community connectedness for better individual health. Approximately $600,000 per year is allocated to this program for grants in Australia and New Zealand. Nominations for community grants are made by Medibank employees.

In 2010/2011, community grant funding was provided to projects such as Ian Thorpe's Fountain for Youth (NSW), the Red Cross FOODcents program (Victoria, Tasmania, ACT and WA) and various Salvation Army programs (Victoria, Queensland and NSW).

The MCF also provides emergency relief funds and other research donations when and where they are most needed in the community. Since its launch, the Fund has contributed: $100,000 to the Australian Red Cross Pakistan Monsoon Floods Appeal; $250,000 to the Queensland Flood Disaster Relief Fund; and $NZ100,000 to the Christchurch Earthquake Appeal. It has provided a further $50,000 in research funding for the Australian Research Council Centre of Excellence in Population Ageing Research (CEPAR) and $50,000 to Deakin University's Centre for Physical Activity and Nutrition Research (C-PAN).

Employee participation

Medibank Community programs continue to provide our employees with an opportunity to give back to their local communities through volunteering, workplace giving and gift-matching.

Community Leave (better known as volunteering) has allowed many of our eligible employees to spend a day with an organisation of their choice to assist in various activities. During the past year, Medibank Private employees involved in the volunteering program have provided over 360 hours of service.

The gift-matching program makes it possible for Medibank employees to support their favourite charity with up to $500 per year matched by Medibank.

Due to the number of natural disasters recently experienced in Australia and overseas, the gift-matching program has proven very popular with over $55,000 of employee donations matched by Medibank to various charities and eligible organisations.

Workplace Giving allows eligible Medibank employees to support selected community partners through their pre-tax pay. Currently, Medibank is working towards expanding the program across the group and increasing the number of charity partners that will benefit from regular giving.

Sponsorship

Medibank's partnerships support and improve brand awareness, assist us to attract new members and enable Medibank to engage with the community and support worthy causes. Medibank's sponsorship portfolio focuses on a 'healthy participation' theme and includes a combination of developmental and junior activity as well as higher profile relationships with The Wiggles and the Medibank Icehouse.

Medibank International and NSW Junior Tennis

Medibank has been the naming rights partner of the Sydney-based Medibank International for the past seven years, utilising the event to communicate the importance of physical activity and encourage Australians to lead a healthy lifestyle.

The NSW Junior Tennis sponsorship is also integrated into the Medibank International. This includes NSW Junior Tennis players participating in the Medibank Challenge at the event and accompanying high profile players onto Ken Rosewall Arena. The aim is to inspire these youngsters to lead a healthy, active life like their tennis heroes participating in the Medibank International.

Medibank's Junior Tennis is a grassroots program that supports junior tennis across New South Wales. Key sponsorship activities includes:

- a 'Volunteer and Coach of the Year' program to reward people who actively contribute to the NSW Junior Tennis community
- morning teas and community functions at Junior Tennis events
- 'The Medibank Challenge' which is a tournament that provides an opportunity for some of the best young players from both the city and the country to play at the Medibank International.

Medibank Icehouse

In 2010, Medibank took up naming rights sponsorship of the Medibank Icehouse located at Waterfront City in the Docklands, Melbourne. The Medibank Icehouse promotes health and fitness through active participation in ice sports and leisure, and is the largest facility of its kind in the southern hemisphere. It also provides branding and signage opportunities for Medibank.

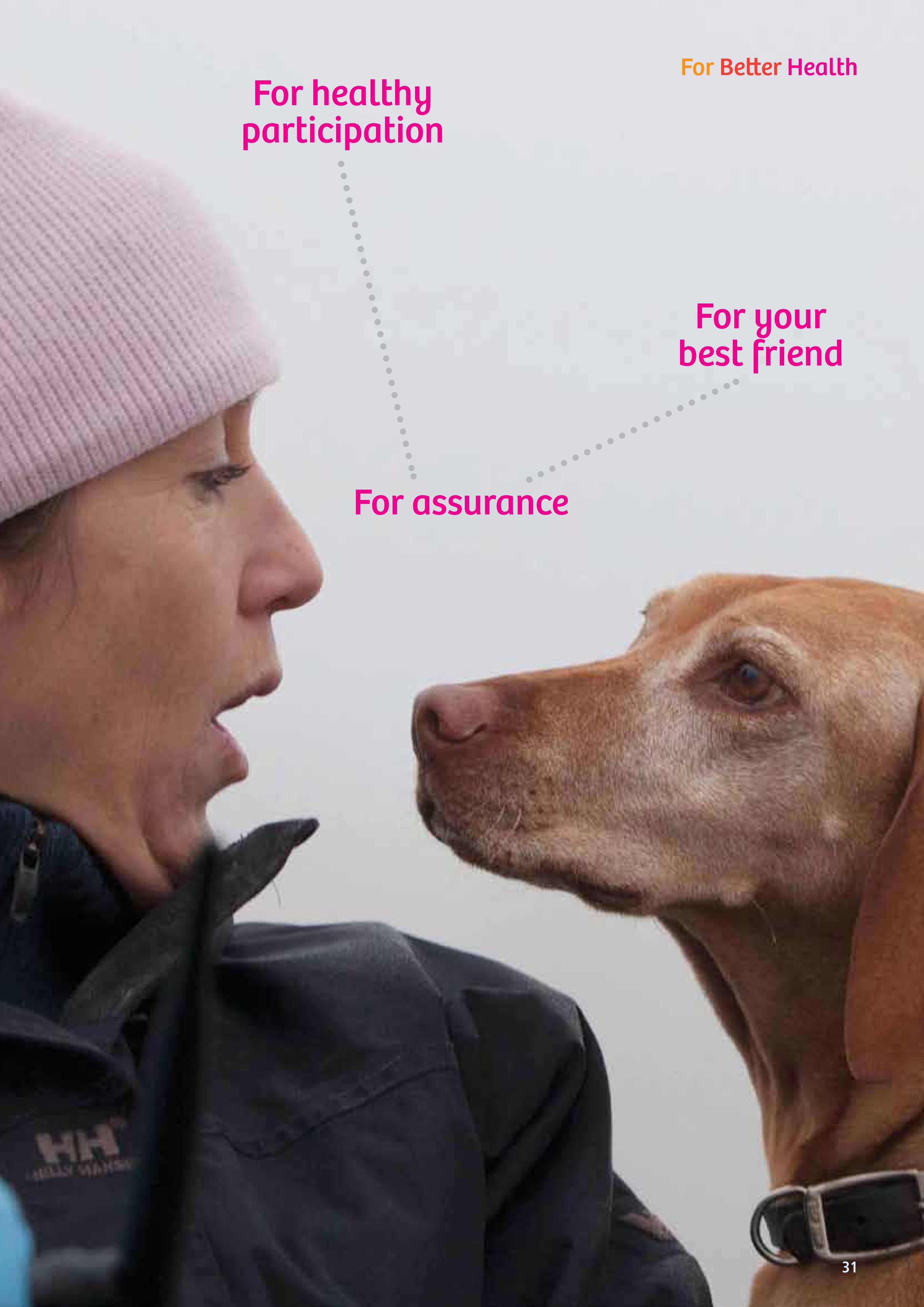
The Wiggles

In 2011, The Wiggles celebrate their 20th anniversary as popular children's entertainers. Medibank will be part of the celebrations, including a national concert tour, throughout the year to mark this milestone. A key feature of this sponsorship is the wiggleintohealth.com website which aims to inspire young families to participate in healthy activity. The website covers four key topics - nutrition, physical activity, hygiene and safety - each represented by a different Wiggle.

Queensland Little Athletics

This year Medibank commenced a new sponsorship with Queensland Little Athletics Association. This partnership aims to engage the local community by promoting a fit and healthy lifestyle through 104 centres throughout the State and enables Medibank to contribute to the health of 13,000 young people.

Image courtesy of Tennis Australia / SMP Images


For healthy participation
For your best friend
For assurance

Our people

As Medibank continues to evolve, so too does our growing workforce: we are now almost 4,500 people strong. With new businesses integrated under the one umbrella, Medibank has worked hard to unite and engage our workforce.

Our Purpose and Vision shape and inform the way we equip our people with skills and tools to enable them to perform at their best and to provide a customer experience that encourages trust and openness.

Winning hearts and minds

This year we have seen a significant increase in our employee engagement levels with positive feedback on our continued efforts to make Medibank an even better place to work.

We have focused on providing our people with greater opportunities for leadership and professional development programs at every level of the business. Looking to the future, we have also given a significant strategic focus on succession planning for critical roles within the business.

At Medibank, 'how' we achieve results is just as important as the results themselves.

We ran a group-wide program to engage and energise employees in Australia and New Zealand with our new Purpose. We offered the opportunity for every employee to shape our Values – the 'how' we do what we do. After 22 sessions across Australia and New Zealand, plus online voting, over 2,100 of our people had their say.

Our four new values – customer focus, accountability, integrity and respect – now underpin everything we do as we strive to realise our Purpose.

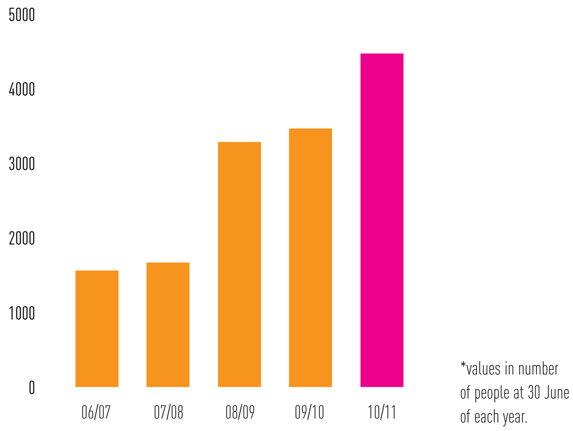
Integration and transformation

We're making significant progress on our integration initiatives.

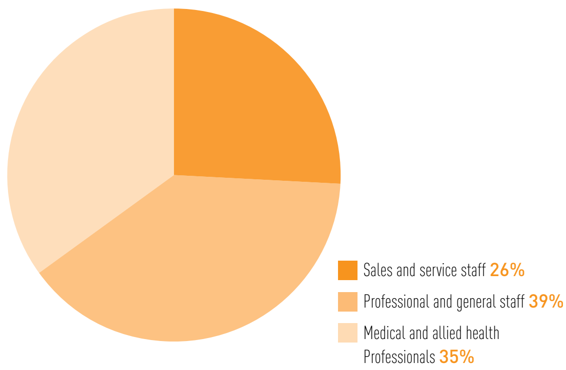
We established a Business Transformation Office to manage change initiatives efficiently and effectively through an integrated framework and methodology.

A preferred provider has been selected for an integrated Human Resource Information System which will amalgamate all payroll systems. We developed a new job banding model to make our role and job descriptions simpler and more transparent and to align with best practice in the external market. We have also introduced a series of group-wide policies to encourage cohesion within the business.

Number of Medibank employees



Medibank employee mix



This year also saw the launch of a new group intranet – one of the first integrated platforms and a new way to engage with our people. As our integration program continues, the intranet will continue to be enhanced with an emphasis on collaboration tools for employees.

Prof Just Stoelwinder reflective

Becoming a 'health company'

The Australian healthcare system is something to be proud of, but is it well placed to meet the challenges ahead? Our mix of private and public funding and private and public healthcare providers allows us to respond flexibly, but each part of the system must step up to the mark. Medibank is certainly doing its bit and I am proud to have been associated with the organisation over the past nine years.

In my view, private health insurance has been the prop of private healthcare in Australia for more than 150 years. Medibank itself has been the major private health insurer since 1976. Private health insurance is there when you have an unexpected healthcare bill – it gives you peace of mind. When you don't use it, you know that you are contributing financially to the care of others and, by sharing costs through insurance, we keep private care affordable.

In the past, Medibank was generally a passive payer of its members' healthcare bills. But with increasing costs, it needs to do more to keep health insurance affordable both now and well into the future. Medibank is responding by doing what an insurance company should. It is negotiating better prices for its members for hospital and ancillary care and designing insurance products that are a better fit with members' needs. But Medibank can also do more to help keep its members healthy which will in turn also decrease their need to use their health insurance in the future.

Chronic diseases, such as diabetes, heart disease, lung disease and arthritis, are already a major burden on the healthcare system and their incidence is expected to rise. Even now, two percent of our membership base account for 60 percent of all hospital claims paid, often as a result of chronic disease treatment costs. For many, the onset of these diseases can be prevented by reducing obesity, increasing exercise, stopping smoking and managing risk factors such as high blood pressure and excess cholesterol as well as regular medical checks.

For those whom already have chronic disease, much can be done to assist in managing the symptoms and reducing complications.

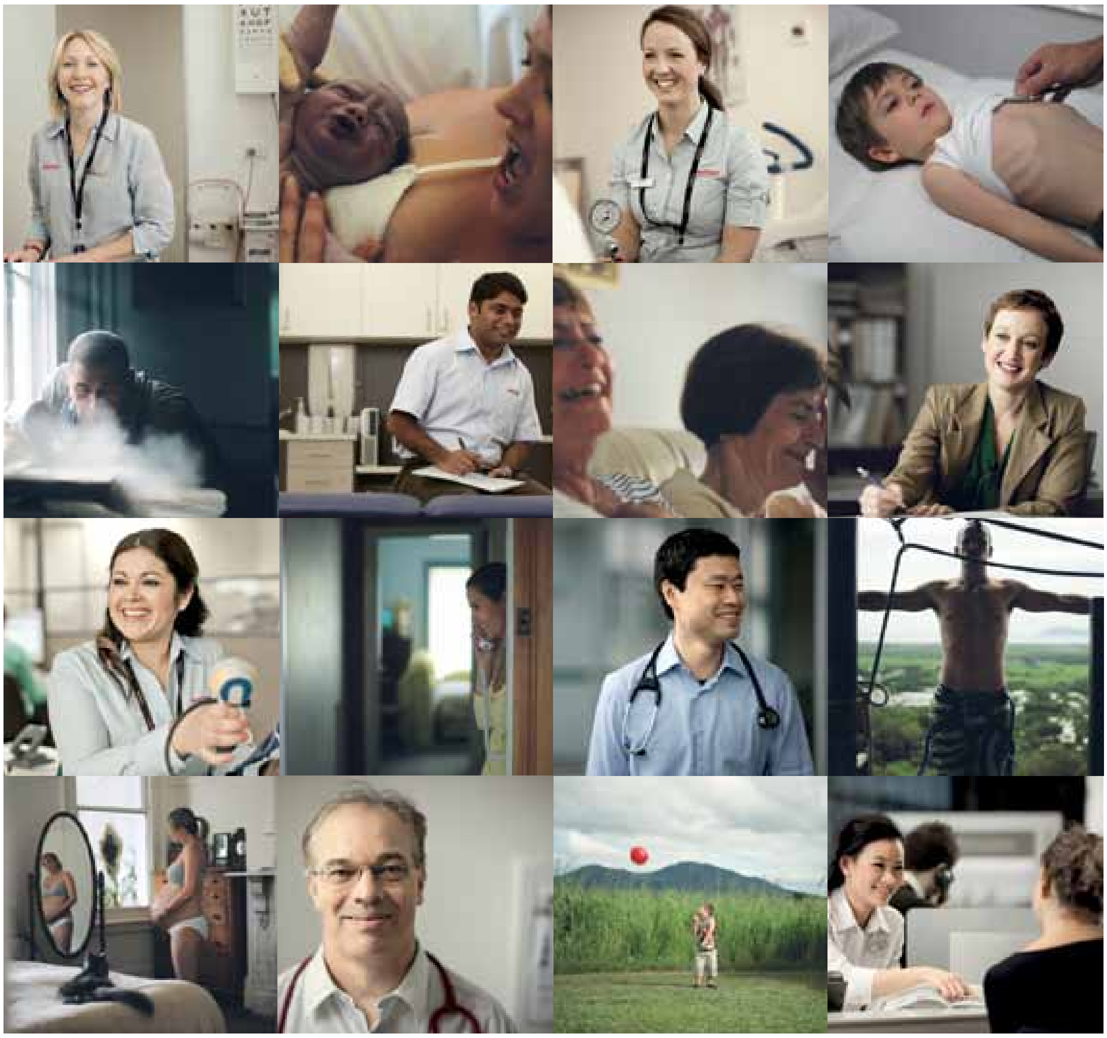
The Australian healthcare system, as a whole, does not do well at addressing these issues. New approaches are needed to fill this void, such as taking advantage of communication channels including telephones, mobiles and the internet and bringing programs to people at home and at work. What is needed is a new type of 'health company' and Medibank is transforming itself to take on this role.

Medibank has been an Australian pioneer in introducing a number of strategies, including: education and coaching programs to help members identify and address health risks such as obesity; and chronic disease management and case management to help those with chronic diseases to take better control of their health. These approaches have proven so successful that over the past two years Medibank has expanded these services to form a separate Health Solutions division. It helps members and the staff of our corporate clients to stay healthy and manage their chronic diseases. With more than 1,500 nurses, doctors and other health professionals on board, Medibank is becoming a genuine 'health company'.

"I feel better now" will have a larger meaning in the future. Individuals will be better off because they will be healthier and all fund members will be better off as the growth in costs slows, thus helping keep health insurance affordable.

Just Stoelwinder

Professor Stoelwinder recently retired after nine years as a Director of Medibank Private. He is Professor and Chair of Health Services Management, School of Public Health and Preventive Medicine, Monash University.



To be a great health insurer we had to become a health company.

Everyone knows that we provide health insurance for millions of Australians. We've been leading the way for over 30 years. But what you probably don't know is that we also offer healthcare solutions, whether you're a Medibank member or not. We deliver health services to over 4,000 businesses and government organisations and last year treated more than 40,000 workplace injuries. We provided 70,000 travel health consultations, 160,000 employment-related health assessments and 220,000 immigration visa medical assessments. We managed 1.8 million telephone health advice calls, providing support around the clock, 7 days a week. We also provided health and wellbeing programs and return-to-work programs. To deliver this, we employ over 1,500 healthcare professionals and deliver services over the phone, online and face-to-face in workplaces and in clinics across Australia. Because we believe every Australian has the right to better health.

To find out more visit medibank.com.au/forbetterhealth

Financial Reports

Corporate governance statement

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

The Company and its subsidiaries together are referred to as the Group in this statement. The Board of directors of the Company is responsible for the governance practices of the Group. A description of the Group's main corporate governance practices are set out below.

Governance at Medibank Private

The Group is committed to the highest standards of corporate governance. The governance practices are derived principally from the provisions of the Commonwealth Authorities and Companies Act 1997 (Cth) ("CAC Act") and requirements of the Governance Arrangements for Commonwealth Government Business Enterprises (1997).

The Group is also committed to reporting in accordance with the ASX Corporate Governance Council's Principles and Recommendations (ASX Guidelines) in so far as they are applicable to an unlisted, Commonwealth owned company.

Medibank Private is developing a set of measurable, reportable objectives, that support our gender diversity policy and support, maintain and extend our already high levels of representation, including selection of new board members. During the financial year 2011, 50 percent of Directors on the Medibank Private Board were women. In addition 38 percent of the Group Executive are women, including the two most recent appointments. These levels exceed the Women on Boards recommendations for 2012. Within the general employee population 75 percent are women.

A dedicated Corporate Governance section on the Medibank Private website (www.medibank.com.au) provides a detailed description of the Group's governance framework and associated practices, with links to key documents.

The Group also provides regular reports to the Private Health Insurance Administration Council (PHIAC) in relation to its two private health insurance funds operated by the Company and its subsidiary Australian Health Management Group Pty Limited (ahm). PHIAC is an independent statutory authority that is responsible to the Federal Minister for Health and Ageing. The role of PHIAC is to monitor and regulate the private health insurance industry with the objectives of:

- fostering an efficient and competitive health insurance industry;
- protecting the interests of consumers; and
- ensuring the prudential robustness of individual registered organisations.

Our Shareholder

Ownership and Shareholder Minister

The Commonwealth of Australia holds all shares in the Company. The responsible Shareholder Minister is the Minister for Finance and Deregulation.

Shareholder Communication

The Shareholder Minister is briefed on a regular basis on the performance of the Group and on any significant financial, operational or strategic issues as they arise.

Under the Commonwealth GBE governance arrangements, a rolling three-year Corporate Plan is submitted annually to the Shareholder Minister. A high level summary of the Corporate 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 CAC Act.

Annual General Meeting

The Shareholder Minister has indicated her intention to waive the requirement to hold an Annual General Meeting for the 2011 financial year. Accordingly, an Annual General Meeting will not be held in 2011.

Board of Directors

Role and Responsibilities

The Board of Directors is responsible for the overall corporate governance and the successful operation of the Group and it is accountable to the Shareholder Minister.

In carrying out its governance role, the Board must also ensure that the Group complies with all of its contractual, statutory and other legal obligations, including the requirements of all applicable regulatory bodies.

The powers and duties of the Board are specified in the Constitution of Medibank Private, the Corporations Act 2001 (Cth), and other relevant legislation and law. The Corporate Governance Section of the Group's website links to a document which addresses ASX Recommendation 1.1 – Companies should establish functions reserved for the Board.

Key accountabilities and matters reserved for the Board include:

- with involvement of the Managing Director setting and reviewing objectives, goals and strategic direction, and assessing performance against these benchmarks;
- ensuring the Group 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 Group 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 Group as a whole. The Chairman is responsible for representing the Board to the Shareholder.

The Company Secretary is appointed by the Board in consultation with the Managing Director 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 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. Medibank Private's Non-Executive Directors comprise four women and three men.

Details of the Directors and Company Secretary, including names and qualifications are included in the Directors' Report, together with Directors' remuneration.

Directors are appointed by the Shareholder Minister in accordance with the Company's Constitution and GBE Guidelines. Current practice generally is for terms of appointment to be of three years duration and reappointment is permissible.

The term of a director, Prof. Just Stoelwinder, expired on 30 June 2011.

Subsidiaries

The activities of each subsidiary in the Group are overseen by their own Board of Directors. These Boards comprise senior management personnel of the Medibank Private Group or Directors of Medibank Private Limited.

Director Induction and Education

Medibank Private has an induction program for new Directors, which is reviewed periodically by the Human Resources Committee.

Directors are provided with detailed briefings by management on corporate strategy and current issues affecting the Group, the private health insurance industry and the health services industry matters generally.

All Directors are provided opportunities to visit retail and customer service centres and clinics and to meet with employees and key providers of health services.

In order to achieve continuing improvement in Board performance, all Directors have access to professional development opportunities. Specifically, Directors are provided with the resources and training to enhance skills that benefit Board performance.

Conflicts of Interest

Directors must keep the Board advised on an ongoing basis of any interest that could potentially conflict with those of the Group.

Each Director is obliged to notify the other Directors of any material personal interest that he or she may have in a matter that relates to the affairs of the Group (subject to certain exceptions specified in the Corporations Act 2001 (Cth)).

Directors who may have, or may be perceived to have, a material personal interest in a matter before the Board, do not participate in discussions and abstain from voting on that matter, and do not receive the relevant Board papers.

Fit and Proper

The Company has a policy and effective procedures in place to ensure that individuals appointed to and holding responsible senior positions are fit and proper to undertake their prudential responsibilities.

A fit and proper assessment, in accordance with the Company's Fit and Proper policy, is conducted prior to a person being appointed into a Responsible Person position and is reassessed on an annual basis while that person remains holding a Responsible Person position.

The assessment consists of an attestation by the individual together with an assessment by either the full Board in relation to the Chairman, the Chairman in relation to a Director and the Managing Director for Group Executive and Senior Managers. The Company undertakes any necessary and relevant investigations to verify the information provided in the attestations including where considered appropriate or desirable referee checks, police checks and searches of appropriate registers. Each assessment is conducted against a set of documented character and competence assessment criteria.

The Policy includes a process for dealing with and reporting breaches of the Policy, together with the protection of whistleblowers.

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 Group information and to the Group's management.

Director Remuneration

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

Details of Directors' remuneration are included in the Directors' Report.

Director Dealings in Company Shares

As the Commonwealth of Australia holds all shares in Medibank Private, no trading in the Company's shares is possible.

Board Meetings

The Board met eight times during the year.

The agendas for Board meetings are 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

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, its Committees and the Directors. A formal, independently facilitated review was conducted for the 2010 calendar year and an informal review will be conducted for the 2011 calendar year. During the year, the Board regularly assessed its performance.

Board Committees

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

- Audit and Risk Management Committee;
- Human Resources Committee;
- Investment Committee;
- Nomination Committee; and
- Health and Business 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 monitor and facilitate detailed discussion on particular issues and other matters as delegated by the Board.

With the exception of the Investment Committee (which has been delegated certain decision making responsibilities), the 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 and Risk Management Committee

There are currently four Non-Executive Directors on the Audit and Risk Management Committee. The Managing Director attends Audit and Risk Management Committee meetings by invitation. The Chairman of this Committee, Ms J Harvey, is an independent Non-Executive Director who is not the Chairman of the Board.

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

Key responsibilities include:

- reviewing the annual financial report;
- monitoring the strategic risks and the risk management process;
- monitoring the activities and performance 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.

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

The External Auditor met with the Audit and Risk Management Committee five times during the year and, on one occasion, without management being present.

The Corporate Governance Section of the company's website links to a document which addresses ASX Guideline 4.3 – Audit and Risk Management Committee Charter.

Human Resources Committee

The Human Resources Committee comprises four Non-Executive Directors. The Managing Director attends Committee meetings by invitation.

The Chairman of the Committee, Ms E Alexander, is an independent Non-Executive Director.

The primary role of the Committee is to review and make recommendations to the Board in relation to the Group's policy for recruitment and remuneration, the Group's performance in relation to health and safety, the performance of the Managing Director and his direct reports on Senior Executive remuneration and Senior Executive succession planning.

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

The Committee Charter recommends that the Committee meet twice a year. The Committee met five times during the year.

Investment Committee

The Investment Committee currently comprises four Non-Executive Directors. The Managing Director attends Committee meetings by invitation. The Chairman of the Committee, Mr P Twyman, is an independent Non-Executive Director.

The primary role of the Committee is to formulate and recommend the investment strategy to the Board and to monitor the effectiveness of that strategy to achieve optimum return relative to risk whilst meeting all prudential capital requirements.

The Committee Charter recommends that the Committee meet three times a year. The Committee met three times during the year.

Nomination Committee

The Nomination Committee comprises five Non-Executive Directors. The Managing Director attends Committee meetings by invitation.

The Chairman of the Committee, Mr P McClintock, is an independent Non-Executive Director.

The primary role of the Committee is to review and make recommendations to the Board in relation to Board performance evaluation, Board composition, appointment, succession planning, recruitment and selection of the Managing Director.

The Committee Charter recommends that the Committee meet as required. The Committee met four times during the year.

The Corporate Governance section of the company's website links to a document which addresses ASX Guideline 2.6 and 8.3 – Nomination Committee Charter.

Health and Business Innovation Committee

The Health and Business Innovation Committee currently comprises three Non-Executive Directors and the Managing Director. The Chairman of the Committee, Dr Cherrell Hirst is an independent Non-Executive Director.

The primary role of the Committee is to review on behalf of the Board strategic initiatives covering health and innovation before they appear in the Corporate Planning process. These initiatives are aimed at improving value to customers.

The Committee Charter recommends that the Committee meet at least three times a year. The Committee met three 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 and the Group. The Australian National Audit Office (ANAO) has contracted with PricewaterhouseCoopers to audit the Company and the Group for the 2011 financial year on behalf of the Auditor-General.

The Group applied audit independence principles in relation to the External Auditors.

The Audit and Risk Management Committee meets with the External Auditor 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;
- review the results and findings of the auditor, the adequacy of accounting and financial controls, and monitor the implementation of any recommendations made; and
- 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;
- segregation of roles and responsibilities;
- 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.

Internal Audit

Internal auditing is an independent objective assurance and consulting activity designed to add value and improve the Group's operations. It helps the Group accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. It operates under a Charter from the Audit and Risk Management Committee that gives it unrestricted access to review all activities. The internal audit function is managed by the Manager Group Assurance who reports directly to the Chair of the Audit and Risk Management Committee.

A risk-based approach is used to develop an annual Internal Audit Plan which is reviewed and approved by the Audit and Risk Management Committee and the Board. All audits are conducted in a manner that conforms to international internal auditing standards. All significant audit reports and a summary of other audit reports are reviewed by the Audit and Risk Management Committee.

Risk Management

The Board has approved a risk management system which is based on the Australian Standard for Risk Management. The system in place includes comprehensive written policies and procedures to measure, monitor and manage risk. Each business unit is responsible for assessing and updating its own risks, including control effectiveness and related mitigation plans. Strategic risks are assessed on a regular basis and the Audit and Risk Management Committee receive reports on the status of these key business risks. The Board reviews and sets annual measures for risk tolerance.

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 Group, including assurance as to the Group's financial condition.

This process supports the Managing Director and Chief Financial Officer's written certification to the Board under ASX Guideline Recommendation 7.3 that the certifications they give to the Board under Section 295A of the Corporations Act (as to the integrity of the Company's Financial Statements) are founded on a sound system of risk management and internal compliance and control that implements the policies adopted by the Board, and that the Group'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 2011, the Managing Director and Chief Financial Officer concluded that, as of 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 and of the Group are in accordance with the Corporations Act 2001 (Cth) and there are reasonable grounds to believe the Group will be able to pay its debts as and when they become due and payable.

Compliance

The Group has established a comprehensive compliance management framework which is based on the Australian Standard for Compliance. The Compliance function supports the organisation in identifying, managing and monitoring its compliance obligations. In addition, the Compliance function conducts reviews in accordance with a Compliance Plan which is reviewed and approved annually by the Audit and Risk Management Committee and the Board.

Ethical Standards

The Group has documented key governance policies and procedures. These include the Group's Purpose, Vision and Behaviours, as well as policy statements on conduct and ethical behaviour, the role of the Board and key Executives, and compliance with statutory and stakeholder reporting obligations. These policies are reviewed on a regular basis.

The Board has approved a Code of Conduct which sets out clearly the ethical standards that are expected of all Directors, managers and employees in their dealings with members, suppliers and each other. Any action or omission that contravenes the Code of Conduct constitutes misconduct and is subject to counselling or disciplinary action appropriate to the circumstances.

All Directors, managers and employees must avoid conflicts as well as the appearance of conflicts between personal interests and the interests of the Group.

The reporting of fraud and other inappropriate activity is encouraged by the Board and management via a formal, confidential reporting system and other internal processes.

These processes ensure that people making a report are protected from any discrimination or intimidation, and are reflected in the Company's Whistleblower policy.

Director's 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 at any time during the financial year, including the period until the date of this report, are as follows.

Current Directors

Paul McClintock AO BA LLB (Sydney), FAICD
(Non-Executive Chairman)

Appointed Chairman from 19 March 2007.
Current term expires 18 March 2013.
Chairman of the Nomination Committee.

Mr McClintock is currently Chairman, Thales Australia Limited and the COAG Reform Council and Director of the European Australian Business Council and Perpetual Limited.

His former positions include Chairman of the Expert Panel of the Low Emissions Technology Demonstration Fund, Intoll Management Limited, Symbion Health Limited, Affinity Health, Ashton Mining, Plutonic Resources and the Woolcock Institute of Medical Research; Director of the Australian Strategic Policy Institute, a Commissioner of the Health Insurance Commission and a member of the Australia-Malaysia Institute Executive Committee.

From July 2000 to March 2003 he was Secretary to Cabinet and Head of the Cabinet Policy Unit in the Australian Government.

Mr McClintock is an honorary fellow of the University of Sydney Faculty of Medicine, and a Life Governor of the Woolcock Institute of Medical Research.

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

Appointed Director from 6 September 2001.
Appointed Managing Director 19 April 2002.
Current term expires 11 December 2011.

Mr Savvides has over 20 years corporate leadership experience in the health care industry and is currently Vice President of the International Federation of Health Plans. He is a Member, Australian Institute for Population Ageing Research and also Member, Business Council of Australia and Chairman of Arrow Leadership Australia Limited.

Mr Savvides was formerly Managing Director of Healthpoint Technologies Limited, Smith+Nephew Pty Ltd, Australasia; Managing Director and CEO, Sigma Co Ltd; General Manager, CIG Healthcare Australia; Chairman, Medicines Partnerships of Australia; and Member, CSIRO Health Sector Advisory Council; and Councillor of the AHIA (Australian Health Insurance Association). He was also Director, World Vision Australia and World Vision International;

Philip J Twyman BSc, MBA, FAICD
(Non-Executive Director)

Appointed Director from 21 September 2007.
Current term expires 20 December 2012.
Chairman of the Investment Committee.

Mr Twyman is currently Chairman of ANZ Lenders Mortgage Insurance Pty Ltd and Swiss Reinsurance Company (Australian Board of Advice) and Director, Perpetual Limited, Swiss Re Life & Health Australia Limited, and Insurance Australia Group Limited (IAG).

Mr Twyman was formerly Director, Insurance Manufacturers of Australia Pty Ltd; Executive Director, Aviva plc and Chairman of Morley Fund Management, both in the UK.

Jane Harvey BCom (Melb), MBA (Melb), FCA, FAICD
(Non-Executive Director)

Appointed Director from 21 September 2007.
Current term expires 20 December 2013.
Chairman of the Audit and Risk Management Committee.

Ms Harvey is currently a Director of IOOF Holdings Limited, Colonial Foundation Trust, Telecommunications Industry Ombudsman and a member of the Advisory Board of the Department of Treasury & Finance (Vic).

Ms Harvey was formerly a Partner at PricewaterhouseCoopers.

Elizabeth Alexander AM BCom, FAICD, FCA, FCPA
(Non-Executive Director)

Appointed Director from 23 October 2008.
Current term expires 22 October 2011.
Chairman of the Human Resources Committee.

Ms Alexander is currently Chairman of CSL Limited and DEXUS Wholesale Property Limited, a Director of DEXUS Property Group, and serves on the Board of the Australian International Health Institute. She is Chancellor of the University of Melbourne and Chairman of the Nossal Institute for Global Health

She is the former Chair of the Australia Prudential Regulatory Authority's Risk and Audit Committee and the Portfolio Audit Committee of the Victoria Department of Education and Early Childhood Development.

She is a former National President of CPA Australia and the Australian Institute of Company Directors, and a former member of the Takeovers Panel.

Leanne Rowe AM MB BS, MD, FRACGP, FAICD
(Non-Executive Director)

Appointed Director from 17 December 2008.
Current term expires 16 December 2011.

Adjunct Associate Professor Rowe has extensive experience across the health sector including working as a rural GP and past Chairman of the Royal Australian College of General Practitioners. She was recently awarded the prestigious Rose Hunt Medal for service to General Practice. She is an expert in primary care and has written on the benefits of healthy lifestyles. She currently serves as Deputy Chancellor of Monash University.

Professor Rowe is a Director, Medical Consulting Victoria; Presiding Member, Medical Panels, Victoria and South Australia; and a Board Member of the Medical Indemnity Protection Society and beyond blue: the national depression initiative.

Cherrell Hirst AO MBBS, BEdSt D, Univ (Hon), FAICD
(Non-Executive Director)

Appointed Director from 16 December 2009.
Current term expires 15 December 2012.
Chairman of the Health and Business Innovation Committee.

Dr Hirst currently holds directorships of Avant Mutual Group, Avant Insurance Limited, Impedimed Ltd, Tissue Therapies Ltd and Xenome Ltd. Additionally Dr Hirst is also Deputy Chair and part time CEO of Queensland Biocapital Funds and was formerly a director of Suncorp-Metway Ltd. Prior to becoming a non-executive Director Dr Hirst practiced medicine for 30 years.

Former Non-Executive Director

The term of Just Stoelwinder MD's directorship expired on 30 June 2011.

Company Secretary

Stephen Harris ACIS, CA

Appointed Company Secretary on 6 July 2007.

Mr Harris has experience in Corporate Governance, Financial Reporting and Policy, Corporate Taxation as well as Assurance and Accounting Services obtained across a range of large Australian and international companies in varied industries.

Directors' Interests

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

Principal Activities

The principal activities of the Group during the financial year were to:

- operate its private health insurance business in accordance with the Private Health Insurance Act 2007 (Cth) and PHIAC regulations;
- operate its health solutions business.

The Company directly or indirectly provides a range of insurance services, such as:

- hospital insurance for private patients;
- ancillary or extras cover;
- private health insurance for overseas students and visitors to Australia;
- life insurance;
- travel insurance; and
- pet insurance.

The latter three under agency agreements with third party providers.

The Group's Health Solutions Division also provides services including:

- health management;
- health triage;
- the operation of dental and eyecare practices;
- occupational rehabilitation; and
- travel health, and

operates in Australia and New Zealand.

Results

The Group's 2010/11 after tax profit was $299,646,000 (2009/10 $305,090,000).

Dividends

Dividends paid to the Shareholder during the financial year were as follows:

	2011 $'000
Final ordinary dividend for the year ended 30 June 2010, paid on 3 December 2010	48,831
Interim ordinary dividend for the six months ended 31 December 2010, paid 15 June 2011	85,552
Special member determined dividend, paid 15 June 2011	300,000

In addition to the dividend above, since the end of the financial year Directors have recommended the payment of a final ordinary dividend of $64,271,000 out of retained earnings at 30 June 2011.

Review Of Operations

A review of the Group'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

On 1 July 2010 a subsidiary of the Company, Medibank Health Solutions Pty Limited (formerly Health Services Australia Pty Limited) acquired 100 percent of the shares in McKesson Asia-Pacific Pty Ltd (subsequently renamed Medibank Health Solutions Telehealth Pty Limited). The acquisition significantly increases the Group's on-line and telephone health management business. Medibank Health Solutions Pty Limited also acquired Carepoint Holdings Pty Ltd on 30 August 2010, further expanding coverage of its occupational health clinics.

Directors' Meetings

The number of meetings of the Board of Directors and Board Committees during the year ended 30 June 2011, and attendance by Directors at those meetings.

Director	Board		Audit and Risk Management Committee		Health and Business Innovation Committee		Investment Committee		Human Resources Committee		Nomination Committee	
	H	A	H	A	H	A	H	A	H	A	H	A
P McClintock	8	8	-	-	-	-	3	3	-	-	4	4
G Savvides	8	8	5	4	3	3	3	3	5	5	-	-
J Stoelwinder	8	7	-	-	3	3	3	3	-	-	4	4
J Harvey	8	8	5	5	-	-	3	3	-	-	4	4
P Twyman	8	7	5	3	-	-	3	3	5	4	4	3
E Alexander	8	8	5	4	-	-	-	-	5	5	4	3
L Rowe	8	8	5	5	3	3	-	-	-	-	-	-
C Hirst	8	8	-	-	3	3	-	-	5	5	-	-

H – Number of meetings held during the time the director held office or was a member of that committee during the year.
A – Number of meetings attended.

Significant Events After The Balance Date

No matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect:

a) the Group's operations in future financial years, or

b) the results of those operations in future financial years, or

c) the Group's state of affairs in future financial years.

Likely Developments And Future Results

Directors anticipate that revenue growth will be sustained in the financial year 2012 despite parts of the business being subject to major contracts renewals and a general level of uncertainty about economic conditions. It is anticipated that further regulation change to the private insurance sector, through legislation to means test the private health insurance rebate, may also slow the rate of revenue growth, as well as potentially impact on margin performance. Following the recent successful acquisitions, focus will be on continuing to develop expanded services to our members and customers.

The Group will continue to invest in streamlining its operational effectiveness and efficiency, in the private health insurance core business by investing in the continuation of the systems renewal program, and implementing continued improvements to its product suite and distribution model, as well as consider ways of developing new service offerings for its members. The Group's Health Solutions Division will complete its restructuring and integration work following the loss of the Job Capacity Assessment work and acquisition activity, and focus on activities generating growth in its health management business through initiatives such as the new GP After Hours service.

During 2011/12, the Group will also explore opportunities that will continue to grow and diversify its business throughout the markets in which it operates.

Investment income will continue to be subject to the effects of the global economic environment and the inherent market volatility, with this risk being managed by implementing an investment strategy consistent with the Group's risk profile.

1. Remuneration Report

This report outlines the remuneration arrangements in place for Directors and Executives of the Group.

Key management personnel have authority and responsibility for planning, directing, and controlling the activities of the Company and the Group. Key management personnel comprise the Directors of the Company and certain Executives of the Company and the Group.

2. Board policy on Remuneration

The Human Resources Committee has recommended, and the Board has adopted, a policy that remuneration will:

- reward Executives for corporate financial and operational performance against targets set by reference to appropriate benchmarks;
- align the interests of the Executives to reward growth in enterprise value;
- link reward with the strategic goals and performance of Medibank Private; and
- ensure total remuneration is competitive by market standards.

Human Resources Committee responsibilities include making recommendations to the Board in relation to:

- The Group's policy for recruitment and remuneration;
- The Group's performance in relation to health and safety;
- The remuneration package for the Managing Director and other senior executives;
- The performance of the Managing Director and his direct reports; and
- The Group's executive management succession and development planning.

Details of the composition and responsibilities of the Committee are set out in the Corporate Governance Statements which are available on the Company's website. The Committee and senior management receive advice on matters relating to remuneration from both internal and external sources.

3. Remuneration Strategy and Structure

Medibank Private operates a strong performance-based approach to remuneration. Our philosophy is to ensure the mix and quantum of remuneration properly reflects the responsibilities and duties of our Executives. The remuneration approach adopted by Medibank Private provides a competitive reward proposition, targeted at attracting, motivating and retaining the most appropriately qualified and experienced individuals.

The Managing Director's fixed remuneration is reviewed annually by the Board and recommendations for adjustment are referred to the Commonwealth Remuneration Tribunal. The Managing Director does not participate in the Long-Term Incentive plan (LTI) or the deferred Short-Term Incentive plan (STI).

The Board has a policy that remuneration packages of Executives include both a fixed component and an at-risk or performance-related component. The Board views the STI as an essential driver of Medibank Private's strong performance based approach to remuneration. The mix between fixed remuneration and at-risk remuneration is designed to provide incentive to Executives, and reflects competitive market conditions for this level of role.

For the Managing Director and other key management personnel who are members of the Group Executive, the STI can deliver a maximum of 60 percent of their fixed remuneration. In setting measures for the STI, the Board aims to balance the focus on generating profit, with the development of sustainable value and improving the customer experience. A quarter of the Group Executive's STI is deferred for payment for a period of two years.

Group Executives (excluding the Managing Director) who were employed at the time of grant in November 2009 were invited to participate in the financial year 2010 LTI from which they can earn a maximum of between 12.5 and 15 percent of fixed remuneration (depending on their role). This was half the previous allocations and was the final allocation under this LTI plan. Existing LTI plans will continue to the scheduled assessment date.

Figure 1 summarises the mix of reward elements for the Non-Executive Directors and senior executives.

Figure 1: Mix of reward elements

	Elements of remuneration	Directors[1] NON-EXECUTIVE	Directors[1] EXECUTIVE (MD)	Group Executives
Fixed Remuneration	CASH SALARY	✗	✓	✓
	CASH FEES	✓	✗	✗
	SUPERANNUATION	✓	✓	✓
	OTHER BENEFITS[2]	✓	✓	✓
Short-Term Incentives	CASH	✗	✓	✓
Long-Term Incentives	CASH	✗	✗	✓[3]
Post Employment	SERVICE AGREEMENTS	✗	✓	✓
	TERMINATION PAYMENTS	✗	✓	✓

[1] *Commonwealth Remuneration Tribunals Juristriction.*

[2] *Includes insurance and the value of fringe benefits.*

[3] *During the 2010 financial year the Board decided to phase out the cash-based LTI with the final assessment occurring at the end of the financial year 2012.*

Figure 2: Key Management Personnel

NAME	CURRENT ROLE	COMMENCED IN ROLE
G Savvides[1]	Managing Director	19 Apr 2002
B Levy[2]	Chief Executive Officer - Private Health Insurance Division	1 Apr 2009
M Sammells	Chief Financial Officer	4 Nov 2005
M Cullen[3]	Group Executive - Medibank Health Solutions	1 July 2010
A Wilson[3]	Group Executive - Strategy and Innovation	1 July 2010

[1] *Commenced in the role as interim, 1 April 2003 appointed permanent. Previously, Non-Executive Board member 6 September 2001 to 18 April 2002.*

[2] *Commenced in role 1 April 2009. Previously Mr Levy was Medibank Private's Chief Operating Officer / Deputy Managing Director.*

[3] *Commenced in role 1 July 2010 following the acquisition of McKesson Asia-Pacific Pty Ltd.*

4. Key Management Personnel*

In addition to the Non-Executive Directors, Figure 2 shows the senior executives who are members of the Group Executive and have been the key management personnel during the financial year and to whom this report applies.

** In 2011 the remuneration of the highest five key management personnel has been disclosed. In the prior year the remuneration of all Group Executives was disclosed.*

5. Executive Remuneration

5.1 Fixed Remuneration

Fixed remuneration comprises cash salary and superannuation contributions. Nominated benefits could also be salary packaged, such as novated car leases and superannuation contributions.

To ensure market competitiveness of fixed remuneration, data is sourced from various surveys and where appropriate, specialist remuneration consultants to provide an objective basis for benchmarking Executive remuneration to a competitive frame of reference. During the financial year 2011 the Human Resources Committee received advice from Guerdon Associates in relation to the remuneration for the Group Executive. In addition, management referred to surveys from the Hay Group during the year to benchmark executive roles to the market.

The Managing Director's fixed remuneration is reviewed annually by the Board and recommendations for adjustment are referred to the Commonwealth Remuneration Tribunal.

In 2008, the Shareholder approved the re-appointment of the Managing Director for a three-year term until 11 December 2011.

The Board has recently approved and recommended to the Shareholder that the Managing Director's contract be extended for a further term.

5. Executive Remuneration continued

5.2 Short-Term Incentive plan (STI) - Summary Table

What is the STI?	An annual cash incentive plan directly linked to specific annual performance targets.
Who participates in the STI?	All Group Executives; this includes the Managing Director.
What are the changes from the financial year 2010 plan?	There were no changes to the structure of the financial year 2010 plan however the measures and weightings did change to reflect the financial and operational focus of Medibank Private in financial year 2011. In addition, the Board increased the percentage of part of the incentive payment which is deferred.
Are there changes for financial year 2012?	During the financial year 2011 the board commissioned a report by Guerdon Associates regarding Executive Remuneration. The board is currently considering these recommendations and some changes to the structure and measurement of the 2012 plan may result.
How much of the STI payment is deferred?	For the financial year 2011, 25 percent of the STI payment to senior executives (excluding the Managing Director) will be deferred for a period of two years. The deferred payment will be forfeited if the executive resigns, or is terminated with cause, prior to the payment date. In the event the executive employment is terminated by the Company for reasons other than those above, they will receive any amount earned and deferred from previous years in accordance with the scheme.
Why does the Board consider the STI an appropriate incentive?	The STI is designed to put a significant proportion of Executive total remuneration at-risk against meeting targets linked to Medibank Private's annual business objectives contained in the Corporate Plan which is approved annually by the Shareholder.
Who assesses the performance of Group Executives?	The Managing Director assesses the performance of Group Executives at the end of each financial year and submits the results of his evaluation to the Board for approval.
Who assesses the performance of the Managing Director?	The Board agrees the Managing Director's targets at the beginning of each financial year and assesses his performance against those targets at the end of the financial year, having conferred with the Human Resources Committee.
What are the performance conditions?	The performance conditions comprise financial and non-financial targets. In setting the performance conditions the Board considers the balance between the expected behaviours that the plan will drive versus the management of risk and reward within the business.
Why were these conditions chosen?	The targets are set in line with Medibank Private's Annual Business Plan and three year rolling Corporate Plan.

Are both target and stretch performance conditions imposed?	Yes. The STI and the performance conditions set under the STI have been designed to motivate and reward high performance. Where all targets are achieved the payment is 30 percent of Fixed Remuneration. If performance exceeds the challenging targets, the STI provides additional reward on a linear scale for achievement of stretch performance. The maximum payment is 60 percent of Fixed Remuneration.
How well were the performance conditions met in the 2011 financial year?	Details of performance are provided in Section 6 of this report.

5.3 Long-Term Incentive plan (LTI) - Summary Table

What is the LTI?	The LTI is a cash-based incentive component of remuneration for Group Executives who, at the time of allocation, were able to influence and have a direct impact on longer term company performance. The LTI was introduced in the financial year 2007. During the financial year 2010 the Board reviewed the current LTI and decided it would be phased out. The last grant was made in the financial year 2010, with the final test period at the end of the financial year 2012.
Who participates in the LTI?	Members of the Group Executive (excluding the Managing Director) at the date of allocation were eligible to participate subject to an invitation from the Board.
Why has the Board decided to phase out the LTI?	During the financial year 2010 the Board conducted a review of the executive remuneration strategy. The Board decided that the STI, with the introduction of a deferred element, was the appropriate reward focus for senior executives as this provides direct linkage with company performance and provides an appropriate retention mechanism.
What are the key features of the LTI?	The Board at its absolute discretion notified participants of their eligibility to participate in the LTI. Participants were notified of the potential award amounts for both on-target and maximum performance for which they may become entitled; the applicable period over which performance will be measured; and the performance conditions that must be satisfied before an award vests (which only occurs upon the Board's assessment that performance conditions have been met). Where a participant ceases to be an employee of Medibank Private, unless the Board determines otherwise, all unvested awards held by an Executive lapse.
What is the performance measurement testing period?	The grants for the financial years 2009 and 2010 each have a measurement period of three financial years, which includes the year in which the grant has been made.
What are the performance measures?	All plans include private health insurance market share and Return on Capital measures. For the financial year 2010 plan an additional measure of delivery of the IT Roadmap was included. Further details are provided in Section 6 of this report.
How well were the performance conditions met for the financial year 2009 plan?	Details of performance are provided in Section 6 of this report.

6. Company Performance – the link to reward

The Board's policy is that there should be an alignment between executive reward and Company performance. Therefore, the entire at-risk component of Executive remuneration is tied to the performance of the Executive and the organisation.

6.1 Company Financial Performance

The following table provides details of the financial performance of the Group over the past five years, which reflect an increase in performance over the longer term. From 1 October 2009 the status of Medibank Private changed to a "for profit" entity which now pays both tax to the Government and dividends to its shareholder.

MEASURE/ FINANCIAL YEAR	2007 $M	2008 $M	2009[1] $M	2010[2] $M	2011[3] $M
Revenue	3,079	3,391	3,917	4,579	5,009
Operating Profit Before Tax[4]	153	200	153	245	280
Profit Before Tax	295	187	94	380	428
Total Dividends Paid	-	-	-	33	434

[1] *Medibank Private acquired Medibank Health Solutions Pty Limited and ahm during the financial year 2009.*

[2] *Medibank Private became a "for profit" entity and commenced paying a dividend to the Shareholder.*

[3] *Medibank Private acquired McKesson Asia-Pacific Pty Ltd on 1 July 2010.*

[4] *Excludes investment performance, amortisation on acquired intangibles and impairment of goodwill.*

6.2 Short-Term Incentive plan

The Short-Term Incentive plan includes measures tied to a number of key performance objectives. Measures (both target and stretch) are set annually, covering corporate, financial and more direct operational performance targets. The mix and weighting of measures may vary annually, depending on the focus of the organisation for the coming financial year. These are cascaded to individual Executives participating in the plan. For this year, these included: financial results, customer, operational, integration and people measures. An annual performance contract is struck with each Executive, incorporating measures set and agreed to by the Board.

For the financial year 2011 the stretch performance targets for the financial, customer, operational, transformational and people measures were achieved.

The following table represents the average percentage of the maximum STI which has been paid to Key Management Personal over the past five years:

FINANCIAL YEAR	2007	2008	2009	2010	2011
STI Received	96.7%	81.7%	93.8%	90.3%	77.8%

6.3 Long-Term Incentive plan

Medibank Private has operated a cash based LTI plan since the financial year 2007. The financial year 2009 Plan is based on two measures:

- Market share; and
- Return on Capital.

Achievement of these measures was tested over the three years to 30 June 2011.

The board has approved payment for this plan at 40 percent of the maximum payment. LTI payments are included in table 9.1 under Long-Term Other.

6.4 Remuneration Mix for Senior Executives

The following table summarises the mix between fixed and performance based remuneration for the senior executives for financial year 2011 based on achievement of target performance:

NAME	FIXED REMUNER-ATION	SHORT TERM INCENTIVE	LONG TERM INCENTIVE	TOTAL
G Sawvides	76.9%	23.1%	-	100%
B Levy	69.0%	20.7%	10.3%	100%
M Sammells	70.1%	21.1%	8.8%	100%
M Cullen	76.9%	23.1%	-	100%
A Wilson	76.9%	23.1%	-	100%

7. Executive Service Agreements

Terms of employment (including all components of remuneration) for the Managing Director and Group Executives are formalised in individual employment contracts. Specific information relating to the terms of the service agreements contained within these contracts is set out in section 7.2.

7.1 Post-employment

Key Executives have been engaged under the terms of service agreements that act as a form of retention mechanism. Payable upon cessation of employment, the agreement provides compensation for constraints regarding working for a competitor for up to six months.

Termination arrangements were put in place to protect Medibank Private against the possible flight risk of some key Executives in the lead up to the previous government's proposal for an IPO of Medibank Private. These were fixed at six months of an Executive's Total Fixed Remuneration, but can be 12 months (if the Executive's employment is terminated due to a change in control). These arrangements are still in place.

7.2 Summary of specific terms

NAME	NOTICE PERIOD BY MEDIBANK PRIVATE	NOTICE PERIOD BY EXECUTIVE	NORMAL TERMINATION PAYMENT	MAXIMUM TERMINATION PAYMENT
G Savvides	6 months[1]	3 months	6 months	15 months[2]
B Levy	6 months	3 months	6 months	12 months[3]
M Sammells	6 months	3 months	6 months	12 months[3]
M Cullen	6 months	6 months	6 months	6 months
A Wilson	6 months	6 months	6 months	6 months

[1] *Minimum notice period for G. Savvides is six months, with a maximum of 12 months.*

[2] *The maximum payment includes the Board's discretion to award an additional nine months payment to G. Savvides in the event of termination resulting from a change in control, the aggregate payment in this circumstance cannot exceed 15 months.*

[3] *The maximum payment includes an additional six months due to redundancy resulting from a change in control.*

7.3 Other Payments

With the acquisition of McKesson Asia-Pacific Pty Ltd, Dr Cullen and Dr Wilson, formally joint CEOs of McKesson, joined Medibank Private as Group Executive - Medibank Health Solutions and Group Executive - Strategy & Innovation respectively. Dr Cullen and Dr Wilson have extensive experience in the health solutions sector and were the original founders of the McKesson business in Australia and New Zealand. Dr Cullen and Dr Wilson are important to achieve the synergy and integration objectives arising from the acquisition, therefore, to secure their transition to employment with Medibank Private, each received a payment of $500,000 on the completion of the McKesson acquisition and their commencement with Medibank Private.

The acquisition of McKesson provides Medibank Private with new revenue streams and an expanded client base. To maintain the focus through the two years following the acquisition, Dr Cullen and Dr Wilson are participating in a commission plan based on achieving pre-determined revenue targets. Payments are based on monthly revenue achievement with a maximum payment of $200,000 per annum.

Details of the above payments are included in the table on page 55 under Other Payments.

The integration of McKesson and leveraging of the expanded capabilities of the Group are important factors in maximising the investment return for the acquisition. In acknowledging the value Dr Cullen and Dr Wilson will provide in maximising the value of the acquisition, they will receive certain retention payments if they remain employed by Medibank until 30 June 2013. They will only become entitled to the retention payments if they are still employed when they become eligible for the payment.

8. Non-Executive Remuneration

Non-Executive Directors' fees, including committee fees, are set by the Commonwealth Remuneration Tribunal. The level of fees is not set with reference to measures of Company performance.

As determined by the Commonwealth Remuneration Tribunal, Non-Executive Directors' fees were increased by 3.7 percent with effect from 1 October 2010. The Chairman received an annual fee of $117,816 and other Non-Executive Directors received a fee of $58,957 per annum from that date.

In addition, Directors who sit on the Audit and Risk Management Committee received an additional fee. The fee for the Chair of the Audit and Risk Management Committee is $13,793 per annum and members of Audit and Risk Management Committee receive $6,897 per annum.

Directors are entitled to life insurance cover and may purchase private health insurance and other insurance products on the same terms as employees. Compulsory statutory superannuation contributions are also made.

Details of Non-Executive Directors' remuneration for the financial year are set out in the following table:

30 June 2011	Directors Fees[a] $	Audit and Risk Management Committee $	Non Monetary Benefits[b] $	Superannuation Benefits[c] $	Total Remuneration $
Non-Executive Directors					
P McClintock (Chairman)	117,816	-	3,507	10,603	131,926
J Stoelwinder	58,957	-	9,758	5,306	74,021
J Harvey	58,957	13,793	2,791	6,548	82,089
P Twyman	58,957	6,897	1,490	5,927	73,271
E Alexander	58,957	6,897	900	5,927	72,681
L Rowe	58,957	6,897	2,981	5,927	74,762
C Hirst	58,957	-	341	5,306	64,604
Total Non-Executive Director Remuneration	471,558	34,484	21,768	45,544	573,354

30 June 2010	Directors Fees[a] $	Audit and Risk Management Committee $	Non Monetary Benefits[b] $	Superannuation Benefits[c] $	Total Remuneration $
Non-Executive Directors					
P McClintock (Chairman)	112,749	-	1,496	10,147	124,392
J Stoelwinder	56,413	-	2,255	5,077	63,745
J Bowen	19,892	2,326	3,384	2,000	27,602
J Harvey	56,413	13,195	1,719	6,265	77,592
P Twyman	56,413	6,598	1,738	5,671	70,420
E Alexander	56,413	6,598	871	5,671	69,553
L Rowe	56,413	1,023	1,999	5,169	64,604
C Hirst	29,742	-	28	2,677	32,447
Total Non-Executive Director Remuneration	444,448	29,740	13,490	42,677	530,355

(a) Represents actual directors fees paid during the financial year.
(b) Non Monetary Benefits include death, total and permanent disablement, salary continuance, subsidised health insurance and fringe benefits.
(c) Compulsory superannuation contributions made on behalf of non-executive directors to satisfy the Company's obligations under applicable Superannuation Guarantee Charge legislation.

9. Details of Remuneration

9.1 Directors' and Group Executives' remuneration

Details of each element of remuneration for the Key Management Personnel (as defined in *AASB 124 Related party Disclosures*), which includes the Directors, specified members of the Group Executives and the five highest paid executives of the group, are included in the table below:

	Short-Term				Post Employment	Long-Term	
30 June 2011	Salary & Fees[b]	STI[c]	Other Payments[d]	Non Monetary Benefits[e]	Super-annuation	Other [c, f, g]	Total Remuneration
	$	$	$	$	$	$	$
Current Directors[a]							
P McClintock (Chairman)	117,816	-	-	3,507	10,603	-	131,926
J Stoelwinder	58,957	-	-	9,758	5,306	-	74,021
J Harvey	72,750	-	-	2,791	6,548	-	82,089
P Twyman	65,854	-	-	1,490	5,927	-	73,271
E Alexander	65,854	-	-	900	5,927	-	72,681
L Rowe	65,854	-	-	2,981	5,927	-	74,762
C Hirst	58,957	-	-	341	5,306	-	64,604
Total Director Remuneration	506,042	-	-	21,768	45,544	-	573,354
Current Executives							
G Savvides (Managing Director)	743,777	428,108	-	36,347	48,968	18,743	1,275,943
B Levy	606,828	224,654	-	25,230	52,813	98,177	1,007,702
M Sammells	506,281	204,855	-	15,162	43,587	74,350	844,235
A Wilson	367,811	232,388	697,131	4,174	34,477	21,645	1,357,626
M Cullen	400,119	232,388	697,131	6,795	34,477	21,583	1,392,493
Total Current Executive Remuneration	2,624,816	1,322,393	1,394,262	87,708	214,322	234,498	5,877,999

[a] *Directors comprise all those who acted at any time during the reporting period.*
[b] *Salary of Executives includes accruals for annual leave.*
[c] *STI and LTI includes Superannuation when paid.*
[d] *Includes payment made on commencement of employment and annual commission payments.*
[e] *Non Monetary Benefits include death, total and permanent disablement, salary continuance, subsidised health insurance and fringe benefits.*
[f] *Long-Term Other comprises accrual for long service leave and Long-Term Incentive plan.*
[g] *The amount of LTI paid represents 60 percent of the maximum LTI available.*

9. Details of Remuneration continued

9.1 Directors' and Group Executives' remuneration continued

Details of each element of remuneration for Directors and Group Executives are included in the table below:

	Short-Term				Post Employment	Long -Term	
30 June 2010	Salary & Fees[b] $	STI[f] $	Other Payments $	Non Monetary Benefits[c] $	Super-annuation $	Other [d, f, g] $	Total Remuneration $
Current Directors[a]							
P McClintock (Chairman)	112,749	-	-	1,496	10,147	-	124,392
J Stoelwinder	56,413	-	-	2,255	5,077	-	63,745
J Harvey	69,608	-	-	1,719	6,265	-	77,592
P Twyman	63,011	-	-	1,738	5,671	-	70,420
E Alexander	63,011	-	-	871	5,671	-	69,553
L Rowe	57,436	-	-	1,999	5,169	-	64,604
C Hirst[e]	29,742	-	-	28	2,677	-	32,447
Total Director Remuneration	451,970	-	-	10,106	40,677	-	502,753
Former Directors							
J Bowen[e]	22,218	-	-	3,384	2,000	-	27,602
Total Former Director Remuneration	22,218	-	-	3,384	2,000	-	27,602
Current Executives							
G Savvides (Managing Director)	739,022	412,801	-	17,081	51,439	46,294	1,266,637
B Levy	548,146	318,530	-	13,850	51,118	168,268	1,099,912
M Sammells	476,466	270,459	-	9,932	41,278	128,421	926,556
T Snyders	346,514	201,321	-	10,811	30,442	83,585	672,673
S Macionis	347,948	194,775	-	5,935	29,727	2,290	580,675
I Charles[e]	142,413	78,208	-	3,980	12,274	896	237,771
Total Current Executive Remuneration	2,600,509	1,476,094	-	61,589	216,278	429,754	4,784,224
Former Executives							
H Parkinson[e]	134,209	-	-	6,110	14,106	(19,490)	134,935
Total Former Executive Remuneration	134,209	-	-	6,110	14,106	(19,490)	134,935

[a] *Directors comprise all those who acted at any time during the reporting period.*
[b] *Salary of Executives includes accruals for annual leave.*
[c] *Non Monetary Benefits include death, total and permanent disablement, salary continuance, subsidised health insurance and fringe benefits.*
[d] *Long-Term Other comprises accrual for long service leave and Long-Term Incentive plan.*
[e] *Remuneration to C Hirst, J Bowen, I Charles, and H Parkinson relate to the period in which they were a Key Management Person only.*
[f] *STI and LTI includes Superannuation when paid.*
[g] *The amount of LTI paid represents 80 percent of the maximum LTI available.*

9.2 Managing Director and Group Executives' STI

Details relating to the Managing Director and Group Executives' STI paid are set out in the table below:

30 June 2011	Actual STI Payment[a]	STI Paid as % of Maximum STI	STI Not Paid as % of Maximum STI	% of Maximum STI Deferred
Current Managing Director				
G Savvides	428,108	88.0%	12.0%	-
Current Group Executives				
B Levy	224,654	59.3%	40.7%	25.0%
M Sammells	204,855	64.3%	35.7%	25.0%
A Wilson	232,388	88.8%	11.2%	25.0%
M Cullen	232,388	88.8%	11.2%	25.0%

[a] *STI constitutes a cash incentive earned during the 2011 Financial Year and the non-deferred portion is expected to be paid in September 2011.*

30 June 2010	Actual STI Payment[a]	STI Paid as % of Maximum STI	STI Not Paid as % of Maximum STI	% of Maximum STI Deferred
Current Managing Director				
G Savvides	412,801	88.3%	11.7%	-
Current Group Executives				
B Levy	318,530	88.3%	11.7%	16.67%
M Sammells	270,459	88.3%	11.7%	16.67%

[a] *STI constitutes a cash incentive earned during the 2010 Financial Year and the non-deferred portion was paid in September 2010.*

9.3 Group Executive Long-Term Incentive

Details of the payments to the members of the Group Executive who participated in the financial year 2009 Long-Term Incentive plan are set out in the table below:

NAME	ACTUAL LTI PAID	LTI PAID AS A % OF MAXIMUM	LTI FORFEITED AS A % OF MAXIMUM
B Levy	$75,726	40%	60%
M Sammells	$53,071	40%	60%

The following table provides the details of remaining long term incentive plan grants:

	FY2010	
	% OF FIXED REMUNERATION AT MAXIMUM	PERFORMANCE PERIOD ENDS (2012)
B Levy	15.0%	30 June
M Sammells	12.5%	30 June

Indemnification of Directors and Officers

A Deed of Indemnity, Access and Insurance has been entered into between Medibank Private and each of its Directors. Under the deed, Medibank Private agrees to indemnify out of the property of Medibank Private each Director against any liability the Director may incur to another person (other than Medibank Private or a related body corporate) as a Director of Medibank Private.

A Director is not indemnified in respect of any liability arising out of conduct involving a lack of good faith. There have been no claims made pursuant to the deed.

Article 66.1 of Medibank Private's constitution provides that Medibank Private indemnifies each officer of Medibank Private against any liability incurred in his or her capacity as an officer of Medibank Private (other than a liability to Medibank Private itself or a related body corporate) unless liability arises out of conduct on the part of the officer which involves a lack of good faith.

Medibank Private paid a premium in respect of insurance covering each of the Directors, Secretaries and Executive Officers of the Group 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.

Rounding

Medibank Private is a Company of the kind specified in Australian Securities and Investment Commission class order 98/100. In accordance with that class order, amounts in the financial statements and the Directors' Report have been rounded to the nearest thousand dollars, or in certain cases, to the nearest dollar unless specifically stated to be otherwise.

Environmental Issues

The Group's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

Auditor Independence

A copy of the Auditor's independence declaration as required by section 307C of the Corporations Act 2001 is set out on the following page.

Resolution of Directors

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

Paul McClintock AO
Chairman

George Savvides
Managing Director

Melbourne, 29 August 2011

Audit-in-Confidence

Australian National Audit Office

MEDIBANK PRIVATE LTD
FINANCIAL REPORT 2010-11
AUDITOR'S INDEPENDENCE DECLARATION

In relation to my audit of the financial report of the Medibank Private Ltd and its consolidated entities, for the year ended 30 June 2011, 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

Ian Goodwin
Group Executive Director
Delegate of the Auditor-General

Canberra
25 August 2011

Audit-in-Confidence

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT 2600
Phone (02) 6203 7300 Fax (02) 6203 7777

Income Statement

For the financial year ended 30 June 2011

	Note	Consolidated 2011 $'000	Consolidated 2010 $'000
Revenue			
Private health insurance premium revenue	4(a)	4,737,792	4,416,668
Health solutions revenue		258,397	168,449
Other		12,520	9,186
		5,008,709	4,594,303
Expenses			
Claims expense	4(a)	(3,965,233)	(3,745,822)
Employee benefits expense		(377,887)	(280,961)
Office and administration expense		(108,412)	(90,462)
Marketing expense		(88,006)	(56,333)
Information technology expense		(54,310)	(48,560)
Professional service expense		(58,586)	(48,494)
Lease expense	4(b)	(29,555)	(30,943)
Depreciation and software amortisation expense	4(c)	(35,654)	(32,474)
Other expenses		(11,211)	(11,521)
		(4,728,854)	(4,345,570)
Operating profit		279,855	248,733
Investment and other income/(expense)			
Investment income	4(d)	166,028	139,029
Investment expense	4(e)	(4,477)	(4,201)
Other income/ (expense)	4(f)	(3,055)	1,314
Amortisation of acquisition intangibles	4(g)	(9,932)	(4,862)
Total investment and other income/(expense)		148,564	131,280
Profit for the year before income tax		428,419	380,013
Income tax expense	5(a)	(128,773)	(74,923)
Profit for the year		299,646	305,090

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

Statement of Comprehensive Income

For the financial year ended 30 June 2011

	Consolidated 2011 $'000	2010 $'000
Profit for the year	299,646	305,090
Other comprehensive income, net of tax		
Initial recognition of deferred tax balances	-	7,295
Revaluation of land & buildings	64	402
Actuarial (loss)/ gain on retirement benefit obligation	(10)	(285)
Exchange differences on translation of foreign operations	(93)	-
	(39)	7,412
Total comprehensive income for the year	299,607	312,502

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

Balance Sheet

As at 30 June 2011

	Note	Consolidated 2011 $'000	2010 $'000
Current assets			
Cash and cash equivalents	6	647,357	1,256,425
Trade and other receivables	7	232,493	187,078
Inventories	8	1,418	1,307
Investments	9	1,536,076	1,122,232
Other assets	10	11,781	6,041
Total current assets		2,429,125	2,573,083
Non-current assets			
Property, plant and equipment	11	83,678	78,776
Deferred tax assets	12	42,041	38,462
Intangible assets	13	348,497	210,063
Other assets	10	293	246
Total non-current assets		474,509	327,547
Total assets		2,903,634	2,900,630
Current liabilities			
Trade and other payables	14	704,586	613,009
Financial liabilities at fair value through profit or loss	15	2,265	6,033
Claims liabilities	16(a)	351,702	372,861
Tax liability		123,607	86,123
Provisions	17	50,621	40,105
Total current liabilities		1,232,781	1,118,131
Non-current liabilities			
Trade and other payables	14	24,424	8,896
Claims liabilities	16(a)	18,790	27,416
Deferred tax liabilities	18	18,487	7,120
Provisions	17	23,941	19,080
Total non-current liabilities		85,642	62,512
Total liabilities		1,318,423	1,180,643
Net assets		1,585,211	1,719,987
Equity			
Contributed equity	19	85,000	85,000
Reserves	20	18,192	18,221
Retained earnings	21	1,482,019	1,616,766
Total equity		1,585,211	1,719,987

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

Statement of Changes in Equity

For the financial year ended 30 June 2011

Consolidated	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2009	85,000	17,819	1,337,510	1,440,329
Profit for the year	-	-	305,090	305,090
Other comprehensive income	-	402	7,010	7,412
Total comprehensive income for the year	-	402	312,100	312,502
Transactions with owners in their capacity as owners:				
Dividends paid	-	-	(32,844)	(32,844)
Balance at 30 June 2010	85,000	18,221	1,616,766	1,719,987
Profit for the year	-	-	299,646	299,646
Other comprehensive income	-	(29)	(10)	(39)
Total comprehensive income for the year	-	(29)	299,636	299,607
Transactions with owners in their capacity as owners:				
Dividends paid	-	-	(434,383)	(434,383)
Balance at 30 June 2011	85,000	18,192	1,482,019	1,585,211

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

Statement of Cash Flows

For the financial year ended 30 June 2011

	Note	Consolidated 2011 $'000	Consolidated 2010 $'000
Cash flows from operating activities			
Premium receipts		4,774,439	4,411,651
Health Solutions receipts		251,374	165,591
Other receipts		13,591	10,203
Payments for claims and levies		(3,989,419)	(3,788,707)
Payments to suppliers and employees		(698,718)	(568,679)
Income taxes paid		(87,827)	(10,012)
Dividends paid		(434,383)	(32,844)
Net cash (outflow)/inflow from operating activities	31	(170,943)	187,203
Cash flows from investing activities			
Payment for purchase of subsidiaries, net of cash acquired	25(b)	(139,011)	-
Interest received		96,267	76,084
Investment expenses		(4,477)	(4,105)
Proceeds from sale of financial assets		365,524	550,267
Purchase of financial assets		(708,865)	(496,749)
Proceeds from sale of plant and equipment		136	255
Purchase of plant and equipment		(19,625)	(9,852)
Purchase of intangible assets		(28,074)	(22,212)
Net cash inflow/(outflow) from investing activities		(438,125)	93,688
Net (decrease)/increase in cash and cash equivalents		(609,068)	280,891
Cash and cash equivalents at beginning of period		1,256,425	975,534
Cash and cash equivalents at end of period	6	647,357	1,256,425

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

Notes to the Financial Statements

Note 1: Summary of significant accounting policies

The financial statements of Medibank Private Limited ("Medibank Private" or "the Company") for the financial year ended 30 June 2011 ("2011") were authorised for issue in accordance with a resolution of the directors on 29 August 2011. Medibank Private is an unlisted public company incorporated in Australia. It is a company limited by shares and is wholly-owned by the Commonwealth of Australia.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Medibank Private and its subsidiaries.

a) Basis of preparation

These general-purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

The consolidated financial statements of the Medibank Private group ("the Group") also comply with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Group has elected to apply the following pronouncements to the annual reporting period beginning 1 July 2010:

- AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*

This includes applying the revised pronouncement to the comparatives in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. None of the items in the financial statements had to be restated as the result of applying this standard.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss, land and buildings, intangibles, and claims liabilities.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Medibank Private (''parent entity'') as at 30 June 2011 and the results of all subsidiaries for the year then ended. Medibank Private and its subsidiaries together are referred to in this financial report as the Group or the Consolidated Entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to Note 1(k)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

c) Segment reporting

AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 require segment information to be reported based on the information that is provided internally to the chief operating decision maker. The standards are applicable to annual reporting periods beginning on or after 1 January 2009. These standards apply to for-profit entities whose debt or equity instruments are traded in a public market or that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market. As the Group does not fall under this definition, segment information is not required.

The Group carries out business primarily in the provision of private health insurance and health services. The Group operates within Australia, New Zealand and the United Kingdom.

d) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Medibank Private's functional and presentation currency.

Note 1: Summary of significant accounting policies continued

d) Foreign currency translation continued

Foreign currency transactions are translated into Australian currency at the rates of exchange prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are attributable to part of the net investment in a foreign operation.

Net foreign exchange gains or losses are presented in the income statement within investment income or investment expense.

The Group entered into derivative contracts in the financial year including foreign exchange forward and swap contracts. These transactions are used to minimise exposure as per the protection strategy on financial assets at fair value through profit or loss as outlined in Note 1(p).

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transaction), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment repaid, a proportionate share of such exchange difference is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, trade rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

Revenue is recognised for the major business activities as follows:

(i) Private health insurance premium revenue (premium revenue)

Premium revenue comprises premiums received inclusive of any Commonwealth of Australia Government Rebate.

Premium revenue is recognised in the income statement from the commencement date of the current period of insurance cover, in accordance with the pattern of the incidence of risk expected to match the seasonality of claims over the term of the insurance cover. Premium revenue includes the movement in the contributions in arrears which is assessed based on the likelihood of collection established from past experience. Premium revenue relating to future financial periods is classified as unearned premium liability in the balance sheet.

The Australian Government provides a rebate in respect of the premium paid for resident private health insurance. The rebate is 30 percent for persons aged under 65, 35 percent for persons aged from 65 to 69, and 40 percent for persons aged 70 and above. For certain categories of policyholders, the premium received by the Group is net of this Government rebate. In such instances, the Group receives the rebate directly from the Government. This rebate is recognised in the income statement as premium revenue. Rebates due from the Government but not received at balance date are recognised as receivables.

(ii) Health solutions revenue

Health solutions revenue includes the provision of face-to-face injury management, rehabilitation, allied health and specialist clinical services (including travel health and dental and eyecare products and services), telephone triage, chronic disease management, web-based health and wellness advice and the provision of clinical decision support software to companies, government and consumers. Revenue from these services is recognised in the period in which the service is provided, having regard to the proportion of completion of the service at the end of each reporting period. The Group recognises as a liability any amounts received for which it has not provided the service at reporting date.

(iii) Investment income

Unit trust distribution income and income arising from investments in direct mandates is recognised when the right to receive is established. Interest income accrues using the effective interest method. Refer to Note 1(p) for details on the measurement of gains and losses on financial assets measured at fair value through profit or loss and derivative financial instruments.

(iv) Sale of non-current assets

The gain or loss on disposal of non-current assets 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).

(v) Travel, pet and life insurance commission

Travel, pet and life insurance commission is recognised as income in the period in which the service is provided based on the commission agreement.

(vi) Dividends

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence, refer to Note 1(p).

f) Claims expense

Claims expense consist of claims paid, changes in claims liabilities, amounts receivable from and payable to the Risk Equalisation Trust Fund, applicable state levies and costs incurred providing dental, optical and health management services.

g) Health insurance contracts acquisition costs

Costs incurred in obtaining and writing private health insurance contracts are expensed directly in the income statement.

h) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in the non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

i) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of each reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Investment allowances

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and the current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

Note 1: Summary of significant accounting policies
continued

j) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (Note 22). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

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.

k) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred and the liabilities incurred. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified as either equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

l) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

m) Cash and cash equivalents

Cash and cash equivalents in the balance sheet are stated at fair value and include cash on hand, short term bank bills, commercial paper, negotiable certificate of deposit, and other short-term highly liquid investments with maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant change in value, as well as restricted funds held in a special purpose fund account.

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes all cash assets as described above, net of outstanding bank overdrafts.

In the year ended 30 June 2010, cash also included restricted funds held in a special purpose fund for future settlement of claims under the Australian Competition and Consumer Commission "Principles of Settlement" agreement.

n) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days, except for premiums in arrears as outlined below. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Objective evidence of impairment for premiums in arrears is 63 days past due. Objective evidence of impairment for trade receivables and sundry debtors is 60 to 90 days past due. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance has been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

o) Inventories

Inventories consist of dental and optical stock and other medical supplies which are valued at the lower of cost and net realisable value. The cost is assigned to individual items of inventories based on the weighted average cost method.

p) Investments and other financial assets

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, trade and other receivables, and held-to-maturity investments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held to maturity, re-evaluates this designation at the end of each reporting period.

i) Assets Backing Insurance Liabilities

Financial assets that back insurance liabilities that 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", have been 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.

The Group has determined that the financial assets attributable to its private health insurance funds (Medibank Private and Australian Health Management), that have a quoted market price in an active market or whose fair value can be reliably measured, are financial assets permitted to be designated as assets backing general insurance liabilities of its private health insurance funds.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in fair value are recognised in the profit or loss and are included in investment income or investment expenses. The fair value of these arrangements is determined using valuation techniques, or market price where available. Valuation techniques include the use of option valuation models and require assumptions regarding inputs such as risk-free rates, strike rates, volatility and term to maturity to be made. Derivatives are carried as assets when their fair value is positive. Derivatives are carried as liabilities when their fair value is negative.

ii) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets.

iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

Recognition and derecognition

Purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Note 1: Summary of significant accounting policies continued

p) Investments and other financial assets continued

Trade and other receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within investment income or investment expenses in the period in which they arise. Dividend income through financial assets at fair value though profit or loss is recognised in profit or loss as part of investment income when the Group's right to receive payments is established. Interest income from these financial assets is included in the investment income. Financial assets that are designated at fair value through profit and loss, consist of externally managed equity trusts and direct mandates, and an internally managed fixed income portfolio (with maturity greater than 90 days).

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date, with the exception of foreign currency positions which are valued at the price sourced from an appropriate external source on the balance sheet date. If quoted market prices are not available, fair values are estimated on the basis of pricing models or other recognised valuation techniques. The assumptions used as inputs into these models include the value of variables such as risk-free rates, volatility, strike rates, time to expiry, credit-default swap levels, and correlations.

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Assets carried at amortised cost

For trade and other receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using and observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

Impairment testing of trade receivables is described in Note 1(n).

(q) Property, plant and equipment

Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated as historical cost less depreciation, 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 of similar items which are significant in total). Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land and buildings are recognised, net of tax, in other comprehensive income and accumulated in reserves in equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same assets are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss.

Assets under construction are not depreciated until in use.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their costs or revalued amounts, net of any residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

Leasehold improvements: - retail centres/clinics - all other improvements	 5 years the lease term
Buildings	40 years
Plant and equipment	3 - 15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(l)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

r) Intangibles

(i) Goodwill

Goodwill is measured as described in Note 1(k). Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(ii) Software

Costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software intangibles. Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis over periods generally ranging from 2.5 to 5 years, the only exception being certain software acquired as part of the acquisition of Medibank Health Solutions Telehealth Pty Ltd which is amortised over 10 years.

(iii) Customer contracts and relationships

Customer contracts and relationships acquired as part of a business combination are recognised separately from goodwill. The customer contracts and relationships are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation of customer contracts and relationships is calculated on a straight-line basis over the expected useful lives, which range from 10 to 12 years.

(iv) Research and development

Research expenditure is recognised as an expensed as incurred. Costs incurred on development projects (relating to the design and testing of new systems or services) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from 3 to 5 years.

s) Net Risk Equalisation Trust Fund levies

Under the provisions of the Private Health Insurance legislation, all private health insurers must participate in the Risk Equalisation Trust Fund. Through the Risk Equalisation Trust Fund, all private health insurers share the cost of proportions of the eligible claims of all persons aged 55 years and over, and claims meeting the high cost claim criteria.

The amount payable to or receivable from the Risk Equalisation 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 risk equalisation for unpresented and outstanding claims.

t) Claims liabilities and unexpired risk liability

(i) Claims liabilities

The liability for outstanding claims provides for claims received but not assessed and claims incurred but not received. The liability is based on an actuarial assessment taking into account historical patterns of claim incidence and processing. It is measured as the central estimate of the present value of expected future payments arising from claims incurred at the end of each reporting period under insurance cover issued by Medibank Private and Australian Health Management, plus a risk margin reflecting the inherent uncertainty in the central estimate. The expected future payments are discounted to present value using a risk-free rate.

Note 1: Summary of significant accounting policies continued

t) Claims liabilities and unexpired risk liability continued

(i) Claims liabilities continued

The liability also allows for an estimate of claims handling costs, which include internal and external costs incurred in connection with the negotiation and settlement of claims. Claims handling costs comprise all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Medibank Private's PackagePlus product range includes a benefit category, PackageBonus, covering additional health related services. A feature of this benefit category is that any unused PackageBonus in a calendar year is carried forward to future calendar years subject to a maximum limit. Accordingly, 94% (2010: 92%) of the PackageBonus entitlements, less the amount paid in relation to these entitlements, has been included in claims liabilities to reflect the expected future utilisation of this benefit in respect of membership up to 30 June 2011. A risk margin has also been added to reflect the inherent uncertainty in the central estimate.

Medibank Private launched a new product, Ultra Health Cover, which includes a benefit category, Ultra Bonus, covering additional health related services. A feature of this benefit category is that any unused Ultra Bonus in a calendar year is carried forward to future calendar years without limit. Accordingly, 100% (2010: not applicable) of the Ultra Bonus entitlements, less the amount paid in relation to these entitlements, has been included in claims liabilities to reflect the expected future utilisation of this benefit in respect of membership up to 30 June 2011. Since the benefit has been provisioned assuming 100% utilisation, no risk margin has been added to the central estimate.

(ii) Unexpired risk liability

The liability adequacy test is required to be performed to determine whether the insurance liability in respect of unearned premium liability (contributions in advance) and insurance contracts renewable before the next pricing review (constructive obligation) is adequate to cover the present value of expected cash flows relating to future claims arising from rights and obligations under current insurance coverage, plus an additional risk margin to reflect the inherent uncertainty in the central estimate.

The liability adequacy test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs then the unearned premium liability is deemed to be deficient. Liability adequacy testing did not result in any deficiency as at 30 June 2011 and 2010 for Medibank Private and Australian Health Management.

u) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition, except for unearned premium liability. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Unearned premium liability

The proportion of premium received or receivable that has not been earned at the end of each reporting period is recognised in the balance sheet as unearned premium liability. The change in the liability for unearned premiums is taken to the income statement over the term of the insurance cover. Refer also to Note 14 for details of the split between the current and non-current portion of this balance.

v) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

w) Employee entitlements

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employee's services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee entitlements. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee entitlements and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(iii) Bonus plans

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the performance of the employee against targeted and stretch objectives, and the profit of the company. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(iv) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(v) Retirement benefit obligations

All employees of the Group are entitled to benefits from either of the defined benefit superannuation funds (refer to Note 1(x)), Commonwealth Superannuation scheme (CSS), and the Public Sector Superannuation Scheme (PSS) or other funds as nominated by the individual employees. The CSS and PSS are defined benefit schemes for the Australian Government and provide defined lump sum benefits based on years of service and final average salary. All other funds are defined contribution, which receive fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions.

The liability or asset recognised in respect of the defined benefit superannuation plans is presented in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability or asset is reported by the Department of Finance and Deregulation as an administered item.

The Group makes employer contributions to the employees superannuation schemes at rates determined by an actuary to be sufficient to meet the current cost to the Australian Government for the superannuation entitlements of the Group's employees. The Group accounts for the contributions as if they were contributions to defined contribution plans.

Contributions to the defined contribution fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

x) Defined benefit fund

One of the Group's subsidiaries, Australian Health Management makes contributions to two defined benefit superannuation funds that provide defined benefit amounts for employees on retirement. These funds are now closed to new members.

The net obligation in respect of these defined benefit funds is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. The benefit is discounted in order to determine its present value and the fair value of any plan assets is deducted. All actuarial gains and losses are recognised directly in equity.

Management do not consider the net obligation in respect of these defined benefit funds to be material to the Group as at 30 June 2011.

y) Contributed equity

Fully paid ordinary shares are classified as contributed equity.

z) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

Note 1: Summary of significant accounting policies
continued

aa) Goods and Services Taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST component of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

ab) Equity Reserve

The parent entity has previously entered into a restructure of administrative arrangements, which gave rise to an equity reserve (refer Note 20) which represents the difference between the book value of the net assets acquired from Medibank Health Solutions Pty Ltd (formerly Health Services Australia Pty Ltd) and the total purchase consideration.

ac) Rounding of amounts

The Group is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars.

ad) Insurance contracts

Insurance contracts are defined as a contract under which the Group accepts significant insurance risk from another party by agreeing to compensate those insured from the adverse effects of a specified uncertain future event. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect.

Once insurance cover has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period. The Group has determined that all insurance cover provided (excluding those insurance contracts for travel, life and pet insurance where the Group does not act as underwriter) are insurance contracts. The insurance risk assumptions are detailed in Note 2.

ae) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for the Group
AASB 9 and AASB 2009-11	Financial Instruments and Amendments to Australian Accounting Standards arising from AASB 9	All financial assets and liabilities to be recognised at fair value except debt instruments with basic loan features that are managed on a contracted yield basis. The standard is not applicable until 1 January 2013, therefore the Group is unable to assess its full impact. Based on the existing recognition of financial assets, the Group does not expect a material impact.	1 January 2013	1 July 2013
AASB 2009-14	Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement	The amendment permits entities to recognise an asset for a prepayment of contributions made to cover minimum funding requirements. The Group does not make any such prepayments. The amendment is therefore not expected to have any impact on the Group's financial statements.	1 January 2011	1 July 2011
AASB 1053 and AASB 2010-2	Application of Tiers of Australian Accounting Standards and Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements	Introduction of a revised differential reporting framework in Australia. A two-tier reporting framework will apply to all entities preparing general purpose financial statements. Medibank Private is not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the entity.	1 July 2013	1 July 2013

AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets	The amendment introduces additional disclosures in respect of risk exposures arising where entities sell, factor, securitise, lend or otherwise transfer financial assets to other parties. The Group does not make any such transfers. The amendment is therefore not expected to have any impact on the Group's disclosures.	1 July 2011	1 July 2011
Revised AASB 9 and AASB 2010-7	Financial Instruments and Amendments to Australian Accounting Standards arising from AASB 9	Revision to include classification and measurement requirements for financial liabilities, and the recognition and derecognition of financial instruments. The Group is currently evaluating the impact of the revision.	1 January 2013	1 July 2013
AASB 2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets	Amendment introduces a practical approach for measuring deferred tax liabilities and assets when investment property is measured using the fair value model. The Group does not own investment property, therefore the amendment will have no impact on the financial statements of the entity.	1 January 2012	1 July 2012
IFRS 10, IFRS 11, IFRS 12, Revised IAS 27 and IAS 28	Consolidated Financial Statements, Joint Arrangements, Disclosure of Interests in other entities, Separate financial statements and Investments in associates	The objective of these standards is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The Group is currently evaluating the impact of the changes.	1 January 2013	1 July 2013
IFRS 13	Fair Value Measurement	IFRS 13 seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The Group is currently evaluating the impact of the standard.	1 January 2013	1 July 2013
AASB 1054, AASB 2011-1 and AASB 2011-2	Australian Additional Disclosures, Amendments to Australian Accounting Standards rising from the Trans-Tasman Convergence Project and Reduced Disclosures Requirements	The standard sets out the Australian-specific disclosures for entities that have adopted Australian Accounting Standards, it contains disclosure requirements that are additional to IFRSs. The Group is currently evaluating the impact of the additional disclosures.	1 July 2011	1 July 2011
Revised IAS 19	Employee Benefits	The revised standard requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income and the calculation of a net income or expense by applying the discount rate to the net defined benefit liability or asset. A number of additional disclosures could also affect the timing and recognition of termination benefits. Based on its existing defined benefit liabilities/assets the Group does not expect a material impact.	1 January 2013	1 July 2013
AASB 2011-3	Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments	Introduces amendments to AASB 1049 Whole of Government and General Government Sector Financial Reporting, including clarifying the definition of the ABS GFS Manual, facilitating the orderly adoption of changes and related disclosures. The Group is currently evaluating the impact of the changes.	1 July 2012	1 July 2012
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	The amendment removes the individual key management personnel disclosure requirements from AASB 124 Related Party Disclosures. This will reduce the disclosure required in the notes to the financial statements, but it will not affect any amounts recognised in the financial statements.	1 July 2013	1 July 2013

**Application date is for the annual reporting periods beginning on or after the date shown in the above table.*

Notes to the Financial Statements

Note 1: Summary of significant accounting policies
continued

af) Parent entity financial information

The financial information for the parent entity, Medibank Private, disclosed in Note 32 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of Medibank Private.

(ii) Tax consolidation legislation

Medibank Private and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Medibank Private, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Medibank Private also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Medibank Private for any current tax payable assumed and are compensated by Medibank Private for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Medibank Private under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year.

The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Note 2: Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Ultimate liability arising from claims made under insurance coverage

Provision is made for the estimated cost of claims incurred but not settled at balance date.

(i) Insurance risk assumptions

The estimation of outstanding claims liabilities is based largely on the assumption that past claims settlement patterns are an appropriate predictor of expected future claims settlement patterns and involves a variety of actuarial techniques that analyse experience, trends and other relevant factors. The process for establishing the outstanding claims provision involves extensive consultation with internal actuaries, claims managers and other senior management. The process includes monthly internal claims review meetings attended by senior divisional management and the Chief Actuary.

The critical assumption in the determination of the outstanding claims liability is the extent to which claim incidence and development patterns are consistent with past experience.

(ii) Central estimates

The outstanding claims provision comprises the central estimate and a risk margin. The central estimate is an estimate of the level of claims provision that is intended to contain no intentional under or over estimation. The risk margin is added to the central estimate of outstanding claims to achieve a desired probability of adequacy. The outstanding claims provision is discounted at risk-free rates of return to reflect the time value of money.

Central estimates for each class of business are determined based on analysis of historical experience which assumes an underlying pattern of claims development and payment. The final selected central estimates are based on a judgemental consideration of the results and qualitative information.

Central estimates are calculated excluding the impact of the Risk Equalisation Trust Fund. A separate estimate is made of levies payable to and recoveries from the Risk Equalisation Trust Fund.

An overall risk margin is determined after consideration of the uncertainty of the outstanding claims estimate.

The objective for Medibank Private is to achieve at least a 95% probability of sufficiency (2010: 95%). The risk margin applied at 30 June 2011 is 4.9% which equates to $14,338,000 as reflected in Note 16 (a) (2010: 4.5%, $13,435,000).

The objective for Australian Health Management is to achieve at least a 95% probability of sufficiency (2010: 95%). The risk margin applied at 30 June 2011 is 8.3% which equates to $2,548,000 as reflected in Note 16 (a) (2010: 8.2%, $2,886,000).

The calculation of the risk margin has been based on an analysis of the past experience of each Fund of the Group. This analysis examined the volatility of past payments in comparison to the central estimate.

(iii) Financial assumptions used to determine outstanding claims provision

The outstanding claims provision is discounted to net present value using a risk-free rate of return.

The risk-free rate applied to the outstanding claims provision of Medibank Private at 30 June 2011 is 5.03% which equates to $2,095,000 (2010: 4.92%, $2,121,000).

The risk-free rate applied to the outstanding claims provision of Australian Health Management at 30 June 2011 is 5.03% which equates to a discount of $224,000 (2010: 4.92%, $223,000).

(iv) Impact of changes in key variables on the outstanding claims provision

The impact of changes in key outstanding claims variables are summarised below. Each change has been calculated in isolation of the other changes and each change shows the impact on profit and equity assuming that there is no change to another variable.

		Financial Impact			
		Consolidated			
		2011		2010	
	Movement in variable	Profit/(loss) $'000	Equity $'000	Profit/(loss) $'000	Equity $'000
Central estimate	1%	(3,657)	(3,657)	(3,944)	(3,944)
Central estimate	-1%	3,657	3,657	3,944	3,944
Discount rate	1%	522	522	628	628
Discount rate	-1%	(528)	(528)	(635)	(635)
Risk Margin	1%	(6,001)	(6,001)	(6,230)	(6,230)
Risk Margin	-1%	6,001	6,001	6,230	6,230
Weighted average term to settlement*	+1 month	1,524	1,524	1,579	1,579
Weighted average term to settlement	-1 month	(1,530)	(1,530)	(1,585)	(1,585)

** The weighted average term to settlement reflects the estimate of when outstanding claims are expected to be paid.*

Notes to the Financial Statements

Note 2: Critical accounting estimates and judgements continued

a) Ultimate liability arising from claims made under insurance coverage continued

(v) PackageBonus provision

A provision is included in the accounts to cover expected future utilisation of PackageBonus benefits accrued in respect of past membership. The true cost of the PackageBonus entitlement cannot be known with certainty until any unclaimed entitlements expire, five years after they were credited to the PackageBonus account. The expected ultimate utilisation rate of current PackageBonus entitlements is 94% (2010: 92%) based on a regular analysis of past claims experience.

A risk margin is added to the central estimate to achieve a desired probability of adequacy. The objective for Medibank Private is to achieve at least a 95% probability of sufficiency. The risk margin applied at 30 June 2011 is 2.4% of PackageBonus entitlements which equates to $6,473,000 (2010: 2.0%, $5,845,000).

A provision is included in the accounts to cover expected future utilisation of Ultra Bonus benefits accrued in respect of past membership. The expected ultimate utilisation rate of current Ultra Bonus entitlements is 100% (2010: not applicable).

A risk margin has not been added to the central estimate of the Ultra Bonus provision since it has been provisioned assuming 100% utilisation.

The PackageBonus and Ultra Bonus provisions are discounted at risk-free rates of return to reflect the time value of money. The risk-free rate applied to these provisions of Medibank Private at 30 June 2011 is 5.03%pa which equates to $181,000 (2010: 4.92%, $681,000).

b) Classification of and valuation of investments

Medibank Private and Australian Health Management classify investments in listed and unlisted securities as financial assets that back insurance liabilities and are therefore designated at initial recognition as at fair value through profit or loss. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the end of the reporting period, with the exception of foreign currency positions which are valued at the price sourced from an appropriate external source at the end of the reporting period. If quoted market prices are not available, fair values are estimated on the basis of pricing models or other recognised valuation techniques. The assumptions used as inputs into these models include the value of variables such as risk-free rates, volatility, strike rates, time to expiry, credit-default swap levels, and correlations.

c) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 1(l). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to Note 13 for details of these assumptions and the potential impact of changes to the assumptions.

d) Long service leave provision

As discussed in Note 1(w), the liability for long service leave is recognised and measured as the present value of the estimated future long service leave cash flows to be made in respect of all employees as at the balance date. In determining the present value of the liability, attrition rates and pay increases through inflation have been taken into account.

e) Allowance for impairment loss on trade and other receivables

Collectability of trade receivables is reviewed on an ongoing basis. Receivables that are known to be uncollectible are written off when identified. An allowance for impairment is raised when there is objective evidence that the receivable will not be collected. Due to the large number of debtors, this assessment is based on supportable past history and historical write-offs of bad debts with all receivables greater than 90 days past due being considered. The impairment loss is outlined in Note 7.

f) Useful lives of software

The Group's management determines the estimated useful lives and related amortisation charges for its software and technology. This estimate is based on projected product lifecycles for its high-tech segment. It could change significantly as a result of technical innovations and competitor actions. Medibank Health Solutions Telehealth holds software / technology whose estimated useful life, management estimates as 10 years. All other software is estimated to have a useful life of 2.5 to 5 years.

Note 3: Financial risk management

This note is prepared in accordance with AASB 7 "Financial Instruments: Disclosures" and reflects risk management policies and procedures associated with financial instruments and capital and insurance contracts. The Group's principal financial instruments comprise cash and short term money market instruments (including bank bills, negotiable certificates of deposit and commercial paper), debentures and floating rate notes (both domestic and global), domestic equity trusts, global equity trusts, domestic listed shares, domestic and global property trusts.

The positions in these financial instruments are determined by Board policy in order to achieve appropriate levels of return for risk from the funds available. A strategic asset allocation is set and/or reviewed at least annually by the Board, which establishes the maximum and minimum exposures in each asset class. Transacting in individual instruments is subject to delegated authorities and an approval process which are also established and reviewed by the Investment Committee of the Board. The Group predominantly enters into derivative transactions to principally offset positions in equity market options and forward currency contracts, with the sole purpose of managing its risks to equity market downturns and currency risks arising from its investment operations. Short term derivative contracts are also used to maintain exposures to certain asset classes. It is the Group's policy that at no time throughout the period will trading of these derivative instruments for purposes other than risk management be undertaken. Adherence to this policy is ensured by allowing the execution of such trades to occur only with the explicit approval of the Board Investment Committee.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, price risk, credit risk and liquidity risk. The Group uses different methods to measure and manage the different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate, price risk and foreign exchange risk. In analysing exposure to these risks, consideration is given to interest rate expectations, potential renewals of existing positions, and any expected changes in asset allocation. Ageing analyses and monitoring of counter party credit quality are undertaken to manage credit risk, whilst liquidity risk is monitored through the development of future rolling cash flow forecasts. Equity price risk is managed through the use of diversification and limit setting on investments in each country, sector and market. Additionally derivative instruments are used to limit the Group's exposure to downside risks.

Primary responsibility for consideration and control of financial risks rests with the Board Investment Committee under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below, including the setting of limits for trading in derivatives, foreign currency contracts and other instruments. Limits are also set for credit exposure and interest rate risk.

(i) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: market interest rates (interest rate risk), foreign exchange rates (currency risk), and market prices (price risk).

The following policies and procedures are in place to mitigate the Group's exposure to market risk:

- Compliance with the investment policy is monitored and exposures and breaches are reported to the Board Investment Committee. The policy is reviewed regularly for changes in the risk environment.
- Strict control over hedging activities.

The Capital Adequacy Standard requires insurance companies to perform "resilience tests" to determine the exposure to market risk and to hold sufficient capital reserves to cover this risk. Medibank Private and Australian Health Management require that additional capital be held at a level in excess of the minimal capital requirement.

(a) Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fixed interest rate instruments expose the Group to fair value interest risk, whilst floating rate instruments expose the Group to cash flow risk and fair value risk.

The Group's exposure to the risk of changes in market interest rates consists of its exposure to cash and cash equivalents, investments in unit trusts and floating rate investments. The Group's current policy is to not hedge against falls in market interest rates.

If interest rates had differed for the entire reporting period by the amounts illustrated in the table below, with all other variables remaining constant, profit and equity would have been affected as follows:

Consolidated

	Profit		Equity	
Judgements of reasonably possible movements	2011 $'000	2010 $'000	2011 $'000	2010 $'000
+175 bps (2010: +150 bps)	32,388	26,517	32,388	26,517
-175 bps (2010: -150 bps)	(32,388)	(26,517)	(32,388)	(26,517)

The assessment of reasonably possible movements was made with guidance from the Department of Finance and Deregulation (DoFD).

Note 3: Financial risk management continued

(i) Market risk continued

(a) Interest rate risk continued

At balance date, the Group had the following financial assets exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

	Consolidated	
	2011 $'000	2010 $'000
Assets		
Cash & cash equivalents	647,357	1,256,425
Assets held to maturity		
- Other	-	390
Financial assets at fair value through profit and loss		
- Debentures and Notes	852,321	588,323
- Unit Trusts	353,354	3,308
	1,853,032	1,848,446

Cash equivalents are short term money market investments primarily incorporating bills, commercial papers and negotiable certificate of deposits. Debentures and notes primarily consist of floating rate notes (FRN's) and other term debt instruments. Both classes of financial assets have variable interest rates and are therefore, exposed to cash flow movements if these interest rates change. The Group constantly analyses its interest rate exposure. The interest rates on all long term investments are reset every 90 days on average.

Assets held to maturity are investments in floating rate notes within one of the Group's subsidiaries. These investments are held at a fixed interest rate for the duration of the investment.

(b) Foreign currency risk

Foreign currency risk is the risk that the fair value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's investments in global equity trusts are exposed to fluctuations in currency exchange rates. Forward rate contracts are entered into between the Australian dollar and the following currencies: US dollar, Japanese Yen, the Euro and Pound Sterling, Hong Kong dollar, Singapore dollar and Swiss Franc in order to minimise this exposure. The Group's investment policy states that this foreign currency risk is to be mitigated by using forward currency contracts.

The Group also has transactional currency exposures which arise from purchases in currencies other than the functional currency. These transactions consist of operational costs within trade and other payables which are minimal, and purchases of foreign currency denominated investments.

The Group has exposure to foreign currency translation risk through its subsidiaries located in the UK and New Zealand respectively. The functional currency of these subsidiaries is different from the Group's presentation currency and is translated into the presentation as described in Note 1(d).

At 30 June 2011, the Group had the following net exposure to foreign currency movements:

	Consolidated	
	2011 $'000	2010 $'000
Assets		
Net Financial assets at fair value through profit and loss		
- Debentures and Notes	73,655	32,947
- Unit Trusts	252,958	243,234
	326,613	276,181

The Group has forward currency contracts that are subject to fair value movements through profit or loss as foreign exchange rates move.

At 30 June 2011, the Group had entered offsetting positions for 96% (2010: 97%) of its foreign currency translation exposure resulting from Global investments.

Had exchange rates moved as illustrated in the table below, with all other variables held constant, profit and equity would have been affected as follows:

Consolidated entity	Profit		Equity	
Judgements of reasonably possible movements	2011 $'000	2010 $'000	2011 $'000	2010 $'000
AUD/USD +15% (2010: +14%)	(854)	(411)	(854)	(411)
AUD/USD -15% (2010: -14%)	854	411	854	411
AUD/GBP +15% (2010: +14%)	(157)	(87)	(157)	(87)
AUD/GBP -15% (2010: -14%)	157	87	157	87
AUD/EUR +15% (2010: +14%)	(392)	(190)	(392)	(190)
AUD/EUR -15% (2010: -14%)	392	190	392	190
AUD/JPY +15% (2010: +14%)	(165)	(103)	(165)	(103)
AUD/JPY -15% (2010: -14%)	165	103	165	103

The assessment of reasonably possible movements was made with reference to published consensus forecasts or market expectations of potential movements in the relevant exchange rates and guidance from DOFD.

Management believe the balance date risk exposures are representative of the risk exposure inherent in the financial statements.

(c) Price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's equity price risk arises from investments in equity and property securities. It is managed by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector and market, and careful planned use of derivative financial instruments.

The Group holds and sells European put and call options to protect its exposure to Australian and Global equities.

The following sensitivity analysis is based on the equity price risk exposures in existence at the balance sheet date. Had the market prices moved, as illustrated in the table below, with all other variables held constant, profit and equity would have been affected as follows:

Consolidated entity	Profit		Equity	
Judgements of reasonably possible movements	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Australian Equity Investments +10%	26,083	20,134	26,083	20,134
Australian Equity Investments -10%	(26,083)	(20,134)	(26,083)	(20,134)
Australian Listed Property Investments +9%	7,947	7,291	7,947	7,291
Australian Listed Property Investments -9%	(7,947)	(7,291)	(7,947)	(7,291)
Global Listed Property Investments +9%	3,712	2,880	3,712	2,880
Global Listed Property Investments -9%	(3,712)	(2,880)	(3,712)	(2,880)
Global Equity Investments +12%	23,331	19,695	23,331	19,695
Global Equity Investments -12%	(23,331)	(19,695)	(23,331)	(19,695)
Emerging Market Investments +20%	2,484	2,245	2,484	2,245
Emerging Market Investments -20%	(2,484)	(2,245)	(2,484)	(2,245)

Note 3: Financial risk management continued

(c) Price risk continued

The assessment of reasonably possible movements was made with reference to published forecasts or market expectations of potential movements in the relevant equity markets.

Management believe the balance date risk exposures are representative of the risk exposure inherent in the financial statements.

(ii) Credit risk

(a) Investments

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables, financial assets at fair value through profit and loss and derivative instruments. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

Credit risk exposure is measured by reference to exposures by ratings bands, country, industry and instrument type.

The Group maintains a counter party exposure policy where credit exposure is limited to the A- or higher rated categories for long term investments, and A2 or higher for short term investments. All debt securities are rated investment grade (as measured by external rating agencies such as Standard & Poor's). Departures from this policy require Board approval.

There is a geographical concentration to Australian domiciled banks and corporations, which is managed through the use of exposure limits.

The Group does not have any financial instruments to mitigate exposure against credit risk and all investments are unsecured (except for asset backed securities and mortgage backed securities). However, the impact of default of counter parties is minimised through the use of Board approved limits by counter party and rating, diversification of counter parties, and the conservative policy to maintain investments in investment grade entities only.

(b) Trade and other receivables

Due to the nature of the industry and value of individual policies, the Group does not request any collateral nor is it the policy to secure its premiums in arrears and trade and other receivables. The Group regularly monitors its premiums in arrears, with the result that exposure to bad debts is not significant. The credit risk in respect to premiums in arrears, incurred on non-payment of premiums, will only persist during the grace period of 63 days as specified in the Fund Rules when the policy may be terminated. The Group is not exposed to claims whilst a membership is in arrears.

Trade and other receivables are monitored regularly and escalated when they fall outside of terms. The use of debt collection agencies are also used to obtain settlement.

There are no significant concentrations of premium credit risk within the Group.

(c) Counter party credit risk ratings

The following table provides information regarding the credit risk exposure of the Group at 30 June 2011 by classifying assets according to credit ratings of the counter parties. AAA is the highest possible rating. Assets that fall outside the range AAA to BBB are classified as non-investment grade. The below table highlights the short term rating as well as the equivalent long term ratings bands as per published S&P correlations.

Consolidated

Short Term Long Term 2011	A-1+ AAA $'000	A-1+ AA $'000	A-1 A $'000	A-2 BBB $'000	B & below BB & below $'000	Not rated $'000	Total $'000
Assets							
Cash/cash equivalents	10,156	485,191	49,038	117,999	-	(15,026)	647,358
FRN's held to maturity	-	-	-	-	-	-	-
Premiums in arrears	-	-	-	-	-	11,274	11,274
Trade and other Receivables	-	-	-	-	-	232,493	232,493
Financial Assets							
Unit Trusts - Unlisted	-	-	-	-	-	350,132	350,132
Direct Mandate - Aust Listed	-	-	-	-	-	321,213	321,213
Debentures & notes	197,481	534,583	101,315	18,942	-	-	852,321
Private Equity	-	-	-	-	-	3,222	3,222
Derivatives	-	6,462	2,726	-	-	-	9,188
Liabilities							
Derivatives	-	(1,152)	(1,113)	-	-	-	(2,265)
Total	207,637	1,025,084	151,966	136,941	-	903,308	2,424,936

Consolidated

Short Term Long Term 2010	A-1+ AAA $'000	A-1+ AA $'000	A-1 A $'000	A-2 BBB $'000	B & below BB & below $'000	Not rated $'000	Total $'000
Assets							
Cash/cash equivalents	73,353	957,947	122,377	128,647	-	(25,899)	1,256,425
FRN's held to maturity	-	-	-	-	390	-	390
Premiums in arrears	-	-	-	-	-	10,964	10,964
Trade and other Receivables	-	-	-	-	-	176,114	176,114
Financial Assets							
Unit Trusts - Unlisted	-	-	-	-	-	368,692	368,692
Direct Mandate - Aust Listed	-	-	-	-	-	159,302	159,302
Debentures & notes	133,786	292,606	138,520	22,336	1,075	-	588,323
Private Equity	-	-	-	-	-	4,040	4,040
Derivatives	-	1,471	14	-	-	-	1,485
Liabilities							
Derivatives	-	(6,033)	-	-	-	-	(6,033)
Total	207,139	1,245,991	260,911	150,983	1,465	693,213	2,559,702

The Group's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the balance sheet.

Notes to the Financial Statements

Note 3: Financial risk management continued

(iii) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. It may result from either the inability to sell financial assets quickly at their fair values; or counter party failing on repayment of a contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

In order to maintain appropriate levels of liquidity, the Group's policy is to hold at least 40% of its' total investment assets in short term, highly liquid bank bills, tradeable commercial paper and short dated floating rate notes, maturing in 185 days or less.

The table below reflects all contractually fixed pay-offs for settlement and interest resulting from recognised financial liabilities, including derivative financial instruments as at 30 June 2011. For derivative financial instruments, the market value is presented whereas for the other obligations, the respective undiscounted cash flows for the respective upcoming fiscal years are presented. Cash flows for financial liabilities without fixed amount or timing are based on the conditions existing at 30 June 2011.

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Trade payables and other financial liabilities mainly originate from the financing of assets used in our ongoing operations such as property, plant and equipment and investments in working capital. These assets are considered by the Group in the overall liquidity risk. To monitor existing financial liabilities as well as to enable an effective overall controlling of future risks, the Group has established comprehensive risk reporting that reflects expectations of management of expected settlement of financial liabilities.

The remaining contractual maturities of the Group's financial liabilities are:

Consolidated

2011	Under 6 months $'000	6 to 12 months $'000	1 - 2 years $'000	Over 2 years $'000	Total contractual cash flows $'000	Carrying amount $'000
Non-derivatives						
Trade and other payables	248,150	1,247	825	1,403	251,625	251,625
Unearned premium liability	390,426	63,416	15,703	7,840	477,385	477,385
Claims liabilities	329,706	24,329	12,512	6,660	373,207	370,492
Total non-derivatives	968,282	88,992	29,040	15,903	1,102,217	1,099,502

2010	Under 6 months $'000	6 to 12 months $'000	1 - 2 years $'000	Over 2 years $'000	Total contractual cash flows $'000	Carrying amount $'000
Non-derivatives						
Trade and other payables	185,818	104	202	2,374	188,498	188,498
Unearned premium liability	363,834	62,209	5,636	1,728	433,407	433,407
Claims liabilities	344,646	30,577	16,300	11,693	403,216	400,277
Total non-derivatives	894,298	92,890	22,138	15,795	1,025,121	1,022,182

It is not possible for a company primarily transacting in insurance business to predict the requirements of funding with absolute certainty. The theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities in respect of insurance liabilities are therefore, based on management's best estimate which incorporates statistical techniques and past experience.

(iv) Fair value measurements

As at 1 July 2009, the Group adopted the amendment to AASB 7 Financial Instruments: Disclosures which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

i. Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

ii. Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

iii. Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following tables present the Group's assets and liabilities measured and recognised at fair value at 30 June 2011.

Consolidated Year ended 30 June 2011	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets				
Financial assets at fair value through profit or loss	348,856	1,182,420	4,800	1,536,076
	348,856	1,182,420	4,800	1,536,076
Financial Liabilities				
Financial liabilities at fair value through profit or loss	-	(2,265)	-	(2,265)
	-	(2,265)	-	(2,265)

Consolidated Year ended 30 June 2010	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets				
Financial assets at fair value through profit or loss	204,450	907,401	9,991	1,121,842
	204,450	907,401	9,991	1,121,842
Financial Liabilities				
Financial liabilities at fair value through profit or loss	-	(6,033)	-	(6,033)
	-	(6,033)	-	(6,033)

Notes to the Financial Statements

Note 3: Financial risk management continued

***(iv) Fair value measurements** continued*

The fair value of financial instruments traded in active markets (such as exchange traded equities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined using a variety of valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Valuation methods include quoted market prices or dealer quotes for similar instruments, yield curve calculations using the mid yield, vendor or independent developed models. These instruments are included in level 2 classification.

The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2.

All other investments, where the valuation technique is based on significant unobservable inputs are included in level 3.

There were no significant transfers between level 1 and level 2.

The following tables present the changes in level 3 instruments for the year ended 30 June 2011:

Consolidated Year ended 30 June 2011	Financial assets at fair value through profit or loss $'000
Opening Balance	9,991
Transfers into level 3	-
Transfers out of level 3	-
Purchases	356
Sales	(2,643)
Gains/(Losses) recognised in profit or loss	(2,904)
Closing balance	4,800

The opening value of level 3 holdings in the consolidated entity comprised of investment in one frozen unit trust, various debentures and notes that have been valued using valuation models with unobservable inputs, an investment into a private equity trust and a direct investment in an unlisted domestic company.

Since the Global Financial Crisis the unit trust has been frozen with all units closed for redemption. The value of the remaining unit trust is based on a quoted unit trust price based on a calculation of the value of the underlying asset values of the trust. The majority of the inputs into this valuation are unobservable and thus has been classified as a level 3 investment.

The debentures and notes that were included in level 3 during the 2010 financial year were sold during the 2011 financial year.

The asset purchased during the year relates to a further investment in the private equity trust.

The closing value is made up of the investment in the private equity trust and the direct investment in an unlisted domestic company. Due to the nature of the business the valuations of these investments they could not based on observable market inputs and therefore are classified as a level 3 investment. The other balance is made up of the continued holding in the frozen unit trust.

(v) Insurance risk

Medibank Private and Australian Health Management provide private health insurance across a range of services, including: hospital insurance for private patients, ancillary or extras cover, and private health insurance for overseas students studying in Australia. Medibank Group also provides private health insurance for overseas visitors to Australia. These services are written as two types of contracts, Hospital and/or Ancillary cover. This business does not result in significant exposure to concentrations of risk because contracts written cover a large volume of members across all states in Australia.

The table below provides an overview of the key variables upon which the cash flows of the insurance contracts are dependant.

Type of contract	Detail of contract workings	Nature of claims	Key variables that affect the timing and uncertainty of future cash flows
Hospital Cover	Defined benefits paid for hospital treatment, including accommodation, medical and prostheses costs	Hospital benefits defined by the insurance contract or relevant Deed	Claims incidence and claims inflation
Ancillary Cover	Defined benefits paid for ancillary treatment, such as dental, optical and physiotherapy	Ancillary benefits defined by the insurance contract or relevant Deed	Claims incidence and claims inflation

Insurance risks are managed through the use of claims management procedures, close monitoring of experience, the holding of capital in excess of prudential requirements, the ability to vary premium rates, and risk equalisation.

Claims management

Strict claims management ensure the timely and correct payment of claims in accordance with policy conditions and provider contracts. Claims are monitored on a monthly basis to track the experience of the portfolios.

Experience monitoring

Monthly financial and operational results, including portfolio profitability and prudential capital requirements, are reported to management committees and the Board. Insurance risks and experience for the industry are also monitored by the Private Health Insurance Administration Council (PHIAC).

Prudential capital requirements

All private health insurers are required to comply with prudential capital requirements providing a buffer against certain levels of adverse experience. In addition, the Board also has a target level of capital in excess of the prudential requirement. Actual capital exceeds these levels, providing a buffer against adverse claims experience.

Ability to vary premium rates

The Group has the ability to vary future premium rates subject to the approval of the Minister for Health and Ageing.

Risk Equalisation

The Private Health Insurance Act requires resident private health insurance contracts to meet community rating requirements, prohibiting health insurers from discriminating between people on the basis of their health status, gender, race, sexual orientation, religious belief, age (except as allowed under Lifetime Health Cover provisions), increased need for treatment or claims history. To support these restrictions, all private health insurers must participate in the Risk Equalisation Trust Fund under which all private health insurers share the cost of proportions of the eligible claims of all persons aged 55 years and over, and claims meeting the high cost claim criteria.

Concentration of Health Risk

The Group has health insurance contracts covering several classes of health insurance business, including: hospital insurance for private patients, ancillary or extras cover, and private health insurance for overseas students and visitors to Australia. This business does not result in significant exposure to concentrations of risk because contracts written cover a large volume of persons across all states in Australia.

Notes to the Financial Statements

Note 4: Revenue and expenses

	Consolidated 2011 $'000	Consolidated 2010 $'000
(a) Insurance underwriting result		
Premium revenue	4,737,792	4,416,668
Claims expense		
Claims incurred	(3,954,048)	(3,755,917)
State levies	(40,435)	(39,092)
Net Risk Equalisation Trust Fund levies	29,250	49,187
	(3,965,233)	(3,745,822)
Other claims expense	(18,939)	(28,872)
Net claims incurred	(3,984,172)	(3,774,694)
Underwriting expenses	(450,392)	(416,095)
Underwriting result after expenses	303,228	225,879
(b) Lease expense		
Operating lease rental expense	29,555	30,943
	29,555	30,943
(c) Depreciation and software amortisation		
Depreciation - land and buildings	803	798
Depreciation - plant and equipment	6,982	7,388
Depreciation - leasehold improvements	7,239	6,964
Amortisation - software	20,630	17,324
	35,654	32,474
(d) Investment income		
Interest	96,762	77,459
Trust distributions	10,013	4,822
Dividend income	8,429	4,425
Net gain on disposal of financial assets	13,732	27,267
Net gain on fair value movements on financial assets	37,092	25,056
	166,028	139,029
(e) Investment expense		
Investment management fees	4,477	4,201
	4,477	4,201
(f) Other income/(expense)		
Interest	105	103
Other income	1,527	1,211
Impairment - goodwill	(2,523)	-
Revaluation - land and buildings	(2,164)	-
	(3,055)	1,314
(g) Amortisation of acquisition intangibles		
Amortisation - customer contracts & relationships	8,144	4,862
Amortisation - software	1,788	-
	9,932	4,862

Note 5: Income tax expense

	Consolidated	
	2011 $'000	2010 $'000
(a) Income tax expense		
Current tax	129,991	91,172
Deferred tax	4,058	(16,183)
Adjustment for current tax of prior period	(5,276)	(66)
	128,773	74,923
Deferred income tax (revenue)/expense included in income tax expense comprises:		
Decrease/ (increase) in deferred tax assets (Note 12)	(982)	(20,697)
(Decrease)/ increase in deferred tax liabilities (Note 18)	5,040	4,514
	4,058	(16,183)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit for the year before income tax expense	428,419	380,013
Tax at the Australian tax rate of 30% (2010 - 30%)	128,526	114,004
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Net exempt income (i)	-	(38,302)
Entertainment	628	273
Tax offset for franked dividends	(1,369)	(1,066)
Tax base restatement for investments	1,015	-
Adjustment for Rights to Future Income (ii)	(2,461)	-
Acquisition costs	1,302	-
Impairment	719	-
Provision for Uncertain Tax Position (iii)	5,151	-
Sundry items	538	80
	134,049	74,989
Adjustment for current tax of prior period (iv)	(5,276)	(66)
Income tax expense	128,773	74,923

(i) Prior to 1 October 2009, the Parent Entity was exempt from income tax (refer to Note 1(i) for details)
(ii) The Group has recognised Rights To Future Income (RTFI) assets in relation to certain health service contracts of Medibank Health Solutions and the private health insurance contracts of Australian Health Management that were held at the time both companies joined Medibank's tax consolidated group.
(iii) Following initial clarification of the tax treatment in relation to RTFI, the Group has claimed $4,368,000 in its 2010 Income Tax Return. Subsequently, the Board of Taxation has announced a review of RTFI. The Group has therefore elected to provide for the 2011 RTFI deduction of $5,151,000 until the legislative position is clearer.
(iv) Included in the adjustment for current tax of prior period is the claim for RTFI of $4,368,000 as described in note (ii) and (iii) above.

(c) Amounts recognised in other comprehensive income

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to other comprehensive income.

	Consolidated	
	2011 $'000	2010 $'000
Net deferred tax - (credited)/debited directly to other comprehensive income	(60)	(7,245)
	(60)	(7,245)

Note 5: Income tax expense continued

(d) Tax consolidation legislation

Medibank Private and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation from 1 October 2009 being the date Medibank Private became a taxpayer. The accounting policy in relation to this legislation is set out in Note 1(i).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Medibank Private.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Medibank Private for any current tax payable assumed and are compensated by Medibank Private for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Medibank Private under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/ payable under tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Note 6: Cash and cash equivalents

	Consolidated	
	2011 $'000	2010 $'000
Cash and cash equivalents (i)	647,357	1,256,425

(i) In February 2004, the Parent reached agreement on a 'Principles of Settlement' with the Australian Competition and Consumer Commission regarding an Action in October 2000. The settlement required payment of $5,000,000 to a Special Purpose Fund (SPF) account. These funds were classified as restricted funds by Medibank Private. The SPF was fully expended through the payment of member settlement claims during the year ended 30 June 2011, and will no longer operate. The balance of the SPF at 30 June 2011 was nil. (2010: $723,000).

Bank overdraft facilities

The Group has unsecured overdraft facilities from the bank which are reviewed annually as follows:

Unsecured overdraft credit facilities	Consolidated	
	2011 $'000	2010 $'000
Amount used	-	-
Amount unused	8,217	11,350
	8,217	11,350

Note 7: Trade and other receivables

	Note	Consolidated 2011 $'000	2010 $'000
Premiums in arrears		11,274	13,863
Allowance for impairment loss	(i)	(3,037)	(2,899)
		8,237	10,964
Trade Receivables		69,779	31,453
Allowance for impairment loss	(ii)	(1,703)	(595)
		68,076	30,858
Goods and services tax		4,026	2,356
Government rebate scheme	(a)	127,947	119,783
Risk Equalisation Trust Fund		24,207	23,117
		156,180	145,256
Total trade and other receivables		232,493	187,078

(a) Government rebate scheme is non-interest bearing and generally on 15-day terms.

(i) Allowance for impairment loss - Premiums in arrears

Premiums in arrears are non-interest bearing. An allowance for impairment loss is generally recognised when there is objective evidence that a premium in arrears is impaired. An allowance for impairment loss of $3,037,000 (2010: $2,899,000) has been recognised by the Group. This amount has been offset against 'premium revenue' in the income statement.

Movements in the allowance for impairment loss for premiums in arrears were as follows:

	Consolidated 2011 $'000	2010 $'000
Balance at 1 July	2,899	3,509
Charge for the year	1,576	2,899
Amounts recovered	(1,283)	-
Amounts written-back	(155)	(3,509)
Balance at 30 June	3,037	2,899

(ii) Allowance for impairment loss - Trade receivables

Trade receivables are non-interest bearing and are generally on 7-30 day terms. An allowance for impairment loss is generally recognised when there is objective evidence that a trade receivable is impaired. An allowance for impairment loss of $1,703,000 (2010: $595,000) has been recognised by the Group at 30 June 2011. The movement for the period forms part of 'other expenses' in the income statement.

Notes to the Financial Statements

Note 7: Trade and other receivables continued

Movements in the allowance for impairment loss for Trade receivables were as follows:

	Consolidated 2011 $'000	Consolidated 2010 $'000
Balance at 1 July	595	1,212
Acquisition of subsidiaries	181	-
Charge for the year	1,165	371
Amounts recovered	(26)	(423)
Amounts written-off	(212)	(565)
Balance at 30 June	1,703	595

(a) Considered impaired

Consolidated	Total $'000	0-30 days $'000	31-60 days $'000	61-90 days $'000	+91 days $'000
2011					
Premiums in arrears	3,037	723	1,252	619	443
Trade receivables	1,703	168	-	5	1,530
	4,740	891	1,252	624	1,973
2010					
Premiums in arrears	2,899	563	1,138	526	672
Trade receivables	595	9	10	-	576
	3,494	572	1,148	526	1,248

(b) Past due but not considered impaired

Consolidated	Total $'000	0-30 days $'000	31-60 days $'000	61-90 days $'000	+91 days $'000
2011					
Premiums in arrears	8,237	5,799	1,976	262	200
Trade receivables	5,756	1,856	1,666	938	1,296
	13,993	7,655	3,642	1,200	1,496
2010					
Premiums in arrears	10,964	7,828	2,769	146	221
Trade receivables	10,859	6,788	1,933	891	1,247
	21,823	14,616	4,702	1,037	1,468

Receivables past due but not considered impaired at 30 June 2011 for the Group are $13,993,000. (2010: $21,823,000). Each operating unit has been in contact with the relevant debtor and is satisfied that payment will be received in full. Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

Note 8: Inventories

	Consolidated 2011 $'000	Consolidated 2010 $'000
Medical Supplies	1,418	1,307

Note 9: Investments

	Consolidated 2011 $'000	Consolidated 2010 $'000
Assets held to maturity		
Other	-	390
Financial assets at fair value through profit and loss		
Unit trusts	350,132	368,692
Australian listed equities	321,213	159,302
Debentures and notes	852,321	588,323
Private Equity	3,222	4,040
Derivatives	9,188	1,485
	1,536,076	1,122,232

Financial assets at fair value through profit or loss consists of investments in unit trusts (whose underlying assets are listed shares or property), direct investment in shares and share related contracts and therefore have no fixed maturity date or coupon rate.

Debentures and notes are interest bearing and are reset either monthly, quarterly or biannually with an average maturity of 2,338 days (2010: 2,224 days).

Floating rate notes are classified as investments in the Group's balance sheet. They are carried at market value and their maturity is >90 days.

Note 10: Other assets

	Note	Consolidated 2011 $'000	Consolidated 2010 $'000
Current			
Prepayments	(i)	11,780	6,008
Other current assets		1	33
		11,781	6,041

Terms and conditions relating to other current assets:
(i) Expenses paid in advance.

	Note	Consolidated 2011 $'000	Consolidated 2010 $'000
Non-current			
Defined benefit superannuation fund		47	-
Artworks	(ii)	246	246
		293	246

(ii) These represent works of art displayed at the Medibank Private Head Office and are measured at cost.

All amounts are not considered past due or impaired.

Fair value and credit risk

The carrying value of other assets is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value. Collateral is not held as security.

Notes to the Financial Statements

Note 11: Property, plant and equipment

Consolidated	Land and buildings $'000	Plant and equipment $'000	Leasehold improvements $'000	Assets under construction $'000	Total $'000
2011					
Gross carrying amount					
Balance at 1 July 2010	39,892	40,996	43,570	971	125,429
Acquisition of subsidiaries	-	2,292	696	84	3,072
Additions	14	5,631	7,660	6,320	19,625
Transfers in/(out)	-	134	855	(1,007)	(18)
Disposals	-	(2,026)	(1,961)	(48)	(4,035)
Revaluations	(2,189)	-	-	-	(2,189)
Impairment	-	(296)	(4)	-	(300)
Balance at 30 June 2011	37,717	46,731	50,816	6,320	141,584
Accumulated depreciation					
Balance at 1 July 2010	(853)	(21,831)	(23,969)	-	(46,653)
Depreciation expense	(803)	(6,982)	(7,239)	-	(15,024)
Disposals	-	1,750	1,866	-	3,616
Revaluations	155	-	-	-	155
Balance at 30 June 2011	(1,501)	(27,063)	(29,342)	-	(57,906)
2010					
Gross carrying amount					
Balance at 1 July 2009	39,330	40,863	41,321	314	121,828
Additions	202	2,477	6,203	970	9,852
Transfers in/(out)	-	100	208	(313)	(5)
Disposals	-	(1,025)	(4,162)	-	(5,187)
Revaluations	360	-	-	-	360
Impairment	-	(1,419)	-	-	(1,419)
Balance at 30 June 2010	39,892	40,996	43,570	971	125,429
Accumulated depreciation					
Balance at 1 July 2009	(357)	(15,682)	(20,456)	-	(36,495)
Depreciation expense	(798)	(7,388)	(6,964)	-	(15,150)
Disposals	-	777	3,451	-	4,228
Revaluations	302	-	-	-	302
Impairment	-	462	-	-	462
Balance at 30 June 2010	(853)	(21,831)	(23,969)	-	(46,653)
Closing net book amount					
As at 30 June 2011	36,216	19,668	21,474	6,320	83,678
As at 30 June 2010	39,039	19,165	19,601	971	78,776

(a) Valuations of land and buildings

The valuation basis of land and buildings is fair value being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, based on current observable prices in an active market for similar properties in the same location and condition. The revaluations of the land and buildings of Australian Health Management and Medibank Health Solutions were made as at 30 June 2011. Both revaluations were based on independent assessments by external valuation experts who were members of the Australian Property Institute.

(b) Carrying amounts that would have been recognised if land and buildings were stated at cost

If the land and buildings were stated on the historical cost basis, the amounts would be as follows:

	Consolidated	
	2011 $'000	2010 $'000
Land and buildings		
Cost	36,917	36,917
Accumulated depreciation	(3,488)	(2,646)
Net book amount	33,429	34,271

Notes to the Financial Statements

Note 12: Deferred tax assets

	Consolidated 2011 $'000	Consolidated 2010 $'000
Deferred tax balances comprise temporary differences attributable to:		
Financial assets at fair value through profit & loss	6,774	11,366
Property, plant & equipment	10,134	8,664
Employee benefits	13,297	8,816
	30,205	28,846
Other		
Accruals	5,589	3,107
Accrued income	833	-
Business capital costs	1,692	2,154
Restructure provision	1,151	1,835
Leases payable	549	979
Make good provision	1,400	585
Intangible assets	38	-
Other	584	956
Sub-total Other	11,836	9,616
Total deferred tax assets	42,041	38,462
Set off deferred tax liabilities pursuant to set-off provisions	-	-
Net deferred tax assets	42,041	38,462
Deferred tax assets to be recovered within 12 months	30,215	27,644
Deferred tax assets to be recovered after more than 12 months	11,826	10,818
	42,041	38,462

Movements - Consolidated	Financial assets at fair value through profit and loss $'000	Property, plant & equipment $'000	Employee Benefits $'000	Other $'000	Total $'000
At 1 July 2009	510	1,609	2,294	4,788	9,201
Credited to the income statement	10,856	1,313	6,522	2,006	20,697
Credited directly to other comprehensive income	-	5,742	-	2,822	8,564
At 30 June 2010	11,366	8,664	8,816	9,616	38,462
Acquisition of a subsidiary	-	177	1,344	1,011	2,532
Credited to the income statement	(4,592)	1,228	3,137	1,209	982
Credited directly to other comprehensive income	-	65	-	-	65
At 30 June 2011	6,774	10,134	13,297	11,836	42,041

Note 13: Intangible assets

Consolidated	Goodwill $'000	Customer Contracts & Relationships (ii) $'000	Software (i) $'000	Assets Under Construction $'000	Total $'000
2011					
Gross carrying amount					
Balance at 1 July 2010	100,136	58,347	109,097	12,128	279,708
Acquisition of subsidiaries	99,344	23,733	19,855	636	143,568
Additions	-	-	13,309	14,765	28,074
Transfers in/(out)	-	-	13,366	(13,348)	18
Revaluations	-	-	-	-	-
Disposals	-	-	(547)	-	(547)
Balance at 30 June 2011	199,480	82,080	155,080	14,181	450,821
Accumulated amortisation and impairment					
Balance at 1 July 2010	-	(7,091)	(62,554)	-	(69,645)
Amortisation expense	-	(8,144)	(22,418)	-	(30,562)
Disposals	-	-	406	-	406
Impairment	(2,523)	-	-	-	(2,523)
Balance at 30 June 2011	(2,523)	(15,235)	(84,566)	-	(102,324)
2010					
Gross carrying amount					
Balance at 1 July 2009	93,129	58,347	92,358	6,672	250,506
Additions	7,007	-	10,083	12,128	29,218
Transfers in/(out)	-	-	6,677	(6,672)	5
Disposals	-	-	(21)	-	(21)
Balance at 30 June 2010	100,136	58,347	109,097	12,128	279,708
Accumulated amortisation and impairment					
Balance at 1 July 2009	-	(2,229)	(44,988)	-	(47,217)
Amortisation expense	-	(4,862)	(17,324)	-	(22,186)
Disposals	-	-	19	-	19
Impairment	-	-	(261)	-	(261)
Balance at 30 June 2010	-	(7,091)	(62,554)	-	(69,645)
Net carrying amount					
As at 30 June 2011	196,957	66,845	70,514	14,181	348,497
As at 30 June 2010	100,136	51,256	46,543	12,128	210,063

(i) Software includes capitalised development costs being an internally generated intangible asset and software acquired through the purchase of Medibank Health Solutions Telehealth Pty Ltd. Amortisation of software of $20,630,000 (2010: $17,324,000) is included in depreciation and amortisation expense in the income statement. The remaining $1,788,000 (2010: nil) is included in amortisation of acquisition intangibles in the income statement.

(ii) Amortisation of customer contracts and relationships of $8,144,000 (2010: $4,862,000) is included in amortisation of acquisition intangibles in the income statement.

Note 13: Intangible assets continued

(a) Impairment charge

During the year management reviewed the financial performance of its investments in Work Solutions Australia Pty Ltd and The Travel Doctor – TMVC Pty Ltd. This resulted in a revision of value-in-use impairment calculations and a subsequent impairment charge of $2,523,000. There is no goodwill relating to Work Solutions Australia Pty Ltd and The Travel Doctor – TMVC Pty Ltd recorded as at 30 June 2011. The reduction in value was the result of the loss of the Job Capacity Assessment contract. No other class of assets other than goodwill was impaired.

(b) Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to which CGU is expected to benefit from the synergies of the combination.

A CGU level summary of the goodwill allocation is presented below.

CGU	Total $'000
2011	
Australian Health Management	96,133
Medibank Health Solutions	1,480
Carepoint	7,370
Medibank Health Solutions Telehealth	91,974
	196,957
2010	
Australian Health Management	96,133
Medibank Health Solutions	4,003
	100,136

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

(c) Key assumptions used for value-in-use calculations

CGU	Growth rate %	Discount rate %
2011		
Australian Health Management	2.5%	16.7%
Medibank Health Solutions	2.5%	17.7%
Carepoint	2.5%	18.7%
Medibank Health Solutions Telehealth	2.5%	16.1%
2010		
Australian Health Management	2.5%	17.5%
Medibank Health Solutions	2.5%	16.6% - 19.2%

The growth rate disclosed above represents the weighted average growth rate used to extrapolate cash flows beyond the budget period.

In performing the value-in-use calculations for each CGU, the Group has applied post-tax discount rates to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax discount rates are disclosed above.

These assumptions have been used for the analysis of each CGU. The weighted average growth rates used are consistent with forecasts included in industry reports. The discount rates used reflect specific risks relating to the relevant CGU.

Note 14: Trade and other payables

	Note	Consolidated 2011 $'000	2010 $'000
Current			
Trade creditors	(i)	163,686	131,161
Other creditors and accrued expenses	(ii)	77,480	46,528
Unearned premium liability	(iii)(a)	454,823	427,094
Risk Equalisation Trust Fund	(iv)	7,982	7,945
Lease incentives	(v)	615	203
Defined benefit superannuation fund	1(ab)	-	78
		704,586	613,009

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

	Note	Consolidated 2011 $'000	2010 $'000
Non-current			
Other creditors and accrued expenses	(ii)	-	483
Unearned premium liability	(iii)(a)	22,562	6,313
Lease incentives	(v)	1,862	2,100
		24,424	8,896

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 and accrued expenses are non-interest bearing.
(iii) Unearned premium liability is non-interest bearing.
(iv) Amount payable to the Risk Equalisation Trust Fund is non-interest bearing.
(v) Lease incentives are non-interest bearing and are settled over the term of the lease. The current liability represents 12 months or less of the term of the lease.

(a) Unearned premium liability

	Consolidated 2011 $'000	2010 $'000
Balance at 1 July	433,407	423,658
Deferral of premium on contracts written during the year	471,647	427,675
Earnings of premiums deferred in prior years	(427,669)	(417,926)
Balance at 30 June	477,385	433,407

Note: movement includes both current and non-current provision.

Notes to the Financial Statements

Note 15: Financial liabilities at fair value through profit or loss

	Note	Consolidated 2011 $'000	Consolidated 2010 $'000
Current			
Derivatives	(i)	2,265	6,033
		2,265	6,033

Terms and conditions relating to the above financial instruments:
(i) Derivatives are European structured and fully tradeable on secondary markets. Pay-off is calculated at option expiry.

Note 16: Claims liabilities

(a) Gross claims liability

	Note	Consolidated 2011 $'000	Consolidated 2010 $'000
Current			
Claims liability - central estimate of the expected present value of future payments for claims liabilities	(i), 2(ii)	326,129	347,172
Risk margin	(ii), 2(ii,v)	20,041	19,252
Claims handling costs	(iii)	5,532	6,437
Gross claims liability	16(c)	351,702	372,861
Non-current			
Claims liability - central estimate of the expected present value of future payments for claims liabilities	(i), 2(ii)	15,402	24,415
Risk margin	(ii), 2(ii,v)	3,317	2,914
Claims handling costs	(iii)	71	87
Gross claims liability	16(c)	18,790	27,416

(i) The expected future payments of claims liabilities for Medibank Private are discounted to present value using a risk-free rate of 5.03% pa (2010: 4.92% pa).
The expected future payments of claims liabilities for Australian Health Management are discounted to present value using a risk-free rate of 5.03% pa (2010: 4.92% pa).
(ii) The risk margin for the Parent entity of 4.9% (2010: 4.5%) of the underlying outstanding claims liabilities and 2.4% (2010: 2.0%) of PackageBonus entitlements for Medibank Private has been estimated to equate to a probability of adequacy of at least 95% (2010: 95%).
The risk margin of 8.3% (2010: 8.2%) of the underlying claims liabilities for Australian Health Management has been estimated to equate to a probability of adequacy of at least 95% (2010: 95%).
(iii) The allowance for claims handling costs for Medibank Private at 30 June 2011 is 1.56% of the claims liability (2010: 1.65%).
The allowance for claims handling costs for Australian Health Management at 30 June 2011 is 2.5% of the claims liability (2010: 2.8%).

(b) Claims incurred

Information regarding credit risk is set out in Note 3. Interest rate risk is not applicable as claims liabilities are non-interest bearing.

Current year claims relate to risks borne in the current financial year. The prior year amount represents the difference between the claims liability at the end of the previous financial year and the claims cost recognised in the current financial year for claims incurred in prior financial years, based on claims payments made during the year.

Consolidated

2011	Prior $'000	Current $'000	Total $'000
Claims incurred			
Undiscounted	(23,769)	3,977,293	3,953,524
Movement in Discount	-	524	524
	(23,769)	3,977,817	3,954,048

2010	Prior $'000	Current $'000	Total $'000
Claims incurred			
Undiscounted	(15,135)	3,772,267	3,757,132
Movement in Discount	-	(1,215)	(1,215)
	(15,135)	3,771,052	3,755,917

(c) Reconciliation of movement in claims liabilities

	Consolidated 2011 $'000	2010 $'000
Balance at 1 July	400,277	479,253
Additional provision	342,882	350,159
Amounts utilised during the year	(349,693)	(408,403)
Movement in claims handling costs	(920)	(1,545)
Movement in risk margin	1,192	(2,837)
Movement in discounting	524	(1,215)
Amount under/(over) provided	(23,770)	(15,135)
Balance at 30 June	370,492	400,277

Note: movement includes both current and non-current

Notes to the Financial Statements

Note 17: Provisions

	Note	Consolidated 2011 $'000	2010 $'000
Current			
Restructuring	(i)	11,468	4,309
Make good	(ii)	575	673
Employee Entitlements	(iii)	38,396	34,532
Other	(iv)	182	591
		50,621	40,105
Non-current			
Restructuring	(i)	1,647	2,331
Make good	(ii)	3,972	3,124
Employee Entitlements	(iii)	18,322	13,625
		23,941	19,080

Movement in provisions

The following movements in provisions include both current and non-current balances.

	Consolidated 2011 $'000	2010 $'000
(i) Restructuring		
Balance at 1 July	6,640	2,535
Additional provision	10,629	6,625
Amounts utilised during the year	(3,565)	(2,127)
Reversal of unused provision	(589)	(393)
Balance at 30 June	13,115	6,640

The restructuring provision relates to various restructuring programs including the completion of the Job Capacity Assessment contract held by Work Solutions Australia Pty Ltd.

	Consolidated 2011 $'000	2010 $'000
(ii) Make good		
Balance at 1 July	3,797	3,155
Additional provision	1,223	1,123
Amounts utilised during the year	(468)	(328)
Reversal of unused provision	(5)	(153)
Balance at 30 June	4,547	3,797

In accordance with certain lease agreements, the Group is obligated to restore leased premises to their original condition at the end of the lease term. Due to the long-term nature of the liability, there is uncertainty in estimating the ultimate amount of these costs. The provision has been discounted to take into account the time value of money throughout the remaining term of the lease.

	Consolidated	
	2011 $'000	2010 $'000
(iii) Employee Entitlements		
Balance at 1 July	48,157	42,947
Acquisition of subsidiary	5,058	-
Additional provision	30,694	26,924
Amounts utilised during the year	(24,792)	(20,855)
Reversal of unused provision	(2,399)	(859)
Balance at 30 June	56,718	48,157

This provision incorporates annual leave, long service leave, termination payments, and profit-sharing and bonus plans. Refer to Note 1(w) for the relevant accounting policy and details of the significant estimations and assumptions applied in the measurement of employee entitlements.

	Consolidated	
	2011 $'000	2010 $'000
(iv) Other		
Balance at 1 July	591	119
Acquisition of subsidiary	-	-
Additional provision	182	591
Amounts utilised during the year	(534)	(119)
Reversal of unused provision	(57)	-
Balance at 30 June	182	591

Notes to the Financial Statements

Note 18: Deferred tax liability

	Consolidated 2011 $'000	Consolidated 2010 $'000
Deferred tax balances comprise temporary differences attributable to:		
Financial assets at fair value through profit and loss	7,053	4,122
Intangibles	7,672	-
Property, plant and equipment	3,405	2,484
	18,130	6,606
Other		
Defined benefit fund surplus	59	61
Trade & other receivables	-	334
Other	298	119
Sub-total Other	357	514
Total deferred tax liabilities	18,487	7,120
Set off of deferred tax liabilities pursuant to set-off provisions	-	-
Net deferred tax liabilities	18,487	7,120
Deferred tax liabilities to be settled within 12 months	7,410	4,636
Deferred tax liabilities to be settled after more than 12 months	11,077	2,484
	18,487	7,120

Movements - Consolidated	Financial assets at fair value through profit and loss $'000	Intangibles $'000	Property, plant & equipment $'000	Other $'000	Total $'000
At 1 July 2009	149	-	657	481	1,287
Charged/(credited) to the income statement	3,973	-	386	155	4,514
Charged directly to other comprehensive income	-	-	1,441	(122)	1,319
At 30 June 2010	4,122	-	2,484	514	7,120
Acquisition of subsidiary	-	5,846	471	5	6,322
Charged/(credited) to the income statement	2,931	1,826	450	(167)	5,040
Charged directly to other comprehensive income	-	-	-	5	5
At 30 June 2011	7,053	7,672	3,405	357	18,487

Note 19: Contributed equity

Consolidated entity	2011 $'000	2010 $'000
(a) Fully paid ordinary shares		
Ordinary shares fully paid	85,000	85,000

(b) Movements in shares on issue	2011 Number of shares	2011 $'000	2010 Number of shares	2010 $'000
Balance at 1 July	85,000,100	85,000	85,000,100	85,000
Issued during the financial year	-	-	-	-
Balance at 30 June	85,000,100	85,000	85,000,100	85,000

(c) Terms and conditions of contributed equity

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 shares.

Ordinary shares have the right to receive dividends and, in the event of winding up the company or reduction of capital, have the right to participate in the distribution of the surplus assets of the company.

(d) Capital management

The two private health insurance funds of the Group (Medibank Private and Australian Health Management) are required to maintain minimum levels of capital to meet both solvency and capital adequacy requirements.

The Solvency Standard sets out the level of capital required to ensure that under a range of adverse circumstances the two private health insurance funds of the Group can meet their existing obligations to members and creditors. This is essentially based on ensuring sufficient capital is available to meet accrued liabilities and obligations if there was an orderly termination of the fund.

The Capital Adequacy Standard sets out the level of capital required based on a going concern basis where the requirement is for the two private health insurance funds of the Group to demonstrate that they have sufficient capital to accept contributions from new and existing members, fund their business plans, absorb short term adverse experience from time to time, and continue to remain solvent.

The two private health insurance funds of the Group are required to comply with these standards on a continuous basis and report results to PHIAC on a quarterly basis. Both funds have been in compliance with these standards throughout the year.

The Board of the Group has established a capital adequacy target for the two private health insurance funds of the Group in excess of the prudential capital adequacy requirements to cover both investment and non-investment risks. This buffer is required to protect against adverse variations in experience that could reduce retained earnings and/or increase the statutory minimum capital adequacy requirement in order to reduce the likelihood of a breach of the capital adequacy requirements. Capital is managed against this target and performance is reported to the Board.

Refer to Note 29 for details of the Group's excess over the solvency reserve as at 30 June 2011.

Notes to the Financial Statements

Note 20: Reserves

	Consolidated 2011 $'000	Consolidated 2010 $'000
Equity reserve	17,819	17,819
Revaluation reserve	466	402
Foreign currency translation reserve	(93)	-
	18,192	18,221

Movements:	Consolidated 2011 $'000	Consolidated 2010 $'000
Equity reserve (i)		
Balance at July 1	17,819	17,819
Contribution to equity	-	-
Balance at 30 June	17,819	17,819
Revaluation reserve (ii)		
Balance at July 1	402	-
Revaluation of land & buildings - gross	129	574
Deferred tax (Note 12)	(65)	(172)
Balance at 30 June	466	402
Foreign currency translation reserve		
Balance at July 1	-	-
Currency translation differences arising during the year	(93)	-
Balance at 30 June	(93)	-

(i) The equity reserve resulted from a restructure of administrative arrangements in 2009.
(ii) The revaluation reserve is used to record increments and decrements on the revaluation of non-current assets, as described in Note 1(q).

Note 21: Retained earnings

	Note	Consolidated 2011 $'000	Consolidated 2010 $'000
Balance at 1 July		1,616,766	1,337,510
Net profit for the year		299,646	305,090
Items of other comprehensive income recognised directly in retained earnings			
Actuarial gains on retirement benefit obligation, net of tax		(10)	(285)
Initial recognition of deferred tax balances		-	7,295
Dividends paid	(a)	(434,383)	(32,844)
Balance at 30 June		1,482,019	1,616,766

	Consolidated 2011 $'000	2010 $'000
(a) Dividends paid		
Final unfranked dividend for the year ended 30 June 2010 of $0.57 per fully paid share paid on 3 December 2010	48,831	-
Interim unfranked dividend for the year ended 30 June 2010 of $1.01 (2010: $0.39) per fully paid share paid on 15 June 2011 (2010: 4 June 2010)	85,552	32,844
Special unfranked dividend for the year ended 30 June 2010 of $3.53 per fully paid share paid on 15 June 2011	300,000	-
	434,383	32,844

Note 22: Commitments

	Consolidated 2011 $'000	2010 $'000
(a) Capital expenditure commitments		
Estimated capital expenditure contracted for at balance date, but not provided for, payable:		
Within one year	1,583	1,519
After one year but not more than five years	2,802	-
Longer than five years	-	-
	4,385	1,519

Capital expenditure commitments predominantly relate to IT projects.

	Consolidated 2011 $'000	2010 $'000
(b) Operating lease commitments		
Future operating lease rentals not provided for, payable:		
Within one year	35,771	25,941
After one year but not more than five years	77,078	60,412
Longer than five years	4,195	8,366
Total minimum lease payments	117,044	94,719

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. Renewal and purchase options exist in relation to operating leases for office equipment. No operating leases contain restrictions on financing or other leasing activities.

Notes to the Financial Statements

Note 22: Commitments continued

	Consolidated 2011 $'000	Consolidated 2010 $'000
(c) Other expenditure commitments		
Other commitments not provided for, payable:		
Within one year	34,379	46,461
After one year but not more than five years	25,895	50,507
Longer than five years	-	125
	60,274	97,093

Other commitments consist of IT outsourcing, IT software, sponsorship agreements and property maintenance commitments.

	2011	2010
Total commitments payable	181,703	193,331

	Consolidated 2011 $'000	Consolidated 2010 $'000
(d) Lease commitments: Group as lessor		
Operating lease commitments not accrued for, receivable:		
Within one year	534	519
After one year but not more than five years	315	851
Longer than five years	-	-
	849	1,370

The Group leases unused office space under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights.

Note 23: Key management personnel

The names of persons who were directors and specified executives of the Group at any time during the financial year are disclosed in the Directors' Report. Except where indicated, all of these persons were also directors and specified executives during the year ended 30 June 2011.

	Consolidated 2011 $	Consolidated 2010 $
Short term	7,280,947	4,766,189
Post Employment	348,167	273,061
Long term	291,833	410,264
	7,920,947	5,449,514

Details of key management personnel remuneration are disclosed in the Directors' Report.

Note 24: Related party transactions

Transactions with related parties

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

A number of these entities transacted with the Group in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

Transactions entered into directly by Directors or Director related entities with the Group have been either trivial or domestic in nature.

There have been no loans to Directors or specified executives during the year.

The company is wholly owned by the Commonwealth Government. No director holds shares in the company.

Note 25: Business combinations

Acquisition of Medibank Health Solutions Telehealth Pty Ltd (formerly McKesson Asia-Pacific Pty Ltd)

(a) Summary of acquisition

On 9 April 2010 Medibank Health Solutions Pty Ltd entered into a Share Purchase Agreement to acquire 100% of the shares in Medibank Health Solutions Telehealth Pty Ltd ("MHST"). Following satisfaction of customary conditions precedent the completion of this transaction occurred on 1 July 2010. The acquisition has significantly increased the Group's on-line and telephone health management business.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	$'000
Purchase consideration:	
Cash paid	146,783
Total purchase consideration	146,783

The assets and liabilities recognised as a result of the acquisition are as follows:

	$'000
Cash	14,941
Trade receivables	8,906
Plant and equipment	2,712
Deferred tax asset	2,353
Intangible assets: Software	19,855
Intangible assets: Customer contracts and relationships	23,733
Intangible assets: Assets under construction	636
Other assets	745
Trade payables	(7,818)
Current tax liability	(471)
Provisions	(4,461)
Deferred tax liability	(6,322)
Net identifiable assets acquired	54,809
Add: goodwill	91,974
Net assets acquired	146,783

The goodwill is attributable to the experienced nature of the workforce and the future earnings potential of the acquired business. It will not be deductible for tax purposes.

Note 25: Business combinations continued

Acquired receivables
The fair value of acquired trade receivables is $8,906,000. The gross contractual amount for trade receivables due is $9,087,000 of which $181,000 is expected to be uncollectible.

Revenue and profit contribution
The acquired business contributed revenues of $88,511,000 and net profit before tax of $6,963,000 to the Group for the period from 1 July 2010 to 30 June 2011.

Acquisition-related costs
Acquisition-related costs of $2,889,000 are included in other expenses in profit or loss and in operating cash flows in the statement of cash flows.

Acquisition of Carepoint Holdings Pty Ltd

On 30 August 2010, the Group acquired 100% of Carepoint Holdings Pty Ltd ("Carepoint"), with consideration of $7.2 million being paid in total. Immediately following the acquisition, the assets of the business were transferred to Medibank Health Solutions. Carepoint Holdings Pty Ltd was de-registered on 21 June 2011.

(b) Purchase consideration – cash outflow	2011 $'000 MHST	2011 $'000 Carepoint	2011 $'000 Total
Outflow of cash to acquire subsidiary, net of cash acquired			
Cash consideration	146,783	7,169	153,952
Less: Balances acquired			
Cash	(14,941)	-	(14,941)
Outflow of cash – investing activities	131,842	7,169	139,011

There were no acquisitions in the year ending 30 June 2010.

Note 26: Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(b).

Name of entity	Country of incorporation	Class of Units	Ownership interest 2011 %	Ownership interest 2010 %
Australian Health Management Group Pty Ltd	Australia	Ordinary Shares	100	100
- International Health Benefits Pty Ltd *	Australia	Ordinary Shares	100	100
- Dencare Australia Pty Ltd *	Australia	Ordinary Shares	100	100
- Carelink Australia Pty Ltd*	Australia	Ordinary Shares	100	100
- Mercantile Mutual Health Pty Ltd *	Australia	Ordinary Shares	100	100
- Total Health Pty Ltd *	Australia	Ordinary Shares	100	100
Medibank Health Solutions Pty Ltd	Australia	Ordinary Shares	100	100
- Work Solutions Australia Pty Ltd #	Australia	Ordinary Shares	100	100
- The Travel Doctor TMVC Pty Ltd #	Australia	Ordinary Shares	100	100
- IQ Consultants Pty Ltd * #	Australia	Ordinary Shares	100	100
- Medibank Health Solutions Telehealth Pty Ltd (formerly McKesson Asia-Pacific Pty Ltd) #	Australia	Ordinary Shares	100	-
- Fitness2Live Pty Ltd #	Australia	Ordinary Shares	100	-
- Fitness2Live (UK) Ltd	United Kingdom	Ordinary Shares	100	-
- Medibank Health Solutions New Zealand Limited (formerly McKesson New Zealand Ltd)	New Zealand	Ordinary Shares	100	-

** These entities were non-operating entities during the year ended 30 June 2011.*
 # These subsidiaries are wholly owned by Medibank Health Solutions Pty Ltd and have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to the Medibank Health Solutions Pty Ltd Annual Report for the year ended 30 June 2011.

Note 27: Contingencies

On 11 October 2009 (prior to the Group's acquisition of Medibank Health Solutions Telehealth Pty Ltd) - Medibank Health Solutions Telehealth Pty Ltd entered into a Share Purchase Agreement to acquire 100% of the shares in Fitness2Live Pty Ltd. The agreement included contingent consideration by way of an earn-out capped at $5m relating to revenue and gross margin performance in the periods up to 30 June 2012. Based on current and forecast performance, the directors do not consider it probable that payment of any portion of the earn-out will be required.

There is no material contingent asset or liability at the end of each reporting period.

Note 28: Auditor's remuneration

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

	Consolidated	
	2011 $	2010 $
Australian National Audit Office		
- Auditing the financial report	659,651	551,572
- Other services - regulatory reporting	113,041	108,060
PricewaterhouseCoopers Australia		
- Audit of regulatory returns	29,778	28,090
- Other assurance services	-	-
- Non audit services	102,806	184,600
PricewaterhouseCoopers New Zealand		
- Auditing the financial report	19,286	-
	924,562	872,322

The Australian National Audit Office sub-contracted the audit of the financial report of the Group to PricewaterhouseCoopers for the year ended 30 June 2011 and 2010.

Note 29: Solvency reserve

The Solvency Reserve of the health benefits fund of Medibank Private, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, as at 30 June 2011 is $640,811,000. Total Net Assets are $1,357,394,000 representing an excess of $716,583,000 over the Solvency Reserve.

The Solvency Reserve of the health benefits fund of Australian Health Management, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, as at 30 June 2011 is $67,577,000. Total Net Assets are $254,748,000 representing an excess of $187,171,000 over the Solvency Reserve.

Refer also to Note 19(d) for details of the Group's strategy regarding its meeting of these requirements.

Note 30: Events occurring after the reporting period

No significant events have occurred after the reporting period.

Notes to the Financial Statements

Note 31: Reconciliation of profit after income tax to net cash flow from operating activities

	Consolidated	
	2011 $'000	2010 $'000
Profit	299,646	305,090
Add/(less) non-cash items:		
Depreciation	15,024	15,150
Amortisation of software intangibles	20,630	17,324
Amortisation of acquisition intangibles	9,932	4,862
Loss on disposal of plant and equipment	199	706
Net realised (gain)/loss on financial assets	(13,732)	(27,267)
Net unrealised (gain)/loss on financial assets	(37,092)	(25,056)
Non-operating cash flows		
Interest income	(96,867)	(77,562)
Dividend income reinvested	(8,429)	(4,425)
Trust distribution reinvested	(10,013)	(4,822)
Investment expenses	4,477	4,201
Amounts written off		
Asset impairment	5,214	1,128
Dividends paid included in cash flows from operations	(434,383)	(32,844)
Change in operating assets and liabilities, net of effects from purchase of controlled entities:		
(Increase)/decrease in assets:		
Trade and other receivables	(33,257)	(25,397)
Inventories	(32)	201
Other assets	(5,168)	7,417
Deferred tax asset	(1,047)	(29,261)
Increase/(decrease) in liabilities:		
Trade and other payables	91,363	39,381
Claims liabilities	(29,786)	(78,976)
Income tax liability	37,013	81,091
Deferred tax liability	5,045	5,833
Provisions	10,320	10,429
Net cash (outflow)/inflow from operating activities	(170,943)	187,203

Note 32: Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2011 $'000	2010 $'000
Balance Sheet		
Current assets	2,038,713	2,241,721
Total assets	2,690,426	2,727,870
Current liabilities	1,076,210	980,671
Total liabilities	1,141,842	1,033,863
Shareholder's equity		
Issued capital	85,000	85,000
Reserve		
Equity reserve	17,819	17,819
Retained earnings	1,445,765	1,591,188
	1,548,584	1,694,007
Profit for the year	288,960	282,558
Total comprehensive income	288,960	289,802

(b) Guarantees entered into by parent entity

The parent entity has not provided any financial guarantees.

(c) Contingent liabilities of the parent entity

The parent entity has no material contingent liabilities at the end of the reporting period.

(d) Contractual commitments for the acquisition of property, plant and equipment

As at 30 June 2011, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling $496,000 (2010: $421,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

Notes to the Financial Statements

Directors' Declaration

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

In the opinion of the directors:

(a) the financial statements and notes set out on pages 60 to 113 are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and

  (ii) complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) there are reasonable grounds to believe that the Company and the Group will be able to pay their debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 2011.

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

On behalf of the Board,

Paul M'Clintock

Paul McClintock AO
Chairman

George Savvides
Managing Director

Melbourne, 29 August 2011

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the members of Medibank Private Limited

I have audited the accompanying financial report of Medibank Private Limited, which comprises the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Change in Equity, Statement of Cash Flows for the year then ended, Notes comprising a Summary of Significant Accounting Policies and other explanatory information, and the Directors' Declaration of the consolidated entity comprising Medibank Private Limited and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of Medibank Private Limited are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT 2600
Phone (02) 6203 7300 Fax (02) 6203 7777

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting my audit, I have complied with the independence requirements of the *Corporations Act 2001*. I confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Medibank Private Limited on 25 August 2011, would be in the same terms if provided to the directors as at the time of this auditor's report.

Opinion

In my opinion the financial report of Medibank Private Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date;

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(iii) the consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Australian National Audit Office

Ian Goodwin
Group Executive Director
Delegate of the Auditor-General

Canberra
29 August 2011

Medibank Private retail sites

New South Wales

Albury
Armidale
Ballina
Bankstown
Blacktown
Bondi Junction
Brookvale
Burwood
Cabramatta
Campbelltown
Casino
Castle Hill
Charlestown
Chatswood
Coffs Harbour
Cooma
Erina
Greenhills
Griffith
Gunnedah
Haymarket
Hornsby
Hurstville
Inverell
Lismore
Liverpool
Macksville
Maitland
Miranda
Nelsons Bay
North Ryde
Nowra
Orange
Pagewood, Eastgardens
Parramatta
Penrith
Raymond Terrace
Richmond
Rouse Hill
Sydney, Martin Place
Tweed Heads
Wagga Wagga
Wallsend
Wollongong

Western Australia

Albany
Armadale
Belmont
Bentley
Booragoon
Bunbury
Busselton
Cannington
Claremont
Clarkson
Collie
Denmark
East Victoria Park
Esperance
Geraldton
Hillarys Whitford
Innaloo
Joondalup
Kalgoorlie
Karratha
Karrinyup
Maddington
Mandurah
Midland
Morley
Perth
Rockingham
Secret Harbour
Subiaco
Wanneroo

Victoria

Bendigo
Box Hill
Broadmeadows
Camberwell
Chadstone
Cheltenham, Southland
Cranbourne
Dandenong
Docklands
Doncaster
Frankston
Geelong
Glen Waverley
Knox City
Maribyrnong, Highpoint
Melbourne, Galleria
Plenty Valley
Preston, Northland
Ringwood
Sale
Traralgon
Watergardens
Wendouree, Ballarat
Werribee

Queensland

Brisbane
Broadbeach, Pacific Fair
Bundaberg West
Cairns
Caloundra
Capalaba
Carindale
Chermside
Garden City, Mt Gravatt
Gladstone
Gympie
Hervey Bay
Indooroopilly
Ipswich
Loganholme
Mackay
Maroochydore
Maryborough
Northlakes
Robina
Rockhampton
Southport
Sunnybank
Toowoomba
Townsville

South Australia

Adelaide
Berri
Colonnades Noarlunga
Elizabeth
Gawler
Marion Oaklands Park
Modbury
Mount Gambier
Port Augusta
Port Lincoln
Port Pirie
West Lakes
Whyalla

Tasmania

Burnie
Devonport
Glenorchy
Hobart
Kingston
Launceston

Australian Capital Territory

Belconnen
Civic
Queanbeyan
Tuggeranong Greenway
Woden

Northern Territory

Alice Springs
Casuarina
Darwin
Palmerston

ahm sites

Private Health Insurance

New South Wales

Wollongong

Dental and Eyecare Practices

New South Wales

Parramatta
Sydney
Wagga Wagga

Medibank Health Solutions sites

New South Wales

Albury
Botany
Newcastle
St Leonards
Parramatta
Surry Hills
Wollongong

Western Australia

Karratha
Malaga (Carepoint)
O'Connor (Carepoint)
Osborne Park
Perth
Welshpool (Carepoint)

Victoria

Campbellfield
Dandenong
Docklands
Laverton North
Melbourne
Richmond

Queensland

Brisbane
Brisbane Airport
Cannon Hill
Hyde Park
Oxley
Raceview
Southport

South Australia

Adelaide
Dulwich
Mt Gambier
Port Augusta

Tasmania

Hobart
Launceston

Australian Capital Territory

Canberra
Woden

Northern Territory

Darwin

New Zealand

Wellington

The Travel Doctor - TMVC

New South Wales

Newcastle
Parramatta
Sydney
Wollongong

Western Australia

Perth

Victoria

Docklands
Melbourne

Queensland

Spring Hill

South Australia

Adelaide

Australian Capital Territory

Canberra

Northern Territory

Darwin

Corporate Directory

Company name
Medibank Private Limited

Current Directors (at 29 August 2011)
Paul McClintock (Chairman)
George Savvides (Managing Director)
Elizabeth Alexander
Jane Harvey
Cherrell Hirst
Leanne Rowe
Philip Twyman

Company Secretary
Stephen Harris

Registered office
Level 17, 700 Collins Street
Docklands, Victoria 3008

ACN
080 890 259

ABN
47 080 890 259

Medibank Private Limited is a Registered Private Health Insurer

Group General Counsel
Mei Ramsay

Auditor
Auditor-General

Bankers
Westpac Banking Corporation

Contact details
132 331
Ask_us@medibank.com.au

Photography
Elisabeth Jane Photography

Special thanks to The Cradle Hawthorn

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