# APPENDIX 4E

## MEDIBANK PRIVATE LIMITED
## ABN 47 080 890 259

## RESULTS FOR ANNOUNCEMENT TO THE MARKET

| | Medibank Private Limited Group Financial year ended 30 June | | | |
|---|---|---|---|---|
| | 2015 $m | 2014 $m | M'ment $m | M'ment % |
| Health Insurance premium revenue | 5,934.8 | 5,648.7 | 286.1 | 5.1% |
| Complementary Services revenue | 641.2 | 723.1 | (81.9) | (11.3%) |
| Revenue (excluding net investment and other income) from ordinary activities | **6,576.0** | 6,371.8 | 204.2 | 3.2% |
| Net investment and other income | 105.6 | 124.2 | (18.6) | (15.0%) |
| **Total income from continuing operations** | **6,681.6** | 6,496.0 | 185.6 | 2.9% |
| **Profit from ordinary activities after tax attributable to members** | **285.3** | 130.8 | 154.5 | 118.1% |
| **Net profit attributable to members** | **285.3** | 130.8 | 154.5 | 118.1% |

The results are summarised as follows:

- Health Insurance premium revenue increased 5.1 percent or $286.1 million to $5,934.8 million
- Complementary Services revenue decreased 11.3 percent or $81.9 million to $641.2 million
- Net investment and other income decreased 15.0 percent or $18.6 million to $105.6 million
- Profit from ordinary activities increased 118.1 percent or $154.5 million to $285.3 million
- Earnings per share increased 118.1 percent to 10.4 cents

For further information refer to the directors' report of Medibank Private Limited for the year ended 30 June 2015.

**Dividend information**

On 30 October 2014, a dividend of 9 cents per share amounting to $238.8 million (including $58.8 million from earnings for the five months ended 30 November 2014) was paid to the Commonwealth Government.

In line with our expectations in the prospectus lodged with the Australian Securities and Investments Commission on 20 October 2014, no interim dividend was declared for the year ended 30 June 2015.

An inaugural fully franked dividend of 5.3 cents per share was declared on 21 August 2015, payable on 28 September 2015 to shareholders registered on 7 September 2015.

## RESULTS FOR ANNOUNCEMENT TO THE MARKET (CONTINUED)

**Net tangible assets per ordinary share**

| | Medibank Private Limited Group as at 30 June | |
|---|---|---|
| | 2015 cents | 2014 cents |
| Net tangible assets per ordinary share | **42.9** | 41.8 |

Net tangible assets are defined as the net assets of the Medibank Private Limited Group less intangible assets. A share split took place prior to the Group's Initial Public Offering in the year ended 30 June 2015, whereby an additional 31.4 shares were issued for every one existing share. The number of shares on issue at 30 June 2015 was 2,754,003,240 (2014: 85,000,100). For comparative purposes, the number of shares on issue at 30 June 2014 has been adjusted.

# DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2015

The directors of Medibank Private Limited (Medibank) present their report on the consolidated entity consisting of Medibank and the entities it controlled (collectively referred to as the Group) for the year ended 30 June 2015.

## OPERATING AND FINANCIAL REVIEW

### 1. About Medibank

Medibank is Australia's largest private health insurer. Medibank's core business is Health Insurance, whereby it underwrites and distributes private health insurance policies. Medibank also has a group of related businesses, "Complementary Services", which capitalise on Medibank's experience and expertise, and support the Health Insurance business. As Medibank maintains assets to satisfy its regulatory reserves, it can also generate significant investment income from its portfolio of investment assets.

Medibank was founded in 1976 as a private health insurer owned and operated by the Australian Government. It has operated on a for-profit basis since 2009. On 25 November 2014, it was sold by the Australian Government by way of an initial public offering (IPO) and listed on the Australian Securities Exchange.

### 2. Financial and operating performance

References to '2014' and '2015' are to the financial years ended on 30 June 2014 and 30 June 2015, respectively, unless otherwise stated.

### 2.1 Group summary income statement

| **Year ended 30 June – statutory ($m)** | **2015** | **2014** | **Change (%)** |
|---|---|---|---|
| Health Insurance premium revenue | 5,934.8 | 5,648.7 | 5.1 |
| Complementary Services revenue | 641.2 | 723.1 | (11.3) |
| **Revenue** | **6,576.0** | **6,371.8** | **3.2** |
| Health Insurance operating profit | 332.2 | 250.8 | 32.5 |
| Complementary Services operating profit | 14.2 | 26.7 | (46.8) |
| **Segment operating profit** | **346.4** | **277.5** | **24.8** |
| Corporate overheads | (42.1) | (40.8) | 3.2 |
| Impairment and restructuring expenses | - | (134.7) | n/a |
| Net investment income | 93.8 | 113.9 | (17.6) |
| Other income/(expenses) | (1.5) | 1.0 | n/a |
| **Profit before tax** | **396.6** | **216.9** | **82.8** |
| Income tax expense | (111.3) | (86.1) | 29.3 |
| **Net profit after tax** | **285.3** | **130.8** | **118.1** |
| Earnings per share[1] (cents) | 10.4 | 4.7 | 118.1 |
| **Dividend**[2] (cents per share) | **5.3** | | |

1. Assumes 2,754,003,240 shares on issue for the entire period
2. The inaugural dividend for 2015 is payable in respect of the seven month period from 1 December 2014 to 30 June 2015.

Net profit after tax (NPAT) increased by $154.5 million to $285.3 million in 2015. This result reflects that $134.7 million before tax of expenses were incurred in the prior year for the write-down of goodwill, mainly associated with the Telehealth business, and for the reorganisation of Complementary Services. Excluding these amounts, NPAT increased by $33.5 million or 13.3 percent from $251.8 million to $285.3 million. This was principally due to the 32.5 percent improvement in operating profit in the Health Insurance business. This more than offset the reductions in the contribution from the Complementary Services business and net investment income. The key reasons for the movements in these components are set out below.

*Health Insurance*

| **Year ended 30 June – statutory ($m)** | **2015** | **2014** | **Change %** |
|---|---|---|---|
| Health Insurance premium revenue | 5,934.8 | 5,648.7 | 5.1 |
| Net claims expense (incl. risk equalisation) | (5,092.9) | (4,884.3) | 4.3 |
| Gross profit | 841.9 | 764.4 | 10.1 |
| Management expenses | (509.7) | (513.6) | (0.8) |
| Operating profit | 332.2 | 250.8 | 32.5 |
| **Gross margin (%)** | **14.2%** | **13.5%** | **70 bps** |
| **Management expense ratio (%)** | **8.6%** | **9.1%** | **(50 bps)** |
| **Operating margin (%)** | **5.6%** | **4.4%** | **120 bps** |

The Health Insurance business contributed 90 percent of group revenue and 96 percent of segment operating profit in 2015. The Health Insurance business operates a single health fund through two brands which are managed on an overall portfolio basis with an emphasis on group outcomes. In 2015, 98 percent of Health Insurance revenue came from resident health insurance policies sold to the retail and corporate customer segments, with the balance from overseas visitors and students health cover policies.

Premium revenue increased by 5.1 percent. This increase was underpinned by government approved premium rate rises of 6.50 percent (effective from 1 April 2014) and 6.59 percent (effective from 1 April 2015). Average revenue per member increased by 4.6 percent reflecting sales mix changes due to greater growth in extras cover and cover reductions. The number of members increased by 0.3 percent, from 3.87 million to 3.90 million. This growth was below the broader market. While Medibank brand volumes were down marginally, the ahm brand continued its strong member growth and continued to grow its share of the new-to-industry segment of the market. The sales performance of the Medibank brand is being addressed through product optimisation and customer engagement programs, while maintaining a focus on profitable growth.

Health benefit claims paid for members (claims expenses) are the largest cost for the Health Insurance business, representing 85.8 percent of premium income in 2015. Benefits paid to members increased by $208.6 million, or 4.3 percent, to $5.1 billion.

The Health Insurance gross margin rose from 13.5 percent in 2014 to 14.2 percent in 2015. The impact of increasing member lapse rates and cover reductions was more than offset by improved health benefit claims management, particularly through the payment integrity program which is reducing improper claims. Better claims outcomes than provided for in the 30 June 2014 claims provision[1] further improved the result.

Management expenses decreased by $3.9 million or 0.8 percent in 2015 due to increased operating efficiencies. As a result, Medibank's management expense ratio fell from 9.1 percent in 2014 to 8.6 percent in 2015.

[1] Based on Note 4(d) of the 30 June 2015 consolidated financial report, $28.4 million of the 30 June 2014 central estimate for outstanding claims was subsequently released to reflect the updated expectation of the outcome. Net of the estimated related reduction in risk equalisation, the amount was approximately $18 million before tax (or $13 million after tax).

The premium revenue growth, the effective management of health benefit claims, the claims provision release and the reduction in expenses resulted in an increase in 2015 Health Insurance operating profit of $81.4 million or 32.5 percent. Consequently, the Health Insurance operating margin rose from 4.4 percent in 2014 to 5.6 percent in 2015.

*Complementary Services*

The Complementary Services businesses contributed 10 percent of group revenue and 4 percent of segment operating profit in 2015. The main businesses are the provision of health management and telehealth services for government and corporate customers, and the sale of travel, life and pet insurance products. The role of Complementary Services is to strengthen and complement the core Health Insurance business, especially by providing health system access and identifying pathways to optimal care. The businesses are expected to provide an appropriate stand-alone financial return.

In 2015, Complementary Services revenue decreased by $81.9 million or 11.3 percent and operating profit decreased by $12.5 million or 46.8 percent. This was due principally to the non-renewal of the immigration contract with the Commonwealth Government which expired with effect from July 2014. Excluding the impact of this contract, revenue was down 1.6% to $638.5 million, however operating profit increased from $11.5 million to $13.5 million due to increased operating efficiencies.

The strategic review of the Complementary Services businesses is now complete. Anywhere Healthcare has been sold, and Workplace Health and Travel Doctor are in the process of being sold. The continuing businesses comprise the Australian Defence Force contract for health services, telehealth and the diversified consumer businesses of travel, life and pet insurance.

*Investment income*

Medibank's investment portfolio was $2.4 billion at 30 June 2015, consisting of cash and other investments. This investment portfolio provides liquidity to cover insurance liabilities related to the Health Insurance business and satisfies Medibank's obligations to maintain regulatory reserves to meet health benefit claims and to fund ongoing operations. In 2015, net investment income reduced by $20.1 million or 17.6 percent, due primarily to lower interest rates and lower returns from equity markets compared with equity returns in 2014.

### 2.2 Group financial position

Medibank's net asset position increased by $48.1 million (3.5 percent) to $1,442.0 million at 30 June 2015.

The major movement during the year was the significant cash decrease of $299.3 million. This was largely due to a strategic asset allocation decision in the investment portfolio resulting in the proportion of investments held in cash being reduced.

As at 30 June 2015, Medibank's balance sheet remained debt free.

### 2.3 Capital management and dividends

Medibank's capital management objective is to maintain a strong financial risk profile and capacity to meet financial commitments. As at 30 June 2015, Medibank's total Health Insurance business-related capital of 12.3 percent of premium revenue, after the allowance for declared but unpaid dividends, was within Medibank's targeted range of 12 percent to 14 percent.

Dividends paid or payable in respect of the financial year comprised:

- Dividends to the Commonwealth prior to the IPO: a $42.0 million final dividend for 2014 and a $196.8 million special dividend, comprising $138.0 million from retained earnings as at 30 June 2014 and a further $58.8 million from earnings for the five months to 30 November 2014.

- Dividends to shareholders post the IPO: an inaugural dividend of 5.3 cents per share (fully franked) ($146.0 million) to be paid on 28 September 2015 in respect of the seven-month period from 1 December 2014 to 30 June 2015. Together with the $58.8 million paid to the Commonwealth, this effectively represents a full year dividend in respect of the 12 months to 30 June 2015 of $204.8 million or 7.4 cents per share based upon the post IPO shares on issue.

It is the Board's intention to pay dividends in arrears for the six-month periods ending 31 December (interim dividend) and 30 June (final dividend) each year. The Board's current policy as outlined in the Prospectus is to target a payout ratio of between 70 percent and 80 percent of annual underlying NPAT. Underlying NPAT is calculated based on NPAT adjusted for short-term outcomes that are expected to normalise over the medium to longer term, most notably in relation to the level of gains or losses from investments, and for one-off items, especially those that are non-cash, such as asset impairments.

### 2.4 Management changes

In April 2015, Medibank announced organisational changes in the Health Insurance business. The responsibility for the Health Insurance business (and diversified insurance products) was transferred to David Koczkar, Chief Operating Officer. Responsibility for the Telehealth businesses moved to Andrew Wilson, Executive General Manager Provider Networks and Integrated Care, bringing it together with the population health management business. The subsequent reorganisation resulted in Laz Cotsios, Chief Customer Officer, leaving Medibank.

## 1. Strategy and future prospects

Medibank seeks to grow shareholder value by profitably growing its customer base while achieving affordable, consistent and quality health outcomes for its members.

Medibank's primary focus is on optimising its Health Insurance business through improved product performance, better marketing and sales effectiveness and a continued focus on health cost leadership and operational excellence.

In the short to medium term, management will be focused on:

- introducing new products and benefits to drive growth including rolling out the new corporate product and new hospital products,
- improving product performance by addressing underperforming products,
- improving brand positioning and customer segmentation to give customers a clearer and more compelling value proposition,
- an increasingly targeted approach to customer retention to reduce lapse
- renegotiating hospital contracts to focus on quality outcomes and long-term affordability for members,
- expanding the payment integrity program to address improper health benefit claims,
- continuing the core system upgrade, especially DelPHI, to deliver improved customer service and engagement as well as efficiency improvements, and
- continuing to drive overhead efficiency and cost discipline to deliver further management expense ratio reductions.

With the review of Complementary Services now complete, the focus will be on improving the operating performance of that business.

Over time, Medibank sees value in evolving from a traditional health insurer to a health assurer to influence different parts of the healthcare value chain. This will help to improve the quality of life and healthcare experience of members as well as address the rising cost of healthcare.

In the medium to longer term, growth in the Australian healthcare industry is expected to continue to benefit from a growing and ageing population, increasing wealth per adult, increasing demand for medical treatment due to improved technology, treatment methods and the increased prevalence of chronic diseases and an increase in the number and range of services on offer, as well as increasing use of these services. Against this backdrop, expectations are for continued overall government support for the sector and its regulatory settings, and for the health insurance participation rate to remain steady as it continues to share the burden with the broader public health system.

The industry challenges from changing consumer behaviour due to ongoing affordability considerations and increased switching, as well as rising provider costs and product utilisation rates, are likely to persist in the medium to longer term.

## 2. Material business risks

The material business risks which could affect Medibank's operations, business strategies and financial prospects are summarised below:

| |
|---|
| **Healthcare costs and utilisation:** rising healthcare costs affect product margins, erode the value proposition and can result in customers reducing cover. Medibank is addressing these issues with various programs, including focusing on quality outcomes and long term affordability for members in its approach to provider negotiations. |
| **Competition and customer lapse:** private health insurers and comparison websites compete to attract and retain customers on price, products, service and channels, increasing customer switching. Medibank continually assesses its product and channel mix to optimise margins and market share. |
| **Product pricing and design:** products may be mispriced or incorrectly designed and pricing is ultimately subject to government approval. Product profitability is closely monitored and compared to actuarially-derived costings. |
| **Improper claims:** these can represent a material source of cost and can result from fraudulent or erroneous health benefit claims made by providers and customers, including over-servicing or miscoding. Medibank's payment integrity program focuses on identifying, preventing and recovering improper claims. |
| **Capital management and investment returns**: Medibank's investment portfolio is subject to normal market risks (such as interest rates, exchange rates and equity market volatility) that can affect investment valuations and income volatility. Medibank actively manages its capital and investments in line with its risk appetite and investment policies. |
| **Healthcare provider agreements:** Medibank aims to be a health cost leader and introduce provider quality standards. Failure to reach contractual agreements may result in poor customer experiences, brand damage and loss of market share. Medibank strives to reach agreement with its providers, but has contingency plans in place for unfavourable negotiation scenarios. |
| **Information technology:** Medibank may be affected by cyber-attacks or failure in critical data, processes or systems. IT controls are continually under review and are protected through the use of detective, preventative and response tools. Medibank is also replacing its core policy management systems, so there is a risk of failure to deliver on time, within budget and with the required functionality. Key project components are being delivered under a fixed price agreement with external parties. |
| **Regulation:** Government policy and regulation may change, potentially reducing the effectiveness of regulatory incentives and resulting in customers discontinuing or reducing levels of cover. Medibank engages with key stakeholders and participates in industry forums to encourage informed policy setting and regulation. |

## DIRECTORS

Details of the directors in office at the date of this report and (or holding office during the financial year) and each director's qualifications, experience and special responsibilities are set out below. All directors were in office for the entire period.

### Elizabeth Alexander AM (Chairman and Independent Non-Executive Director)
### BCom, FAICD, FCA, FCPA

Elizabeth was appointed a director in October 2008 and Chairman in March 2013. She is Chairman of the Nomination Committee.

As a former partner at PricewaterhouseCoopers (1977–2002), Elizabeth specialised in the area of risk management and corporate governance.

Elizabeth is currently chairman of DEXUS Wholesale Property Limited and a director of DEXUS Funds Management Limited as part of the Dexus Property Group, and a director of the IOOF Foundation. She is Chancellor of the University of Melbourne, and a member of the McKeon Review (the Strategic Review of Health and Medical Research).

Elizabeth was previously Chairman of CSL and a Director of Boral Limited and Amcor Limited. She is a former Chair of the Australian Prudential Regulation Authority's Risk and Audit Committee. Elizabeth is also a former National President of CPA Australia and the Australian Institute of Company Directors, and a former member of the Takeovers Panel.

Directorships of other listed companies held in the past three years:
Dexus Property Group, since 1 Jan 2005.

### George Savvides (Managing Director)
### BE (Hons), MBA, FAICD

George was appointed a director in September 2001 and appointed Managing Director in April 2002. Trained as an industrial engineer, George has 25 years' experience in the Australian healthcare industry. George is a member of the Business Council of Australia and represents Australia as the Vice President on the Council of the International Federation of Health Plans. He is a non-executive Director of Ryman Healthcare, a company listed in New Zealand, and Chairman of World Vision Australia. George is a former Managing Director of Healthpoint Technologies and Smith & Nephew Australasia, Managing Director and Chief Executive Officer of Sigma Pharmaceuticals, General Manager of CIG Healthcare Australia, and Chairman of Medicines Partnerships of Australia.

Directorships of other listed companies held in the past three years:
Ryman Healthcare Limited (NZ), since 1 May 2013.

### Anna Bligh (Independent Non-Executive Director)
### BA (QLD)

Anna was appointed a director in December 2012.

Anna has extensive experience in leadership and public policy, including in the fields of healthcare, finance, infrastructure and project management. Anna is currently the Chief Executive Officer of YWCA NSW and a non-executive director of Bangarra Dance Theatre Australia.

Anna has held several roles in the Queensland Government, including Premier, Treasurer, Minister for Finance, Minister for State Development, Minister for Trade and Innovation and Minister for Education. She was also a member of the Queensland Cabinet Budget Review Committee for 11 years.

Directorships of other listed companies held in the past three years:
Nil.

**David Fagan (Independent Non-Executive Director)**
**LLB, LLM, GAICD**

David was appointed a director in March 2014. He was Chairman of the Privatisation Committee in the lead up to Medibank's listing.

David is a highly experienced banking and major projects lawyer with more than 35 years' experience. He acted for major banks and corporate clients with Clayton Utz, and was Clayton Utz's Chief Executive Partner from May 2001 to June 2010.

David is a Director and Chair of the Audit Committee of The Global Foundation, a Director of Hilco Merchant Australia, Hilco Oz and UBS Grocon Real Estate Investment Management.

Directorships of other listed companies held in the past three years:
Nil.

**Dr Cherrell Hirst AO (Independent Non-Executive Director)**
**FTSE, MBBS, BEdSt, D.Univ (Hon), FAICD**

Cherrell was appointed a director in December 2009.

Cherrell has practised medicine for 30 years and is a highly experienced company director.

Cherrell is the Chairman of ImpediMed Limited and a director of Tissue Therapies Limited, Gold Coast Hospital and Health Service, and RSL Care Ltd. In addition, she is a director of a private biotechnology company (Hatchtech Pty Limited) and chairs the Advisory Board of the Institute of Molecular Bioscience at the University of Queensland.

Cherrell is a former director of Telesso Technologies Limited, Suncorp Group Limited, Avant Mutual Group and Avant Insurance Limited. She was Chancellor of the Queensland University of Technology from 1994 to 2004.

Directorships of other listed companies held in the past three years:
ImpediMed Limited, since 1 Aug 2005;
Tissue Therapies Limited, since 30 Jun 2009;
Telesso Technologies Limited, 9 Oct 2012 – 1 Nov 2013.

**Peter Hodgett (Independent Non-Executive Director)**
**BSc (Hons), FIAA, FAHRI, FAICD**

Peter was appointed a director June 2013 and is Chairman of the Investment and Capital Committee.

Peter worked for AMP for more than 20 years in a wide variety of business and functional roles, including Chief Actuary during its demutualisation, General Manager of Human Resources and Strategy, and as Global Director of Finance and Operations for Henderson Global Investors in the United Kingdom.

Peter is currently a director of Colonial First State Investments Limited, Colonial Mutual Superannuation and Avanteos Investments, and a member of the compliance committee for CFS Managed Infrastructure.

Directorships of other listed companies held in the past three years:
Nil.

### Linda Bardo Nicholls AO (Independent Non-Executive Director)
### BA, MBA (Harvard), FAICD

Linda was appointed a director in March 2014. She is Chairman of the People and Remuneration Committee.

Linda has more than 30 years' experience as a senior executive and director in banking, insurance and funds management in Australia, New Zealand and the United States. She is Chairman of Japara Healthcare Limited and a director of Pacific Brands Limited, Fairfax Media Limited, Sigma Pharmaceuticals Limited, and Olivia Newton-John Cancer Research Institute. Linda is also chairman of KDR Victoria Pty Ltd (Yarra Trams).

Linda was previously chairman of Healthscope Limited and of Australia Post, and was a director of St George Bank and Insurance Manufacturers of Australia. Linda was also a member of the Walter and Eliza Hall Institute of Biomedical Science.

Directorships of other listed companies held in the past three years:
Fairfax Media Limited, since 26 Feb 2010;
Japara Healthcare Limited, since 19 Mar 2014;
Pacific Brands Limited, since 24 Oct 2013;
Sigma Pharmaceuticals Limited, since 5 Dec 2005.

### Christine O'Reilly (Independent Non-Executive Director)
### BBus

Christine was appointed a director in March 2014. She is Chairman of the Audit and Risk Management Committee.

Christine has more than 30 years of financial and infrastructure experience both in Australia and internationally. Christine is currently a director of CSL Limited, Transurban Group, EnergyAustralia and Baker IDI, and is Deputy Chair of Care Australia.

Christine was formerly Co-head of Unlisted Infrastructure at Colonial First State Global Asset Management, and prior to that was Chief Executive and director of GasNet Australia Group.

Directorships of other listed companies held in the past three years:
CSL Limited, since 16 Feb 2011;
Transurban Group, since 12 Apr 2012.

## COMPANY SECRETARY

### Mei Ramsay (Group General Counsel and Company Secretary)
### BA, LLB, LLM

Mei was appointed Group General Counsel in March 2011 and Company Secretary in October 2014.

Mei has more than 20 years' experience in the legal profession, both as internal counsel and in private practice. Prior to joining Medibank, Mei held various legal positions at Cummins, Coles Myer, Southcorp, Minter Ellison and Arnold Bloch Leibler.

## ATTENDANCE AT MEETINGS

The table below shows the number of directors' meetings held (including meetings of Board committees noted below) and the number of meetings attended during the year:

| Director | Board | | Audit and Risk Management Committee | | Investment and Capital Committee | | Nomination Committee | | People and Remuneration Committee | | Privatisation Committee | | Board Sub Committee | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | A | B | A | B | A | B | A | B | A | B | A | B | A | B |
| Elizabeth Alexander | 15 | 15 | 6 | 6 | | | 1 | 1 | 3 | 3 | | | 2 | 2 |
| George Savvides | 15 | 15 | | | 3 | 3 | | | | | | | 1 | 1 |
| Anna Bligh | 15 | 15 | | | 2 | 3 | | | 4 | 5 | | | | |
| David Fagan | 15 | 15 | | | 1 | 1 | | | 4 | 5 | 11 | 11 | 1 | 1 |
| Dr Cherrell Hirst | 15 | 15 | 6 | 6 | 2 | 2 | | | 5 | 5 | 11 | 11 | 1 | 1 |
| Peter Hodgett | 15 | 15 | 6 | 6 | 3 | 3 | 1 | 1 | 3 | 3 | | | | |
| Linda Bardo Nicholls | 15 | 15 | | | | | 1 | 1 | 5 | 5 | 1 | 5 | | |
| Christine O'Reilly | 14 | 15 | 6 | 6 | | | 1 | 1 | | | 8 | 11 | 2 | 2 |

A Indicates the number of meetings attended during the period
B Indicates the number of meetings held during the time the director held office or was a member of the Committee during the year

In addition to the above, the following directors attended committee meetings by invitation:
Elizabeth Alexander – Investment and Capital (1), People and Remuneration (2), Privatisation (9);
George Savvides – Audit and Risk Management (5), People and Remuneration (4), Privatisation (5);
Anna Bligh - Audit and Risk Management (2), Privatisation (2);
David Fagan – Audit and Risk Management (6), Investment and Capital (2);
Dr Cherrell Hirst – Investment and Capital (1);
Peter Hodgett - People and Remuneration (2), Privatisation (6);
Linda Bardo Nicholls - Audit and Risk Management (4), Investment and Capital (2), Privatisation (1);
Christine O'Reilly - Investment and Capital (2), People and Remuneration (4).

## PRINCIPAL ACTIVITIES

The principal activities of the Group during the financial year were as a private health insurer, and provider of ancillary services that use Medibank's experience and expertise in health insurance. There were no significant changes in the nature of those activities during the year.

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Medibank listed on the Australian Securities Exchange (ASX) on 25 November 2014. A diversified group of retail and institutional shareholders, both domestic and international, acquired stock in Medibank at the listing.

## EVENTS SUBSEQUENT TO BALANCE DATE

In accordance with governmental policy announced in the May 2014 Budget, the prudential supervision functions of the Private Health Insurance Administration Council (PHIAC) were transferred to the Australian Prudential Regulation Authority (APRA) with effect from 1 July 2015. The prudential supervision of private health insurers includes requirements relating to their capital adequacy and solvency as well as the imposition of standards relating to outsourcing of significant operational functions, disclosure of significant matters and events, and requirements for appointed actuaries. While some changes have been made to prudential regulation at the same time that responsibility for that regulation has transferred to APRA, the private health insurance industry has been assured that there would be no substantive changes to regulatory requirements during the first 12 months of regulation of the industry by APRA.

## DIVIDENDS

On 30 October 2014, a dividend amounting to $238.8 million (including $58.8 million from earnings for the five months ended 30 November 2014) was paid to the Commonwealth Government.

An inaugural dividend of 5.3 cents per share (fully franked) has been declared, payable on 28 September 2015 to shareholders registered on 7 September 2015.

## OPTIONS AND PERFORMANCE RIGHTS

During the financial year 1,440,252 performance rights were issued to the Executive Committee (ExCo) members, pursuant to Medibank's Performance Rights Plan (LTI Plan). The performance rights granted are subject to performance conditions. No performance rights have been issued since the end of the financial year up to the date of this report. No performance rights were eligible to vest or to be exercised during the financial year. Further information regarding performance rights is included in the remuneration report.

## DIRECTORS' INTERESTS IN SECURITIES

The relevant interests of directors in Medibank securities at the date of this report were:

| Director | Ordinary Shares | Performance Rights |
|---|---|---|
| Elizabeth Alexander | 4,786 | |
| George Savvides | 122,000 | 558,138 |
| Anna Bligh | 3,835 | |
| David Fagan | 30,016 | |
| Dr Cherrell Hirst | 7,150 | |
| Peter Hodgett | 7,800 | |
| Linda Bardo Nicholls | 7,150 | |
| Christine O'Reilly | 6,454 | |

## ENVIRONMENTAL REGULATION

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

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Medibank's constitution permits Medibank to indemnify, to the maximum extent permitted by law, every person who is or has been a director or officer or senior manager of the Group. The indemnity applies to liabilities incurred by a person in the relevant capacity (except liability for legal costs). The indemnity may however also apply to certain legal costs incurred in obtaining advice or defending legal proceedings. Further, Medibank's constitution permits Medibank to maintain and pay insurance premiums for director and officer liability insurance covering every person who is or has been a director or officer or senior manager of the Group, to the extent permitted by law.

Consistent with the provisions in Medibank's constitution, Medibank has entered into deeds of indemnity, insurance and access with current and former directors. Under these deeds, Medibank:

- indemnifies current and former directors against liabilities incurred as a director to the maximum extent permitted by law;
- is required to maintain a directors' and officers' insurance policy covering current and former directors against liabilities incurred in their capacity as directors. Disclosure of the insurance premium and the nature of the liabilities covered by the insurance are prohibited by the contract of insurance; and
- grants current and former directors access to Medibank's records for the purpose of defending any relevant action.

## AUDITOR

PricewaterhouseCoopers is the auditor of Medibank. Prior to listing PricewaterhouseCoopers was for six years the contract auditor on behalf of the Auditor General, Medibank's auditor. Upon listing PricewaterhouseCoopers was appointed as auditor to fill the casual vacancy and holds office until Medibank's next annual general meeting. Shareholders will be asked to approve the re-appointment of PricewaterhouseCoopers at the annual general meeting on 21 October 2015.

A copy of the auditor's independence declaration given by PricewaterhouseCoopers in relation to its compliance with independence requirements of section 307C of the Corporations Act is set out on page 41.

### Non-audit services

During the year PricewaterhouseCoopers provided certain other services to the Group in addition to statutory responsibilities as auditor.

Until listing the Australian National Audit Office (ANAO) on behalf of the Auditor General was Medibank's auditor with PricewaterhouseCoopers as the contracted auditor. The data provided in the table below refers to audit, assurance and non-audit service fees paid to the ANAO prior to listing and PricewaterhouseCoopers thereafter.

The amounts paid or payable for those services is:

| Year ended 30 June – $'000 | 2015 | 2014 |
|---|---|---|
| **Audit fees** | 1,230.5 | 981.0 |
| **Assurance services fees:** | | |
| Audit of regulatory returns | 119.5 | 120.6 |
| Audit of non-statutory financial reports | | 160.6 |
| **Non-audit service fees:** | | |
| Accounting assistance | | 195.0 |
| Taxation services | 152.0 | 3.0 |
| Other | 70.3 | 34.9 |
| **Total** | **1,572.3** | **1,495.1** |

Further information is provided in Note 25 of the Financial Statements.

Based on the advice provided by the Audit and Risk Management Committee the directors are satisfied that provision of non-audit services during the year by PricewaterhouseCoopers is compatible with the general standard of independence for auditors imposed by the Corporations Act, and that the provision of the non-audit services did not compromise the auditor independence requirements of the Corporations Act for the following reasons:

- All non-audit services provided were approved in accordance with the process set out in Medibank's policies, including being reviewed by the Audit and Risk Management Committee to ensure that provision of the services did not impact the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

## ROUNDING OF AMOUNTS

The amounts contained in this report and in the financial report have been rounded to the nearest hundred thousand dollars (where rounding is applicable) unless specifically stated otherwise under the relief available pursuant to Australian Securities and Investments Commission Class Order 98/100. Medibank is an entity to which that Class Order applies.

## REMUNERATION REPORT

### Contents

Dear Shareholder,

The Board is pleased to present its Remuneration Report for the year ended 30 June 2015. Medibank's remuneration practices are designed to drive shareholder returns by linking remuneration outcomes with Company performance. This report describes the remuneration strategy, governance and decisions made throughout the year.

In a year of lower than expected revenue growth, the success of health benefit claims management and the control of management expenses led to Medibank exceeding Prospectus forecasts. Medibank's 2015 financial outcomes, combined with the performance of executives against role specific metrics, have resulted in the following reward outcomes and decisions:

**2015 performance and remuneration**

- On average, Executive Committee members earned 64 percent of their maximum 2015 short-term incentive;
- As described in the Prospectus, an additional 2015 short-term incentive in the form of 12-month deferred performance rights is to be granted to Executive Committee members to recognise the achievement of Prospectus Group Operating Profit and the additional demands placed on them during the privatisation of Medibank; and
- Under the Long-Term Incentive Plan, deferred performance rights were granted to Executive Committee members in May 2015. These rights will be tested against two separate performance hurdles at the completion of the performance period in July 2017 to determine any vesting of these awards.

Following a review of executive and non-executive director remuneration, the changes below have been made for the 2016 financial year:

**2016 remuneration settings**

- The comparator group for benchmarking 2016 executive and non-executive director remuneration has changed to the ASX 11-100, excluding mining and energy companies; this group is a better reflection of Medibank's post-listing position within the ASX 100;
- No change to the remuneration of the Managing Director or Chief Financial Officer;
- Increases to other Executive Committee members' total target remuneration (fixed remuneration plus target short-term and long-term incentives) to reflect market benchmarks and changes in responsibilities; and
- A minimal increase to the base fee of the Chairman, with no other changes to the base and committee fees of other non-executive directors. Non-executive director fees remain within the fee cap described in the Prospectus.

The Board will continue to review Executive Committee and non-executive director remuneration arrangements to ensure they remain effective in attracting and retaining the best talent to deliver on our commitment to long-term, sustainable shareholder wealth creation. Shareholders are encouraged to review the full report and vote in favour of its adoption at our Annual General Meeting in October.

Yours sincerely,

**Linda Bardo Nicholls AO**
Chairman, People & Remuneration Committee

## 1. KEY MANAGEMENT PERSONNEL OVERVIEW

This Remuneration Report details the remuneration of Medibank's key management personnel which include members of the Executive Committee (ExCo) and non-executive directors.

ExCo members are listed below, together with details of their contractual arrangements. The following pages detail their remuneration framework and outcomes for the year ended 30 June 2015.

| ExCo member | Position | Term as KMP | Contract type | Notice period Employee | Notice period Medibank |
|---|---|---|---|---|---|
| ***George Savvides*** | Managing Director | 19 April 2002 - Current | Fixed Term to 31 July 2017 | 6 months | 12 months |
| ***Paul Koppelman*** | Chief Financial Officer | 7 May 2012 - Current | Ongoing | 3 months | 6 months |
| ***David Koczkar*** | Chief Operating Officer | 31 March 2014 - Current | Ongoing | 3 months | 6 months |
| ***Andrew Wilson*** | Executive General Manager, PNIC | 1 July 2010 - Current | Ongoing | 3 months | 6 months |
| ***Kylie Bishop*** | Executive General Manager, People & Culture | 12 July 2013 - Current | Ongoing | 3 months | 6 months |
| **Former ExCo member** | | | | | |
| ***Laz Cotsios*** | Chief Customer Officer | 22 August 2011 - 22 May 2015 | Ceased | 3 months | 6 months |

The remuneration framework and outcomes for the non-executive directors are detailed in sections 10 to 12 of this report.

## 2. REMUNERATION GOVERNANCE

Medibank's remuneration framework, policies and practices are designed to create value for shareholders by ensuring we attract, reward and retain employees responsibly and fairly, with a focus on business outcomes, individual performance, the organisation's risk management framework, and applicable regulations.

### 2.1 The role of Board in remuneration

The People and Remuneration Committee's role is to assist and advise the Board on remuneration and other human resources policies and practices. These policies and practices are designed to:

- enable Medibank to attract, retain and motivate non-executive directors, executives and employees who will create value for shareholders within an appropriate risk management framework. This is achieved by providing remuneration packages that are equitable, externally competitive and aligned with the long-term interests of Medibank and its shareholders;
- be fair and appropriate having regard to the performance of Medibank and the relevant director, executive and employee;
- ensure any termination benefits are justified and appropriate; and
- comply with relevant legal requirements.

The Charter of the People and Remuneration Committee can be found in the Corporate Governance section of the Medibank website.

As at 30 June 2015, the People and Remuneration Committee comprised the following independent non-executive directors:

- Linda Bardo Nicholls AO (Chairman);
- Cherrell Hirst AO;
- Anna Bligh; and
- David Fagan.

For meeting attendance information with respect to the People and Remuneration Committee, refer to the Directors' attendance table on page 11 of the Directors' Report. For biographical information on the Medibank non-executive directors, including those listed above, refer to pages 8 to 10 of the Directors' Report.

### 2.2 Use of remuneration consultants

The Board directly engages external advisors to provide input to the process of reviewing ExCo and non-executive director remuneration. During 2015, KPMG was engaged by the Board to provide a number of services, including:

- provide benchmarking data in respect of the Managing Director, ExCo and non-executive director remuneration;
- providing information on market practice and trends in remuneration within the benchmark comparator group relevant to Medibank in 2015;
- providing advice on the tax implications of the Medibank Performance Rights Plan; and
- undertaking actuarial valuations of the equity provided to the Managing Director and other members of the ExCo under Medibank's Performance Rights Plan for the purposes of AASB2.

The engagement of KPMG was undertaken directly by the Board, independent of management, and based on an agreed set of protocols governing the manner in which the engagement would be developed by KPMG and provided to the Board. These protocols ensure that the following steps are taken:

- KPMG takes instructions from the People and Remuneration Committee and the Board and is accountable to the Board for all work completed;
- during the course of any assignment, KPMG may seek input from management; however, deliverables are provided directly to the committee and considered by Board; and
- professional fee arrangements are agreed directly with the Board Chairman.

The work undertaken by KPMG in 2015 did not constitute a remuneration recommendation for the purposes of the Corporations Act 2001.

### 2.3 Executive remuneration policies

#### *2.3.1 Performance evaluation of ExCo members*

At the outset of each performance year, the Board determines the measures against which ExCo members will be assessed. The measures are a combination of Company and role specific performance measures with weightings attributed to each measure. These measures and applicable weightings are combined to form a scorecard against which each ExCo member is individually assessed when determining both Short-Term Incentive (STI) outcomes and fixed remuneration increases. STI outcomes are also subject to the Company meeting a Group Operating Profit target which acts as a gateway to any STI payments being made.

At the completion of the performance year, the Managing Director reviews each ExCo member against the role specific measures and presents an evaluation of their performance to Board. The Board then reviews the Managing Director's evaluations and reserves ultimate discretion over performance outcomes to ensure alignment with shareholder interests. The performance of the Managing Director is reviewed by the Chairman in consultation with other non-executive directors to ensure the performance outcome is aligned with Company performance and shareholder interests.

#### *2.3.2 Termination provisions in ExCo member contracts*

Termination provisions included in ExCo member contracts are limited to 6 months' payment of fixed remuneration, in lieu of notice, or 12 months in the case of the Managing Director.

If an ExCo member departs as a 'good leaver', STI in respect of the performance year would be paid on a pro rata basis at the end of the STI performance period. Any deferred STI would remain restricted until the applicable vesting date, unless determined otherwise by the Board. Performance rights issued as Long-Term Incentive (LTI) would be retained in full by a 'good leaver' in relation to the Managing Director and on a pro rata basis in relation to other ExCo members. These would remain unvested and subject to the same vesting conditions that will be assessed at the end of the performance period. Further details of the termination provisions that relate to the STI and LTI plans are detailed in section 4 of this report.

#### *2.3.3 Clawback of executive performance based remuneration*

The Board has an Executive Remuneration Clawback Policy that provides discretion to the Board to reduce, cancel or recover (clawback) any performance-based awards made to a senior executive employee in certain circumstances. Events that could warrant such action include:

- serious misconduct or fraud by the employee;
- unsatisfactory performance by the employee to the detriment of strategic Company objectives;
- error in the calculation of a performance measure related to performance-based remuneration; or
- a misstatement of the Group's financial statements.

The Executive Remuneration Clawback Policy provides that, if any of these events had occurred in the previous five financial years, the Board may, in its absolute discretion, withhold an employee's performance-based payments, require the repayment of all, or part of, previous performance-based awards, or require the forfeiture of previously deferred and unvested performance-based rewards.

#### *2.3.4 Executive shareholding requirements*

In line with market practice, the Board has implemented a minimum shareholding requirement for ExCo members. The policy requires ExCo members to hold Medibank shares equivalent to the value of 100 percent of their annual fixed remuneration. ExCo members are expected to achieve the minimum shareholding requirement within five years of Medibank becoming a listed entity.

#### *2.3.5 Share Trading Policy*

Upon Medibank becoming a listed Company, a Share Trading Policy was implemented to ensure that employees understand their obligations in relation to dealing in Medibank shares. This policy applies to all Medibank employees and imposes share trading blackouts prior to financial results announcements and other times as required.

In addition directors, ExCo members, other senior employees and employees with potential access to inside information are deemed to be "Restricted Employees". They are required to seek approval before dealing in Medibank shares. The policy also restricts employees from entering into transactions relating to Medibank shares which limit their economic risks, including in relation to the Long-Term Incentive Plan and equity based component of the Short-Term Incentive Plan.

The Share Trading Policy can be found on the corporate website.

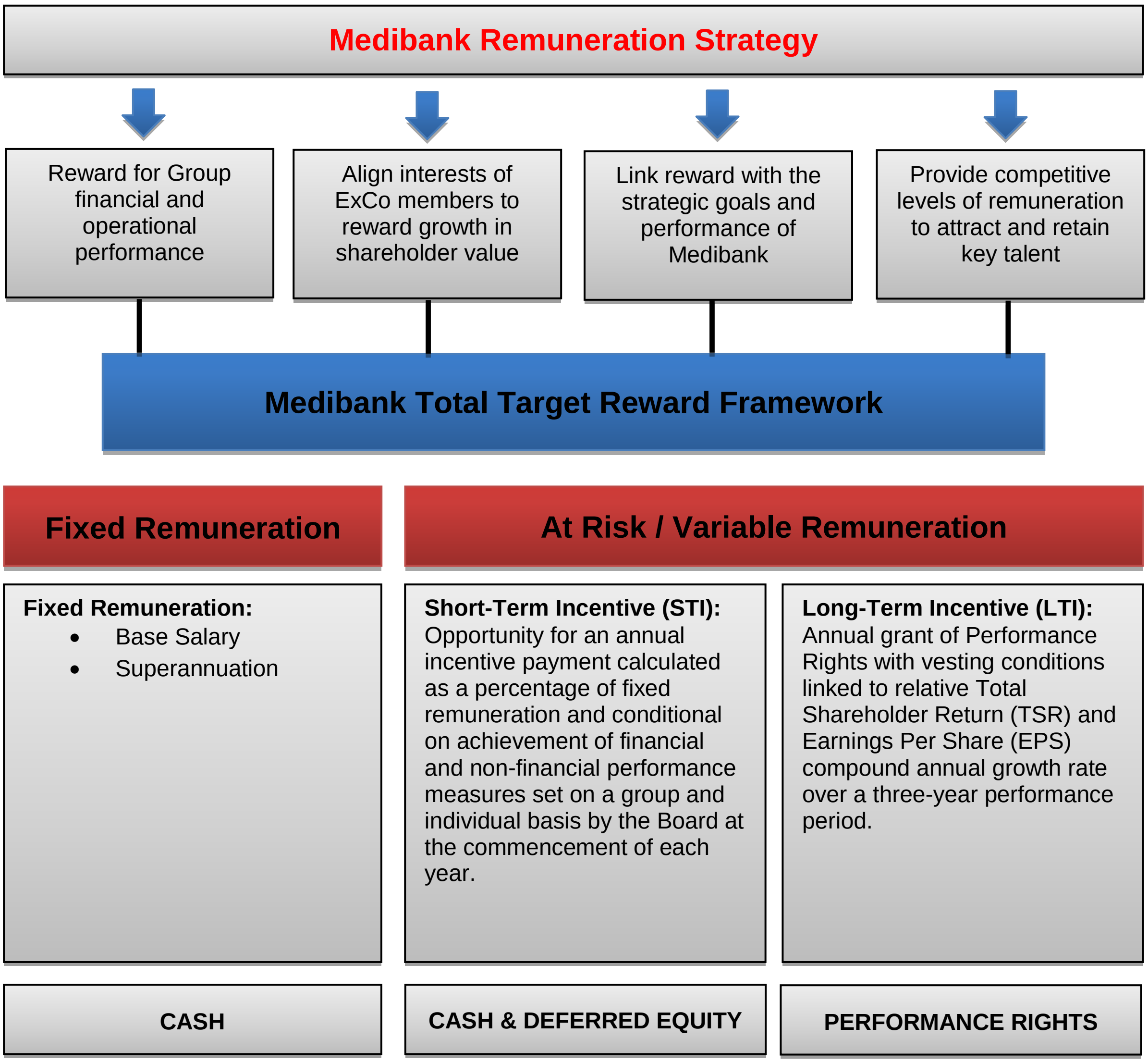
## 3. REMUNERATION STRATEGY

Medibank's remuneration strategy is designed to focus ExCo members on executing the Group's strategy and achieving business objectives to increase shareholder value. To achieve this, Medibank's remuneration framework has been developed to directly link remuneration to business outcomes, individual performance and behaviour. It is designed to:

- align the interests of ExCo members with increasing shareholder value;
- reward ExCo members for the achievement of Medibank's strategic goals (financial and operational) against targets set by reference to appropriate benchmarks; and
- provide the necessary levels of remuneration to attract and retain key talent.

The relationship between Medibank's remuneration strategy and framework and how this is designed to focus ExCo members on delivering improved shareholder value is illustrated in the diagram below:

**Figure 1**



## 4. EXECUTIVE REMUNERATION MIX

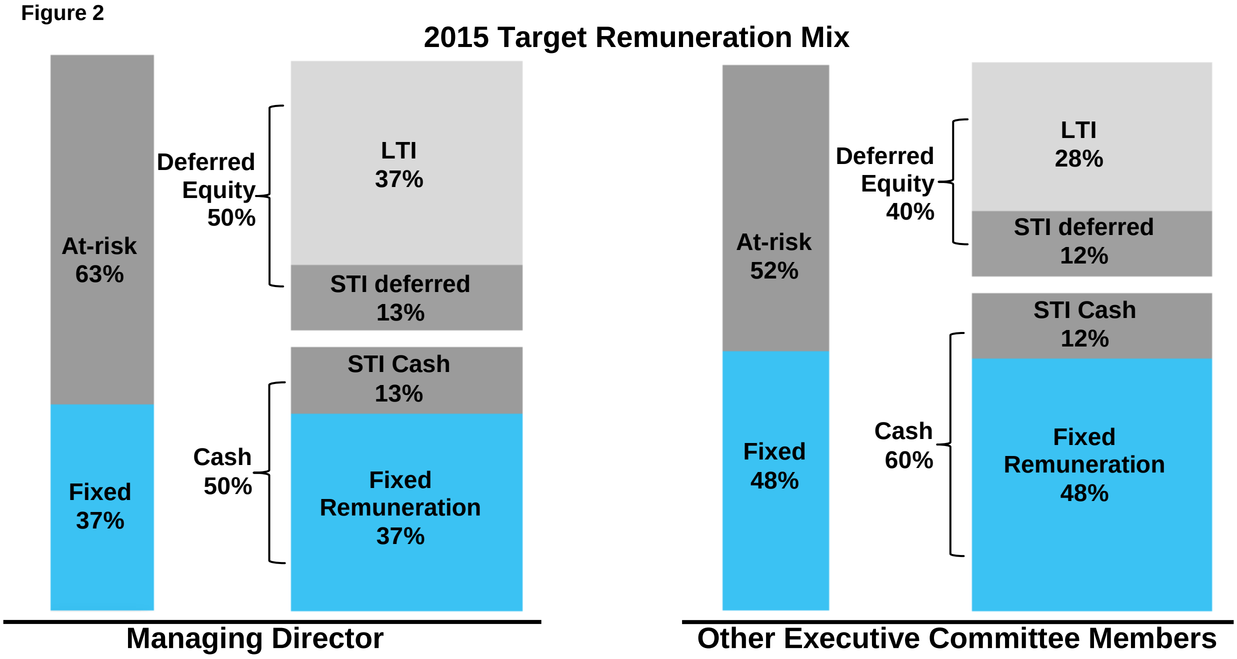
In determining the mix of executive remuneration at Medibank, the Board aims to find a balance between:

- fixed and at-risk remuneration;
- short-term and long-term remuneration; and
- remuneration delivered in cash and deferred equity.

### 4.1 Remuneration overview

The illustration below provides an overview of the 2015 target remuneration mix for the Managing Director and other ExCo members.

**Figure 2**




The target remuneration mix for the Managing Director is weighted equally between cash and deferred equity. The Managing Director's target remuneration mix consists of 37 percent fixed reward and 63 percent at-risk reward.

The target remuneration mix for other ExCo members is weighted 60 percent cash and 40 percent deferred equity. In terms of fixed and at-risk reward, the target remuneration mix of ExCo members (excluding the Managing Director) consists of 48 percent fixed reward and 52 percent at-risk reward.

In determining the target remuneration for ExCo members, the Board has aimed to develop an effective remuneration framework that increases shareholder value by rewarding strong business performance. Consistent with this strategy are the deferral arrangements in place across both the STI and LTI components to ensure ExCo members are acting in the best long-term interests of Medibank in achieving sustained business performance and lasting benefit for its shareholders.

The target remuneration mix described above does not include the additional 2015 STI opportunity outlined in section 5.4 as it does not represent a standard component of Medibank's target remuneration mix and reflects the one-off nature of the opportunity.

## 4.2 Total fixed remuneration

Total fixed remuneration (TFR) represents the only fixed portion of executive remuneration and includes base salary, salary packaged benefits and employer superannuation contributions.

### *4.2.1 2015 Total fixed remuneration*

In determining the TFR for ExCo members for 2015, the Board chose to benchmark the executives against companies positioned within the ASX 50 to 100 (excluding certain companies in the metals and mining and energy sectors) and with regard to certain ASX-listed insurance companies.[2] From this analysis, the Board considered it appropriate to position the executives at the median of the benchmark group.

Prior to listing, the Managing Director's remuneration was set by the Board in compliance with the terms and conditions determined by the Commonwealth Remuneration Tribunal (CRT). Since listing, the Board has continued to determine the Managing Director's remuneration but is not required to comply with the CRT's terms and conditions. Accordingly, TFR for the Managing Director was increased to $1.2 million upon privatisation to more closely align his remuneration package with peers from the selected comparator group outlined above.

### *4.2.2 2016 Total fixed remuneration*

In accordance with our remuneration philosophy the Board has chosen to change the benchmark comparator group to the ASX 11-100 (excluding mining and energy companies)[2] for determining remuneration for the Managing Director and other ExCo members for 2016. This change was made to better reflect Medibank's position within the ASX 100 and to ensure the appropriate market positioning is being considered when determining fixed remuneration for its executive team.

As in 2015, the Board considered it appropriate to position ExCo member's remuneration at the median of the benchmark group. With consideration to the benchmarking exercise, the 2015 performance of each executive and differentiating between executives responsible for the Group's revenue performance and executives responsible for the Group's support functions, the Board chose to apply fixed remuneration increases of 5.7 percent on average across the ExCo team. The increases ranged from 0 percent to 15.9 percent and included no change to the fixed remuneration of the Managing Director or Chief Financial Officer. The change to the fixed remuneration of the Chief Operating Officer role for 2016 reflects a number of additional responsibilities that were incorporated into the role following the Executive Committee restructure on 22 May 2015.

Details of 2014, 2015 and 2016 fixed remuneration levels are provided below:

| ExCo member | Total fixed remuneration 2014 | Total fixed remuneration 2015[2] | Total fixed remuneration 2016[3] |
|---|---|---|---|
| ***George Savvides*** | $880,850 | $1,200,000 | $1,200,000 |
| ***Paul Koppelman*** | $666,200 | $690,000 | $690,000 |
| ***David Koczkar*** | $680,000 | $690,000 | $800,000 |
| ***Andrew Wilson*** | $653,440 | $690,000 | $725,000 |
| ***Kylie Bishop*** | $400,000 | $400,915 | $430,000 |
| **Former ExCo member** | | | |
| ***Laz Cotsios***[1] | $619,900 | $690,000 | n/a |

1. Laz Cotsios ceased employment with Medibank effective 22 May 2015.
2. 2015 TFR increases for ExCo members were effective from 1 July 2014, with the exception of George Savvides (effective from listing date, being 25 November 2014) and Laz Cotsios (effective from 27 March 2014, being the date of promotion into the Chief Customer Officer position).
3. 2016 TFR increases for ExCo members were effective from 1 July 2015.

[2] For additional information on Medibank's 2015 and 2016 comparator groups, please refer to section 13.

### 4.3 Short-term incentive (STI)

ExCo members are eligible to participate in Medibank's STI Plan. The target and maximum annual STI that may be awarded to ExCo members is expressed as a percentage of their respective TFR.

#### *4.3.1 Annual STI opportunity*

The table below represents the target and maximum annual STI opportunity as a percentage of TFR for ExCo members in 2015 and 2016. Both David Koczkar (Chief Operating Officer) and Andrew Wilson (Executive General Manager, PNIC) have had their target STI opportunity for 2016 increased from 50 percent to 65 percent to ensure the market competitiveness of their total target remuneration and to reflect the Board's approach to differentiate between executives responsible for the Group's revenue performance and executives responsible for the Group's support functions.

| | **2015** | | **2016** | |
|---|---|---|---|---|
| **ExCo member** | **Target** | **Maximum** | **Target** | **Maximum** |
| ***George Savvides – Prior to 25/11/2014*** | 30% | 60% | - | - |
| ***George Savvides – Post 25/11/2014*** | 70% | 100% | 70% | 100% |
| ***Paul Koppelman*** | 50% | 100% | 50% | 100% |
| ***David Koczkar*** | 50% | 100% | 65% | 100% |
| ***Andrew Wilson*** | 50% | 100% | 65% | 100% |
| ***Kylie Bishop*** | 50% | 100% | 50% | 100% |
| **Former ExCo member** | | | | |
| ***Laz Cotsios[1]*** | 50% | 100% | n/a | n/a |

1. Laz Cotsios ceased employment with Medibank effective 22 May 2015.

#### *4.3.2 Key features of the STI plan*

| | |
|---|---|
| **What is the Short-Term Incentive Plan?** | An opportunity for ExCo members to earn an annual incentive payment calculated as a percentage of their annual fixed remuneration conditional on the achievement of financial and non-financial measures. |
| **What is the period over which performance is assessed?** | The STI performance period is the financial year 1 July to 30 June. |
| **How are STI payments delivered?** | 50 percent of any STI awarded to ExCo members will be paid as cash, with the remaining 50 percent of STI awarded deferred for 12 months (Deferred STI). Deferred STI will be provided in the form of 12-month deferred performance rights under the Performance Rights Plan. Vesting of the Deferred STI performance rights is subject to the ExCo member remaining employed by Medibank at the end of the restriction period. |
| **When are STI payments made?** | The cash component of the STI award is paid in October following the completed performance period and auditing of accounts, with performance rights in respect of the Deferred STI component granted shortly thereafter. |
| **What are the performance conditions under the STI plan?** | Performance conditions under the STI plan are determined by the Board at the commencement of each performance period. For 2015, the performance measures under the STI plan were as follows:<br>- Group Operating Profit (excluding investment income);<br>- Management Expense Ratio;<br>- net change in policy holders (PSEU Net Change); and<br>- role specific metrics<br>STI outcomes are also subject to the Company meeting a Group Operating Profit target which acts as a gateway to any STI payments being made to ExCo members. |

| | |
|---|---|
| **What is the relationship between Company performance and the award of STI?** | At the commencement of each performance period, target and stretch levels are set for each of the Company and role based performance measures. Group Operating Profit target must be met in order for participants to receive any STI award. |
| **What happens to STI entitlements if an ExCo member leaves the Company?** | Pro rata payment of STI applies to ExCo members who leave the Company other than those who are terminated due to misconduct, fraud and/or unsatisfactory performance or who resign. Incentive payments are not accelerated on cessation of employment and are always paid in accordance with the normal cycle. This is to ensure that STI is only paid where performance over the period meets or exceeds the agreed performance measures.<br>Deferred STI allocated as performance rights will be retained in full by ExCo members who leave the Company other than those who are terminated due to misconduct, fraud and/or unsatisfactory performance or who resign. The deferred performance rights will, however, remain in restriction until the vesting date of that offer. |
| **In what circumstances are STI entitlements forfeited?** | In the event an ExCo member resigns or their employment is terminated due to misconduct, fraud and/or unsatisfactory performance, the ExCo member will forfeit any payment under the STI Plan, including any unvested Deferred STI grants, unless otherwise determined by the Board. |

## 4.4 Long-term incentive (LTI)

In 2015 Medibank established a Performance Rights Plan to enable the creation of an LTI Plan designed to focus Medibank's ExCo members on delivering sustained business performance and shareholder value.

The table below represents the annual LTI allocation value as a percentage of TFR for ExCo members in 2015 and 2016. Both David Koczkar and Andrew Wilson have had their annual LTI allocation value increased from 60 percent to 65 percent in line with the explanation provided for the changes made to their annual STI target opportunity in section 4.3.1.

### *4.2.1 Annual LTI allocation*

| | **2015** | **2016** |
|---|---|---|
| **ExCo Member** | **LTI value as % of TFR** | **LTI value as % of TFR** |
| ***George Savvides*** | 100% | 100% |
| ***Paul Koppelman*** | 60% | 60% |
| ***David Koczkar*** | 60% | 65% |
| ***Andrew Wilson*** | 60% | 65% |
| ***Kylie Bishop*** | 60% | 60% |
| **Former ExCo member** | | |
| ***Laz Cotsios[1]*** | 60% | n/a |

1. Laz Cotsios ceased employment with Medibank effective 22 May 2015.

### *4.2.2 Key features of the LTI plan*

| | |
|---|---|
| **What is the Long-Term Incentive Plan?** | An incentive plan in which ExCo members are allocated Performance Rights under the Medibank Performance Rights Plan. Vesting and exercise of the Performance Rights are dependent on the Company achieving certain performance hurdles over a set performance period of three financial years. |
| **What is the aim of the LTI Plan?** | The Medibank LTI Plan is designed to:<br>- align the interests of ExCo members more closely with the interests of shareholders by providing an opportunity for those executives to receive an equity interest in Medibank through the granting of Performance Rights; and<br>- assist in the motivation, retention and reward of ExCo members. |

| | |
|---|---|
| **What is the performance period for 2015 LTI Plan?** | The typical performance period for an LTI grant is three financial years commencing on 1 July in the financial year the grant is made. A three year performance period strikes a balance between providing a reasonable period to align reward with shareholder return and LTI acting as a vehicle for executive motivation and retention.<br>For the 2015 LTI grant the performance period will be reduced to two years and seven months, commencing on 1 December 2014 through to 30 June 2017. This is to create alignment between the privatisation of Medibank and the application of the Company's reward framework as a listed entity (of which LTI is a key component), and to ensure a definitive starting point for the assessment of the 2015 LTI Plan performance hurdles. |
| **What are Performance Rights?** | Performance rights issued under the LTI Plan are conditional rights for the holder to subscribe for fully paid ordinary shares in the Company.<br>Each performance right entitles the holder to subscribe for one ordinary share if the performance conditions are met at the conclusion of the performance period. No amount is payable by the participant upon grant of the performance rights or upon exercise of the performance rights once they have vested. |
| **What are the performance hurdles under the 2015 LTI Plan?** | Performance rights issued under the 2015 LTI Plan are subject to two separate performance measures:<br>- 50 percent of the performance rights will be subject to a vesting condition based on Medibank's EPS CAGR (Earnings Per Share Compound Annual Growth Rate) over the performance period (EPS Performance Rights). The performance period will run from 1 December 2014 until 30 June 2017, with Medibank's Underlying Profit as at 30 June 2014 being used as the starting point of the EPS CAGR. Further detail on the profit measure used in the calculation of EPS is provided in section 4.4.3; and<br>- 50 percent of the performance rights will be subject to a relative total shareholder return (TSR) vesting condition, measured over the performance period (TSR Performance Rights). Medibank's relative TSR will be compared to a comparator group comprising companies with a market capitalisation positioned within the ASX 50 to 100, excluding certain companies in the metals and mining or energy sectors.<br>Both performance hurdles under the 2015 LTI Plan have threshold levels which need to be achieved before vesting commences. Details of these thresholds are outlined in the vesting schedule included in section 4.4.3. |
| **When do the performance rights vest?** | The performance hurdles are assessed as soon as practicable after the completion of the relevant performance period. The number of performance rights that vest (if any) will be relative to the achievement against the performance hurdles. See section 4.4.3 for the vesting schedule associated with each performance hurdle. |
| **Are the performance hurdles re-tested?** | No, performance hurdles are only tested once at the end of the relevant performance period. Any performance rights that remain unvested at the end of the performance period will be immediately forfeited. |
| **Are LTI performance rights entitled to receive a dividend payment?** | LTI performance rights do not attract a dividend during the performance period. |
| **In what circumstances are LTI entitlements forfeited?** | LTI entitlements are forfeited if performance hurdles are not met. In the event an ExCo member is a 'bad leaver' (meaning they cease employment for any reason other than death, serious disability, permanent incapacity, retirement, redundancy or with Board approval), the performance rights held (granted, but not vested) by that participant on cessation of employment will be automatically forfeited. |
| **What happens to LTI entitlements if an ExCo member leaves the Company?** | If an ExCo member is a 'good leaver' (meaning they cease employment by reason of death, serious disability, permanent incapacity, retirement, redundancy or with Board approval):<br>- in the case of the Managing Director, the performance rights held (granted, but not vested) on cessation of employment will remain unvested and will continue to be subject to the same vesting conditions that will be assessed at the end of the performance period; and<br>- in the case of other ExCo members, a portion of the performance rights held (granted, but not vested) by that participant on cessation of employment will be forfeited on a pro rata basis according to a formula which takes into account the length of time the participant has held (granted, but not vested) the performance right relative to the performance period for the grant. The remaining performance rights will remain unvested and will be tested at the end of the performance period against the existing vesting conditions. |

#### *4.4.3 LTI hurdles explained*

Performance rights issued under the 2015 LTI Plan are subject to two separate performance measures: 50 percent of the performance rights will be subject to an EPS CAGR vesting condition; and 50 percent will be subject to a relative TSR vesting condition. These performance hurdles were chosen by the Board as they believe both EPS CAGR and relative TSR are transparent, well understood and tested mechanisms to measure performance and provide a strong link between executive reward and shareholder wealth creation. Both hurdles are explained in detail below.

*2015 EPS Performance Rights*

For any of the 2015 EPS Performance Rights to vest, the EPS target, as determined by the Board, must be achieved. The percentage of 2015 EPS Performance Rights that vest, if any, will be determined at the end of the performance period by reference to the following vesting schedule:

| Medibank's EPS CAGR over the performance period | Percentage of EPS Performance rights that vest |
|---|---|
| **Less than 7% EPS CAGR** | Nil |
| **At 7% EPS CAGR** | 50% |
| **Between 7 % and 15% EPS CAGR** | Straight-line pro rata vesting between 50% and 100% |
| **15% EPS CAGR or greater** | 100% |

Medibank's performance against the EPS hurdle is calculated based on the CAGR of Medibank's EPS over the performance period. EPS is based on Underlying Profit which adjusts statutory NPAT where appropriate for short-term outcomes that are expected to normalise over the medium to longer term, most notably in relation to the level of gains or losses from investments, and for one-off items, especially those that are non-cash, such as asset impairments. The performance period will run from 1 December 2014 until 30 June 2017, with Medibank's Underlying Profit as at 30 June 2014 used as the starting point of the EPS CAGR. As set out in the table above, the resulting CAGR will determine the level of vesting for the EPS Performance Rights.

*2015 TSR Performance Rights*

For any of the 2015 TSR Performance Rights to vest, Medibank must achieve the threshold TSR ranking over the performance period. The percentage of the 2015 TSR Performance Rights that vest, if any, will be based on Medibank's TSR ranking at the end of the performance period, as set out in the following vesting schedule:

| Medibank's TSR rank in the 2015 comparator group | Percentage of TSR Performance rights that vest |
|---|---|
| **Less than 50th percentile** | Nil |
| **Equal to 50th percentile** | 50% |
| **Greater than 50th and up to 75th percentile** | Straight-line pro rata vesting between 50% and 100% |
| **At or above 75th percentile** | 100% |

The TSR of Medibank and other companies within the comparator group, expressed as a compound annual rate of return, will be comprised of:

a) the change in share price of the relevant entity over the performance period determined as set out below; and
b) the value of all dividends and other shareholder benefits paid or otherwise made available to shareholders in the relevant company during the performance period determined on the basis that:
   i. the dividends and shareholder benefits are reinvested in securities in the relevant company at the closing price of the securities on the date the dividend or shareholder benefit was paid or otherwise made available to shareholders of the company; and
   ii. franking credits are disregarded.

In determining the change in share price of the relevant company, the value of securities on the start date and end date of the performance period will be based on the volume weighted average price of the securities (VWAP) over the 20 ASX trading days up to and including the relevant date. The VWAP on the end date of the performance period will be adjusted for any stock splits that occur during the performance period.

For the 2015 LTI grant, the value of Medibank shares on the start date of the performance period will be based on the listing price of $2.15 (representing the amount paid by a successful applicant under the Institutional Offer), with the value at the end of the period based on the VWAP method described above.

#### *4.4.4 Comparator group for TSR Performance Rights*

The comparator group used for the 2015 TSR Performance Rights performance hurdle will comprise companies with a market capitalisation positioned within the ASX 50 to 100, excluding certain companies in the metals and mining or energy sectors.

The comparator group to be used for the TSR Performance Rights performance hurdle as part of future LTI offers will change in 2016. In line with the benchmark group chosen by the Board to position executive remuneration in 2016, the comparator group to be used for the 2016 TSR Performance Rights performance hurdle will be the ASX 11-100 (excluding mining and energy companies). This comparator group has been chosen to reflect Medibank's position within the ASX 100. Please refer to section 13 for further details on Medibank's comparator groups.

## 5. LINKING REMUNERATION AND PERFORMANCE IN 2015

### 5.1 2015 STI performance scorecard

The following table details the 2015 STI performance scorecard measures, weightings and outcomes as applied to the Managing Director and other ExCo members.

| Measure | Description | Weighting | | Outcome | Comment |
|---|---|---|---|---|---|
| | | Managing Director | Other ExCo members | | |
| **Group Operating Profit** | Gross Profit less Management Expenses. Group Operating Profit excludes Investment Income (the exclusion of Investment Income reflects the limited influence that ExCo members have over the external factors impacting investment returns). | 50% | 30% | Stretch | Group Operating Profit represents the core financial measure for the annual STI plan and reflects the Board's belief that it is the best measure of underlying business performance and value created for shareholders over the performance period. |
| **Management Expense Ratio (MER)** | Management Expense Ratio (MER), calculated as Management Expenses of the Health Insurance Fund divided by premium revenue. | 20% | 20% | Target | MER focuses the Company on improving operational efficiencies across the organisation and improved value creation for shareholders. |
| **Policy Single Equivalent Units (PSEUs) and Net Change** | Policy Single Equivalent Units (PSEUs) are used as a standard measure of income units. They take into account the number of adults on a policy, and whether they have Hospital Cover or Extras Cover or both.<br><br>Net Change is defined as the difference between the closing balance of the number of PSEUs (including overseas) less the opening balance. | 20% | 20% | Below target | PSEU net change reflects management's ability to both grow its policy holder base while retaining its existing customers. Positive achievement of this measure reinforces Medibank's leading market share, directly lifts Company revenue and delivers on Medibank's strategic intent to improve shareholder value. |
| **Role Specific** | Role specific targets set on an individual basis against measurable KPI's. | 10% | 30% | Ranging between below target and stretch | Measurable role specific metrics are aligned to one of financial performance, leadership performance or the achievement of specific strategic objectives and chosen by Board to ensure achievement of Medibank's Group objectives for the year and to drive sustainable shareholder wealth creation. |

### 5.2 Medibank's 2015 financial performance

Medibank's 2015 annual financial performance is provided in the table below in addition to the average 2015 STI achieved by ExCo members as a percentage of maximum opportunity. The purpose of this table is to illustrate the relationship between the key indicators of shareholder wealth creation and STI outcomes for Medibank executives. As Medibank's executive reward framework changed significantly to reflect the privatisation that took place on 25 November 2014, the financial performance and STI outcomes have not been listed for prior financial years. However, the financial results detailed represent performance over the full year.

| Measure | Outcome |
|---|---|
| ***Pro forma Group Operating Profit*[1]** | $320.0m |
| ***Pro forma Group Net Profit After Tax (NPAT)*[1]** | $291.8m |
| ***Dividend*** | 5.3 cents per share |
| ***Share price as at 25 November 2014 (listing date)*** | $2.15 |
| ***Share price as at 30 June 2015*** | $2.01 |
| ***Average ExCo STI as a percentage of maximum opportunity*** | 64% |

1. Consistent with the Prospectus, pro forma financial information is derived from the statutory consolidated income statement adjusted for the one-off costs of the IPO and certain significant and other items.

### 5.3 2015 STI payments

The table below provides a summary of STI payments for the 2015 performance year:

| ExCo member | STI target $ | Max STI potential as % of TFR | Total STI achieved $ | Total STI achieved as % of target | Total STI achieved as % of max opportunity | STI cash $ (50%) | STI deferred $ (50%) |
|---|---|---|---|---|---|---|---|
| ***George Savvides*[1]** | 608,125 | 77% | 605,670 | 99.6% | 65% | 302,835 | 302,835 |
| ***Paul Koppelman*** | 345,000 | 100% | 467,697 | 135% | 67% | 232,349 | 232,349 |
| ***David Koczkar*** | 345,000 | 100% | 467,697 | 135% | 67% | 232,349 | 232,349 |
| ***Andrew Wilson*** | 345,000 | 100% | 467,697 | 135% | 67% | 232,349 | 232,349 |
| ***Kylie Bishop*** | 200,458 | 100% | 270,006 | 135% | 67% | 135,003 | 135,003 |
| **Former ExCo member** | | | | | | | |
| ***Laz Cotsios*[2]** | 308,137 | 100% | 304,115 | 99% | 49% | 304,115 | - |

1. As George's Savvides' fixed remuneration and STI target percentage increased from the date of listing, George's 2015 STI target was based on a pro-rata calculation of his pre and post-privatisation fixed remuneration and STI target percentage. Therefore, George's maximum STI potential as a percentage of his post-privatisation TFR of $1,200,000 equates to 77 percent. Further details are provided in section 4.
2. Laz Cotsios ceased employment with Medibank on 22 May 2015 and, therefore, the STI target amount reflects his part-year service; and, in lieu of the deferred performance rights portion of the 2015 STI, Laz Cotsios received his full 2015 STI payment in cash, paid at the discretion of the Board and in recognition of Laz Cotsios as a 'good leaver'.

### 5.4 Additional 2015 STI opportunity

As set out in Medibank's Prospectus, ExCo members are eligible for a special one-off additional STI opportunity in 2015. The additional component of the STI will not be provided in future years.

The additional opportunity was subject to the achievement of a Group Operating Profit performance condition, as set out in section 10.6.1 of the Medibank Prospectus. The Board determined that the incentive would be provided solely in performance rights (i.e., no cash entitlement).

The additional incentive was offered to recognise the additional demands upon and efforts of individuals in connection with the privatisation of Medibank, focus the participants on achievement of the Forecast Financial Information within the Prospectus and to act as a retention mechanism in the period following privatisation. No other IPO related bonuses or awards were provided to the ExCo members at the time of the IPO, or at any point following the IPO.

As the Group Operating Profit performance condition was satisfied (as detailed in section 5.1 of this report), the performance rights will now be granted to the Managing Director and ExCo with a grant date in October 2015. The performance rights will be subject to a 12-month restriction period and participants will need to remain employed by Medibank in October 2016 (23 months after the IPO) before realising any benefit from this additional equity grant.

An ExCo member will not be eligible to receive this award if they are not employed by the Company on grant date. Performance rights granted under this offer will be forfeited by ExCo members who resign or are terminated for misconduct, fraud and/or unsatisfactory performance. Where an ExCo member ceases to be employed by the Company as a result of death, serious disability, permanent incapacity, retirement, redundancy or with Board approval, the performance rights granted will be retained by the member and will remain in restriction until October 2016.

Awards to be granted under the additional 2015 STI opportunity are detailed below:

| ExCo member | STI deferred performance rights $ | Unit price $[2] | Number of performance rights to be granted | Vesting date |
|---|---|---|---|---|
| ***George Savvides*** | $750,000 | $2.15 | 348,837 | October 2016 |
| ***Paul Koppelman*** | $345,000 | $2.15 | 160,465 | October 2016 |
| ***David Koczkar*** | $345,000 | $2.15 | 160,465 | October 2016 |
| ***Andrew Wilson*** | $345,000 | $2.15 | 160,465 | October 2016 |
| ***Kylie Bishop*** | $200,458 | $2.15 | 93,236 | October 2016 |
| **Former ExCo member** | | | | |
| ***Laz Cotsios[1]*** | - | - | - | - |

1. Laz Cotsios ceased employment with Medibank effective 22 May 2015 and is therefore not eligible for the 2015 additional STI opportunity.
2. As outlined in the Prospectus, the value to determine the number of performance rights to allocate to participants under the additional STI opportunity is the Final Price of the offer. The Final Price of the offer was $2.15 which represents the amount paid by a successful applicant under the Institutional Offer. This is greater than the final price of $2.00 paid by a successful retail applicant and represents both a conservative approach and alignment to the price paid by our largest shareholders.

## 6. 2015 ACTUAL REMUNERATION

The table below represents the 2015 'actual' remuneration for ExCo members.

Statutory remuneration disclosures prepared in accordance with the Corporations Act 2001 and Australian Accounting Standards differ to the numbers presented below, as they include (among other benefits) expensing for equity grants that are yet to realise and may never be realised. The statutory remuneration table in respect of the ExCo members is presented in section 7.

| ExCo member | Base salary and superannuation | Cash STI for performance to 30 June 2015 | Other cash payments[3] | Total cash payments in relation to 2015 | Deferred STI awards that vested in 2015[4] | Total 2015 actual remuneration |
|---|---|---|---|---|---|---|
| ***George Savvides***[1] | 1,076,132 | 302,835 | - | **1,378,967** | - | **1,378,967** |
| ***Paul Koppelman*** | 693,246 | 232,349 | - | **925,595** | 183,146 | **1,108,741** |
| ***David Koczkar*** | 692,991 | 232,349 | 250,000 | **1,175,340** | - | **1,175,340** |
| ***Andrew Wilson*** | 692,763 | 232,349 | - | **925,112** | 197,059 | **1,122,171** |
| ***Kylie Bishop*** | 402,774 | 135,003 | - | **537,777** | - | **537,777** |
| **Former ExCo member** | | | | | | |
| ***Laz Cotsios***[2] | 648,207 | 304,115 | 409,182 | **1,361,504** | 426,575 | **1,788,079** |

1. Base salary and superannuation for George Savvides represents pro rata portions of his pre-listing TFR of $880,851 (for the period 1 July 2014 through to 24 November 2014) and post-listing TFR of $1,200,000 (for the period 25 November 2014 through to 30 June 2015).
2. Laz Cotsios ceased employment with Medibank on 22 May 2015 and, therefore, the base salary, superannuation and STI amounts detailed reflect his part-year service. Note that, in lieu of the deferred performance rights portion of the 2015 STI, Laz Cotsios received his full 2015 STI payment in cash, paid at the discretion of the Board and in recognition of Laz Cotsios as a 'good leaver'.
3. Other cash payments include a one-off sign on payment made to David Koczkar in November 2014 in line with his contractual arrangements upon joining Medibank in March 2014 and remaining employed at 31 October 2014; and payments made to Laz Cotsios upon the completion of his employment with Medibank including a six-month redundancy payment ($345,000) in line with contractual obligations and payment of outstanding annual leave entitlements ($64,182). Laz Cotsios did not receive any payment in lieu of notice in addition to the six-month redundancy payment outlined above.
4. Deferred STI awards realised in 2015 relate to deferred STI cash awards in respect of the 2013 performance year for Paul Koppelman, the 2012 and 2013 performance year for Andrew Wilson and the 2012, 2013 and 2014 performance year for Laz Cotsios.

## 7. STATUTORY REMUNERATION TABLES

### 7.1 Statutory remuneration table

The following table has been prepared in accordance with Section 300A of the Corporations Act 2001 and details the statutory accounting expense of all remuneration related items for the ExCo members. Note that, in contrast to the table in section 6 that details 2015 actual remuneration, the table below includes accrual amounts for equity awards being expensed throughout 2015 that are yet to, and may never, be realised by the ExCo member.

| ExCo member | Financial year | Short-term benefits | | | | Post-employment benefits | Long-term | Equity-based benefits | Other | Total remuneration $ |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Salary[3] $ | STI $ | Other[4] $ | Non-monetary benefits[5] $ | Superannuation $ | Leave[6] $ | Performance rights[7] $ | Termination benefits[8] $ | |
| ***George Savvides*** | **2015** | **1,017,915** | **302,835** | **-** | **20,331** | **35,846** | **101,657** | **602,147** | **-** | **2,080,731** |
| | **2014** | 798,881 | 528,510 | - | 11,382 | 24,807 | 64,653 | - | - | 1,428,233 |
| ***Paul Koppelman*** | **2015** | **657,032** | **232,349** | **-** | **12,325** | **25,384** | **51,930** | **303,453** | **-** | **1,282,472** |
| | **2014** | 653,113 | 544,240 | - | 4,599 | 24,807 | 25,897 | - | - | 1,252,656 |
| ***David Koczkar[1]*** | **2015** | **706,084** | **232,349** | **143,023** | **12,946** | **25,384** | **19,533** | **303,453** | **-** | **1,442,772** |
| | **2014** | 179,009 | 126,128 | 106,977 | 580 | 7,019 | 1,282 | - | - | 420,995 |
| ***Andrew Wilson*** | **2015** | **641,972** | **232,349** | **-** | **20,003** | **31,663** | **44,740** | **303,453** | **-** | **1,274,180** |
| | **2014** | 583,670 | 582,824 | - | 19,741 | 55,001 | 62,666 | - | - | 1,303,902 |
| ***Kylie Bishop*** | **2015** | **361,494** | **135,003** | **-** | **11,503** | **25,384** | **22,051** | **176,317** | **-** | **731,752** |
| | **2014** | 380,501 | 296,773 | - | 6,527 | 24,502 | 22,853 | - | - | 731,156 |
| **Former ExCo member** | | | | | | | | | | |
| ***Laz Cotsios[2]*** | **2015** | **642,373** | **304,115** | **-** | **23,803** | **29,937** | **14,723** | **51,805** | **345,000** | **1,411,756** |
| | **2014** | 565,249 | 506,489 | - | 9,234 | 52,206 | 14,608 | - | - | 1,147,786 |
| **Total ExCo Remuneration** | **2015** | **4,026,870** | **1,439,000** | **143,023** | **100,911** | **173,598** | **254,634** | **1,740,628** | **345,000** | **8,223,664** |
| | **2014** | 3,160,423 | 2,584,964 | 106,977 | 52,063 | 188,342 | 191,959 | - | - | 6,284,728 |

1. David Koczkar joined Medibank as Chief Operating Officer on 31 March 2014 and, therefore, his 2014 remuneration reflects the part-year period he was employed.
2. Laz Cotsios ceased employment with Medibank on 22 May 2015 and therefore the cash salary, superannuation and STI amounts detailed reflect his part-year service.
3. Salary includes annual base salary paid on a fortnightly basis and accrued but untaken annual leave entitlements which are expected to be taken in the next twelve months.
4. Other payments in respect to David Koczkar relate to a one-off $250,000 sign on payment made to David in November 2014 in line with his contractual arrangements upon joining Medibank in March 2014 and remaining employed as at 31 October 2014.
5. Non-monetary benefits may include death, total and permanent disablement insurance, salary continuance insurance, subsidised Medibank health insurance and fringe benefits that are on the same terms and conditions that are available to all employees of the Group.

6. Long-term leave comprises an accrual for long service leave and accrued but untaken annual leave entitlements which are not expected to be taken in the next twelve months. The 2014 balance for George Savvides, Paul Koppelman and Andrew Wilson was adjusted to move the noncurrent component of annual leave from short-term to long-term benefits. The 2014 long service leave value for Andrew Wilson was increased to adjust for continuous service with the company in line with statutory requirements.
7. Amounts included as remuneration under performance rights include equity-based awards in respect of the 2015 performance year. This includes the 2015 LTI, the deferred portion of the 2015 STI and the additional 2015 STI opportunity provided in the form of performance rights. The actual values are based on the grant date fair value, amortised on a straight-line basis over the vesting period.
8. Termination payment amount for Laz Cotsios refers to a six-month redundancy payment ($345,000) in line with contractual obligations. Laz Cotsios did not receive any payment in lieu of notice in addition to the six-month redundancy payment outlined above.

## 7.2 Performance related remuneration statutory table

The following table provides an analysis of the non-performance related (fixed remuneration) and performance related (STI and LTI) components of the 2015 remuneration mix for Medibank's ExCo members as detailed in the 'Statutory remuneration table':

| ExCo member | Financial year | *Non-performance related* | *Performance related remuneration* | | | Total performance related remuneration | Total |
|---|---|---|---|---|---|---|---|
| | | Fixed remuneration[1] | Cash STI | Deferred STI[2] | LTI[3] | | |
| ***George Savvides*** | **2015** | **56%** | 15% | 21% | 8% | **44%** | **100%** |
| ***Paul Koppelman*** | **2015** | **58%** | 18% | 19% | 5% | **42%** | **100%** |
| ***David Koczkar*** | **2015** | **63%** | 16% | 17% | 4% | **37%** | **100%** |
| ***Andrew Wilson*** | **2015** | **58%** | 18% | 19% | 5% | **42%** | **100%** |
| ***Kylie Bishop*** | **2015** | **58%** | 18% | 19% | 5% | **42%** | **100%** |
| **Former ExCo member** | | | | | | | |
| ***Laz Cotsios*** | **2015** | **75%** | 22% | 0% | 3% | **25%** | **100%** |

1. Fixed remuneration includes the accounting expense from all columns of the 'Statutory remuneration table' other than 'Cash STI' and 'Performance Rights'.
2. Deferred STI includes the 2015 accounting expense of the 2015 Deferred STI and 2015 additional STI opportunity components of the 'Performance Rights' column of the 'Statutory remuneration table'.
3. LTI includes the 2015 accounting expense of the 2015 LTI component of the 'Performance Rights' column of the 'Statutory remuneration table'.

## 8. 2015 LTI GRANT

As outlined in the Prospectus, the value to determine the number of performance rights to allocate to participants under the 2015 LTI was the Final Price of the offer. The Final Price of the offer was $2.15 which represents the amount paid by a successful applicant under the Institutional Offer. This is greater than the final price of $2.00 paid by a successful retail applicant and represents both a conservative approach and alignment to the price paid by our largest shareholders. Further details of the 2015 LTI grants are provided in section 4.4.

The following table provides the key details of the 2015 LTI grant:

| Award | Grant date | Vesting and exercise date[1] | Unit price | Fair value at grant[2] |
|---|---|---|---|---|
| **2015 EPS Performance Rights** | 22 May 2015 | 1 July 2017 | $2.15 | $1.99 |
| **2015 TSR Performance Rights** | 22 May 2015 | 1 July 2017 | $2.15 | $0.79 |

1. The vesting and exercise date represents the earliest possible date the performance rights may vest, being the end of the performance period. The actual vesting and exercise date will be at a time and manner determined by the Board following the end of the performance period with Medibank to notify the holder at that time. Any performance rights that do not vest at this point will immediately expire.
2. The fair value at grant has been based on a valuation by independent external consultants in accordance with accounting standard AASB 2 "Share Based Payments".

Details of the awards made to ExCo members as part of the 2015 LTI grant are provided below:

| ExCo member | Grant date | Units granted | Total face value of grant | Total fair value of grant |
|---|---|---|---|---|
| ***George Savvides*** | 22 May 2015 | 558,138 | $1,199,997 | $775,812 |
| ***Paul Koppelman*** | 22 May 2015 | 192,558 | $414,000 | $267,656 |
| ***David Koczkar*** | 22 May 2015 | 192,558 | $414,000 | $267,656 |
| ***Andrew Wilson*** | 22 May 2015 | 192,558 | $414,000 | $267,656 |
| ***Kylie Bishop*** | 22 May 2015 | 111,882 | $240,546 | $155,516 |
| **Former ExCo member** | | | | |
| ***Laz Cotsios***[1] | 22 May 2015 | 192,558 | $414,000 | $267,656 |

1. Laz Cotsios ceased employment with Medibank effective 22 May 2015.

## 9. EXECUTIVE COMMITTEE MEMBER'S EQUITY HOLDINGS

Details of the shareholdings of ExCo members and their related parties are provided in the table below:

| ExCo member | Equity type | Balance 24 November 2014 | Granted as remuneration | Acquired | Vested awards | | Forfeited awards | | Balance 30 June 2015 | Maximum value yet to vest[2] |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Number | % | Number | % | Number | $ |
| ***George Savvides*** | **Ordinary Shares** | n/a | - | 122,000 | - | 0% | - | 0% | 122,000 | - |
| | **STI Performance Rights** | n/a | - | - | - | 0% | - | 0% | - | - |
| | **LTI Performance Rights** | n/a | 558,138 | - | - | 0% | - | 0% | 558,138 | 775,812 |
| ***Paul Koppelman*** | **Ordinary Shares** | n/a | - | 13,650 | - | 0% | - | 0% | 13,650 | - |
| | **STI Performance Rights** | n/a | - | - | - | 0% | - | 0% | - | - |
| | **LTI Performance Rights** | n/a | 192,558 | - | - | 0% | - | 0% | 192,558 | 267,656 |
| ***David Koczkar*** | **Ordinary Shares** | n/a | - | - | - | 0% | - | 0% | - | - |
| | **STI Performance Rights** | n/a | - | - | - | 0% | - | 0% | - | - |
| | **LTI Performance Rights** | n/a | 192,558 | - | - | 0% | - | 0% | 192,558 | 267,656 |
| ***Andrew Wilson*** | **Ordinary Shares** | n/a | - | 11,719 | - | 0% | - | 0% | 11,719 | - |
| | **STI Performance Rights** | n/a | - | - | - | 0% | - | 0% | - | - |
| | **LTI Performance Rights** | n/a | 192,558 | - | - | 0% | - | 0% | 192,558 | 267,656 |
| ***Kylie Bishop*** | **Ordinary Shares** | n/a | - | - | - | 0% | - | 0% | - | - |
| | **STI Performance Rights** | n/a | - | - | - | 0% | - | 0% | - | - |
| | **LTI Performance Rights** | n/a | 111,882 | - | - | 0% | - | 0% | 111,882 | 155,516 |
| **Former ExCo member** | | | | | | | | | | |
| ***Laz Cotsios[1]*** | **Ordinary Shares** | n/a | - | - | - | 0% | - | 0% | - | - |
| | **STI Performance Rights** | n/a | - | - | - | 0% | - | 0% | - | - |
| | **LTI Performance Rights** | n/a | 192,558 | - | - | 0% | 155,288 | 81% | 37,270 | 51,805 |

1. Laz Cotsios ceased employment with Medibank effective 22 May 2015 and has therefore forfeited a portion of his 2015 LTI performance rights in accordance with the 'good leaver' provisions under the Medibank LTI Plan.
2. The maximum value yet to vest has been determined by multiplying the balance of LTI Performance rights at 30 June by the value at grant as detailed in section 8.

## 10. NON-EXECUTIVE DIRECTOR REMUNERATION AND FRAMEWORK

Non-executive director fees reflect the role, market benchmarks and the objective of the Company to attract highly skilled and experienced independent non-executive directors. All non-executive directors are required to hold shares in the Company to align with shareholder interests.

### 10.1 Non-executive director remuneration

| Component | Delivered | Description |
|---|---|---|
| **Base fee** | Cash | The base fee represents remuneration for service on the Medibank Board. The base fee for the Chairman represents the entire remuneration for that role. |
| **Committee fees** | Cash | Committee fees represent remuneration for chairing, or membership of, Board committees. |

#### *10.1.1 Non-executive director Fee Cap*

Under the Constitution, the total fees paid in any financial year to all non-executive directors for their services (excluding, for these purposes, the salary of any Executive Director) must not exceed, in aggregate, the amount fixed in 2014 at $2 million per annum (Fee Cap). Shareholder approval is required for any increase to the Fee Cap. The Fee Cap will remain unchanged for the year commencing 1 July 2015.

#### *10.1.2 2015 Non-executive director remuneration*

Prior to Medibank becoming a listed entity on 25 November 2014, non-executive directors' fees, including committee fees, were set by the Commonwealth Remuneration Tribunal.

Upon listing, under Medibank's Constitution, the Board is responsible for determining the total amount paid to each non-executive director as remuneration for their services. In making this determination, the Board has taken into account the level of work required for the role and has regard to the median remuneration paid to non-executive directors of companies positioned within the ASX 50 to 100 (excluding certain companies in the metals and mining and energy sectors) and with regard to certain ASX-listed insurance companies.

#### *10.1.3 2016 Non-executive director remuneration*

In line with changes made to the comparator group for determining fixed remuneration for the Managing Director and other members of ExCo for 2016, the Board has chosen to change the benchmark comparator group for non-executive director remuneration to the ASX 11-100 (excluding mining and energy companies). This change was made to better reflect Medibank's position within the ASX 100 and to ensure the appropriate market positioning is being considered when determining non-executive director remuneration.

As in 2015, the Board considered it appropriate to position the non-executive directors at the median of the benchmark group. Following the benchmarking exercise the Board chose to increase the Chairman's annual base fee by $10,000 to $400,000, with no other changes to the base and committee fees of the other non-executive directors.

Non-executive director fees applicable throughout 2015 (prior and post-listing) and 2016 are set out below:

| Base fee per annum | 1 July 2014 to 24 November 2014 $ | From 25 November 2014 $ | From 1 July 2015 $ |
|---|---|---|---|
| Chairman | 140,740 | 390,000 | 400,000 |
| Directors | 70,430 | 140,000 | 140,000 |
| **Committee Chairman Fees** | | | |
| Audit and Risk Management Committee | 16,491 | 35,000 | 35,000 |
| People and Remuneration Committee | - | 25,000 | 25,000 |
| Investment and Capital Committee | - | 25,000 | 25,000 |
| **Committee Membership Fees** | | | |
| Audit and Risk Management Committee | 8,242 | 17,000 | 17,000 |
| People and Remuneration Committee | - | 12,000 | 12,000 |
| Investment and Capital Committee | - | 12,000 | 12,000 |

### 10.2 Non-executive director superannuation

Medibank meets its obligations under the Superannuation Guarantee legislation by paying superannuation contributions in respect of non-executive directors to their nominated complying superannuation funds up to the concessional contribution limits, as prescribed by current income tax law. These superannuation contributions for non-executive directors are drawn from the overall fees paid to non-executive directors.

### 10.3 Shareholding policy for non-executive directors

Medibank has implemented a minimum shareholding policy that will see non-executive directors acquire shares with a value equal to one year's base fee after tax over a period of five years. Non-executive directors do not participate in, or receive, any performance-based remuneration as part of their role and do not participate in any equity plans that operate within the Group.

## 11. NON-EXECUTIVE REMUNERATION STATUTORY TABLE

| Non-executive director | Financial year | Short-term benefits | | Post-employment benefits | Total $ |
|---|---|---|---|---|---|
| | | Director fees $ | Non-monetary[3] $ | Superannuation $ | |
| ***Elizabeth Alexander*** | **2015** | **279,814** | **-** | **16,947** | **296,761** |
| | **2014** | 135,971 | - | 12,577 | 148,548 |
| ***Anna Bligh[1]*** | **2015** | **109,528** | **1,989** | **10,405** | **121,922** |
| | **2014** | 47,570 | 1,884 | 4,400 | 53,854 |
| ***David Fagan[2]*** | **2015** | **114,800** | **1,965** | **10,906** | **127,671** |
| | **2014** | 16,292 | 296 | 1,507 | 18,095 |
| ***Cherrell Hirst*** | **2015** | **125,833** | **757** | **11,954** | **138,544** |
| | **2014** | 65,148 | 352 | 6,026 | 71,526 |
| ***Peter Hodgett*** | **2015** | **132,774** | **2,045** | **12,614** | **147,433** |
| | **2014** | 65,920 | 673 | 6,098 | 72,691 |
| ***Linda Bardo Nicholls[2]*** | **2015** | **117,779** | **727** | **11,189** | **129,695** |
| | **2014** | 16,292 | - | 1,507 | 17,799 |
| ***Christine O'Reilly[2]*** | **2015** | **130,069** | **-** | **12,357** | **142,426** |
| | **2014** | 17,972 | - | 1,663 | 19,635 |
| **Total non-executive director remuneration** | **2015** | **1,010,597** | **7,483** | **86,372** | **1,104,452** |
| | **2014** | 365,165 | 3,205 | 33,778 | 402,148 |

1. For 2014 and prior to privatisation, the Commonwealth Remuneration Tribunal set Anna Bligh's directors fee at $47,600 per annum to reflect Ms Bligh's agreement with the Shareholder Minister to mirror the conditions applying to recipients of Commonwealth Government pensions in relation to her receipt of a Queensland Government pension.
2. David Fagan, Linda Bardo Nicholls and Christine O'Reilly were all appointed to the Board on 31 March 2014 and, therefore, their 2014 remuneration reflects the part-year period they were employed.
3. Non-monetary benefits may include death, total and permanent disablement insurance, salary continuance insurance, subsidised Medibank health insurance and fringe benefits that are on the same terms and conditions that are available to all employees of the Group.

## 12. NON-EXECUTIVE DIRECTOR ORDINARY SHARE HOLDINGS

| Non-executive director | Equity Type | Balance 24 November 2014 | Acquired during the year | Balance 30 June 2015 |
|---|---|---|---|---|
| ***Elizabeth Alexander*** | Ordinary Shares | n/a | 4,786 | 4,786 |
| ***Anna Bligh*** | Ordinary Shares | n/a | 3,835 | 3,835 |
| ***David Fagan*** | Ordinary Shares | n/a | 30,016 | 30,016 |
| ***Cherrell Hirst*** | Ordinary Shares | n/a | 7,150 | 7,150 |
| ***Peter Hodgett*** | Ordinary Shares | n/a | 7,800 | 7,800 |
| ***Linda Bardo Nicholls*** | Ordinary Shares | n/a | 7,150 | 7,150 |
| ***Christine O'Reilly*** | Ordinary Shares | n/a | 6,454 | 6,454 |

## 13. MEDIBANK'S 2015 AND 2016 COMPARATOR GROUPS

Detailed below are a list of companies that have either been added or excluded from Medibank's 2015 and 2016 comparator groups. As explained in sections 4.2, 4.4 and 10.1 of this report, these comparator groups have been used for the purposes of benchmarking executive and non-executive director remuneration and for the assessment of Medibank's relative TSR performance under its LTI Plan.

The companies listed below have either been added or excluded from the 2015 and 2016 comparator groups in line with Board's intent on benchmarking remuneration and comparing performance against organisations of similar size and from similar industries.

### Comparator Groups

| 2015 Comparator Group | | 2016 Comparator Group |
|---|---|---|
| **Excluded companies** | **Included insurance companies[1]** | **Excluded companies** |
| Alumina Limited | Suncorp Group Limited | Rio Tinto Limited |
| Blue Scope Steel Limited | AMP Limited | Origin Energy Limited |
| Fletcher Building Limited | Insurance Australia Group Limited | Oil Search Limited |
| Iluka Resources Limited | | Newcrest Mining Limited |
| James Hardie Industries | | Caltex Australia Limited |
| Sims Metal Management Limited | | Santos Limited |
| Beach Energy Limited | | Fortescue Metals Group Limited |
| | | Alumina Limited |
| | | Blue Scope Steel Limited |
| | | Worley Parsons Limited |
| | | Sims Metal Management Limited |
| | | Iluka Resources Limited |

1. The insurance companies listed above were only included in the 2015 comparator group for the purposes of benchmarking executive and non-executive remuneration.

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

Elizabeth Alexander AM
Chairman

George Savvides
Managing Director

21 August 2015
Melbourne

## Auditor's Independence Declaration

As lead auditor for the audit of Medibank Private Limited for the year ended 30 June 2015, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Medibank Private Limited and the entities it controlled during the period.

Mary Waldron
Partner
PricewaterhouseCoopers

Melbourne
21 August 2015



***PricewaterhouseCoopers, ABN 52 780 433 757***
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*T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au*

# Consolidated income statement

For the financial year ended 30 June 2015

| | Note | 2015 $m | 2014 $m |
|---|---|---|---|
| **Revenue** | | | |
| Health Insurance premium revenue | 4(a) | **5,934.8** | 5,648.7 |
| Complementary Services revenue | | **641.2** | 723.1 |
| | | **6,576.0** | 6,371.8 |
| **Other income** | | **11.8** | 10.3 |
| **Expenses** | | | |
| Claims expense | | **(5,083.9)** | (4,854.2) |
| Employee benefits expense | 8(a) | **(379.0)** | (463.9) |
| Medical services expense | | **(404.3)** | (403.4) |
| Office and administration expense | | **(105.2)** | (111.7) |
| Marketing expense | | **(89.5)** | (90.4) |
| Information technology expense | | **(59.7)** | (82.4) |
| Professional service expense | | **(33.3)** | (36.2) |
| Lease expense | 8(b) | **(43.5)** | (50.9) |
| Depreciation and amortisation expense | | **(64.7)** | (62.9) |
| Impairment expense | 13 | **-** | (100.2) |
| Other expenses | | **(21.9)** | (22.9) |
| | | **(6,285.0)** | (6,279.1) |
| **Profit before net investment income and income tax** | | **302.8** | 103.0 |
| Net investment income | 5(a) | **93.8** | 113.9 |
| **Profit for the year before income tax** | | **396.6** | 216.9 |
| Income tax expense | 9(a) | **(111.3)** | (86.1) |
| **Profit for the year** | | **285.3** | 130.8 |
| | | **Cents** | Cents |
| **Earnings per share for profit attributable to ordinary equity holders of the Company** | | | |
| Basic earnings per share | 7(b) | **10.4** | 4.7 |
| Diluted earnings per share | 7(b) | **10.4** | 4.7 |

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

# Consolidated statement of comprehensive income

For the financial year ended 30 June 2015

| | Note | **2015 $m** | 2014 $m |
|---|---|---|---|
| **Profit for the year** | | **285.3** | 130.8 |
| **Other comprehensive income, net of tax** | | | |
| *Items that may be reclassified to profit or loss* | | | |
| Exchange differences on translation of foreign operations | 18 | **(0.2)** | 0.5 |
| *Items that will not be reclassified to profit or loss* | | | |
| Revaluation of land and buildings | 18 | **(0.1)** | 2.0 |
| Actuarial loss on retirement benefit obligation | 19 | **-** | (0.7) |
| | | **(0.3)** | 1.8 |
| **Total comprehensive income for the year** | | **285.0** | 132.6 |

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

# Consolidated statement of financial position

As at 30 June 2015

| | Note | 2015 $m | 2014 $m |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | **408.7** | 708.0 |
| Trade and other receivables | 10 | **301.2** | 338.6 |
| Financial assets at fair value through profit or loss | 5 | **1,971.8** | 1,490.6 |
| Deferred acquisition costs | 11 | **22.4** | 11.3 |
| Other assets | | **7.9** | 9.0 |
| Assets held for sale | 28 | **14.6** | - |
| **Total current assets** | | **2,726.6** | 2,557.5 |
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | **106.1** | 138.0 |
| Deferred tax assets | 9(d) | **-** | 8.3 |
| Intangible assets | 13 | **261.8** | 243.5 |
| Deferred acquisition costs | 11 | **45.3** | 26.7 |
| Other assets | | **1.1** | 0.3 |
| **Total non-current assets** | | **414.3** | 416.8 |
| **Total assets** | | **3,140.9** | 2,974.3 |
| **Current liabilities** | | | |
| Trade and other payables | 14 | **383.0** | 345.4 |
| Claims liabilities | 4(b) | **387.5** | 380.6 |
| Unearned premium liability | 15 | **668.4** | 621.4 |
| Tax liability | | **26.9** | 26.8 |
| Provisions and employee entitlements | 16 | **69.2** | 89.7 |
| **Total current liabilities** | | **1,535.0** | 1,463.9 |
| **Non-current liabilities** | | | |
| Trade and other payables | 14 | **36.1** | 1.3 |
| Claims liabilities | 4(b) | **23.1** | 26.5 |
| Unearned premium liability | 15 | **57.2** | 43.5 |
| Deferred tax liabilities | 9(d) | **5.6** | - |
| Provisions and employee entitlements | 16 | **41.9** | 45.2 |
| **Total non-current liabilities** | | **163.9** | 116.5 |
| **Total liabilities** | | **1,698.9** | 1,580.4 |
| **Net assets** | | **1,442.0** | 1,393.9 |
| **Equity** | | | |
| Contributed equity | 17 | **85.0** | 85.0 |
| Reserves | 18 | **21.1** | 20.9 |
| Retained earnings | 19 | **1,335.9** | 1,288.0 |
| **Total equity** | | **1,442.0** | 1,393.9 |

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

## Consolidated statement of changes in equity

For the financial year ended 30 June 2015

| | Contributed equity $m | Reserves $m | Retained earnings $m | Total equity $m |
|---|---|---|---|---|
| **Balance at 1 July 2013** | 85.0 | 18.6 | 1,299.1 | **1,402.7** |
| Profit for the year | - | - | 130.8 | **130.8** |
| Other comprehensive income | - | 2.5 | (0.7) | **1.8** |
| **Total comprehensive income for the year** | **-** | 2.5 | 130.1 | **132.6** |
| Transfers upon sale of properties (Note 18) | **-** | (0.2) | 0.5 | **0.3** |
| **Transactions with owners in their capacity as owners:** | | | | |
| Dividends provided for or paid | - | - | (141.7) | **(141.7)** |
| **Balance at 30 June 2014** | **85.0** | **20.9** | **1,288.0** | **1,393.9** |
| Profit for the year | - | - | 285.3 | **285.3** |
| Other comprehensive income | - | (0.3) | - | **(0.3)** |
| **Total comprehensive income for the year** | **-** | **(0.3)** | **285.3** | **285.0** |
| Transfers upon sale of properties (Note 18) | | (1.3) | 1.4 | **0.1** |
| **Transactions with owners in their capacity as owners:** | | | | |
| Dividends paid | - | - | (238.8) | **(238.8)** |
| Share-based payment transactions | - | 1.8 | - | **1.8** |
| **Balance at 30 June 2015** | **85.0** | **21.1** | **1,335.9** | **1,442.0** |

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

# Consolidated statement of cash flows

For the financial year ended 30 June 2015

| | Note | 2015 $m | 2014 $m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Premium receipts | | **5,990.6** | 5,718.8 |
| Complementary Services receipts | | **740.7** | 764.3 |
| Other receipts | | **16.7** | 2.3 |
| Contribution received towards fitout of property | | **30.4** | - |
| Payments for claims and levies | | **(5,042.4)** | (4,816.6) |
| Payments to suppliers and employees | | **(1,261.6)** | (1,295.0) |
| Income taxes paid | | **(97.3)** | (61.0) |
| **Net cash inflow from operating activities** | 26 | **377.1** | 312.8 |
| **Cash flows from investing activities** | | | |
| Interest received | | **46.4** | 53.5 |
| Investment expenses | | **(5.0)** | (4.7) |
| Proceeds from sale of financial assets | | **625.3** | 1,159.3 |
| Purchase of financial assets | | **(1,055.4)** | (1,159.1) |
| Proceeds from sale of property, plant and equipment | | **4.0** | 4.5 |
| Purchase of plant and equipment | | **(6.1)** | (69.2) |
| Purchase of intangible assets | | **(46.8)** | (42.5) |
| **Net cash outflow from investing activities** | | **(437.6)** | (58.2) |
| **Cash flows from financing activities** | | | |
| Dividends paid | | **(238.8)** | (441.7) |
| **Net cash outflow from financing activities** | | **(238.8)** | (441.7) |
| **Net decrease in cash and cash equivalents** | | **(299.3)** | (187.1) |
| Cash and cash equivalents at beginning of year | | **708.0** | 895.1 |
| **Cash and cash equivalents at end of year** | | **408.7** | 708.0 |

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

## Note 1: Basis of preparation

The financial statements of Medibank Private Limited (Medibank or the Company) for the financial year ended 30 June 2015 (2015) were authorised for issue in accordance with a resolution of the directors on 21 August 2015. The directors have the power to amend and reissue the financial statements. The financial statements are for the consolidated entity (the Group) consisting of Medibank and its subsidiaries.

Medibank is a company incorporated in Australia. It is a company limited by shares, whose shares are publicly traded on the Australian Securities Exchange (ASX). The Company was admitted to the official list of the ASX on 25 November 2014. Prior to this, the Company was wholly owned by the Commonwealth Government.

The principal accounting policies adopted in the preparation of these financial statements are set out in Note 3. These policies have been consistently applied to all the years presented, except as stated in Note 3(a).

### a) Basis of preparation of the financial statements

These general-purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. Medibank is a for-profit entity for the purpose of preparing financial statements.

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

These financial statements have been prepared under the historical cost convention, with the exception of financial assets measured at fair value through profit or loss, land and buildings which are measured at fair value, and claims liabilities which are measured at the present value of expected future payments.

### b) Critical accounting estimates and judgements

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 the following notes:

- Note 4: Insurance underwriting result
- Note 5: Financial assets at fair value through profit or loss
- Note 11: Deferred acquisition costs
- Note 13: Intangible assets
- Note 16: Provisions and employee entitlements

### c) Functional and presentation currency

The consolidated financial statements are presented in Australian dollars, which is Medibank's functional and presentation currency. The results and financial position of the Group's overseas subsidiaries are not material to the Group.

### d) 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 hundred thousand dollars unless otherwise stated.

### e) Changes to presentation and comparative information

When the presentation or classification of items in the financial statements is amended, comparative amounts have been reclassified. Refer Note 5(b) for details of a change in sub-classification of the Group's financial assets at fair value through profit or loss in the current financial year.

## Note 2: Segment information

### a) Description of segments

Segment information is reported on the same basis as the Group's internal management reporting structure, which determines how the Group is organised and managed at the reporting date. Segment comparatives reflect the organisational changes that have occurred since the prior financial year to present a like-for-like view.

For the financial year ended 30 June 2015, the Group was organised for internal management reporting purposes into two reportable segments, Health Insurance and Complementary Services.

Health Insurance offers private health insurance products including hospital cover and extras cover, as stand-alone products or packaged products that combine the two. Hospital cover provides members with health cover for hospital treatments, whereas extras cover provides members with health cover for healthcare services such as dental, optical and physiotherapy. The segment also offers health insurance products to overseas visitors and overseas students.

Complementary Services was identified as a reportable segment during the current financial year. The segment derives its revenue from a range of activities including contracting with government and corporate customers to provide health management services, as well as providing a range of telehealth services in Australia and New Zealand. In addition, the Group distributes diversified insurance products on behalf of other insurers as part of a broader strategy to retain members and leverage its distribution network.

### b) Segment information provided to the Managing Director

The segment information provided to the Managing Director for the year ended 30 June 2015 is as follows:

| Year ended 30 June 2015 | Health Insurance $m | Complementary Services $m | Total $m |
|---|---|---|---|
| **Revenues** | | | |
| Total segment revenue | 5,934.8 | 650.6 | 6,585.4 |
| Inter-segment revenue | - | (9.4) | (9.4) |
| **Revenue from external customers** | **5,934.8** | **641.2** | **6,576.0** |
| **Operating profit** | **332.2** | **14.2** | **346.4** |
| *Items included in segment operating profit:* | | | |
| Depreciation and amortisation | (44.2) | (9.2) | **(53.4)** |
| Impairment expenses | - | - | **-** |

## Note 2: Segment information (continued)

### b) Segment information provided to the Managing Director (continued)

| Year ended 30 June 2014 | Health Insurance $m | Complementary Services $m | Total $m |
|---|---|---|---|
| **Revenues** | | | |
| Total segment revenue | 5,648.7 | 754.5 | 6,403.2 |
| Inter-segment revenue | | (31.4) | (31.4) |
| **Revenue from external customers** | 5,648.7 | 723.1 | 6,371.8 |
| **Operating profit** | 250.8 | 26.7 | 277.5 |
| *Items included in segment operating profit:* | | | |
| Depreciation and amortisation | (33.6) | (17.6) | (51.2) |
| Impairment expenses | - | (0.6) | (0.6) |

### c) Other segment information

*i) Segment revenue*

Segment revenue from external parties reported to the Managing Director is measured in a manner consistent with that in the Group's consolidated income statement. Total segment revenue from external customers corresponds to the Group's total revenue per the consolidated income statement. The Group is not reliant on any one major customer. Transactions between segments are carried out at arm's length basis and are eliminated on consolidation.

*ii) Segment operating profit or loss*

The Managing Director measures the performance of the Group's reportable segments based on the operating profit of those segments.

A reconciliation of the operating profit to the profit for the year before income tax of the Group is as follows:

## Note 2: Segment information (continued)

### c) Other segment information (continued)

*ii) Segment operating profit or loss (continued)*

| | Note | **2015 $m** | 2014 $m |
|---|---|---|---|
| **Total segment operating profit** | | **346.4** | 277.5 |
| Restructuring expenses | | **-** | (35.1) |
| Impairment expenses: | | | |
| Goodwill | 13 | **-** | (88.9) |
| Software - acquired and under construction | 13 | **-** | (10.7) |
| Unallocated to operating segments: | | | |
| Corporate operating expenses | | **(30.8)** | (29.1) |
| Depreciation and amortisation | | **(11.3)** | (11.7) |
| Net investment income | 5(a) | **93.8** | 113.9 |
| Other expenses | | **(13.3)** | (9.3) |
| Other income | | **11.8** | 10.3 |
| **Profit for the year before income tax** | | **396.6** | 216.9 |

*Restructuring expenses*

In the prior financial year, the Group undertook a significant restructuring programme within its Complementary Services segments. The resulting restructuring expense was reported to the Managing Director outside of the segment's operating profit, as these costs related to reorganisation activities that are one-off in nature.

*Impairment*

Impairment losses on goodwill and software are not reported within the measure of profit or loss reported to the Managing Director, as the Managing Director regards such items to be one-off expenses outside of the normal trading activities of each segment. The impairment losses recognised in the prior financial year related to CGUs which formed part of the Complementary Services segment (refer Note 13).

*Other items*

Segment operating profit also excludes the following:

- Interest, distribution and dividend income and related investment management expenses (refer Note 5(a)), as this represents income from outside of the Group's normal scope of operations and arises from investments which are managed by a central treasury function
- Net gains and losses on disposals of and fair value movements on financial assets and liabilities (refer Note 5(a)), as they are not indicative of the Group's long-term performance
- Other income of $11.8 million (30 June 2014: $10.3 million) which does not relate to the trading activities of the Group's segments
- Depreciation and amortisation of $11.3 million (2014: $11.7 million) and operating expenses of the Group's corporate function of $30.8 million (2014: $29.1 million), which are not allocated to segments and
- Other expenses of $13.3 million (2014: $9.3 million) which comprises initial public offering (IPO) preparation expenses and transaction costs incurred by the Group.

## Note 2: Segment information (continued)

### c) Other segment information (continued)

*iii) Segment assets and segment liabilities*

No information regarding segment assets and segment liabilities has been disclosed, as these amounts are not reported to the Managing Director for the purpose of making strategic decisions.

*iv) Geographic information*

Segment revenues based on the geographical location of customers has not been disclosed, as the Group derives substantially all of its revenues from its Australian operations.

## Note 3: Summary of significant accounting policies

### a) New accounting policies

During the year ended 30 June 2015, the Group adopted the following accounting standards:

- AASB 133 *Earnings per Share*
- AASB 2 *Share-based Payment*

The Group's new accounting policies in accordance with these standards are set out below.

*i) Basic earnings per share*

Basic earnings per share (EPS) is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the reporting period, adjusted for bonus elements in ordinary shares issued during the reporting period and excluding treasury shares. For comparative purposes, the weighted average number of ordinary shares outstanding as at 30 June 2014 has been updated to reflect the share split which took place prior to the Group's IPO (refer Note 17).

*ii) Diluted earnings per share*

Diluted EPS adjusts the figures used in the determination of basic EPS to take into account:

- the after income tax effect of any interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

*iii) Share-based payment*

The Group provides benefits to certain key management personnel (KMPs) in the form of share-based payment, whereby KMPs render services in exchange for rights over shares (performance rights). These benefits are provided as part of the Group's long-term incentive plan. Information relating to this plan is set out in Note 22.

The fair value of the performance rights is recognised as an employee benefits expense, with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the performance rights granted, which includes any market performance conditions and the impact of any non-vesting conditions, but excludes the impact of any service and non-market performance vesting conditions. Non-market vesting conditions are included in assumptions about the number of performance rights that are expected to vest.

## Note 3: Summary of significant accounting policies (continued)

### a) New accounting policies (continued)

*iii) Share-based payment (continued)*
The total expense is recognised over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At the end of each reporting period, the Group revises its estimates of the number of awards that are expected to vest based on the non-market vesting conditions. The impact of the revision to original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to equity.

### b) New and amended standards adopted

The following standards became effective for the financial year ended 30 June 2015, but did not have a material impact on the Group's accounting policies or on the consolidated financial report:

*i) AASB 2012-3: Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities*
This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities, including whether entities have a current legally enforceable right of set-off which is not contingent on a future event and the criteria which evidence that the entity intends to settle on a net basis.

As the Group does not offset its financial assets and financial liabilities, and has no legally enforceable right to do so, the amendment had no impact on the measurement and classification of these balances and does not require any additional disclosures in the Group's financial statements.

*ii) Interpretation 21: Accounting for Levies*
The Interpretation clarifies the circumstances under which a liability to pay a levy imposed by a government should be recognised, specifically when to account for the liability if that liability falls within the scope of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets.* As levies payable by the Group do not fall within the scope of AASB 137, the Interpretation has had no impact on the Group's financial statements.

*iii) AASB 2014-1: Amendments to Australian Accounting Standards*
This amendment clarifies minor points across various accounting standards, but has had no material impact on the Group's financial statements.

### c) Early adoption of standards

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2014. Note 3(g) provides details of new standards and interpretations which have been published but are not mandatory for 30 June 2015 reporting periods.

### d) Significant accounting policies: 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 4.

## Note 3: Summary of significant accounting policies (continued)

### d) Significant accounting policies: insurance contracts (continued)

The significant accounting policies adopted by the Group in accounting for insurance cover provided are set out below.

*i) Private health insurance premium revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable. 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.

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 an unearned premium liability in the balance sheet.

The Australian Government provides a rebate in respect of the premium paid for resident private health insurance. Policyholders can elect to receive this entitlement by paying the net amount of the premium, with the rebate being paid directly by the government to the Group. This rebate is recognised in the income statement within premium revenue. Rebates due from the government but not received at balance date are recognised as receivables.

*ii) Unearned premium liability*

The proportion of premium received that has not been earned at the end of each reporting period is recognised in the balance sheet as unearned premium liability. The liability for unearned premiums is released to the income statement as revenue in accordance with Note 3(d)(i) over the term of the insurance cover, which for the purpose of measuring the unearned premium liability, is between the attachment date and the date the premium has been paid up to. Refer also to Note 15 for details of the split between the current and non-current portion of this balance.

*iii) Claims expense*

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

*iv) Claims liabilities and provisions*

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, 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.

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.

*v) Net Risk Equalisation Trust Fund levies and rebates*

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.

## Note 3: Summary of significant accounting policies (continued)

### d) Significant accounting policies: insurance contracts (continued)

*v) Net Risk Equalisation Trust Fund levies and rebates (continued)*

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.

*vi) Deferred acquisition costs*

Acquisition costs incurred in obtaining health insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the consolidated income statement in subsequent reporting periods.

Deferred acquisition costs are amortised systematically over the average expected duration of the insurance contracts to which they relate, in accordance with the expected pattern of the incidence of risk under the insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding actual and expected premium revenue. The Group amortises these costs on a straight-line basis over a period of 4 years (2014: 4 years). This is subject to the results of liability adequacy testing (refer Note 3(d)(vii) below). The appropriateness of the average expected duration of the insurance contracts is an accounting policy judgement and is reassessed annually on the basis of historical lapse rates for members who are subject to these acquisition costs.

*vii) Unexpired risk liability*

A liability adequacy test is required to be performed in respect of the unearned premium liability (contributions in advance) and insurance contracts renewable before the next pricing review (constructive obligation), net of related deferred acquisition costs. The purpose of the test is to determine whether the insurance liability is adequate to cover the present value of expected cash flows relating to future claims arising from rights and obligations under current insurance coverage. An additional risk margin is included in the test 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, the unearned premium liability is deemed to be deficient, with the entire deficiency being recorded immediately in the income statement. The deficiency is recognised first by writing down any related intangible assets and then related deferred acquisition costs, with any excess being recorded in the balance sheet as an unexpired risk liability.

Deferred acquisition costs which are not included in this test are separately assessed for recoverability and are amortised in accordance with the Group’s accounting policy set out in Note 3(d)(vi).

### e) Significant accounting policies: financial assets and financial liabilities

The Group classifies its financial assets in the following categories: cash and cash equivalents, financial assets at fair value through profit or loss, and trade and other receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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.

## Note 3: Summary of significant accounting policies (continued)

### e) Significant accounting policies: financial assets and financial liabilities (continued)

The Group's financial liabilities comprise trade and other payables. Financial liabilities are derecognised when the Group's contractual obligations are discharged, cancelled or expired.

The significant accounting policies adopted by the Group's in accounting for its financial assets and financial liabilities are set out below.

*i) 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 and term deposits, commercial paper, negotiable certificate of deposit, and other short-term highly liquid investments with maturities of 3 months or less that are readily convertible to known amounts of cash and which are subject to an insignificant change in value.

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

*ii) Assets backing insurance liabilities: financial assets at fair value through profit or loss*

Financial assets that back insurance liabilities 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. At initial recognition, the Group measures a financial asset at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. These assets are subsequently carried at fair value, with gains and losses recognised within net investment income in the consolidated income statement.

The Group has determined that the financial assets attributable to its health benefits fund 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 fund. Financial assets that are designated at fair value through profit or loss, consist of externally managed equity trusts and direct mandates, and an internally managed fixed income portfolio.

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. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

*iii) Net investment income*

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 net investment income in the period in which they arise.

Dividend income and trust distribution income derived from financial assets at fair value though profit or loss is recognised in profit or loss as part of net investment income when the Group's right to receive payments is established. Interest income from these financial assets accrues using the effective interest method and is also included in net investment income.

Net investment income is presented net of investment management fees in the consolidated income statement.

*iv) 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.

## Note 3: Summary of significant accounting policies (continued)

### e) Significant accounting policies: financial assets and financial liabilities (continued)

*iv) Trade and other receivables (continued)*

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 7 - 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. Trade and other receivables, including premiums in arrears, are non-interest bearing.

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 on trade receivables is recognised within other expenses in the consolidated income statement. 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. 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 credited against other expenses in the income statement. The amount of the impairment loss on premiums in arrears is offset against premium revenue.

*v) Trade and other payables*

Trade and other payables 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. 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.

### f) Other significant accounting policies

*i) Principles of consolidation*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Medibank ("parent entity") as at 30 June 2015 and the results of all subsidiaries for the year then ended. Medibank and its subsidiaries together are referred to in this financial report as the Group.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

## Note 3: Summary of significant accounting policies (continued)

### f) Other significant accounting policies (continued)

*i) Principles of consolidation (continued)*

The acquisition method of accounting is used to account for the acquisition of subsidiaries. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred and the liabilities incurred. 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 and the amount of any non-controlling interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired, is recorded as goodwill.

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.

*ii) Segment reporting*

Operating segments are identified based on the separate financial information that is regularly reviewed by the Chief Operating Decision Maker (CODM). The term CODM refers to the function performed by the Managing Director in assessing performance and determining the allocation of resources across the Group. Operating segments are aggregated where applicable and reported in accordance with the quantitative and qualitative criteria of AASB 8 *Operating Segments*.

*iii) Complementary Services revenue recognition*

Complementary 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.

A description of the services from which this revenue is derived is included in Note 2(a).

*iv) Income tax*

The income tax expense or revenue for the period is the tax payable or receivable 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 and its 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.

## Note 3: Summary of significant accounting policies (continued)

### f) Other significant accounting policies (continued)

*iv) Income tax (continued)*

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.

*Tax consolidation legislation*
Medibank and its wholly owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are offset in the consolidated financial statements. In addition to its own current and deferred tax amounts, the head entity, Medibank 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. Medibank, 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 standalone taxpayer in its own right.

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.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Medibank for any current tax payable assumed and are compensated by Medibank for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Medibank 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 or 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. The amounts receivable from or payable to entities within the group which arise under the tax funding arrangement are eliminated upon consolidation. 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.

*v) Leases*

*Operating 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 20). 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.

## Note 3: Summary of significant accounting policies (continued)

### f) Other significant accounting policies (continued)

*v) Leases (continued)*

*Finance leases*

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

*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.

*Onerous lease contracts*

The Group recognises a provision (refer Note 3(f)(x)) for losses on lease contracts when the Group's unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the minimum net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

*vi) Property, plant and equipment*

Land and buildings (none of which are investment properties) 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. Other property, plant and equipment is stated as historical cost less depreciation. 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 the income statement 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 the income statement, the increase is first recognised in the income statement. 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 the income statement.

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:

## Note 3: Summary of significant accounting policies (continued)

### f) Other significant accounting policies (continued)

*vi) Property, plant and equipment (continued)*

| | |
|---|---|
| Leasehold improvements: | 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 3(f)(ix)).

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). These gains or losses are included in the income statement. 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.

*vii) Non-current assets held for sale and discontinued operations*

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs of disposal, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale are presented separately from the other assets in the balance sheet. The corresponding liabilities held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of and that represents a separate major line of business. The results of discontinued operations are presented separately in the income statement.

*viii) Intangibles*

*Goodwill*

Goodwill is measured as described in Note 3(f)(x). 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.

## Note 3: Summary of significant accounting policies (continued)

### f) Other significant accounting policies (continued)

*viii) Intangibles (continued)*

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

*Software*
Costs incurred in acquiring software and licences 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. Software intangibles are carried at cost less accumulated amortisation and impairment losses (refer Note 3(f)(ix)).

Amortisation is calculated on a straight-line basis over the expected useful lives of the software, generally estimated to have a useful life of 1.5 to 7 years. Amortisation is recognised in depreciation and amortisation expense in the income statement.

*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 (refer Note 3(f)(ix)). Amortisation of customer contracts and relationships is calculated on a straight-line basis over the expected useful lives, which for assets currently owned by the Group is 10 to 12 years and is recognised in depreciation and amortisation expense in the income statement.

*ix) 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 of disposal 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 (CGUs).

*x) 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. Expected future payments are discounted using market yields at the end of the reporting period using corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows. The increase in the provision due to the passage of time is recognised as interest expense.

## Note 3: Summary of significant accounting policies (continued)

### f) Other significant accounting policies (continued)

*xi) Employee entitlements*

*Short-term obligations*
Liabilities for wages and salaries, including non-monetary benefits are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. These short-term employee benefit obligations are presented as payables.

*Other long-term employee benefit obligations*
Liabilities for long service leave and annual leave which are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service, are 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 using corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the balance sheet if the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

*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, the profit of the Group and other financial and non-financial key performance indicators. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

*Termination benefits*
Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises costs for a restructuring that is within the scope of AASB 137 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

*Retirement benefit obligations*
The Group makes fixed contributions to defined contribution plans, which are recognised as an expense as they become payable. The Group's legal or constructive obligation in respect of these plans is limited to these contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

One of the Group's subsidiaries 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 plans is presented within trade and other payables in the balance sheet. All actuarial gains and losses are recognised directly in retained earnings through other comprehensive income. Management do not consider the net obligation in respect of these defined benefit funds to be material to the Group as at 30 June 2015.

*xii) Contributed equity*

Fully paid ordinary shares are classified as contributed equity.

## Note 3: Summary of significant accounting policies (continued)

### f) Other significant accounting policies (continued)

*xiii) 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.

*xiv) Goods and Services Tax (GST)*

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.

### g) New accounting standards and interpretations

Certain new accounting standards have been published that are not mandatory for 30 June 2015 reporting periods, but will be applicable to the Group in future reporting periods. The Group's assessment of the impact of these new standards is set out below.

Other accounting standards that will become applicable in future reporting periods, but which are considered insignificant to the Group, are set out in (iii) below.

*i) AASB 9: Financial Instruments (and subsequent amendments)*

The revised standard addresses the classification, measurement and derecognition of financial assets and financial liabilities. All financial assets and liabilities are to be recognised at fair value with the exception of debt instruments with basic loan features that are managed on a contracted yield basis. As the Group currently classifies its investments at fair value through profit or loss, the Group does not expect this to have a material impact. The derecognition rules have been transferred from AASB 139 and have not been changed.

AASB 9 also introduces the expected credit losses model which is based on the concept of providing for expected impairment losses at inception of a contract. As the impairment requirements of AASB 9 do not apply to the financial assets at fair value through profit or loss, no significant impact is expected for the Group's investments.

The Group will be required to evaluate trade receivables for expected lifetime losses, if their credit risk has increased significantly since initial recognition, which is presumed to be the case for receivables that are more than 30 days past due. This is likely to result in the recognition of additional impairment losses by the Group, but based on the ageing profile of the amounts currently past due but not impaired (refer Note 10(a)), the Group does not expect a significant impact on the financial statements.

*Application date of standard*:* 1 January 2018

*Application date for the Group:* 1 July 2018

* Application date is for the annual reporting periods beginning on or after the date stated.

## Note 3: Summary of significant accounting policies (continued)

### g) New accounting standards and interpretations (continued)

*ii) AASB 15: Revenue from contracts with customers*

The AASB has issued a new standard for the recognition of revenue, which will replace AASB 118 *Revenue* and AASB 111 *Construction Contracts*. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The Group's health insurance premium revenue will be outside the scope of the standard, as these are accounted for under AASB 1023 *General Insurance Contracts*. Management have not completed an assessment of the impact of AASB 15 on the Group's Complementary Services revenue.

*Application date of standard*:* 1 January 2018

*Application date for the Group:* 1 July 2018

* Application date is for the annual reporting periods beginning on or after the date stated.

*iii) Other*

In addition to the above, the following new accounting standards which will become applicable in future financial years are noted:

- AASB 2014-3 *Accounting for acquisitions of interests in joint operations*
- AASB 2014-4 *Clarification of acceptable methods of depreciation and amortisation*
- AASB 2014-9 *Equity method in separate financial statements*
- AASB 2014-10 *Sale or contribution of assets between an investor and its associate or joint venture*
- AASB 2015-1 *Annual improvements to Australian Accounting Standards 2012 – 2014 cycle*
- AASB 2015-2 *Disclosure initiative: amendments to AASB 101*
- AASB 2015-3 *Amendments to Australian Accounting Standards arising from the withdrawal of AASB 1031 Materiality*

It is not expected that these accounting standards, upon adoption, will have any material impact on the financial results of the Group.

### h) Parent entity financial information

The financial information for the parent entity, Medibank, disclosed in Note 27 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 less accumulated impairment losses in the financial statements of Medibank.

*ii) Tax consolidation legislation*

Assets or liabilities arising under tax funding arrangements with the tax consolidated entities are recognised by Medibank as current assets or current liabilities.

## Note 4: Insurance underwriting result

This note presents the Group's insurance underwriting result and also provides information on the Group's claims liabilities, which comprise the outstanding claims liability and the provision for bonus entitlements. It also contains information on the critical accounting estimates and judgements made by the Group in measuring the claims liabilities and the impact of changes in key variables on the Group's results.

In relation to areas over which management has exercised significant judgement, the key estimates and areas of uncertainty have been disclosed.

### a) Insurance underwriting result

| | Note | **2015 $m** | 2014 $m |
|---|---|---|---|
| Private health insurance premium revenue | | **5,934.8** | 5,648.7 |
| Claims expense | | | |
| Claims incurred | (i) | **(5,123.6)** | (4,953.3) |
| State levies | | **(46.7)** | (45.6) |
| Net Risk Equalisation Trust Fund rebates | | **77.4** | 116.7 |
| | | **(5,092.9)** | (4,882.2) |
| Other claims expense | | **-** | (2.1) |
| Net claims incurred | | **(5,092.9)** | (4,884.3) |
| Underwriting expenses | | **(509.7)** | (513.6) |
| Underwriting result after expenses | | **332.2** | 250.8 |

(i) Prior to elimination of transactions with the Group's other operating segments of $9.2 million (2014: $29.8 million).

### b) Gross claims liability

*Key estimate:*

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

The outstanding claims estimate is derived based on three valuation classes, namely hospital, ancillary and overseas. In calculating the estimated outstanding claims for ancillary, statistical methods are adopted for all service months. For hospital and overseas, the same statistical method is also adopted but with service levels for the most recent 2 service months being based on the latest forecast for those months. Adjustments are then applied to reflect any unusual or abnormal events that may affect the estimate of service levels such as major variability to claims processing volumes. The process for establishing the outstanding claims provision involves consultation with internal actuaries, claims managers and other senior management. The process includes monthly internal claims review meetings attended by senior 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.

## Note 4: Insurance underwriting result (continued)

### b) Gross claims liability (continued)

| | Note | 2015 $m | 2014 $m |
|---|---|---|---|
| **Current** | | | |
| Outstanding claims liability - central estimate | (i) (ii) | **334.3** | 326.4 |
| Risk margin | (iii) | **25.8** | 25.0 |
| Claims handling costs | (iv) | **7.0** | 6.9 |
| | | **367.1** | 358.3 |
| Claims liability - bonus provision | (v) | **20.4** | 22.3 |
| **Gross claims liability** | | **387.5** | 380.6 |
| **Non-current** | | | |
| Outstanding claims liability - central estimate | (i) (ii) | **5.1** | 6.9 |
| Risk margin | (iii) | **0.4** | 0.5 |
| Claims handling costs | (iv) | **0.1** | 0.1 |
| | | **5.6** | 7.5 |
| Claims liability - bonus provision | (v) | **17.5** | 19.0 |
| **Gross claims liability** | | **23.1** | 26.5 |

*(i) Outstanding claims liability - central estimate*

The outstanding claims liability comprises the central estimate and a risk margin (refer Note 4 (b)(iii)). The central estimate is an estimate of the level of claims liability 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.

*Key estimate:*

The central estimate is determined based on analysis of historical experience which assumes an underlying pattern of claims development and payment. The final selected central estimate is based on a judgemental consideration of the results of this analysis and other qualitative information. The central estimate is 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.

*(ii) Discounting*

The outstanding claims liability central estimate is discounted to present value using a risk-free rate of 2.15 percent per annum which equates to a reduction in the central estimate of $1.1 million (2014: 2.71 percent, $1.5 million).

*(iii) Risk margin*

An overall risk margin is determined after consideration of the uncertainty surrounding the outstanding claims liability. The risk margin applied to the Group's outstanding claims central estimate (net of risk equalisation) at 30 June 2015 is 7.7 percent (2014: 7.7 percent).

*Key estimate:*

The risk margin is determined based on an analysis of past experience. In determining the risk margin the analysis examined the volatility of past payments in comparison to the central estimate. The risk margin has been estimated to equate to the Group's objective of achieving a probability of adequacy of at least 95 percent (2014: 95 percent).

*(iv) Claims handling costs*

The allowance for claims handling costs at 30 June 2015 is 2.1 percent of the outstanding claims liability (2014: 2.1 percent).

## Note 4: Insurance underwriting result (continued)

### b) Gross claims liability (continued)

*(v) Claims liabilities - bonus provision*

Certain private health insurance products of the Group include benefit categories – Package Bonus, Ultra Bonus and Membership Bonus, covering additional health related services. A feature of these benefit entitlements is that any unused portion in a calendar year is carried forward to future calendar years, subject to a limit of 5 years for Package Bonus and 10 years for Membership Bonus. Ultra Bonus is carried forward without limit. The Group's claims liabilities include a provision to cover expected future utilisation of these benefit entitlements in respect of current membership.

*Key estimate:*

The bonus provision has been calculated by determining the total entitlement available to members under the terms of the relevant insurance policies, less any amounts utilised, and applying a probability of utilisation. The probability of utilisation is based on past experience and current claiming patterns. The true cost of these entitlements cannot be known with certainty until any unclaimed entitlements are processed.

### c) Claims incurred

Information regarding liquidity risk is set out in Note 6. 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.

| 2015 | Prior<br>$m | Current<br>$m | Total<br>$m |
|---|---|---|---|
| **Claims incurred** | | | |
| Undiscounted | (28.4) | 5,142.6 | 5,114.2 |
| Movement in discount | - | 0.4 | 0.4 |
| | (28.4) | 5,143.0 | 5,114.6 |

| 2014 | Prior<br>$m | Current<br>$m | Total<br>$m |
|---|---|---|---|
| **Claims incurred** | | | |
| Undiscounted | (33.5) | 4,958.9 | 4,925.4 |
| Movement in discount | - | - | - |
| | (33.5) | 4,958.9 | 4,925.4 |

## Note 4: Insurance underwriting result (continued)

### d) Reconciliation of movement in claims liabilities

| | 2015 $m | 2014 $m |
|---|---|---|
| Balance at 1 July | **407.1** | 406.6 |
| Claims incurred during the year | **5,141.8** | 4,952.4 |
| Claims settled during the year | **(5,111.1)** | (4,925.1) |
| Amount over provided on central estimate | **(28.4)** | (33.5) |
| Risk margin | **0.7** | 7.0 |
| Claims handling costs | **0.1** | (0.3) |
| Movement in discount | **0.4** | - |
| Balance at 30 June | **410.6** | 407.1 |

Note: movement includes both current and non-current. Claims incurred and claims settled exclude levies and rebates.

### e) 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 after tax and equity assuming that there is no change to another variable.

| | Movement in variable | Financial Impact | | | |
|---|---|---|---|---|---|
| | | 2015 | | 2014 | |
| | | Profit/(loss) after tax $m | Equity $m | Profit/(loss) after tax $m | Equity $m |
| Central estimate | +10% | (23.7) | (23.7) | (23.3) | (23.3) |
| Central estimate | -10% | 23.7 | 23.7 | 23.3 | 23.3 |
| Discount rate | +1% | 0.4 | 0.4 | 0.4 | 0.4 |
| Discount rate | -1% | (0.4) | (0.4) | (0.4) | (0.4) |
| Risk Margin | +1% | (2.4) | (2.4) | (2.4) | (2.4) |
| Risk Margin | -1% | 2.4 | 2.4 | 2.4 | 2.4 |
| Weighted average term to settlement* | +1 month | 0.5 | 0.5 | 0.6 | 0.6 |
| Weighted average term to settlement | -1 month | (0.5) | (0.5) | (0.6) | (0.6) |

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

## Note 5: Financial assets at fair value through profit or loss

This note contains information on the Group's net investment income and the carrying amount of the Group's investments, which are recognised at fair value on the balance sheet.

*Key judgement and estimate: Classification and valuation of investments*

The Group classifies its 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 measurement of fair value may in some cases be subjective, and investments are categorised into a hierarchy, depending on the level of subjectively involved. The levels of the hierarchy are described in (b) below.

### a) Net investment income

| | **2015 $m** | 2014 $m |
|---|---|---|
| Interest | **51.4** | 60.3 |
| Trust distributions | **21.4** | 13.1 |
| Dividend income | **8.2** | 4.8 |
| Investment management fees | **(5.0)** | (4.2) |
| Net gain on fair value movements on financial assets | **13.5** | 25.3 |
| Net gain on disposal of financial assets | **4.3** | 14.6 |
| | **93.8** | 113.9 |

### b) Fair value hierarchy

The Group classifies the fair value measurement of its investments 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 table presents the Group's financial assets measured and recognised at fair value at 30 June 2015 on a recurring basis.

| **At 30 June 2015** | **Level 1 $m** | **Level 2 $m** | **Level 3 $m** | **Total $m** |
|---|---|---|---|---|
| **Financial assets at fair value through profit or loss** | | | | |
| Australian equities | 163.3 | - | - | **163.3** |
| International equities | - | 185.0 | - | **185.0** |
| Property | 1.0 | 115.6 | - | **116.6** |
| Infrastructure | - | 71.0 | - | **71.0** |
| Fixed income | 163.2 | 1,272.4 | - | **1,435.6** |
| Derivatives | - | 0.3 | - | **0.3** |
| | **327.5** | **1,644.3** | **-** | **1,971.8** |

## Note 5: Financial assets at fair value through profit or loss (continued)

### b) Fair value hierarchy (continued)

| At 30 June 2014 | Level 1 $m | Level 2 $m | Level 3 $m | Total $m |
|---|---|---|---|---|
| **Financial assets at fair value through profit or loss** | | | | |
| Australian equities | 118.7 | - | 0.3 | 119.0 |
| International equities | - | 76.1 | - | 76.1 |
| Property | 0.3 | 109.1 | - | 109.4 |
| Infrastructure | - | 64.2 | - | 64.2 |
| Fixed income | 269.6 | 851.7 | - | 1,121.3 |
| Derivatives | - | 0.6 | - | 0.6 |
| | 388.6 | 1,101.7 | 0.3 | 1,490.6 |

In the financial year ended 30 June 2014, the Group classified its financial assets at fair value through profit or loss, into unit trusts, Australian listed equities, debentures and notes, absolute return funds, private equity and derivatives. In the current financial year, the classification of financial assets at fair value through profit of loss has been updated to reflect how management measures the performance of the portfolio, this now comprises the following categories: Australian equities, international equities, property, infrastructure, fixed income and derivatives. The balances for the comparative period have been classified based on the revised categories.

The Group's other financial instruments, being trade and other receivables and trade and other payables, are not measured at fair value. The fair value of these instruments has not been disclosed, as due to their short-term nature, their carrying amounts are assumed to approximate their fair values.

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis at 30 June 2015.

The Group recognises any transfers into and out of fair value hierarchy levels from the date of effect of the transfer. There were no significant transfers between the levels during the current or prior financial year.

### c) Valuation techniques

*Level 1*
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.

*Level 2*
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 Group holds direct investments in unlisted unit trusts that invest in listed securities. These direct investments include floating rate notes, fixed interest bonds, mortgage-backed securities and unlisted managed investment schemes which are presented in the portfolio categories set out in Note 5(b).

*Level 3*
All other financial instruments, where the valuation technique is based on significant unobservable inputs are included in level 3. There were no changes made during the financial year to the valuation techniques applied as at 30 June 2014. Further information on the Group's level 3 financial instruments has not been provided as the balance at 30 June 2015 is nil (2014: $0.3 million).

## Note 6: 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 cash equivalents, which are short-term money market instruments (bank bills, term deposits, promissory notes, commercial paper and certificates of deposit), fixed income (floating rate notes, asset-backed securities, syndicated loans, fixed income absolute return funds and hybrid investments), property, infrastructure, Australian equities and international equities.

The positions in these financial instruments are determined by Board policy in order to achieve appropriate levels of return for risk from available investments. A strategic asset allocation is set and 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 and Capital Committee of the Board. It is the Group's policy that at no time throughout the period will trading of derivative instruments for purposes other than risk management be undertaken, unless explicitly approved by the Investment and Capital Committee. The Group was in compliance with this policy during the current and prior financial year.

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 analysis and monitoring of counterparty 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.

Primary responsibility for consideration and control of financial risks rests with the Investment and Capital 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).

*(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.

At the balance date, the Group had exposure to the risk of changes in market interest rates in respect of its cash and cash equivalents and fixed income investments. 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 longer-term investments are reset every 90 days on average.

The Group's current policy is not to hedge against falls in market interest rates.

## Note 6: Financial risk management (continued)

### (i) Market risk (continued)

*Interest rate risk (continued)*

At the balance date, the Group had the following financial assets exposed to Australian variable interest rate risk that are not designated in a hedging relationship:

| | **2015 $m** | 2014 $m |
|---|---|---|
| Cash and cash equivalents | **408.7** | 708.0 |
| Financial assets at fair value through profit or loss | | |
| Fixed income | **1,435.6** | 1,121.3 |
| | **1,844.3** | 1,829.3 |

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 after tax and equity would have been affected as follows:

| | **Profit after tax** | | **Equity** | |
|---|---|---|---|---|
| Judgements of reasonably possible movements | **2015 $m** | 2014 $m | **2015 $m** | 2014 $m |
| +50 bps (2014: +60 bps) | **6.4** | 8.1 | **6.4** | 8.1 |
| -50 bps (2014: -60 bps) | **(6.4)** | (8.1) | **(6.4)** | (8.1) |

The sensitivity analysis has been conducted using assumptions from published economic data.

*(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 syndicated loans and infrastructure are externally managed and currency exposures are fully hedged by the fund manager. International equities are externally managed and approximately half of the foreign currency exposure is unhedged.

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.

At 30 June 2015, the Group had the following net exposure to foreign currency movements:

| | **2015 $m** | 2014 $m |
|---|---|---|
| Financial assets at fair value through profit or loss | | |
| International equities | **89.4** | 76.0 |
| | **89.4** | 76.0 |

## Note 6: Financial risk management (continued)

### (i) Market risk (continued)

*(b) Foreign currency risk (continued)*

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

| | **Profit after tax** | | **Equity** | |
|---|---|---|---|---|
| Judgements of reasonably possible movements | **2015 $m** | 2014 $m | **2015 $m** | 2014 $m |
| +10.0% (2014: +11.5%) | **(7.0)** | (3.3) | **(7.0)** | (3.3) |
| -10.0% (2014: -11.5%) | **7.0** | 3.3 | **7.0** | 3.3 |

The sensitivity analysis has been conducted using the assumption of a 10.0 percent (2014: 11.5 percent) movement in the foreign exchange rate.

Management believes 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 property, infrastructure, Australian equities and international equities. It is managed by setting and monitoring objectives and constraints on investments, diversification plans and limits on investments in each country, sector and market.

The following sensitivity analysis is based on the equity price risk exposures in existence at balance date.

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

| | **Profit after tax** | | **Equity** | |
|---|---|---|---|---|
| Judgements of reasonably possible movements | **2015 $m** | 2014 $m | **2015 $m** | 2014 $m |
| Australian equities: | | | | |
| +10.0% (2014: +6.4%) | **9.9** | 6.0 | **9.9** | 6.0 |
| -10.0% (2014: -6.4%) | **(9.9)** | (6.0) | **(9.9)** | (6.0) |
| International equities: | | | | |
| +10.0% (2014: +8.1%) | **9.1** | 6.9 | **9.1** | 6.9 |
| -10.0% (2014: -8.1%) | **(9.1)** | (6.9) | **(9.1)** | (6.9) |
| Property: | | | | |
| +10.0% (2014: +6.7%) | **7.9** | 5.0 | **7.9** | 5.0 |
| -10.0% (2014: -6.7%) | **(7.9)** | (5.0) | **(7.9)** | (5.0) |
| Infrastructure: | | | | |
| +10.0% (2014: +8.0%) | **4.7** | 2.2 | **4.7** | 2.2 |
| -10.0% (2014: -8.0%) | **(4.7)** | (2.2) | **(4.7)** | (2.2) |

The sensitivity analysis has been conducted using the assumption of a 10.0 percent (2014: 6.4 percent to 8.1 percent) movement in the price of the relevant financial assets. Management believe the balance date risk exposures are representative of the risk exposure inherent in the financial statements.

## Note 6: Financial risk management (continued)

### (ii) Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, financial assets at fair value through profit or loss and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

*(a) Cash and cash equivalents and financial assets at fair value through profit or loss*
Credit risk exposure is measured by reference to exposures by ratings bands, country, industry and instrument type.

The Group maintains a counterparty exposure policy where the majority of 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 counterparty exposure limits. These limits specify that no more than 25 percent (2014: 25 percent) of the cash portfolio can be invested in any one counterparty bank and no more than 10 percent (2014: 10 percent) in any one counterparty corporate entity. In respect of the Group's fixed income portfolio, the maximum amounts that can be invested in any one counterparty bank and any one counterparty corporate entity are 50 percent (2014: 50 percent) and 15 percent (2014: 15 percent) of the portfolio respectively. As at 30 June 2015 and 2014, the counterparty exposure of the Group was within these limits.

The Group does not have any financial instruments to mitigate exposure against credit risk and all investments are unsecured (except for covered bonds, asset-backed securities and mortgage-backed securities). However, the impact of default of counterparties is minimised through the use of Board approved limits by counterparty and rating, diversification of counterparties, 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) Counterparty credit risk ratings*
The following table provides information regarding the credit risk exposure of the Group at 30 June 2015 by classifying assets according to credit ratings of the counterparties. 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 Standard & Poor's correlations.

## Note 6: Financial risk management (continued)

### (ii) Credit risk (continued)

*(c) Counterparty credit risk ratings (continued)*

| Short-term<br>Long-term<br>2015 | A-1+<br>AAA<br>$m | A-1+<br>AA<br>$m | A-1<br>A<br>$m | A-2<br>BBB<br>$m | Not rated<br>$m | Total<br>$m |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 0.3 | 186.6 | 129.8 | 107.2 | (15.2) | 408.7 |
| Premiums in arrears | - | - | - | - | 8.0 | 8.0 |
| Trade and other receivables | - | - | - | - | 293.2 | 293.2 |
| Financial assets | | | | | | |
| Australian equities | - | - | - | - | 163.3 | 163.3 |
| International equities | - | - | - | - | 185.0 | 185.0 |
| Property | - | - | - | - | 116.6 | 116.6 |
| Infrastructure | - | - | - | - | 71.0 | 71.0 |
| Fixed income | 142.7 | 524.6 | 291.0 | 122.9 | 354.4 | 1,435.6 |
| Derivatives | - | 0.3 | - | - | - | 0.3 |
| **Total** | **143.0** | **711.5** | **420.8** | **230.1** | **1,176.3** | **2,681.7** |

| Short-term<br>Long-term<br>2014 | A-1+<br>AAA<br>$m | A-1+<br>AA<br>$m | A-1<br>A<br>$m | A-2<br>BBB<br>$m | Not rated<br>$m | Total<br>$m |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 10.3 | 473.9 | 149.2 | 90.8 | (16.2) | 708.0 |
| Premiums in arrears | - | - | - | - | 7.4 | 7.4 |
| Trade and other receivables | - | - | - | - | 331.2 | 331.2 |
| Financial assets | | | | | | |
| Australian equities | - | - | - | - | 119.0 | 119.0 |
| International equities | - | - | - | - | 76.1 | 76.1 |
| Property | - | - | - | - | 109.4 | 109.4 |
| Infrastructure | - | - | - | - | 64.2 | 64.2 |
| Fixed income | 113.3 | 392.9 | 308.6 | 63.8 | 242.7 | 1,121.3 |
| Derivatives | - | 0.5 | 0.1 | - | - | 0.6 |
| **Total** | **123.6** | **867.3** | **457.9** | **154.6** | **933.8** | **2,537.2** |

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.

## Note 6: 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 a counterparty 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 25 percent (2014: 45 percent) of its total investment assets in cash and cash equivalents, maturing in 365 days or less.

The table below reflects all contractually fixed pay-offs for settlement and interest resulting from recognised financial liabilities as at 30 June 2015, as well as the respective undiscounted cash flows for the respective upcoming fiscal years. Cash flows for financial liabilities without fixed amount or timing are based on the conditions existing at 30 June 2015.

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 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 and estimated timing of net cash outflows from claims liabilities are:

| **2015** | **Under 6 months $m** | **6 to 12 months $m** | **1 to 2 years $m** | **Over 2 years $m** | **Total contractual cash flows $m** | **Carrying amount $m** |
|---|---|---|---|---|---|---|
| Trade and other payables | 379.7 | 0.1 | - | - | **379.8** | **379.8** |
| Claims liabilities | 361.9 | 26.6 | 14.6 | 8.6 | **411.7** | **410.6** |
| | **741.6** | **26.7** | **14.6** | **8.6** | **791.5** | **790.4** |

| **2014** | **Under 6 months $m** | **6 to 12 months $m** | **1 to 2 years $m** | **Over 2 years $m** | **Total contractual cash flows $m** | **Carrying amount $m** |
|---|---|---|---|---|---|---|
| Trade and other payables | 344.7 | 0.7 | 0.5 | 0.8 | 346.7 | 346.7 |
| Claims liabilities | 350.1 | 31.8 | 17.4 | 9.4 | 408.7 | 407.1 |
| | 694.8 | 32.5 | 17.9 | 10.2 | 755.4 | 753.8 |

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.

## Note 6: Financial risk management (continued)

### (iv) Insurance risk management

The Group provides 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. The 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 dependent.

| 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 services. | 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 ensures 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 regulator. With effect from 1 July 2015 the prudential functions of the Private Health Insurance Administration Council (PHIAC) were transferred to the Australian Prudential Regulation Authority (APRA). APRA has adopted the same standards and requirements as 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 which exceeds the regulatory requirement.

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

## Note 6: Financial risk management (continued)

### (iv) Insurance risk management (continued)

*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.

### (v) Capital management

The Company's health benefits fund is required to maintain sufficient capital to comply with APRA's solvency and capital adequacy standards. The solvency standard aims to ensure that the fund has enough cash or liquid assets to meet all of its liabilities as they become due, even if the cash flow is 'stressed'. The standard consists of a requirement to hold a prescribed level of cash, and also mandates a liquidity management plan.

The capital adequacy standard aims to ensure that there is sufficient capital within a health benefits fund to enable the ongoing conduct of the business of the fund. The standard consists of a requirement to hold a prescribed level of assets to be able to withstand adverse experience, and also mandates a capital management policy. The capital management policy includes target capital levels, capital trigger points and corrective active plans.

The health benefits fund is required to comply with these standards on a continuous basis and report results to APRA on a quarterly basis. The fund has been in compliance with these standards throughout the year.

The Board has established a capital management policy for the health benefits fund. Capital is managed against this policy and performance is reported to the Board on a monthly basis.

## Note 7: Shareholder returns

### (a) Dividends

*i) Dividends provided for or paid*

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | $ per fully paid share | $m | $ per fully paid share | $m |
| Final unfranked dividend - prior financial year | **0.02** | **42.0** | 0.92 | 78.1 |
| Special unfranked dividend - prior financial year | **0.05** | **138.0** | 3.35 | 300.0 |
| Special unfranked dividend - current financial year | **0.02** | **58.8** | - | - |
| Interim unfranked dividend - current financial year | **-** | **-** | 0.75 | 63.6 |
| | **0.09** | **238.8** | 5.02 | 441.7 |

The special and final unfranked dividend for the financial year ended 30 June 2014 and the special unfranked dividend for the current financial year were paid on 30 October 2014.

The dividend per share for the current financial year has been calculated based on the number of shares outstanding at the payment date, subsequent to the share split which took place in the current financial year (refer Note 17). The dividend per share for the comparative period has been calculated based on the number of shares on issue prior to the share split.

*ii) Dividends not recognised at the end of the reporting period*

On 21 August 2015, the directors proposed a final fully-franked dividend for the year ended 30 June 2015 of 5.3 cents per share. The dividend is expected to be paid on 28 September 2015 and has not been provided for as at 30 June 2015.

*iii) Franking account*

| | 2015 $m | 2014 $m |
|---|---|---|
| Franking credits available for subsequent reporting periods based on a tax rate of 30% | **42.5** | - |

The Group's franking account balance was reset to nil at the time of listing of Medibank's shares on the ASX on 25 November 2014, as the Group cannot pass on to Australian resident shareholders the benefit of any franking credits accrued prior to the date of listing.

The balance of the Group's franking account for the comparative period has not been disclosed as the Group's previous shareholder, the Commonwealth Government, could not use the accumulated franking credits. All dividends paid to the previous shareholder were unfranked.

## Note 7: Shareholder returns (continued)

### (b) Earnings per share

*i) Earnings per share for profit attributable to ordinary equity holders of the Company*

| | 2015 Cents | 2014 Cents |
|---|---|---|
| Basic earnings per share | **10.4** | 4.7 |
| Diluted earnings per share | **10.4** | 4.7 |

A share split took place prior to the Group's IPO in the current financial year (refer Note 17). The basic and diluted earnings per share presented for both the current and comparative financial year are calculated using the number of shares on issue following the share split.

*ii) Earnings used in calculating basic and diluted earnings per share*

| | 2015 $m | 2014 $m |
|---|---|---|
| Profit for the year attributable to ordinary equity holders of the Company | **285.3** | 130.8 |

*iii) Weighted average number of ordinary shares used in calculating earnings per share*

| | Note | 2015 Number of shares | 2014 Number of shares |
|---|---|---|---|
| Weighted average number of ordinary shares used in calculating basic and diluted earnings per share | 17 | **2,754,003,240** | 2,754,003,240 |

## Note 8: Expenses

### (a) Employee benefits expense

Included in the Group's employee benefits expense are the following:

| | **2015 $m** | 2014 $m |
|---|---|---|
| Defined contribution superannuation expense | **23.5** | 29.4 |
| Other long-term benefits expense | **4.8** | 3.4 |
| Termination benefits expense | **6.0** | 22.8 |
| Share-based payment expense | **1.8** | - |

### (b) Lease expense

| | **2015 $m** | 2014 $m |
|---|---|---|
| Operating lease rental expense | **43.5** | 50.9 |

## Note 9: Income tax

| | **2015 $m** | 2014 $m |
|---|---|---|
| **(a) Income tax expense** | | |
| Current tax | **100.7** | 98.3 |
| Deferred tax | **16.6** | (8.8) |
| Adjustment for tax of prior period | **(6.0)** | (3.4) |
| | **111.3** | 86.1 |
| **(b) Numerical reconciliation of income tax expense to prima facie tax payable** | | |
| Profit for the year before income tax expense | **396.6** | 216.9 |
| Tax at the Australian tax rate of 30% (2014: 30%) | **119.0** | 65.0 |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Entertainment | **0.2** | 0.4 |
| Impairment | **-** | 26.7 |
| Tax offset for franked dividends | **(1.9)** | (1.8) |
| Sundry items | **-** | (0.8) |
| | **117.3** | 89.5 |
| Adjustment for tax of prior period | **(6.0)** | (3.4) |
| Income tax expense | **111.3** | 86.1 |

## Note 9: Income tax (continued)

### (d) Deferred tax assets and liabilities

| | 2015<br>$m | 2014<br>$m |
|---|---|---|
| **Deferred tax balances comprise temporary differences attributable to items:** | | |
| ***Recognised in the income statement*** | | |
| Trade and other receivables | **1.9** | 1.1 |
| Financial assets at fair value through profit or loss | **(23.0)** | (19.6) |
| Other assets | **(20.3)** | (11.2) |
| Property, plant and equipment | **1.3** | 7.7 |
| Intangible assets | **(19.8)** | (19.3) |
| Employee entitlements | **18.3** | 19.5 |
| Provisions and other payables | **33.6** | 28.0 |
| Business capital costs | **2.4** | 2.1 |
| | **(5.6)** | 8.3 |
| ***Recognised directly in other comprehensive income*** | | |
| Revaluation of land and buildings | **(1.0)** | (1.0) |
| Actuarial loss on retirement benefit obligation | **1.0** | 1.0 |
| | **-** | - |
| **Net deferred tax (liabilities)/assets** | **(5.6)** | 8.3 |

## Note 10: Trade and other receivables

| | Note | **2015 $m** | 2014 $m |
|---|---|---|---|
| Premiums in arrears | | **14.2** | 11.7 |
| Allowance for impairment loss | | **(6.2)** | (4.3) |
| | | **8.0** | 7.4 |
| Trade receivables | | **116.7** | 139.4 |
| Allowance for impairment loss | | **(2.1)** | (2.3) |
| | | **114.6** | 137.1 |
| Government rebate scheme | (i) | **129.8** | 126.6 |
| Risk Equalisation Trust Fund | | **23.2** | 34.7 |
| Accrued revenue | | **24.2** | 30.8 |
| Other receivables | | **1.4** | 2.0 |
| | | **178.6** | 194.1 |
| Total trade and other receivables | | **301.2** | 338.6 |

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

**(a) Past due but not considered impaired**

| | **Total $m** | **0 to 30 days $m** | **31 to 60 days $m** | **61 to 90 days $m** | **+91 days $m** |
|---|---|---|---|---|---|
| **2015** | | | | | |
| Premiums in arrears | **8.0** | 3.5 | 4.2 | 0.1 | 0.2 |
| Trade receivables | **10.0** | 4.5 | 1.1 | 1.3 | 3.1 |
| | **18.0** | **8.0** | **5.3** | **1.4** | **3.3** |
| **2014** | | | | | |
| Premiums in arrears | 7.4 | 4.3 | 2.9 | 0.1 | 0.1 |
| Trade receivables | 9.6 | 7.3 | 0.8 | 0.5 | 1.0 |
| | 17.0 | 11.6 | 3.7 | 0.6 | 1.1 |

Receivables past due but not considered impaired at 30 June 2015 for the Group are $18.0 million (2014: $17.0 million). Each business unit of the Group has reviewed their individual debtors 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 11: Deferred acquisition costs

| | 2015 $m | 2014 $m |
|---|---|---|
| **Current** | | |
| Deferred acquisition costs | **22.4** | 11.3 |
| | **22.4** | 11.3 |
| **Non-current** | | |
| Deferred acquisition costs | **45.3** | 26.7 |
| | **45.3** | 26.7 |

*Key judgement and estimate:*

The Group amortises deferred acquisition costs over a 4 year period as described in Note 3(d)(vi). The amortisation period has been determined based on the average expected retention period of members. The Group maintains data on the retention period of all members, and performs a retention period analysis of those who are subject to these acquisition costs. The amortisation period is assessed for reasonableness against historical lapse rates for this group of members on an annual basis.

Movements in the deferred acquisition costs are as follows:

| | 2015 $m | 2014 $m |
|---|---|---|
| Balance at beginning of year | **38.0** | 12.5 |
| Costs deferred during the year | **45.1** | 32.0 |
| Amortisation expense | **(15.4)** | (6.5) |
| | **67.7** | 38.0 |

Note: movement includes both current and non-current.

## Note 12: Property, plant and equipment

| | Land and buildings $m | Plant and equipment $m | Leasehold improvements $m | Assets under construction $m | Total $m |
|---|---|---|---|---|---|
| **2015** | | | | | |
| **Gross carrying amount** | | | | | |
| Balance at 1 July 2014 | 38.2 | 38.3 | 65.6 | 68.5 | **210.6** |
| Additions | - | 2.6 | 4.2 | 0.3 | **7.1** |
| Transfers in/(out) | - | 14.6 | 53.7 | (68.3) | **-** |
| Disposals | (3.6) | (12.0) | (16.6) | - | **(32.2)** |
| Revaluations | (0.2) | - | - | - | **(0.2)** |
| Assets held for sale (Note 28) | (7.0) | (4.2) | (18.2) | - | **(29.4)** |
| Balance at 30 June 2015 | 27.4 | 39.3 | 88.7 | 0.5 | **155.9** |
| **Accumulated depreciation and impairment** | | | | | |
| Balance at 1 July 2014 | (2.2) | (26.1) | (44.3) | - | **(72.6)** |
| Depreciation expense | (0.6) | (7.2) | (12.2) | - | **(20.0)** |
| Disposals | 0.7 | 10.8 | 16.3 | - | **27.8** |
| Revaluations | (0.6) | - | - | - | **(0.6)** |
| Assets held for sale (Note 28) | 0.2 | 3.2 | 12.2 | - | **15.6** |
| Balance at 30 June 2015 | (2.5) | (19.3) | (28.0) | - | **(49.8)** |
| **2014** | | | | | |
| **Gross carrying amount** | | | | | |
| Balance at 1 July 2013 | 35.9 | 50.7 | 68.6 | 10.4 | **165.6** |
| Additions | - | 1.9 | 7.4 | 60.0 | **69.3** |
| Transfers in/(out) | - | 0.7 | 0.6 | (1.9) | **(0.6)** |
| Disposals | (2.2) | (15.0) | (11.0) | - | **(28.2)** |
| Revaluations | 4.5 | - | - | - | **4.5** |
| Balance at 30 June 2014 | 38.2 | 38.3 | 65.6 | 68.5 | **210.6** |
| **Accumulated depreciation and impairment** | | | | | |
| Balance at 1 July 2013 | (2.2) | (33.2) | (41.6) | - | **(77.0)** |
| Depreciation expense | (0.7) | (6.5) | (12.8) | - | **(20.0)** |
| Disposals | - | 13.6 | 10.1 | - | **23.7** |
| Revaluations | 0.7 | - | - | - | **0.7** |
| Balance at 30 June 2014 | (2.2) | (26.1) | (44.3) | - | **(72.6)** |
| **Closing net book amount** | | | | | |
| **As at 30 June 2015** | **24.9** | **20.0** | **60.7** | **0.5** | **106.1** |
| As at 30 June 2014 | 36.0 | 12.2 | 21.3 | 68.5 | 138.0 |

## Note 12: Property, plant and equipment (continued)

### (a) Valuations of land and buildings

The valuation basis for 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.

Full valuations are performed every 3 years or when market conditions significantly change. The revaluations of the Group's land and buildings were last made in the financial year ended 30 June 2014 and were based on independent assessments by external valuation experts who were members of the Australian Property Institute. An update to the valuation was performed at 30 June 2015 and confirmed that the carrying amount approximates fair value at balance date.

The valuation methodology reconciles the estimated value of the land and buildings under the capitalisation and the discounted cash flow approaches, and assumes a notional lease at market rent subject to normal commercial terms and conditions.

Under the capitalisation approach, the net market rental income as at the valuation date is capitalised at an appropriate market yield to estimate the value of the property. Under the discounted cash flow approach, the estimated future annual net cash flows over a notional lease term, including the expected terminal sales value, are discounted to present value.

The fair value of land and buildings is included in Level 3 in the fair value hierarchy.

Significant assumptions used in the valuation include:

| | **2015**<br>**%** | 2014<br>% |
|---|---|---|
| ***Capitalisation approach*** | | |
| Core market yield | **9.5** | 8.0 - 9.5 |
| ***Discounted cash flow approach*** | | |
| Discount rate | **9.8** | 9.8 |
| Terminal yield | **10.0** | 10.0 |

An increase in either the yield and/or the discount rate would result in a decrease in the valuation of the property. Similarly, decreases in these inputs would result in an increase in the valuation. Based on the range of potential values for these inputs provided in the valuation report, there are no reasonably possible movements which would have a significant impact on the valuation.

### (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:

| | **2015**<br>**$m** | 2014<br>$m |
|---|---|---|
| **Land and buildings** | | |
| Cost | **28.1** | 35.7 |
| Accumulated depreciation | **(4.2)** | (5.2) |
| Net book amount | **23.9** | 30.5 |

## Note 13: Intangible assets

| | Goodwill $m | Customer Contracts & Relationships $m | Internally Generated Software (i) $m | Acquired Software (i) $m | Assets under construction $m | Total $m |
|---|---|---|---|---|---|---|
| **2015** | | | | | | |
| **Gross carrying amount** | | | | | | |
| Balance at 1 July 2014 | 199.5 | 82.1 | 209.1 | 17.9 | 42.7 | **551.3** |
| Additions | - | - | 4.4 | - | 43.2 | **47.6** |
| Transfers in/(out) | - | - | 11.9 | - | (11.9) | **-** |
| Disposals | - | - | (3.2) | - | - | **(3.2)** |
| Balance at 30 June 2015 | 199.5 | 82.1 | 222.2 | 17.9 | 74.0 | **595.7** |
| **Accumulated amortisation and impairment** | | | | | | |
| Balance at 1 July 2014 | (91.5) | (36.7) | (153.5) | (16.6) | (9.5) | **(307.8)** |
| Amortisation expense | - | (7.2) | (20.8) | (1.3) | - | **(29.3)** |
| Transfers in/(out) | - | - | (9.5) | | 9.5 | **-** |
| Disposals | - | - | 3.2 | - | - | **3.2** |
| Balance at 30 June 2015 | (91.5) | (43.9) | (180.6) | (17.9) | - | **(333.9)** |
| **2014** | | | | | | |
| **Gross carrying amount** | | | | | | |
| Balance at 1 July 2013 | 199.5 | 82.1 | 169.8 | 17.9 | 42.2 | **511.5** |
| Additions | - | - | 2.9 | - | 39.5 | **42.4** |
| Transfers in/(out) | - | - | 38.0 | - | (39.0) | **(1.0)** |
| Disposals | - | - | (1.6) | - | 0.0 | **(1.6)** |
| Balance at 30 June 2014 | 199.5 | 82.1 | 209.1 | 17.9 | 42.7 | **551.3** |
| **Accumulated amortisation and impairment** | | | | | | |
| Balance at 1 July 2013 | (2.6) | (29.5) | (127.6) | (12.9) | - | **(172.6)** |
| Amortisation expense | - | (7.2) | (26.7) | (2.5) | - | **(36.4)** |
| Disposals | - | - | 1.4 | - | - | **1.4** |
| Impairment | (88.9) | - | (0.6) | (1.2) | (9.5) | **(100.2)** |
| Balance at 30 June 2014 | (91.5) | (36.7) | (153.5) | (16.6) | (9.5) | **(307.8)** |
| **As at 30 June 2015** | **108.0** | **38.2** | **41.6** | **-** | **74.0** | **261.8** |
| As at 30 June 2014 | 108.0 | 45.4 | 55.6 | 1.3 | 33.2 | 243.5 |

(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.

## Note 13: Intangible assets (continued)

*Key estimates:*

*i) 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 and could change significantly as a result of technical innovations and competitor actions. Where software and technology is purchased or developed to enter new or uncertain but strategically important markets it is expensed as incurred. The useful lives of the Group's software are outlined in Note 3(f)(viii).

*ii) Estimated impairment of goodwill and customer contracts and relationships*
On an annual basis, the Group tests whether goodwill and customer contracts and relationships have suffered any impairment, in accordance with the accounting policy stated in Note 3(f)(ix).

In assessing goodwill for impairment, the recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to Note 13(c) below for details of these assumptions.

A key assumption in testing customer contracts and relationships for impairment is the retention of the underlying contracts. Assumptions have been made around renewal of these contracts and associated cash flows based on contracted renewal options and the Group's commercial and strategic long-term plans.

### (a) Goodwill allocation

Goodwill is allocated to the Group's CGUs identified according to which CGU is expected to benefit from the synergies of the combination.

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

| | **2015 $m** | 2014 $m |
|---|---|---|
| **CGU** | | |
| Health Insurance | **96.2** | 96.2 |
| Complementary Services Telehealth | **11.8** | 11.8 |
| | **108.0** | 108.0 |

*Impairment charge – prior financial year*
The impairment charge of $88.9 million recognised in the prior financial year related to the writedown of goodwill attributable to the Complementary Services Telehealth CGU of $80.0 million and the Complementary Services Workplace Health CGU of $8.9 million. Both CGUs are included within the Group's Complementary Services segment (refer Note 2). An impairment charge of $9.5 million was also recognised on a software asset under construction in the Complementary Services Workplace Health CGU, as a result of the impairment of this CGU.

### (b) Impairment tests for goodwill

*Recoverable amount - Health Insurance CGU*
The recoverable amount of the Health Insurance CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on the corporate plan approved by the Board. Cash flows beyond the corporate plan period are extrapolated using the estimated growth rates stated in Note 13(c).

### Note 13: Intangible assets (continued)

**(b) Impairment tests for goodwill (continued)**

*Recoverable amount - Complementary Services Telehealth CGU*
The recoverable amount of the Complementary Services Telehealth CGU is based on a value-in-use calculation, which uses 3 year cash flow projections per the Group's corporate plan approved by the Board. Cash flows that are beyond this period, but within the period that management can reliably estimate, are extrapolated using the estimated growth rates stated below. No terminal value has been assumed in the calculations.

**(c) Inputs and key assumptions used for recoverable amount calculations**

In order to calculate the recoverable amounts of the Group's CGUs, management are required to make a number of assumptions. The following key assumptions have been made in determining the recoverable amounts:

*Growth rates and discount rates*

| CGU | Growth rate % | Discount rate % |
|---|---|---|
| **2015** | | |
| Health Insurance | 2.5 | 13.1 |
| Complementary Services Telehealth | 2.5 | 15.4 |
| **2014** | | |
| Health Insurance | 2.5 | 15.4 |
| Complementary Services Telehealth | 2.5 | 17.9 |

The growth rate disclosed above represents the weighted average growth rate used to extrapolate cash flows beyond the budget period. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates as per industry forecasts.

In performing the recoverable amount 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. The discount rates used reflect specific risks relating to the relevant CGU.

Other key assumptions made by management in determining the corporate plan estimates include:

*Health Insurance CGU*
- Forecast revenue comprising estimated change in the number of members and future premium revenue rate rises; and
- Forecast claims and operating expenses.

*Complementary Services Telehealth CGU*
- Forecast revenue for the market sector and specific forecasts for key customer contracts;
- Forecast direct expenses and allocated corporate costs; and
- Period over which to assess the forecasts.

## Note 13: Intangible assets (continued)

### (c) Inputs and key assumptions used for recoverable amount calculations (continued)

*Impact of reasonably possible changes - Complementary Services Telehealth CGU*
The key assumption in the Complementary Services Telehealth CGU is the cash flow forecast. The ability to meet these cash flows, which are based on the Group's corporate plan, could impact the recoverability of the CGU. The business model of the CGU is contract based by nature and the forecast cash flows contain assumptions around expected contract renewals, new wins and losses.

In estimating the recoverable amount of the CGU, the Group has used the approved corporate plan for the next 3 years and extrapolated this for a period of 5 years, being the period over which management can reliably estimate the cash flows. This cash flow estimate assumes that current contract renewal options will be exercised by the customers. This assumption is based on management's past experience and knowledge of the market in which the CGU operates.

The key sensitivity within this CGU is forecast revenues. If forecast revenues were to reduce by 8.2 percent over the 8 year period, whilst keeping corporate costs constant, the recoverable amount of the CGU would be equal to its carrying amount.

The forecast cash flows include a new planned contract win from 2017. In the absence of winning this new contract and with all other assumptions per the corporate plan being held constant, this would result in a 9.0 percent reduction in forecast revenue and an impairment of the carrying amount of the CGU by $1.4 million.

*Impact of reasonably possible changes – Health Insurance CGU*
There are no reasonably possible changes in key assumptions that could have resulted in an impairment charge for the Health Insurance CGU in the current or prior financial year.

## Note 14: Trade and other payables

| | Note | **2015 $m** | 2014 $m |
|---|---|---|---|
| **Current** | | | |
| Trade creditors | (i) | **286.3** | 266.0 |
| Other creditors and accrued expenses | (ii) | **92.6** | 77.8 |
| Lease incentives | (iii) | **3.2** | 0.6 |
| Other payables | | **0.9** | 1.0 |
| | | **383.0** | 345.4 |
| **Non-current** | | | |
| Lease incentives | (iii) | **36.1** | 1.3 |
| | | **36.1** | 1.3 |

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) 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.

## Note 15: Unearned premium liability

| | 2015 $m | 2014 $m |
|---|---|---|
| **Current** | | |
| Unearned premium liability | **668.4** | 621.4 |
| | **668.4** | 621.4 |
| **Non-current** | | |
| Unearned premium liability | **57.2** | 43.5 |
| | **57.2** | 43.5 |

The unearned premium liability is non-interest bearing.

Movement in the unearned premium liability is as follows:

| | 2015 $m | 2014 $m |
|---|---|---|
| Balance at 1 July | **664.9** | 597.0 |
| Deferral of premium on contracts written during the year | **682.1** | 627.4 |
| Earnings of premiums deferred in prior years | **(621.4)** | (559.5) |
| Balance at 30 June | **725.6** | 664.9 |

Note: movement includes both current and non-current.

Liability adequacy testing did not result in the identification of any deficiency as at 30 June 2015 and 2014 which would require the recognition of an unexpired risk liability.

## Note 16: Provisions and employee entitlements

| | Note | 2015 $m | 2014 $m |
|---|---|---|---|
| **Current** | | | |
| Employee entitlements | (i) | **39.7** | 42.0 |
| Provisions: | | | |
| Restructuring | (ii) | **8.7** | 24.7 |
| Make good | (iii) | **3.1** | 2.3 |
| Medical services | (iv) | **6.9** | 15.1 |
| Other | (v) | **10.8** | 5.6 |
| Total provisions | | **29.5** | 47.7 |
| **Total provisions and employee entitlements - current** | | **69.2** | 89.7 |
| **Non-current** | | | |
| Employee entitlements | (i) | **18.7** | 23.3 |
| Provisions: | | | |
| Restructuring | (ii) | **6.9** | 10.6 |
| Make good | (iii) | **5.9** | 7.7 |
| Other | (v) | **10.4** | 3.6 |
| Total provisions | | **23.2** | 21.9 |
| **Total provisions and employee entitlements - non-current** | | **41.9** | 45.2 |

### (i) Employee entitlements
This provision incorporates annual leave, long service leave, termination payments, and profit-sharing and bonus plans. Refer to Note 3(f)(xi) for the relevant accounting policy and details of the significant estimations and assumptions applied in the measurement of employee entitlements.

*Key estimate: Long service leave provision*

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, an estimate of attrition rates and pay increases through inflation have been taken into account.

### (ii) Restructuring provision
The restructuring provision relates to onerous lease provisions which were raised as part of a significant restructuring programme undertaken by the Group in the prior financial year, and redundancy costs associated with various restructuring programs.

Onerous lease provisions are included in the restructuring provision where they relate to space that the Group will no longer continue to utilise as a result of undertaking a restructuring program. Onerous lease provisions which do not arise from restructuring programs are classified as other provisions.

The non-current portion of the restructuring provision relates to onerous lease provisions which will be utilised over the portion of the remaining lease term which is greater than 12 months from balance date.

### (iii) Make good provision
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.

## Note 16: Provisions and employee entitlements (continued)

**(iv) Medical services provision**
This provision relates to the estimated cost of sub contracted medical services incurred but not settled or processed at balance date.

The estimated cost was calculated utilising a number of inputs including the number of invoices on hand, an estimate of the invoices not yet received, the average past invoice value or contractual price and the mix of medical service providers. In the current financial year, due to greater certainty surrounding certain inputs to the calculation, $6.5 million (2014: nil) has been classified as accrued expenses, with the remaining $6.9 million (2014: $15.1 million) classified as medical services provision.

**(iv) Other provision**
The other provision includes estimated commissions payable to third parties in relation to the acquisition of health insurance contracts, which becomes payable once certain criteria are met, and an onerous lease provision recognised on one of the Group's properties, which did not arise as a result of a restructuring program.

In the current financial year, Medibank and one of its subsidiaries commenced self-insurance for workers' compensation cover. In the prior financial year, this insurance cover was provided a by third party. Included in the other provision is an amount of $0.5 million (2014: nil) in respect of expected future claims arising under the self-insurance cover for these employees.

### Movement in provisions

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

| | Restructuring $m | Make good $m | Medical services $m | Other $m | Total $m |
|---|---|---|---|---|---|
| Balance at 1 July 2014 | 35.3 | 10.0 | 15.1 | 9.2 | 69.6 |
| Additional provision | 2.6 | 1.0 | 6.9 | 17.3 | 27.8 |
| Amounts utilised during the year | (17.4) | (1.3) | (15.1) | (5.3) | (39.1) |
| Reversal of unused provision | (4.9) | (0.7) | - | - | (5.6) |
| Balance at 30 June 2015 | **15.6** | **9.0** | **6.9** | **21.2** | **52.7** |

There are no material contingent liabilities pertaining to the Group at the end of the current or prior reporting periods.

## Note 17: Contributed equity

**(a) Fully paid ordinary shares**

| | **2015 $m** | 2014 $m |
|---|---|---|
| Ordinary shares fully paid | **85.0** | 85.0 |

## Note 17: Contributed equity (continued)

### (b) Movements in shares on issue

| | | Number of shares | $ per share | $m |
|---|---|---|---|---|
| 1 July 2013 and 30 June 2014 | Opening and closing balance | 85,000,100 | 1.00 | 85.0 |
| 1 July 2014 | Opening balance | 85,000,100 | 1.00 | 85.0 |
| 16 October 2014 | Share split prior to IPO | 2,669,003,140 | - | - |
| **30 June 2015** | **Closing balance** | **2,754,003,240** | | **85.0** |

A share split took place prior to the Group's IPO in the year ended 30 June 2015, whereby an additional 31.4 shares were issued for every one existing share. The share split did not increase the balance of the Group's contributed equity, as no new shares were issued.

### (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.

## Note 18: Reserves

| | Note | **2015 $m** | 2014 $m |
|---|---|---|---|
| Equity reserve | (i) | **17.8** | 17.8 |
| Revaluation reserve | (ii) | **0.9** | 2.3 |
| Foreign currency translation reserve | | **0.6** | 0.8 |
| Share-based payment reserve | (iii) | **1.8** | - |
| | | **21.1** | 20.9 |

(i) During the 2009 financial year, the parent entity entered into a restructure of administrative arrangements, which gave rise to an equity reserve representing 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.

(ii) The revaluation reserve is used to record increments and decrements on the revaluation of non-current assets, as described in Note 3(f)(vi).

(iii) The share-based payments reserve is used to record the cumulative expense recognised in respect of performance rights issued to key management personnel. Refer Note 22 for details.

## Note 18: Reserves (continued)

Movements in reserves are as follows:

| | Note | **2015 $m** | 2014 $m |
|---|---|---|---|
| *Equity reserve* | | | |
| Balance at 1 July | | **17.8** | 17.8 |
| Contribution to equity | | **-** | - |
| Balance at 30 June | | **17.8** | 17.8 |
| *Revaluation reserve* | | | |
| Balance at 1 July | | **2.3** | 0.5 |
| Revaluation of land and buildings - gross | | **(0.1)** | 2.8 |
| Revaluation of land and buildings - deferred tax | | **-** | (0.8) |
| Reclassification upon sale of properties: | | | |
| Transfer to retained earnings | 19 | **(1.4)** | (0.5) |
| Transfer to deferred tax | | **0.1** | 0.3 |
| Balance at 30 June | | **0.9** | 2.3 |
| *Foreign currency translation reserve* | | | |
| Balance at 1 July | | **0.8** | 0.3 |
| Currency translation differences arising during the year | | **(0.2)** | 0.5 |
| Balance at 30 June | | **0.6** | 0.8 |
| *Share-based payment reserve* | | | |
| Balance at 1 July | | **-** | - |
| Share-based payment expense | | **1.8** | - |
| Balance at 30 June | | **1.8** | - |

## Note 19: Retained earnings

| | Note | **2015 $m** | 2014 $m |
|---|---|---|---|
| Balance at 1 July | | **1,288.0** | 1,299.1 |
| Net profit for the year | | **285.3** | 130.8 |
| Transfer from revaluation reserve upon sale of properties | 18 | **1.4** | 0.5 |
| *Items of other comprehensive income recognised directly in retained earnings* | | | |
| Actuarial loss on retirement benefit obligation, net of tax | | **-** | (0.7) |
| Dividends provided for or paid | 7(a) | **(238.8)** | (141.7) |
| Balance at 30 June | | **1,335.9** | 1,288.0 |

## Note 20: Commitments

| | 2015 $m | 2014 $m |
|---|---|---|
| **(a) Capital expenditure commitments** | | |
| Estimated capital expenditure contracted for at balance date, but not provided for, payable: | | |
| Property, plant and equipment | **1.2** | 1.2 |
| Intangible assets | **27.1** | 27.7 |
| | **28.3** | 28.9 |

Intangible asset capital expenditure commitments as at 30 June 2015 relate to committed expenditure in respect of the development of new software. The majority of the work is expected to be completed during the 2016 financial year.

| | 2015 $m | 2014 $m |
|---|---|---|
| **(b) Operating lease commitments** | | |
| Future operating lease rentals not provided for, payable: | | |
| Within one year | **51.8** | 45.7 |
| After one year but not more than five years | **140.7** | 157.2 |
| Longer than five years | **112.1** | 136.8 |
| Total minimum lease payments | **304.6** | 339.7 |
| **Total commitments payable** | **332.9** | 368.6 |

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.

| | 2015 $m | 2014 $m |
|---|---|---|
| **(c) Lease commitments: Group as lessor** | | |
| Minimum lease payments not yet recognised in the financial statements | | |
| Within one year | **1.9** | 2.5 |
| After one year but not more than five years | **7.1** | 2.9 |
| Longer than five years | **2.6** | - |
| | **11.6** | 5.4 |

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

## Note 21: Key management personnel remuneration

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 2014. Detailed remuneration disclosures are provided in the remuneration report on pages 15 to 39.

| | **2015** | 2014 |
|---|---|---|
| | **$** | $ |
| Short-term benefits | 6,727,884 | 7,189,322 |
| Post-employment benefits | 259,970 | 287,466 |
| Long-term benefits | 254,634 | 55,227 |
| Termination benefits | 345,000 | 710,951 |
| Share-based payments | 1,740,628 | - |
| | **9,328,116** | 8,242,966 |

The information provided for the comparative period is in respect of those persons who were directors and specified executives of the Group during the year ended 30 June 2014.

## Note 22: Share-based payment

### (a) Share-based payment arrangements

Performance rights to acquire shares in the Company are granted to certain key management personnel as part of their long-term incentive (LTI) and short-term incentive (STI) plans. During the year ended 30 June 2015, the Group issued a share-based payment plan, the Performance Rights Plan ("the Plan"). The Plan is designed to:

- assist in the motivation, retention and reward of employees, including the Managing Director and members of senior management; and
- align the interests of employees participating in the plan more closely with the interests of shareholders by providing an opportunity for those employees to receive an equity interest in Medibank through the granting of performance rights.

Performance rights granted do not carry any voting rights. During the year ended 30 June 2015, the following offers were made under the Plan:

*(i) LTI offer*

Under the LTI offer, performance rights were issued to the Managing Director and other members of the executive committee as the LTI component of their remuneration. Performance rights granted under the LTI offer have the following vesting conditions:

- 50 percent of the performance rights will be subject to a vesting condition based on Medibank's absolute EPS compound annual growth rate (CAGR) over the performance period; and
- 50 percent of the performance rights will be subject to a relative total shareholder return (TSR) vesting condition, measured over the performance period against a comparator group of companies.

## Note 22: Share-based payment (continued)

### (a) Share-based payment arrangements (continued)

*(i) LTI offer (continued)*
For any of the EPS performance rights granted in the 2015 financial year to vest, the EPS target, as determined by the Board, must be achieved. The percentage of the 2015 EPS performance rights that vest, if any, will be determined over the performance period by reference to the following vesting schedule:

| EPS CAGR over the performance period | % of EPS performance rights that vest |
|---|---|
| Less than 7% | Nil |
| 7% | 50% |
| Greater than 7% and less than 15% | Straight-line pro rata vesting between 50% and 100% |
| 15% or greater | 100% |

For any of the TSR performance rights granted in the 2015 financial year to vest, Medibank must achieve the threshold TSR ranking over the performance period. The percentage of the 2015 TSR performance rights that vest, if any, will be based on Medibank's TSR ranking over the performance period, as set out in the following vesting schedule:

| TSR rank in the 2015 financial year comparator group(i) | % of TSR performance rights that vest |
|---|---|
| Less than the 50th percentile | Nil |
| 50th percentile | 50% |
| Greater than the 50th and less than the 75th percentile | Progressive vesting on a straight line basis, such that 2% of Performance Rights vest for each 1% ranking increase from 50th percentile |
| Equal to or greater than the 75th percentile | 100% |

(i) The comparator group used for the 2015 financial year TSR performance rights performance hurdle will comprise companies with a market capitalisation positioned within the ASX 50 to 100, excluding certain companies in the metals and mining or energy sectors, and with regard to certain ASX-listed insurance companies.

The vesting conditions for the first grant of performance rights will be tested over a performance period commencing on 1 December 2014 and ending on 30 June 2017. The vesting conditions must be satisfied for the performance rights to vest. On satisfaction of the vesting conditions, each performance right will convert into the number of shares specified at the time of grant.

If a participant does not remain in employment with the Company during the vesting period, but is a "good leaver" (meaning they cease employment by reason of death, serious disability, permanent incapacity, retirement, redundancy or with Board approval):

- in the case of the Managing Director, the performance rights held (granted, but not vested) on cessation of employment will remain unvested and will continue to be subject to the same vesting conditions that will be assessed at the end of the performance period; and

## Note 22: Share-based payment (continued)

### (a) Share-based payment arrangements (continued)

*(i) LTI offer (continued)*

- in the case of other executives, a portion of the performance rights held (granted, but not vested) by that participant on cessation of employment will lapse on a pro rata basis according to a formula which takes into account the length of time the participant has held (granted, but not vested) the performance right relative to the performance period for the grant. The remaining performance rights will remain unvested and will be tested at the end of the performance period against the existing vesting conditions.

If a participant is a "bad leaver" (meaning they cease employment for any reason other than death, serious disability, permanent incapacity, retirement, redundancy or with Board approval), the performance rights held (granted, but not vested) by that participant on cessation of employment will automatically lapse.

*(ii) Annual STI offer*

Under the Group's STI plan for the 2015 financial year, 50 percent of the annual STI awarded to the Managing Director and other members of the executive committee will paid in cash, whilst the remaining 50 percent will be deferred for a period of 12 months and will be provided in the form of performance rights under the Performance Rights Plan. The cash component of the STI award will be paid in October of the next financial year, with the performance rights in respect of the deferred component granted shortly thereafter.

Vesting of the performance rights will be conditional on the participant remaining employed by the Company until the end of the deferral period, being 12 months from the date of grant of the performance rights. Deferred STI allocated as performance rights will be retained in full by executive committee members who leave the Company other than those who are terminated due to misconduct, fraud and/or unsatisfactory performance, or who resign. The deferred performance rights will however remain in restriction until the vesting date of that offer.

On vesting of the performance rights, each performance right will convert into a share on a one-for-one basis, subject to any adjustment required to ensure that the participant receives a benefit equivalent to any dividends paid by Medibank during the deferral period.

The number of rights to be granted will be determined based on the monetary value of the achieved STI divided by the volume weighted average share price over the 10 trading days prior to the grant date.

*(iii) Additional STI opportunity*

For the 2015 financial year only, certain participants (including the Managing Director) have the opportunity to receive an additional short-term incentive, provided wholly in the form of deferred performance rights, calculated as a percentage of their annual fixed remuneration, conditional on Medibank achieving forecast operating profit as set out in the prospectus. The additional incentive was provided to recognise the efforts of individuals in connection with the successful privatisation of Medibank.

Performance rights granted as part of the additional STI opportunity will be retained in full by executive committee members who leave the Company other than those who are terminated due to misconduct, fraud and/or unsatisfactory performance or resign. The deferred performance rights will however remain in restriction until the vesting date.

The number of rights to be granted will be determined by dividing the value of the additional STI opportunity by $2.15, being the final price paid by a successful applicant under the institutional offer of the IPO.

## Note 22: Share-based payment (continued)

### (b) Performance rights granted

Set out below is a summary of performance rights granted under the LTI plan during the current financial year. No performance rights were granted under the annual STI plan or the additional STI opportunity during the financial year ended 30 June 2015. There were no plans in place which offered a grant of performance rights during the prior financial year therefore comparative information has not been presented.

In accordance with the "good leaver" provisions within the terms and conditions of the 2015 LTI offer, the Board permitted Mr Laz Cotsios to retain a pro-rated portion of the awards made under the 2015 LTI plan, following the cessation of his employment with the Group. These awards will remain in restriction for the duration of the performance period and vest subject to Medibank meeting the relevant performance hurdles set for the 2015 award. The number of unvested performance rights held by Mr Cotsios is 37,270. As these performance rights are no longer subject to Mr Cotsios' employment with the Group, the full expense relating to these awards has been recognised in the consolidated income statement in the current financial year.

| | Number of equity instruments | | | | |
|---|---|---|---|---|---|
| | **Outstanding at 1 July 2014** | **Granted** | **Forfeited[(i)]** | **Outstanding at 30 June 2015** | **Exercisable at 30 June 2015** |
| **2015 LTI plan** | | | | | |
| EPS performance rights | **-** | 720,126 | (77,644) | **642,482** | - |
| TSR performance rights | **-** | 720,126 | (77,644) | **642,482** | - |

(i) Forfeited relates to instruments that lapsed on cessation of employment.

## Note 22: Share-based payment (continued)

### (c) Fair value of performance rights granted

For the 2015 LTI performance rights granted, the fair value was measured at a grant date of 22 May 2015 with an expected expiry date of 30 June 2017 and has been allocated over the period for which the service is received, which commenced on 1 December 2014. The assessed fair value at the grant date was $1.99 per right granted for the EPS performance rights and $0.79 per right granted for the TSR performance rights.

The fair value of the EPS performance rights granted under the Plan was calculated using the Black-Scholes option pricing methodology. The fair value of these performance rights does not take into account the probability of the EPS performance hurdle being met, as it is a non-market related vesting condition.

The fair value of the TSR performance rights was calculated using a Monte Carlo simulation model. The probability of the TSR performance hurdle being met is taken into account in the fair value of these performance rights, as it is a market related vesting condition.

The following were the key assumptions used in determining the valuation:

| | Note | TSR performance rights | EPS performance rights |
|---|---|---|---|
| Share price at grant date | | $2.18 | $2.18 |
| Dividend yield (per annum effective) | | 3.4% | 3.4% |
| Risk free discount rate (per annum) | | 2.0% | n/a |
| *Volatility assumptions (per annum)* | (i) | | |
| Medibank | | 21% | n/a |
| Comparator group average | | 25% | n/a |
| Correlation between comparator companies' TSR | | 20% | n/a |

(i) The expected stock volatility is a measure of the amount by which the price is expected to fluctuate during a period. As Medibank's shares were not traded prior to listing on the ASX in the current financial year, the expected stock volatility was based on that of a comparator group of companies, having regard to the historic monthly total share return volatility (where the company has been listed for at least 3 years), current implied volatilities and consideration of future volatility expectations.

## Note 23: Related party transactions

### Transactions with related parties

Certain key management personnel hold director positions in other entities, some of which transacted with the Group during the 2015 financial year. All transactions that occurred were in the normal course of business. The terms and conditions of the transactions 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.

There have been no loans to directors or specified executives during the current or prior financial years.

## Note 24: Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 3(f)(i).

| Name of entity | Note | Country of incorporation | Class of units | Ownership interest 2015 % | Ownership interest 2014 % |
|---|---|---|---|---|---|
| Australian Health Management Group Pty Ltd | | Australia | Ordinary Shares | **100** | 100 |
| - International Health Benefits Pty Ltd | (i) | Australia | Ordinary Shares | **100** | 100 |
| - Dencare Australia Pty Ltd | (i) | Australia | Ordinary Shares | **100** | 100 |
| - Carelink Australia Pty Ltd | (i) | Australia | Ordinary Shares | **100** | 100 |
| - Mercantile Mutual Health Pty Ltd | (i) | Australia | Ordinary Shares | **100** | 100 |
| Medibank Health Solutions Pty Ltd | | Australia | Ordinary Shares | **100** | 100 |
| - Integrated Care Services Pty Ltd | (ii) | Australia | Ordinary Shares | **100** | 100 |
| - The Travel Doctor TMVC Pty Ltd | (ii) | Australia | Ordinary Shares | **100** | 100 |
| - IQ Consultants Pty Ltd | (i) (ii) (iii) | Australia | Ordinary Shares | **-** | 100 |
| - Medibank Health Solutions Telehealth Pty Ltd | (ii) | Australia | Ordinary Shares | **100** | 100 |
| - Fitness2Live Pty Ltd | (ii) | Australia | Ordinary Shares | **100** | 100 |
| - Fitness2Live (UK) Ltd | (i) (iv) | United Kingdom | Ordinary Shares | **-** | 100 |
| - Medibank Health Solutions New Zealand Ltd | | New Zealand | Ordinary Shares | **100** | 100 |
| - Medibank Health Singapore Pte Ltd | (i) (v) | Singapore | Ordinary Shares | **100** | - |
| - Medibank Asia Pte Ltd | (i) (v) | Singapore | Ordinary Shares | **100** | - |

(i) These entities were non-operating entities during the financial years ended 30 June 2015 and 2014.

(ii) 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.

(iii) On 16 July 2014, IQ Consultants Pty Ltd was deregistered.

(iv) On 4 May 2015, Fitness2Live (UK) Ltd was deregistered.

(v) On 8 June 2015, Medibank Health Singapore Pte Ltd and Medibank Asia Pte Ltd were incorporated.

## Note 25: Auditor's remuneration

During the year the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms:

| | Note | 2015 $ | 2014 $ |
|---|---|---|---|
| **PricewaterhouseCoopers Australia (PwC):** | | | |
| Amounts received or due and receivable by the Company's auditor for: | | | |
| - An audit or review of the financial report of the Company and any other entity within the Group | | **1,188,130** | - |
| Other assurance services in relation to the Company and any other entity within the Group: | | | |
| - Audit of regulatory returns | | **119,500** | 16,586 |
| - Auditing of non-statutory financial reports | | **-** | 160,600 |
| Other services in relation to the Company and any other entity within the Group: | | | |
| - Other non-audit services | (i) | **222,309** | 232,882 |
| **Network firms of PwC:** | | | |
| Amounts received or due and receivable by the Company's auditor for: | | | |
| - An audit or review of the financial report of the New Zealand entity performed by PwC New Zealand | | **42,370** | 42,370 |
| **Total remuneration of PwC and network firms** | | **1,572,309** | 452,438 |
| **Australian National Audit Office (ANAO):** | | | |
| Amounts received or due and receivable by the Company's auditor for: | (ii) | | |
| - An audit or review of the financial report of the Company and any other entity within the Group | | **-** | 938,574 |
| Other assurance services in relation to the Company and any other entity within the Group by the Company's auditor: | | | |
| - Audit of regulatory returns | | **-** | 104,050 |
| **Total remuneration of ANAO** | | **-** | 1,042,624 |
| **Total auditor's remuneration** | | **1,572,309** | 1,495,062 |

(i) Other non-audit services in relation to reporting, tax and IT security.

(ii) The Company's auditor in the prior year was the Australian National Audit Office who had retained PricewaterhouseCoopers to assist with the assignment.

## Note 26: Reconciliation of profit after income tax to net cash flow from operating activities

| | 2015 $m | 2014 $m |
|---|---|---|
| Profit for the year | **285.3** | 130.8 |
| | | |
| Depreciation | **20.0** | 20.0 |
| Amortisation of intangible assets | **29.3** | 36.4 |
| Amortisation of deferred acquisition costs | **15.4** | 6.5 |
| Impairment of intangible assets | **-** | 100.2 |
| Loss on disposal of assets | **(0.4)** | - |
| Impairment of trade receivables | **0.4** | 1.1 |
| Net realised gain on financial assets | **(4.3)** | (14.6) |
| Net unrealised gain on financial assets | **(13.5)** | (25.3) |
| Interest income | **(51.4)** | (60.3) |
| Dividend income reinvested | **(8.2)** | (4.8) |
| Trust distribution reinvested | **(21.4)** | (13.1) |
| Investment expenses | **5.0** | 4.2 |
| Revaluation gains on land and buildings | **-** | (2.3) |
| Non-cash share-based payment expense | **1.8** | - |
| | | |
| Changes in operating assets and liabilities: | | |
| Decrease/(increase) in trade and other receivables | **37.2** | (28.6) |
| Increase in deferred acquisition costs | **(45.1)** | (32.0) |
| (Increase)/decrease in other assets | **(0.7)** | 3.5 |
| Decrease/(increase) in deferred tax assets | **14.0** | (0.5) |
| Increase in trade and other payables | **73.2** | 68.6 |
| Increase in unearned premium liability | **60.7** | 67.9 |
| Increase in claims liabilities | **3.5** | 0.5 |
| Increase in income tax liability | **0.1** | 25.6 |
| (Decrease)/increase in provisions and employee entitlements | **(23.8)** | 29.0 |
| **Net cash inflow from operating activities** | **377.1** | 312.8 |

## Note 27: Parent entity financial information

### (a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

| | **2015 $m** | 2014 $m |
|---|---|---|
| **Balance sheet** | | |
| Current assets | **2,570.0** | 2,406.1 |
| Total assets | **3,051.4** | 2,850.9 |
| Current liabilities | **1,413.5** | 1,324.3 |
| Total liabilities | **1,616.6** | 1,466.0 |
| *Shareholders' equity* | | |
| Issued capital | **85.0** | 85.0 |
| Reserves | | |
| Equity reserve | **6.3** | 6.3 |
| Revaluation reserve | **1.8** | 1.8 |
| Share-based payment reserve | **1.8** | - |
| Retained earnings | **1,339.9** | 1,291.8 |
| | **1,434.8** | 1,384.9 |
| Profit for the year | **287.0** | 104.6 |
| Total comprehensive income | **287.0** | 104.6 |

### (b) Guarantees entered into by parent entity

The parent entity has provided guarantees in respect of service obligations assumed by members of the Group. No liability has been recognised in relation to these guarantees by the parent entity or the Group as the fair value of the guarantees is immaterial.

### (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 2015, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling $1.2 million (2014: $0.9 million). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

## Note 28: Non-current assets held for sale

### (a) Land and buildings held for sale

| | **2015 $m** | 2014 $m |
|---|---|---|
| Land and buildings | **6.8** | - |
| | **6.8** | - |

In accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, the Group has identified a property which it intends to sell as being a non-current asset held for sale. A buyer has been identified and the Group has entered into a sale agreement for the disposal of the property. The sale is expected to be completed in the next financial year.

### (b) Workplace Health and Travel Doctor disposal group

During the current financial year, the Board approved the divestment of the Group's Workplace Health and Travel Doctor businesses within the Complementary Services segment of the Group's operations. A buyer has been identified, with a sale agreement signed on 22 June 2015. The sale is expected to complete in October 2015, subject to the satisfaction of certain conditions precedent.

In accordance with AASB 5, the assets as identified in the sale agreement have been classified as being held for sale. The disposal group is required to be measured at the lower of its carrying amount and fair value less costs of disposal. As the carrying amount does not exceed fair value less costs of disposal, no revaluation was required and no gain or loss has been recognised in the current financial year.

| | **2015 $m** | 2014 $m |
|---|---|---|
| Inventories | **0.8** | - |
| Plant and equipment | **1.0** | - |
| Leasehold improvements | **6.0** | - |
| | **7.8** | - |

The Group will continue to operate the businesses on behalf of the buyer until the completion of the sale. These businesses are not material and are not considered to be major lines of business for the Group and therefore would not meet the definition of a discontinued operation. The results of these businesses are reported within the Complementary Services segment and are included in the Group's results from continuing operations for the year ended 30 June 2015.

## Note 29: Events occurring after the reporting period

There have been no events occurring after the reporting period which would have a material effect on the Group's financial statements at 30 June 2015.

The directors declare that, in the opinion of the directors:

(a) the financial statements and notes set out on pages 42 to 106 are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2015 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 year ended 30 June 2015.

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

On behalf of the Board,

| | |
|---|---|
| Elizabeth Alexander AM | George Savvides |
| Chairman | Managing Director |

21 August 2015
Melbourne

# Independent auditor's report to the members of Medibank Private Limited

## *Report on the financial report*

We have audited the accompanying financial report of Medibank Private Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Medibank Private Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of the company 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*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 consolidated entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.



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### *Auditor's opinion*

In our opinion:

(a) 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 2015 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001.*

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

## ***Report on the Remuneration Report***

We have audited the remuneration report included in pages 15 to 39 of the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001.* Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Auditor's opinion*

In our opinion, the remuneration report of Medibank Private Limited for the year ended 30 June 2015 complies with section 300A of the *Corporations Act 2001.*

PricewaterhouseCoopers

PricewaterhouseCoopers

Mary Waldron

Mary Waldron
Partner

Melbourne
21 August 2015