medibank

For Better Health

Annual Report 2013

Contents

Who we are

We are Medibank - an integrated healthcare company that provides both private health insurance and health solutions.

We see ourselves as a leader in 'health assurance' and we continually strive to deliver the highest quality products, customer service and value for money.

We create and sustain relationships in the health system – supporting our customers and using our scale and strength to their advantage. We are committed to helping our members better manage and improve their health and wellbeing through medical treatment as well as preventative action at all life stages.

We are passionate about building a better health system that places the individual at the centre of the service experience and is sustainable for the long term.

Our Purpose

At Medibank, we stand For Better Health.

For Better Health - these three simple words sit at the heart of everything we do. They define why we exist and what we stand for. For Better Health means seeing every interaction with our customers as an opportunity to build a relationship. That makes these three things possible:

BETTER CHOICES

We help people make positive and affordable health choices and feel in control of their health.

BETTER CONFIDENCE

We ensure people feel confident about their health and offer genuine peace-of-mind... we call this health assurance.

BETTER OUTCOMES

We advocate for an improved health system that produces quality health outcomes.

Our Values

Medibank is united through four key Values that were developed and refined by our employees. Our Values define the 'how' of everything that we do. They are the guiding principles of our business, remind us of our Purpose, and guide the way we work together and engage with our customers and providers.

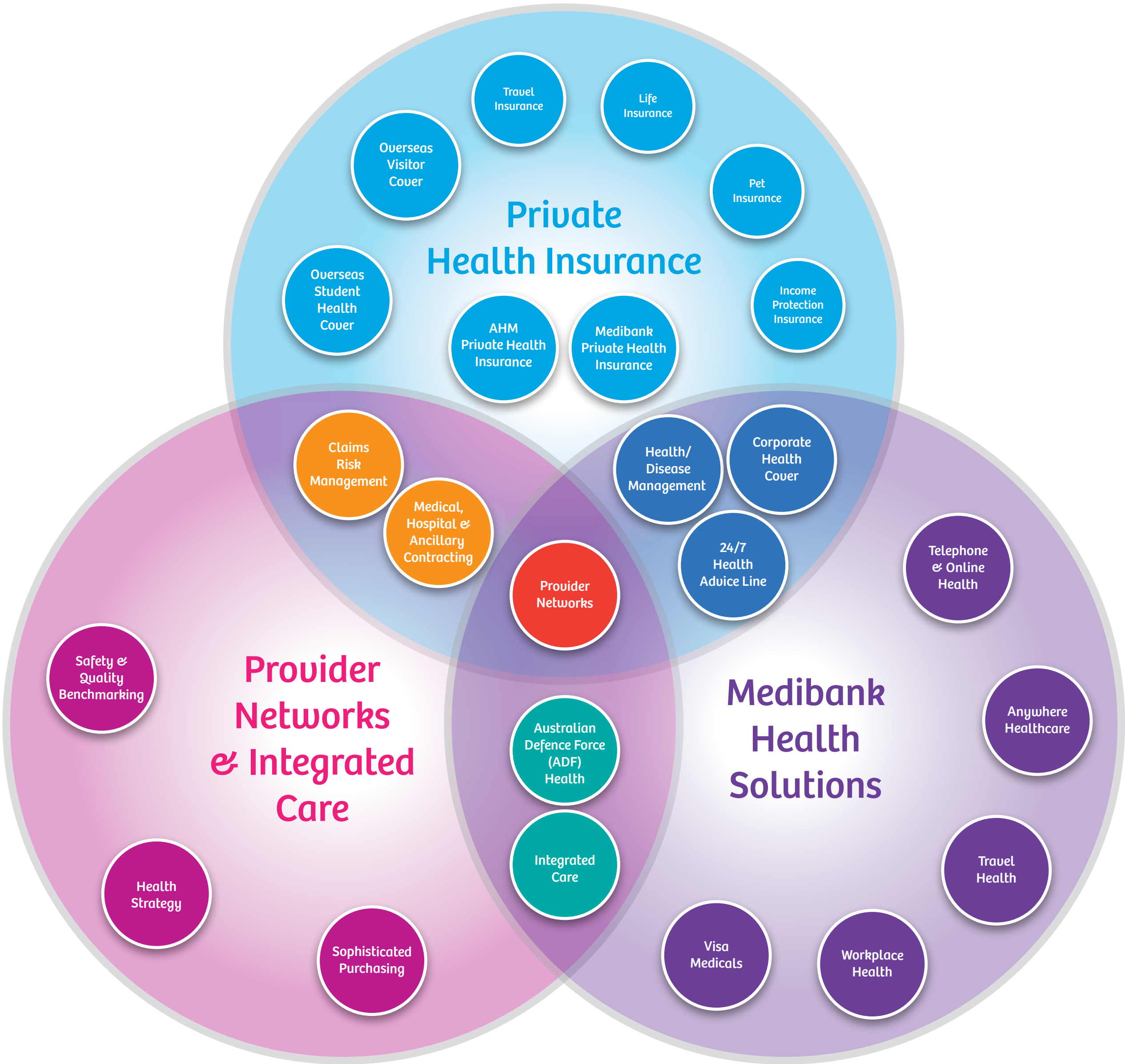
Customer Focus
We treat our customers as we would like to be treated.

Accountability
We own it, commit to it and deliver it.

Respect
We celebrate our differences and treat others as equals.

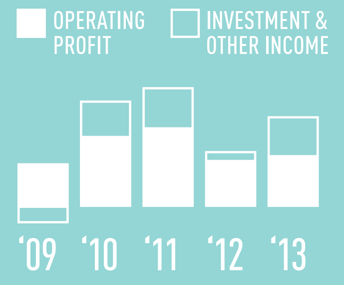
Integrity
We are open, honest and transparent, and help others to be the same.

Our services and adaptive organisation

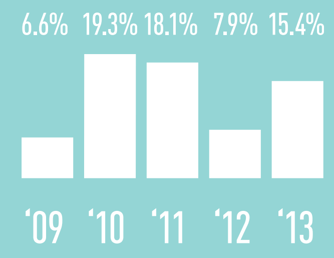


Our results

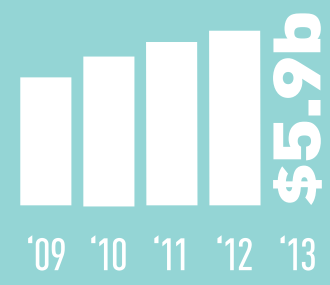
NET PROFIT BEFORE TAX



RETURN ON EQUITY



REVENUE



Over **3.8m**
people covered by private health insurance

3 million
calls received to date through Healthline, New Zealand's national health advice and triage helpline

Employees devoted
1,068 hours
to volunteering valued at
$64,225
and gave a total of
$140,818
directly to the community through matched donations and workplace payroll giving

OVER
190,000
mental health phone, email or web chat interactions were handled

92%
of employees fully support the values for which the organisation stands

53,400
members in health management programs

500,000
calls to the Mi Health advice line

$4.6b **7% increase**
in member claims

15 years
of providing mental health, drug and alcohol support through Accessline

Medibank Health Insurance
Awarded Canstar for 'Outstanding Value'
fourth consecutive year

Medibank Community Fund received
an Australian Business Award
for Community Contribution

Community investment
of **$2.9m**
INCLUDING
$600,000
for grass-roots and
$100,000
for Indigenous grants

Medibank launched its research:
The Case for Mental Health Reform in Australia: a Review of Expenditure and System Design

We are providing healthcare in ways that meet the changing needs of society, and are setting the pace for health innovation in Australia.

Chairman's report

This is my first report to you as Chairman of Medibank following the retirement of Paul McClintock in March. I look forward to the opportunities and challenges we will face ahead.

Paul has done an excellent job as Chairman for the past six years, and spearheaded Medibank's transformation from a health insurance company to a provider of innovative health solutions. He has left us with a strong foundation on which to move forward, and I thank him for this.

2013 has been a challenging year. Low consumer sentiment, increasing health costs, regulatory change, and a more competitive private health insurance market, have placed even greater pressure on Medibank to continue the journey to transform the business and stay ahead of the curve, simultaneously delivering strong financial performance.

During the year, I was fortunate to be a member of the team led by Simon McKeon AO to deliver the *Strategic Review of Health and Medical Research in Australia* for the Australian Government. This work underlined the importance of examining how our relationship with the health system adapts to technological advances and medical developments that offer new hope. It made me realise that too often the health debate focuses on governments paying more, rather than improving the efficiency of the system. For instance, the lack of connection between our health and medical research efforts and healthcare providers means we're not improving health outcomes as much as we could, and we are therefore paying more than we ought to. This is a disappointing result for health insurers, but more importantly a bad outcome for the community.

Medibank has a role to play in demonstrating how different service delivery models can improve the health experience as well as outcomes.

While it's impossible to change the entire system overnight, Medibank can take a lead in demonstrating how different service delivery models can improve the health experience as well as outcomes. Medibank Health Solutions' (MHS) new services to coordinate the healthcare for the Australian Defence Force, and establish a virtual environment - Anywhere Healthcare - to allow regional and remote Australians to consult specialists online are truly innovative healthcare models driving better patient services and lowering health costs, while producing a commercial benefit for Medibank.

Through Mi Health, Medibank's 3.8 million private health insurance members are also beginning to realise the benefits of having access to health professionals every day of the week, at any hour of the day or night.

These services are now real case studies for providing healthcare in ways that meet the changing needs of society. They are also setting the pace for health innovation in Australia. We are excited about the opportunities before us, not only to grow and develop our own health services business, but to continue to play a lead role in public policy and the health reform journey to deliver better patient experiences and quality of life, while keeping costs in check.

As we continue to grow our Medibank Health Solutions business, the challenge is to embed these capabilities within our Private Health Insurance division to help transform the business and in so doing, to impact the health of our members.

On behalf of the Board, I would like to thank Medibank's people for their innovation, enthusiasm and dedication to making a difference and delivering on our Purpose, For Better Health, throughout the year.

This year we continued to expand our workforce of health service professionals and now have more than 1,500 doctors, nurses, counsellors, dentists and other health providers who are employees of Medibank. Many of these people telework from home across Australia and New Zealand. Telework provides a flexible work environment that appeals to our employees and enables us to attract highly skilled people. It also allows us to provide our customers and patients with more accessible health services.

At a Board level, we have had some recent changes, and have lost the expertise of Phillip Twyman, who for the past five years has guided us with his extensive insurance and investment knowledge. The contribution he has made to Medibank is significant and I thank him for his wise and impartial advice. We also welcome the appointment of two new Directors – the Hon. Anna Bligh who joined in December 2012 and Peter Hodgett who was appointed in June 2013 - and look forward to continuing to work with them on the journey ahead.

Finally, I would like to acknowledge the work of the Medibank Community Fund which continues to invest one percent of Medibank's pre-tax profits in our communities through partnerships, such as the Heart Foundation and the Stephanie Alexander Kitchen Garden, to promote better health for all Australians.

Elizabeth Alexander AM
Chairman

Managing Director's report

Continuing the Medibank transformation

Over the past year, Medibank has continued to bring its Purpose – For Better Health – to life through new initiatives and improved products and customer service, while simultaneously bedding down our organisation's transformation and achieving strong financial results. It has been a united effort across the whole business and this report shows that our actions are paying off.

In 2012/13 we achieved a Group revenue figure of $5.86 billion, representing a 9.4 percent increase. The Medibank Group delivered pre-tax profit of $315 million, representing growth of 60 percent on the prior year. Operating profit benefited from cost savings in our private health insurance business, reducing our management expense ratio to below 10 percent. Strong new business growth in Medibank Health Solutions saw revenue grow 79 percent to $498 million, demonstrating the significant opportunity that exists for providing health solutions to the corporate and government market.

Growing enterprise value

Medibank is Australia's largest health insurer, with our combined brands covering 29 percent of the market. In 2012/13 the number of people we cover grew to 3,832,000, with the majority (81 percent) of memberships claiming benefits for health and medical services.

There is no doubt that recent regulatory changes combined with declining consumer confidence have placed strain on the industry and are impacting the growth outlook for the sector. Our health insurance membership growth did not keep pace with the total market, resulting in some market share loss. We are confident however, that our new product and member offering which includes a strong commitment to affordability, will strengthen our membership growth in the coming year.

> For the fourth consecutive year, our Medibank brand was recognised by Canstar for 'Outstanding Value'

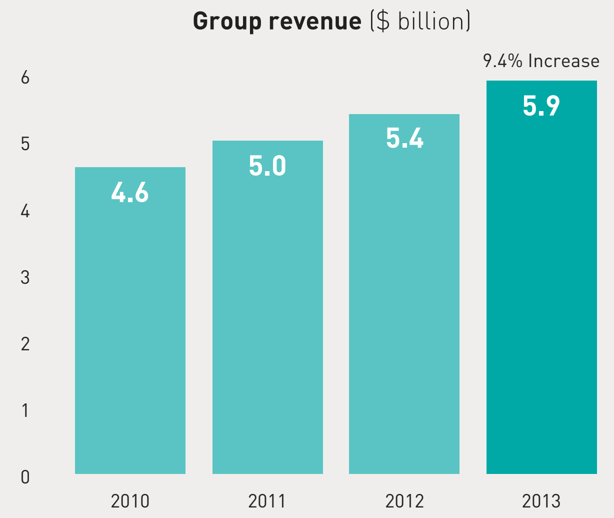
During 2012/13 we repositioned and relaunched our AHM brand to focus on simplicity, accessibility and customer need. We believe that this 'no-nonsense' AHM approach will appeal to a large segment of the market and we look forward to taking the brand to a broader Australian audience.

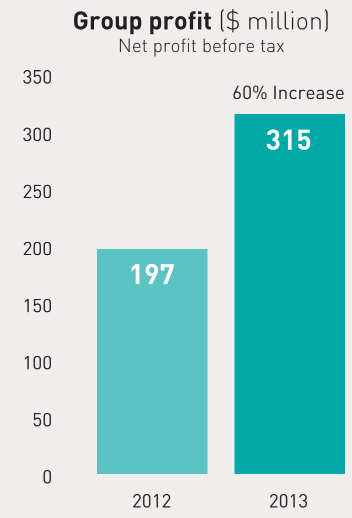
For the fourth consecutive year, our Medibank brand was recognised by Canstar for 'Outstanding Value' in private health insurance. Over the past 10 years, Medibank has managed to keep premium changes below the industry average. This year we increased premiums by an average of 6.2 percent to meet rising health services costs and member claims which grew 7 percent to $4.6 billion. We are acutely aware of the impact any premium increase has on our members, and make every effort to balance the need to maintain financial security to pay for our members' health services with keeping insurance affordable.

Our customer focus is evident in our unique Mi Health offering which provides Medibank members with professional health advice and support 24 hours a day as part of their hospital cover. Mi Health's popularity continues to grow, receiving over half a million calls to the health advice line since October 2012. In addition, we are rewarding Australians for making healthier choices by teaming up with FlyBuys to launch a national customer loyalty program that reflects our Purpose For Better Health. Members are rewarded for buying fruit and vegetables. You certainly don't have to be sick or injured to benefit with Medibank.

Driving a leadership position

This year we continued to grow our Medibank Health Solutions business. Not only did we enjoy significant revenue growth and restore the division's profitability, the innovation that we are driving in health services is improving our customer experience and reducing future cost growth for both our business and wider health system.





All graphs relate to financial years.

Medibank achieved a major milestone in 2012/13 when we went live as a sole source operator for a full suite of health services for the ADF and its 80,000 Army, Navy and Airforce personnel across the country. Medibank now ensures the provision of 800 on-base medical staff and coordinates off-base appointments with approximately 9,000 health providers including medical specialists, allied health practitioners and hospitals, and a 24/7 health advice service. After nine months of delivering this contract, we have realised material reduction in the cost of health services whilst concurrently lifting quality and access to health services for ADF personnel.

In April this year, the Prime Minister launched Anywhere Healthcare. This is a breakthrough in delivering healthcare in regional Australia, enabling online medical specialist consultations with patients and their GPs without the need to travel long distances, take time away from work, or incur waiting time and expenses often associated with specialist appointments.

Operational excellence

Our operations need to stay lean and nimble and our overhead costs low in order to pass on savings to customers. Our strategy, outlined on the following pages, demonstrates how improving customer experience and removing complex administration is a 'win-win' for customers and the business.

Supporting our people and community

We believe our people are passionate about playing their part in our For Better Health cause. We have over 4,800 employees, with more than 1,500 of them trained health professionals who provide more than 2.5 million patient interactions every year, across Australia and New Zealand. I am pleased to report that our recent employee survey showed that 92 percent of employees strongly support the Medibank Values.

This year, facilitated by new activity-based work spaces and office technologies, we commenced an exciting cultural change program to embrace greater collaboration and innovation. This new way of working and doing business – which we call Thrive - will be embeded in our new national service and support hub in the Docklands. It is an investment in building an adaptive organisation.

Flexible work practices are a continued focus and our commitment to teleworking has most of our 1,000 nurses and GPs work from home on a 24/7 roster in Australia and New Zealand. Our innovative work models have resulted in higher levels of engagement and work satisfaction and better wellbeing scores as reported by employees.

Now in its third year, the Medibank Community Fund dedicated almost $3 million to effecting positive change, contributing to community connectedness and healthy living. In 2012/13 we developed a new focus on Indigenous health and wellbeing, with our second Reconciliation Action Plan being published in June and $100,000 directed to Indigenous health and wellbeing programs. We also allocated over $600,000 to grassroots organisations and programs across Australia and New Zealand and established scholarships with our New Zealand partners to support health and medical training initiatives.

In March, the Medibank Board undertook a seamless transition of Chairman when Elizabeth Alexander AM, who joined the Board in 2008, was appointed Chair of the Board. She replaced retiring Chairman Paul McClintock who served for six years. I thank Paul for his commitment and dedication to Medibank and welcome Elizabeth to her new position.

Finally, I want to thank and commend Medibank's committed employees - the team that makes our Purpose For Better Health possible. Sitting behind the growth and performance numbers detailed in this report is the commitment, passion and hard work of our employees. They are the difference in the Medibank story.

George Savvides
Managing Director

Our strategy

To be successful we need to grow.

And to keep growing we need to be better at what we do.

better at growth

Grow enterprise value

We want to become a more performance-focused business. That means consistently meeting our customers' needs, leading the discussion on important industry issues, and being a prominent voice for better health.

What we will do:

- Inspire market confidence by meeting our targets.
- Drive further growth for both private health insurance and health solutions.
- Retain our position as an industry leader.

What we're already doing:

- Linking our strategy to business performance measures and customer outcomes.
- Building a strong, inclusive brand that resonates with all Australians.
- Being a trusted health partner to guide people through the complexity of healthcare and help them make the right health choices. Mi Health is a good example of this.
- Leveraging MHS clinical expertise and experience to boost business capability and increase market share.
- Partnering with the community through the Medibank Community Fund (MCF) to encourage people of all ages to live longer in good health.
- Exerting our influence and actively participating in the public debate over the future of healthcare and health insurance.

better with customers

Customer-centred healthcare

Today's health insurance customer is spoilt for choice. We need to give them every reason to choose us and stick with us. We are putting the customer at the heart of our plans.

What we will do:

- Make it easier for people to make better health decisions.
- Enhance our competitive offerings to match customer segment needs.
- Increase awareness of our clinical and customer programs.

What we're already doing:

- Making it easier to buy, own and use health insurance, supported by programs such as Mi Health, the 24/7 nurse advice line, and *better*health.
- Adopting a segmented approach to customers with tailored messaging for private health insurance.
- Driving our multi-brand strategy (Medibank and AHM) and product development to provide people with genuine options to guide their health choices. For example, launching the new AHM Lite Cover and new Medibank 'For Families' products.
- Focusing on growing the corporate market, where together private health insurance and our MHS capability can provide a unique offer.
- Evolving and expanding MHS customer programs through product and service innovations.

better with health costs

Health cost leadership

Containing health costs is the biggest challenge in our industry. It affects the affordability of our products and the sustainability of our business. We need to take the lead, using our size and expertise to influence better value for our customers and ourselves.

What we will do:

- Negotiate competitive contracts with providers to agree acceptable price points – advocate for our members.
- Continue to improve affordability and achieve better health outcomes through new care models.

What we're already doing:

- Developing better capabilities to identify high cost providers and negotiate more competitive prices.
- Applying data analysis for deeper insights into provider practices.
- Improving our ability to identify and avoid incorrect claims and fraud.
- Developing pathways to ensure members get the right care in the right settings. For example, we provide case management and care coordination in primary care for members who have chronic disease, and avoid unnecessary hospital admissions.

better at making it easy

Operational excellence

Health insurance can be complicated, so every time we find a simpler way of doing things, our customers and business benefit. By focusing on operational excellence we'll make it easier to be a Medibank customer and trim costs from our business that we can re-invest in better products and services.

What we will do:

- Improve customer experience by making things simpler.
- Reduce the cost of running the business.
- Re-invest where it counts for our customers.

What we're already doing:

- Making it easier for our current and prospective members to do business with Medibank – simplifying the customer experience, removing waste and redesigning our processes.
- Reshaping our organisation – making sure we have the right organisational structure and skills.
- Helping people to be more effective – our Thrive program drives improved collaboration and better ways of working across the business.
- Investing in our retail and call centre technologies to improve service access and responsiveness.

better with people

Our people

Creating a better Medibank isn't someone else's responsibility. From the executive team to our frontline staff, we understand the importance of individual contribution, and know precisely what the business requires in a performance-driven culture.

What we will do:

- Align employee performance, objectives, Values and behaviours.
- Deliver our strategy by developing our people's capabilities.

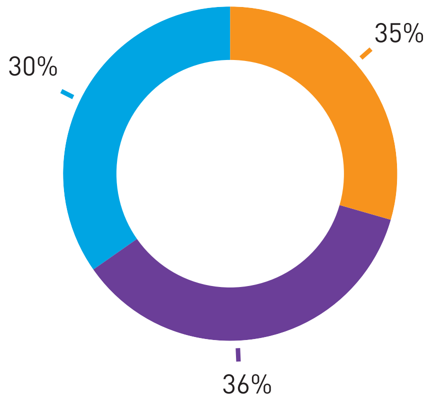
What we're already doing:

- Building greater rigour around performance processes , including quality conversations with those who aren't performing, to drive a strong performance culture that enforces discipline and accountability and recognises success.
- Delivering programs for our people leaders to develop their capability to effectively manage performance to build a high performance culture.
- Defining and measuring the key competencies Medibank requires in order to deliver on its strategy, including developing and hiring people with these capabilities.
- Recognising strong performance and talent by giving our best and brightest greater exposure to lead projects and strategic activities across the group.
- Listening to our people and responding through better communications and engagement on what matters to them.

Our people

We believe people want to work at Medibank to join the cause For Better Health. We have over 4,800 employees, with more than 1,500 being health professionals who provide over 2.5 million patient interactions every year, across Australia and New Zealand.

This year, our internal survey showed 92 percent of employees fully support our Values. The way we work together and engage with our customers is guided by our four Values: Customer Focus, Accountability, Integrity and Respect.



Uplifting capability

Much work has taken place at Medibank to evolve our talent framework and create Group-wide approaches that support our strategic goals.

Medibank encourages all employees to be active learners and make informed decisions to support their career aspirations. This year we launched MyLearning, a system that gives employees the freedom to navigate their own learning, development and training options.

To date, we have over 3,500 employees registered with MyLearning, further demonstrating a desire from employees to invest in, and develop their careers.

We continue to build on our existing suite of leadership development programs.

Most recently we introduced two new programs:

- **Elevate** - a highly experiential leadership program that uses community immersion in Indigenous health to develop adaptive leadership. Employees who participate come face-to-face with highly complex issues that stretch them as leaders.
- **Lead** - a program where employees are confronted with the multifaceted challenges facing Medibank, and are required to think outside the box and consider new ways of leading others through ambiguity.

Medibank employee mix

- Medical and allied health professionals
- Professional and general
- Sales and service

We know that talent and strong leadership are integral to the success of our business. That is why in 2012/13 we invested in over 250 Medibank leaders to develop and enhance their leadership skills. With an increased focus on building our employee capability, we are working towards a much healthier and more sustainable future.

We continue to be recognised in this space, most recently with MHS being selected as a finalist in three categories - The Best Employee Value Proposition, The Best Employer Branding and The Best Recruitment Strategy - in the Australian Human Capital HR Awards 2013.

Supporting our people

Flexible work practices are a continued focus for Medibank. With most of our 1,000 nurses and GPs working from home, we consider ourselves a leader in telework. From these employees we are seeing higher work satisfaction levels, improved manager-employee relationships and an increase in productivity.

This year we saw the launch of the Thrive prototype. A cross-section of Medibank employees have been working in a prototype of the future working environment in our new Docklands headquarters.

The Thrive program is driving Medibank's largest internal transformation program, from our traditional way of working to Activity-Based Working (ABW) in 2014. A Change Network, including Thrive Champions, has been established to support business units in the change initiatives that continue to reinforce the Medibank Values and build our strong performance culture.

The Thrive program is a key enabler of the Medibank strategy, particularly in the area of operational excellence.

In April 2013, approximately four months after the first group of employees moved into the space, a feedback survey of those in the Thrive prototype was conducted. The result reflected positively on productivity, technology enhancement, and general enjoyment in the working environment.

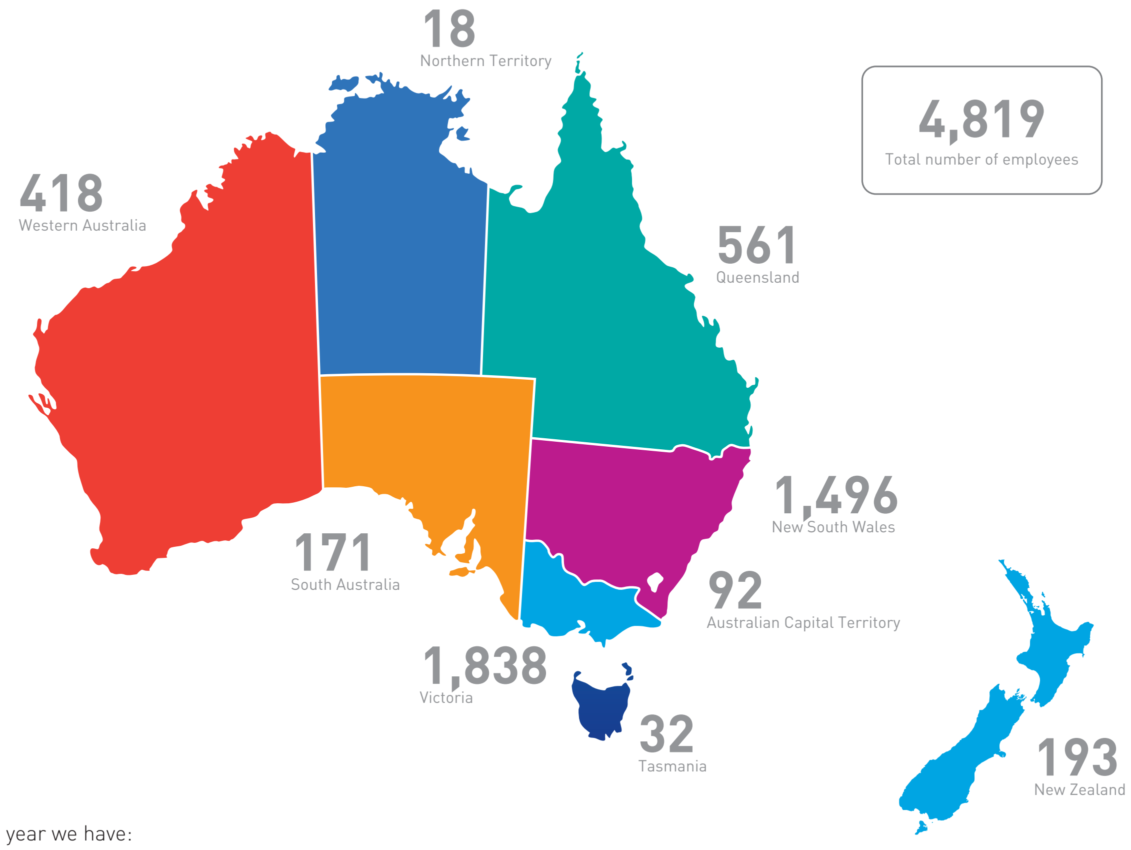
Aligned to our Purpose, For Better Health, Medibank's three-year Health, Safety and Wellbeing strategy has been developed with a focus on risk based prevention programs, early intervention and resources to support our people. Musculoskeletal health and mental health remain key priorities with a new ergonomic framework developed in 2012/13 which will be implemented over the coming year and the consolidation and enhanced Employee Assistance Program (EAP) providing for greater promotion and use of EAP support programs, including manager support.

Medibank's workers' compensation and injury management team has also undertaken a comprehensive review of all schemes, policies, insurers and programs of work to better support injured workers back to work and pre-injury duties.

Diversity and inclusion

The introduction of Medibank's Diversity and Inclusion Policy reflects our community commitment as well as our responsibility to our employees. It is underpinned by four key pillars - gender, culture, age and accessibility - and is aimed at creating opportunities and assisting our people achieve their full potential. Currently, more than 73 percent of our workforce is female.

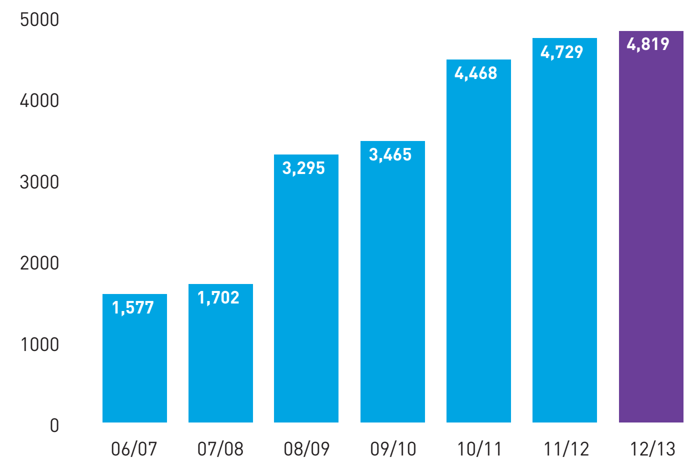
Distribution of Medibank employees



Over the past year we have:

- conducted an internal policy review to ensure that all our policies use inclusive language, free from discrimination
- supported over 200 employees company-wide to participate in external mentoring programs, including The Smith Family i-track initiative, to give them an opportunity to engage with and assist individuals from different community groups. We are currently developing programs within the call centre leadership training to role this out more broadly
- released the Medibank Reconciliation Action Plan (RAP) 2013 and received an 'Innovate' status by Reconciliation Australia for demonstrating our advancements in this space
- celebrated a number of cultural events, including Harmony Day, International Women's Day and Reconciliation Week
- increased flexibility in working conditions for employees through the Thrive prototype.

Number of Medibank employees



Our corporate responsibility

Our community

Medibank's For Better Health agenda provides a direct link between the organisation's strategic objectives and the way we actively engage with the community. Within the context of evolving our Corporate Responsibility strategy, we focus on our employees, members and the broader community.

Our community work is linked directly to our business's bottom line. Our objective is to mobilise people and encourage a preventative approach to personal health and wellbeing to safeguard it for the future. In so doing, we aim to stem the impacts of rising healthcare costs and increased demand for services amidst the backdrop of an ageing population and rising incidence of chronic disease.

Local community grant funding and carefully selected partnerships with community organisations that share our Vision are two important planks in our approach. We support employee wellness throughout the organisation and our people frequently take up the mantle and make their own community contributions through volunteering and giving.

Increasing community investment is an important focus across the organisation as we both respond to, and anticipate, a changing healthcare environment. The Medibank Community Fund (MCF) is the way we reach out, and boost long term community health and wellbeing outcomes.

Corporate responsibility and Medibank - For Better Health

Pursue our Purpose so that we enhance the society in which we operate, and the people we employ and serve.

Govern our business in a socially responsible manner to achieve our goals.

COMMUNITY ENGAGEMENT

We link people to the programs and activities of our partners to encourage physical activity, healthy eating and greater community connectedness.

DIVERSITY AND INCLUSION

Fostering a respectful society, a creative and engaging work environment, and an employee base reflective of the community.

MEASURING AND REPORTING

Reporting on outcomes to engage stakeholders, employees and customers.

Medibank Community Fund

The MCF's focus is on driving preventative health practices by: creating links; providing support; and inspiring people to take action to safeguard and invest in their own health and wellbeing.

Our objective is to mobilise people and encourage a preventative approach to personal health and wellbeing

The decision to be more actively engaged in the personal health journey of individuals is complemented by our stronger stake in community programs and partnerships with like-minded organisations and events that share our For Better Health focus.

Our community focus is an investment in our collective future, yet it also provides value and purpose to our business.

The MCF transforms one percent of Medibank's pre-tax earnings into community initiatives. Its Vision is that people will live longer, in better health, by being more physically active, eating healthier food and being more connected with their communities.

Through our partnerships with physical activity, healthy eating and community connectedness programs, the MCF has helped to significantly boost participation rates. According to figures provided by the Heart Foundation Walking program, Stephanie Alexander Kitchen Garden Foundation and Active in Parks, more than 29,055 people across a range of socio-economic groups and age demographics have participated in their programs over the past 12 months.

Improving health outcomes through education is another aspect of our community engagement approach. Through the MCF we provide education opportunities for students from disadvantaged backgrounds through The Smith Family, tertiary scholarship opportunities for nurses in New Zealand from Maori and Pacific Island backgrounds and support for Indigenous education programs through partnerships with Red Dust and Yalari. Our approach looks to the future, and is seen as an investment in the next generation of healthcare providers.

Medibank's Diversity and Inclusion approach reflects our community commitment and responsibility to our employees.

Transforming good intent into actions is the focus of our Indigenous health and wellbeing program. Medibank's 2013 RAP demonstrates our commitment to help address the life expectancy gap between Aboriginal and Torres Strait Islanders and other Australians, and strengthens our commitment to improving the health and wellbeing outcomes of Australia's first people. Medibank's 2013 RAP was awarded "Innovate" status by Reconciliation Australia in recognition of the progress made in 2012.

Our support for better health initiatives in the Indigenous sector is led by the provision of $100,000 of funding grants to programs being implemented by National Community Controlled Health Organisations.

In addition, the MCF's community grants put funds into the hands of grassroots organisations that have the health and wellbeing of their local community at heart. Healthy eating education, community gardens, physical activity programs for disabled groups and community outreach initiatives for migrants are among the projects that have been funded this year. A total of $600,000 was shared amongst 51 local projects in 2013, to help them deliver health and wellbeing programs to the specific sectors they reach, while building community connections.

Our employees are both stakeholders and instigators of our commitment to community. In addition to supporting and encouraging employee health and wellbeing through participation in our partnerships, we provide ways they can make personal contributions to community causes. By encouraging volunteering across the organisation, instituting workplace giving and gift-matching employee donations dollar-for-dollar, we are supporting a culture of 'giving' that has become a key part of our organisation. During the past 12 months employees devoted 1,068 hours to volunteering and, with the support of Medibank's donation matching, gave a total of $140,818 directly to the community through donations and workplace payroll giving.

Continual benchmarking of our practices against our peers via the London Benchmarking Group is one way we monitor our community activities and work towards continual improvement.

Medibank received a 2013 Australian Business Award in the Community Contribution category in recognition of the work of the MCF and Medibank's commitment to promoting 'Better Health' for all Australians.

In addition, annual employee satisfaction surveys, the increasingly positive interest in community components of the Medibank Facebook page and growing visitation rates to our MCF website (www.medibankcf.com.au), all indicate that our community focus resonates with employees and the community.

Our commitments

In the coming year, we will take a stronger approach to driving positive Indigenous health and wellbeing through the actions set out in our second RAP and continue to drive our diversity and inclusion strategy in the workplace. These steps will combine with the MCF measures already in place to elevate our community investment and cement Medibank's role as a leader in Australia's healthcare landscape.

2013 VERIFIED LBG AU & NZ

THE AUSTRALIAN BUSINESS AWARDS 2013 WINNER COMMUNITY CONTRIBUTION MEDIBANK

Private health insurance

While 2012/13 has seen the Medibank Group reach further into the health delivery and health solutions arena, we have also focused on enhancing our core insurance offering.

We have redefined our business strategy and in many ways are returning to basics, with a renewed focus on customer need and affordable health insurance. Extensive customer research has led our dual brand approach with reinvigorated service offerings for both the AHM and Medibank brands.

Our Medibank brand remains a full service health insurer and central to the organisation. Further information about all of our individual brands is contained on the following page.

Medibank's desire to be more responsive to customer needs has changed our thinking and is shaping the design of our products. In contrast to traditional approaches, in 2012/13 we focused on adding value to our private health insurance offering and to the lives of our members.

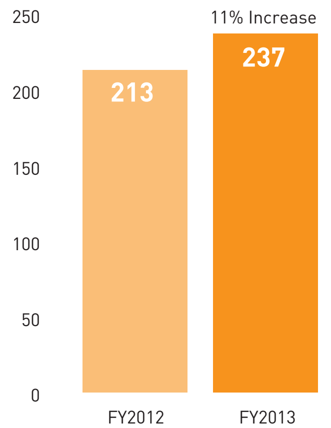
AHM is playing a crucial role in providing Medibank's private health insurance business with a distinct advantage of having two unique, but complementary brands in its portfolio. Each brand now has a clearly defined, highly relevant and differentiated customer value proposition.

For AHM, the focus is on giving members cover for the things that matter most to them. Being smaller, more nimble and flexible, AHM is in the perfect position to refocus in order to serve customers who only want to pay for things they are likely to need or who feel compelled to purchase private health insurance to avoid tax obligations.

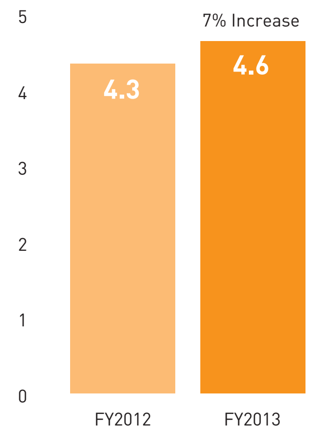
Benefit payments continued to rise and during the past 12 months we paid $4.6 billion to hospitals, ancillary providers, specialists and other health professionals on behalf of members. This 7.3 percent growth in claims resulted in Medibank and AHM paying (on average) over $90 million every week towards our members' healthcare needs.

We experienced growth in member acquisition with over 150,000 new memberships in 2012/13, and continue to seek innovative and effective means to reduce pressure on premiums and other health costs for all customers. At Medibank, we take the role we can play in making health affordable very seriously. We believe all players in the system have a responsibility to ask how we can improve the current model.

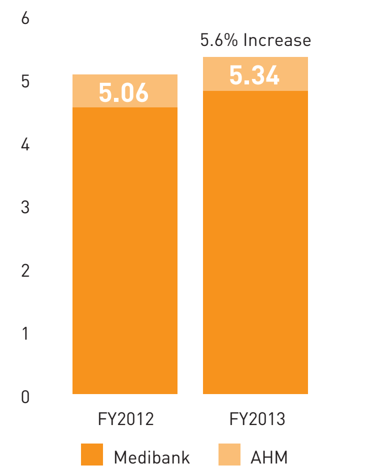
Private health insurance operating profit ($ million)



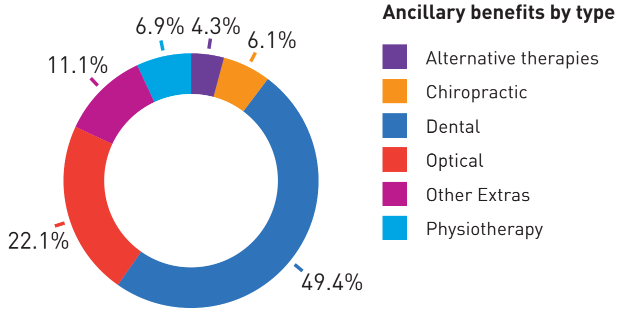
Member benefits ($ billion)



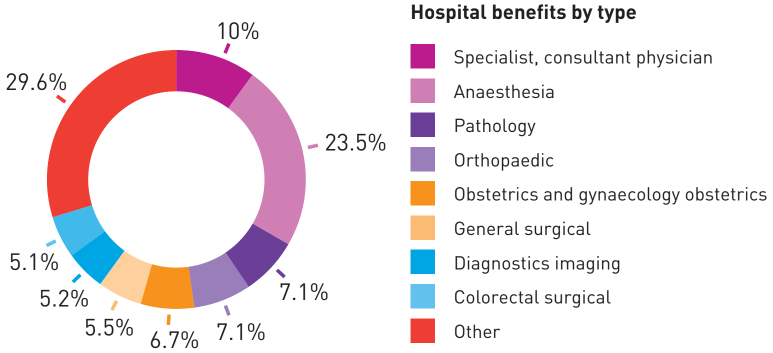
Private health insurance revenue ($ billion)



Ancillary benefits by type



Hospital benefits by type



We intend to continue playing a role in improving the health and wellbeing of our members and empowering them in their own endeavours to seek better health outcomes with appropriate navigation. If our members win, we win.

Beyond our customers, reform of the national health system is an important focus for us in reducing the growth of health costs and producing a healthier population.

Overseas Student Health Cover (OSHC)

The Australian Government requires all Student Visa holders to maintain OSHC to assist those who are not eligible for Medicare in meeting the costs of medical and hospital care while in Australia.

Medibank has a proud history in this area of health cover, being the original provider and despite increasing competition over the last decade remains the market leader with an estimated 58 percent of the student market.

As with our domestic products, the PHI division leverages our two distinct brands – AHM and Medibank to give us a unique position in the market. This multi-brand portfolio approach allows us to compete aggressively by targeting our offers to the different customer needs and channels. While the Medibank brand offers a premium product targeted at the onshore market (through commercial agreements with universities and other large educational institutions), AHM has successfully focused on offshore acquisition both directly and through Migration Agents located overseas.

Over the past 12 months much progress has been made in building system efficiency and service capability to support growth in this area. These efforts, together with re-engineered business processes and improved credit control and risk management, mean students are enjoying the benefits of these changes and we are already starting to deliver improved business outcomes.

Cover for visitors to Australia

Medibank Private offers a competitive range of health insurance products designed to meet the needs of overseas visitors to Australia. Steady growth of the portfolio has built on previous years, successfully meeting the challenges of restructuring in some sectors and employers opting for local workers ahead of offshore counterparts. Initiatives are under development to target a broader membership base as we look to the future.

medibank For Better Health

Medibank

Membership under the Medibank brand was strong in 2012/13, with over 110,000 new memberships taken up. While this number is down slightly on last year (due to the inflated 2011/12 figure which captured members who opted to pre-pay to avoid rebate changes) it represents positive sales across web, phone and retail channels.

Our retail network continues to be one of our greatest strengths and we have commenced an initiative to connect retail back into the communities in which we are located. We are reviewing our footprint to ensure that our presence is appropriately distributed to best service our customers and provide access to the most number of members.

Mi Health, our suite of health and wellness support services, has had a huge impact on how our Medibank members think about, and interact with, their private health insurance. Instead of a single focus on financial protection, Mi Health provides easy and convenient access to a range of trusted and credible healthcare advice and services, anytime, anywhere.

Offered to members with hospital cover at no additional cost and harnessing the clinical expertise of Medibank Health Solutions, Mi Health provides a 24/7 nurse hotline, a hospital liaison service, an online health hub and smartphone and mobile 'apps' including Symptom Checker, Online Claiming and Energy Balancer.

Since October 2012, the Mi Health advice line has received over half a million calls. Users of Mi Health have told us they feel more in control of their health decisions when armed with reliable information.

In a further illustration of our Purpose For Better Health, we recently joined forces with Coles FlyBuys to launch a national customer loyalty program. Through this partnership, our members are encouraged to buy fruit and vegetables with the incentive of earning additional points on their purchases. We are looking forward to helping our members benefit by living a healthy life.

ahm by Medibank

AHM

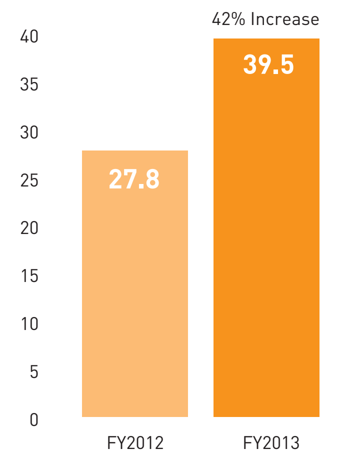
For AHM, the focus of the past year has been defining a new customer proposition and clarity in business direction. The foundations on which we are extending the existing AHM business have been put in place and we have an opportunity to take the brand to a broader Australian audience.

We recently unveiled a new black and white look for AHM that demonstrates exactly what this new brand is about - a health insurer that cuts out what you don't need; a brand that's no-nonsense, transparent and concise.

AHM aims to maximise value and cut out waste, and our changes reflect that approach. In addition to the logo and brand colour changes we have new products with no individual limits and products that offer members more control over what they're covered for. We are also streamlining our communications and eliminating waste by giving our members the choice to receive communications electronically; improving the payment systems so members can claim faster and more conveniently; and enhancing and simplifying the website and Online Member Services.

Sales of new memberships were 42 percent higher than the previous year which has been a pleasing result in the turbulent environment.

AHM new resident memberships ('000)



Medibank Health Solutions

Medibank Health Solutions provides an extensive range of healthcare services to businesses, government and communities across Australia and New Zealand.

A team of dedicated health professionals delivered over 3 million healthcare interactions during the past year. This was conducted through a national network of clinics as well as telephone and online channels, and an extensive provider network of clinicians.

With key services delivered to the public 24 hours a day, seven days a week, Medibank Health Solutions performs a critical role in healthcare provision. Utilising the expertise of our health professionals, through a world-class, work-at-home model enables Medibank Health Solutions to scale up to meet demand, whilst recruiting high calibre staff.

Through an Australia-wide footprint of clinics, Medibank Health Solutions' occupational health experts have provided workplace health services to some of Australia's largest organisations. Expertise in the mining sector and other high risk industries has positioned us as a leader in the delivery of services in some of the remotest areas of Australia, including Barrow Island, WA.

Key achievements for the Medibank Health Solutions business in the 2012/13 financial year include:

- the launch of Anywhere Healthcare, which provides rural Australians with rapid access to video-delivered specialist healthcare
- expansion in the delivery of mental health services via our partnership with *beyondblue*
- Healthline in New Zealand took its three millionth call in May 2013
- NURSE-ON-CALL took its 2.5 millionth call in June 2013
- healthdirect Australia approached its four millionth call since it was launched nationally (except QLD) in 2007
- providing telephone-based intake service support for the Royal Commission into the Institutional Responses to Child Sexual Abuse
- coordination of healthcare for 80,000 ADF Members

By working closely with the other divisions of the Medibank Group, we have combined our expertise to create innovative health solutions that make a difference to the health of the 3.8 million members and the broader community, supporting the Medibank Group to live its promise For Better Health. Examples include Mi Health, chronic disease programs and Garrison Health Services.

Access to specialists' services for people in regional and remote Australia

Officially launched in May by the Prime Minister, Anywhere Healthcare is an innovative, video-enabled, virtual healthcare service that provides rapid access to the largest dedicated panel of telehealth specialists for people living in regional and remote areas of Australia.

People living in regional and remote areas often face significant challenges accessing the specialist care they need. No matter where a patient is geographically based, they can now avoid long wait lists, time away from their families, and the costs associated with travel and accommodation to see a specialist.

In many cases patients in rural areas can now access a specialist consultation via video within a couple of days of referral from their general practitioner. Consultations are conducted in the patient's GP clinic, providing additional support for patients during their specialist consultation.

Specialist services available include oncologists, general physicians, psychiatrists, pediatricians, ophthalmologists, neurologists, dermatologists, endocrinologists and an allergist.

More than 500 GPs in regional and remote areas of Australia have already signed up to Anywhere Healthcare which is currently being rolled out nationally.

Mental health reform in Australia

Medibank Health Solutions commissioned a vital research report: *The Case for Mental Health Reform in Australia: a Review of Expenditure and System Design*. Conducted in partnership with Nous Group, the report was launched in May with *beyondblue*, by the National Mental Health Commission and the Federal Minister for Mental Health and Ageing.

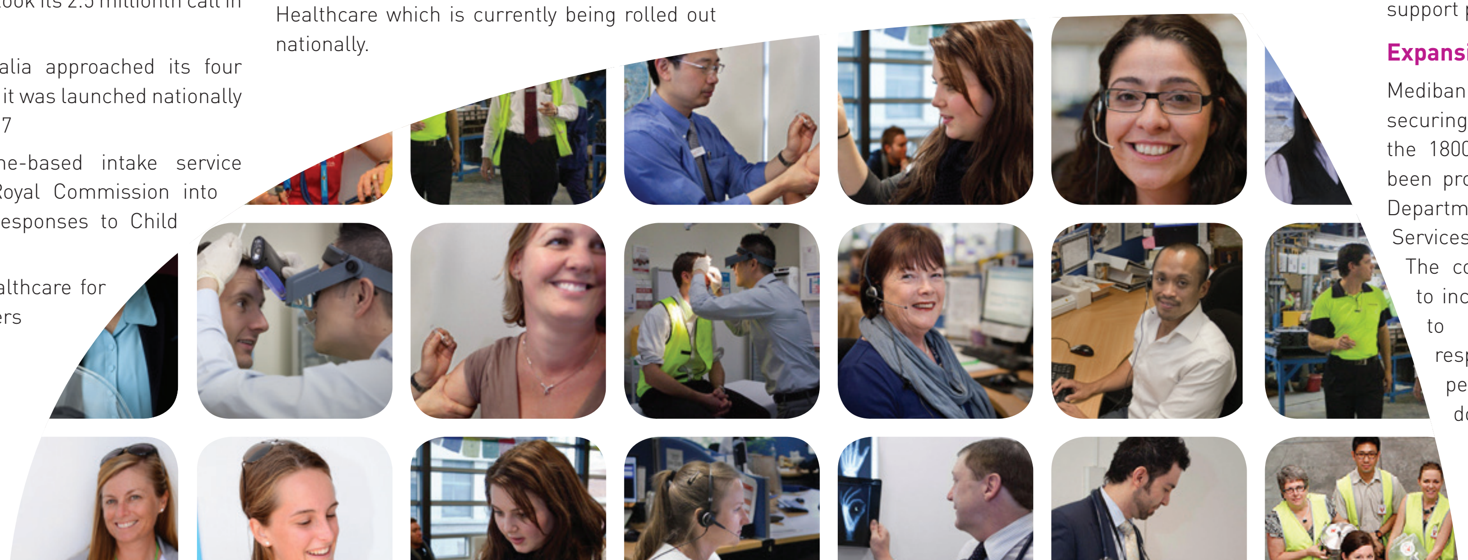
The research revealed that the annual national expenditure to support people with a mental illness in Australia far exceeds previous estimates - at least $28.6 billion per annum. This estimate specifically excludes indirect costs such as lost productivity. The report calls for urgent reform in Australia to lead the world in end-to-end mental health system redesign, to deliver better mental health outcomes at a lower cost.

In partnership with *beyondblue*

Medibank Health Solutions was selected to deliver *beyondblue*'s expanded telephone, email and web-chat support service, providing access to round-the-clock counselling, information and referrals for people affected by anxiety and depression. Importantly, this new collaboration further cements our place as a leader in the provision of electronic mental health and counselling services in the region.

The Travel Doctor (TMVC)

Through The Travel Doctor (TMVC) clinic network, medical consultations, advice and vaccinations ensure that businesses' employees are healthy when they are working overseas. Almost 80,000 consultations were provided nationally during the past year.



The Royal Commission into Institutional Responses to Child Sexual Abuse

An important service undertaken by Medibank Health Solutions in the mental health and counselling sector has been managing the intake service for the Royal Commission into the Institutional Responses to Child Sexual Abuse. Being selected to perform this task was a significant achievement.

The service provides telephone and episodic counselling for sexual abuse victims, family members and other key witnesses of the Royal Commission. In addition, Medibank Health Solutions provides face-to-face counselling and support for victims of abuse and Royal Commission staff while attending Royal Commission hearings that are occurring around Australia.

Maintaining and developing key telehealth partnerships

New agreements are in place to deliver an after-hours mental health triage service for the Hume Region in Victoria, and to provide a new "Priority Support Service" on behalf of the Australian Government Department of Human Services. The latter involves counselling, support and referrals to clients of the Child Support Agency.

Medibank Health Solutions also signed a two-year extension on its agreement to provide the Victorian Department of Health's NURSE-ON-CALL service, which has been in operation since 2006.

This year, Murrumbidgee Local Health District and Medibank Health Solutions celebrated 15 years of delivering Accessline. The telephone service for residents of regional NSW provides both mental health and drug and alcohol support programs.

Expansion of 1800RESPECT

Medibank Health Solutions was successful in securing a three-and-a-half-year expansion to the 1800RESPECT service. This helpline has been provided for the Australian Government Department of Families, Housing, Community Services and Indigenous Affairs since 2011. The continued service has been expanded to include a frontline workers online portal to provide guidance on professional responsibilities and how to best assist people experiencing sexual assault and domestic and family violence.

Immigration medical assessments

Over 280,000 visa medical assessments were conducted on behalf of the Australian and New Zealand Governments last year. Significant work was undertaken to develop the online visa medical booking process. This has aligned with the Department of Immigration and Citizenship's requirements and provides operational speed and efficiency.

Mitigating workplace health risks

During the past 12 months, Medibank Health Solutions worked with over 3,000 businesses, including some of Australia's largest corporations. Clients ranging from construction and resource industries through to Commonwealth Government agencies were supported to minimise risks in delivering a safe and healthy workplace.

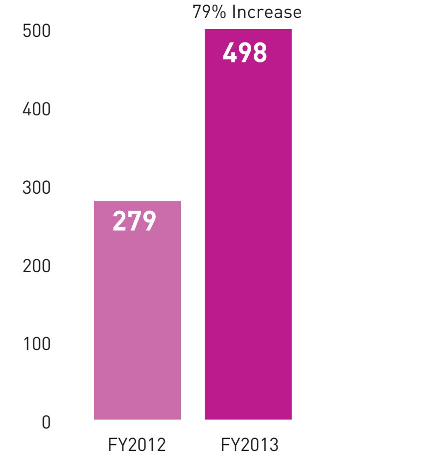
From performing medical examinations that ensure workers are fit to perform their roles, to providing mental health services to employers and employees, the team draws on the expertise of clinical specialists including occupational physicians, across a national footprint of Medibank Health Solutions clinics. Nearly 200,000 medical assessments and consultations were managed by the team.

The specialist services team work with corporate organisations to deliver a broad range of occupational health expertise to employers, including policy development and psychological assessments. It also provides consulting services in areas such as the impacts of mental health and chronic disease, fatigue and insomnia in the workplace.

Garrison Health Services

Since November 2012, Medibank has managed the coordination of healthcare for 80,000 ADF Members. This is part of a four-year, $1.4 billion contract with the ADF's Joint Health Command. The past year has been one of rapid implementation and consolidation, embedding a new, sophisticated healthcare system that offers high quality, convenient access to servicemen and women. This includes access to on- and off-base medical practitioners, allied health professionals and specialists, and a health hotline.

Medibank Health Solutions revenue ($ million)



New Zealand operations

Medibank Health Solutions' presence continued to strengthen in New Zealand, with a number of contract extensions, new business projects and key milestones.

In July 2012, Medibank Health Solutions commenced coordinating the homecare personal support services for injured clients on behalf of New Zealand's Accident Compensation Corporation.

In late April, the Patient Access Centre team celebrated its first anniversary of providing a virtual telephonic reception service for a number of integrated family health centres across the central North Island on behalf of the Midlands Health Network. The team provides services to 34,500 enrolled patients, handling more than 150,000 calls and 90,000 practice support admin tasks per annum.

In May 2013, Healthline, New Zealand's national health advice and triage helpline celebrated its three millionth call. Operated by Medibank Health Solutions New Zealand on behalf of the Ministry of Health, it is a significant milestone for this valuable service.

In the past 12 months, the mental health line service was expanded to include the Bay of Plenty community. Medibank Health Solutions now delivers mental health services to over a third of the New Zealand population. This expansion reinforces Medibank Health Solutions' status as the preeminent provider of mental health services in New Zealand.

Diversified insurances

Life insurance

Our life insurance and income protection portfolios have experienced strong new business and revenue growth during the past year, resulting in a 10 percent uplift in new business policy sales and a 25 percent rise in revenue.

Since launching in October 2008, Medibank's life insurance business has insured over 50,000 lives and has paid out more than $27 million in claims. We continue to provide our customers with valued insurance options to meet their changing needs, whilst maintaining policy and revenue growth in an ever-expanding competitor market.

Travel insurance

Through Medibank's continued investment in our travel insurance business, we have experienced strong growth in policy take-up by both members and non-members (of our private health insurance). Sales for the year increased by eight percent compared to the previous year. With an enhanced product offering in market with new provider Travel Insurance Partners, Medibank Travel Insurance has increased policy sales to health insurance members by 21 percent year-on-year, covering more than 140,000 Medibank members health whilst travelling. We have continued to enhance the value we provide through our travel insurance products by offering more competitive pricing, creating a platform for continued growth in the future.

Pet insurance

The pet insurance business delivered strong portfolio growth of 20 percent year-on-year in an increasingly competitive market. The pet insurance category is experiencing significant growth with awareness being driven by increased advertising expenditure across a number of major brands. Medibank maintains its position as a market leader, with strong policy take-up amongst both members and non-members (of our private health insurance) and has paid over $10.5 million in claims benefits in 2012/13. Rising costs of veterinary services continue to place pressure on pet insurance premiums. A number of initiatives have been introduced throughout the year to maintain sustainable, equitable and competitive pet insurance products for our members and non-members. Medibank continues to invest in development and partnership opportunities to expand the pet insurance business into the future.

Each of Medibank's Diversified products is distributed on the basis of Medibank acting as an authorised representative of the insurers.

Sponsorships

Sponsorships

Put simply, our sponsorships give us the opportunity to 'walk the walk'; to work and play alongside Australians, encouraging them to lead a healthier life.

Through these valuable partnerships, we're also able to increase the visibility and understanding of what we stand for - For Better Health.

Medibank and tennis

2013 marked the second year of our sponsorship of the Australian Open, the nation's premier tennis event. We created a visitor on-site activation area and the tournament featured a 'Better Health Day' to promote both the benefits of an active and healthy lifestyle, as well as Medibank's new products and services.

We continued our involvement with the grass-roots Junior Development Series - Australia-wide tennis tournaments for children. The program aims to inspire young people to adopt healthy attitudes and lifestyles from an early age and nurture and support Australian tennis talent at a grass-roots level. This program goes hand in hand with our Healthy Attitude awards which reward players who demonstrate a positive attitude towards tennis.

The Wiggles

Our long-standing relationship with The Wiggles continued for another year as both parties jointly promote the benefits of a healthy lifestyle, and in particular, children's health, through the Wiggle into Health program.

The Medibank Melbourne Marathon

In October 2012 Medibank was the title sponsor of the Medibank Melbourne Marathon Festival, which gave us another great opportunity to promote, encourage, and support our fellow Australians to lead healthy and active lifestyles. Not only is running fun and competitive, it is also a great hobby, sociable and accessible to people of all ages and levels of fitness. Medibank will continue the partnership in the coming year.

Medibank has expanded its association with running events, announcing a partnership with the Perth City to Surf and associated regional events across Western Australia.

Wave Warriors

Medibank is proud to be the naming rights sponsor for the Wave Warriors Junior Challenge for 2013/14, a unique series of events for junior lifesavers. Wave Warriors attracts competitors and families from all across Australia and New Zealand, with a focus on participation and fun – it encourages our youngest athletes to enjoy a healthy and active lifestyle whilst building friendships and working with others through team challenges.

Board of Directors








Elizabeth Alexander AM

BCom, FAICD, FCA, FCPA

Non-Executive Chairman

Appointed Chairman 19 March 2013

Ms Alexander is currently Chairman DEXUS Wholesale Property Limited, a Director of DEXUS Property Group.

Ms Alexander is the Chancellor of the University of Melbourne and chairs its Finance Committee.

Anna Bligh

Non-Executive Director

Appointed Director 21 December 2012

Ms Bligh is a former Queensland Premier, was a member of the Queensland Cabinet Budget Review Committee for 11 years, and has a comprehensive understanding of the health and demographic factors that are driving trends in the health sector, hospitals and health service providers, including insurers.

Dr Leanne Rowe AM

MBBS, MD, FRACGP, FAICD

Non-Executive Director

Appointed Director 17 December 2008

Adjunct Associate Professor Rowe is currently a general practitioner, Deputy Chancellor of Monash University and Board Member of the Medical Indemnity Protection Society and I-MED Australia.

Steve Vamos

BEng (Hons)

Non-Executive Director

Appointed Director 24 October 2011

Mr Vamos is currently a Non-Executive Director of Telstra Corporation Limited and David Jones Limited. He is also the Founding President of the Society for Knowledge Economics - a not-for-profit think tank that encourages new and better practices in organisational leadership and management.

George Savvides

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

Executive Director

Appointed Managing Director April 2002

Mr Savvides has 25 years' experience in the Australian healthcare industry.

He is currently a Member of the Business Council of Australia and represents Australia as Vice President on the Council of the International Federation of Health Plans.

George is Chairman of Arrow Leadership Australia and Chairman of World Vision Australia.

Dr Cherrell Hirst AO

MBBS, BEdSt, D.Univ (Hons), FAICD

Non-Executive Director

Appointed Director 16 December 2009

Dr Hirst is Chair of ImpediMed Ltd and holds directorships of Avant Insurance Limited, Tissue Therapies Ltd, and Telesso Ltd.

Dr Hirst is also part time CEO of QIC BioVentures.

Prior to becoming a Director, Dr Hirst practiced medicine for 30 years.

Jane Harvey

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

Non-Executive Director

Appointed Director April 2007

Ms Harvey is currently a Director of IOOF Holdings Limited, David Jones Limited, Duet Finance Limited, and Telecommunications Industry Ombudsman.

Peter Hodgett

BSc (Hons) FIAA FAHRI FAICD

Non-Executive Director

Appointed Director 21 June 2013

Mr Hodgett is currently a Director of CBA's superannuation and wealth management businesses, Colonial First State Investments Limited and Avanteos Investments Limited and AMP's Aged Care Investment Services trust.

Executive team

George Savvides

Managing Director

Under his leadership, the organisation has seen its revenue grow from $2 billion to $5.8 billion.

George's previous roles include Managing Director Smith+Nephew Pty Ltd, Australasia and Sigma Co Ltd.

Mr Savvides has a long history of service to the not-for-profit sector, including as a Director for World Vision Australia and World Vision International.

Laz Cotsios

Group Executive, Private Health Insurance

Laz oversees Medibank's private health insurance business, including both the Medibank Private and AHM brands and over $4.6 billion in member benefit claims.

Prior to joining Medibank, Laz held senior executive roles in financial services companies and has extensive experience in driving business strategy, developing new business and improving operational efficiency for customer service organisations.

Dr Matthew Cullen

Group Executive, Medibank Health Solutions

Dr Cullen co-founded and was Co-President of McKesson Asia-Pacific which was acquired by Medibank in July 2010. Medibank Health Solutions employs over 2,300 staff - the vast majority of whom are doctors, nurses and allied health professionals.

Matthew is Deputy Chairman of the Schizophrenia Research Institute, a Fellow of the Royal Australian & New Zealand College of Psychiatrists and Associate Fellow of the Australian College of Health Service Executives and Australian Institute of Company Directors.

Ilona Charles

Group Executive, People and Culture

Ilona left the organisation in July 2013

Ilona was responsible for all aspects of People and Culture across the Medibank group, leading our people through our continuing transformation.

Medibank now comprises 4,500 people working in a very dynamic and changing environment.

Ilona commenced her career as an Occupational Therapist and prior to joining Medibank Ilona spent 14 years at NAB in a variety of senior roles.

Dr Andrew Wilson

Group Executive, Provider Networks and Integrated Care

Dr Wilson is responsible for Provider Networks and Integrated Care encompassing Medibank's relationships with hospitals and medical professionals as well as our approach to integrated models of care.

Andrew co-founded and was Co-President of McKesson Asia-Pacific which was acquired by Medibank in July 2010.

Andrew has 25 years' experience in the public health system, and remains a practicing psychiatrist.

Terry Snyders

Chief Information Officer

As CIO, Terry leads all elements of IT investment, technology delivery and IT operations. Terry's strong project management background and extensive IT experience has been invaluable to Medibank's evolution over the past six years.

Terry has been working in the IT sector for over 30 years including 18 years at ANZ in senior roles such as General Manager, Institutional Technology.

Mei Ramsay

Group General Counsel

Mei is responsible for both the Legal and Company Secretariat divisions, advising the Managing Director and Board on legal and governance issues, and all areas of the business on regulatory, compliance and commercial matters.

Mei has over 20 years' experience in the legal profession, working in private practice and in-house. Prior to Medibank, Mei was the General Counsel and Company Secretary for the Asia-Pacific Distribution division of Cummins Inc.

Paul Koppelman

Chief Financial Officer

Paul has responsibility for the finance, actuarial, treasury, planning, risk management and assurance, acquisitions, property and corporate services functions across the Medibank Group.

Paul has over 25 years' experience in the finance industry including as General Manager of Corporate Finance for Pacific Brands, CFO for the Aluminium and Commercial divisions of BHP Billiton and CFO of AXA Australia and New Zealand.








Financial Report 2013

Corporate governance statement

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

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

Governance at Medibank

The Group is committed to the highest standards of corporate governance. The governance practices are derived principally from the provisions of the CAC Act and requirements of the Governance and Oversight Guidelines for Commonwealth Government Business Enterprises (2011).

The Group is also committed to compliance with the ASX Corporate Governance Council's Principles and Recommendations (ASXCGC Recommendations) Guidelines in so far as they are applicable to an unlisted, Commonwealth-owned company. The Group must also comply with the Corporations Act and as a private health insurer must comply with governance requirements prescribed by the Private Health Insurance Administration Council (PHIAC) under Governance Standard GPS510.

A dedicated Corporate Governance section on the Medibank website (www.medibank.com.au) provides a detailed description of the Group's governance framework and associated practices, with links to key documents, including the Group's Governance Principles. This statement addresses each of the ASXCGC Recommendations with explanations of our corporate governance practices and the Group's compliance with these recommendations.

On 1 July 2012, the AHM private health insurance fund was merged into the Medibank private health insurance fund. During the year the Group provided regular reports to the PHIAC in relation to the private health insurance fund operated by the Company. PHIAC is an independent statutory authority that is responsible to the Federal Minister for Health and Ageing. The role of PHIAC is to monitor and regulate the private health insurance industry with the objectives of:

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

Diversity at Medibank

At Medibank, we are committed to a culture that embraces and fosters diversity and inclusion. Medibank's Diversity and Inclusion Strategy works to ensure individuals are provided with equal opportunity, while also creating opportunities for those groups that may be disadvantaged.

Diversity embodies all that makes us unique as individuals. Medibank recognises diversity as one of our most important resources because we believe diversity in our workforce helps us:

- foster a culture that reflects our intent (Healthy, Collaborative, Connected) and Values (Customer Focus, Accountability, Integrity and Respect), and is open to all
- improve innovation, creativity, and inspire critical thinking
- create a dynamic environment that leads to higher performance and well-being and greater employee engagement and satisfaction
- improve the connection between our people and the community we serve.

Medibank's Diversity and Inclusion strategy is underpinned by four key pillars: Gender, Culture, Age and Accessibility. These are the four areas Medibank is focusing on to build a strong sustainable organisation, with the strategy identifying measurable objectives and actions in each area.

In addition to the objectives that will impact all the strategic pillars Medibank has implemented the following objectives specifically relating to gender:

- Board members: That 40 percent of Board members are women, 40 percent are men, and the remaining 20 percent of Board positions may be held by either women or men. Current representation: 62 percent of the Medibank Board are women and 38 percent are men.
- Senior Executives: That 40 percent of Senior Executive roles are held by women, 40 percent by men, and the remaining 20 percent may be held by either women or men by July 2015. Currently 35 percent of Senior Executives are women and 65 percent are men.
- The current Medibank employee population is 73 percent women and 27 percent men.

Our Shareholder

Ownership and Shareholder Minister

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

Shareholder communication

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

Under the Commonwealth GBE governance arrangements, a rolling three-year Corporate Plan is submitted annually to the Shareholder Minister. A high level summary of the Corporate Plan (a Statement of Corporate Intent) is tabled annually in Parliament. Quarterly reports on progress against the Corporate Plan are made to the Shareholder Minister.

Medibank's Annual Report is submitted to the Commonwealth Parliament in accordance with Section 9 of the CAC Act.

Annual General Meeting

The Shareholder Minister has indicated her intention to waive the requirement to hold an Annual General Meeting for the 2013 financial year. Accordingly, an Annual General Meeting will not be held in 2013.

Board of Directors

Role and responsibilities

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

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

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

Key accountabilities and matters reserved for the Board include:

- ensuring that the Medibank Private Health Insurance Fund is financially sound and meets the regulatory, prudential and other requirements of the PHI Act
- setting and reviewing objectives, goals and strategic direction, and assessing performance against these benchmarks

- ensuring the Group is financially sound, meets prudential requirements and has appropriate financial reporting practices
- ensuring Medibank meets regulatory requirements
- ensuring a process is in place for the maintenance of the integrity of internal controls, risk management, delegations of authority and financial and management information systems
- appointing, supporting, evaluating and rewarding the Managing Director
- monitoring the Executive succession plan and ensuring a process of evaluating and rewarding key Executives
- ensuring high business standards, ethical conduct and fostering a culture of compliance and accountability
- approval of the Corporate Plan
- approval of all new business activities, loans to external parties and other commitments in excess of certain thresholds detailed in the Delegation of Authority documents
- reporting to the Shareholder Minister on the Board's stewardship of the Group and monitoring the achievement of the Corporate Plan.

Matters and areas of authority not specifically reserved for the Board are delegated by the Board to the Managing Director who in turn delegates certain matters to individual Group executives. The delegation of authority within the Group is managed in accordance with the Governance Policy and the Delegation of Authority Policy and associated procedures.

The Chairman leads the Board. She has responsibility for ensuring the Board receives accurate, timely and clear information to enable the Directors to analyse and constructively critique the performance of management and the Group as a whole. The Chairman is responsible for representing the Board to the Shareholder.

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

Board composition

The Board of Medibank comprises seven Non-Executive Directors, including a Non-Executive Chairman, and an Executive Managing Director. All current Non-Executive Directors are independent in accordance with the ASX Guidelines criteria for independence. Details of the Directors and Company Secretary, including names and qualifications, are included in the Directors' Report, together with Directors' remuneration.

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

The Board considers the mix of skills and diversity of Board members when determining the composition of the Board. The existing and potential Directors' skills are assessed to ensure that the Board has appropriate expertise and experience to understand collectively the risks to the Group, its legal and prudential obligations, to effectively oversee management and that each Director can contribute effectively to the Board's deliberations and process.

The GBE Guidelines require that Medibank's Board consist of 40 percent women, 40 percent men, and the remaining 20 percent of Board positions are be held by either women or men. Currently, the Board comprises five women and three men.

Subsidiaries

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

Director induction and education

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

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

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

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

Conflicts of interest

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

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

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

Fit and proper

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

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

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

The policy includes a process for dealing with and reporting breaches of the policy.

Independent professional advice and access to Company information

The Board and its Committees may seek advice from independent experts whenever it is considered appropriate.

With the consent of the Chairman, individual Directors may seek independent professional advice at the expense of the Company on any matter connected with the delivery of their responsibilities.

Each Director has the right of access to all relevant Group information and to the Group's management.

Director remuneration

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

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

Director dealings in Company shares

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

Board meetings

The Board met 11 times during the past year.

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

Board performance

A review of Board performance is conducted annually by way of either an independent external assessment or an internally facilitated assessment. The assessment process utilises a combination of Director- and Executive-completed surveys and individual interviews. The Board determines the actions to be taken in relation to the recommendations arising from the assessments and regularly reviews progress against the action plans. The aim is to undertake an objective assessment of the performance of the Board as a whole, its Committees and the Directors. During the past year, the Board regularly assessed its performance.

Board Committees

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

- Audit and Risk Management Committee
- Human Resources Committee
- Investment Committee
- Nomination Committee
- Health and Business Innovation Committee.

Each Committee operates under a charter approved by the Board, which is reviewed periodically. Copies of the charters can be found in the Corporate Governance section of the Company's website.

Board Committees monitor and facilitate detailed discussion on particular issues and other matters as delegated by the Board.

With the exception of the Investment Committee (which has been delegated certain decision-making responsibilities), the Committees have no delegated authority, but make recommendations and report to the Board of Directors on appropriate and relevant issues.

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

Audit and Risk Management Committee

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

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

Key responsibilities include:

- reviewing the annual financial report
- monitoring the strategic risks and the risk management process
- monitoring the activities and performance of the internal audit and compliance functions
- reviewing the performance of the External Auditor
- monitoring the effectiveness of the internal control framework
- monitoring the effectiveness of the Company's fraud control policies and procedures
- monitoring the procedures in place to ensure compliance with the legislation, regulations and codes.

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

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

Human Resources Committee

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

The Chairman of the Committee, Mr S Vamos, is an independent Non-Executive Director.

The role of the Committee is to review and make recommendations to the Board in relation to:

- the Group's policy for recruitment, remuneration and diversity
- the Group's performance in relation to health and safety
- the performance of the Managing Director and his direct reports
- Senior Executive remuneration
- Senior Executive succession planning and development.

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

Investment Committee

The Investment Committee currently comprises three Non-Executive Directors and the Managing Director. The Chairman of the Committee, Mr P Hodgett, is an independent Non-Executive Director.

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

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

Nomination Committee

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

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

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

The Committee Charter recommends that the Committee meet as required.

The Committee met three times during the past year.

Health and Business Innovation Committee

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

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

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

Accountability and audit

External audit

In accordance with the CAC Act, the Commonwealth Auditor-General audits the records and Financial Statements of the Company and the Group. The Australian National Audit Office (ANAO) contracted with PricewaterhouseCoopers to audit the Company and the Group for the 2013 financial year on behalf of the Auditor-General.

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

The Audit and Risk Management Committee meets with the External Auditor during the year to:

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

Internal control framework

The Board is responsible for the overall internal control framework and for reviewing its effectiveness, but recognises that no cost-effective internal control system will preclude all errors and irregularities. The systems are intended to provide appropriate assurance on:

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

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

Internal audit

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

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

Risk management

The Board has approved the risk management system which is based on the International Standard for Risk Management (ISO31000:2009). Overseen by the Chief Risk Officer, the system includes a Board-approved risk appetite, policy, risk management strategy and risk register, as well as comprehensive procedures to identify, measure, monitor and manage risk, including control effectiveness and related mitigation plans. Material risks are assessed on a regular basis and the Audit and Risk Management Committee and the Board receive and consider regular reports on their status.

Certification by Managing Director and Chief Financial Officer

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

This process supports the Managing Director and Chief Financial Officer's written certification to the Board under ASX Guideline Recommendation 7.3 that the certifications they give to the Board under Section 295A of the Corporations Act (as to the integrity of the Company's Financial Statements) are founded on a sound system of risk management and internal compliance and control that implements the policies adopted by the Board, and that the Group's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Based on the evaluation performed as at 30 June 2013, the Managing Director and Chief Financial Officer concluded that, as of the evaluation date, such risk management and internal compliance and control systems were reasonably designed to ensure that the Financial Statements and notes of the Group are in accordance with the *Corporations Act 2001* (Cth) and there are reasonable grounds to believe the Group will be able to pay its debts as and when they become due and payable.

Compliance

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

Ethical standards

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

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

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

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

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

Directors' report

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

Board of Directors

The names and details of the Directors in office at any time during the financial year, including the period until the date of this report, are as follows.

Current Directors

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

Appointed Director from 23 October 2008.
Appointed Chairman from 19 March 2013.
Current term expires 18 March 2016.
Chairman of the Nomination Committee.

Ms Alexander is currently also Chairman of DEXUS Wholesale Property Limited, a Director of DEXUS Property Group, and IOOF Foundation. She is Chancellor of the University of Melbourne and chairs their Finance Committee.

Ms Alexander is the former Chairman of CSL Ltd, and former Director of Amcor Ltd and Boral Ltd. Also a former Chairman of the Australia Prudential Regulatory Authority's Risk and Audit Committee,and the Portfolio Audit Committee of the Victoria Department of Education and Early Childhood Development.

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

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

Appointed Director 6 September 2001.
Appointed Managing Director 19 April 2002.
Current term expires 11 March 2017.

Mr Savvides has over 25 years' corporate leadership experience in the healthcare industry and is currently Vice President of the International Federation of Health Plans. He is a Director of Ryman Healthcare, and also Member, Business Council of Australia and Chairman of Arrow Leadership Australia Limited and Chairman of World Vision Australia.

Mr Savvides was formerly Managing Director of Smith+Nephew Pty Ltd, Australasia; Managing Director and CEO, Sigma Co Ltd; General Manager, CIG Healthcare Australia; Chairman, Medicines Partnerships of Australia.

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

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

Ms Harvey is currently a Director of IOOF Holdings Limited, David Jones Limited, Duet Finance Limited, Telecommunications Industry Ombudsman and a member of the Advisory Board of the Department of Treasury & Finance (Vic). She also serves on the Victorian Council of the Australian Institute of Company Directors.

Ms Harvey was formerly a Partner at PricewaterhouseCoopers.

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

Appointed Director from 17 December 2008.
Current term expires 16 December 2014.

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

Professor Rowe is a Director, Medical Consulting Victoria; Presiding Member, Medical Panels, Victoria and South Australia; and a Board Member of the Medical Indemnity Protection Society and I-MED Australia.

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

Appointed Director from 16 December 2009.
Current term expires 15 December 2015.
Chairman of the Health and Business Innovation Committee.

Dr Hirst is Chair of ImpediMed Ltd and holds directorships of Avant Insurance Limited, Tissue Therapies Ltd, and Telesso Ltd. Additionally Dr Hirst is part time CEO of QIC BioVentures and was formerly a director of Suncorp-Metway Ltd. Prior to becoming a non-executive Director, Dr Hirst practiced medicine for 30 years.

Steve Vamos
BEng (Hons)
(Non-Executive Director)

Appointed Director from 24 October 2011.
Current term expires 23 October 2014.
Chairman of the Human Resources Committee.

Mr Vamos is currently a Non-Executive Director of Telstra Corporation Limited and David Jones Limited. He is also the Founding President of the Society for Knowledge Economics - a not-for-profit think tank that encourages new and better practices in organisational leadership and management.

Anna Bligh
(Non-Executive Director)

Appointed Director 21 December 2012.
Current term expires 20 December 2015.

Ms Bligh is a former Queensland Premier, was a member of the Queensland Cabinet Budget Review Committee for 11 years, and has a comprehensive understanding of the health and demographic factors that are driving trends in the health sector, hospitals and health service providers, including insurers.

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

Appointed Director 21 June 2013.
Current term expires 20 June 2016.
Chairman of the Investment Committee.

Mr Hodgett is currently a Director of CBA's superannuation and wealth management businesses, Colonial First State Investments Limited and Avanteos Investments Limited and AMP's Aged Care Investment Services trust.

Prior to becoming a non-executive director Mr Hodgett had over 30 years' experience in superannuation, life insurance, funds management and general insurance including roles as Chief Actuary and head of Strategy and HR at AMP.

Former Board Members

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

Appointed Chairman from 19 March 2007.
Term expired 18 March 2013.

During the year Mr McClintock was Chairman, Thales Australia Limited, I-MED Network Ltd and the COAG Reform Council and Director of the European Australian Business Council, Myer Holdings Limited and Perpetual Limited.

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

Appointed Director from 21 September 2007.
Term expired 20 December 2012.

During the year Mr Twyman was Chairman of Swiss Reinsurance Company (Australian Board of Advice) and Director, Perpetual Limited, Swiss Re Life & Health Australia Limited, and Insurance Australia Group Limited (IAG).

Company Secretary

Stephen Harris
ACSA, ICSA, CA, GAICD

Appointed Company Secretary on 6 July 2007.

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

Directors' interests

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

Principal activities

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

- operate its private health insurance business in accordance with the *Private Health Insurance Act (2007)* and Private Health Insurance Rules
- operate its health solutions business.

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

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

(with the latter three under agency agreements with third party providers).

The Group's Health Solutions division also provides services predominately in Australia and New Zealand including:

- health management
- health triage
- healthcare coordination
- immigration health checks
- the operation of dental and eyecare practices
- workplace health
- travel health.

Results

The Group's 2012/13 after-tax profit was $232,741,000 (2011/12 $126,595,000).

Dividends

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

	2013	2012
	$'000	$'000
Final ordinary dividend for the year ended 30 June 2012, paid on 30 October 2012	48,987	64,271
Special dividend, paid on 7 November 2012	39,843	-
Interim ordinary dividend for the six months ended 31 December 2012, paid on 17 June 2013	61,500	26,970
Special dividend, declared on 13 May 2013, paid on 15 August 2013	300,000	-
	450,330	**91,241**

Review of operations

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

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group that occurred during the financial year.

Directors' meetings

The number of meetings of the Board of Directors and Board Committees during the year ended 30 June 2013, and attendance by Directors at those meetings.

Director	Board		Audit and Risk Management Committee		Health and Business Innovation Committee		Investment Committee		Human Resources Committee		Nomination Committee	
	H	A	H	A	H	A	H	A	H	A	H	A
E Alexander	11	11	4	4	-	-	-	-	5	5	3	3
G Savvides	11	11	-	-	4	4	4	4	-	-	-	-
J Harvey	11	11	4	4	-	-	4	4	-	-	3	3
L Rowe	11	11	4	4	4	4	-	-	-	-	-	-
C Hirst	11	11	-	-	4	4	2	2	5	5	3	3
S Vamos	11	11	-	-	4	4	1	1	5	5	-	-
A Bligh	6	6	-	-	-	-	3	3	1	1	-	-
P Hodgett	1	1	-	-	-	-	-	-	-	-	-	-
P McClintock	6	6	-	-	-	-	2	1	-	-	3	3
P Twyman	5	5	2	2	-	-	1	1	3	3	3	3

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

Significant events after the balance date

No matter or circumstance has arisen since 30 June 2013 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years, or
- the results of those operations in future financial years, or
- the Group's state of affairs in future financial years.

Likely developments and future results

The Directors anticipate that revenue growth will be sustained in the 2013/14 financial year noting major contract renewals exist in parts of the Health Solutions division. This continued growth is underpinned by the recent definition of the Group's strategy with the 2013/14 financial year being focussed on the execution of that strategy.

Following the merger of Medibank and AHM health funds, the Private Health Insurance division will continue to focus on developing strategies to grow both brands in different market segments. The health insurance market continues to be impacted by regulatory changes to Lifetime Health Cover loading and Australian Government Rebate and increased competition from the aggregator distribution channel. The Group will continue to invest in its operations through differentiated product and customer offerings, service excellence, multichannel distribution presence including the use of aggregators and completing the back office system renewal programs.

PHIAC has released proposed changes to the Solvency and Capital Adequacy Standards, including draft legislation for commencement on 31 March 2014. Based on the proposed legislation and the results of impact studies performed, the Board believes that Medibank is in a strong position to meet the requirements of the new legislation.

The Health Solutions division will continue to focus on delivering value and service to its existing customers to retain major contracts. The division will turn the focus of implementing and bedding down the operations of the Australian Defence Force contract to operating efficiency and service excellence. The division will continue to leverage the health solutions core capabilities which can service customers through multiple channels – face-to-face, video and telephone.

Investment income is expected to be negatively impacted by the payment of the special dividend on 15 August 2013 of $300 million. Investment income will continue to be subject to the effects of the global and local economic environment and the inherent risk of market volatility, in particular the cash portfolio which is being impacted by the current cycle of interest rate cuts.

As a Government Business Enterprise where the shareholder is the Minister for Finance and Deregulation, the Australian Government election due to be held on 7 September 2013 may result in a change in Government. At present, the Liberal Party has a policy to sell Medibank. The Board will work with the successful party regardless of the outcome ensuring focus remains on executing the Group's strategies.

1. Remuneration report

The following report describes the remuneration arrangements for Directors and Senior Executives. These individuals are Key Management Personnel (KMP) and have authority and responsibility for planning, directing, and controlling the activities of the Group.

2. Board policy on remuneration

The Group's remuneration policy is designed to focus Senior Executives on achieving the Group's strategy and business objectives. The philosophy links remuneration directly to the performance and behaviour of individuals and the Group's results. The reward framework is designed to:

- reward Senior Executives for corporate financial and operational performance against targets set by reference to appropriate benchmarks
- align the interests of Senior Executives to reward growth in enterprise value
- link reward with the strategic goals and the performance of Medibank
- provide competitive levels of remuneration to attract and retain quality talent.

Responsibilities of the Human Resources (HR) Committee include making recommendations to the Board on matters such as:

- the Group's policy for recruitment, remuneration and diversity
- the Group's performance in relation to health and safety
- the performance of the Managing Director and his direct reports
- Senior Executive remuneration
- Senior Executive succession planning and development.

The composition and responsibilities of the Committee are set out in the Corporate Governance Statements which are available on the Company's website. The Committee and senior management receive advice on matters relating to remuneration from both internal and external sources. The Chairman of the HR Committee commissions and receives advice on senior executive remuneration directly from independent remuneration advisors. This advice is shared with the Chairman of the Board, other members of the HR Committee and relevant senior executives.

3. Remuneration strategy and structure

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

The Managing Director's fixed remuneration is reviewed annually by the Board and recommendations for adjustment are made with reference to Commonwealth Remuneration Tribunal determinations. The Managing Director did not participate in the long-term incentive plan and does not participate in the deferred short-term incentive plan.

Remuneration packages for senior executives include both a fixed component and an at-risk or performance based component. The Board views the Short-Term Incentive as an essential driver of Medibank's performance based approach to remuneration. The mix between fixed remuneration and at-risk performance remuneration is designed to provide incentive to senior Executives, and reflects competitive market conditions for this level of role.

Short-Term Incentive (STI)

For the Managing Director the STI can deliver up to 60 percent of fixed remuneration. For other senior executives who are members of the Group Executive, the STI can deliver a maximum of 100 percent of their fixed remuneration. In setting measures for the STI, the Board aims to balance the focus on generating profit, with the development of sustainable value and improving the customer experience.

Two-thirds of the Group Executive's STI is deferred for payment for a period of up to two years, with half the deferred amount paid in each of the subsequent two years.

Long-Term Incentive (LTI)

During financial year 2010 the Board decided to phase out the Group's LTI program. The last grant under the program occurred during financial year 2010, and was subsequently tested during financial year 2012. Information on the Group's previous LTI program is included for comparison purposes and does not form part of our current remuneration policy.

3. Remuneration strategy and structure (continued)

The following summarises the current mix of reward elements for the Non-Executive Directors and senior executives:

Elements of remuneration		Directors[1] Non-Executive	Directors[1] Executive (MD)	Group Executives
Fixed Remuneration	Cash salary	✘	✓	✓
	Cash fees	✓	✘	✘
	Superannuation	✓	✓	✓
	Other benefits[2]	✓	✓	✓
Short-Term Incentives	Cash	✘	✓	✓
Other Payments	Cash	✘	✘	✓
Post Employment	Service agreements	✘	✓	✓
	Termination payments	✘	✓	✓

[1] Commonwealth Remuneration Tribunals Jurisdiction.
[2] Includes insurance and the value of fringe benefits.

4. Key management personnel

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

Name	Role	Commenced in role
G Savvides[1]	Managing Director	19 April 2002
L Cotsios	Group Executive - Private Health Insurance	22 August 2011
P Koppelman	Chief Financial Officer	7 May 2012
M Cullen	Group Executive - Medibank Health Solutions	1 July 2010
A Wilson	Group Executive - Provider Networks & Integrated Care	1 July 2010
I Charles	Group Executive - People & Culture	1 February 2010
M Ramsay	Group General Counsel	31 March 2011
T Snyders	Chief Information Officer	5 September 2007
Former	**Role**	**Cessation date**
C Shay[2]	Group Executive - Provider Relations	25 March 2013

[1] Commenced in the role as interim, 1 April 2003 appointed permanently. Previously, Non-Executive Board member 6 September 2001 to 18 April 2002.
[2] Ceased being a member of the Group Executive

5. Executive remuneration

To ensure market competitiveness of fixed remuneration, reference data is sourced from various surveys and where appropriate, specialist remuneration consultants to provide an objective basis for benchmarking senior executive remuneration. During financial year 2013 the Board sought and received advice from Ernst and Young in relation to the appropriateness of the Group's STI deferral mechanism and the weighting of individual versus corporate measures for the assessment of STI outcomes. Ernst and Young was engaged directly by the Chair of the HR Committee, who also received the advice directly. In the financial year 2013 consideration for this advice was $24,926.

5.2 Short-term incentive plan - summary table

What is the STI?	An annual cash incentive plan directly linked to specific annual performance targets.
Who participates in the STI?	All Group Executives; this includes the Managing Director.
What are the changes from the financial year 2012 plan?	For financial year 2013 there has been no change to the quantum or structure of the Managing Director's STI. During the financial year 2013 the HR Committee commissioned a report by Ernst and Young regarding the appropriateness of the Group's STI deferral mechanism and the weighting of individual versus corporate measures for the assessment of STI outcomes. The Board has accepted these recommendations and they have been implemented for the financial year 2013. These changes include: • the removal of company performance tests on deferred STI amounts • the introduction of clawback for financial misstatement on deferred STI amounts • reducing the weighting of personal measures from 50 percent to 30 percent • increasing the weighting of Company and Divisional measures from 50 percent to 70 percent.
Are there changes for financial year 2014?	For financial year 2014, the Corporate Plan level for performance will, where applicable, form the target level of performance for the plan. In the 2013 plan this level of performance was the threshold level of performance for some measures.
What is a governance gate?	An element of the plan is a governance/compliance gateway that gives effect to Board oversight of any compliance or governance issues involving Group Executives during the year.
How much of the STI payment is deferred?	Two-thirds of STI payments to Group Executives (excluding the Managing Director) will be deferred for a period of up to two years.
Why does the Board consider the STI an appropriate incentive?	The STI is designed to put a significant proportion of senior executive's total remuneration at-risk against meeting targets linked to Medibank's annual business objectives contained in the Corporate Plan which is approved annually by the Shareholder.
Who assesses the performance of Group Executives?	The Managing Director assesses the performance of Group Executives at the end of each financial year and submits the results of his evaluation to the Board for approval.
Who assesses the performance of the Managing Director?	The Board agrees the Managing Director's key performance indicators and assesses his performance against those targets at the end of the financial year, having conferred with the HR Committee.
What are the performance conditions?	The performance conditions comprise financial and non-financial targets. In setting the performance conditions the Board considers the balance between the expected behaviours that the plan will drive versus the management of risk and reward within the business.
Why were these conditions chosen?	The targets are set in line with Medibank's Strategic Plan and three year rolling Corporate Plan.
Are threshold, target and stretch performance conditions imposed?	Yes. The STI and the performance conditions set under the STI have been designed to motivate and reward high performance. As such specific performance levels have been set for any payment (threshold) as well as for target and maximum payment.
How well were the performance conditions met in the financial year 2013?	Details of performance are provided in Section 6 of this report.

6. Company performance – the link to reward

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

6.1 Company financial performance

The following table provides details of the financial performance of the Group over the past five years. From 1 October 2009 the status of Medibank changed to a 'for profit' entity which now pays both tax to the Government and dividends to its Shareholder.

Measure ($m)	2009[1]	2010[2]	2011[3]	2012	2013
Revenue	3,917	4,579	5,009	5,357	5,860
Operating profit before tax[4]	153	245	280	162	185
Profit before tax	94	380	428	197	315
Dividends paid or payable	-	33	434[5]	91	450[5]

[1] Medibank acquired the Health Solutions business and AHM during the financial year 2009.
[2] Medibank Private Limited became a "for profit" entity and commenced paying a dividend to the Shareholder.
[3] Medibank acquired McKesson Asia-Pacific Pty Ltd on 1 July 2010.
[4] Excludes investment performance, amortisation and impairment on acquired intangibles and impairment of goodwill.
[5] Includes a special member determined dividend of $300 million.

6.2 Short-term incentive plan

The Short-Term Incentive plan includes measures tied to a number of key performance objectives. Measures (threshold, target and stretch) are set annually, covering corporate, financial and more direct operational performance targets. The mix and weighting of measures may vary annually, depending on the focus of the organisation for the coming financial year. These are cascaded to individual executives participating in the plan. An annual performance scorecard is agreed with each senior Executive, incorporating measures set and agreed to by the Board.

For financial year 2013 performance was assessed against company financial, market share, customer service, people, divisional revenue and transformation measures.

The following table represents the average percentage of the maximum STI which has been achieved by Key Management Personnel over the past five years:

Financial year	2009	2010	2011	2012	2013
STI received	93.8%	90.3%	72.6%	55.1%	38.0%

6.4 Remuneration mix for Senior Executives

The following table summarises the mix between fixed and performance based remuneration for the Senior Executives for financial year 2013 based on the achievement of target performance:

Name	Fixed remuneration	Short-term incentive	Total
G Savvides	77%	23%	100%
P Koppelman	67%	33%	100%
L Cotsios	67%	33%	100%
M Cullen	71%	29%	100%
A Wilson	71%	29%	100%
I Charles	67%	33%	100%
M Ramsay	67%	33%	100%
T Snyders	67%	33%	100%

7. Executive service agreements

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

7.1 Post-employment

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

7.2 Summary of specific terms

Name	Notice period by Medibank	Notice period by Executive	Nominal terminations payment	Maximum termination payment
G Savvides	6 months[1]	3 months	6 months	12 months[2]
P Koppelman	6 months	3 months	6 months	6 months[2]
L Cotsios	6 months	3 months	6 months	6 months[2]
M Cullen	6 months	6 months	6 months	6 months
A Wilson	6 months	6 months	6 months	6 months
I Charles	6 months	3 months	6 months	6 months
M Ramsay	6 months	3 months	6 months	6 months
T Snyders	6 months	3 months	6 months	6 months

[1] Minimum notice period for G. Savvides is 6 months, with a maximum of 12 months.
[2] The maximum payment includes an additional 6 months due to redundancy resulting from a change in control.

7.3 Other Payments

With the acquisition of McKesson Asia-Pacific Pty Ltd in 2010, Dr Cullen and Dr Wilson, formally joint CEOs of McKesson Asia-Pacific, joined Medibank as Group Executives. Dr Cullen and Dr Wilson were the original founders of the McKesson business in Australia and New Zealand.

The integration of McKesson and leveraging of the expanded capabilities of the Group are important factors in maximising the investment return from the acquisition. In acknowledgment of the value Dr Cullen and Dr Wilson provided during integration, they received contracted retention payments of $1 million each during the financial year 2013.

8. Non-Executive remuneration

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

Directors' Fees

As determined by the Commonwealth Remuneration Tribunal, Non-Executive Directors' fees were increased by 3 percent with effect from 1 July 2012. The Chairman received an annual fee of $125,510. Other Non-Executive Directors, excluding Anna Bligh, received a fee of $62,810 per annum from that date. The Commonwealth Remuneration Tribunal set Anna Bligh's directors fee at $46,483 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.

Audit and Risk Management Committee Fees

The fee for the Chair of the Audit and Risk Management Committee is $14,700 per annum and members of Audit and Risk Management Committee receive $7,350 per annum.

Non Monetary Benefits

Directors are entitled to life, death and permanent disability insurance cover and may purchase subsidised private health insurance and other insurance products on the same terms as employees.

Superannuation

The Group pays superannuation contributions to non-executive Directors to satisfy the Group's obligations under applicable Superannuation Guarantee Charge legislation. These contributions are paid in to an eligible superannuation fund nominated by the Director.

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

30 June 2013	Directors fees $	Audit & Risk Management Committee $	Non monetary benefits $	Superannuation benefits $	Total remuneration $
Non-Executive Directors					
E Alexander (Chairman)	80,675	7,350	60	7,922	96,007
J Harvey	62,810	14,700	695	6,976	85,181
L Rowe	62,810	7,350	1,031	6,314	77,505
S Vamos	62,810	-	108	5,653	68,571
A Bligh	24,451	-	529	2,201	27,181
C Hirst	62,810	-	108	5,653	68,571
P Hodgett	1,461	-	-	135	1,596
Total Non-Executive Directors' Remuneration	357,827	29,400	2,531	34,854	424,612
Former Non-Executives Directors					
P McClintock (former Chairman)	89,748	-	592	8,077	98,417
P Twyman	29,770	3,484	2,301	2,993	38,548
Total Former Non-Executive Directors	119,518	3,484	2,893	11,070	136,965

30 June 2012	Directors fees $	Audit & Risk Management Committee $	Non monetary benefits $	Superannuation benefits $	Total remuneration $
Non-Executive Directors					
P McClintock (Chairman)	121,850	-	6,583	10,959	139,392
J Harvey	60,980	14,270	7,105	6,768	89,123
P Twyman	60,980	7,135	4,088	6,126	78,329
E Alexander	60,980	7,135	60	6,126	74,301
L Rowe	60,980	7,135	9,242	6,126	83,483
S Vamos	40,575	-	26	3,652	44,253
C Hirst	60,980	-	2,087	5,485	68,552
Total Non-Executive Directors' Remuneration	467,325	35,675	29,191	45,242	577,433

9. Details of remuneration

9.1 Directors' and Group Executives' remuneration

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

	Short-term				Post employment	Long-term	Other	
30 June 2013	Salary & fees[b]	STI[c]	Other[d]	Non monetary benefits[e]	Superannuation	Other[f]	Termination benefits	Total remuneration
Current Directors[a]								
E Alexander (Chairman)	88,025	-	-	60	7,922	-	-	96,007
J Harvey	77,510	-	-	695	6,976	-	-	85,181
L Rowe	70,160	-	-	1,031	6,314	-	-	77,505
S Vamos	62,810	-	-	108	5,653	-	-	68,571
A Bligh	24,451	-	-	529	2,201	-	-	27,181
C Hirst	62,810	-	-	108	5,653	-	-	68,571
P Hodgett[g]	1,461	-	-	-	135	-	-	1,596
Total Director remuneration	387,227	-	-	2,531	34,854	-	-	424,612
Former Non-Executives Directors								
P McClintock	89,748	-	-	592	8,077	-	-	98,417
P Twyman	33,254	-	-	2,301	2,993	-	-	38,548
Total Former Non-Executive Directors	123,002	-	-	2,893	11,070	-	-	136,965
Current Executives								
G Sawvides (Managing Director)	831,001	370,000	-	25,043	25,961	24,205	-	1,276,210
L Cotsios	517,952	166,246	-	17,532	46,302	3,780	-	751,812
P Koppelman	595,797	274,718	-	10,363	25,961	4,566	-	911,405
A Wilson	580,851	160,690	1,000,000	19,777	51,742	44,191	-	1,857,251
M Cullen	595,121	144,598	1,000,000	20,645	51,742	44,057	-	1,856,163
I Charles[h]	417,551	-	-	11,367	25,623	5,697	-	460,238
T Snyders	407,600	159,242	-	18,239	38,589	6,950	285,200[i]	915,820
M Ramsay	328,854	126,096	-	10,449	25,192	3,520	-	494,111
Total Current Executive remuneration	4,274,727	1,401,590	2,000,000	133,415	291,112	136,966	285,200	8,523,010
Former Executives								
C Shay[j]	293,665	71,725	-	8,092	19,936	7,775	-	410,193
Total Former Executive remuneration	293,665	71,725	-	8,092	19,936	7,775	-	410,193

(a) Directors comprise all those who acted at any time during the reporting period.
(b) Salary and fees includes cash salary payments and the movement in salary and annual leave accruals.
(c) STI figures include the amount accrued but not yet paid in respect of the year ended 30 June 2013. One third of this STI is payable in September 2013 with the remaining two thirds payable in equal instalments in September 2014 and 2015.
(d) Retention payments relating to integration of McKesson acquisition. Refer section 7.3.
(e) Non Monetary Benefits may include death, total & permanent disablement, salary continuance, subsidised health insurance and fringe benefits that are on the same terms and conditions that are available to employees of the Group.
(f) Long-Term Other comprises accrual for long service leave.
(g) P Hodgett was appointed as a Non Executive Director on 21 June 2013.
(h) I Charles was not eligible for an STI as she was serving her employment notice period.
(i) The CIO role was removed from the Executive team on 2 July 2013, affecting T Snyder's role. The termination benefit relates to a provision, and is calculated in accordance with Section 7.2.
(j) While C Shay ceased in her KMP role on 25 March 2013, she continued to be employed by Medibank. The total remuneration disclosed includes salary up to the date she ceased to be a KMP.

9. Details of Remuneration (continued)

30 June 2012	Short-term				Post employment	Long-term	
	Salary & fees[b]	STI[c]	Other[d]	Non monetary benefits[e]	Superannuation	Other[c,f,g]	Total remuneration
Current Directors[a]							
P McClintock (Chairman)	121,850	-	-	6,583	10,959	-	139,392
J Harvey	75,250	-	-	7,105	6,768	-	89,123
P Twyman	68,115	-	-	4,088	6,126	-	78,329
E Alexander	68,115	-	-	60	6,126	-	74,301
L Rowe	68,115	-	-	9,242	6,126	-	83,483
S Vamos	40,575	-	-	26	3,652	-	44,253
C Hirst	60,980	-	-	2,087	5,485	-	68,552
Total Director remuneration	503,000	-	-	29,191	45,242	-	577,433
Current Executives							
G Savvides (Managing Director)	782,444	435,000	-	45,510	50,313	49,087	1,362,354
L Cotsios	420,445	187,500	-	23,149	34,727	3,564	669,385
P Koppelman	83,600	74,937	-	4,776	6,987	696	170,996
A Wilson	408,588	269,798	252,869	16,173	37,584	24,001	1,009,013
M Cullen	410,053	274,332	252,869	23,338	37,584	23,944	1,022,120
I Charles	386,244	255,851	-	19,583	34,302	10,582	706,562
T Snyders	433,346	273,701	-	17,465	38,128	27,306	789,946
M Ramsay	321,074	152,807	60,000[j]	23,209	28,327	4,694	590,111
C Shay	307,027	141,620	50,000	11,008	28,285	15,500	553,440
Total Current Executive remuneration	3,552,821	2,065,546	615,738	184,211	296,237	159,374	6,873,927
Former Executives							
B Levy[h]	108,900	50,347	-	6,816	1,253	5,605	172,921
M Sammells[i]	166,987	-	-	7,659	7,855	(454)	182,047
Total Former Executive remuneration	275,887	50,347	-	14,475	9,108	5,151	354,968

(a) Directors comprise all those who acted at any time during the reporting period.
(b) Salary of Executives includes accruals for annual leave.
(c) STI and LTI includes Superannuation when paid.
(d) A Wilson and M Cullen received commission payments. Eligibility for these payments ceased on 30 June 2012. In addition, A Wilson, M Cullen and C Shay are each entitled to payments of $50,000 in recognition of the successful outcome from the ADF tender.
(e) Non Monetary Benefits may include death, total & permanent disablement, salary continuance, subsidised health insurance and fringe benefits that are on the same terms and conditions that are available to employees of the Group.
(f) Long-Term Other comprises accrual for long service leave.
(g) The amount of LTI paid represents 60% of the maximum LTI available.
(h) While B Levy ceased in his KMP role on 19 August 2011, he continues to be employed. The total remuneration disclosed includes salary up to the date he ceased to be a KMP.
(i) While M Sammells ceased to be Chief Financial Officer on 18 October 2011, he continued to be employed until 11 January 2012. The total remuneration disclosed includes salary up to the date he ceased to be Chief Financial Officer.
(j) The STI includes a pro-rata bonus of $19,924 relating to the 2011 Financial Year and a one-off payment of $60,000 post commencement of employment.

9.2 Managing Director and Group Executives' STI

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

30 June 2013	Actual STI achieved[a]	STI achieved as % of maximum STI	% of maximum STI deferred
Managing Director			
G Savvides	370,000	71.7%	-
Current Group Executives			
L Cotsios	166,246	30.8%	66.6%
P Koppelman	274,718	45.8%	66.6%
A Wilson	160,690	33.3%	66.6%
M Cullen	144,598	30.0%	66.6%
I Charles[b]	-	0.0%	66.6%
T Snyders	159,242	33.3%	66.6%
M Ramsay	126,096	33.3%	66.6%
Former Group Executive			
C Shay[c]	71,725	25.8%	-

(a) STI constitutes a cash incentive earned during the 2013 Financial Year.
(b) I Charles was not eligible for an STI as she was serving her employment notice period.
(c) Relates to the period in which C Shay was a Key Management Person only.

30 June 2012	Actual STI achieved[a]	STI achieved as % of maximum STI	% of maximum STI deferred
Managing Director			
G Savvides	435,000	86.8%	-
Current Group Executives			
L Cotsios	187,500	37.5%	66.6%
P Koppelman	74,937	54.5%	-
A Wilson	269,797	59.5%	66.6%
M Cullen	274,331	60.5%	66.6%
I Charles	255,850	59.5%	66.6%
T Snyders	273,700	59.5%	66.6%
M Ramsay	152,806	42.0%	66.6%
C Shay	141,619	41.5%	66.6%
Former Group Executive			
B Levy[b]	50,347	50.0%	-

(a) STI constitutes a cash incentive earned during the 2012 Financial Year.
(b) Relates to the period in which B Levy was a Key Management Person only.

Indemnification of Directors and Officers

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

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

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

Medibank paid a premium in respect of insurance covering each of the Directors, Secretaries and Executive Officers of the Group against liabilities and expenses arising from any claim(s) made against them as a result of work performed in their respective capacities to the extent permitted by law.

Rounding

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

Environmental issues

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

Auditor independence

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

Resolution of Directors

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

Elizabeth Alexander AM
Chairman

George Savvides
Managing Director

Melbourne, 30 August 2013

Australian National Audit Office

MEDIBANK PRIVATE LIMITED
FINANCIAL REPORT 2012–13
AUDITOR'S INDEPENDENCE DECLARATION

In relation to my audit of the financial report of Medibank Private Limited and its consolidated entities for the year ended 30 June 2013, to the best of my knowledge and belief, there have been:

(i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and

(ii) no contravention of any applicable code of professional conduct.

Australian National Audit Office

Ian Goodwin
Group Executive Director
Delegate of the Auditor-General
Canberra
30 August 2013

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

Consolidated income statement

For the financial year ended 30 June 2013

	Note	2013 $'000	2012 $'000
Revenue			
Private health insurance premium revenue	4(a)	5,344,083	5,062,300
Health Solutions revenue		498,403	278,897
Other		18,154	15,819
		5,860,640	5,357,016
Expenses			
Claims expense	4(a)	(4,594,338)	(4,305,240)
Employee benefits expense	4(b)	(461,899)	(445,924)
Medical services expense		(220,190)	(20,964)
Office and administration expense		(111,111)	(119,223)
Marketing expense		(81,721)	(91,551)
Information technology expense		(72,802)	(70,732)
Professional service expense		(41,210)	(50,850)
Lease expense	4(c)	(35,166)	(33,313)
Depreciation and software amortisation expense	4(d)	(43,409)	(43,629)
Other expenses		(13,886)	(13,651)
		(5,675,732)	(5,195,077)
Operating profit		184,908	161,939
Investment and other income/(expenses)			
Net investment income	4(e)	144,382	43,396
Other income	4(f)	2,178	877
Acquisition intangible expenses	4(g)	(16,419)	(8,931)
Total investment and other income		130,141	35,342
Profit for the year before income tax		315,049	197,281
Income tax expense	5(a)	(82,308)	(70,686)
Profit for the year		232,741	126,595

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

Consolidated statement of comprehensive income

For the financial year ended 30 June 2013

	Note	2013 $'000	2012 $'000
Profit for the year		232,741	126,595
Other comprehensive income, net of tax			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	21	322	115
Items that will not be reclassified to profit or loss			
Revaluation of land & buildings	21	80	(118)
Actuarial gain/(loss) on retirement benefit obligation	22	722	(1,398)
		1,124	(1,401)
Total comprehensive income for the year		233,865	125,194

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

Consolidated balance sheet

As at 30 June 2013

	Note	2013 $'000	2012 $'000
Current assets			
Cash and cash equivalents	6	**895,059**	613,713
Trade and other receivables	7	**311,701**	352,040
Inventories	8	**1,534**	1,588
Investments	9	**1,448,428**	1,672,868
Tax receivable		**-**	20,842
Other assets	10	**12,750**	8,294
Total current assets		**2,669,472**	2,669,345
Non-current assets			
Property, plant and equipment	11	**88,628**	77,272
Deferred tax assets	12	**7,771**	17,011
Intangible assets	13	**338,630**	350,524
Other assets	10	**10,431**	236
Total non-current assets		**455,460**	445,043
Total assets		**3,114,932**	3,114,388
Current liabilities			
Trade and other payables	14	**576,799**	242,911
Financial liabilities at fair value through profit or loss	15	**23,448**	4,949
Claims liabilities	16	**395,243**	357,798
Unearned premium liability	17	**559,466**	681,717
Tax liability		**1,187**	-
Provisions	19	**68,817**	44,664
Total current liabilities		**1,624,960**	1,332,039
Non-current liabilities			
Trade and other payables	14	**1,411**	1,663
Claims liabilities	16	**11,390**	13,224
Unearned premium liability	17	**37,469**	115,638
Provisions	19	**37,003**	32,660
Total non-current liabilities		**87,273**	163,185
Total liabilities		**1,712,233**	1,495,224
Net assets		**1,402,699**	1,619,164
Equity			
Contributed equity	20	**85,000**	85,000
Reserves	21	**18,591**	18,189
Retained earnings	22	**1,299,108**	1,515,975
Total equity		**1,402,699**	1,619,164

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 2013

	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2011	85,000	18,192	1,482,019	**1,585,211**
Profit for the year	-	-	126,595	**126,595**
Other comprehensive income	-	(3)	(1,398)	**(1,401)**
Total comprehensive income for the year	-	(3)	125,197	**125,194**
Transactions with owners in their capacity as owners:				
Dividends paid	-	-	(91,241)	**(91,241)**
Balance at 30 June 2012	85,000	18,189	1,515,975	**1,619,164**
Profit for the year	-	-	232,741	**232,741**
Other comprehensive income	-	402	722	**1,124**
Total comprehensive income for the year	-	402	233,463	**233,865**
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	-	-	(450,330)	**(450,330)**
Balance at 30 June 2013	85,000	18,591	1,299,108	**1,402,699**

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

Consolidated statement of cash flows

For the financial year ended 30 June 2013

	Note	2013 $'000	2012 $'000
Cash flows from operating activities			
Premium receipts		**5,256,499**	5,270,431
Health Solutions receipts		**416,964**	282,618
Other receipts		**18,883**	17,974
Payments for claims and levies		**(4,562,263)**	(4,311,580)
Payments to suppliers and employees		**(974,562)**	(846,018)
Income taxes paid		**(51,020)**	(207,970)
Net cash inflow from operating activities	31	**104,501**	205,455
Cash flows from investing activities			
Interest received		**78,040**	73,718
Investment expenses		**(5,738)**	(5,995)
Proceeds from sale of financial assets		**1,247,126**	956,570
Purchase of financial assets		**(931,162)**	(1,119,524)
Proceeds from sale of plant and equipment		**1,064**	599
Purchase of plant and equipment		**(27,532)**	(14,519)
Purchase of intangible assets		**(34,623)**	(38,707)
Net cash inflow/(outflow) from investing activities		**327,175**	(147,858)
Cash flows from financing activities			
Dividends paid		**(150,330)**	(91,241)
Net cash outflow from financing activities		**(150,330)**	(91,241)
Net increase/(decrease) in cash and cash equivalents		**281,346**	(33,644)
Cash and cash equivalents at beginning of period		**613,713**	647,357
Cash and cash equivalents at end of period	6	**895,059**	613,713

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

Notes to Financial Statements

Note 1: Summary of significant accounting policies

The financial statements of Medibank Private Limited ("Medibank Private" or "the Company") for the financial year ended 30 June 2013 ("2013") were authorised for issue in accordance with a resolution of the Directors on 30 August 2013. Medibank Private is an unlisted public company incorporated in Australia. It is a company limited by shares and is wholly-owned by the Commonwealth of Australia.

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

a) Basis of preparation

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

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

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

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

Change in accounting policy

During the 2013 financial year, the Group adopted a policy to defer the costs incurred in obtaining health insurance contracts, as described in Note 1(o). These costs were not deferred in prior financial years, as they were not material and as a result, comparative information has not been restated.

New and amended standards adopted

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2012. However, amendments made to AASB 101 *Presentation of Financial Statements* effective 1 July 2012 now require the statement of comprehensive income to show the items of comprehensive income grouped into those that are not permitted to be reclassified to profit or loss in a future period and those that may have to be reclassified if certain conditions are met.

Changes to presentation and comparative information

When the presentation or classification of items in the financial statements is amended, comparative amounts have been reclassified.

On 1 July 2012, the Group merged its former Australian Health Management fund with the Medibank Private health benefit fund. As a result, certain comparatives as presented in Note 2(a) and Note 16(a) have been revised to improve comparability with the amounts presented for the merged health benefit fund, Medibank Private, as at 30 June 2013. Apart from this matter, the merging of the funds had no impact on the Group's consolidated financial statements.

During the financial year ended 30 June 2013, the Group revised the classification of certain items of expense in the income statement, to accurately reflect the substance of the underlying transactions. Expenses relating to healthcare services provided under new customer contracts have been combined with other contracted medical professional expenses, which were previously included within professional service expense, and included within medical services expense. The comparative information has been restated to conform with current year presentation, which resulted in $20,964,000 being reclassified from professional service expense to medical services expense.

The Group also revised the presentation of its deferred tax assets and liabilities to more accurately reflect the net deferred tax position of the Group following the application of offsetting where permitted (refer to Note 1(g)). As a result, the Group's deferred tax position is presented on a net basis in the balance sheet and in Note 12 to the financial statements. Comparative information has been represented to conform with this revised presentation.

b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Medibank Private (''parent entity'') as at 30 June 2013 and the results of all subsidiaries for the year then ended. Medibank Private and its subsidiaries together are referred to in this financial report as the Group or the Consolidated Entity.

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

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

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

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

c) Foreign currency translation

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

Note 1: Summary of significant accounting policies (continued)

c) Foreign currency translation (continued)

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

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

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

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

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

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

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

d) 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.

Revenue is recognised for the major business activities as follows:

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

Premium revenue comprises premiums received inclusive of any Federal Government Rebate. Premium revenue is recognised in the income statement from the commencement date of the current period of insurance cover, in accordance with the pattern of the incidence of risk expected to match the seasonality of claims over the term of the insurance cover. Premium revenue includes the movement in the contributions in arrears which is assessed based on the likelihood of collection established from past experience. Premium revenue relating to future financial periods is classified as 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 as premium revenue. Rebates due from the Government but not received at balance date are recognised as receivables.

(ii) Health solutions revenue

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

(iii) Investment income

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

(iv) Sale of non-current assets

The gain or loss on disposal of non-current assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

(v) Travel, pet and life insurance commission

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

e) 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.

f) Government grants

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

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

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

g) 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 substantively enacted by the end of each reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Medibank Private 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.

h) 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 23). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease incentives

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

i) Business combinations

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

The excess of the consideration transferred 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. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified as either equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

j) Impairment of assets

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

k) 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 three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant change in value.

Note 1: Summary of significant accounting policies (continued)

k) Cash and cash equivalents (continued)

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.

l) Trade and other receivables

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

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

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

m) Inventories

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

n) Investments and other financial assets

Classification

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

i) Assets Backing Insurance Liabilities

Financial assets that back insurance liabilities that are within the scope of AASB 139 *Financial Instruments: Recognition and Measurement* and are permitted to be designated as "at fair value through profit or loss", have been designated as "at fair value through profit or loss" under AASB 139 *Financial Instruments: Recognition and Measurement* on first application of AASB 1023 *General Insurance Contracts* or on initial recognition of the asset.

The Group has determined that the financial assets attributable to its private health insurance fund (Medibank Private), 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.

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.

ii) Trade and other receivables

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

Recognition and derecognition

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

Measurement

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

Trade and other receivables are subsequently carried at amortised cost and accrue interest using the effective interest method.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within net investment income in the period in which they arise. Dividend 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 is also included in net investment income. Financial assets that are designated at fair value through profit and loss, consist of externally managed equity trusts and direct mandates, and an internally managed fixed income portfolio.

o) 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. This is subject to the results of liability adequacy testing performed on the unearned premium liability.

The appropriateness of the average expected duration of the insurance contracts is reassessed annually.

p) 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:

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 1(j)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These 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.

q) Intangibles

(i) Goodwill

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

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

(ii) Software

Costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software intangibles. Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project. Software intangibles are carried at cost less accumulated amortisation and impairment losses (refer Note 1 (j)). Amortisation is calculated on a straight-line basis over periods generally ranging from 1.5 to 5 years (2012: 2.5 to 5 years), the only exception being certain software acquired as part of the acquisition of Medibank Health Solutions Telehealth Pty Ltd which is amortised over 6 years (2012: 10 years). Amortisation relating to internally generated software is recognised in other expenses in the income statement. Amortisation relating to acquired software is recognised in acquisition intangible expenses in the income statement.

(iii) Customer contracts and relationships

Customer contracts and relationships acquired as part of a business combination are recognised separately from goodwill. The customer contracts and relationships are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation of customer contracts and relationships is calculated on a straight-line basis over the expected useful lives, which for assets currently owned by the Group is 10 years and is recognised in acquisition intangible expenses in the income statement.

r) Net Risk Equalisation Trust Fund levies

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

The amount payable to or receivable from the Risk Equalisation Trust Fund is determined by the Private Health Insurance Administration Council after the end of each quarter. Estimated provisions for amounts payable or receivable are provided for periods for which determinations have not yet been made, including an estimate of risk equalisation for unpresented and outstanding claims.

s) 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 Private, 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.

Note 1: Summary of significant accounting policies (continued)

t) Trade and other payables

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

u) 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 taken to the income statement over the term of the insurance cover. Refer also to Note 17 for details of the split between the current and non-current portion of this balance.

v) Unexpired risk liability

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

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

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs, 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.

w) Provisions

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

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

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

x) Employee entitlements

(i) Short-term obligations

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

(ii) Other long-term employee benefit obligations

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

(iii) Bonus plans

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

(iv) Termination benefits

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

(v) Retirement benefit obligations

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

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

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

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

y) Defined benefit fund

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

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

Management do not consider the net obligation in respect of these defined benefit funds to be material to the Group as at 30 June 2013.

z) Contributed equity

Fully paid ordinary shares are classified as contributed equity.

aa) 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.

ab) 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.

ac) Equity Reserve

The parent entity previously entered into a restructure of administrative arrangements, which gave rise to an equity reserve (refer Note 21) 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.

ad) Rounding of amounts

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

ae) Insurance contracts

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

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

Note 1: Summary of significant accounting policies (continued)

af) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2013 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for the Group
Revised AASB 9, AASB 2010-7 and AASB 2012-6	Financial Instruments, Amendments to Australian Accounting Standards arising from AASB 9, and Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures	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 and 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.	1 January 2015	1 July 2015
AASB 10, AASB 12, AASB 2011-7 and AASB 2012-10	Consolidated Financial Statements, Disclosure of Interests in other entities, Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards, and Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments	The objective of these standards is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities, in particular with regards to whether the parent entity have control over its investees. As the Company is the sole shareholder in its subsidiaries, there is no uncertainty as to whether control exists. The Group therefore does not expect the implementation of these standards to have a material impact.	1 January 2013	1 July 2013
AASB 13 and AASB 2011-8	Fair Value Measurement and Amendments to Australian Accounting Standards arising from AASB 13	AASB 13 and AASB 2011-8 seek to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The standard also provides guidance on the fair value of non-financial assets and introduces the concept of "recurring" and "non-recurring" fair value measurements. As the Group currently classifies its investments at fair value through profit and loss, and measures its properties at fair value, the Group does not expect the application of this standard to have a material impact on the financial statements.	1 January 2013	1 July 2013
AASB 2012-2 and 2012-3	Amendments to Australian Accounting Standard – Offsetting Financial Assets and Financial Liabilities, Amendments to Australian Accounting Standard – Disclosures - Offsetting Financial Assets and Financial Liabilities	These amendments clarify some of the requirements for offsetting financial assets and financial liabilities and focus on the disclosure of quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements, irrespective of whether they are offset. The Group does not offset its financial assets and liabilities, therefore the application of these amendments would not have an impact on the measurement and classification of these balances. Under these amendments, the Group will be required to disclose additional information showing the net position of financial assets and liabilities to the extent that there exists a legally enforceable right of set-off.	1 January 2014	1 July 2014

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

ag) Parent entity financial information

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

(i) Investments in subsidiaries

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

(ii) Tax consolidation legislation

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

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

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

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

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

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

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

Note 2: Critical accounting estimates and judgements

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

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

a) Ultimate liability arising from claims made under insurance coverage

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

(i) Insurance risk assumptions

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

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

(ii) Central estimates

The outstanding claims liability comprises the central estimate and a risk margin. 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. The outstanding claims provision is discounted at risk-free rates of return to reflect the time value of money.

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

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

(iii) Financial assumptions used to determine outstanding claims provision

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

The risk-free rate applied to the outstanding claims central estimate of Medibank Private at 30 June 2013 is 2.82% which equates to a reduction in the central estimate of $1,491,000 (2012: 3.49%, $1,827,000).

(iv) PackageBonus and Ultra Bonus provision

Medibank Private's PackagePlus product range includes a benefit category, PackageBonus, covering additional health related services. A feature of this benefit category is that any unused PackageBonus in a calendar year is carried forward to future calendar years subject to expiry after a period of five years.

A claims provision is included in the financial statements to cover expected future utilisation of PackageBonus benefits accrued in respect of current membership. The true cost of the PackageBonus entitlement cannot be known with certainty until any unclaimed entitlements expire, five years after they were credited to the PackageBonus provision.

Accordingly, a claims provision of 96% (2012: 95%) of the accrued PackageBonus entitlements, less the amount paid in relation to these entitlements, has been established to reflect the expected future utilisation of this benefit, based on historical usage, in respect of membership up to 30 June 2013.

Medibank Private's Ultra Health Cover includes a benefit category, Ultra Bonus, covering additional health related services. A feature of this benefit category is that any unused Ultra Bonus in a calendar year is carried forward to future calendar years without limit.

Accordingly, a claims provision of 100% (2012: 100%) of the accrued Ultra Bonus entitlements, less the amount paid in relation to these entitlements, has been established to reflect the expected future utilisation of this benefit in respect of membership up to 30 June 2013.

The PackageBonus and Ultra Bonus provisions have not been discounted to reflect the time value of money at 30 June 2013, as the impact is not considered to be material. (2012: discount rate of 3.49%, equated to a discount of $58,000).

(v) Risk margins

An overall risk margin is determined after consideration of the uncertainty surrounding the outstanding claims liabilities and claims provisions. The objective for Medibank Private is to achieve at least a 95% probability of sufficiency (2012: 95%). The calculation of the risk margin has been based on an analysis of the past experience. This analysis examined the volatility of past payments in comparison to the central estimate.

The risk margin applied to the central estimate of outstanding claims at 30 June 2013 is 5.0% which equates to $18,534,000 (2012: 4.4% applied to Medibank Private and 8.9% applied to the former Australian Health Management fund, equated to $16,168,000).

The risk margin applied with respect to the PackageBonus provision at 30 June 2013 is 2.0% of entitlements which equates to $4,479,000 (2012: 1.8%, $4,479,000).

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

The total risk margin at 30 June 2013 is $23,013,000 (2012: $20,647,000) as reflected in Note 16 (a).

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

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

		Financial Impact Consolidated			
		2013		2012	
	Movement invariable	Profit/(loss) $'000	Equity $'000	Profit/(loss) $'000	Equity $'000
Central estimate	1%	**(4,022)**	**(4,022)**	(3,667)	(3,667)
Central estimate	-1%	**4,022**	**4,022**	3,667	3,667
Discount rate	1%	**505**	**505**	563	563
Discount rate	-1%	**(512)**	**(512)**	(571)	(571)
Risk margin	1%	**(5,895)**	**(5,895)**	(5,847)	(5,847)
Risk margin	-1%	**5,895**	**5,895**	5,847	5,847
Weighted average term to settlement*	+ 1 month	**812**	**812**	1,059	1,059
Weighted average term to settlement	- 1 month	**(814)**	**(814)**	(1,063)	(1,063)

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

b) Classification and valuation of investments

The Group classifies 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. In determining the fair value of investments, if quoted market prices are not available, fair values are estimated on the basis of pricing models or other recognised valuation techniques. The assumptions used as inputs into these models include the value of variables such as risk-free rates, volatility, strike rates, time to expiry, credit-default swap levels, and correlations. Investments for which valuation is based on significant unobservable inputs as described above are those classified as level 3 in the fair value measurement hierarchy (refer Note 3(iv)).

c) 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 1(j). In assessing goodwill for impairment, the recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to Note 13 for details of these assumptions.

A key assumption in testing customer contracts and relationships for impairment is the retention of the underlying contracts.

d) Long service leave provision

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

e) Useful lives of software

The Group's management determines the estimated useful lives and related amortisation charges for its software and technology. This estimate is based on projected product lifecycles for its high-tech segment. It could change significantly as a result of technical innovations and competitor actions. Where software and technology is purchased or developed to enter new or uncertain but strategically important markets it is expensed as incurred. Management estimates the useful life of software / technology held by Medibank Health Solutions Telehealth to be 6 years (2012: 10 years). The revision of the estimated useful life of this software resulted in an additional $2,131,000 of amortisation being recognised in the income statement for the 2013 financial year. All other software is estimated to have a useful life of 1.5 to 5 years (2012: 2.5 to 5 years).

f) Provision for medical services and accrued revenue

Provision is made for the estimated cost of sub contracted medical services incurred but not settled or processed at balance date. Accrued revenue comprises unbilled amounts and estimated revenue accrued in relation to sub contract medical services provided. (Note 19(iv)). The provision and accrued revenue calculation utilise 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.

Note 3: Financial risk management

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

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

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

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

(i) Market risk

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

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

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

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

(a) Interest rate risk

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

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

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

Consolidated	Profit 2013 $'000	Profit 2012 $'000	Equity 2013 $'000	Equity 2012 $'000
Judgements of reasonably possible movements				
+120 bps (2012: +140 bps)	**23,413**	26,538	**23,413**	26,538
120 bps (2012: -140 bps)	**(23,413)**	(26,538)	**(23,413)**	(26,538)

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

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

	Consolidated 2013 $'000	Consolidated 2012 $'000
Assets		
Cash and cash equivalents	**895,059**	613,713
Financial assest at fair value through profit and loss		
- Debentures and Notes	**782,032**	982,944
- Unit Trusts	**286,790**	341,683
	1,963,881	1,938,340

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

(b) Foreign currency risk

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

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

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

At 30 June 2013, the Group had the following net exposure to foreign currency movements:

	Consolidated 2013 $'000	Consolidated 2012 $'000
Assets		
Financial assest at fair value through profit and loss		
- Debentures and Notes	**-**	73,775
- Unit Trusts	**167,668**	240,424
	167,668	314,199

Note 3: Financial risk management (continued)

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

At 30 June 2013, the Group had entered offsetting positions for 90% (2012: 90%) of its foreign currency translation exposure resulting from Global investments.

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

Consolidated	Profit 2013 $'000	Profit 2012 $'000	Equity 2013 $'000	Equity 2012 $'000
Judgements of reasonably possible movements				
AUD/USD +15% (2012:+15%)	**(1,347)**	(2,586)	**(1,347)**	(2,586)
AUD/USD -15% (2012:-15%)	**1,347**	2,586	**1,347**	2,586
AUD/GBP +15% (2012:+15%)	**(94)**	(402)	**(94)**	(402)
AUD/GBP -15% (2012:-15%)	**94**	402	**94**	402
AUD/EUR +15% (2012:+15%)	**(311)**	(1,035)	**(311)**	(1,035)
AUD/EUR -15% (2012:-15%)	**311**	1,035	**311**	1,035
AUD/JPY +15% (2012:+15%)	**(221)**	(340)	**(221)**	(340)
AUD/JPY -15% (2012:-15%)	**221**	340	**221**	340
AUD/NZD +15% (2012:+15%)	**(690)**	(790)	**(690)**	(790)
AUD/NZD -15% (2012:-15%)	**690**	790	**690**	790

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

Management 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 equity, absolute return funds and listed property securities. It is managed by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector and market, and careful planned use of derivative financial instruments.

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

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

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

Consolidated	Profit 2013 $'000	Profit 2012 $'000	Equity 2013 $'000	Equity 2012 $'000
Judgements of reasonably possible movements				
Australian Equity & Absolute Return Fund +10%	**35,341**	32,764	**35,341**	32,764
Australian Equity & Absolute Return Fund -10%	**(35,341)**	(32,764)	**(35,341)**	(32,764)
Australian Property Investments +9%	**9,215**	8,812	**9,215**	8,812
Australian Property Investments -9%	**(9,215)**	(8,812)	**(9,215)**	(8,812)
Global Listed Property Investments +9%	**3,057**	4,720	**3,057**	4,720
Global Listed Property Investments -9%	**(3,057)**	(4,720)	**(3,057)**	(4,720)
Global Equity Investments +12%	**20,676**	21,997	**20,676**	21,997
Global Equity Investments -12%	**(20,676)**	(21,997)	**(20,676)**	(21,997)
Emerging Market Investments +20%	**909**	2,186	**909**	2,186
Emerging Market Investments -20%	**(909)**	(2,186)	**(909)**	(2,186)

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

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

(ii) Credit risk

(a) Investments

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

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

The Group maintains a counter-party exposure policy where 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 exposure limits.

These limits specify that no more than 25% of the cash portfolio can be invested in any one counterparty bank and no more than 10% in any one counterparty corporate entity. In respect of the Group's debentures and notes portfolio, the maximum amounts that can be invested in any one counterparty bank and any one counterparty corporate entity are 50% and 15% of the portfolio respectively. As at 30 June 2013 and 2012, 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 counter-parties is minimised through the use of Board approved limits by counter-party and rating, diversification of counter-parties, and the conservative policy to maintain investments in investment grade entities only.

(b) Trade and other receivables

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

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

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

(c) Counter-party credit risk ratings

Consolidated Short Term Long Term	A-1+ AAA $'000	A-1+ AA $'000	A-1 A $'000	A-2 BBB $'000	B & below BB & below $'000	Not rated $'000	Total $'000
2013							
Assets							
Cash/cash equivalents	280	640,534	169,312	106,361	-	(21,428)	**895,059**
Premiums in arrears	-	-	-	-	-	12,124	**12,124**
Trade and other receivables	-	-	-	-	-	299,577	**299,577**
Financial Assets							
Unit trusts - Unlisted	-	-	-	-	-	285,760	**285,760**
Direct Mandate - Aust Listed	-	-	-	19,858	-	352,884	**372,742**
Debentures and notes	116,961	456,749	198,934	9,388	-	-	**782,032**
Private Equity	-	-	-	-	-	1,030	**1,030**
Derivatives	-	979	5,885	-	-	-	**6,864**
Liabilities							
Derivatives	-	(8,147)	(15,301)	-	-	-	**(23,448)**
Total	117,241	1,090,115	358,830	135,607	-	929,947	**2,631,740**
2012							
Assets							
Cash/cash equivalents	35,310	441,511	112,698	38,880	-	(14,686)	**613,713**
Premiums in arrears	-	-	-	-	-	11,660	**11,660**
Trade and other receivables	-	-	-	-	-	340,380	**340,380**
Financial Assets							
Unit trusts - Unlisted	-	-	-	-	-	340,653	**340,653**
Direct Mandate - Aust Listed	-	-	-	-	-	334,076	**334,076**
Debentures and notes	139,175	571,084	214,751	57,934	-	-	**982,944**
Private Equity	-	-	-	-	-	1,030	**1,030**
Derivatives	-	8,556	5,609	-	-	-	**14,165**
Liabilities							
Derivatives	-	(1,364)	(3,585)	-	-	-	**(4,949)**
Total	174,485	1,019,787	329,473	96,814	-	1,013,113	**2,633,672**

Note 3: Financial risk management (continued)

(c) Counter-party credit risk ratings continued

The previous table provides information regarding the credit risk exposure of the Group at 30 June 2013 by classifying assets according to credit ratings of the counter-parties. AAA is the highest possible rating. Assets that fall outside the range AAA to BBB are classified as non-investment grade. The table highlights the short-term rating as well as the equivalent long-term ratings bands as per published Standard & Poor's correlations.

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.

(iii) Liquidity risk

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

In order to maintain appropriate levels of liquidity, the Group's policy is to hold at least 45% of its total investment assets in short-term, highly liquid bank bills, tradeable commercial paper and short dated floating rate notes, 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 2013, 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 2013.

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

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

	Under 6 months $'000	6 - 12 months $'000	1 - 2 years $'000	Over 2 years $'000	Total contractual cash flows $'000	Carrying amount $'000
2013						
Non-derivatives						
Trade and other payables	576,492	307	595	816	578,210	578,210
Claims liabilities	370,416	26,255	9,080	2,478	408,229	406,633
Total non-derivatives	**946,908**	**26,562**	**9,675**	**3,294**	**986,439**	**984,843**
2012						
Non-derivatives						
Trade and other payables	242,417	493	640	1,024	244,574	244,574
Claims liabilities	332,717	26,830	10,638	2,857	373,042	371,022
Total non-derivatives	**575,134**	**27,323**	**11,278**	**3,881**	**617,616**	**615,596**

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

(iv) Fair value measurements

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 tables present the Group's assets and liabilities measured and recognised at fair value at 30 June 2013.

Consolidated	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Year ended 30 June 2013				
Financial Assets				
Financial assests at fair value through profit or loss	451,503	982,362	14,563	1,448,428
	451,503	**982,362**	**14,563**	**1,448,428**
Financial Liabilities				
Financial liabilities at fair value through profit or loss	-	(23,448)	-	(23,448)
	-	**(23,448)**	**-**	**(23,448)**
Year ended 30 June 2012				
Financial Assets				
Financial assests at fair value through profit or loss	567,566	1,104,272	1,030	1,672,868
	567,566	**1,104,272**	**1,030**	**1,672,868**
Financial Liabilities				
Financial liabilities at fair value through profit or loss	-	(4,949)	-	(4,949)
	-	**(4,949)**	**-**	**(4,949)**

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

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

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

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

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

The following table presents the changes in level 3 instruments for the year ended 30 June 2013:

Consolidated	2013 $'000	2012 $'000
Opening balance	**1,030**	4,800
Transfers into level 3	**16,536**	-
Transfers out of level 3	**-**	-
Purchases	**-**	-
Sales	**-**	(1,431)
Losses recognised in profit or loss	**(3,003)**	(2,339)
Closing balance	**14,563**	1,030

The opening value is made up of an investment in a private equity trust and two direct investments in an unlisted domestic company. Due to the nature of the business the valuations of these investments could not be based on observable market inputs and therefore, are classified as a level 3 investment. The transfer to level 3 relates to a holding in an unlisted unit trust which at 30 June 2013 was illiquid.

Note 3: Financial risk management (continued)

(v) Insurance risk

Medibank Private 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	Ancillary benefits defined by the insurance contract or relevant Deed	Claims incidence and claims inflation

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

Claims management

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

Experience monitoring

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

Prudential capital requirements

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

Ability to vary premium rates

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

Risk Equalisation

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

Concentration of Health Risk

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

Note 4: Revenue and expenses

	Consolidated 2013 $'000	Consolidated 2012 $'000
(a) Insurance underwriting result		
Private health insurance premium revenue	5,344,083	5,062,300
Claims expense		
Claims incurred	(4,649,050)	(4,346,340)
State levies	(43,484)	(42,003)
Net Risk Equalisation Trust Fund levies	98,196	83,103
	(4,594,338)	(4,305,240)
Other claims expense	(4,041)	(5,716)
Net claims incurred	(4,598,379)	(4,310,956)
Underwriting expenses	(509,090)	(538,594)
Underwriting result after expenses	236,614	212,750
(b) Employee benefits expense		
Defined contribution superannuation expense	30,085	27,866
Other employee benefits expense	431,814	418,058
	461,899	445,924
(c) Lease expense		
Operating lease rental expense	35,166	33,313
	35,166	33,313
(d) Depreciation and software amortisation expense		
Depreciation - land and buildings	748	802
Depreciation - plant and equipment	6,712	6,654
Depreciation - leasehold improvements	8,766	8,363
Amortisation - software	27,183	27,810
	43,409	43,629
(e) Net investment income		
Interest	84,783	81,359
Trust distributions	13,868	5,807
Dividend income	6,901	8,870
Investment management fees	(5,710)	(6,052)
Net gain/(loss) on fair value movements on financial assets	59,279	(4,969)
Net loss on disposal of financial assets	(14,739)	(41,619)
	144,382	43,396
(f) Other income		
Interest	22	36
Other income	1,557	2,342
Revaluation - land and buildings	599	(1,501)
	2,178	877
(g) Acquisition intangible expenses		
Amortisation - customer contracts & relationships	7,146	7,143
Amortisation - acquisition software	3,576	1,788
Impairment - acquisition software	5,697	-
	16,419	8,931

Note 4: Revenue and expenses (continued)

	Consolidated 2013 $'000	Consolidated 2012 $'000
(h) Government Grants		
Credited against the following expenses		
Employee benefits expense	-	3,864
Professional service expense	-	2,567
Office and administration expense	-	209
Marketing expense	-	1
Information technology expense	-	177
	-	6,818

In the 2012 financial year, as part of the Australian Government's Personally Controlled Electronic Health Record (PCEHR) initiative, Medibank received grants totalling $6,818,000 excluding GST. In accordance with AASB 120, these grants were credited against the underlying operating expense as detailed above. There are no unfulfilled conditions or other contingencies attaching to these grants. No grants were received by the Group during the 2013 financial year.

Note 5: Income tax expense

	Consolidated 2013 $'000	Consolidated 2012 $'000
(a) Income tax expense		
Current tax	80,441	64,353
Deferred tax	8,731	7,141
Adjustment for current tax of prior period	(6,864)	(808)
	82,308	70,686
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit for the year before income tax expense	315,049	197,281
Tax at the Australian tax rate of 30% (2012 - 30%)	94,515	59,184
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment	337	496
Impairment	43	84
Tax offset for franked dividends	(2,062)	(1,883)
Adjustment to deferred tax	-	(1,274)
Provision for Uncertain Tax Position	-	(5,151)
Adjustment for Rights to Future Income	-	20,503
Net research and development tax concession	(2,570)	(2,207)
Sundry items	(1,091)	1,742
	89,172	71,494
Adjustment for current tax of prior period	(6,864)	(808)
Income tax expense	82,308	70,686
(c) Amounts recognised in other comprehensive income		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to other comprehensive income		
Net deferred tax - debited/(credited) directly to other comprehensive income relating to:		
Items that will not be reclassified to profit or loss	505	(598)
	505	(598)

d) Tax consolidation legislation

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

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

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

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

Note 6: Cash and cash equivalents

	Consolidated 2013 $'000	Consolidated 2012 $'000
Cash and cash equivalents	895,059	613,713

Bank overdraft facility

The Group has an unsecured overdraft facility from the bank which is reviewed annually as follows:

	Consolidated 2013 $'000	Consolidated 2012 $'000
Amount used	1,023	1,368
Amount unused	582	3,390
	1,605	4,758

Note 7: Trade and other receivables

	Note	Consolidated 2013 $'000	Consolidated 2012 $'000
Premiums in arrears		12,124	11,660
Allowance for impairment loss	(i)	(3,663)	(2,496)
		8,461	9,164
Trade Receivables		103,730	87,989
Allowance for impairment loss	(ii)	(1,303)	(1,445)
		102,427	86,544
Goods and services tax		3,091	1,623
Government rebate scheme	(a)	126,847	207,490
Risk Equalisation Trust Fund		29,802	42,195
Accrued revenue		41,073	5,024
		200,813	256,332
Total trade and other receivables		311,701	352,040

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

Note 7: Trade and other receivables (continued)

(i) Allowance for impairment loss - Premiums in arrears

Premiums in arrears are non-interest bearing. An allowance for impairment loss is generally recognised when there is objective evidence that a premium in arrears is impaired. An allowance for impairment loss of $3,663,000 (2012: $2,496,000) has been recognised by the Group. This amount has been offset against premium revenue in the income statement.

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

	Consolidated 2013 $'000	Consolidated 2012 $'000
Balance at 1 July	2,496	3,037
Charge for the year	2,272	899
Amounts recovered	(1,050)	(1,383)
Amounts written-off	(55)	(57)
Balance at 30 June	3,663	2,496

(ii) Allowance for impairment loss - Trade receivables

Trade receivables are non-interest bearing and are generally on 7-30 day terms. An allowance for impairment loss is generally recognised when there is objective evidence that a trade receivable is impaired. An allowance for impairment loss of $1,303,000 (2012: $1,445,000) has been recognised by the Group at 30 June 2013. The movement for the period forms part of other expenses in the income statement.

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

	Consolidated 2013 $'000	Consolidated 2012 $'000
Balance at 1 July	1,445	1,703
Charge for the year	426	186
Amounts recovered	(303)	(388)
Amounts written-off	(265)	(56)
Balance at 30 June	1,303	1,445

(a) Considered impaired

Consolidated	Total $'000	0-30 days $'000	31-60 days $'000	61-90 days $'000	+91 days $'000
2013					
Premiums in arrears	3,663	889	1,438	258	1,078
Trade receivables	1,303	-	-	-	1,303
	4,966	889	1,438	258	2,381
2012					
Premiums in arrears	2,496	753	1,111	315	317
Trade receivables	1,445	-	-	-	1,445
	3,941	753	1,111	315	1,762

(b) Past due but not considered impaired

Consolidated	Total $'000	0-30 days $'000	31-60 days $'000	61-90 days $'000	+91 days $'000
2013					
Premiums in arrears	8,461	6,833	1,592	9	27
Trade receivables	8,678	4,295	1,746	1,012	1,625
	17,139	11,128	3,338	1,021	1,652
2012					
Premiums in arrears	9,164	6,075	2,944	42	103
Trade receivables	11,150	3,889	2,758	1,523	2,980
	20,314	9,964	5,702	1,565	3,083

Receivables past due but not considered impaired at 30 June 2013 for the Group are $17,139,000 (2012: $20,314,000). Each operating unit 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 8: Inventories

	Consolidated 2013 $'000	Consolidated 2012 $'000
Medical Supplies	1,534	1,588

Note 9: Investments

	Consolidated 2013 $'000	Consolidated 2012 $'000
Financial assets at fair value through profit and loss		
Unit trusts	285,760	340,653
Australian listed equities	372,742	334,076
Debentures and notes	782,032	982,944
Private Equity	1,030	1,030
Derivatives	6,864	14,165
	1,448,428	1,672,868

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

Debentures and notes are interest bearing and are reset either monthly, quarterly or biannually with an average maturity of 3,116 days (2012: 2,330 days).

Floating rate notes are classified as investments in the Group's balance sheet. They are carried at market value.

Note 10: Other assets

	Note	Consolidated 2013 $'000	2012 $'000
Current			
Prepayments	(i)	10,469	8,294
Deferred acquisition costs	(a)	2,281	-
		12,750	8,294
Non-current			
Artworks	(ii)	236	236
Deferred acquisition costs	(a)	10,195	-
		10,431	236

Terms and conditions relating to other current assets:
(i) Expenses paid in advance.
(ii) These represent works of art displayed at the Medibank Private Head Office and are measured at cost.
All amounts are not considered past due or impaired.

	Consolidated 2013 $'000	2012 $'000
(a) Deferred acquisition costs		
Movements in the deferred acquisition costs are as follows:		
Balance at beginning of year	-	-
Acquisition costs deferred during the year	13,410	-
Amortisation expense	(934)	-
	12,476	-

Movement includes both current and non-current.

Costs incurred in prior years were not deferred as they were not material.

The result of liability adequacy testing performed on the unearned premium liability at 30 June 2013 was that there existed a surplus to support recognition of the deferred acquisition cost balance and no write-down of the balance was required.

Note 11: Property, plant and equipment

Consolidated	Land and buildings $'000	Plant and equipment $'000	Leasehold improvements $'000	Assets under construction $'000	Total $'000
2013					
Gross carrying amount					
Balance at 1 July 2012	35,891	50,611	60,970	742	148,214
Additions	-	4,444	12,605	10,863	27,912
Transfers in/(out)	-	591	93	(684)	-
Disposals	-	(5,435)	(5,373)	(481)	(11,289)
Balance at 30 June 2013	35,891	50,211	68,295	10,440	164,837
Accumulated depreciation					
Balance at 1 July 2012	(2,151)	(31,471)	(37,320)	-	(70,942)
Depreciation expense	(748)	(6,712)	(8,766)	-	(16,226)
Disposals	-	5,315	5,219	-	10,534
Revaluations	715	-	-	-	715
Writeback of/(impairment)	-	152	(442)	-	(290)
Balance at 30 June 2013	(2,184)	(32,716)	(41,309)	-	(76,209)
2012					
Gross carrying amount					
Balance at 1 July 2011	37,717	46,731	50,816	6,320	141,584
Additions	-	4,158	9,192	1,168	14,518
Transfers in/(out)	-	3,330	3,147	(6,477)	-
Disposals	-	(3,608)	(2,185)	(269)	(6,062)
Revaluations	(1,826)	-	-	-	(1,826)
Impairment	-	-	-	-	-
Balance at 30 June 2012	35,891	50,611	60,970	742	148,214
Accumulated depreciation					
Balance at 1 July 2011	(1,501)	(27,233)	(29,342)	-	(58,076)
Depreciation expense	(802)	(6,654)	(8,363)	-	(15,819)
Disposals	-	2,752	1,794	-	4,546
Revaluations	152	-	-	-	152
Impairment	-	(336)	(1,409)	-	(1,745)
Balance at 30 June 2012	(2,151)	(31,471)	(37,320)	-	(70,942)
Closing net book amount					
As at 30 June 2013	**33,707**	**17,495**	**26,986**	**10,440**	88,628
As at 30 June 2012	33,740	19,140	23,650	742	77,272

Note 11: Property, plant and equipment (continued)

(a) Valuation of land and buildings

The valuation basis of land and buildings is fair value being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, based on current observable prices in an active market for similar properties in the same location and condition. The revaluations of the land and buildings were made as at 30 June 2013 and were based on independent assessments by external valuation experts who were members of the Australian Property Institute.

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

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

	Consolidated 2013 $'000	Consolidated 2012 $'000
Land and buildings		
Cost	**36,917**	36,917
Accumulated depreciation	**(5,175)**	(4,330)
Net book amount	**31,742**	32,587

Note 12: Deferred tax assets

	Consolidated 2013 $'000	Consolidated 2012 $'000
Deferred tax balances comprise temporary differences attributable to items:		
Recognised in the income statement		
Trade and other receivables	**353**	336
Financial assets at fair value through profit and loss	**(11,610)**	228
Prepayments	**-**	(20)
Other assets	**(3,639)**	(1,258)
Property, plant and equipment	**12,559**	12,444
Intangible assets	**(20,057)**	(22,512)
Trade and other payables	**3,800**	1,837
Employee entitlements	**20,483**	19,835
Provisions	**5,597**	4,873
Business capital costs	**764**	1,222
	8,250	16,985
Recognised directly in other comprehensive income relating to:		
Revaluation of land and buildings	**(1,102)**	(906)
Actuarial loss on retirement benefit obligation	**623**	932
	(479)	26
Net deferred tax assets	**7,771**	17,011

Note 13: Intangible assets

Consolidated	Goodwill $'000	Customer Contracts & Relationships (i) $'000	Internally Generated Software (ii) $'000	Acquired Software (ii) $'000	Assets under construction $'000	Total $'000
2013						
Gross carrying amount						
Balance at 1 July 2012	199,480	82,080	161,797	17,874	25,567	**486,798**
Additions	-	-	13,956	-	20,667	**34,623**
Transfers in/(out)	-	-	3,679	-	(3,679)	**-**
Disposals	-	-	(21,246)	-	(426)	**(21,672)**
Balance at 30 June 2013	199,480	82,080	158,186	17,874	42,129	**499,749**
Accumulated amortisation and impairment						
Balance at 1 July 2012	(2,523)	(22,378)	(107,798)	(3,575)	-	**(136,274)**
Amortisation expense	-	(7,146)	(27,183)	(3,576)	-	**(37,905)**
Disposals	-	-	20,998	-	-	**20,998**
Impairment	(143)	-	(2,098)	(5,697)	-	**(7,938)**
Balance at 30 June 2013	(2,666)	(29,524)	(116,081)	(12,848)	-	**(161,119)**
2012						
Gross carrying amount						
Balance at 1 July 2011	199,480	82,080	137,376	17,874	14,181	**450,991**
Additions	-	-	22,109	-	16,598	**38,707**
Transfers in/(out)	-	-	5,212	-	(5,212)	**-**
Disposals	-	-	(2,900)	-	-	**(2,900)**
Balance at 30 June 2012	199,480	82,080	161,797	17,874	25,567	**486,798**
Accumulated amortisation and impairment						
Balance at 1 July 2011	(2,523)	(15,235)	(82,779)	(1,787)	-	**(102,324)**
Amortisation expense	-	(7,143)	(27,810)	(1,788)	-	**(36,741)**
Disposals	-	-	2,791	-	-	**2,791**
Balance at 30 June 2012	(2,523)	(22,378)	(107,798)	(3,575)	-	**(136,274)**
As at 30 June 2013	**196,814**	**52,556**	**42,105**	**5,026**	**42,129**	**338,630**
As at 30 June 2012	196,957	59,702	53,999	14,299	25,567	**350,524**

(i) Amortisation of customer contracts and relationships of $7,146,000 (2012: $7,143,000) is included in acquisition intangible expenses in the Income Statement.

(ii) Software includes capitalised development costs being an internally generated intangible asset and software acquired through the purchase of Medibank Health Solutions Telehealth Pty Ltd. Amortisation of internally generated software of $27,183,000 (2012: $27,810,000) is included in depreciation and amortisation expense in the income statement. The remaining $3,576,000 (2012: $1,788,000) is included in acquisition intangible expenses in the income statement.

Note 13: Intangible assets (continued)

(a) Impairment charge

Goodwill

The impairment charge on goodwill of $143,000 (2012: $nil) relates to the writedown of the Group's investment in a non-operating subsidiary during the financial year.

Software

The impairment charge of $7,795,000 in 2013 (2012: $nil) arose as a result of the revision in the estimated useful life of software owned by Medibank Health Solutions Telehealth Pty Ltd. $5,697,000 (2012: $nil) of the impairment is recognised in acquisition intangible expenses in the income statement, to the extent that it relates to the impairment on the revaluation of software upon the Group's acquisition of the subsidiary. The remaining $2,098,000 (2012: $nil) is recognised in other expenses.

(b) Impairment test for goodwill

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

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

CGU	Total $'000
2013	
Australian Health Management	96,133
Medibank Health Solutions	8,850
Medibank Health Solutions Telehealth	91,831
	196,814
2012	
Australian Health Management	96,133
Medibank Health Solutions	8,850
Medibank Health Solutions Telehealth	91,974
	196,957

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

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

CGU	Growth rate %	Discount rate %
2013		
Australian Health Management	2.5	15.6
Medibank Health Solutions	2.5	14.7
Medibank Health Solutions Telehealth	2.5	14.3
2012		
Australian Health Management	2.5	16.5
Medibank Health Solutions	2.5	15.8
Medibank Health Solutions Telehealth	2.5	15.7

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

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

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

Note 14: Trade and other payables

	Note	Consolidated 2013 $'000	Consolidated 2012 $'000
Current			
Trade creditors	(i)	195,757	170,354
Other creditors and accrued expenses	(ii)	79,962	62,222
Dividend payable	20(d)	300,000	-
Risk Equalisation Trust Fund	(iii)	-	8,023
Lease incentives	(iv)	638	521
Defined benefit superannuation fund		442	1,791
		576,799	242,911

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

	Note	2013 $'000	2012 $'000
Non-current			
Lease incentives	(iv)	1,411	1,663
		1,411	1,663

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) Amount payable to the Risk Equalisation Trust Fund is non-interest bearing.

(iv) 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: Financial liabilities at fair value through profit or loss

	Note	Consolidated 2013 $'000	Consolidated 2012 $'000
Current			
Derivatives	(i)	23,448	4,949
		23,448	4,949

Terms and conditions relating to the above financial instruments:

(i) Derivatives are European structured and fully tradeable on secondary markets. Pay-off is calculated at option expiry.

Note 16: Claims liability

(a) Gross claims liability

	Note	Consolidated 2013 $'000	2012 $'000
Current			
Claims liability - central estimate of the expected present value of future payments for claims liabilities	(i), 2(a)(ii)	**366,969**	333,512
Risk margin	(ii), 2(a)(ii,v)	**21,095**	18,701
Claims handling costs	(iii)	**7,179**	5,585
Gross claims liability	16(c)	**395,243**	357,798
Non-current			
Claims liability - central estimate of the expected present value of future payments for claims liabilities	(i), 2(a)(ii)	**9,382**	11,187
Risk margin	(ii), 2(a)(ii,v)	**1,918**	1,946
Claims handling costs	(iii)	**90**	91
Gross claims liability	16(c)	**11,390**	13,224

(i) The expected future payments of claims liabilities are discounted to present value using a risk-free rate of 2.82% pa (2012: 3.49% pa).

(ii) The risk margin of 5.0% (2012: 4.8%) of the underlying outstanding claims liabilities and 2.0% (2012: 1.8%) of PackageBonus entitlements for Medibank Private has been estimated to equate to a probability of adequacy of at least 95% (2012: 95%).

(iii) The allowance for claims handling costs for Medibank Private at 30 June 2013 is 2.0% of the claims liability (2012: 1.72%).

(b) Claims incurred

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

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

Consolidated 2013	Prior $'000	Current $'000	Total $'000
Claims incurred			
Undiscounted	(8,874)	4,657,576	**4,648,702**
Movement in Discount	-	348	**348**
	(8,874)	4,657,924	**4,649,050**

Consolidated 2012	Prior $'000	Current $'000	Total $'000
Claims incurred			
Undiscounted	7,280	4,338,445	4,345,725
Movement in Discount	-	615	615
	7,280	4,339,060	4,346,340

(c) Reconciliation of movement in claims liabilities

	Consolidated 2013 $'000	2012 $'000
Balance at 1 July	**371,022**	370,492
Claims incurred during the year	**4,653,156**	4,340,927
Claims paid during the year	**(4,612,978)**	(4,345,654)
Amount under/(over) provided	**(8,874)**	7,280
Risk Margin	**2,366**	(2,711)
Claims handling costs	**1,593**	73
Movement in discount	**348**	615
Balance at 30 June	**406,633**	371,022

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

Note 17: Unearned premium liability

	Consolidated 2013 $'000	2012 $'000
Current		
Unearned premium liability	**559,466**	681,717
	559,466	681,717
Non-current		
Unearned premium liability	**37,469**	115,638
	37,469	115,638

The unearned premium liability is non-interest bearing.

	Consolidated 2013 $'000	2012 $'000
Balance at 1 July	**797,355**	477,385
Deferral of premium on contracts written during the year	**485,343**	775,690
Earnings of premiums deferred in prior years	**(685,763)**	(455,720)
Balance at 30 June	**596,935**	797,355

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

Note 18: Unexpired risk liability

Liability adequacy testing did not result in the identification of any deficiency as at 30 June 2013 and 2012 which would require the recognition of an unexpired risk liability.

Note 19: Provisions

	Note	Consolidated 2013 $'000	2012 $'000
Current			
Restructuring	(i)	10,224	8,121
Make good	(ii)	1,349	471
Employee entitlements	(iii)	37,257	36,072
Medical services expenses	(iv)	19,940	-
Other	(v)	47	-
		68,817	44,664
Non-current			
Make good	(ii)	7,081	5,486
Employee entitlements	(iii)	29,922	27,174
		37,003	32,660

Movement in provisions

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

	2013	2012
(i) Restructuring		
Balance at 1 July	8,121	13,115
Additional provision	7,187	3,355
Amounts utilised during the year	(2,990)	(6,754)
Reversal of unused provision	(2,094)	(1,595)
Balance at 30 June	10,224	8,121

The restructuring provision relates to various restructuring programs.

	2013	2012
(ii) Make good		
Balance at 1 July	5,957	4,547
Additional provision	3,258	1,801
Amounts utilised during the year	(280)	(162)
Reversal of unused provision	(505)	(229)
Balance at 30 June	8,430	5,957

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.

	2013	2012
(iii) Employee Entitlements		
Balance at 1 July	63,246	56,718
Additional provision	46,401	52,737
Amounts utilised during the year	(42,328)	(35,561)
Reversal of unused provision	(140)	(10,648)
Balance at 30 June	67,179	63,246

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

	Consolidated 2013 $'000	2012 $'000
(iv) Medical services expenses		
Balance at 1 July	-	-
Additional provision	19,940	-
Balance at 30 June	19,940	-

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

	2013	2012
(v) Other		
Balance at 1 July	-	182
Additional provision	47	-
Amounts utilised during the year	-	(182)
Balance at 30 June	47	-

The other provision at 30 June 2013 relates to warranty expenses.

Note 20: Contributed equity

Consolidated entity	2013 $'000	2012 $'000
(a) Fully paid ordinary shares		
Ordinary shares fully paid	85,000	85,000

(b) Movements in shares on issue

	2013 Number of shares	2013 $'000	2012 Number of shares	2012 $'000
Balance at 1 July	85,000,100	85,000	85,000,100	85,000
Issued during the year	-	-	-	-
Balance at 30 June 2012	85,000,100	85,000	85,000,100	85,000

(c) Terms and conditions of contributed equity

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

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

(d) Capital management

Medibank Private's health benefits fund is required to maintain minimum levels of capital to meet both solvency and capital adequacy requirements.

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

The Capital Adequacy Standard sets out the level of capital required based on a going concern basis where the requirement is for the health benefits fund to demonstrate that it has sufficient capital to accept contributions from new and existing members, fund its business plans (including the payment of dividends to the Shareholder), absorb short-term adverse experience from time to time, and continue to remain solvent. During the financial year, the Board approved payment of a special dividend totalling $300 million, following a review of the Group's capital management plan and as a result of the maintenance of the Group's capital adequacy target. The dividend was paid on 15 August 2013.

Note 20: Contributed equity (continued)

(d) Capital management (continued)

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

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

Refer to Note 29 for details of the Group's solvency reserve as at 30 June 2013.

Note 21: Reserves

	Consolidated 2013 $'000	2012 $'000
Equity reserve	17,819	17,819
Revaluation reserve	428	348
Foreign currency translation reserve	344	22
	18,591	18,189
Movements:		
Equity reserve (i)		
Balance at July 1	17,819	17,819
Contribution to equity	-	-
Balance at 30 June	17,819	17,819
Revaluation reserve (ii)		
Balance at July 1	348	466
Revaluation of land & buildings - gross	115	(169)
Deferred tax (Note 12)	(35)	51
Balance at 30 June	428	348
Foreign currency translation reserve		
Balance at July 1	22	(93)
Currency translation differences arising during the year	322	115
Balance at 30 June	344	22

(i) The equity reserve resulted from a restructure of administrative arrangements in 2009.

(ii) The revaluation reserve is used to record increments and decrements on the revaluation of non-current assets, as described in Note 1(p).

Note 22: Retained earnings

	Note	Consolidated 2013 $'000	2012 $'000
Balance at 1 July		1,515,975	1,482,019
Net profit for the year		232,741	126,595
Items of other comprehensive income recognised directly in retained earnings			
Actuarial gain/(loss) on retirement benefit obligation, net of tax		722	(1,398)
Dividends provided for or paid	(a)	(450,330)	(91,241)
Balance at 30 June		1,299,108	1,515,975
(a) Dividends provided for or paid			
Final unfranked dividend for the year ended 30 June 2012 of $0.58 (2011: $0.75) per fully paid share paid on 30 October 2012.		48,987	64,271
Special unfranked dividend for the year ended 30 June 2012 of $0.47 (2011: $nil) per fully paid share paid on 7 November 2012.		39,843	-
Interim unfranked dividend for the year ended 30 June 2013 of $0.72 (2012: $0.32) per fully paid share paid on 17 June 2013.		61,500	26,970
Special unfranked dividend for the year ended 30 June 2013 of $3.53 (2012: $nil) per fully paid share payable on 15 August 2013.		300,000	-
		450,330	91,241

(b) Dividends not recognised at the end of the reporting period

In addition to the above dividends, the Directors have not yet recommended payment of a final dividend (2012: $0.75 per fully paid share totalling $48,987,000 unfranked). The final dividend, which is expected to be paid in October 2013 out of retained earnings at 30 June 2013, will be declared in a Director's meeting subsequent to signing these financial statements.

(c) Franking account

Under the tax consolidation regime, the franking credits of each entity within the Medibank Group belong to the head entity, Medibank Private. Since all dividends paid to the Shareholder have been unfranked, the franking credits of the Group relate only to the payment of income tax. However as the Shareholder cannot use the accumulated franking credits, the Group's franking account is not disclosed in this financial report.

Note 23: Commitments

	Consolidated 2013 $'000	2012 $'000
(a) Capital expenditure commitments		
Estimated capital expenditure contracted for at balance date, but not provided for, payable:		
Property, plant & equipment	1,570	50
	1,570	50

Property, plant and equipment capital expenditure commitments as at 30 June 2013 relate to committed expenditure in respect of the upgrade of an existing retail property outlet and the establishment and relocation of three other retail outlets. All work is expected to be carried out during the 2014 financial year.

	2013 $'000	2012 $'000
(b) Operating lease commitments		
Future operating lease rentals not provided for, payable:		
Within one year	34,597	42,675
After one year but not more than five years	113,535	91,129
Longer than five years	177,609	207,983
Total minimum lease payments	325,741	341,787
Total commitments payable	327,311	341,837

Note 23: Commitments (continued)

(b) Operating lease commitments (continued)

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.

	Consolidated 2013 $'000	Consolidated 2012 $'000
(c) Lease commitments: Group as lessor		
Minimum lease payments not yet recognised in the financial statements are receivable as follows:		
Within one year	**607**	321
After one year but not more than five years	**997**	-
	1,604	321

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

Note 24: Key management personnel

	Consolidated 2013 $	Consolidated 2012 $
Short-term	**8,698,867**	6,274,064
Post-employment	**356,972**	350,587
Long-term	**144,741**	164,525
Termination	**285,200**	-
	9,485,780	6,789,176

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 2013.

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

Note 25: 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 2013 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.

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

Note 26: Subsidiaries

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

Name of entity	Country of incorporation	Class of Units	Ownership interest 2013 %	Ownership interest 2012 %
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
Total Health Pty Ltd [i] [iii]	Australia	Ordinary Shares	**-**	100
Medibank Health Solutions Pty Ltd	Australia	Ordinary Shares	**100**	100
Work Solutions Australia 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]	Australia	Ordinary Shares	**100**	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]	United Kingdom	Ordinary Shares	**100**	100
Medibank Health Solutions New Zealand Limited	New Zealand	Ordinary Shares	**100**	100

[i] These entities were non-operating entities during the financial years ended 30 June 2013 and 2012.

[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 for the year ended 30 June 2013.

[iii] This entity was deregistered during the financial year ended 30 June 2013.

Note 27: Contingencies

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

Note 28: Auditor's remuneration[1]

	Consolidated 2013 $	Consolidated 2012 $
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 consolidated Group.	**728,615**	655,969
Amounts received or due and receivable by other auditors for:		
Auditing the financial report [2]	**36,257**	26,245
Other services in relation to the Company and any other entity within the consolidated Group:		
Regulatory reporting	**83,600**	98,942
Audit of regulatory returns [2]	**15,980**	15,980
Other non audit services [2]	**690,000**	442,347
Total auditor's remuneration	**1,554,452**	1,239,483

[1] The Company's auditor is the Australian National Audit Office who has retained PricewaterhouseCoopers to assist with the assignment.

[2] These services are performed by PricewaterhouseCoopers directly. Other non-audit services include services provided in relation to Medibank strategy facilitation and planning and a cost modelling review.

Note 29: Solvency reserve

The Solvency Reserve of the health benefits fund of Medibank Private, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, as at 30 June 2013 is $671,813,000. The value of the capital of the health benefits fund, as measured by its Total Net Assets, was in excess of the Solvency Reserve at 30 June 2013.

Refer also to Note 20(d) for details of the Group's strategy regarding its meeting of these requirements.

Note 30: 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 2013.

Note 31: Reconciliation of profit after income tax to net cash flow from operating activities

	Consolidated 2013 $'000	Consolidated 2012 $'000
Profit for the year	232,741	126,595
Depreciation	16,226	15,819
Amortisation of software intangibles	27,183	27,810
Amortisation of acquisition intangibles	10,722	8,931
Loss on disposal of plant and equipment	291	1,211
Net realised loss on financial assets	14,739	41,619
Net unrealised (gain)/loss on financial assets	(59,279)	4,969
Interest income	(84,805)	(81,395)
Dividend income reinvested	(6,901)	(8,870)
Trust distribution reinvested	(13,868)	(5,807)
Investment expenses	5,710	6,052
Asset impairment	7,287	3,125
Deferred acquisition costs	(12,476)	-
Change in operating assets and liabilities, net of effects from purchase of controlled entities:		
Decrease (increase) in trade and other receivables	40,444	(122,594)
Decrease (increase) in inventories	54	(170)
(Increase) in other assets	(1,131)	(18,590)
Decrease in deferred tax assets	9,240	6,543
(Decrease) increase in trade and other payables	(167,812)	320,522
Increase in claims liabilities	35,611	530
Increase (decrease) in income tax liability	22,029	(123,607)
Increase in provisions	28,496	2,762
Net cash inflow from operating activities	104,501	205,455

Note 32: Parent entity financial information

(a) Summary financial information

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

	Consolidated 2013 $'000	Consolidated 2012 $'000
Balance Sheet		
Current assets	2,550,390	2,304,675
Total assets	3,032,936	2,963,657
Current liabilities	1,516,577	1,156,710
Total liabilities	1,612,461	1,313,846
Shareholder's equity		
Issued capital	85,000	85,000
Reserves		
Equity reserve	6,626	17,819
Retained earnings	1,328,849	1,546,992
	1,420,475	1,649,811
Profit for the year	232,189	192,469
Total comprehensive income	232,189	192,469

(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 consolidated entity 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 2013, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling $1,570,000 (2012: $50,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

Director's declaration

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

In the opinion of the directors:

(a) the financial statements and notes set out on pages 44 to 87 are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2013 and of its performance for the financial year ended on that date; and

(ii) complying with *Australian Accounting Standards*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(b) there are reasonable grounds to believe that the Company and the Group will be able to pay their debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration has been made after receiving the declarations required to be made to the directors by the Managing Director and Chief Financial Officer in accordance with section 295A of the *Corporations Act 2001* for the financial period ending 30 June 2013.

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

On behalf of the Board,

Elizabeth Alexander AM
Chairman

George Savvides
Managing Director

Melbourne, 30 August 2013

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the members of Medibank Private Limited

I have audited the accompanying financial report of Medibank Private Limited, which comprises the Consolidated Balance Sheet as at 30 June 2013, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended, Notes to the Financial Statements, including a Summary of Significant Accounting Policies and other explanatory information, and the Directors' Declaration of the consolidated entity comprising Medibank Private Limited and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the Medibank Private Limited are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Medibank Private Limited's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Medibank Private Limited's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of

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

accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

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

Opinion

In my opinion:

1. 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 2013 and of its performance for the year ended on that date; and

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

2. the consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(a).

Australian National Audit Office

Ian Goodwin
Group Executive Director
Delegate of the Auditor-General
Canberra
30 August 2013

Contact

Registered office
Level 17, 700 Collins St, Docklands, Victoria 3008

ACN
080 890 259

ABN
47 080 890 259

Auditor
Auditor general

Medibank Contact details
132 331
ask_us@medibank.com.au

www.medibank.com.au
ww.medibankhealth.com.au
www.medibankcf.com.au

medibank

www.medibank.com.au