medibank

APPENDIX 4D
MEDIBANK PRIVATE LIMITED
ABN 47 080 890 259

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Medibank Private Limited Group Half-year ended			
	31 Dec 2017 $m	31 Dec 2016 $m	Movement $m	Movement %
Health Insurance premium revenue	3,175.1	3,117.9	57.2	1.8%
Medibank Health revenue	291.9	279.3	12.6	4.5%
Revenue (excluding net investment and other income) from ordinary activities	**3,467.0**	3,397.2	69.8	2.1%
Net investment and other income	67.9	80.0	(12.1)	(15.1%)
Total income from operations	**3,534.9**	3,477.2	57.7	1.7%
Profit from ordinary activities after tax attributable to shareholders	**245.6**	231.9	13.7	5.9%
Net profit attributable to shareholders	**245.6**	231.9	13.7	5.9%

The results are summarised as follows:

- Health Insurance premium revenue increased 1.8 percent or $57.2 million to $3,175.1 million
- Medibank Health revenue increased 4.5 percent or $12.6 million to $291.9 million
- Net investment and other income decreased 15.1 percent or $12.1 million to $67.9 million
- Profit from ordinary activities increased 5.9 percent or $13.7 million to $245.6 million

For further information refer to the Directors' report in the attached Interim financial report of Medibank Private Limited for the half-year period ended 31 December 2017.

Dividend information

On 28 September 2017, a fully franked final dividend of 6.75 cents per ordinary share was paid to shareholders, in respect of the six months ended 30 June 2017.

A fully franked interim dividend of 5.5 cents per ordinary share was declared on 16 February 2018 in respect of the six months ended 31 December 2017, payable on 28 March 2018 to shareholders on the register as at close of business on 7 March 2018.

Net tangible assets per ordinary share

	31 Dec 2017 Cents	31 Dec 2016 Cents
Net tangible assets per ordinary share	**51.7**	48.1

Net tangible assets are defined as the net assets of the Medibank Private Limited Group less intangible assets.

This report should be read in conjunction with the Medibank Private Limited annual report for the year ended 30 June 2017, and is lodged with the ASX under listing rule 4.2A.

MEDIBANK PRIVATE LIMITED

ABN 47 080 890 259

INTERIM FINANCIAL REPORT
31 DECEMBER 2017

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The directors of Medibank Private Limited (Medibank or the Group) present their report on the consolidated entity for the half-year ended 31 December 2017.

Directors

The names of directors in office during the half-year and up to the date of this report, unless stated otherwise, are as follows:

Current:

- Elizabeth Alexander AM - Chairman
- Craig Drummond - Chief Executive Officer
- Dr Tracey Batten (appointed 28 August 2017)
- Anna Bligh AC
- David Fagan
- Peter Hodgett
- Linda Bardo Nicholls AO
- Christine O'Reilly
- Mike Wilkins AO

Former:

- Dr Cherrell Hirst AO (retired 28 August 2017)

Review of operations

Group

Group net profit after tax increased 5.9% to $245.6 million (1H17: $231.9 million), with solid results from the Health Insurance and Medibank Health businesses more than offsetting lower net investment income.

Health Insurance

Health Insurance operating profit increased to $277.3 million, up from $249.4 million in 1H17. After allowing for a claims provision release from FY17 of $33.8 million, the adjusted operating profit for 1H18 was $243.5 million, an increase of 4.0% on a similarly adjusted 1H17 operating profit of $234.2 million.

Health Insurance premium revenue was up 1.8% to $3,175.1 million. Industry volume growth continued to slow, which is indicative of the challenging affordability conditions being experienced. Encouragingly, the Medibank brand showed an improvement in the customer acquisition rate and a lower lapse rate, reflecting the pleasing performance of new products and improved customer service and value. The ahm brand continued its significant growth in acquisition rate, partly offset by a higher lapse rate, which is closely aligned to its overall policyholder growth rate.

Health claims rose by 1.3% to $2.6 billion for the half year, reflecting prostheses cost savings, moderating hospitalisation utilisation growth, a higher claims provision release and lower risk equalisation receipts.

Management expenses fell by 1.9% to $273.2 million, with the management expense ratio down from 8.9% to 8.6%. Higher depreciation and amortisation charges were more than offset by a decline in operating expenses of 3.4%.

Medibank Health

Medibank Health revenue rose by 4.5% to $291.9 million and operating profit increased by 45.7% to $25.2 million, reflecting an improvement in operating performance across all businesses, including the acquisition of HealthStrong and an increased contribution from our diversified insurance businesses.

Investment income

Net investment income fell by 22.3% to $59.7 million, principally due to lower equity and credit market returns and a more defensive portfolio position.

Rounding of amounts

The amounts contained in this report and in the financial report have been rounded to the nearest hundred thousand dollars (where rounding is applicable) unless specifically stated otherwise under the relief available pursuant to ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. Medibank is an entity to which that relief applies.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required by section 307C of the *Corporations Act 2001* is set out on page 3.

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

Elizabeth Alexander
Chairman

Craig Drummond
Chief Executive Officer

16 February 2018
Melbourne

Auditor's Independence Declaration

As lead auditor for the review of Medibank Private Limited for the half-year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Colin Heath

Colin Heath
Partner
PricewaterhouseCoopers

Melbourne
16 February 2018

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Consolidated statement of comprehensive income

For the half-year ended 31 December 2017

	Note	31 Dec 2017 $m	31 Dec 2016 $m
Revenue			
Health Insurance premium revenue	3(a)	**3,175.1**	3,117.9
Medibank Health revenue		**291.9**	279.3
		3,467.0	3,397.2
Other income		**8.2**	3.2
Expenses			
Claims expense		**(2,611.7)**	(2,577.4)
Medical services expense		**(178.3)**	(200.0)
Employee benefits expense		**(204.0)**	(178.3)
Office and administration expense		**(44.4)**	(42.1)
Marketing expense		**(41.7)**	(48.0)
Information technology expense		**(39.9)**	(36.9)
Professional service expense		**(8.1)**	(13.7)
Lease expense		**(15.0)**	(14.8)
Depreciation and amortisation expense		**(45.7)**	(41.8)
Other expenses		**-**	(0.9)
		(3,188.8)	(3,153.9)
Profit before net investment income and income tax		**286.4**	246.5
Net investment income	5(a)	**59.7**	76.8
Profit for the half-year before income tax		**346.1**	323.3
Income tax expense	8	**(100.5)**	(91.4)
Profit for the half-year		**245.6**	231.9
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Actuarial gain/(loss) on retirement benefit obligation		**-**	0.2
		-	0.2
Total comprehensive income for the half-year		**245.6**	232.1
Earnings per share for profit attributable to ordinary equity holders of the Company		**Cents**	Cents
Basic earnings per share		**8.9**	8.4
Diluted earnings per share		**8.9**	8.4

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

Consolidated statement of financial position

As at 31 December 2017

	Note	31 Dec 2017 $m	30 Jun 2017 $m
Current assets			
Cash and cash equivalents		**610.0**	594.6
Trade and other receivables		**281.2**	317.0
Financial assets at fair value through profit or loss	5(b)	**1,843.9**	2,038.1
Deferred acquisition costs		**35.6**	36.6
Other assets		**11.8**	14.1
Total current assets		**2,782.5**	3,000.4
Non-current assets			
Property, plant and equipment		**55.4**	87.3
Intangible assets	7	**353.8**	321.1
Deferred acquisition costs		**47.8**	50.9
Other assets		**1.7**	2.8
Total non-current assets		**458.7**	462.1
Total assets		**3,241.2**	3,462.5
Current liabilities			
Trade and other payables		**299.6**	334.8
Claims liabilities	3(b)	**388.2**	388.4
Unearned premium liability		**503.5**	685.7
Tax liability		**28.0**	85.5
Provisions and employee entitlements		**62.6**	70.3
Total current liabilities		**1,281.9**	1,564.7
Non-current liabilities			
Trade and other payables		**30.3**	32.9
Claims liabilities	3(b)	**10.7**	16.0
Unearned premium liability		**76.1**	73.2
Deferred tax liabilities		**35.0**	27.4
Provisions and employee entitlements		**28.3**	28.5
Total non-current liabilities		**180.4**	178.0
Total liabilities		**1,462.3**	1,742.7
Net assets		**1,778.9**	1,719.8
Equity			
Contributed equity		**85.0**	85.0
Reserves		**19.9**	24.4
Retained earnings		**1,674.0**	1,610.4
Total equity		**1,778.9**	1,719.8

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

Consolidated statement of changes in equity

For the half-year ended 31 December 2017

	Contributed equity $m	Reserves $m	Retained earnings $m	Total equity $m
Balance at 1 July 2016	85.0	23.4	1,470.3	**1,578.7**
Profit for the half-year	-	-	231.9	**231.9**
Other comprehensive income	-	-	0.2	**0.2**
Total comprehensive income for the half-year	-	-	232.1	**232.1**
Transactions with owners in their capacity as owners:				
Dividends paid	-	-	(165.2)	**(165.2)**
Acquisition and settlement of share-based payment, net of tax	-	(3.4)	-	**(3.4)**
Share-based payment transactions	-	1.4	-	**1.4**
Balance at 31 December 2016	**85.0**	**21.4**	**1,537.2**	**1,643.6**
Balance at 1 July 2017	85.0	24.4	1,610.4	**1,719.8**
Profit for the half-year	-	-	245.6	**245.6**
Other comprehensive income	-	-	-	**-**
Total comprehensive income for the half-year	**-**	**-**	**245.6**	**245.6**
Transfers upon sale of property	-	(2.2)	3.9	1.7
Transactions with owners in their capacity as owners:				
Dividends paid	-	-	(185.9)	**(185.9)**
Acquisition and settlement of share-based payment, net of tax	-	(4.3)	-	**(4.3)**
Share-based payment transactions	-	2.0	-	**2.0**
Balance at 31 December 2017	**85.0**	**19.9**	**1,674.0**	**1,778.9**

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

Consolidated statement of cash flows

For the half-year ended 31 December 2017

	Note	31 Dec 2017 $m	31 Dec 2016 $m
Cash flows from operating activities			
Premium receipts		**2,994.5**	2,953.9
Medibank Health receipts		**339.3**	306.4
Other receipts		**3.0**	3.4
Payments for claims and levies		**(2,621.7)**	(2,649.5)
Payments to suppliers and employees		**(588.2)**	(593.5)
Income taxes paid		**(148.0)**	(96.5)
Net cash outflow from operating activities	6	**(21.1)**	(75.8)
Cash flows from investing activities			
Interest received		**19.2**	20.0
Investment expenses		**(2.0)**	(1.7)
Proceeds from sale of financial assets		**346.2**	545.4
Purchase of financial assets		**(109.2)**	(206.5)
Purchase of business		**(37.5)**	-
Proceeds from sale of land and buildings		**33.3**	-
Purchase of plant and equipment		**(1.8)**	(0.9)
Purchase of intangible assets		**(21.5)**	(25.9)
Net cash inflow from investing activities		**226.7**	330.4
Cash flows from financing activities			
Purchase of shares to settle share-based payment		**(4.3)**	(3.6)
Dividends paid		**(185.9)**	(165.2)
Net cash outflow from financing activities		**(190.2)**	(168.8)
Net increase/(decrease) in cash and cash equivalents		**15.4**	85.8
Cash and cash equivalents at beginning of the half-year		**594.6**	438.7
Cash and cash equivalents at end of the half-year		**610.0**	524.5

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

Note 1: Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are consistent with those of the previous financial year and corresponding interim period, as set out in the annual financial report for the year ended 30 June 2017. The financial statements are for the consolidated entity (the Group), consisting of Medibank Private Limited (Medibank Private or the Company) and its subsidiaries. Medibank Private is a company limited by shares whose shares are publicly traded on the Australian Securities Exchange (ASX).

a) Basis of preparation of consolidated interim financial report

The consolidated interim financial report for the half-year period ended 31 December 2017 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The consolidated interim financial report does not include all notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by Medibank Private during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*. This report includes, where necessary, updates to prior period comparatives for changes in classification of amounts in the current reporting period.

b) New and amended standards adopted

The Group has not elected to apply any pronouncements before their operative date in the half-year reporting period ended 31 December 2017.

The following standards became effective for the annual reporting period commencing on 1 July 2017, but did not have a material impact on the Group's accounting policies or on the consolidated interim financial report.

- AASB 2016-1 Recognition of Deferred Tax Assets for Unrealised Losses
- AASB 2016-2 Disclosure Initiative: Amendments to AASB 107
- AASB 2016-4 Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities
- AASB 2017-2 Further Annual Improvements 2014-2016

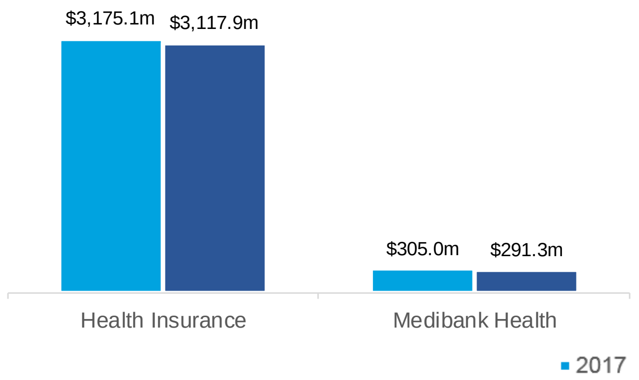
c) Critical accounting estimates and judgements

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

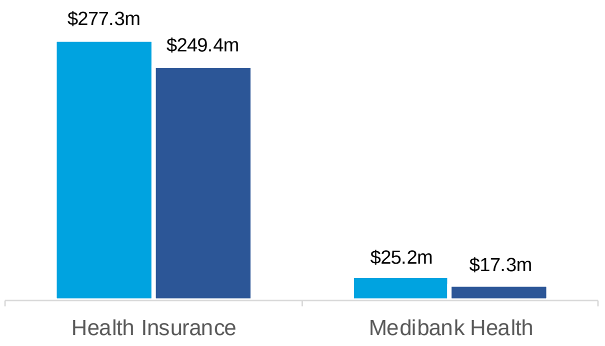
- Note 3: Insurance underwriting result
- Note 5: Investment portfolio
- Note 7: Intangible assets

Note 2: Segment information

Half-year segment revenue



Half-year segment operating profit



a) Segment information provided to the Chief Executive Officer

The segment information provided to the Chief Executive Officer for the half-year ended 31 December 2017 is as follows:

31 Dec 2017	**Health Insurance $m**	**Medibank Health $m**	**Total $m**
Revenues			
Total segment revenue	3,175.1	305.0	3,480.1
Inter-segment revenue	-	(13.1)	(13.1)
Revenue from external customers	**3,175.1**	**291.9**	**3,467.0**
Operating profit	**277.3**	**25.2**	**302.5**
Items included in segment operating profit:			
Depreciation and amortisation	(40.8)	(0.9)	**(41.7)**

31 Dec 2016	**Health Insurance $m**	**Medibank Health $m**	**Total $m**
Revenues			
Total segment revenue	3,117.9	291.3	3,409.2
Inter-segment revenue	-	(12.0)	(12.0)
Revenue from external customers	3,117.9	279.3	3,397.2
Operating profit	249.4	17.3	266.7
Items included in segment operating profit:			
Depreciation and amortisation	(35.2)	(2.6)	(37.8)

Note 2: Segment information (continued)

b) Other segment information

(i) Segment operating profit or loss

The Chief Executive Officer measures the performance of the Group's reportable segments based on the operating profit of the segments.

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

	Note	**31 Dec 2017 $m**	31 Dec 2016 $m
Total segment operating profit		**302.5**	266.7
Unallocated to operating segments:			
Corporate operating expenses		(16.4)	(16.5)
Group operating profit		**286.1**	250.2
Net investment income	5(a)	59.7	76.8
Acquisition intangible amortisation		(3.5)	(3.5)
Other income/(expenses)		(1.1)	(0.2)
Gain on sale of property		4.9	-
Profit for the half-year before income tax		**346.1**	323.3

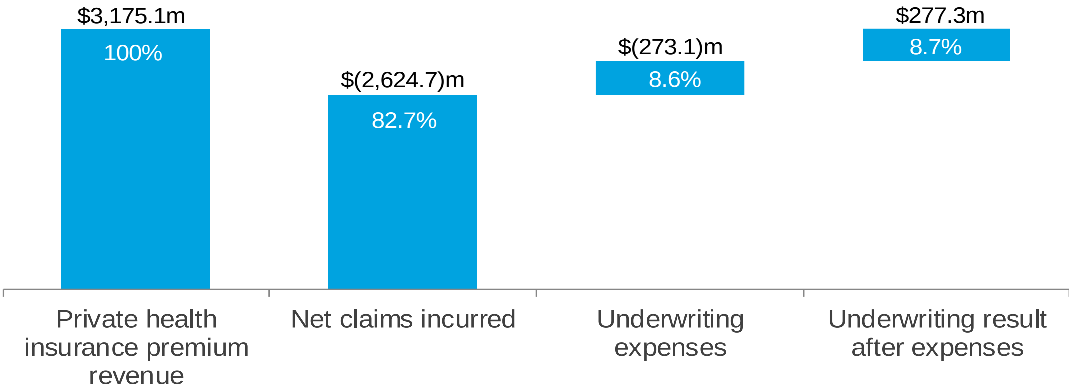
(ii) Other items

Segment operating profit also excludes the following:

- Depreciation and amortisation and operating expenses of the Group's corporate function of $16.4 million (2016: $16.5 million), which are not allocated to segments;
- Other income/(expenses) of ($1.1) million (2016: ($0.2) million) which do not relate to the trading activities of the Group's segments comprising primarily sublease rent;
- Gain on sale of property of $4.9m (2016: nil); and
- Net investment income, which comprises:
  - Interest, distribution and dividend income and related investment management expenses (refer to Note 5(a)), as this arises from investments which are managed by a central treasury function; and
  - Net gains and losses on disposals of and fair value movements on financial assets and liabilities (refer to Note 5(a)), as they are not indicative of the Group's long-term performance.

Note 3: Insurance underwriting result

31 December 2017 underwriting result after expenses



a) Insurance underwriting result

	Note	31 Dec 2017 $m	31 Dec 2016 $m
Private health insurance premium revenue		**3,175.1**	3,117.9
Claims expense			
Claims incurred	(i)	**(2,630.4)**	(2,617.9)
State levies		**(24.6)**	(24.1)
Net Risk Equalisation Special Account rebates		**30.4**	52.1
Net claims incurred excluding claims handling costs on outstanding claims liabilities		**(2,624.6)**	(2,589.9)
Movement in claims handling costs on outstanding claims liaiblities		**(0.1)**	0.5
Net claims incurred		**(2,624.7)**	(2,589.4)
Underwriting expenses		**(273.1)**	(279.1)
Underwriting result after expenses		**277.3**	249.4

(i) Prior to elimination of transactions with the Group's other operating segments of $13.1 million (31 December 2016: $12.0 million).

Note 3: Insurance underwriting result (continued)

b) Gross claims liability

	Note	31 Dec 2017 $m	30 Jun 2017 $m
Current			
Outstanding claims liability - central estimate	3(b)(i,ii)	**341.8**	336.2
Risk margin	3(b)(i,iii)	**27.0**	26.1
Claims handling costs	3(b)(iv)	**8.5**	8.4
		377.3	370.7
Claims liability - bonus provision	3(b)(v)	**10.9**	17.7
Gross claims liability	3(c)	**388.2**	388.4
Non-current			
Outstanding claims liability - central estimate	3(b)(i,ii)	**1.2**	1.5
Risk margin	3(b)(i,iii)	**0.1**	0.1
Claims handling costs	3(b)(iv)	**-**	-
		1.3	1.6
Claims liability - bonus provision	3(b)(v)	**9.4**	14.4
Gross claims liability	3(c)	**10.7**	16.0

Key estimate:

The liability for outstanding claims provides for claims received but not assessed and claims incurred but not received. It is based on an actuarial assessment that considers historical patterns of claim incidence and processing.

The outstanding claims estimate is based on the hospital, ancillary and overseas valuation classes. Estimated outstanding claims for ancillary are calculated using statistical methods adopted for all service months. Estimated outstanding claims for hospital and overseas are calculated using statistical methods adopted for all service months but with service levels for the most recent service month (hospital) or two services months (overseas) being based on the latest forecast. Adjustments are then applied to reflect any unusual or abnormal events that may affect the estimate of service levels such as major variability to claims processing volumes. The process for establishing the outstanding claims provision involves consultation with internal actuaries, claims managers and other senior management. The process includes monthly internal claims review meetings attended by senior management and the Chief Actuary. The critical assumption in determining the outstanding claims liability is the extent to which claim incidence and development patterns are consistent with past experience.

(i) Outstanding claims liability - central estimate	The outstanding claims liability comprises the central estimate and a risk margin (refer to Note 3 (b)(iii)). The central estimate is an estimate of the level of claims liability. ***Key estimate*** The central estimate is based on statistical analysis of historical experience which assumes an underlying pattern of claims development and payment. The final selected central estimate is based on a judgemental consideration of this analysis and other qualitative information. The central estimate excludes the impact of the Risk Equalisation Special Account. A separate estimate is made of levies payable to and recoveries from the account.
(ii) Discounting	The outstanding claims liability central estimate is discounted to present value using a risk-free rate of 1.80 percent per annum which equates to a reduction in the central estimate of $0.8 million (30 June 2017: 1.71 percent, $0.8 million).

Note 3: Insurance underwriting result (continued)

b) Gross claims liability (continued)

(iii) Risk margin	An overall risk margin considers the uncertainty surrounding the outstanding claims liability. The risk margin applied to the Group's outstanding claims central estimate (net of risk equalisation) at 31 December 2017 is 7.8 percent (30 June 2017: 7.7 percent). ***Key estimate*** The risk margin is based on an analysis of past experience, including comparing the volatility of past payments to the central estimate. The risk margin has been estimated to equate to the Group's objective of achieving a probability of adequacy of at least 95 percent (30 June 2017: 95 percent).
(iv) Claims handling costs	The allowance for claims handling costs at 31 December 2017 is 2.5 percent of the outstanding claims liability (30 June 2017: 2.5 percent).
(v) Claims liabilities - bonus provision	Certain private health insurance products (Package Bonus, Ultra Bonus and Membership Bonus) include benefits that carry forward. Package Bonus carries forward unused benefit entitlements in a calendar year for five calendar years. Membership Bonus carries forward unused benefit entitlements in a calendar year for 10 calendar years. Ultra Bonus carries forward unused benefit entitlements without limit. The Group's claims liabilities include a provision to cover expected future utilisation of these benefit entitlements of the current membership. ***Key estimate*** The bonus provision includes the total entitlement available to members under the terms of the relevant insurance policies, less any amounts utilised, with a probability of utilisation based on past experience and current claiming patterns applied. The true cost of these entitlements cannot be known with certainty until any unclaimed entitlements are processed.

c) Reconciliation of movement in claims liabilities

	6 months 31 Dec 2017 $m	12 months 30 Jun 2017 $m
Balance at beginning of period (1 July)	**404.4**	417.6
Claims incurred during the period	**2,654.4**	5,229.1
Claims paid during the period	**(2,627.1)**	(5,218.0)
Amount over provided on central estimate	**(33.8)**	(23.6)
Risk margin	**0.9**	(0.7)
Claims handling costs	**0.1**	(0.2)
Movement in discount rate	**-**	0.2
Balance at end of period	**398.9**	404.4

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

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

The central estimate, discount rate, risk margin and weighted average term to settlement are the key outstanding claims variables. A 10 percent increase/decrease in the central estimate would result in a $24.0 million decrease/increase to profit after tax (30 June 2017: $23.6 million) and a $24.0 million decrease/increase to equity (30 June 2017: $23.6 million). A 1 percent movement in other key outstanding claims variables, including discount rate, risk margin and weighted average term to settlement, would result in an insignificant decrease/increase to profit after tax and equity.

Note 4: Dividends

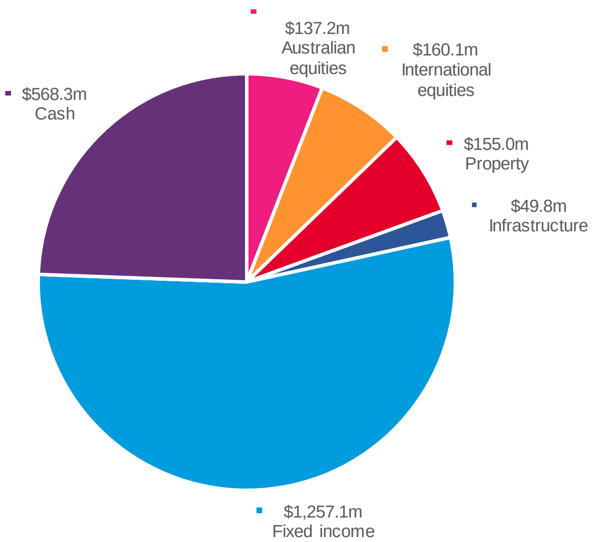
	cents per fully paid share	$m	Payment date
31 Dec 2017			
2017 final fully franked dividend	**6.75**	**185.9**	**28 September 2017**
31 Dec 2016			
2016 final fully franked dividend	6.00	165.2	28 September 2016

No dividends have been paid since the end of the reporting period.

Note 5: Investment portfolio

The Group's investment portfolio comprises the following:

		Portfolio composition 31 Dec 2017	Portfolio composition 30 June 2017	Target asset allocation
Growth				
Australian equities		5.9%	5.0%	5.0%
International equities		6.9%	5.8%	6.0%
Property		6.7%	6.7%	7.0%
Infrastructure		2.1%	2.0%	2.0%
		21.6%	**19.5%**	**20.0%**
Defensive				
Fixed income	(i)	54.0%	49.8%	52.0%
Cash	(ii)	24.4%	30.7%	28.0%
		78.4%	**80.5%**	**80.0%**
		100.0%	**100.0%**	**100.0%**



For investment portfolio classification purposes:
(i) Fixed income excludes cash with maturities between 3-12 months ($84.6 million)
(ii) Cash comprises cash and cash equivalents ($610.0 million), cash with maturities between 3-12 months ($84.6 million) less cash held for day to day operations of the business ($126.3 million).

Key judgement and estimate:

The measurement of fair value may in some cases be subjective, and investments are categorised into a hierarchy, depending on the level of subjectivity involved. The hierarchy is described in (b).

The fair value of level 2 financial instruments is determined using a variety of valuation techniques which make assumptions 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 independently developed models.

Note 5: Investment portfolio (continued)

a) Net investment income

	31 Dec 2017 $m	31 Dec 2016 $m
Interest	**22.5**	22.0
Trust distributions	**28.5**	28.0
Investment management fees	**(2.1)**	(1.7)
Net gain/(loss) on fair value movements on financial assets	**9.5**	22.4
Net gain on disposal of financial assets	**1.3**	6.1
	59.7	76.8

b) Fair value hierarchy

The fair value of the Group's investments are measured according to the following fair value measurement hierarchy:

- Level 1: Quoted prices (unadjusted current bid price) in active markets for identical assets or liabilities;
- 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
- 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 financial assets measured and recognised at fair value on a recurring basis.

31 Dec 2017		Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at fair value through profit or loss					
Australian equities	(i)	-	137.2	-	137.2
International equities	(i)	-	160.1	-	160.1
Property		1.7	153.3	-	155.0
Infrastructure		-	49.8	-	49.8
Fixed income		101.6	1,240.2	-	1,341.8
		103.3	**1,740.6**	**-**	**1,843.9**

30 Jun 2017		Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at fair value through profit or loss					
Australian equities	(i)	-	126.5	-	126.5
International equities	(i)	-	147.9	-	147.9
Property		1.8	139.9	-	141.7
Infrastructure		-	49.5	-	49.5
Fixed income		100.3	1,472.2	-	1,572.5
		102.1	1,936.0	-	2,038.1

(i) Australian and international equities are categorised within level 2 of the fair value measurement hierarchy as they are indirectly held through unit trusts.

Note 5: Investment portfolio (continued)

b) Fair value hierarchy (continued)

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

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis at 31 December 2017.

The Group recognises any transfers into and transfers out of fair value hierarchy levels from the date of effect of the transfer.

c) Valuation techniques

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 level 2 financial instruments is determined using a variety of valuation techniques which make assumptions 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 independently developed models.

There are no investments classified as level 3.

Note 6: Reconciliation of profit after income tax to net cash flow from operating activities

	31 Dec 2017 $m	31 Dec 2016 $m
Profit for the half-year	**245.6**	231.9
Depreciation	**6.3**	6.9
Amortisation of intangibles assets	**19.7**	18.7
Amortisation of deferred acquisition costs	**19.7**	16.2
Net loss/(gain) on disposal of assets	**(4.9)**	1.0
Net realised loss/(gain) on financial assets	**(1.3)**	(6.1)
Net unrealised loss/(gain) on financial assets	**(9.5)**	(22.4)
Interest income	**(22.5)**	(22.0)
Trust distribution reinvested	**(28.5)**	(28.0)
Investment expenses	**2.1**	1.7
Non-cash share-based payments expense	**2.0**	1.4
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	**38.6**	5.0
Decrease/(increase) in deferred acquisition costs	**(15.5)**	(14.4)
Decrease/(increase) in other assets	**3.5**	(2.1)
(Decrease)/increase in net deferred tax liabilities	**9.8**	8.4
(Decrease)/increase in trade and other payables	**(35.0)**	(46.9)
(Decrease)/increase in unearned premium liability	**(179.2)**	(168.4)
(Decrease)/increase in claims liabilities	**(5.5)**	(35.3)
(Decrease)/increase in income tax liability	**(57.4)**	(13.6)
(Decrease)/increase in provisions and employee entitlements	**(9.1)**	(7.8)
Net cash outflow from operating activities	**(21.1)**	(75.8)

Note 7: Intangible assets

	Goodwill $m	Customer contracts & relationships $m	Software $m	Assets under construction $m	Total $m
Gross carrying amount					
Balance at 1 July 2017	188.8	79.8	361.8	37.1	**667.5**
Additions	35.7	-	8.3	8.4	**52.4**
Transfers in/(out)	-	-	35.3	(35.3)	**-**
Disposals	-	-	(0.6)	-	**(0.6)**
Balance at 31 December 2017	224.5	79.8	404.8	10.2	**719.3**
Accumulated amortisation and impairment					
Balance at 1 July 2017	(81.5)	(56.2)	(208.7)	-	**(346.4)**
Amortisation expense	-	(3.5)	(16.2)	-	**(19.7)**
Disposals	-	-	0.6	-	**0.6**
Balance at 31 December 2017	(81.5)	(59.7)	(224.3)	-	**(365.5)**
Closing net book amount					
As at 31 December 2017	**143.0**	**20.1**	**180.5**	**10.2**	**353.8**
As at 30 June 2017	107.3	23.6	153.1	37.1	321.1

On 3 July 2017 Medibank Health Solutions acquired health services business HealthStrong. The difference between the consideration paid and the identifiable assets and liabilities of the HealthStrong group, amounting to $35.7m, has been provisionally recorded as goodwill. Final valuations and accounting will be completed by 30 June 2018.

a) Estimated impairment of goodwill and customer contracts and relationships

Key judgement and estimate:
The Group tests whether goodwill and customer contract and relationship assets have suffered any impairment on an annual basis, or more frequently if events or changes in circumstances indicate that they may be impaired.

Management have performed an assessment for indicators of impairment of the Group's intangible assets as at 31 December 2017 and have concluded that no indicators of impairment existed.

In assessing the goodwill for impairment, the recoverable amount of the CGU was determined based on a value-in-use calculation. The key assumptions used in testing the CGU for impairment are outlined in the Group's annual financial report for the year ended 30 June 2017.

Note 8: Income tax expense

	31 Dec 2017 $m	31 Dec 2016 $m
Current tax	**90.7**	83.1
Deferred tax	**9.8**	8.3
	100.5	91.4

Note 9: Contingencies

The Group has contingent liabilities arising in the ordinary course of business, including losses which might arise from litigation, from which it is anticipated that the likelihood of any unprovided liabilities arising are either remote or not material.

On 16 June 2016, the Australian Competition and Consumer Commission (ACCC) issued proceedings in the Federal Court of Australia against Medibank Private Limited. The ACCC alleged that Medibank engaged in misleading and deceptive conduct, made false representations and representations liable to mislead the public, and engaged in unconscionable conduct by failing to notify members of changes to contractual arrangements with a number of in-hospital diagnostic service providers. The matter was heard by the court over 12 days between 14 March and 7 April 2017. The court dismissed the proceedings on 30 August 2017. The ACCC lodged a Notice of Appeal against the court's decision on 21 September 2017, and it is anticipated that the appeal will be heard by the Full Federal Court in the middle of calendar year 2018. Delivery of the judgement is a matter for the court and the range of possible outcomes from these proceedings is a judgement in Medibank's favour through to judgement in the ACCC's favour. The potential range of remedies if judgement is in the ACCC's favour could include payment of penalties and costs, as determined by the court.

Note 10: Sale of property

On 30 November 2017 Medibank sold its remaining directly-held property assets for an amount of $33.3m, realising a gain-on-sale of $4.9m. The space currently occupied has been leased back on market terms. The divestment was made to capitalise on strong market conditions.

Note 11: Events occurring after the reporting period

Since 31 December 2017, Directors have declared a fully franked interim dividend of $151.5m (5.5 cents per share) to be paid on 28 March 2018.

Apart from the interim dividend declared, there have been no events occurring after the reporting period which would have a material effect on the Group's consolidated interim financial report at 31 December 2017.

Directors' declaration

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

(a) the financial statements and notes set out on pages 4 to 19 are in accordance with *the Corporations Act 2001*, including:

i. giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the half-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.

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

On behalf of the Board,

Elizabeth Alexander AM Chairman	Craig Drummond Chief Executive Officer

16 February 2018
Melbourne

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Medibank Private Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Medibank Private Limited. The consolidated entity comprises the Company and the entities it controlled from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Medibank Private Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Medibank Private Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Matters relating to the electronic presentation of the reviewed half-year financial report

This review report relates to the half-year financial report of the Company for the half-year ended 31 December 2017 included on Medibank Private Limited's website. The Company's directors are responsible for the integrity of the Medibank Private Limited website. We have not been engaged to report on the integrity of this website. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed half-year financial report to confirm the information included in the reviewed half-year financial report presented on this website.

PricewaterhouseCoopers

PricewaterhouseCoopers

Colin Heath

Colin Heath
Partner

Britt Hawkins
Partner

Melbourne
16 February 2018