MEDIBANK PRIVATE LIMITED
ABN 47 080 890 259

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Medibank Private Limited Group Financial year ended 30 June			
	2018 $m	2017 $m	Movement $m	Movement %
Health Insurance premium revenue	6,319.5	6,244.9	74.6	1.2%
Medibank Health revenue	586.9	552.1	34.8	6.3%
Revenue (excluding net investment and other income) from ordinary activities	**6,906.4**	6,797.0	109.4	1.6%
Net investment and other income	108.1	151.1	(43.0)	(28.5%)
Total income from operations	**7,014.5**	6,948.1	66.4	1.0%
Profit from ordinary activities after tax attributable to shareholders	**445.1**	449.5	(4.4)	(1.0%)
Net profit attributable to shareholders	**445.1**	449.5	(4.4)	(1.0%)

The results are summarised as follows:

- Health Insurance premium revenue increased 1.2% or $74.6 million to $6,319.5 million.
- Medibank Health revenue increased 6.3% or $34.8 million to $586.9 million.
- Net investment and other income decreased 28.5% or $43.0 million to $108.1 million.
- Profit from ordinary activities decreased 1.0% or $4.4 million to $445.1 million.

For further information refer to the directors' report in the attached financial report of Medibank Private Limited for the year ended 30 June 2018.

Dividend information

A fully franked final dividend of 7.20 cents per ordinary share was declared on 24 August 2018 in respect of the six months ended 30 June 2018, payable on 27 September 2018 to shareholders on the register at close of business on 6 September 2018.

A fully franked interim dividend of 5.50 cents per ordinary share was declared on 16 February 2018 in respect of the six months ended 31 December 2017, paid on 28 March 2018 to shareholders on the register at close of business on 7 March 2018.

Net tangible assets per ordinary share

	30 June 2018 cents	30 June 2017 cents
Net tangible assets per ordinary share	**53.7**	50.8

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 financial report for the year ended 30 June 2018, and is lodged with the ASX under listing rule 4.3A.

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1. About Medibank

Medibank Private Limited (Medibank) is a leading private health insurer in Australia. Our core business is Health Insurance, whereby we underwrite and distribute private health insurance policies under the Medibank and ahm brands. We also have a group of related businesses known as Medibank Health. Medibank Health leverages our experience and expertise to provide and coordinate health services, and support the Health Insurance business. As Medibank maintains assets to satisfy its regulatory reserves, we can also generate significant investment income from our portfolio of investment assets.

Medibank was founded in 1976 as a private health insurer owned and operated by the Australian Government. We have operated on a for-profit basis since 2009. On 25 November 2014, Medibank was sold by the Australian Government by way of an initial public offering (IPO) and listed on the Australian Securities Exchange. As at 30 June 2018, we had 3,450 full-time equivalent employees, including 1,033 health professionals.

2. Financial and operating performance

References to “2017” and “2018” are to the financial years ended on 30 June 2017 and 30 June 2018 respectively, unless otherwise stated. The “Group” refers to the consolidated entity, consisting of Medibank and its subsidiaries.

2.1 Group summary income statement

Year ended 30 June ($m)	2018	2017	Change
Health Insurance premium revenue	**6,319.5**	6,244.9	1.2%
Medibank Health revenue[1]	**586.9**	552.1	6.3%
Revenue	**6,906.4**	**6,797.0**	**1.6%**
Health Insurance operating profit	**535.6**	497.5	7.7%
Medibank Health operating profit	**47.3**	35.7	32.5%
Segment operating profit	**582.9**	**533.2**	**9.3%**
Corporate overheads	**(34.1)**	(32.7)	4.3%
Group operating profit	**548.8**	**500.5**	**9.7%**
Net investment income	**95.6**	139.3	(31.4%)
Amortisation of intangibles	**(7.6)**	(7.0)	8.6%
Other income/(expenses)	**(8.5)**	(4.1)	107.3%
Profit before tax	**628.3**	**628.7**	**(0.1%)**
Income tax expense	**(183.2)**	(179.2)	2.2%
Net profit after tax	**445.1**	**449.5**	**(1.0%)**
Effective tax rate	**29.2%**	28.5%	70bps
Earnings per share (cents)	**16.2**	16.3	(1.0%)
Dividend per share[2] (cents)	**12.70**	12.00	5.8%

1. Net of intercompany eliminations.
2. The 2018 dividend comprises an interim dividend of 5.50 cents per share and a proposed final dividend of 7.20 cents per share. The 2017 dividend comprised an interim dividend of 5.25 cents per share and a final dividend of 6.75 cents per share.

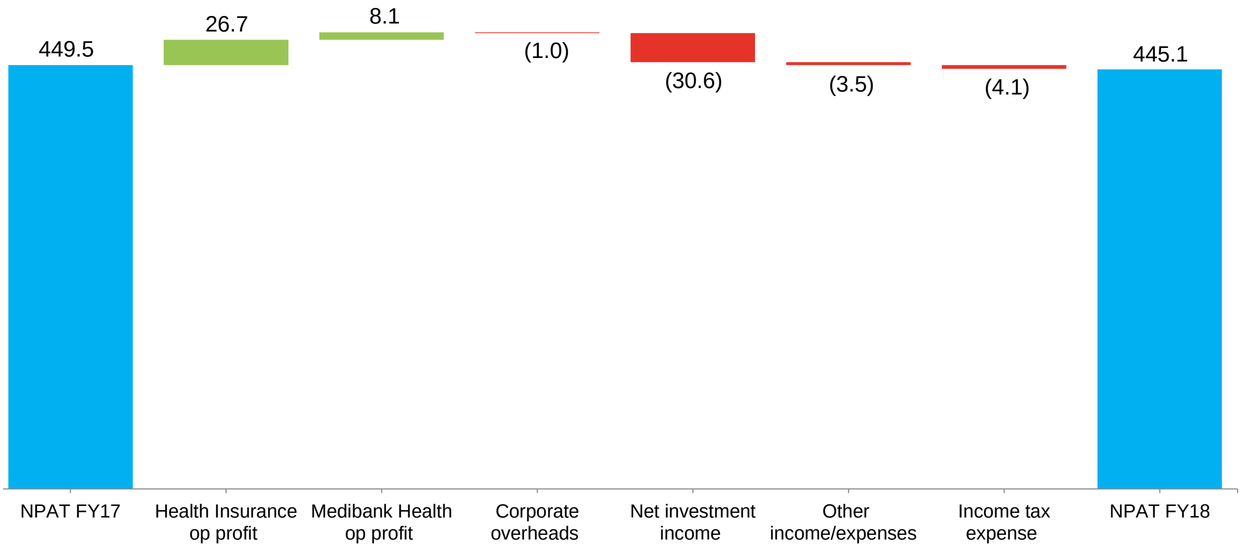
Group operating profit increased by $48.3 million or 9.7%, from $500.5 million in 2017 to $548.8 million in 2018. This was largely attributable to Health Insurance operating profit, which increased by $38.1 million or $26.7 million after tax reflecting benefits from our productivity program and a higher claims provision release, partially offset by the one-off $20 million investment in the launch of our customer loyalty program.

Net investment income fell by $43.7 million or 31.4% in 2018, reflecting lower market returns.

The increase in Health Insurance operating profit was offset by lower net investment income, resulting in a $4.4 million or 1.0% reduction in net profit after tax (NPAT) from $449.5 million in 2017 to $445.1 million in 2018.

The current period effective tax rate for the Group was up 70 basis points to 29.2% in 2018, reflecting lower franking credits from investments.

2018 NPAT result – analysis of movements ($ million)[1]



1. For all items other than tax, amount is based on pre-tax movement less 30% allowance for tax.

The key reasons for the movements in the Health Insurance and Medibank Health results, and net investment income, are outlined in this report.

Health Insurance

Year ended 30 June ($m)	2018	2017	Change
Health Insurance premium revenue	6,319.5	6,244.9	1.2%
Net claims expense (including risk equalisation)	(5,226.7)	(5,179.0)	0.9%
Gross profit	1,092.8	1,065.9	2.5%
Management expenses	(557.2)	(568.4)	(2.0%)
Operating profit	535.6	497.5	7.7%
Gross margin	**17.3%**	**17.1%**	**20bps**
Management expense ratio	8.8%	9.1%	(30bps)
Operating margin	**8.5%**	**8.0%**	**50bps**

The Health Insurance business contributed 91.5% of Group revenue (91.9% in 2017) and 91.9% of segment operating profit in 2018 (93.3% in 2017). In 2018, 97.7% of Health Insurance revenue (97.8% in 2017) came from resident health insurance policies sold to retail and corporate customers, with the balance from overseas visitors' and students' health cover policies.

Premium revenue increased by 1.2%, underpinned by Government-approved average premium rate rises of 4.60% effective from 1 April 2017 and 3.88% effective from 1 April 2018. The annualised average revenue per policy unit increased by 1.9%, or 2.3% excluding the $20 million loyalty investment in the second half of 2018.

Our customer base remained stable at 3.74 million, in a market which saw industry growth continuing to slow. Encouragingly, we saw a five basis point improvement in Group market share in the second half of 2018. Medibank's market share was 26.9% as at 30 June 2018.

At a fund level, our policyholder numbers grew by 0.3% in 2018, compared to a 1.3% reduction in 2017. Our Medibank brand saw an improvement in acquisition rates and reduced lapse rates over the period. Medibank is well placed to maintain this improving trend with our recent investment in loyalty and ongoing focus on customer health. Despite the market remaining highly competitive, ahm achieved solid double-digit policyholder growth for the second consecutive year.

Health claims paid on behalf of customers, also known as claims expenses, are the largest cost for the Health Insurance business. Net claims paid on behalf of customers increased by $47.7 million, or 0.9%, to $5.2 billion, representing 82.7% of premium income.

Overall, the Health Insurance gross margin rose from 17.1% in 2017 to 17.3% in 2018, before allowance for management expenses.

Management expenses decreased by $11.2 million or 2.0% in 2018. The ratio of management expenses to premium revenue (MER) fell from 9.1% in 2017 to 8.8% in 2018. This was driven by a 1.9% reduction in operating expenses, which offset the increase in both depreciation and amortisation, as well as deferred acquisition cost amortisation. Medibank's productivity program has delivered savings of approximately $20 million during the year, mainly driven by benefits in procurement, technology, automation and consulting spend. Amortisation of deferred acquisition costs increased by $5.8 million, consistent with strong historical sales performance in ahm. Following the implementation of our new IT system, spending on customer remediation initiatives reduced to $11.0 million.

Medibank's Health Insurance operating profit of $535.6 million was 7.7% higher than 2017. The key driver behind this result was the lower management expenses referred to above. As a result, our Health Insurance operating margin increased by 50 basis points to 8.5%.

Medibank Health

Medibank Health businesses contributed 8.5% of Group revenue and 8.1% of segment operating profit in 2018.

The businesses include the provision of health management (primarily the Australian Defence Force contract for health services); telehealth services for government and corporate customers; the provision of mobile allied health services delivered through HealthStrong; and the sale of travel, life and pet insurance products. We also provide in-home services through Medibank at Home, as well as care management through our CareComplete suite of programs and Health Concierge service.

The role of Medibank Health is to strengthen and complement our core Health Insurance business and to help customers and the community manage their health and wellbeing. We do this by providing health system access and identifying pathways to optimal health and care, as well as enhancing customer loyalty.

Medibank Health revenue increased by $39.8 million or 6.9% in 2018, reflecting a twelve month contribution from HealthStrong, as well as growth in our Diversified business which includes travel, life and pet insurance products. Management expenses increased by 4.3% due to the additional costs associated with HealthStrong as well as higher depreciation and amortisation, partially offset by efficiency benefits. Operating profit increased by $11.6 million or 32.5%, with a 110 basis point improvement in gross margin reflecting further diversification of Medibank Health.

Net Investment income

Medibank's investment portfolio was $2.7 billion at 30 June 2018. This investment portfolio provides liquidity to cover insurance liabilities related to the Health Insurance business, and satisfies Medibank's obligations to maintain regulatory reserves to meet health claims and to fund ongoing operations.

Net investment income decreased by $43.7 million or 31.4% in 2018, reflecting lower returns across both growth and defensive portfolios and a more conservative asset allocation.

In November 2017 Medibank committed to transitioning its international equities investment portfolio to low carbon investments which are aligned with socially responsible investment principles. This initiative was fully implemented in March 2018. We are committed to exploring a similar approach within our domestic equities portfolio by working with fund managers to develop a suitable product that is socially responsible, cost-effective, and delivers a sustainable investment return.

2.2 Group financial position

Medibank's net asset position increased by $109.4 million or 6.4% to $1,829.2 million at 30 June 2018.

Some of the major movements in the consolidated statement of financial position include:

- An increase in financial assets due to in period investment returns and accumulated profits.
- A decrease in property, plant and equipment due to the sale of our Wollongong property.
- An increase in intangible assets due to goodwill resulting from our HealthStrong acquisition.
- An increase in unearned premium liability as a result of stronger sales in our overseas portfolio.
- A decrease in our tax liabilities reflecting the timing of tax instalment payments.

As at 30 June 2018, Medibank's consolidated statement of financial position remained debt free.

2.3 Capital management and dividends

Medibank's capital management objective is to maintain a strong financial risk profile and capacity to meet financial commitments. Medibank's total Health Insurance business-related capital was 14.0% of premium revenue after the allowance for declared but unpaid dividends, as at 30 June 2018. This was at the top end of Medibank's targeted range of 12.0% to 14.0%.

Dividends paid or payable in respect of profits from the financial year totalled 12.70 cents per share fully franked, amounting to $349.8 million comprising:

- An interim dividend of 5.50 cents per share fully franked, amounting to $151.5 million paid on 28 March 2018 in respect of the six-month period ended 31 December 2017.
- A final dividend of 7.20 cents per share fully franked, amounting to $198.3 million to be paid on 27 September 2018 in respect of the six-month period ended 30 June 2018.

The Board's current policy is to target an annual payout ratio of between 70% and 80% of underlying NPAT.

2.4 Management changes

Following on from a number of changes in the Executive Leadership in 2017, there were no changes to Medibank's Executive Leadership Team in 2018.

3. Strategy and future prospects

Medibank's purpose is 'Better Health for Better Lives' and we are committed to helping Australians achieve a better quality of life. By working to provide our customers with affordable, consistent and quality health outcomes, Medibank seeks to sustainably build our customer base and grow shareholder value.

In the medium to longer term, we expect growth within the overall Australian healthcare industry will continue due to a range of factors, including the ageing population, the increasing prevalence of chronic diseases and demand for medical treatment more broadly. We also recognise increasing health system costs are driving an affordability challenge that is leading to a reduction in industry participation, particularly for younger customers. Medibank will continue to work with the Government and the health sector to improve the affordability, value and transparency of private health insurance for customers.

In 2018 we focused on providing a differentiated offering, improving healthcare value and expanding our health services.

Medibank's differentiated offering was strengthened by our growing capability to proactively understand and address our customers' needs. We will continue to leverage our data to help us deliver more targeted health communications, integrate our health expertise into customer interactions, and complete around 500,000 customer check-ins during 2019.

We launched the Medibank-brand customer loyalty program in the second half of 2018 to recognise customers with a tenure of more than 10 years. These customers are being rewarded with a one-off giveback and access to enhanced services. To recognise the loyalty of customers and reward them for taking healthy actions, we will build on this program by launching the Live Better loyalty platform within the first half of 2019.

Medibank remained committed to improving healthcare value in 2018. To support greater transparency for our customers we launched an online Procedure Cost Estimator to provide customers with an indication of out-of-pocket costs for 45 common hospital procedures. We also launched the People Like You Tool to show our customers common hospital procedures for people their age, gender and life stage, based on our claims data. Medibank will continue to partner with hospitals to improve patient outcomes and healthcare experiences through our Patient Reported Experience Measures Survey, and work with the appropriate partners with a view to publishing data on specialists' out-of-pocket costs in the future.

In 2018 we significantly increased Medibank's broader health services offering through our acquisition of HealthStrong in July 2017, which delivers allied healthcare in five states. We also expanded our Medibank at Home program, launching a dialysis trial and extending our chemotherapy trial into Victoria and South Australia. The program also included a palliative care trial in addition to our ongoing Rehabilitation at Home program. The acquisition of a national in home care business with clinical experience and capability is expected to be completed in the near term. This acquisition is in line with Medibank's strategy to provide customers with choice over how and where healthcare is delivered Australia wide.

Medibank made pleasing progress against our 2018 strategic pillars and will continue to build on these successes in 2019. This will involve continued growth of Medibank's core Health Insurance business via a dual-brand strategy, whilst expanding our broader health services offering through Medibank Health. Reflecting our progress, we have revised our milestones to focus on differentiation and health services transformation. Our progress against these revised milestone objectives is below.

<table>
<tr><th>Objectives</th><th colspan="3">FY18 update</th></tr>
<tr>
<td>Customer advocacy
Drive Service and Brand NPS for Medibank and ahm to be best in class[1]</td>
<td>Brand NPS (Gap to peers)
c. 20% year on year improvement</td>
<td>Average Service NPS
<table>
<tr><th></th><th>FY17</th><th>FY18</th></tr>
<tr><td>Medibank</td><td>+1.5</td><td>+15.3</td></tr>
<tr><td>ahm</td><td>+26.7</td><td>+28.1</td></tr>
</table>
</td>
<td>PHIO complaints
FY18: 24.4% share

Customer check-ins[2]
FY18: 390,000</td>
</tr>
<tr>
<td>Health interactions
By 2020 every Medibank customer[3] has at least one health interaction[4] through the year with our company</td>
<td colspan="3">
<table>
<tr><th>FY17</th><th>FY18</th><th>FY20</th></tr>
<tr><td><100k</td><td>c. 500k</td><td>target c.1.5 million</td></tr>
</table>
</td>
</tr>
<tr>
<td>Market share[5]
To grow market share in FY19</td>
<td>Policyholder Growth
<table>
<tr><th>FY17 vs FY18</th></tr>
<tr><td>+0.3% / +5k</td></tr>
</table>
</td>
<td colspan="2">Market share
<table>
<tr><th>1H17</th><th>2H17</th><th>1H18</th><th>2H18</th></tr>
<tr><td>down 36bps</td><td>down 27bps</td><td>down 13bps</td><td>up 5bps</td></tr>
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<tr>
<td>Medibank at Home
More than double the number of customers receiving Medibank at Home services in FY19</td>
<td colspan="3">
<table>
<tr><th>FY18</th><th>FY19</th></tr>
<tr><td>936 customers</td><td>target 2,000 customers</td></tr>
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</td>
</tr>
<tr>
<td>Medibank Health
More than double Medibank Health's segment share of operating profit from FY16 to FY19</td>
<td colspan="3">
<table>
<tr><th>FY16</th><th>FY17</th><th>FY18</th></tr>
<tr><td>4.6%</td><td>6.7%</td><td>8.1%</td></tr>
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<tr>
<td>Productivity
$50m 3 year target increased by $10m to $60m</td>
<td colspan="3">
<table>
<tr><th>FY18</th><th>FY19 - FY20</th></tr>
<tr><td>$20m productivity delivered</td><td>productivity target increased to $40m</td></tr>
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</td>
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</table>

1. Against major private health insurance peers (Bupa, HCF and nib) by the end of CY19
2. Inbound or outbound conversations with customers about the appropriateness of their cover
3. Based on number of policyholders that consent to Medibank contact
4. Includes CareComplete, Medibank at Home, Health Concierge, Health Advice Line, and personalised health communications
5. Based on number of policyholders

Looking ahead, Medibank is positioned for growth. We will leverage our dual brand strategy to build competitive advantage in the private health insurance sector and continue our transformation into a broader health services company. Aligned with this overarching strategy, our priorities for the 2019 financial year are detailed in the table below.

Strategic pillar	**Deliver differentiated products and services for customers**	**Continue to improve healthcare value for customers**	**Expand the offering for customers and grow the business**
2019 Priorities	• Personalise and integrate health into our customers' experience. • Simplify and enhance our cover options. • Enhance loyalty offering to recognise and reward membership.	• Focus on reducing low value care and improving customer health outcomes by providing greater choice and transparency. • Lead health system reform. • Expand the scope of our payment integrity program.	• Strengthen our distribution partnerships. • Grow corporate, non-resident and diversified portfolios. • Health services expansion – build scale and grow capability. • Investment in core enablers (below)
Enablers	People | Data | Simplicity		

4. Material business risks

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

Risk Description	Risk Management Strategy
Credit The risk of financial loss due to counterparties failing to meet their financial obligations.	Exposure to this risk is primarily through Medibank's Investment portfolio. This risk is managed through the application of the Investment Management Policy. The effective implementation of this policy is overseen by the Board's Investment and Capital Committee to ensure that credit risk is managed in line with the risk appetite set by the Board.
Capital & liquidity The risk that Medibank is unable to meet its financial obligations as and when they are due or that liquidity levels fall below minimum regulatory solvency requirements.	Medibank has a Board approved Liquidity Management Policy, and Board endorsed plan designed to assure that it meets or exceeds regulatory solvency requirements and is able to meet all payments as and when they fall due. Liquidity risk is managed by the Treasury function through daily cash management of cash flows and liquid asset positions and projected future cash flows, supported by actuarial forecasts that take into account anticipated seasonality as well as stressed market conditions.
Market & investment The risk of financial loss resulting from changes in market factors (e.g. foreign exchange rates, interest rates and equity prices).	Medibank has a Board approved Investment Management Policy. The Board's Investment and Capital Committee oversees the investment process and compliance with investment mandates, performance against benchmarks and asset allocation. Strategic asset allocation is weighted largely towards defensive assets and with limits applied to illiquid assets.
Insurance The risk of mis-estimation of incurred and expected costs, frequency and severity of insured events in addition to premium increases that are subject to Government approval.	The Board approves the Pricing Policy, which includes pricing and profitability objectives and forms a key part of the Capital Management Plan. Medibank's objective is to offer competitive value to all customers and support growth constrained only by profitability objectives, ability to provide high quality customer service and meeting capital management and regulatory requirements. Insurance risk is a key part of regular portfolio monitoring and where experience deviates from target or breaches minimum thresholds, response plans are formulated and implemented.
Strategic The risk that we are unable to identify and execute the right strategic initiatives and projects on target and on time that deliver measureable and agreed outcomes to support our goals.	Medibank's strategic risks are identified and assessed as part of Medibank's annual strategic planning process and endorsed by the Board. Key strategic risks identified include growth/loss of private health insurance customers, health care costs and utilisation, regulatory reform, political risk and execution of non-private health insurance growth. These risks influence the prioritisation of investments and resources in the Corporate Plan, which is approved by the Board. To effectively understand and assess some key strategic risks that are broad in nature (e.g. regulatory, political, customer, etc.), Medibank undertakes detailed analysis on threats or opportunities that specific scenarios may pose to the business.

Clinical The risk of adverse clinical outcomes from a health service provided by Medibank, or a third party acting on behalf of Medibank, resulting in financial loss or reputational damage.	Clinical risk arises from clinical services that Medibank provides and procures, the provision of health-related information and member health initiatives. Medibank has implemented a Clinical Governance and Quality Management Framework that defines the principles, structures and processes that underpin service quality, continuous improvement and patient safety. Medibank has appointed a Chief Medical Officer, supported by a Clinical Governance team, to provide oversight and assurance. The Risk Management Committee and Board receive regular reporting on the performance of clinical risk management.
Operational The risk of financial loss resulting from inadequate or failed internal processes, people and systems or from external events.	Medibank has established risk management policies and procedures for identifying, assessing, monitoring and reporting operational risks and controls. This includes the important areas of information security, technology, business continuity, outsourcing, fraud and people risks. Management of operational risk is overseen by Divisional Risk Committees, the Executive Risk Committee and the Board's Risk Management Committee.
Regulatory compliance Failure to comply with regulatory requirements.	Medibank has established a compliance management system. It incorporates a structured approach to managing its key regulatory obligations, and systems and procedures for identifying and remediating compliance incidents.

The directors of Medibank Private Limited (Medibank) present their report on the consolidated entity consisting of Medibank and the entities it controlled (collectively referred to as the Group) for the year ended 30 June 2018.

References to 2017 and 2018 are to the financial years ended on 30 June 2017 and 30 June 2018 respectively unless otherwise stated.

Directors

The names of directors in office during the 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 effective 28 August 2017)

Principal activities

The principal activities of the Group during the financial year were as a private health insurer, whereby it underwrites and distributes private health insurance policies under its two brands, Medibank and ahm. Medibank is also a provider of health-related services through the Medibank Health businesses, which capitalise on Medibank's experience and expertise, and support the Health Insurance business. There were no significant changes in the nature of those activities during the year.

Operating and financial review

Details of the operating and financial review of the Group including a review of operations during the year and results of those operations is included in the operating and financial review on page 1 of this report.

Significant changes in state of affairs

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

Events since end of financial year

No matter or circumstance has arisen since the end of the financial year that has significantly affected, or may significantly affect, Medibank's operations, or the results of those operations, or Medibank's state of affairs in future financial years. Details of subsequent events are set out in Note 20(d).

Dividends

Dividends paid or declared by the Company during and since the end of the year are set out in Note 6(a) to the financial statements and further set out below:

- A dividend of 6.75 cents per share (fully franked) was declared in respect of the six-month period to 30 June 2017 and paid on 28 September 2017 to shareholders registered on 7 September 2017.
- An interim dividend of 5.50 cents per share (fully franked) was declared in respect of the six-month period to 31 December 2017 and paid on 28 March 2018 to shareholders registered on 7 March 2018.
- A final dividend of 7.20 cents per share (fully franked) has been declared in respect of the six-month period to 30 June 2018 payable on 27 September 2018 to shareholders registered on 6 September 2018.

Directors' qualifications, experience and special responsibilities

Details of each director's qualifications, experience and special responsibilities are set out below.

Elizabeth Alexander AM - Chairman and Independent Non-executive Director
BCom, FAICD, FCA, FCPA

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

As a former partner at PricewaterhouseCoopers (1977 to 2002), Elizabeth specialised in the area of risk management and corporate governance. Elizabeth was previously a director of DEXUS Funds Management Limited as part of the DEXUS Property Group (January 2005 to October 2017), Boral Limited and Amcor Limited, and Chairman of CSL Limited. She is a former Chair of the Australian Prudential Regulation Authority's Risk and Audit Committee. Elizabeth is also a former National President of CPA Australia and the Australian Institute of Company Directors, and a former member of the Takeovers Panel. She was a former Chancellor of the University of Melbourne and Chair of its Finance Committee.

Elizabeth is currently Chairman of DEXUS Wholesale Property Limited, and a director of the IOOF Foundation and the Victorian Registration and Qualifications Authority.

Craig Drummond - Chief Executive Officer
BCom, CA, SF Fin

Craig was appointed Chief Executive Officer in July 2016.

Prior to joining Medibank, Craig was Group Executive Finance and Strategy of National Australia Bank Limited (NAB), having joined NAB in November 2013. At NAB, his focus was the strategic realignment and repositioning of the bank, its balance sheet and its performance management systems. Prior to NAB, Craig was Chief Executive Officer and Country Head of Bank of America Merrill Lynch (Australia). Earlier in his career, Craig joined JBWere, a leading Australian stockbroker and wealth manager, in equity research and subsequently held roles including Chief Operating Officer, Chief Executive Officer and Executive Chairman of Goldman Sachs JBWere. Craig is also a former director of the Florey Institute of Neuroscience and Mental Health.

Craig is a director of the Geelong Football Club Limited. He is also a member of the Finance Committee of the Ian Potter Foundation Limited.

Dr Tracey Batten - Independent Non-executive Director
MBBS, MHA, MBA, FAICD, FRACMA

Tracey was appointed a director on 28 August 2017. She is a member of the Risk Management Committee and the People and Remuneration Committee.

Tracey has extensive experience in the health services sector, with strong commercial, business and change leadership skills. Most recently, Tracey was the Chief Executive of the Imperial College Healthcare NHS Trust in the United Kingdom. In that role, Tracey focused on change leadership, in particular improving organisational culture and strengthening patient safety and experience. Tracey also oversaw the implementation of a range of digital initiatives as Chief Executive. Tracey is a former Chief Executive of St Vincent's Health Australia, which runs a group of public hospitals, private hospitals and aged care facilities.

Tracey is currently a director of Abano Healthcare Group Limited and the National Institute of Water and Atmospheric Research in New Zealand.

Anna Bligh AC - Independent Non-executive Director
BA (QLD)

Anna was appointed a director in December 2012. She is a member of the Investment and Capital Committee and the People and Remuneration Committee.

Anna has extensive experience in leadership and public policy, including in the fields of healthcare, finance, infrastructure and project management. She has held several roles in the Queensland Government, including Premier, Treasurer, Minister for Finance, Minister for State Development, Minister for Trade and Innovation and Minister for Education. She was also a member of the Queensland Cabinet Budget Review Committee for 11 years.

Anna is currently the Chief Executive Officer of the Australian Banking Association and a director of Bangarra Dance Theatre Australia.

David Fagan - Independent Non-executive Director
LLB, LLM, GAICD

David was appointed a director in March 2014. He is Chairman of the Risk Management Committee and a member of the Investment and Capital Committee and the Nomination Committee.

David is a highly experienced banking and major projects lawyer with more than 35 years of experience. He acted for major banks and corporate clients with Clayton Utz, and was Clayton Utz's Chief Executive Partner from May 2001 to June 2010. David also chaired the Medibank Privatisation Committee which operated during 2014 in preparation for the privatisation process. David is a former director and Chair of the Audit Committee of The Global Foundation, a former director of Grocon Funds Management Group and a former member of the advisory board of Chase Corporate Advisory.

David is currently a director of Hilco Merchant Australia Pty Limited, Hilco Oz Pty Limited and PayGroup Limited (since November 2017). He is a director and Chair of the Audit and Risk Committee of UBS Grocon Real Estate Investment Management Pty Ltd and a member of the ASIC Director Advisory Panel.

Peter Hodgett - Independent Non-executive Director
BSc (Hons), FAICD

Peter was appointed a director in June 2013. He is Chairman of the Investment and Capital Committee, and a member of the Audit Committee and the Nomination Committee.

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

Peter is currently a director of Colonial First State Investments Limited, Colonial Mutual Superannuation Pty Limited and Avanteos Investments Limited.

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

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

Linda has more than 30 years of experience as a senior executive and director in banking, insurance and funds management in Australia, New Zealand and the United States. She was previously Chairman of KDR Victoria Pty Ltd (Yarra Trams), and a director of Pacific Brands Limited (October 2013 to July 2016), St George Bank, Sigma Pharmaceuticals Limited (December 2005 to December 2015), and the Olivia Newton-John Cancer Research Institute.

She is currently Chairman of Japara Healthcare Limited (since March 2014), a director of Fairfax Media Limited (since February 2010) and Inghams Group Limited (since November 2016). Linda is also Chairman of the Melbourne Health Services Board and a member of the Museums Board of Victoria.

Christine O'Reilly - Independent Non-executive Director
BBus

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

Christine has more than 30 years of financial and infrastructure experience both in Australia and internationally in various roles including as Co-head of Unlisted Infrastructure at Colonial First State Global Asset Management and Chief Executive and Managing Director of GasNet Australia Group.

Christine is currently a director of CSL Limited (since February 2011), Transurban Group (since April 2012), Stockland (since August 2018) and Baker IDI.

Mike Wilkins AO - Independent Non-executive Director
BCom, MBA, FAICD, FCA

Mike was appointed a director in May 2017. He is a member of the Risk Management Committee and Investment and Capital Committee.

Mike has more than 30 years of experience in financial services, predominantly in Australia and Asia. He served as Managing Director and Chief Executive Officer at Insurance Australia Group (November 2007 to November 2015), Managing Director and Chief Executive Officer at Promina Group Limited and Managing Director at Tyndall Australia Limited. He was previously a director of Maple-Brown Abbott Limited, Alinta Limited, The Geneva Association, the Australian Business and Community Network and the Executive Chairman of AMP Limited (April 2018 to July 2018).

Mike is currently a director (since September 2016) and Acting Chief Executive Officer (since April 2018) of AMP Limited. He is also a director of QBE Insurance Group Limited (since November 2016).

Company Secretary

Mei Ramsay - Group Executive, Legal, Governance & Regulatory Affairs and Company Secretary
BA, LLB, LLM

Mei was appointed Group Executive – Legal, Governance & Regulatory Affairs in September 2016, previously having held the position of Group General Counsel from 2011. She was appointed Company Secretary in 2014. She is responsible for providing legal, governance and regulatory compliance advice to Medibank's Board, CEO and senior management.

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

Directors who served part of the year
Dr Cherrell Hirst AO retired from the Board on 28 August 2017, having been a director since December 2009.

Directors' attendance at meetings

The table below shows the number of Board and committee meetings held and the number of meetings attended by directors during the year:

Director	Board		Audit Committee		Risk Management Committee		Investment and Capital Committee		Nomination Committee		People and Remuneration Committee		Board Sub-Committee	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Elizabeth Alexander	16	16	5	5	5	5		4*	1	1		4*	4	4
Dr Tracey Batten	12	12		4*	4	4		2*			3	3**		
Anna Bligh	16	15		2*		1*	4	4			4	4		
Craig Drummond	16	16		5*		5*		4*				4*	5	5
David Fagan	16	16		4*	5	5	4	4	1	1	4	4***	2	2
Dr Cherrell Hirst****	4	4	1	1	1	1					1	1		
Peter Hodgett	16	16	5	5		3*	4	4	1	1		3*		
Linda Bardo Nicholls	16	14		4*		3*		4*	1	1	4	4		
Christine O'Reilly	16	16	5	5	5	5		4*	1	1		3*	4	4
Mike Wilkins	16	16	-	4*	5	5	4	4	-	-		3*	1	1

A Indicates the number of meetings held during the time the director held office or was a member of the committee during the year.
B Indicates the number of meetings attended during the period.
* Indicates that the director attended committee meetings by invitation.
** Dr Tracey Batten was appointed a member of the People and Remuneration Committee effective 15 February 2018 and attended two People and Remuneration Committee meetings as an invitee and one as a member.
*** David Fagan retired as a member of the People and Remuneration Committee effective 15 February 2018. He attended three People and Remuneration Committee meetings as a member and one as an invitee.
**** Dr Cherrell Hirst retired from the Board effective 28 August 2017.

Options and performance rights

During the financial year 3,729,910 performance rights were issued to senior executives pursuant to Medibank's Performance Rights Plan. No performance rights have been issued since the end of the financial year up to the date of this report.

During the financial year 1,489,211 performance rights became eligible to vest and were exercised. Further information regarding performance rights is included in the remuneration report on page 16.

Directors' interests in securities

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

Director	Ordinary shares	Performance rights
Elizabeth Alexander	124,786	–
Craig Drummond	50,000	1,796,560
Dr Tracey Batten	10,000	
Anna Bligh	39,323	–
David Fagan	47,016	–
Dr Cherrell Hirst*	15,921	–
Peter Hodgett	67,800	–
Linda Bardo Nicholls	45,000	–
Christine O'Reilly	69,930	–
Mike Wilkins	33,500	–

* Dr Cherrell Hirst retired from the Board effective 28 August 2017 and her shareholding information is as at 28 August 2017.

Environmental regulation

The Group's operations are not subject to any particular or significant environmental regulation under either Commonwealth or State law.

Indemnification and insurance of directors and officers

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

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

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

Auditor's independence declaration

A copy of the auditor's independence declaration given by PricewaterhouseCoopers in relation to its compliance with independence requirements of section 307C of the Corporations Act is set out on page 44.

Non-audit services

The Group may decide to employ its external auditor, PricewaterhouseCoopers, on assignments additional to its statutory audit duties, where the auditor's expertise and experience with the Group are important. PricewaterhouseCoopers will only be engaged to provide a permissible non-audit service where there is a compelling reason for it to do so, and will not be engaged to perform any service that may impair or be perceived to impair its judgement or independence.

PricewaterhouseCoopers did not provide any non-audit services to the Group during the year.

The amounts paid or payable for services provided by PricewaterhouseCoopers were:

Year ended 30 June – $'000	**2018**	**2017**
Audit fees	1,587.0	1,571.1
Assurance services fees:		
Audit of regulatory returns	142.1	119.5
Non-audit service fees	-	-
Total	**1,729.1**	**1,690.6**

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.

Dear Shareholder,

We are pleased to present Medibank's 2018 remuneration report. Each year the Board determines remuneration outcomes for the Executive Leadership Team (ELT) with consideration of Company performance, individual performance and the expectations of both customers and shareholders.

In an environment of heightened community and regulatory expectations, Medibank's approach to remuneration is underpinned by a strong governance framework that ensures remuneration is fair, competitive and transparent, with individual reward dependant on meeting a risk, compliance and behaviour gateway and aligned with the achievement of Medibank and individual performance measures. Each year the Board reviews remuneration practices to ensure they remain effective at attracting, motivating and retaining executives with the capability required to deliver on Medibank's strategic objectives and to create long-term, sustainable value for our customers and shareholders.

Linking incentive payments with performance

Medibank achieved solid operational and financial performance in 2018, delivered with behaviours aligned to our values and purpose of 'better health for better lives'. This resulted in short-term incentive (STI) awards for Executive Leadership (ELT) members that averaged 58% of their maximum opportunity. Group operating profit exceeded expectations, Health Insurance revenue growth performance was above threshold expectations and Brand Net Promoter Score (NPS) landed just below a challenging target.

Medibank's 2016 long-term incentive (LTI) was tested following the completion of the performance period on 30 June 2018 and resulted in a vesting outcome of 96.6%. This outcome reflects Medibank's strong outcomes against both performance conditions over the three-year performance period, including earnings per share (EPS) compound annual growth of 14.2% and a relative total shareholder return (TSR) performance rank at the 74th percentile against our comparator group.

2019 remuneration settings

Following a review of fixed remuneration levels of ELT members against the median of Medibank's market comparator group, the fixed remuneration of ELT members was increased by an average of 4.1%, effective 1 July 2018. This included no increase to the fixed remuneration of the Chief Executive Officer (CEO), Craig Drummond. In addition, an adjustment was made to the annual STI target percentages for both the Group Executive – People & Culture and the Group Executive – Chief Financial Officer, to improve their positioning against the market median.

Board and committee fees were also reviewed against the median of Medibank's market comparator group with a 4.7% increase in the annual base fee for the Chairman to $445,000 and a 6.5% increase in the annual base fee for non-executive directors to $165,000. No increases were applied to committee membership fees. Medibank will also seek shareholder approval to increase the annual non-executive director fee cap by $300,000 to $2,300,000 at our Annual General Meeting (AGM) in November, effective from 1 July 2018. This will represent the first increase in the fee cap since it was established at the time of listing in 2014.

Shareholders are encouraged to vote in favour of the report's adoption at our AGM in November.

Yours sincerely,

Linda Bardo Nicholls AO
Chairman, People and Remuneration Committee

REMUNERATION REPORT

Contents

1. KEY MANAGEMENT PERSONNEL OVERVIEW

Medibank's key management personnel (KMP) includes all non-executive directors and executives who have authority and responsibility for planning, directing and controlling the activities of Medibank.

In 2018, KMP were as follows:

Executive Leadership Team (ELT) member	Position	Term as KMP
Craig Drummond	Chief Executive Officer	Full year
Kylie Bishop	Group Executive - People & Culture	Full year
John Goodall	Group Executive - Technology & Operations	Full year
David Koczkar	Group Executive - Chief Customer Officer	Full year
Mei Ramsay	Group Executive - Legal, Governance & Regulatory Affairs	Full year
Mark Rogers	Group Executive - Chief Financial Officer	Full year
Andrew Wilson	Group Executive - Healthcare & Strategy	Full year
Non-executive directors		
Elizabeth Alexander	Chairman	Full year
Tracey Batten	Non-executive director	From 28 August 2017
Anna Bligh	Non-executive director	Full year
David Fagan	Non-executive director	Full year
Peter Hodgett	Non-executive director	Full year
Linda Bardo Nicholls	Non-executive director	Full year
Christine O'Reilly	Non-executive director	Full year
Mike Wilkins	Non-executive director	Full year
Former non-executive director		
Cherrell Hirst	Non-executive director	Ceased 28 August 2017

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

2. SUMMARY OF REMUNERATION OUTCOMES

Key remuneration outcomes for Executive Leadership Team (ELT) members and non-executive directors during the year are summarised below, with detailed information contained in sections 6 and 10 of this report.

Component	Outcomes
Fixed remuneration	• Fixed remuneration of ELT members was increased by an average of 4.1%, effective 1 July 2018. The fixed remuneration of the Chief Executive Officer (CEO), Craig Drummond was not increased and remains at $1,534,000.
Short-term incentive (STI)	• STI awards for ELT members reflected a Group operating profit outcome that exceeded expectations, Health insurance revenue growth performance above threshold expectations and an outcome against Brand Net Promoter Score (NPS) that landed just below a challenging target. • The CEO received an STI award of $1,606,648. • The average STI awarded to ELT members was 58% of their maximum opportunity, 50% of which is deferred for 12 months in the form of performance rights. • To improve their positioning against the market median, an adjustment was made to the 2019 annual STI target percentages for both the Group Executive – People & Culture and Group Executive – Chief Financial Officer.
Long-term incentive (LTI)	• Medibank's 2016 LTI was tested in July 2018 with 96.6% vesting. Unvested performance rights have been forfeited in accordance with plan rules. • LTI grants were made in 2018 in accordance with the target remuneration mix for each ELT member.
Non-executive director fees	• Total amount paid to non-executive directors in 2018 was $1,825,653 (2017 $1,597,854). • The annual base fee for the Chairman was increased by 4.7% to $445,000, and the annual base fee for non-executive directors was increased by 6.5% to $165,000, both effective 1 July 2018. • No increases were applied to the committee chairman or membership fees. • Medibank will seek shareholder approval to increase the annual non-executive director fee cap by $300,000 to $2,300,000 at our Annual General Meeting (AGM) in November, effective from 1 July 2018.

3. MEDIBANK'S REMUNERATION STRATEGY

Our remuneration strategy is designed to focus Executive Leadership Team (ELT) members on responsibly executing Medibank's strategy and achieving business objectives to increase value for our customers and shareholders. To achieve this, Medibank's remuneration framework has been developed to link remuneration to business outcomes, individual performance and behaviour. It is designed to:

- Align the interests of ELT members with increasing customer and shareholder value.
- Reward ELT members for the achievement of challenging customer and financial strategic goals, and to deliver outcomes with behaviours aligned with Medibank's values and purpose.
- Ensure remuneration is fair and appropriate, having regard to the performance of Medibank and the relevant executive.
- Provide the necessary levels of remuneration to attract and retain key talent.
- Support Medibank's long-term financial soundness and risk management framework.

The diagram below illustrates the relationship between Medibank's remuneration strategy, reward framework and the timeline of when 2018 remuneration is delivered to ELT members.

Medibank's remuneration strategy

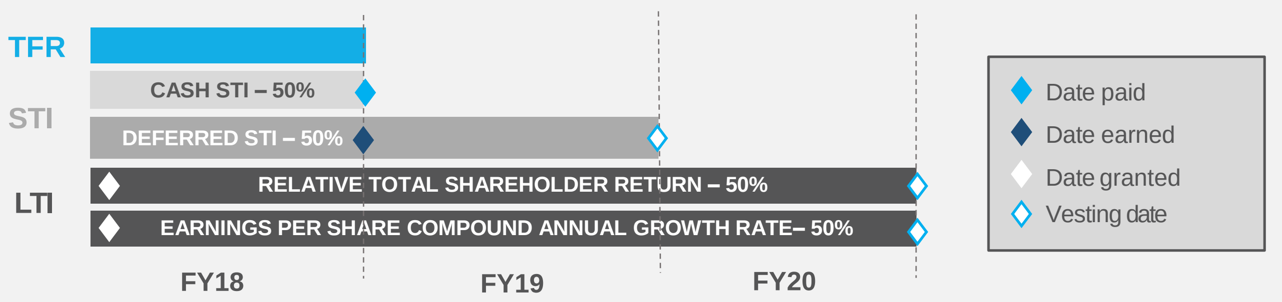
Focus ELT members on responsibly executing Group strategy to increase customer and shareholder value with behaviours aligned with Medibank's values and purpose

Attract and retain key talent through competitive and fair fixed remuneration	Link individual reward to the responsible achievement of customer and financial outcomes	Incentivise high performance through variable, at risk payments	Aligning reward with the creation of sustainable, long-term customer and shareholder value

Medibank's total target reward framework

REMUNERATION COMPONENTS	Total fixed remuneration (TFR)	Short-term incentive (STI)	Long-term incentive (LTI)
DELIVERED	Cash and superannuation	50% cash and 50% performance rights deferred for 12 months	3-year deferred performance rights
2018 PERFORMANCE MEASURES & GATEWAYS	**Incentive Gateways** • Risk, compliance and behaviour gateway • Financial gateway	**STI** • Group operating profit • Health insurance revenue growth • Brand NPS • Role-specific metrics	**LTI** • Earnings per share compound annual growth rate • Relative total shareholder return

2018 remuneration delivery timeline



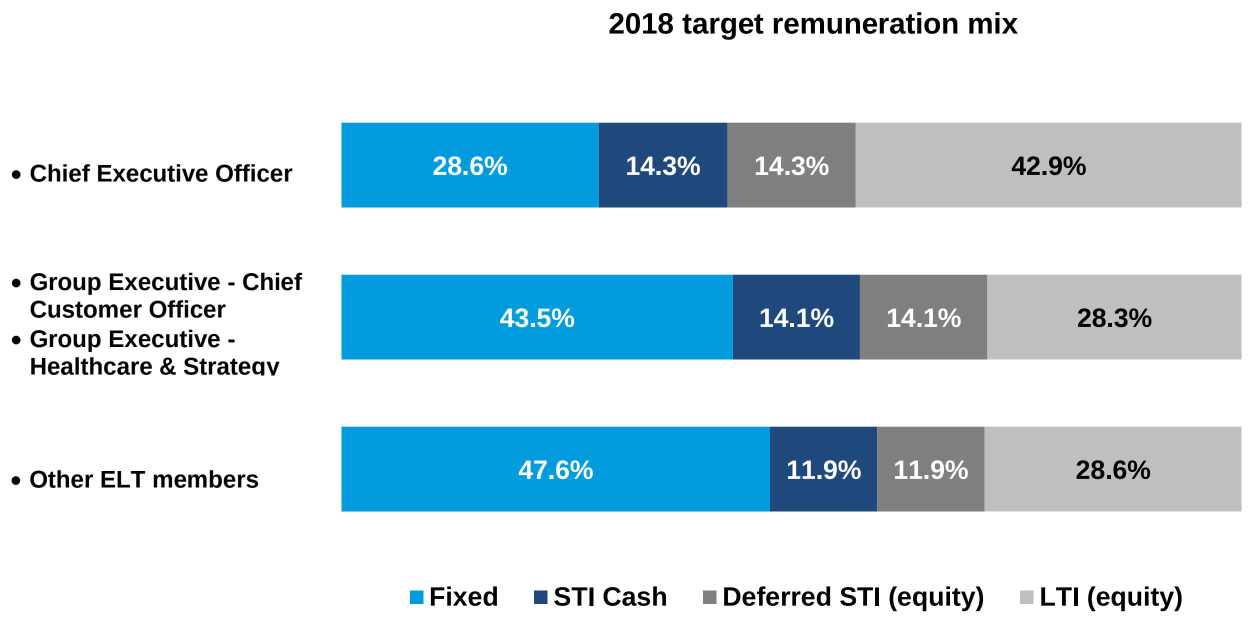
4. EXECUTIVE REMUNERATION COMPONENTS

Target remuneration for Executive Leadership Team (ELT) members is designed to reward sustained business performance that benefits both customers and shareholders. The Board aims to find a balance between:

- Fixed and at-risk remuneration.
- Short-term and long-term remuneration.
- Remuneration delivered in cash and deferred equity.

4.1 2018 target remuneration mix

The 2018 target remuneration mix for the Chief Executive Officer (CEO) and other ELT members is depicted below.



4.2 Total fixed remuneration (TFR)

TFR represents the fixed portion of executive remuneration and includes base salary and employer superannuation contributions.

Fixed remuneration is determined by the Board with reference to the executive's level of knowledge, skill, experience and the size and complexity of the role, as well as disclosed market-related median pay levels from companies in the ASX 11-100 (excluding mining and energy companies). This ensures that fixed remuneration is set at competitive and fair levels that enables Medibank to attract and retain high quality executives to drive performance improvement.

4.2.1 2018 and 2019 Total fixed remuneration

Details of 2018 and 2019 fixed remuneration levels for all permanent ELT members are provided below:

ELT member	Total fixed remuneration 2018 $	Total fixed remuneration 2019 $
Craig Drummond	1,534,000	1,534,000
Kylie Bishop	550,000	570,000
John Goodall	525,000	545,000
David Koczkar	845,000	910,000
Mei Ramsay	523,260	545,000
Mark Rogers	690,000	740,000
Andrew Wilson	940,000	960,000

4.3 Short-term incentive (STI)

ELT members are eligible to participate in Medibank's Short-Term Incentive (STI) Plan, which aligns the delivery of Medibank's strategy and creation of customer and shareholder value with annual incentives. The target and maximum annual STI that may be awarded to ELT members is expressed as a percentage of their respective TFR.

4.3.1 STI gateways

For an STI award to be made to an ELT member, the following gateways must be achieved:

- **Risk, compliance and behaviour gateway –** Individually assessed, ELT members must adhere to the Medibank Code of Conduct (which covers the minimum standards of behaviour and conduct), ensure the risks in respect of their position are well managed, and must complete all mandatory compliance training modules.
- **Financial gateway –** Medibank must achieve a baseline of financial performance, as determined by the Board for the performance period. In 2018, this baseline financial performance was a Group operating profit target.

4.3.2 STI performance measurement

At the commencement of the 2018 financial year, the Board determined challenging levels of performance for each of the Medibank and role-specific STI performance measures for ELT members. In setting these performance levels, the Board considers a number of factors including Medibank's strategic objectives, prior year performance, the external environment and shareholder expectations. The Board also ensures that performance levels are set for the current year in the context of achieving longer term customer and financial strategic goals. Further detail on each performance measure is outlined in section 6.1.

At the completion of the performance year, an assessment is first made on the achievement of the STI gateways. If achieved, ELT members are then assessed against the Medibank and role-specific performance measures to determine STI award outcomes.

For an ELT member to achieve a stretch STI award (therefore, award at maximum), performance against all Medibank and role-specific measures must be at or above stretch performance as set by the Board, and delivered with behaviour aligned with Medibank's values and purpose. This would represent exceptional performance, well above that of Medibank's strategic plan and shareholder expectations.

4.3.3 Key features of the STI Plan

What is the STI Plan?	An annual opportunity for ELT members to earn an incentive payment calculated as a percentage of their annual fixed remuneration, conditional on the achievement of the STI gateways and a combination of customer and financial measures.
Over what period is performance assessed?	The STI performance period is the financial year 1 July to 30 June.
How are STI payments delivered?	50% of STI awarded to ELT members is paid as cash, with the remaining 50% deferred for 12 months (deferred STI). Deferred STI is provided in the form of 12-month deferred performance rights.
When are STI payments made?	The cash component of STI is paid following the release of audited financial results, with performance rights for the deferred STI component granted shortly thereafter.
What method is used to determine the number of performance rights granted to each participant as part of the deferred STI?	Performance rights under the STI Plan are granted at face value. The deferred STI value for each ELT member is divided by the volume weighted average share price (VWAP) of Medibank shares to determine the number of units granted. For the 2018 deferred STI component the VWAP will be calculated on the 10 trading days up to and including 20 September 2018.
Are deferred STI performance rights entitled to receive a dividend payment?	Deferred STI performance rights do not attract dividends during the deferral period. To align participant outcomes with shareholders, on vesting of these performance rights additional Medibank shares are granted to ensure each participant receives a benefit equivalent to any dividends paid during the deferral period.
What gateways apply to the STI Plan?	For an STI award to be made to an ELT member, the following gateways must be achieved: • **Risk, compliance and behaviour gateway –** Individually assessed, ELT members must adhere to the Medibank Code of Conduct (which covers the minimum standards of behaviour and conduct), ensure the risks in respect of their position are well managed, and must complete all mandatory compliance training modules. • **Financial gateway –** Medibank must achieve a baseline of financial performance, as determined by the Board for the performance period. In 2018, this baseline financial performance was a Group operating profit target.
What are the performance measures under the STI Plan?	Performance measures under the STI Plan are determined by the Board at the commencement of each performance period. For 2018, the performance measures were: • Group operating profit (excluding investment income). • Health Insurance premium revenue growth. • Brand Net Promoter Score (NPS). • Role-specific metrics. Further detail on each performance measure is outlined in section 6.1.

Does Medibank disclose STI performance targets?	Due to the commercially sensitive nature of STI performance targets, we do not believe it is in the best interests of Medibank or shareholders to disclose this information. Section 6.1 of this report provides a detailed description of Medibank's STI performance measures and a brief description of how the organisation has performed against each measure in 2018.
Does Medibank have a clawback policy that applies to the STI Plan?	Medibank has an Executive Remuneration Clawback Policy that provides discretion to the Board to reduce, cancel, or recover (clawback) any award made under the STI Plan to an ELT member in certain circumstances. Further detail on this policy is outlined in section 5.2.2.
What happens to STI entitlements if an ELT member leaves Medibank?	If an ELT member is a 'good leaver' (meaning they cease employment by reason of death, serious disability, permanent incapacity, retirement, redundancy, or with Board approval), pro rata payment of STI applies. Section 5.2.5 provides additional information on the treatment of STI for people deemed as 'good leavers' by the Board.
In what circumstances are STI entitlements forfeited?	In the event an ELT member is not considered a 'good leaver' (meaning they cease employment for any reason other than death, serious disability, permanent incapacity, retirement, redundancy or with Board approval), the ELT member will forfeit any payment under the STI Plan, including any unvested deferred STI grants, unless otherwise determined by the Board.

4.3.4 Annual STI opportunity

The target and maximum annual STI opportunity as a percentage of TFR for ELT members is outlined in the table below.

	2018		2019	
ELT member	**Target**	**Maximum**	**Target**	**Maximum**
Craig Drummond	100%	150%	100%	150%
Kylie Bishop	50%	100%	55%	100%
John Goodall	50%	100%	50%	100%
David Koczkar	65%	100%	65%	100%
Mei Ramsay	50%	100%	50%	100%
Mark Rogers	50%	100%	60%	100%
Andrew Wilson	65%	100%	65%	100%

4.4 Long-term incentive (LTI)

Medibank's LTI Plan is designed to focus ELT members on delivering sustainable business performance and customer and shareholder value over the long term.

4.4.1 Key features of the LTI Plan

What is the LTI Plan?	An opportunity for ELT members to receive Medibank shares upon the achievement of performance hurdles over a three-year period. Participants receive performance rights at the time of grant, which vest into ordinary Medibank shares subject to achieving specific performance hurdles at the end of the performance period.
What is the aim of the LTI Plan?	The Medibank LTI Plan is designed to: • Align the interests of ELT members more closely with the interests of customers and shareholders, by providing an opportunity for those executives to receive an equity interest in Medibank through the granting of performance rights. • Assist in the motivation, retention and reward of ELT members over the three-year deferral period.
What is the performance period for 2018 LTI Plan?	The performance period for the 2018 LTI Plan is three financial years commencing 1 July 2017. A three-year performance period strikes a balance between providing a reasonable period to align reward with shareholder return and the LTI acting as a vehicle for executive motivation and retention.
What are performance rights?	Performance rights issued to ELT members under the LTI Plan are conditional rights for the participant to subscribe for fully paid ordinary shares in Medibank. Each performance right entitles the ELT member to subscribe for one ordinary share if the performance hurdles are met at the conclusion of the performance period. No amount is payable by the participant upon grant of the performance rights, or upon exercise of the performance rights once they have vested.
What method is used to determine the number of performance rights granted to each participant?	Performance rights under the LTI Plan are granted at face value. Each ELT member receives a percentage of their fixed remuneration in LTI (refer to section 4.4.2 for details). This amount is then divided by the face value of Medibank shares. For the 2018 LTI Plan, the number of performance rights granted to each ELT member was determined using the volume weighted average price of Medibank shares on the ASX during the 10 trading days up to and including, 30 June 2017. This average price was $2.77.
What gateways apply to the LTI Plan?	For an LTI award to be granted to an ELT member, the following gateway must be met prior to grant: • **Risk, compliance and behaviour gateway –** Individually assessed, ELT members must adhere to the Medibank Code of Conduct (which covers the minimum standards of behaviour and conduct), ensure the risks in respect of their position are well managed, and must complete all mandatory compliance training modules.

What are the performance hurdles under the 2018 LTI Plan?	Performance rights issued under the 2018 LTI Plan are subject to two separate performance hurdles: • 50% of the performance rights are subject to a performance hurdle based on Medibank's earnings per share compound annual growth rate (EPS CAGR) over the performance period. The starting point for EPS will be calculated using Medibank's underlying profit as at 30 June 2017 and the performance period for the EPS performance hurdle will run for three years from 1 July 2017 through to 30 June 2020. Further detail on the profit measure used in the calculation of EPS is provided in section 4.4.3. • 50% of the performance rights are subject to a relative total shareholder return (TSR) performance hurdle, measured over the performance period. Medibank's relative TSR will be compared to a comparator group comprising companies with a market capitalisation positioned within the ASX 11-100 (excluding mining and energy companies). These performance hurdles were chosen by the Board as they are aligned with shareholders' interests and both measures are transparent, well understood and tested mechanisms to measure performance and provide a strong link between executive reward and shareholder wealth creation. Both performance hurdles under the 2018 LTI Plan have threshold levels which need to be achieved before vesting commences. Details of these thresholds are outlined in the vesting schedule in section 4.4.3.
When do the performance rights vest?	Performance hurdles are assessed as soon as practicable after the completion of the relevant performance period. The number of performance rights that vest (if any) will be relative to the achievement against the performance hurdles. See section 4.4.3 for the vesting schedule associated with each performance hurdle.
Are the performance hurdles re-tested?	No. Performance hurdles are only tested once at the end of the relevant performance period. Any performance rights that remain unvested at the end of the performance period will be immediately forfeited.
Are LTI performance rights entitled to receive a dividend payment?	LTI performance rights do not attract a dividend during the performance period, as they are still subject to performance hurdles that will determine the number of rights that convert to ordinary Medibank shares.
Does Medibank have a clawback policy that applies to the LTI Plan?	Medibank has an Executive Remuneration Clawback Policy that provides discretion to the Board to reduce, cancel, or recover (clawback) any award made under the LTI Plan to an ELT member in certain circumstances. Further detail on this policy is outlined in section 5.2.2.
What happens to LTI entitlements if an ELT member leaves Medibank?	If an ELT member is a 'good leaver' (meaning they cease employment by reason of death, serious disability, permanent incapacity, retirement, redundancy, or with Board approval), a portion of the performance rights held (granted, but not vested) by that participant on cessation of employment will be forfeited on a pro rata basis according to a formula which takes into account the length of time the participant has held the performance rights relative to the performance period for the grant. The retained performance rights will remain unvested and will be tested at the end of the performance period against the existing performance hurdles.

In what circumstances are LTI entitlements forfeited?	LTI entitlements are forfeited if performance hurdles are not met. In the event an ELT member is not considered a 'good leaver' (meaning they cease employment for any reason other than death, serious disability, permanent incapacity, retirement, redundancy or with Board approval), the performance rights held (granted, but not vested) by that participant on cessation of employment will be automatically forfeited.

The annual LTI allocation value as a percentage of TFR for ELT members is outlined in the table below. There has been no change to these values between 2018 and 2019.

4.4.2 Annual LTI allocation

	2018 and 2019
ELT member	**LTI value as % of TFR**
Craig Drummond	150%
Kylie Bishop	60%
John Goodall	60%
David Koczkar	65%
Mei Ramsay	60%
Mark Rogers	60%
Andrew Wilson	65%

4.4.3 LTI hurdles explained

Prior to the 2018 LTI grant, the Board reviewed the targets and vesting conditions in the context of the lower growth environment in which Medibank is operating. The Board is committed to setting targets which are appropriately challenging for management to meet while not being unattainable and, which ultimately, support the delivery of strong results for our customers and shareholders.

The Board believes that the vesting conditions set for the 2018 grant are robust targets which require strong performance. The Board will continue to review the LTI performance measures and targets to ensure they continue to align with our business strategy and the experience of our customer and shareholders.

2018 EPS performance rights

In this context, the Board approved a threshold EPS CAGR target of 3% for the 2018 LTI grant. The number of EPS performance rights that vest on achievement of the threshold EPS CAGR target has been reduced to 33.33% of the EPS performance rights. The EPS CAGR target that must be met for 100% of the EPS performance rights to vest has been retained by the Board at 9%. Details of the vesting schedule are outlined in the table below:

Medibank's EPS CAGR over the performance period	**Percentage of EPS performance rights that vest**
Less than 3% EPS CAGR	Nil
At 3% EPS CAGR	33.33%
Between 3% and 9% EPS CAGR	Straight-line pro rata vesting between 33.33% and 100%
9% EPS CAGR or greater	100%

Medibank's performance against the EPS hurdle is calculated based on the compound annual growth rate (CAGR) of Medibank's EPS over the performance period. EPS is based on underlying profit, which adjusts statutory net profit after tax (NPAT) where appropriate, for short-term outcomes that are expected to normalise over the medium to longer term, most notably in relation to the level of gains or losses from investments, due to the limited control that management has over these outcomes. The CAGR from an EPS base calculated at the beginning of the performance period will be calculated on Medibank's fully diluted EPS using Medibank's underlying NPAT for the year ending 30 June 2020. As set out in the table above, the resulting CAGR will determine the level of vesting for the EPS performance rights.

2018 TSR performance rights

Medibank's TSR will be compared against companies within the ASX 11-100 (excluding mining and energy companies), which is the same comparator group used for executive and non-executive remuneration benchmarking. For any of the 2018 TSR performance rights to vest, Medibank must achieve the threshold TSR ranking over the performance period. The percentage of the 2018 TSR performance rights that vest, if any, will be based on Medibank's TSR ranking at the end of the performance period, as set out in the following vesting schedule:

Medibank's TSR rank in the 2018 comparator group	Percentage of TSR performance rights that vest
Less than 50th percentile	Nil
Equal to 50th percentile	50%
Greater than 50th and up to 75th percentile	Straight-line pro rata vesting between 50% and 100%
At or above 75th percentile	100%

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

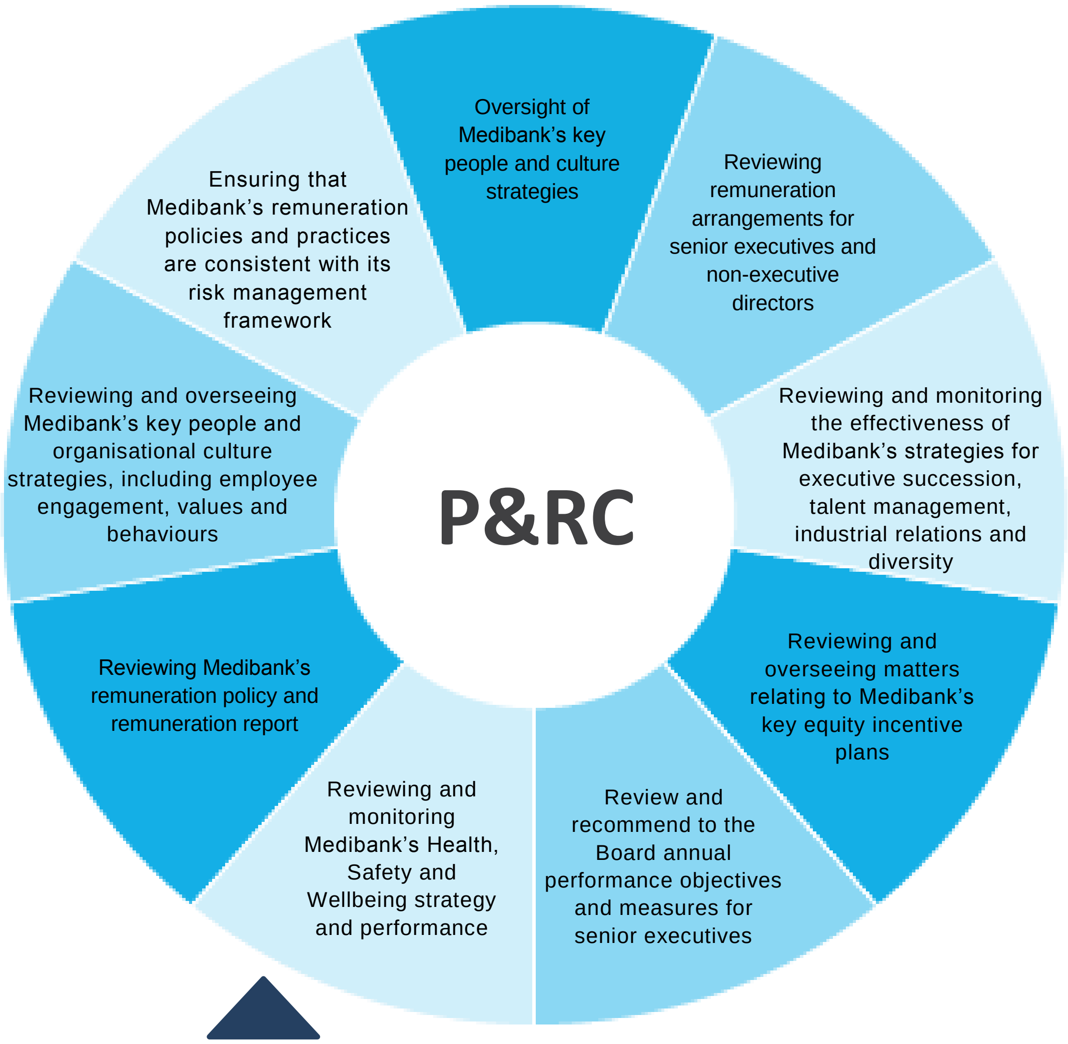
a) The change in share price of each company over the performance period. The change in share price is calculated using the volume weighted average price (VWAP) of each entity over the 20 trading days leading up to and including the performance period start and end dates. The VWAP at the end of the performance period will be adjusted for any stock splits that occur during the performance period.
b) The value of all dividends and other shareholder benefits paid by each company during the performance period assuming that:
    i. The dividends and shareholder benefits are reinvested in the relevant company at the closing price of the securities on the date the dividend or shareholder benefit was paid.
    ii. Franking credits are disregarded.

5. REMUNERATION GOVERNANCE

Medibank has a robust governance framework in place to ensure that our remuneration, performance and succession practices are fair, reasonable and consistent with the organisation's risk management framework and applicable regulations.

5.1 The role of the Board in remuneration

The People and Remuneration Committee (P&RC) is a committee of the Board. The diagram below outlines the role of the P&RC in assisting and advising the Board on people and culture policies and practices, including remuneration:



Independent remuneration advisor

- KPMG provides information to assist the P&RC in making remuneration decisions and recommendations to the Board
- The work undertaken by KPMG in 2018 did not constitute a remuneration recommendation

While there are three permanent members of the People and Remuneration Committee, a standing invitation exists to all directors to attend meetings. The CEO and Group Executive – People & Culture are also invited to attend P&RC meetings, except where matters associated with their own performance or remuneration are considered. For meeting attendance information with respect to the People and Remuneration Committee, refer to the table on page 14 of the directors' report. For biographical information on the Medibank non-executive directors, including those listed above, refer to page 11 of the directors' report.

5.2 Executive remuneration policies

5.2.1 Performance evaluation of ELT members

At the outset of each performance year, the Board determines the measures against which ELT members will be assessed. The measures are a combination of Medibank and role-specific performance measures that are aligned to the achievement of Medibank's customer and financial milestones set out by the organisation in November 2016 (further details of these milestones can be found on page 6 of the Operating and Financial Review). ELT members are individually assessed against these Company and role-specific performance measures when determining both fixed remuneration increases and STI outcomes at the conclusion of each performance year. STI awards are also subject to ELT members meeting the individually assessed risk, compliance and behaviour gateway and Medibank achieving the financial gateway, as outlined in section 4.3. Additional detail on STI performance measures are included in sections 4 and 6 of this report and further information on fixed remuneration levels for ELT members is outlined in section 4.2.

At the completion of the performance year, the Chief Executive Officer (CEO) reviews each ELT member against the risk, compliance and behaviour gateway and the role-specific measures and presents an evaluation of their performance to Board. The Board then reviews the CEO's evaluations and reserves ultimate discretion over performance outcomes to ensure alignment with Medibank performance shareholder expectations.

The performance of the CEO is reviewed by the Chairman in consultation with the Board against the risk, compliance and behaviour gateway, and a range of assessment criteria including customer, financial, risk management and leadership, to ensure remuneration outcomes are aligned with Medibank performance and customer and shareholder expectations.

5.2.2 Clawback of executive performance-based remuneration

Medibank has an Executive Remuneration Clawback Policy that provides discretion to the Board to reduce, cancel, or recover (clawback) any performance-based awards made to a senior executive employee in certain circumstances:

- Serious misconduct or fraud by the employee.
- Unsatisfactory performance by the employee to the detriment of strategic Medibank objectives.
- Error in the calculation of a performance measure related to performance-based remuneration.
- A misstatement of the Group's financial statements.
- The Board becomes aware of any other action or behaviour that it determines (acting in good faith) has resulted in the employee receiving an inappropriate benefit.

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

5.2.3 Executive shareholding requirements

ELT members are subject to a Minimum Shareholding Policy that is designed to strengthen their alignment with customers and shareholders and create a vested interest in the long-term performance of Medibank. The policy requires ELT members to hold Medibank shares with a value equivalent to 100% of their annual fixed remuneration within five years of appointment to the ELT.

All Medibank shares and unvested performance rights that are subject to a tenure-based hurdle held by, or on behalf of, the executive (for example within a family trust or self-managed superannuation fund where they are the beneficial owner) will count towards satisfaction of the minimum shareholding requirement.

ELT members are restricted from selling their vested employee equity holdings (other than to satisfy income tax obligations) until they meet the minimum shareholding requirement.

As at 30 June 2018, progress towards the minimum shareholding requirement for each permanent ELT member is provided below:

ELT member	Minimum shareholding requirement $[1]	Value of eligible shareholdings as at 30 June 2018 $[2]	Minimum shareholding requirement timeline
Craig Drummond	1,534,000	731,664	4 July 2021
Kylie Bishop	550,000	803,201	Requirement satisfied
John Goodall	525,000	52,794	5 December 2021
David Koczkar	845,000	1,824,834	Requirement satisfied
Mei Ramsay	523,260	96,135	14 September 2021
Mark Rogers	690,000	340,072	3 January 2022
Andrew Wilson	940,000	1,633,270	Requirement satisfied

1. Minimum shareholding requirement based on ELT members' total fixed remuneration (TFR) as at 30 June 2018.
2. Holding value is calculated with reference to the total number of eligible shares or performance rights held by each ELT member, multiplied by the closing price of Medibank's shares on 29 June 2018 ($2.92).

5.2.4 Share Trading Policy

Medibank has a Share Trading Policy to ensure that all employees understand their obligations in relation to dealing in Medibank shares. The Share Trading Policy describes restrictions on buying and selling Medibank shares for non-executive directors and other Medibank employees.

In addition, non-executive directors, ELT members, all senior leaders and employees with potential access to inside information are deemed to be 'Restricted Employees.' They are required to seek approval before dealing in Medibank shares and are subject to share trading blackouts prior to financial result announcements and other times, as required. The policy also prohibits employees from entering into transactions relating to Medibank shares which limit their economic risks, including in relation to the LTI Plan and equity-based component of the STI Plan.

Medibank's Share Trading Policy can be found on the corporate website under Corporate Governance.

5.2.5 Termination provisions in ELT member contracts

All current ELT members are employed under ongoing contracts with notice periods set at three months (employee) and six months (employer), or in the case of the CEO, six months (employee) and twelve months (employer). Termination provisions included in ELT member contracts are limited to six months payment of fixed remuneration, in lieu of notice, or twelve months in the case of the CEO.

If an ELT member is assessed by the Board as a 'good leaver' (meaning they cease employment by reason of death, serious disability, permanent incapacity, retirement, redundancy or with Board approval), the cash STI award in respect of the performance year in which they leave would be paid on a pro rata basis at the end of the STI performance period. The deferred component of the STI award will be paid in cash (rather than performance rights) on a pro rata basis with payment deferred until 12 months following the payment of the cash component. Any previously deferred STI remains restricted until the applicable vesting date, unless determined otherwise by the Board. Performance rights issued as LTI are retained on a pro rata basis by a 'good leaver'. Retained performance rights remain unvested and subject to the same vesting conditions that will be assessed at the end of the performance period. Further details of the termination provisions that relate to the STI and LTI plans are detailed in section 4 of this report.

6. LINKING REMUNERATION AND PERFORMANCE IN 2018

6.1 2018 STI performance scorecard

The following table details the 2018 STI performance scorecard measures, weightings and assessment as applied to the Chief Executive Officer (CEO) and other Executive Leadership Team (ELT) members.

Measure	Description	Weighting		2018 performance assessment
		CEO	Other ELT members	
Risk, compliance and behaviour gateway	Individually assessed, ELT members must adhere to the Medibank Code of Conduct (which covers the minimum standards of behaviour and conduct), ensure the risks in respect of their position are well managed, and must complete all mandatory compliance training modules.	Gateway	Gateway	*All achieved*
Financial Gateway	Medibank must achieve a baseline of financial performance, as determined by the Board for the performance period. In 2018, this baseline financial performance was a Group operating profit target.	Gateway	Gateway	*Achieved*
Group operating profit	Group operating profit is defined as gross profit less management expenses of the Group. It excludes investment income to reflect the limited influence that ELT members have over the external factors impacting investment returns. Group operating profit represents the core financial measure for the annual STI Plan and reflects the Board's belief that it is the best measure of underlying business performance and value created for customers and shareholders over the performance period.	45%	30%	*Stretch*
Health Insurance premium revenue growth	Health Insurance premium revenue growth is defined as year on year percentage growth in revenue within Medibank's Health Insurance business. It represents a headline financial measure that is of particular focus for shareholders and motivates management to grow our customer base, while retaining existing customers. Measured alongside the core metric of Group operating profit, the focus of this measure is sustainable and profitable revenue growth to ensure optimal value creation for customers and shareholders.	20%	25%	*Above threshold*
Brand Net Promoter Score	Brand Net Promoter Score (NPS) is a key customer advocacy metric that measures the likelihood of people recommending Medibank to their families and friends. This value is compared against Medibank's largest competitors (BUPA, NIB and HCF) over the same period. NPS outcomes for both Medibank and our competitors are independently assessed and calculated.	20%	20%	*Not achieved*
Role-specific	Measurable role-specific metrics are aligned to the achievement of Medibank's customer and financial milestones set out by the organisation in November 2016. These metrics require the achievement of customer, financial, risk, and/or leadership performance and are chosen by the Board to ensure delivery of Medibank's strategic objectives for the year and to drive sustainable value creation for our customers and shareholders.	15%	25%	*Ranging between target and above target*

6.2 Medibank's 2018 financial performance

Medibank's 2018 annual financial performance is provided in the table below in addition to the average 2018 STI award achieved by ELT members, as a percentage of maximum opportunity. This table illustrates the relationship between the key indicators of shareholder wealth creation and STI outcomes for ELT members. As Medibank's reward framework changed significantly to reflect the privatisation that took place on 25 November 2014, financial performance and STI outcomes have not been included for financial years prior to 2015.

Measure	2015	2016	2017	2018
Health Insurance premium revenue growth	5.1%	4.0%	1.2%	1.2%
Group operating profit[1]	$320.0m	$505.5m	$500.5m	$548.8m
Group net profit after tax (NPAT)[1]	$291.8m	$417.6m	$449.5m	$445.1m
Dividend	5.3 cents p/s	11.0 cents p/s	12.0 cents p/s	12.7 cents p/s
Share price as at 1 July[2]	$2.15	$2.01	$2.95	$2.80
Share price as at 30 June	$2.01	$2.95	$2.80	$2.92
Average ELT STI as a percentage of maximum opportunity	64%	59%	44%	58%

1. Consistent with the Prospectus, the Group operating profit and Group NPAT figures for 2015 reflect pro forma financial information and is derived from the statutory consolidated income statement adjusted to reflect the half year of corporate costs as a publicly listed entity and the exclusion of the one-off costs of the initial public offering and certain significant and other items.
2. The 2015 share price of $2.15 reflects Medibank's share price at the time of listing on the ASX on 25 November 2014.

6.3 2018 STI awards

The table below provides a summary of STI awards for the 2018 performance year.

ELT member	Total STI achieved $	STI cash (50%) $	STI deferred (50%) $	Total STI achieved as % of target	Total STI achieved as % of max opportunity
Craig Drummond	1,606,648	803,324	803,324	105%	70%
Kylie Bishop	297,295	148,647	148,648	108%	54%
John Goodall	283,782	141,891	141,891	108%	54%
David Koczkar	554,698	277,349	277,349	101%	66%
Mei Ramsay	282,841	141,420	141,421	108%	54%
Mark Rogers	298,376	149,188	149,188	86%	43%
Andrew Wilson	617,060	308,530	308,530	101%	66%

6.4 2016 LTI Plan outcomes

The performance period for the 2016 LTI Plan concluded on 30 June 2018. The table below outlines the final outcome against each performance hurdle and associated vesting percentage for each hurdle, and the plan.

Performance hurdle	Outcome	Vesting percentage
EPS CAGR	14.2%	95.2%
Relative TSR	74th percentile	98.0%
Total 2016 LTI vesting percentage		**96.6%**

Both performance hurdles were assessed in line with the original terms of the plan and no Board discretion was used in determining the final outcome. The performance rights under the 2016 LTI Plan that do not vest as a result of the performance hurdle outcomes not being met, will lapse immediately.

The 2017 and 2018 LTI plans remain in restriction and will be assessed against their performance hurdles at the completion of the 2019 and 2020 financial years respectively.

7. 2018 ACTUAL REMUNERATION

The table below represents the 2018 'actual' remuneration for Executive Leadership Team (ELT) members and includes all cash payments made in relation to 2018, in addition to deferred short-term incentive (STI) awards that vested in 2018.

Statutory remuneration disclosures prepared in accordance with the Corporations Act 2001 and Australian Accounting Standards differ to the numbers presented below, as they include (among other benefits) expensing for equity grants that are yet to realise or may never be realised. The statutory remuneration table in respect of the ELT members is presented in section 8.

ELT member	Base salary and superannuation	Cash STI for performance to 30 June 2018	Total cash payments in relation to 2018	Deferred equity awards that vested in 2018[1]	Total 2018 actual remuneration	Forgone equity awards that lapsed in 2018[2]
Craig Drummond	1,534,000	803,324	**2,337,324**	-	**2,337,324**	-
Kylie Bishop	550,000	148,647	**698,647**	472,351	**1,170,998**	(20,472)
John Goodall	525,000	141,891	**666,891**	-	**666,891**	-
David Koczkar	845,000	277,349	**1,122,349**	864,848	**1,987,197**	(35,237)
Mei Ramsay	523,260	141,420	**664,680**	-	**664,680**	-
Mark Rogers	690,000	149,188	**839,188**	302,119	**1,141,307**	-
Andrew Wilson	940,000	308,530	**1,248,530**	851,785	**2,100,315**	(35,237)

1. Deferred equity awards that vested in 2018 for Kylie Bishop, David Koczkar and Andrew Wilson relate to the 2015 LTI performance rights that vested during the year and the deferred STI performance rights granted in respect to the 2016 performance year. The deferred equity awards that vested in 2018 for Mark Rogers relate to his commencement performance rights that vested during the year.
2. Forgone equity awards that lapsed in 2018 relate to the portion of the 2015 LTI performance rights that lapsed following the testing of the performance hurdles in July 2017.

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8. STATUTORY REMUNERATION TABLES

8.1 Statutory remuneration table

The following table has been prepared in accordance with Section 300A of the Corporations Act 2001 and details the statutory accounting expense of all remuneration-related items for the Executive Leadership Team (ELT) members. Note that, in contrast to the table in section 7 that details 2018 actual remuneration, the table below includes accrual amounts for equity awards being expensed throughout 2018 that are yet to, and may never be realised by the ELT member.

ELT member	Financial year	Short-term benefits				Post-employment benefits	Long-term benefits		Equity-based benefits	Other	Total remuneration $
		Salary $[1]	STI $	Other $	Non-monetary benefits $[2]	Superannuation $	Leave $[3]	Deferred STI $	Performance rights $[4]	Termination benefits $[5]	
Craig Drummond	**2018**	**1,482,063**	**803,324**	**-**	**30,341**	**25,000**	**38,919**	**-**	**1,293,005**	**-**	**3,672,652**
	2017	1,518,552	597,701	-	23,776	37,404	36,221	-	594,769	-	2,808,423
Kylie Bishop	**2018**	**519,554**	**148,647**	**-**	**16,173**	**25,000**	**26,586**	**-**	**273,382**	**-**	**1,009,342**
	2017	465,099	91,875	-	17,470	24,807	15,672	-	279,626	-	894,549
John Goodall	**2018**	**494,820**	**141,891**	**-**	**20,214**	**25,000**	**12,927**	**-**	**176,914**	**-**	**871,766**
	2017	277,593	53,879	-	10,803	17,084	6,696	-	49,879	-	415,934
David Koczkar	**2018**	**802,421**	**277,349**	**-**	**23,589**	**19,954**	**22,654**	**-**	**533,009**	**-**	**1,678,976**
	2017	801,569	201,094	-	24,188	25,096	34,481	-	549,251	-	1,635,679
Mei Ramsay	**2018**	**506,188**	**141,420**	**-**	**20,316**	**24,638**	**12,457**	**-**	**192,515**	**-**	**897,534**
	2017	370,326	78,188	-	16,755	18,533	9,897	-	73,410	-	567,109
Mark Rogers	**2018**	**699,963**	**149,188**	**-**	**20,400**	**20,044**	**33,476**	**-**	**340,654**	**-**	**1,263,725**
	2017	344,757	63,944	-	9,347	9,923	8,214	-	184,017	-	620,202
Andrew Wilson	**2018**	**855,485**	**308,530**	**-**	**33,442**	**25,000**	**34,705**	**-**	**572,198**	**-**	**1,829,360**
	2017	895,387	244,375	-	30,800	32,996	103,873	-	559,616	-	1,867,047
Former ELT member											

Tom Exton	**2018**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2017	89,961	24,120	66,596	1,915	22,081	2,851	-	-	-	207,524
Paul Koppelman	**2018**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2017	74,043	-	-	6,322	9,427	-	77,625	56,613	345,000	569,030
Total ELT remuneration	**2018**	**5,360,494**	**1,970,349**	**-**	**164,475**	**164,636**	**181,724**	**-**	**3,381,677**	**-**	**11,223,355**
	2017	4,837,287	1,355,176	66,596	141,376	197,351	217,905	77,625	2,347,181	345,000	9,585,497

1. Salary includes annual base salary paid on a fortnightly basis and accrued but untaken annual leave entitlements which are expected to be taken in the next 12 months.
2. Non-monetary benefits may include death, total and permanent disablement insurance, salary continuance insurance, subsidised Medibank health insurance and fringe benefits that are on the same terms and conditions that are available to all employees of the Group.
3. Long-term leave comprises an accrual for long service leave and accrued but untaken annual leave entitlements which are not expected to be taken in the next twelve months.
4. Performance rights include equity-based remuneration incurred during the relevant financial year. The values are based on the grant date fair value amortised on a straight-line basis over the performance period.
5. Termination benefits for Paul Koppelman in 2017 refers to a termination payment equivalent to six months in lieu of notice in line with contractual obligations.

8.2 Performance-related remuneration statutory table

The following table provides an analysis of the non-performance-related (fixed remuneration) and performance-related (short-term incentive and long-term incentive) components of the 2018 remuneration mix for Medibank's ELT members as detailed in the 'Statutory remuneration table'.

ELT member	Financial year	*Non-performance-related*	*Performance-related remuneration*			Total performance-related remuneration	Total
		Fixed remuneration[1]	Cash STI	Deferred STI[2]	LTI[3]		
Craig Drummond	2018	42.9%	21.9%	19.1%	16.1%	57.1%	100.0%
Kylie Bishop	2018	58.2%	14.7%	11.9%	15.2%	41.8%	100.0%
John Goodall	2018	63.4%	16.3%	11.2%	9.1%	36.6%	100.0%
David Koczkar	2018	51.7%	16.5%	14.3%	17.5%	48.3%	100.0%
Mei Ramsay	2018	62.8%	15.8%	12.2%	9.2%	37.2%	100.0%
Mark Rogers	2018	71.1%	11.8%	8.5%	8.6%	28.9%	100.0%
Andrew Wilson	2018	51.9%	16.9%	15.1%	16.1%	48.1%	100.0%

1. Fixed remuneration includes the accounting expense from all columns of the 'Statutory remuneration table' other than 'Cash STI' and 'Performance rights' for all ELT members, with the exception of Mark Rogers. The fixed remuneration percentage for Mark Rogers also includes the 2018 expense of his commencement performance rights as the award is not performance-related.
2. Deferred STI includes the 2018 accounting expense of the 2017 and 2018 deferred STI components 'Performance rights' columns of the 'Statutory remuneration table'.
3. Where applicable, LTI includes the 2018 accounting expense of the 2016, 2017 and 2018 LTI component of the 'Performance rights' column of the 'Statutory remuneration table'.

9. EXECUTIVE LEADERSHIP TEAM (ELT) EQUITY AWARDS

9.1 ELT equity award transactions

Details of 2018 ELT equity award transactions and outstanding holdings granted in previous years are set out below.

ELT member	Award type	Units granted	Grant date	Vesting and exercise date[1]	Unit price at grant $[2]	Fair value at grant $[3]	Vested			Lapsed			Unvested balance at 30 June 2018[4]	
							Units	%	$	Units	%	$	Units	$
Craig Drummond	2018 LTI performance rights	830,684	27/12/2017	01/07/2020	2.77	1.90	-	-	-	-	-	-	830,684	1,578,300
	2017 deferred STI performance rights	200,570	27/12/2017	20/09/2018	2.98	-	-	-	-	-	-	-	200,570	597,699
	2017 LTI performance rights	765,306	01/03/2017	01/07/2019	2.94	1.78	-	-	-	-	-	-	765,306	1,362,245
Kylie Bishop	2018 LTI performance rights	119,132	27/12/2017	01/07/2020	2.77	1.90	-	-	-	-	-	-	119,132	226,351
	2017 deferred STI performance rights	30,830	27/12/2017	20/09/2018	2.98	-	-	-	-	-	-	-	30,830	91,873
	2017 LTI performance rights	100,000	01/03/2017	01/07/2019	2.94	1.78	-	-	-	-	-	-	100,000	178,000
	2016 deferred STI performance rights	48,463	01/03/2017	05/10/2017	2.44	-	48,463	100%	142,966	-	-	-	-	-
	2016 LTI performance rights	125,242	29/10/2015	01/07/2018	2.06	1.82	-	-	-	-	-	-	125,242	227,314
	2015 LTI performance rights	111,882	22/05/2015	01/07/2017	2.15	1.39	105,170	94%	320,769	6,712	6%	20,472	-	-
John Goodall	2018 LTI performance rights	113,718	27/12/2017	01/07/2020	2.77	1.90	-	-	-	-	-	-	113,718	216,064
	2017 deferred STI performance rights	18,080	27/12/2017	20/09/2018	2.98	-	-	-	-	-	-	-	18,080	53,878
	2017 LTI performance rights	87,868	01/03/2017	01/07/2019	2.94	1.78	-	-	-	-	-	-	87,868	156,405
David Koczkar	2018 LTI performance rights	198,284	27/12/2017	01/07/2020	2.77	1.90	-	-	-	-	-	-	198,284	376,740
	2017 deferred STI performance rights	67,481	27/12/2017	20/09/2018	2.98	-	-	-	-	-	-	-	67,481	201,093
	2017 LTI performance rights	182,396	01/03/2017	01/07/2019	2.94	1.78	-	-	-	-	-	-	182,396	324,665

	2016 deferred STI performance rights	100,000	01/03/2017	05/10/2017	2.44	-	100,000	100%	295,000	-	-	-	-	-
	2016 LTI performance rights	252,426	29/10/2015	01/07/2018	2.06	1.82	-	-	-	-	-	-	252,426	458,153
	2015 LTI performance rights	192,558	22/05/2015	01/07/2017	2.15	1.39	181,005	94%	533,965	11,553	6%	35,237	-	-
Mei Ramsay	2018 LTI performance rights	113,340	27/12/2017	01/07/2020	2.77	1.90	-	-	-	-	-	-	113,340	215,346
	2017 deferred STI performance rights	32,923	27/12/2017	20/09/2018	2.98	-	-	-	-	-	-	-	32,923	98,111
	2017 LTI performance rights	100,854	01/03/2017	01/07/2019	2.94	1.78	-	-	-	-	-	-	100,854	179,520
Mark Rogers	2018 LTI performance rights	149,458	27/12/2017	01/07/2020	2.77	1.90	-	-	-	-	-	-	149,458	283,970
	2017 deferred STI performance rights	21,457	27/12/2017	20/09/2018	2.98	-	-	-	-	-	-	-	21,457	63,942
	2017 LTI performance rights	117,346	01/03/2017	01/07/2019	2.94	1.78	-	-	-	-	-	-	117,346	208,876
	Commencement performance rights	89,605	01/03/2017	03/01/2018	2.79	-	89,605	100%	284,944	-	-	-	-	-
Andrew Wilson	2018 LTI performance rights	220,576	27/12/2017	01/07/2020	2.77	1.90	-	-	-	-	-	-	220,576	419,094
	2017 deferred STI performance rights	82,005	27/12/2017	20/09/2018	2.98	-	-	-	-	-	-	-	82,005	244,375
	2017 LTI performance rights	203,400	01/03/2017	01/07/2019	2.94	1.78	-	-	-	-	-	-	203,400	362,052
	2016 deferred STI performance rights	95,824	01/03/2017	05/10/2017	2.44	-	95,824	100%	282,681	-	-	-	-	-
	2016 LTI performance rights	228,762	29/10/2015	01/07/2018	2.06	1.82	-	-	-	-	-	-	228,762	415,203
	2015 LTI performance rights	192,558	22/05/2015	01/07/2017	2.15	1.39	181,005	94%	533,965	11,553	6%	35,237	-	-

1. The vesting and exercise date represents the earliest possible date the performance rights may vest, being the end of the performance period. The actual vesting and exercise date will be at a time and manner determined by the Board, with Medibank to notify the holder at that time. Any performance rights that do not vest at this point will immediately expire.
2. The unit price at grant represents the price used to determine the number of units granted, in line with Medibank's methodology of granting equity awards at face value.
3. The fair value at grant has been based on a valuation by independent external consultants in accordance with accounting standard AASB 2 "Share Based Payments". The fair values for the 2016, 2017 and 2018 LTI grants are used for accounting purposes only as all LTI grants are made using the face value, as outlined in section 4.4.
4. The unvested balance has been determined by multiplying the balance of STI performance rights at 30 June 2018 by the unit price at grant and the balance of LTI performance rights at 30 June 2018 by the fair value at grant.

9.2 ELT members' ordinary shareholdings

Details of the ordinary shareholdings of ELT members and their related parties are provided in the table below.

ELT member	Balance 30 June 2017	Shares received on vesting of performance rights[1]	Net movement of shares due to other changes[2]	Balance 30 June 2018
Craig Drummond	50,000	-	-	50,000
Kylie Bishop	157,129	156,554	(69,444)	244,239
John Goodall	-	-	-	-
David Koczkar	270,429	287,033	-	557,462
Mei Ramsay	-	-	-	-
Mark Rogers	-	95,006	-	95,006
Andrew Wilson	194,729	282,605	-	477,334

1. Shares received on vesting of deferred STI performance rights include the additional Medibank shares credited to Kylie Bishop, David Koczkar and Andrew Wilson upon the vesting of the 2016 deferred STI performance rights as a benefit equivalent to any dividends paid during the deferral period. For further information, please refer to section 4.3.3.
2. Net movement of shares relates to acquisition and disposal transactions by the ELT member and their related parties during the year.

10. NON-EXECUTIVE DIRECTOR REMUNERATION AND FRAMEWORK

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

10.1 Non-executive director remuneration

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

10.1.1 Non-executive director fee cap

Under Medibank's Constitution, the total fees paid in any financial year to all non-executive directors for their services (excluding, for these purposes, the salary of any executive director) must not exceed, in aggregate, the amount fixed in 2014 at $2,000,000 per annum (fee cap). Following a review of the fee cap and based on information provided by Medibank's independent remuneration consultants, Medibank will seek shareholder approval to increase the annual fee cap by $300,000 to $2,300,000 at our AGM in November, with effect from 1 July 2018. This will represent the first increase in the fee cap since it was established at the time of listing in 2014.

10.1.2 2018 and 2019 Non-executive director remuneration

Under Medibank's Constitution, the Board is responsible for determining the total amount paid to each non-executive director as remuneration for their services. In making this determination, the Board has taken into account the level of work required for the role and has regard to the median remuneration paid to non-executive directors of companies positioned within the ASX 11-100 (excluding mining and energy companies).

As in 2018, the Board considered it appropriate to position the non-executive directors at the median of the benchmark group for 2019. To ensure non-executive director fees remain competitive, having regard to the size, complexity and market position of Medibank, following the benchmarking exercise the Board chose to:

- Increase the annual base fee for the Chairman to $445,000.
- Increase the annual base fee for non-executive directors to $165,000.
- No increases were applied to the committee membership fees, because the current level is considered appropriate.

Non-executive director fees applicable throughout 2018 and 2019 are set out in the table below:

Position	Fees 2018 $	Fees 2019 $
Chairman	425,000	445,000
Non-executive directors	155,000	165,000
Committee chairman fees		
Audit Committee	35,000	35,000
Risk Management Committee	35,000	35,000
People and Remuneration Committee	35,000	35,000
Investment and Capital Committee	35,000	35,000
Committee membership fees		
Audit Committee	17,000	17,000
Risk Management Committee	17,000	17,000
People and Remuneration Committee	17,000	17,000
Investment and Capital Committee	17,000	17,000

10.2 Non-executive director superannuation

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

10.3 Shareholding policy for non-executive directors

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

As at 30 June 2018, all non-executive directors have either met the minimum shareholding requirement, or are on track to do so, within the five-year period. Further details of current non-executive director shareholdings and their progress towards meeting the minimum shareholding requirement are provided in section 12.

11. NON-EXECUTIVE REMUNERATION STATUTORY TABLE

Non-executive director	Financial year	Short-term benefits		Post-employment benefits	Total $
		Cash salary and fees $	Non-monetary[1] $	Superannuation $	
Elizabeth Alexander	**2018**	**404,951**	**-**	**20,057**	**425,008**
	2017	406,939	-	19,696	426,635
Tracey Batten	**2018**	**138,704**	**1,024**	**13,177**	**152,905**
	2017	-	-	-	-
Anna Bligh	**2018**	**172,603**	**2,869**	**16,397**	**191,869**
	2017	169,600	2,732	16,112	188,444
David Fagan	**2018**	**198,775**	**2,273**	**18,884**	**219,932**
	2017	169,600	2,303	16,112	188,015
Peter Hodgett	**2018**	**189,042**	**2,609**	**17,959**	**209,610**
	2017	185,184	2,515	17,592	205,291
Linda Bardo Nicholls	**2018**	**173,516**	**2,701**	**16,484**	**192,701**
	2017	169,600	2,796	16,112	188,508
Christine O'Reilly	**2018**	**189,042**	**2,511**	**17,959**	**209,512**
	2017	174,183	2,232	16,547	192,962
Mike Wilkins	**2018**	**172,603**	**1,665**	**16,397**	**190,665**
	2017	17,734	-	1,685	19,419
Former non-executive director					
Cherrell Hirst	**2018**	**30,390**	**173**	**2,887**	**33,450**
	2017	171,433	861	16,286	188,580
Total non-executive director remuneration	**2018**	**1,669,626**	**15,825**	**140,201**	**1,825,652**
	2017	1,464,273	13,439	120,142	1,597,854

1. Non-monetary benefits may include death, total and permanent disablement insurance, salary continuance insurance, subsidised Medibank health insurance and fringe benefits that are on the same terms and conditions that are available to all Medibank employees.

12. NON-EXECUTIVE DIRECTOR ORDINARY SHAREHOLDINGS

Non-executive director	Balance 30 June 2017	Acquired during the year	Balance 30 June 2018	Minimum shareholding requirement $[1]	Value of eligible shareholdings as at 30 June 2018 $[2]	Minimum shareholding requirement timeline
Elizabeth Alexander	124,786	-	124,786	212,500	364,375	Requirement satisfied
Tracey Batten	-	10,000	10,000	77,500	29,200	28 August 2022
Anna Bligh	15,646	23,677	39,323	77,500	114,823	Requirement satisfied
David Fagan	30,016	17,000	47,016	77,500	137,287	Requirement satisfied
Peter Hodgett	67,800	-	67,800	77,500	197,976	Requirement satisfied
Linda Bardo Nicholls	27,150	17,850	45,000	77,500	131,400	Requirement satisfied
Christine O'Reilly	69,930	-	69,930	77,500	204,196	Requirement satisfied
Mike Wilkins	-	33,500	33,500	77,500	97,820	Requirement satisfied

1. Minimum shareholding requirement based on annual non-executive director base fees for 2018 and an assumed tax rate of 50%.
2. Value has been calculated with reference to the total number of eligible shares held by each non-executive director, multiplied by the closing price of Medibank's shares on 29 June 2018 ($2.92).

13. MEDIBANK'S COMPARATOR GROUPS

Detailed below are a list of energy and mining companies that have been excluded from one or more of Medibank's comparator groups for the period 2016-2019. As explained throughout this report, these comparator groups have been used for the purposes of benchmarking executive and non-executive director remuneration and for the assessment of Medibank's relative total shareholder return (TSR) performance under its LTI Plan.

Excluded companies	2016	2017	2018	2019[1]
Rio Tinto Limited	X	X	X	
Origin Energy Limited	X	X	X	X
Oil Search Limited	X	X	X	X
Newcrest Mining Limited	X	X	X	X
Caltex Australia Limited	X	X	X	X
Santos Limited	X	X	X	X
Fortescue Metals Group Limited	X	X	X	X
Alumina Limited	X	X	X	X
BlueScope Steel Limited	X	X	X	X
Worley Parsons Limited	X			
Sims Metal Management Limited	X			
Iluka Resources Limited	X	X	X	X
South32 Limited		X	X	X
Woodside Petroleum Limited		X	X	X
Evolution Mining Limited			X	X
Northern Star Resources Limited			X	X
Oz Minerals Limited			X	
Washington H Soul Pattinson and Company Limited				X
Whitehaven Coal Limited				X

1. A company is no longer denoted as excluded when it falls outside the ASX 11-100 or it is no longer considered exclusively as an energy and mining company.

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

Elizabeth Alexander AM Chairman	Craig Drummond Chief Executive Officer

24 August 2018
Melbourne

Auditor's Independence Declaration

As lead auditor for the audit of Medibank Private Limited for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

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

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

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

CJ Heath
Partner
PricewaterhouseCoopers

Melbourne
24 August 2018

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medibank For Better Health

Consolidated statement of comprehensive income

For the financial year ended 30 June 2018

	Note	2018 $m	2017 $m
Revenue			
Health Insurance premium revenue	3(a)	**6,319.5**	6,244.9
Medibank Health revenue		**586.9**	552.1
		6,906.4	6,797.0
Other income		**12.5**	11.8
Expenses			
Claims expense		**(5,197.2)**	(5,154.8)
Medical services expense		**(355.9)**	(374.5)
Employee benefits expense	13(a)(ii)	**(418.2)**	(374.9)
Office and administration expense		**(92.3)**	(83.3)
Marketing expense		**(104.2)**	(105.1)
Information technology expense		**(76.3)**	(76.5)
Professional service expense		**(16.3)**	(28.5)
Lease expense		**(30.5)**	(29.9)
Depreciation and amortisation expense		**(95.3)**	(85.5)
Other expenses		**-**	(6.4)
		(6,386.2)	(6,319.4)
Profit before net investment income and income tax		**532.7**	489.4
Net investment income	7(a)	**95.6**	139.3
Profit for the year before income tax		**628.3**	628.7
Income tax expense	14(a)	**(183.2)**	(179.2)
Profit for the year		**445.1**	449.5
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Revaluation of land and buildings held at fair value	10	**-**	2.1
Actuarial gain/(loss) on retirement benefit obligation		**0.7**	0.4
		0.7	2.5
Total comprehensive income for the year		**445.8**	452.0
Earnings per share for profit attributable to ordinary equity holders of the Company		**Cents**	Cents
Basic earnings per share	6(b)	**16.2**	16.3
Diluted earnings per share	6(b)	**16.2**	16.3

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

Consolidated statement of financial position

As at 30 June 2018

	Note	2018 $m	2017 $m
Current assets			
Cash and cash equivalents		**470.1**	594.6
Trade and other receivables	9(b)	**292.2**	317.0
Financial assets at fair value through profit or loss	7(b)	**2,276.5**	2,038.1
Deferred acquisition costs	4	**36.2**	36.6
Other assets		**16.0**	14.1
Total current assets		**3,091.0**	3,000.4
Non-current assets			
Property, plant and equipment	11	**53.6**	87.3
Intangible assets	12	**350.1**	321.1
Deferred acquisition costs	4	**48.7**	50.9
Other assets		**1.5**	2.8
Total non-current assets		**453.9**	462.1
Total assets		**3,544.9**	3,462.5
Current liabilities			
Trade and other payables	9(c)	**350.6**	334.8
Claims liabilities	3(b)	**365.6**	388.4
Unearned premium liability	5	**689.5**	685.7
Tax liability		**47.4**	85.5
Provisions and employee entitlements	13	**80.9**	70.3
Total current liabilities		**1,534.0**	1,564.7
Non-current liabilities			
Trade and other payables	9(c)	**41.0**	32.9
Claims liabilities	3(b)	**14.2**	16.0
Unearned premium liability	5	**83.4**	73.2
Deferred tax liabilities	14(c)	**15.9**	27.4
Provisions and employee entitlements	13	**27.2**	28.5
Total non-current liabilities		**181.7**	178.0
Total liabilities		**1,715.7**	1,742.7
Net assets		**1,829.2**	1,719.8
Equity			
Contributed equity		**85.0**	85.0
Reserves	10	**21.5**	24.4
Retained earnings		**1,722.7**	1,610.4
Total equity		**1,829.2**	1,719.8

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 2018

	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 year	-	-	449.5	**449.5**
Other comprehensive income	-	2.1	0.4	**2.5**
Total comprehensive income for the year	-	2.1	449.9	**452.0**
Transactions with owners in their capacity as owners:				
Dividends paid	-	-	(309.8)	**(309.8)**
Acquisition and settlement of share-based payment, net of tax	-	(3.4)	-	**(3.4)**
Share-based payment transactions	-	2.3	-	**2.3**
Balance at 30 June 2017	**85.0**	**24.4**	**1,610.4**	**1,719.8**
Profit for the year	**-**	**-**	**445.1**	**445.1**
Other comprehensive income	**-**	**-**	**0.7**	**0.7**
Total comprehensive income for the year	**-**	**-**	**445.8**	**445.8**
Transfers upon sale of property	**-**	**(2.3)**	**3.9**	**1.6**
Transactions with owners in their capacity as owners:				
Dividends paid	**-**	**-**	**(337.4)**	**(337.4)**
Acquisition and settlement of share-based payment, net of tax	**-**	**(4.1)**	**-**	**(4.1)**
Share-based payment transactions	**-**	**3.5**	**-**	**3.5**
Balance at 30 June 2018	**85.0**	**21.5**	**1,722.7**	**1,829.2**

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

Consolidated statement of cash flows

For the financial year ended 30 June 2018

	Note	2018 $m	2017 $m
Cash flows from operating activities			
Premium receipts		**6,355.5**	6,278.8
Medibank Health receipts		**668.0**	602.1
Other receipts		**6.1**	6.0
Payments for claims and levies		**(5,208.1)**	(5,175.9)
Payments to suppliers and employees		**(1,182.2)**	(1,174.7)
Income taxes paid		**(231.0)**	(142.9)
Net cash inflow from operating activities	9(d)	**408.3**	393.4
Cash flows from investing activities			
Interest received		**40.1**	38.8
Investment expenses		**(4.4)**	(4.1)
Proceeds from sale of financial assets		**990.2**	1,154.6
Purchase of financial assets		**(1,168.7)**	(1,067.5)
(Purchase)/proceeds from sale of businesses		**(37.5)**	2.9
Proceeds from sale of land and buildings		**33.3**	-
Purchase of plant and equipment		**(3.8)**	(5.5)
Purchase of intangible assets		**(40.0)**	(43.3)
Net cash inflow/(outflow) from investing activities		**(190.8)**	75.9
Cash flows from financing activities			
Purchase of shares to settle share-based payment		**(4.6)**	(3.6)
Dividends paid		**(337.4)**	(309.8)
Net cash outflow from financing activities		**(342.0)**	(313.4)
Net increase/(decrease) in cash and cash equivalents		**(124.5)**	155.9
Cash and cash equivalents at beginning of the year		**594.6**	438.7
Cash and cash equivalents at end of the year		**470.1**	594.6

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

SECTION 1: BASIS OF PREPARATION

Overview

This section outlines the basis on which the Group's financial statements are prepared. Specific accounting policies are described in the note to which they relate.

Note 1: Basis of preparation

(a) Corporate information

Medibank Private Limited ("Medibank") is a for-profit company incorporated in Australia, whose shares are publicly traded on the Australian Securities Exchange (ASX).

The financial statements of Medibank for the financial year ended 30 June 2018 were authorised for issue in accordance with a resolution of the directors on 24 August 2018. The directors have the power to amend and reissue the financial statements.

(b) Basis of preparation

The financial statements are general purpose financial statements which:

- Are for the consolidated entity ("the Group") consisting of Medibank ("parent entity") and its subsidiaries. Refer to Note 15(a) for the full group structure.
- Have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the Corporations Act 2001.
- Have been prepared under the historical cost convention, with the exception of financial assets measured at fair value through profit or loss, land and buildings which are measured at fair value, and claims liabilities which are measured at the present value of expected future payments.
- Are presented in Australian dollars, which is Medibank's functional and presentation currency.
- Have been rounded off in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 to the nearest hundred thousand dollars unless otherwise stated.
- Adopt all new and amended accounting standards that are mandatory for 30 June 2018 reporting periods. Refer to Note 20(a) for further details.
- Do not apply any pronouncements before their operative date. Refer to Note 20(b) for details of new standards and interpretations which have been issued but are not effective for 30 June 2018 reporting periods.
- Include, where necessary, updates to prior year comparatives for changes in classification of amounts in the current reporting period. Prior year comparatives for 'proceeds from sale of financial assets' and 'purchase of financial assets' in the consolidated statement of cash flows have been reclassified as a result of a change in presentation of these items in the current reporting period. This presentation change has a nil impact on the net cash inflow/(outflow) from investing activities.

(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 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 4: Deferred acquisition costs
- Note 12: Intangible assets
- Note 13: Provisions and employee entitlements

SECTION 2: OPERATING PERFORMANCE

Overview

This section explains the operating results of the Group for the year, and provides insights into the Group's result by reference to key areas, including:

- Results by operating segment.
- Insurance underwriting result.
- Shareholder returns.

Note 2: Segment information

Segment Reporting Accounting Policy
Operating segments are identified based on the separate financial information that is regularly reviewed by the Chief Operating Decision Maker (CODM). The term CODM refers to the function performed by the Chief Executive Officer (CEO) in assessing performance and determining the allocation of resources across the Group.

(a) Description of segments

Segment information is reported on the same basis as the Group's internal management reporting structure at the reporting date. Transactions between segments are carried out at arm's length basis and are eliminated on consolidation. The Group is not reliant on any one major customer.

For the financial year ended 30 June 2018, the Group was organised for internal management reporting purposes into two reportable segments, Health Insurance and Medibank Health.

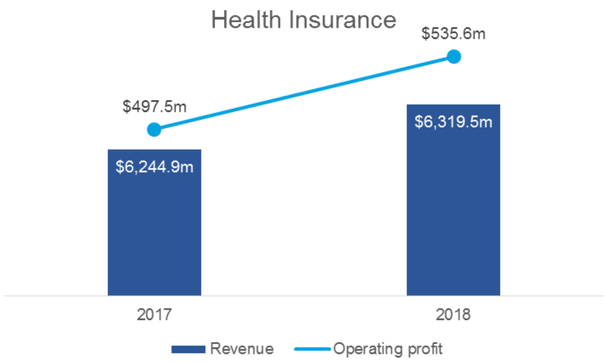
Health Insurance	Offers private health insurance products including hospital cover and ancillary cover, as stand-alone products or packaged products that combine the two. Hospital cover provides members with health cover for hospital treatments, whereas ancillary cover provides members with health cover for healthcare services such as dental, optical and physiotherapy. The segment also offers health insurance products to overseas visitors and overseas students.
	Private Health Insurance Premium Revenue Recognition Accounting Policy Premium revenue is measured at the fair value of the consideration received or receivable and is recognised on a straight line basis between the date Medibank accepts the insurance risk and the date the premium has been paid up to. Premium revenue is classified as an unearned premium liability in the consolidated statement of financial position when it relates to future financial periods.
Medibank Health	Derives its revenue from a range of activities including contracting with government and corporate customers to provide health management services, as well as providing a range of telehealth services in Australia. In addition, the Group distributes travel, life and pet insurance products on behalf of other insurers as part of a broader strategy to retain members and leverage its distribution network.
	Medibank Health Revenue Recognition Accounting Policy Medibank Health revenue 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.

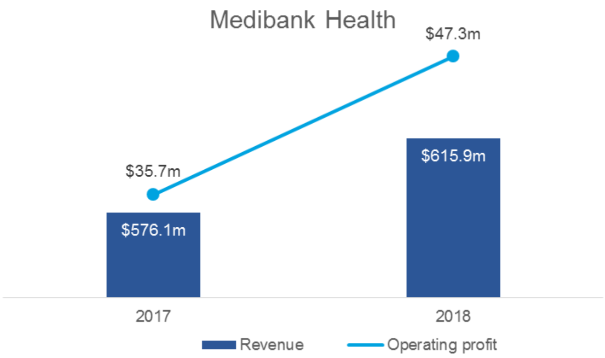
SECTION 2: OPERATING PERFORMANCE

Note 2: Segment information (continued)

(b) Segment information provided to the CEO

The CEO measures the performance of the Group's reportable segments based on the operating profit of those segments. The segment information provided to the CEO for the year ended 30 June 2018 is as follows:





30 June 2018	Health Insurance $m	Medibank Health $m	Total $m
Revenues			
Total segment revenue	**6,319.5**	**615.9**	**6,935.4**
Inter-segment revenue	**-**	**(29.0)**	**(29.0)**
Revenue from external customers	**6,319.5**	**586.9**	**6,906.4**
Operating profit	**535.6**	**47.3**	**582.9**
Items included in segment operating profit:			
Depreciation and amortisation	**(83.6)**	**(3.3)**	**(86.9)**

30 June 2017	Health Insurance $m	Medibank Health $m	Total $m
Revenues			
Total segment revenue	6,244.9	576.1	6,821.0
Inter-segment revenue	-	(24.0)	(24.0)
Revenue from external customers	6,244.9	552.1	6,797.0
Operating profit	497.5	35.7	533.2
Items included in segment operating profit:			
Depreciation and amortisation	(75.5)	(1.9)	(77.4)

SECTION 2: OPERATING PERFORMANCE

Note 2: Segment information (continued)

(c) Other segment information

(i) Segment operating profit or loss
The CEO measures the performance of the Group's reportable segments based on the operating profit of those segments.

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

	Note	2018 $m	2017 $m
Total segment operating profit		**582.9**	533.2
Unallocated to operating segments:			
Corporate operating expenses		**(34.1)**	(32.7)
Group operating profit		**548.8**	500.5
Net investment income	7(a)	**95.6**	139.3
Acquisition intangible amortisation		**(7.6)**	(7.0)
Gain on sale of property		**4.9**	-
Brand investment		**(5.2)**	-
Customer settlement		**(4.7)**	-
Other income/(expenses)		**(3.5)**	(4.1)
Profit for the year before income tax		**628.3**	628.7

(ii) Other items
Segment operating profit excludes the following:

- Corporate operating expenses of $34.1 million (2017: $32.7 million) relating to the Group's corporate function.
- Net investment income, which comprises:
  - Interest and distribution income and related investment management expenses (refer to Note 7(a)), as this arises from investments which are managed by a central treasury function.
  - Net gains and losses on disposals of and fair value movements on financial assets and liabilities (refer to Note 7(a)), as they are not indicative of the Group's long-term performance.
- Acquisition intangible amortisation of $7.6 million (2017: $7.0 million) not allocated to segments.
- One-off income/(expenses) in relation to the gain on sale of property, brand investment and customer settlement which do not relate to the current operating activities of the Group's segments.
- Other income/(expenses) of $3.5 million (2017: $4.1 million) which do not relate to the trading activities of the Group's segments, comprising primarily net sublease rent and expenses incurred in relation to mergers and acquisitions.

(iii) Segment assets and segment liabilities
No information regarding segment assets and segment liabilities has been disclosed, as these amounts are not reported to the CEO for the purpose of making strategic decisions.

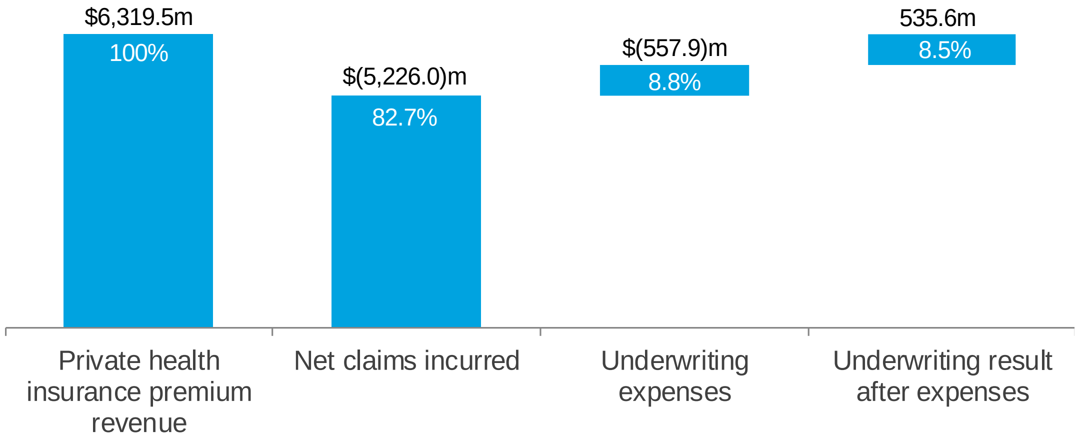
(iv) Geographic information
Segment revenue based on the geographical location of customers has not been disclosed, as the Group derives substantially all of its revenues from its Australian operations.

SECTION 2: OPERATING PERFORMANCE

Note 3: Insurance underwriting result

This note presents the Group’s insurance underwriting result and provides information on the Group’s claims liabilities, which comprise the outstanding claims liability and the provision for bonus entitlements.

2018 underwriting result after expenses



Insurance Contracts Accounting Policy
An insurance contract arises when the Group accepts significant insurance risk from another party by agreeing to compensate them from the adverse effects of a specified uncertain future event. The significance of insurance risk depends on both the probability and magnitude of an insurance event.

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 significantly reduces during the period. With the exception of travel, life and pet insurance, where the Group does not act as an underwriter, all other types of insurance cover are insurance contracts.

(a) Insurance underwriting result

	Note	**2018 $m**	2017 $m
Private health insurance premium revenue		**6,319.5**	6,244.9
Claims expense			
Claims incurred	(i)	**(5,232.0)**	(5,228.7)
State levies		**(49.1)**	(48.2)
Net Risk Equalisation Special Account rebates		**54.4**	97.9
Net claims incurred excluding claims handling costs on outstanding claims liabilities		**(5,226.7)**	(5,179.0)
Movement in claims handling costs on outstanding claims liabilities		**0.7**	0.2
Net claims incurred	(ii)	**(5,226.0)**	(5,178.8)
Underwriting expenses	(i)	**(557.9)**	(568.6)
Underwriting result after expenses		**535.6**	497.5

SECTION 2: OPERATING PERFORMANCE

Note 3: Insurance underwriting result (continued)

(a) Insurance underwriting result (continued)

(i) Claims incurred are prior to elimination of transactions with the Group's other operating segments of $28.8 million (2017: $24.0 million) and underwriting expenses are prior to elimination of transactions with the Group's other operating segments of $0.2 million (2017: nil)
(ii) Net claims incurred consists of amounts paid and payable to hospital, medical and ancillary providers which consists of claims paid and payable, changes in claims liabilities, change in amounts receivable from and payable to the Risk Equalisation Special Account, applicable state levies and costs incurred in providing dental, optical and health management services.

Health Insurance Premium Revenue Recognition Accounting Policy

Premium revenue is recognised in the consolidated statement of comprehensive income when the amount can be reliably measured and it is probable that future economic benefits will flow to the entity. Premium revenue is measured at the fair value of the consideration received or receivable and is recognised on a straight line basis between the date Medibank accepts the risk from the insured under the insurance contract and the date the premium has been paid up to.

Premium revenue includes the movement in the premiums in arrears which is assessed based on past experience of the likelihood of collection. Premium revenue is classified as an unearned premium liability in the consolidated statement of financial position when it relates to future financial periods.

The Australian Government provides a rebate for premiums paid by eligible resident private health insurance policyholders and pays this rebate directly to the Group. This rebate is recognised within premium revenue in the consolidated statement of comprehensive income. Rebates due from the government but not received at balance date are recognised as trade and other receivables.

Net Risk Equalisation Special Account Levies and Rebates Accounting Policy

Under legislation, all private health insurers must participate in the Risk Equalisation Special Account in which all private health insurers share the cost of the eligible claims of members aged 55 years and over, and claims meeting the high cost claim criteria.

The Australian Prudential Regulation Authority (APRA) determines the amount payable to or receivable from the Risk Equalisation Special Account after the end of each quarter. Provisions for estimated amounts payable or receivable are provided for periods where determinations have not yet been made. This includes an estimate of risk equalisation for unpresented and outstanding claims.

SECTION 2: OPERATING PERFORMANCE

Note 3: Insurance underwriting result (continued)

(b) Gross claims liability

	Note	2018 $m	2017 $m
Current			
Outstanding claims liability - central estimate	(i,ii)	**313.1**	336.2
Risk margin	(i,iii)	**24.8**	26.1
Claims handling costs	(iv)	**7.7**	8.4
		345.6	370.7
Claims liability - provision for bonus entitlements	(v)	**20.0**	17.7
Gross claims liability	(c)	**365.6**	388.4
Non-current			
Outstanding claims liability - central estimate	(i,ii)	**1.8**	1.5
Risk margin	(i,iii)	**0.1**	0.1
Claims handling costs	(iv)	**-**	-
		1.9	1.6
Claims liability - provision for bonus entitlements	(v)	**12.3**	14.4
Gross claims liability	(c)	**14.2**	16.0

Claims Liability Accounting Policy

The outstanding claims liability 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. 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 the Medibank health fund, 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 comprise all direct expenses of the claims department and general administrative costs directly attributable to the claims function. These include internal and external costs incurred from the negotiation and settlement of claims.

Key estimate:

The outstanding claims liability estimate is based on the hospital, ancillary and overseas categories.

Hospital and overseas	Calculated using statistical methods adopted for all services months but with service levels for the most recent service month (hospital) or two service months (overseas) being based on the latest forecast.
Ancillary	Calculated using statistical methods adopted for all service months.

The critical assumption in determining the outstanding claims liability is the extent to which claim incidence and development patterns are consistent with past experience. 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 (including the Chief Actuary), claims managers and other senior management. The process includes monthly internal claims review meetings attended by senior management.

SECTION 2: OPERATING PERFORMANCE

Note 3: Insurance underwriting result (continued)

(b) Gross claims liability (continued)

(i) Outstanding claims liability - central estimate	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, such as claims processing delays. 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 Risk Equalisation Special Account.
(ii) Discounting	The outstanding claims liability central estimate is discounted to present value using a risk-free rate of 2.11% per annum which equates to a reduction in the central estimate of $0.9 million (2017: 1.71%, $0.8 million).
(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 30 June 2018 is 7.8% (2017: 7.7%). ***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% (2017: 95%).
(iv) Claims handling costs	The allowance for claims handling costs at 30 June 2018 is 2.5% of the outstanding claims liability (2017: 2.5%).
(v) Claims liability – provision for bonus entitlements	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.

SECTION 2: OPERATING PERFORMANCE

Note 3: Insurance underwriting result (continued)

(c) Reconciliation of movement in claims liabilities

	2018 $m	2017 $m
Balance at beginning of period (1 July)	**404.4**	417.6
Claims incurred during the period	**5,251.4**	5,229.1
Claims paid during the period	**(5,231.9)**	(5,218.0)
Amount over provided on central estimate	**(42.0)**	(23.6)
Risk margin	**(1.3)**	(0.7)
Claims handling costs	**(0.7)**	(0.2)
Movement in discount rate	**(0.1)**	0.2
Balance at 30 June	**379.8**	404.4

Note: Movement includes both current and non-current. Claims incurred and claims settled 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% increase/decrease in the central estimate would result in a $22.0 million decrease/increase to profit after tax and equity (2017: $23.6 million). A 1% 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.

(e) Insurance risk management

The Group provides private health insurance products including hospital cover and ancillary cover, as stand-alone products or packaged products that combine the two, for Australian residents, overseas students studying in Australia and overseas visitors to Australia. These services are categorised as two types of contracts: hospital and/or ancillary cover.

The table below sets out the key variables upon which the cash flows of the insurance contracts are dependent.

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

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

SECTION 2: OPERATING PERFORMANCE

Note 3: Insurance underwriting result (continued)

(e) Insurance risk management (continued)

Mechanisms to manage risk

Claims management	Strict claims management ensures the timely and correct payment of claims in accordance with policy conditions and provider contracts. Claims are monitored monthly 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. Results are also monitored against industry for insurance risks and experience trends as published by the regulator, APRA.
Prudential capital requirements	All private health insurers must comply with prudential capital requirements to provide a buffer against certain levels of adverse experience. The Board has a target level of capital which exceeds the regulatory requirement.
Ability to vary premium rates	The Group can vary future premium rates subject to the approval of the Minister for Health.
Risk equalisation	Private health insurance legislation requires resident private health insurance contracts to meet community rating requirements. This prohibits discrimination 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 Special Account.
Concentration of health risk	The Group has health insurance contracts covering hospital and ancillary cover, and private health insurance for overseas students and visitors to Australia. There is no significant exposure to concentrations of risk because contracts cover a large volume of people across Australia.

SECTION 2: OPERATING PERFORMANCE

Note 4: Deferred acquisition costs

Movements in the deferred acquisition costs are as follows:

	2018 $m	2017 $m
Balance at 1 July	**87.5**	76.1
Costs deferred during the year	**37.1**	45.3
Amortisation expense	**(39.7)**	(33.9)
Balance at 30 June	**84.9**	87.5

Note: Movement includes both current and non-current.

Deferred Acquisition Costs Accounting Policy

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 statement of comprehensive income in subsequent reporting periods.

Deferred acquisition costs are amortised systematically over the average expected retention period of the insurance contracts to which they relate. This is in accordance with the expected pattern of the incidence of risk under the insurance contracts to which they relate and corresponds to the earning pattern of the corresponding actual and expected premium revenue. The Group amortises these costs on a straight-line basis over a period of four years (2017: four years). The recoverability of deferred acquisition costs is considered as part of the liability adequacy testing (refer to Note 5). Deferred acquisition costs which are not included in this test are separately assessed for recoverability in accordance with the Group's accounting policy set out in Note 20(c).

Key judgement and estimate:

The amortisation period of four years has been determined based on the average expected retention period of members. The actual retention period of a member can be longer or shorter than four years. The straight line method systematically follows the initial period of customer tenure with some customers remaining with Medibank over a longer period of time. The Group maintains data on the retention period of all members, and performs a retention period analysis of those who are subject to these acquisition costs to ensure the period of amortisation remains appropriate.

Note 5: Unearned premium liability

Movement in the unearned premium liability is as follows:

	2018 $m	2017 $m
Balance at 1 July	**758.9**	729.3
Deferral of premium on contracts written during the year	**699.7**	693.6
Earnings of premiums deferred in prior years	**(685.7)**	(664.0)
Balance at 30 June	**772.9**	758.9

Note: Movement includes both current and non-current.

Liability adequacy testing did not result in the identification of any deficiency as at 30 June 2018 and 2017.

SECTION 2: OPERATING PERFORMANCE

Note 5: Unearned premium liability (continued)

Unearned Premium Liability Accounting Policy

The proportion of premium received that has not been earned at the end of each reporting period is recognised in the consolidated statement of financial position as an unearned premium liability. The unearned premium liability is released to the consolidated statement of comprehensive income as revenue in accordance with Note 3(a) over the term of the insurance cover.

Unexpired Risk Liability Accounting Policy

A liability adequacy test is required to be performed in respect of the unearned premium liability and insurance contracts renewable before the next pricing review (constructive obligation). The purpose of the test is to determine whether the insurance liability, net of related deferred acquisition costs, is adequate to cover the present value of expected cash outflows relating to future claims arising from rights and obligations under current insurance coverage. An additional risk margin is included in the test to reflect the inherent uncertainty in the central estimate. The liability adequacy test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio.

The unearned premium liability is deemed to be deficient where:

Present value of the expected future cash outflows relating to future claims *add* Additional risk margin to reflect the inherent uncertainty in the central estimate	greater than	Unearned premium liability *less* Related intangible assets *less* Related deferred acquisition costs	= Deficiency

The entire deficiency is recorded immediately in the statement of comprehensive income. 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 consolidated statement of financial position as an unexpired risk liability.

Deferred acquisition costs which are not included in this test are separately assessed for recoverability and are amortised in accordance with the Group's accounting policy set out in Note 4.

Note 6: Shareholder returns

(a) Dividends

(i) Dividends paid or payable

	Cents per fully paid share	$m	Payment date
2018			
2017 final fully franked dividend	**6.75**	**185.9**	**28 September 2017**
2018 interim fully franked dividend	**5.50**	**151.5**	**28 March 2018**
2017			
2016 final fully franked dividend	6.00	165.2	28 September 2016
2017 interim fully franked dividend	5.25	144.6	29 March 2017

SECTION 2: OPERATING PERFORMANCE

Note 6: Shareholder returns (continued)

(a) Dividends (continued)

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

On 24 August 2018, the directors proposed a final fully-franked dividend for the year ended 30 June 2018 of 7.20 cents per share. The dividend is expected to be paid on 27 September 2018 and has not been provided for as at 30 June 2018.

(iii) Franking account

Franking credits available at 30 June 2018 for subsequent reporting periods based on a tax rate of 30% are $136.0 million (2017: $43.2 million).

Dividends Accounting Policy

A liability is recorded for any dividends declared on or before the reporting date, but have not been distributed at that date.

(b) Earnings per share

	2018	2017
Profit for the year attributable to ordinary equity holders of the Company ($m)	**445.1**	449.5
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	**2,754,003,240**	2,754,003,240
Basic and diluted earnings per share	**16.2**	16.3

Basic Earnings Per Share Accounting Policy

Basic earnings per share (EPS) is calculated by dividing the profit attributable to equity holders of Medibank, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the reporting period, adjusted for bonus elements in ordinary shares issued during the reporting period and excluding treasury shares.

Diluted Earnings Per Share Accounting Policy

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

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

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Overview

This section provides insights into the Group's exposure to market and financial risks, and outlines how these risks are managed. This section also describes how the Group's capital is managed.

Note 7: Investment portfolio

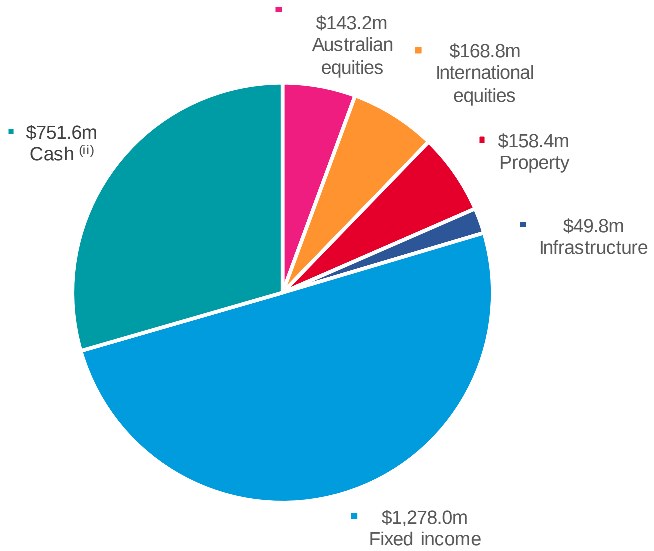
This note contains information on the Group's net investment income and the carrying amount of the Group's investments.

Medibank's investments reflect the Board-approved Capital Management Policy which outlines risk appetite, the expected risks and returns of different asset classes, APRA regulatory requirements, and the need for stability and liquidity of its capital base. Consequently, Medibank's investment portfolio is skewed towards defensive (less risky and generally lower returning) assets rather than growth (riskier but potentially higher returning) assets.

The Board has maintained the short-term target asset allocation for the health insurance fund at 20%/80% for growth and defensive assets. The long-term target asset allocation remains at 25%/75% for growth and defensive assets.

The health fund investment portfolio comprises the following:

		Portfolio composition 30 June 2018	Portfolio composition 30 June 2017	Target asset allocation
Growth				
Australian equities		5.6%	5.0%	5.0%
International equities		6.6%	5.8%	6.0%
Property		6.2%	6.7%	7.0%
Infrastructure		2.0%	2.0%	2.0%
		20.4%	**19.5%**	**20.0%**
Defensive				
Fixed income	(i)	50.1%	49.8%	52.0%
Cash	(ii)	29.5%	30.7%	28.0%
		79.6%	**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 ($478.3 million).
(ii) Cash comprises cash and cash equivalents ($470.1 million), cash with maturities between 3-12 months ($478.3 million) less non-health fund investments ($131.9 million) and operational cash ($64.9 million).

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 7: Investment portfolio (continued)

Financial Assets at Fair Value Through Profit or Loss Accounting Policy

Investments in listed and unlisted securities held by Medibank's health insurance fund are classified as financial assets that back insurance liabilities and are therefore designated at fair value on initial recognition. Other investments in listed and unlisted securities are classified as held for trading as they are acquired principally for the purpose of selling in the short term, and are therefore measured at fair value on initial recognition. Transaction costs relating to these financial assets are expensed in the consolidated statement of comprehensive income. These assets are subsequently carried at fair value, with gains and losses recognised within net investment income in the consolidated statement of comprehensive income.

Financial assets at fair value through profit or loss, consist of externally managed equity trusts and direct mandates, and an internally managed fixed income portfolio.

Key judgement and estimate

Fair value measurement may 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 independent developed models.

(a) Net investment income

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

		2018 $m	2017 $m
Interest	(i)	**45.9**	43.8
Trust distributions		**39.2**	41.4
Investment management fees		**(4.4)**	(4.0)
Net gain/(loss) on fair value movements on financial assets		**15.3**	37.6
Net gain/(loss) on disposal of financial assets		**(0.4)**	20.5
Net investment income		**95.6**	139.3

(i) Includes interest income of $2.2 million (2017: $1.2 million) relating to non-health fund investments.

Net Investment Income Accounting Policy

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 the consolidated statement of comprehensive income within net investment income in the period in which they arise.

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

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 7: Investment portfolio (continued)

(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).
- 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.

30 June 2018		**Level 1 $m**	**Level 2 $m**	**Level 3 $m**	**Total $m**
Financial assets at fair value through profit or loss					
Australian equities	(i)	-	143.2	-	143.2
International equities	(i)	-	168.8	-	168.8
Property		2.2	156.2	-	158.4
Infrastructure		-	49.8	-	49.8
Fixed income	(ii)	85.9	1,670.4	-	1,756.3
Balance at 30 June 2018		**88.1**	**2,188.4**	**-**	**2,276.5**

30 June 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	(ii)	100.3	1,472.2	-	1,572.5
Balance at 30 June 2017		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.
(ii) Fixed income includes $130.9 million (2017: nil) relating to non-health fund investments.

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

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis at 30 June 2018.

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

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 8: Financial risk management

This note reflects risk management policies and procedures associated with financial instruments and capital and insurance contracts. The Group's principal financial instruments comprise cash and cash equivalents, which are short-term money market instruments, fixed income (floating rate notes, asset-backed securities, syndicated loans, fixed income absolute return funds and hybrid investments), property, infrastructure, Australian equities and international equities.

A strategic asset allocation is set and reviewed at least annually by the Board, which establishes the maximum and minimum exposures in each asset class. Transacting in individual instruments is subject to delegated authorities and an approval process which is also established and reviewed by the Investment and Capital Committee. At no time throughout the period will trading of derivative instruments for purposes other than risk management be undertaken, unless explicitly approved by the Investment and Capital Committee. The Group was in compliance with this policy during the current and prior financial year.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, price risk, credit risk and liquidity risk.

Primary responsibility for consideration and control of financial risks rests with the Investment and Capital Committee under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified, 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.

(a) 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.

(i) Interest rate risk

Description	The risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. At balance date, the Group had exposure to the risk of changes in market interest rates in respect of its cash and cash equivalents and fixed income investments. Both classes of financial assets have variable interest rates and are therefore exposed to cash flow movements if these interest rates change. The Group constantly analyses its interest rate exposure and resets interest rates on longer-term investments every 90 days on average.
Exposure	At balance date, the Group's cash and cash equivalents (2018: $470.1 million, 2017: $594.6 million) and fixed income investments (2018: $1,756.3 million, 2017: $1,572.5 million) were exposed to Australian variable interest rate risk.
Sensitivity	50 bps increase/decrease in interest rates for the entire reporting period, with all other variables remaining constant, would have resulted in a $7.7 million increase/decrease to profit after tax and equity (2017: $7.0 million). The sensitivity analysis has been conducted using assumptions from published economic data.

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 8: Financial risk management (continued)

(a) Market risk (continued)

(ii) Foreign currency risk

Description	The risk that the fair value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's investments in syndicated loans and infrastructure are externally managed and currency exposures are fully economically hedged by the fund manager. International equities are externally managed and approximately half of the foreign currency exposure is unhedged.
Exposure	At 30 June 2018, $84.4 million (2017: $76.4 million) of the international equities portfolio, within financial assets at fair value through profit or loss, had net exposure to foreign currency movements.
Sensitivity	A 10% increase/decrease in foreign exchange rates, with all other variables remaining constant, would have resulted in a $6.6 million decrease/increase to profit after tax and equity (2017: $5.9 million). Balance date risk exposures represent the risk exposure inherent in the financial instruments.

(iii) Price risk

Description	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 is exposed to price risk in respect of its fixed income investments primarily due to movements in credit spreads. This risk is managed through active management of credit exposures and credit spread duration. The Group's equity price risk arises from investments in property, infrastructure, Australian equities and international equities. It is managed by setting and monitoring objectives and constraints on investments, diversification plans and limits on investments in each country, sector and market.
Sensitivity	The following sensitivity analysis is based on the equity price risk exposures on average balances at balance date. It shows the effect on profit after tax and equity if market prices had moved, with all other variables held constant.

	2018		2017	
	+10.0%	**-10.0%**	+10.0%	-10.0%
Australian equities	**9.4**	**(9.4)**	10.7	(10.7)
International equities	**11.1**	**(11.1)**	11.9	(11.9)
Property	**10.5**	**(10.5)**	9.4	(9.4)
Infrastructure	**3.5**	**(3.5)**	4.2	(4.2)

In relation to fixed income investments, a 25 bps increase/decrease in credit spreads, with all other variables remaining constant, would have resulted in a $5.8 million decrease/increase to profit after tax and equity (2017: $5.8 million). Balance date risk exposures represent the risk exposure inherent in the financial instruments.

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 8: Financial risk management (continued)

(b) Credit risk

(i) Cash and cash equivalents and financial assets at fair value through profit or loss

Description	The risk of potential default of a counterparty, with a maximum exposure equal to the carrying amount of these instruments. Credit risk arises from the financial assets of the Group and credit risk exposure is measured by reference to exposures by ratings bands, country, industry and instrument type.
Exposure	The Investment Management Policy limits the majority of internally managed credit exposure to A- or higher rated categories for long-term investments, and A2 or higher for short-term investments (as measured by external rating agencies such as Standard & Poor's). Departures from this policy and the appointment of external managers require Board approval. The Group does not have any financial instruments to mitigate credit risk and all investments are unsecured (except for covered bonds, asset-backed securities and mortgage-backed securities). However, the impact of counterparty default is managed through the use of Board approved limits by counterparty and rating and diversification of counterparties.
Sensitivity	The Group's cash and fixed income portfolio is subject to counterparty exposure limits. These limits specify that no more than 25% (2017: 25%) of the cash portfolio can be invested in any one counterparty bank and no more than 10% (2017: 10%) in any one counterparty corporate entity. In the Group's fixed income portfolio, the maximum amounts that can be invested in any one counterparty bank and any one counterparty corporate entity are 50% (2017: 50%) and 15% (2017: 15%) of the portfolio respectively. As at 30 June 2018 and 2017, the counterparty exposure of the Group was within these limits.

(ii) Trade and other receivables

Description	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 and trade and other receivables, 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, although a customer can settle their arrears up to the 63 day grace period and a claim for that arrears period will be paid. 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.
Exposure	There are no significant concentrations of premium credit risk within the Group.

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 8: Financial risk management (continued)

(b) Credit risk (continued)

(iii) Counterparty credit risk ratings

The following tables outline the Group's credit risk exposure at 30 June 2018 by classifying assets according to credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range AAA to BBB are classified as non-investment grade. The table highlights the short-term rating as well as the equivalent long-term rating 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 in the consolidated statement of financial position.

Short-term **Long-term** **2018**	**A-1+** **AAA** **$m**	**A-1+** **AA** **$m**	**A-1** **A** **$m**	**A-2** **BBB** **$m**	**B & below** **BB & below** **$m**	**Not rated** **$m**	**Total** **$m**
Assets							
Cash and cash equivalents	-	231.5	153.5	85.1	-	-	470.1
Premiums in arrears	-	-	-	-	-	10.6	10.6
Trade and other receivables	-	-	-	-	-	280.6	280.6
Financial assets							
Australian equities	-	-	-	-	-	143.2	143.2
International equities	-	-	-	-	-	168.8	168.8
Property	-	-	-	-	-	158.4	158.4
Infrastructure	-	-	-	-	-	49.8	49.8
Fixed income	96.1	753.5	396.8	170.5	26.7	312.7	1,756.3
Total	**96.1**	**985.0**	**550.3**	**255.6**	**26.7**	**1,124.1**	**3,037.8**

Short-term **Long-term** **2017**	**A-1+** **AAA** **$m**	**A-1+** **AA** **$m**	**A-1** **A** **$m**	**A-2** **BBB** **$m**	**B & below** **BB & below** **$m**	**Not rated** **$m**	**Total** **$m**
Assets							
Cash and cash equivalents	-	233.9	244.6	116.1	-	-	594.6
Premiums in arrears	-	-	-	-	-	8.4	8.4
Trade and other receivables	-	-	-	-	-	308.6	308.6
Financial assets							
Australian equities	-	-	-	-	-	126.5	126.5
International equities	-	-	-	-	-	147.9	147.9
Property	-	-	-	-	-	141.7	141.7
Infrastructure	-	-	-	-	-	49.5	49.5
Fixed income	88.1	688.8	276.1	175.1	42.7	301.7	1,572.5
Total	**88.1**	**922.7**	**520.7**	**291.2**	**42.7**	**1,084.3**	**2,949.7**

Within the not rated fixed income portfolio, $280.0 million (2017: $272.2 million) is invested in unrated unit trusts, of which the majority of the underlying securities held are investment grade assets and Senior Loans.

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 9: Working capital

(a) Capital management

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

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

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

The Board has established a Capital Management Policy for the health insurance fund. Capital is managed against this policy and performance is reported to the Board on a monthly basis.

The Group's working capital balances are summarised in this note.

(b) Trade and other receivables

	Note	**2018 $m**	2017 $m
Premiums in arrears		**14.9**	13.7
Allowance for impairment loss		**(4.3)**	(5.3)
		10.6	8.4
Trade receivables		**99.9**	116.6
Allowance for impairment loss		**(1.5)**	(1.5)
		98.4	115.1
Government rebate scheme		**122.5**	126.2
Risk Equalisation Special Account		**21.6**	29.0
Accrued revenue		**38.3**	35.8
Other receivables		**0.8**	2.5
		183.2	193.5
Total trade and other receivables		**292.2**	317.0

Note: Government rebate scheme is non-interest bearing and generally on 15-day terms.

(i) Past due but not considered impaired

Trade receivables past due but not impaired at 30 June 2018 for the Group are $8.2 million (2017: $3.5 million). Each business unit of the Group has reviewed their individual debtors and is satisfied that payment will be received in full. Premiums in arrears past due but not impaired at 30 June 2018 for the Group are $10.6 million (2017: $8.4 million).

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.

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 9: Working capital (continued)

(b) Trade and other receivables (continued)

Trade and Other Receivables Accounting Policy

Trade and other receivables are:

- Recognised initially at fair value.
- Subsequently measured at amortised cost using the effective interest method, less an allowance for impairment loss.
- Presented as current assets except for those with maturities greater than 12 months after the reporting period.
- Non-interest bearing.
- Generally due for settlement within 7 - 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. An allowance account is used when there is objective evidence that the Group will not be able to collect all amounts due. 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. Any impairment loss on trade receivables is recognised within other expenses in the consolidated statement of comprehensive income. Subsequent recoveries of previously written off trade receivables are credited against other expenses in the consolidated statement of comprehensive income. Any impairment loss on premiums in arrears is offset against premium revenue.

Objective evidence of impairment for premiums in arrears is 63 days past due. Objective evidence of impairment for trade receivables and other receivables is 60 to 90 days past due.

(c) Trade and other payables

	Note	**2018 $m**	2017 $m
Current			
Trade creditors	(i)	**259.8**	246.9
Other creditors and accrued expenses	(ii)	**75.5**	84.6
Lease incentives	(iii)	**3.3**	2.9
Other payables	(iv)	**12.0**	0.4
Total current		**350.6**	334.8
Non-current			
Lease incentives	(iii)	**30.3**	32.9
Other payables	(iv)	**10.7**	-
Total non-current		**41.0**	32.9

Terms and conditions relating to the above financial instruments:
(i) Trade creditors are non-interest bearing and are normally settled up to 30 days.
(ii) Other creditors and accrued expenses are non-interest bearing.
(iii) Lease incentives are non-interest bearing and are settled over the term of the lease. The current liability represents 12 months or less of the term of the lease.
(iv) Other payables includes $20.0 million (2017: nil) in relation to a one-off loyalty bonus. Refer to Note 20(c) for the accounting policy for further details.

Trade and Other Payables Accounting Policy

Trade and other payables are

- Recognised initially at their fair value.
- Subsequently measured at amortised cost using the effective interest method.
- Unsecured.
- Presented as current liabilities unless payment is not due within 12 months from the reporting date.

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 9: Working capital (continued)

(d) Reconciliation of profit after income tax to net cash flow from operating activities

	2018 $m	2017 $m
Profit for the year	**445.1**	449.5
Depreciation	**12.7**	13.6
Amortisation of intangibles assets	**42.9**	38.0
Amortisation of deferred acquisition costs	**39.7**	33.9
Net loss/(gain) on disposal of assets	**(4.7)**	1.9
Impairment of trade receivables	**0.2**	-
Net realised loss/(gain) on financial assets	**0.4**	(20.5)
Net unrealised loss/(gain) on financial assets	**(15.3)**	(37.6)
Interest income	**(45.9)**	(43.8)
Trust distribution reinvested	**(39.2)**	(41.4)
Investment expenses	**4.4**	4.0
Gain on sale of businesses	**-**	(5.5)
Non-cash share-based payments expense	**3.5**	2.3
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	**28.4**	(9.0)
Decrease/(increase) in deferred acquisition costs	**(37.1)**	(45.3)
Decrease/(increase) in other assets	**(0.5)**	(0.6)
(Decrease)/increase in net deferred tax liabilities	**(9.9)**	14.7
(Decrease)/increase in trade and other payables	**24.1**	(4.1)
(Decrease)/increase in unearned premium liability	**14.0**	29.6
(Decrease)/increase in claims liabilities	**(24.7)**	(13.2)
(Decrease)/increase in income tax liability	**(37.9)**	21.7
(Decrease)/increase in provisions and employee entitlements	**8.1**	5.2
Net cash inflow from operating activities	**408.3**	393.4

Cash and Cash Equivalents Accounting Policy

Cash and cash equivalents 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.

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

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 9: Working capital (continued)

(e) Liquidity risk

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

In order to maintain appropriate levels of liquidity, the Group’s target asset allocation is to hold 28% (2017: 28%) of its total investment assets in cash, maturing in 365 days or less.

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

The tables below reflect all contractually fixed pay-offs for settlement and interest resulting from recognised financial liabilities as at 30 June 2018, 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 2018.

	Under 6 months $m	6 to 12 months $m	1 to 2 years $m	Over 2 years $m	Total contractual cash flows $m	Carrying amount $m
Trade and other payables						
2018 (i)	**340.3**	**7.0**	**7.4**	**3.3**	**358.0**	**358.0**
2017	331.9	-	-	-	331.9	331.9
Claims liabilities						
2018	**344.3**	**22.1**	**8.3**	**6.0**	**380.7**	**379.8**
2017	364.0	25.2	9.0	7.0	405.2	404.4

(i) Contractual cash flows greater than 6 months relate to the one-off loyalty bonus.

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

Note 10: Contributed equity and reserves

(a) Contributed equity

Contributed equity consists of 2,754,003,240 fully paid ordinary shares at $0.03 per share. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of Medibank, 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 Medibank or reduction of capital, have the right to participate in the distribution of the surplus assets of Medibank.

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Note 10: Contributed equity and reserves (continued)

(b) Reserves

Reserve	2018 $m	2017 $m	Nature and purpose of reserve
Equity reserve	**17.8**	17.8	During the 2009 financial year, the parent entity entered into a restructure of administrative arrangements, which gave rise to an equity reserve representing the difference between the book value of the net assets acquired from Medibank Health Solutions Pty Ltd (formerly Health Services Australia Pty Ltd) and the total purchase consideration.
Revaluation reserve	**-**	2.3	The revaluation reserve is used to record increments and decrements on the revaluation of non-current assets, as described in Note 11.
Share-based payment reserve	**3.7**	4.3	The share-based payments reserve is used to record the cumulative expense recognised in respect of performance rights issued to key management personnel. Refer to Note 16 for details.
Total	**21.5**	24.4	

SECTION 4: OTHER ASSETS AND LIABILITIES

Overview

This section provides insights into the operating assets used and liabilities incurred to generate the Group's operating result.

Note 11: Property, plant and equipment

	Land and buildings (i) $m	Plant and equipment $m	Leasehold improvements $m	Assets under construction $m	Total $m
2018					
Gross carrying amount					
Balance at 1 July 2017	27.2	25.4	81.3	3.3	**137.2**
Additions	-	0.1	2.9	3.2	**6.2**
Transfers in/(out)	-	-	2.9	(2.9)	**-**
Disposals	(27.2)	(12.3)	(1.9)	-	**(41.4)**
Balance at 30 June 2018	**0.0**	**13.2**	**85.2**	**3.6**	**102.0**
Accumulated depreciation and impairment					
Balance at 1 July 2017	-	(11.8)	(38.1)	-	**(49.9)**
Depreciation expense	-	(3.3)	(9.4)	-	**(12.7)**
Disposals	-	12.3	1.9	-	**14.2**
Balance at 30 June 2018	**-**	**(2.8)**	**(45.6)**	**-**	**(48.4)**
2017					
Gross carrying amount					
Balance at 1 July 2016	25.5	33.9	82.0	0.2	**141.6**
Additions	0.4	0.2	1.7	3.2	**5.5**
Revaluations	1.3	-	-	-	**1.3**
Transfers in/(out)	-	-	-	(0.1)	**(0.1)**
Disposals	-	(8.7)	(2.4)	-	**(11.1)**
Balance at 30 June 2017	**27.2**	**25.4**	**81.3**	**3.3**	**137.2**
Accumulated depreciation and impairment					
Balance at 1 July 2016	(1.1)	(16.2)	(31.0)	-	**(48.3)**
Depreciation expense	(0.5)	(3.6)	(9.5)	-	**(13.6)**
Revaluations	1.6	-	-	-	**1.6**
Disposals	-	8.0	2.4	-	**10.4**
Balance at 30 June 2017	**-**	**(11.8)**	**(38.1)**	**-**	**(49.9)**
Closing net book amount					
As at 30 June 2018	**-**	**10.4**	**39.6**	**3.6**	**53.6**
As at 30 June 2017	27.2	13.6	43.2	3.3	87.3

(i) On 30 November 2017, Medibank sold its only directly-held property assets for an amount of $33.3 million, realising a gain-on-sale of $4.9 million. The space currently occupied has been leased back on market terms.

SECTION 4: OTHER ASSETS AND LIABILITIES

Note 11: Property, plant and equipment (continued)

(a) Property, plant and equipment capital expenditure commitments

	2018 $m	2017 $m
Capital expenditure contracted for at the end of the reporting period but not recognised as liabilities	**2.4**	0.7

Property, Plant and Equipment Accounting Policy

Land and buildings (none of which are investment properties) are shown at fair value less subsequent depreciation for buildings. Other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are recognised as an asset 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. All other repairs and maintenance costs are charged to the consolidated statement of comprehensive income 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 a reserve in equity. To the extent that the increase reverses a decrease previously recognised in the consolidated statement of comprehensive income, the increase is first recognised in the consolidated statement of comprehensive income. 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 consolidated statement of comprehensive income.

Depreciation
Depreciation is calculated using the straight-line method over the estimated useful life or lease term as follows:

Land	not depreciated
Assets under construction	not depreciated until in use
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.

Disposal
The gain or loss on disposal of property, plant and equipment is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs). These gains or losses are included in the consolidated statement of comprehensive income. 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.

SECTION 4: OTHER ASSETS AND LIABILITIES

Note 12: Intangible assets

	Goodwill (i) $m	Customer contracts and relationships $m	Software $m	Assets under construction $m	Total $m
2018					
Gross carrying amount					
Balance at 1 July 2017	188.8	79.8	361.8	37.1	**667.5**
Additions	33.9	3.1	23.9	11.8	**72.7**
Transfers in/(out)	-	-	36.8	(36.8)	**-**
Disposals	(4.1)	(0.1)	(6.7)	-	**(10.9)**
Balance at 30 June 2018	**218.6**	**82.8**	**415.8**	**12.1**	**729.3**
Accumulated amortisation and impairment					
Balance at 1 July 2017	(81.5)	(56.2)	(208.7)	-	**(346.4)**
Amortisation expense	-	(7.6)	(35.3)	-	**(42.9)**
Disposals	4.1	0.1	5.9	-	**10.1**
Balance at 30 June 2018	**(77.4)**	**(63.7)**	**(238.1)**	**-**	**(379.2)**
2017					
Gross carrying amount					
Balance at 1 July 2016	188.8	80.6	362.9	12.4	**644.7**
Additions	-	-	14.6	32.1	**46.7**
Transfers in/(out)	-	-	7.4	(7.4)	**-**
Revaluations	-	-	-	-	**-**
Disposals	-	(0.8)	(23.1)	-	**(23.9)**
Balance at 30 June 2017	**188.8**	**79.8**	**361.8**	**37.1**	**667.5**
Accumulated amortisation and impairment					
Balance at 1 July 2016	(81.5)	(50.0)	(200.3)	-	**(331.8)**
Amortisation expense	-	(7.0)	(31.0)	-	**(38.0)**
Transfers in/(out)	-	-	-	-	**-**
Disposals	-	0.8	22.6	-	**23.4**
Balance at 30 June 2017	**(81.5)**	**(56.2)**	**(208.7)**	**-**	**(346.4)**
Closing net book amount					
As at 30 June 2018	**141.2**	**19.1**	**177.7**	**12.1**	**350.1**
As at 30 June 2017	107.3	23.6	153.1	37.1	321.1

(i) Disposal of goodwill with nil net book amount (2017: nil) relates to the Medibank Health Solutions Pty Ltd corporate structure simplification. See note 15(a)(ii) for further details.

SECTION 4: OTHER ASSETS AND LIABILITIES

Note 12: Intangible assets (continued)

(a) Impairment tests for goodwill

Impairment Accounting Policy

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. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets called cash-generating units (CGUs). Goodwill is allocated to the Group's CGUs identified according to which CGU is expected to benefit from the synergies of the combination.

Below is a CGU-level summary of the Group's goodwill allocation and the key assumptions made in determining the recoverable amounts.

	2018			2017		
	Goodwill allocation $m	Growth rate %	Discount rate %	Goodwill allocation $m	Growth rate %	Discount rate %
Health Insurance	**96.2**	**2.5**	**14.4**	96.2	2.5	13.2
Medibank Health Telehealth	**11.1**	**2.5**	**16.7**	11.1	2.5	15.5

Health Insurance CGU	The recoverable amount is determined based on value-in-use calculations. These calculations use cash flow projections based on the Corporate Plan approved by the Board. Cash flows beyond the Corporate Plan period are extrapolated using the estimated growth rates, with a terminal value assumed in the calculations.
Medibank Health Telehealth CGU	The recoverable amount is based on a value-in-use calculation, which uses a one year cash flow projection per the Group's Corporate Plan approved by the Board. Cash flows that are beyond this period, but within the period that management can reliably estimate, are extrapolated using the estimated growth rates. No terminal value has been assumed in the calculations.

On 3 July 2017 Medibank Health Solutions Pty Ltd acquired the health services business HealthStrong (refer to Note 15(a) for further details). The difference between the consideration paid and the identifiable assets (including customer contracts and relationships) and liabilities of the HealthStrong group of $33.9 million, has been recorded as goodwill. This goodwill comprises revenue growth opportunities, expertise across a larger geographic segment and profitability of the acquired businesses and is non-deductible for tax purposes. The Group has finalised the acquisition accounting within the measurement period allowed under AASB 3 *Business Combinations*. The goodwill has been allocated to the HealthStrong cash-generating unit upon the finalisation of the acquisition accounting. No indicators or impairment exists for this goodwill.

SECTION 4: OTHER ASSETS AND LIABILITIES

Note 12: Intangible assets (continued)

(b) Inputs and key assumptions used for recoverable amount calculations

The following key assumptions have been made in determining the recoverable amounts of the Group's CGUs:

Growth rates and discount rates	The growth rate disclosed above represents the weighted average growth rate used to extrapolate cash flows beyond the budget period. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates as per industry forecasts. In performing the recoverable amount calculations for each CGU, the Group has applied post-tax discount rates to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax discount rates are disclosed above. The discount rates used reflect specific risks relating to the relevant CGU.
Health Insurance CGU	• Forecast revenue comprising estimated change in the number of members and future premium revenue rate rises. • Forecast claims and operating expenses.
Medibank Health Telehealth CGU	• Forecast revenue for the market sector and specific forecasts for key customer contracts. • Forecast direct expenses and allocated corporate costs. • Period over which to assess the forecasts.

The impact of reasonably possible changes are as follows:

Health Insurance CGU	There are no reasonably possible changes in key assumptions that could have resulted in an impairment charge for the Health Insurance CGU in the current or prior financial year.
Medibank Health Telehealth CGU	The key assumption in the Medibank Health Telehealth CGU is the cash flow forecast. The ability to meet these cash flows, which are based on the Group's Corporate Plan, could impact the recoverability of the CGU. The business model of the CGU is contract based by nature and the forecast cash flows contain assumptions around expected contract renewals, new wins and losses. In estimating the recoverable amount of the CGU, the Group has used the approved Corporate Plan for the next financial year and extrapolated this for a period of seven years, being the period over which management can reliably estimate the cash flows. This cash flow estimate assumes that current contract renewal options will be exercised by the customers. This assumption is based on management's past experience and knowledge of the market in which the CGU operates.

(c) Intangible assets capital expenditure commitments

	2018 $m	2017 $m
Capital expenditure contracted for at the end of the reporting period but not recognised as liabilities	**0.2**	4.3

SECTION 4: OTHER ASSETS AND LIABILITIES

Note 12: Intangible assets (continued)

Intangible Assets Accounting Policy

	Accounting Policy	Key estimates
Goodwill	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.	Refer to Note 12(b) above for details of the assumptions used in the recoverable amount calculations.
Software	Software intangibles are carried at cost less accumulated amortisation and impairment losses. Costs incurred in acquiring software and licences (including external direct costs of materials and service and direct payroll-related costs of employees' time spent on the project) are capitalised where they will contribute to future financial benefits, through revenue generation and/or cost reduction. Amortisation is calculated on a straight-line basis over the expected useful lives of the software (1.5 to 7 years) and is recognised in depreciation and amortisation expense in the consolidated statement of comprehensive income.	The estimated useful lives are based on projected product lifecycles and could change significantly as a result of technical innovations and competitor actions.
Customer contracts and relationships	Customer contracts and relationships acquired as part of a business combination are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over the expected useful lives (5 to 12 years) and is recognised in depreciation and amortisation expense in the consolidated statement of comprehensive income.	Customer contracts and relationships are assessed for indicators of impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. A key assumption in assessing customer contracts and relationships for impairment is the retention of the underlying contracts. Assumptions are made around renewal of these contracts, associated cash flows based on contracted renewal options and the Group's commercial and strategic long-term plans.

SECTION 4: OTHER ASSETS AND LIABILITIES

Note 13: Provisions and employee entitlements

(a) Employee entitlements

(i) Employee entitlements

	2018 $m	2017 $m
Employee entitlements		
Current	**43.3**	34.1
Non-current	**18.3**	16.2
Total employee entitlements	**61.6**	50.3

This provision incorporates annual leave, long service leave, termination payments and bonus plans.

(ii) Employee benefits expense
Included in the Group's employee benefits expense are the following:

	2018 $m	2017 $m
Defined contribution superannuation expense	**26.9**	23.5
Other long-term benefits expense	**3.8**	3.1
Termination benefits expense	**0.9**	3.8
Share-based payment expense	**3.5**	2.3

Employee Entitlements Accounting Policy	
Short-term obligations	Liabilities for wages and salaries, including non-monetary benefits, are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.
Other long-term employee benefit obligations – key estimate	Liabilities for employee entitlements includes long service leave and annual leave which are not expected to be settled wholly within 12 months after the end of the period. The liabilities are measured at the present value of expected future payments using the projected unit credit method, taking into account: • Expected future wage and salary levels. • Experience of employee departures. • Periods of service. Expected future payments are discounted using market yields at the end of the reporting period, using corporate bonds with terms to maturity that closely match the estimated future cash outflows. The obligations are presented as current liabilities in the consolidated statement of financial position if the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.
Bonus plans	Liabilities for bonuses are based on a formula that takes into consideration the performance of the employee against targeted and stretch objectives, the profit of the Group and other financial and non-financial key performance indicators. The Group recognises a provision when it is contractually obliged or where there is a past practice that has created a constructive obligation.

SECTION 4: OTHER ASSETS AND LIABILITIES

Note 13: Provisions and employee entitlements (continued)

(a) Employee entitlements (continued)

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

(b) Provisions

	Trail commissions $m	Restructuring $m	Make good $m	Medical services $m	Other $m	Total $m
Balance at 1 July 2017	10.4	3.3	4.6	11.6	18.6	48.5
Additional provision	0.6	0.2	-	14.8	4.5	20.1
Amounts utilised during the year	(1.4)	(2.6)	(0.8)	(11.3)	(5.1)	(21.2)
Reversal of unused provision	-	(0.4)	(0.4)	-	(0.1)	(0.9)
Balance at 30 June 2018	**9.6**	**0.5**	**3.4**	**15.1**	**17.9**	**46.5**
Balance comprised of:						
Current	8.0	0.5	2.1	15.1	11.9	37.6
Non-current	1.6	-	1.3	-	6.0	8.9

(i) Trail commissions provision
This provision relates to estimated commissions payable to third parties in relation to the acquisition of health insurance contracts.

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

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

SECTION 4: OTHER ASSETS AND LIABILITIES

Note 13: Provisions and employee entitlements (continued)

(b) Provisions (continued)

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

The estimated cost was calculated utilising a number of inputs including:
- The number of invoices on hand.
- An estimate of the invoices not yet received.
- The average past invoice value or contractual price.
- The mix of medical service providers.

(v) Other provision
The other provision includes:
- An onerous lease provision recognised on one of the Group's properties which did not arise as a result of a restructuring program.
- Other provisions that have arisen in course of business.

Provisions Accounting Policy
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.
- The amount has been reliably estimated.

Provisions are not recognised for future operating losses.

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Expected future payments are discounted using market yields at the end of the reporting period using corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows. The increase in the provision due to the passage of time is recognised as interest expense.

(c) Contingent liabilities
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 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 the appeal was heard by the Full Federal Court in May 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.

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SECTION 4: OTHER

Overview

This section includes additional information that must be disclosed to comply with Australian Accounting Standards, the Corporations Act 2001 and the Corporations Regulations.

Note 14: Income tax

Tax consolidation legislation

Medibank and its wholly-owned Australian controlled entities are members of a tax consolidated group. 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.

The entities in the tax consolidated group entered into a tax sharing agreement which limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Medibank.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Medibank for any current tax payable and are compensated by Medibank for any current tax receivable.

(a) Income tax expense

	2018 **$m**	2017 $m
Current tax	**193.8**	171.4
Deferred tax	**(6.9)**	9.7
Adjustment for tax of prior period	**(3.7)**	(1.9)
Income tax expense	**183.2**	179.2

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2018 **$m**	**2017** **$m**
Profit for the year before income tax expense	**628.3**	628.7
Tax at the Australian tax rate of 30%	**188.5**	188.6
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non assesable gains on disposal	**(0.1)**	(0.9)
Tax offset for franked dividends	**(2.0)**	(3.2)
Other items	**0.5**	(3.4)
	186.9	181.1
Adjustment for tax of prior period	**(3.7)**	(1.9)
Income tax expense	**183.2**	179.2

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SECTION 4: OTHER

Note 14: Income tax (continued)

(c) Deferred tax assets and liabilities

	2018 $m	2017 $m
Deferred tax balances comprise temporary differences attributable to items:		
Recognised in the income statement		
Trade and other receivables	**1.9**	1.3
Financial assets at fair value through profit or loss	**(26.6)**	(24.2)
Deferred acquisition costs	**(25.5)**	(26.2)
Property, plant and equipment	**4.2**	5.5
Intangible assets	**(20.3)**	(26.4)
Employee entitlements	**20.0**	16.2
Provisions	**18.9**	21.0
Business capital costs	**0.7**	1.1
Other (liabilities)/assets	**10.3**	4.4
Recognised in the income statement	**(16.4)**	(27.3)
Recognised directly in other comprehensive income		
Revaluation of land and buildings	**-**	(1.0)
Share based payment reserve	**-**	0.1
Actuarial loss on retirement benefit obligation	**0.5**	0.8
Recognised directly in other comprehensive income	**0.5**	(0.1)
Net deferred tax (liabilities)/assets	**(15.9)**	(27.4)

Income Tax Accounting Policy

Current Taxes Accounting Policy

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. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, and establishes provisions where appropriate.

Deferred Taxes Accounting Policy

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted at 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 income tax is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, other than for the following:

- Where they arise from the initial recognition of goodwill.
- Where they arise from the 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.
- 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 temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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.

Current and deferred tax is recognised in the 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.

SECTION 4: OTHER

Note 14: Income tax (continued)

Income Tax Accounting Policy (continued)

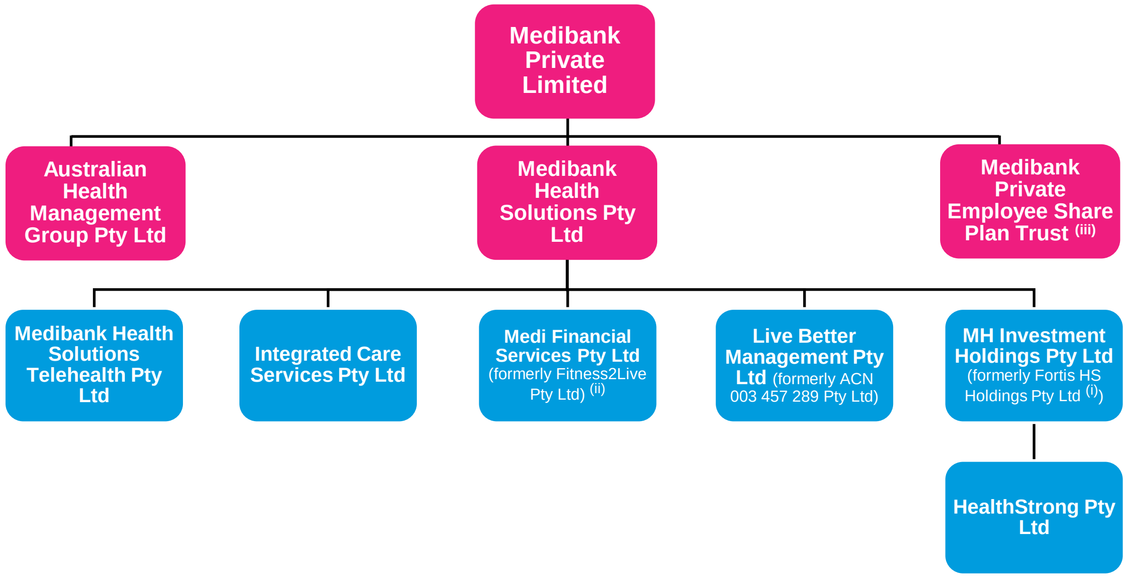
Offsetting balances

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. 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.

Note 15: Group structure

(a) Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries, which are 100% controlled.



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 the ASIC Class Order 98/1418. For further information refer to the Medibank Health Solutions Pty Ltd Annual Report.

(i) On 3 July 2017, Medibank Health Solutions Pty Ltd acquired a 100% interest in Fortis HS Holdings Pty Ltd (“HealthStrong”). The acquisition included three non-operating entities wholly owned by HealthStrong - MH Investment Holdings Pty Ltd (formerly Fortis HS Holdings Pty Ltd), Fortis HS Investments Pty Ltd (deregistration in progress) and Care Strong Connect Pty Ltd (deregistration in progress).

(ii) During the year, Medibank Health Solutions Telehealth Pty Ltd transferred 100% of its interest in Medi Financial Services Pty Ltd (formerly Fitness2Live Pty Ltd) to Medibank Health Solutions Pty Ltd.

(iii) During the year, an Employee Share Plan Trust was established to manage Medibank's share-based payment arrangements. Refer to Note 16(a) for further details.

SECTION 4: OTHER

Note 15: Group structure (continued)

(a) Subsidiaries (continued)

Consolidation Accounting Policy

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred and the liabilities incurred. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired, is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

(b) Parent entity financial information

(i) Summary financial information

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

	2018 $m	2017 $m
Statement of financial position		
Current assets	**2,891.3**	2,836.6
Total assets	**3,418.5**	3,370.3
Current liabilities	**1,449.4**	1,475.7
Total liabilities	**1,649.8**	1,691.4
Shareholders' equity		
Issued capital	**85.0**	85.0
Reserves		
Equity reserve	**6.3**	6.3
Revaluation reserve	**-**	3.9
Share-based payment reserve	**3.7**	4.3
Retained earnings	**1,673.7**	1,579.4
	1,768.7	1,678.9
Profit for the year	**426.1**	427.1
Total comprehensive income	**426.1**	429.2

SECTION 4: OTHER

Note 15: Group Structure (continued)

(b) Parent entity financial information (continued)

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

(iii) Contingent liabilities of the parent entity
Refer to Note 13(c) for details of the contingent liability of the parent entity.

(iv) Contractual commitments for the acquisition of property, plant and equipment
As at 30 June 2018, the parent entity had $2.4 million in contractual commitments for the acquisition of property, plant and equipment (2017: $0.7 million). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

Parent Entity Financial Information Accounting Policy

The financial information for the parent entity, Medibank, has been prepared on the same basis as the consolidated financial statements, except as set out below:

- Investments in subsidiaries are accounted for at cost less accumulated impairment losses in the financial statements of Medibank.
- Assets or liabilities arising under tax funding arrangements with the tax consolidated entities are recognised by Medibank as current assets or current liabilities.

(c) Related party transactions

Certain key management personnel hold director positions in other entities, some of which transacted with the Group during the 2018 financial year. All transactions that occurred were in the normal course of business. The terms and conditions of the transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis. There have been no loans to directors or specified executives during the current or prior financial years.

Note 16: Share-based payment

(a) Share-based payment arrangements

Performance rights to acquire shares in Medibank are granted to Executive Leadership Team (ELT) and Senior Leaders Group (SLG) members as part of Medibank’s short-term incentive (STI) and long-term incentive (LTI) plans. The plans are designed to:

- Align the interests of employees participating in the plan more closely with the interests of customers and shareholders by providing an opportunity for those employees to receive an equity interest in Medibank through the granting of performance rights.
- Assist in the motivation, retention and reward of ELT members.

Performance rights granted do not carry any voting rights.

During the year, an Employee Share Plan Trust was established to manage Medibank's share-based payment arrangements. Shares allocated by the trust to the employees are acquired on-market prior to allocation. Shares held by the trust and not yet allocated to employees at the end of the reporting period are shown as treasury shares in the financial statements. The Trust held nil shares at 30 June 2018.

SECTION 4: OTHER

Note 16: Share-based payment (continued)

(a) Share-based payment arrangements (continued)

(i) LTI offer
Under the LTI Plan, performance rights were granted to members of the ELT and SLG as part of their remuneration. Performance rights granted under the LTI Plan are subject to the following performance hurdles:

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

Both performance hurdles under the LTI Plan have threshold levels which need to be achieved before vesting commences. Details of these thresholds are outlined in the remuneration report. The vesting conditions for performance rights in grants will be tested over a three-year performance period commencing on 1 July of the relevant period. The vesting conditions must be satisfied for the performance rights to vest. On satisfaction of the vesting conditions, each performance right will convert into a fully paid ordinary share on a one-for-one basis.

The number of rights granted in the 2018 grants were determined based on the monetary value of the LTI award, divided by the volume-weighted average share price over the 10 trading days leading up to the start of the performance period.

(ii) Annual STI offer
Under the Group's STI Plan, 50% of STI awarded to ELT members is paid in cash after the announcement of financial results. The remaining 50% is deferred for 12 months in the form of performance rights granted under the Performance Rights Plan. Vesting of deferred performance rights is conditional on the participant remaining employed by Medibank until the end of the 12-month deferral period.

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

The number of rights to be granted will be determined based on the monetary value of the STI award, divided by the volume-weighted average share price over the 10 trading days up to and including the payment date of cash STI.

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

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

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

SECTION 4: OTHER

Note 16: Share-based payment (continued)

(b) Performance rights granted

Below is a summary of performance rights granted and forfeited under the LTI Plan during the current and previous financial years.

	Note	Number of equity instruments			
		EPS performance rights		TSR performance rights	
		2018	2017	**2018**	2017
Outstanding at 1 July		**1,738,198**	1,046,182	**1,738,199**	1,046,182
Granted	(i)	**1,638,282**	778,585	**1,638,282**	778,585
Forfeited	(ii)	**(14,668)**	(86,569)	**(14,668)**	(86,568)
Exercised		**(614,530)**	-	**(540,789)**	-
Lapsed	(iii)	**-**	-	**(73,741)**	-
Outstanding at 30 June		**2,747,282**	1,738,198	**2,747,283**	1,738,199
Exercisable at 30 June		**-**	-	**-**	-

(i) EPS and TSR performance rights granted to the SLG during 2018: 765,686 respectively (2017: nil).
(ii) Forfeited relates to instruments that lapsed on cessation of employment.
(iii) Lapsed relates to instruments that lapsed on failure to meet the performance hurdle.

(c) Fair value of performance rights granted

Below is a summary of the fair values of the 2017 and 2018 LTI plans and the key assumptions used in determining the valuation. The fair value was determined in consultation with the Group's professional service advisors, KPMG including key inputs and the valuation methodology for the performance rights granted. The fair value at grant date differs for each grant primarily due to the Medibank share price on that grant date and for the TSR performance rights the Medibank share price relative to the comparator group.

	TSR performance rights		
	2018 grant A	**2018 grant B**	**2017 grant**
Grant date	1 July 2017	25 September 2017	1 March 2017
Date of commencement of service period	1 July 2017	1 July 2017	1 July 2016
Expected expiry date	30 June 2020	30 June 2020	30 June 2019
Fair value at grant date	$1.38	$1.82	$1.08
Share price at grant date	$2.80	$2.97	$2.84
Dividend yield (per annum effective)	3.7%	3.7%	4.4%
Risk free discount rate (per annum)	2.0%	2.1%	1.9%
Valuation method	Monte Carlo simulation model	Monte Carlo simulation model	Monte Carlo simulation model
Volatility assumptions (per annum)			
Medibank	22%	22%	22%
Comparator group average	24%	24%	25%
Correlation between comparator companies' TSR	25%	25%	25%

SECTION 4: OTHER

Note 16: Share-based payment (continued)

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

	EPS performance rights		
	2018 grant A	**2018 grant B**	**2017 grant**
Grant date	1 July 2017	25 September 2017	1 March 2017
Date of commencement of service period	1 July 2017	1 July 2017	1 July 2016
Expected expiry date	30 June 2020	30 June 2020	30 June 2019
Fair value at grant date	$2.42	$2.60	$2.48
Share price at grant date	$2.80	$2.97	$2.84
Dividend yield (per annum effective)	3.7%	3.7%	4.4%
Risk free discount rate (per annum)	n/a	n/a	n/a
Valuation method	Black-Scholes option pricing methodology	Black-Scholes option pricing methodology	Black-Scholes option pricing methodology
Volatility assumptions (per annum)			
Medibank	n/a	n/a	n/a
Comparator group average	n/a	n/a	n/a
Correlation between comparator companies' TSR	n/a	n/a	n/a

Note 17: Key management personnel remuneration

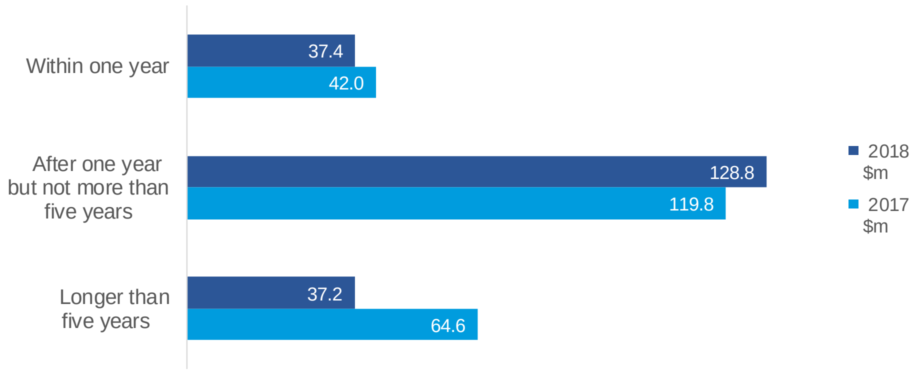
The names of persons who were directors and specified executives of the Group at any time during the financial year are disclosed in the directors’ report. Except where indicated, all of these persons were also directors and specified executives during the year ended 30 June 2017. Detailed remuneration disclosures are provided in the remuneration report.

	2018	2017
Short-term benefits	9,180,768	7,878,147
Post-employment benefits	304,838	317,495
Long-term benefits	181,724	295,531
Termination benefits	-	345,000
Share-based payments	3,381,677	2,347,181
Total key management personnel	**13,049,007**	11,183,354

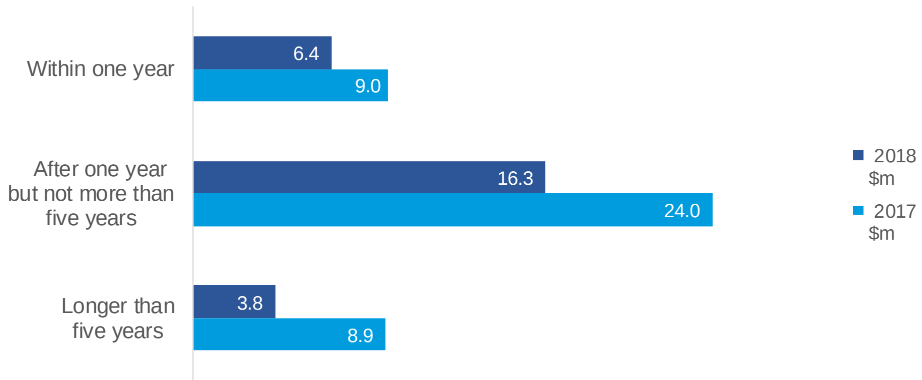
SECTION 4: OTHER

Note 18: Commitments

Operating lease commitments - lessee



Operating lease payments receivable - lessor



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. No operating leases contain restrictions on financing or other leasing activities. The Group leases unused office space under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights.

Leases Accounting Policy

Operating leases
Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recorded in the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

Lease incentives
Lease incentives received are recognised as a liability. Lease payments are allocated between the rental expense and the reduction of the liability over the term of the lease.

Onerous lease contracts
The Group recognises a provision for losses on lease contracts (refer to Note 13(b)) when the unavoidable minimum net costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

SECTION 4: OTHER

Note 19: Auditor's remuneration

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

	2018	2017
PricewaterhouseCoopers Australia (PwC):		
Amounts received or due and receivable by the Company's auditor for:		
- An audit or review of the financial report of the Company and any other entity within the Group	**1,587,053**	1,571,130
Other assurance services in relation to the Company and any other entity within the Group:		
- Audit of regulatory returns	**142,090**	119,500
Total remuneration of PwC	**1,729,143**	1,690,630

Note 20: Other

(a) New and amended standards adopted

New or amended standards that became effective for the financial year ended 30 June 2018 did not have a material impact on the Group's accounting policies or on the consolidated financial report.

(b) New accounting standards and interpretations not yet adopted

Certain new accounting standards have been published that are not mandatory for 30 June 2018 reporting periods, but will be applicable to the Group in future reporting periods. The Group's assessment of the impact of these new standards is set out below.

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

This standard is effective for reporting periods beginning on or after 1 January 2018. The Group will apply AASB 9 for the annual period beginning 1 July 2018. The revised standard addresses the classification, measurement and derecognition of financial assets and financial liabilities. All financial assets and liabilities are to be recognised at fair value with the exception of debt instruments with basic loan features that are managed on a contracted yield basis. As the Group currently classifies its investments at fair value through profit or loss, there will not be a material impact. The derecognition rules have been transferred from AASB 139 and have not been changed.

AASB 9 also introduces the expected credit losses model which is based on the concept of providing for expected impairment losses at inception of a contract. As the impairment requirements of AASB 9 do not apply to the financial assets at fair value through profit or loss, there will not be a significant impact for the Group's investments.

The Group will evaluate trade receivables and premiums in arrears for expected lifetime losses, if their credit risk has increased significantly since initial recognition, which is presumed to be the case for receivables that are more than 30 days past due and premiums in arrears that are more than 63 days past due. This is likely to result in the recognition of additional impairment losses by the Group, but based on the ageing profile of the amounts currently past due but not impaired (refer to Note 9(b)), the Group does not expect a material impact on the financial statements.

SECTION 4: OTHER

Note 20: Other (continued)

(b) New accounting standards and interpretations not yet adopted (continued)

(ii) AASB 15: Revenue from contracts with customers

This standard is effective for reporting periods beginning on or after 1 January 2018. The Group will apply AASB 15 for the annual period beginning 1 July 2018.

The Group's health insurance premium revenue will be outside the scope of the standard, as this is accounted for under AASB 1023 *General Insurance Contracts*. The standard will apply to Medibank Health revenue and other income.

The Group has reviewed contracts that may be impacted by the new standard. Based on the Group's impact assessment, there will be no material impact on the timing or amount of revenue recognition. Any new contracts will be assessed individually as they occur. The Group will adopt the modified transitional approach to implementation where any transitional adjustment is recognised in retained earnings at the date of implementation of the standard without adjustment of comparatives. The new standard is only applied to contracts in place at transition date. No transitional relief or practical expedients are going to be applied.

Disclosures around Medibank Health revenue recognised from contracts with customers may be expanded to ensure that the requirements of AASB 15 are met. This includes disaggregating revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

The Group has established a process for identification and analysis of new contracts in light of the requirements of AASB 15.

(iii) AASB 16: Leases

This standard is effective for reporting periods beginning on or after 1 January 2019. The Group currently plans to apply AASB 16 for the annual period beginning 1 July 2019.

The Group has continued to assess the potential impact of the standard on its consolidated financial statements based on current lease contracts. Our assessment confirmed that the Group will recognise new assets and liabilities for its operating leases of corporate offices and retail sites. In addition, the nature of expenses related to those leases will now change as AASB 16 replaces the straight line operating lease expense with a depreciation charge for right of use assets and interest expense on lease liabilities. The impact will likely cause some movements in overall expenses in the consolidated statement of comprehensive income broadly in line with contract renewal dates. Operating cash flow will increase under AASB 16 as the element of cash paid attributable to the repayment of principal will be included in financing cash flow. The net increase/decrease in cash and cash equivalents will remain the same.

The Group has quantified the impact of AASB 16 based on the current lease portfolio. On the assumption that there are no material changes in the composition of the lease portfolio and the Group applies the modified retrospective transition approach, the Group does not expect a material impact on the consolidated statement of comprehensive income in the year of application. A reassessment of the impact and assumptions will be conducted in the 2019 financial year. The Group has not yet determined which transition approach to apply.

SECTION 4: OTHER

Note 20: Other (continued)

(b) New accounting standards and interpretations not yet adopted (continued)

(iv) AASB 17: Insurance Contracts

This standard is effective for reporting periods beginning on or after 1 January 2021 and will replace AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts. The Group plans to apply AASB 17 for the annual period beginning 1 July 2021.

The standard introduces three new measurement approaches for accounting for insurance contracts. These include the Building Block Approach for long term contracts, the Premium Allocation Approach for short term contracts and a Variable Fee Approach for direct participating products. The Group has started an initial assessment of the potential impact on its consolidated financial statements. Disclosure changes and impacts on the profit and loss are expected.

(v) Amendments to References to the Conceptual Framework in IFRS Standards

The amendments noted below are effective for reporting periods beginning on or after 1 January 2020 and are not expected to have a material impact on the Group's accounting policies or on the consolidated financial report.

The IASB issued the revised Conceptual Framework (RCF) in March 2018, and also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework.

(vi) Other accounting standards or amendments that will become applicable in future reporting periods

Other accounting standards or amendments that will become applicable in future reporting periods are not expected to have a material impact on the Group's accounting policies or on the consolidated financial report.

(c) Other accounting policies

Impairment of Assets Accounting Policy

Assets other than goodwill, are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (CGUs).

SECTION 4: OTHER

Note 20: Other (continued)

(c) Other accounting policies (continued)

Financial Assets and Financial Liabilities Accounting Policy

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

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.

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

Goods and Services Tax (GST) Accounting Policy

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 consolidated statement of financial position.

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.

Loyalty Program

Where the amount of health insurance premium revenue includes a loyalty component, revenue is allocated to this component based on the relative estimated stand-alone selling price. The component of loyalty revenue is initially deferred as a liability on the consolidated statement of financial position, and subsequently recognised in the consolidated statement of comprehensive income upon redemption when Medibank is obliged to provide the specified goods or services itself.

(d) Events occurring after the reporting period

Medibank Group has entered into an agreement to purchase an in home care business with clinical expertise for approximately $70 million in cash and expect it to complete in the near term. The net assets to be acquired primarily consist of working capital with the majority of the purchase price expected to be recognised as intangible assets including goodwill.

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

(a) the financial statements and notes set out on pages 45 to 96 are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2018 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(b) 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 Chief Executive Officer and Chief Financial Officer in accordance with section 295A of the *Corporations Act 2001* for the year ended 30 June 2018.

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

24 August 2018
Melbourne

Independent auditor's report

To the members of Medibank Private Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Medibank Private Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended

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

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2018
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Materiality	***Audit scope***	***Key audit matters***
• For the purpose of our audit, we used overall Group materiality of $31.4 million, which represents approximately 5% of the Group's profit before tax. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We chose Group profit before tax because, in our view, it is the metric against which the performance of the Group is most commonly measured. • We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.	• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. • We performed: – An audit of the most financially significant segment of the Group, being the private health insurance segment. – Specific risk focused audit procedures over the Medibank Health segment.	• Amongst other relevant topics, we communicated the following key audit matters to the Audit Committee: – Estimation of outstanding claims liability – Reliance on automated processes and controls • These are further described in the *Key audit matters* section of our report.

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Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	***How our audit addressed the key audit matter***
Estimation of outstanding claims liability $379.8m (2017: $404.4m) *Refer to Note 3 for accounting policy and disclosures*	
The liability for outstanding claims relates to claims incurred during the financial year or prior periods but either not assessed or received by the Group at year end. The liability for outstanding claims is estimated by the Group as a central estimate but, as is the case with any accounting estimate, there is a risk that the ultimate claims paid will differ from the initial estimates. A risk margin is therefore applied by the Group to reflect the uncertainty in the estimate. The central estimate and risk margin combined, which are estimated based on judgements and actuarial expertise, are intended to achieve an actuarially defined probability of adequacy (PoA) of 95%. Primarily, judgement is required in order to estimate the: • type and amount of claims incurred during the last two months of the financial year but not received or processed by year end • speed of processing claims by providers issuing claims on behalf of policyholders • claims cost inflation and medical trends impacting utilisation of benefits by members. We considered this a key audit matter because of the significant judgement involved in estimating claims liabilities and because a small change in assumptions can result in a material change in the estimated liability and corresponding charge to profit for the year.	Our audit procedures included, amongst others; • **Controls design and operating effectiveness** We evaluated the design of the Group's relevant key controls over the claims reserving process (including data reconciliation, data inputs, data quality and the Group's review of the estimate) and assessed whether these controls were operating effectively throughout the year. • **The Group's use of actuarial expertise** Together with PwC actuarial experts we: ▪ Evaluated whether the Group's actuarial methodologies were consistent with actuarial practices, and those used in the industry and in prior periods. ▪ Assessed the key actuarial assumptions used by the Group in forecasting expected claims, particularly those relating to the two months prior to the year-end (including expected member claiming patterns and estimated payment patterns). We compared the key actuarial assumptions to the Group's historical experience, current trends and our industry knowledge. In particular, we considered whether the assumptions used in the estimation process reflected observable market trends and claims processing speed. • **Claims received after the year end** We evaluated the claims received after the year end that related to the current financial year to determine whether the claims received indicate a material misstatement in the estimation of outstanding claims at the year end.

Key audit matter	*How our audit addressed the key audit matter*
Reliance on automated processes and controls	
The Group utilises a number of complex and interdependent Information Technology (IT) systems to capture, process and report a high volume of transactions. The Group also continued its IT renewal program by replacing financial reporting, payroll and vendor management systems during the year. We considered this a key audit matter because the: ▪ Operations and financial reporting processes of the Group are heavily reliant on IT systems ▪ System changes and underlying business processes and controls are significant to the financial reporting process.	We developed an understanding of the Group's IT governance framework as well as the internal controls designed to mitigate the risk of fraud or error over: • program development and changes • access to programs and data • computer operations • data migration, and • business processes. Together with PwC IT specialists we performed the following procedures amongst others: • Assessed the design and operating effectiveness of a sample of key IT controls that are relevant to the financial reporting process and our audit • Assessed a sample of key automated calculations and system generated reports critical to processing and reporting financial transactions for completeness and accuracy • Considered program development and change management process controls over the new general ledger, payroll and vendor management systems. This included assessing a sample of migrated data for completeness and accuracy.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Operating and Financial Review and the Directors' Report. We expect the remaining other information to be made available to us after the date of this auditor's report, including About Medibank, Financial Summary, Business Snapshot, Chairman's message, CEO's message, Governance, Shareholders' Information, Financial Calendar and Corporate Directory.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received as identified above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 16 to 43 of the directors' report for the year ended 30 June 2018.

In our opinion, the remuneration report of Medibank Private Limited for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

CJ Heath
Partner

Britt Hawkins
Partner

Melbourne
24 August 2018