medibank
For Better Health

APPENDIX 4D
MEDIBANK PRIVATE LIMITED
ABN 47 080 890 259

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Medibank Private Limited Group Half-year ended 31 Dec 2018 $m	31 Dec 2017 $m	Movement $m	Movement %
Health Insurance premium revenue	3,240.3	3,175.1	65.2	2.1%
Medibank Health revenue	320.6	291.9	28.7	9.8%
Revenue (excluding net investment and other income) from ordinary activities	**3,560.9**	3,467.0	93.9	2.7%
Other income	3.9	8.2	(4.3)	(52.4%)
Net investment income	4.1	59.7	(55.6)	(93.1%)
Total income from operations	**3,568.9**	3,534.9	34.0	1.0%
Profit from ordinary activities after tax attributable to shareholders	**207.7**	245.6	(37.9)	(15.4%)
Net profit attributable to shareholders	**207.7**	245.6	(37.9)	(15.4%)

The results are summarised as follows:

- Health Insurance premium revenue increased 2.1 percent or $65.2 million to $3,240.3 million
- Medibank Health revenue increased 9.8 percent or $28.7 million to $320.6 million
- Other income decreased 52.4 percent or $4.3 million to $3.9 million
- Net investment income decreased 93.1 percent or $55.6 million to $4.1 million
- Profit from ordinary activities decreased 15.4 percent or $37.9 million to $207.7 million

For further information refer to the Directors' report in the attached Interim financial report of Medibank Private Limited for the half-year period ended 31 December 2018.

Dividend information

On 27 September 2018, a fully franked final dividend of 7.20 cents per ordinary share was paid to shareholders, in respect of the six months ended 30 June 2018.

A fully franked interim dividend of 5.70 cents per ordinary share was declared on 15 February 2019 in respect of the six months ended 31 December 2018, payable on 28 March 2019 to shareholders on the register as at close of business on 6 March 2019.

Net tangible assets per ordinary share

	31 Dec 2018 cents	31 Dec 2017 cents
Net tangible assets per ordinary share	**51.9**	51.7

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

This report should be read in conjunction with the Medibank Private Limited annual report for the year ended 30 June 2018, and is lodged with the ASX under listing rule 4.2A.

MEDIBANK PRIVATE LIMITED

ABN 47 080 890 259

INTERIM FINANCIAL REPORT
31 DECEMBER 2018

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The directors of Medibank Private Limited (Medibank or the Group) present their report on the consolidated entity for the half-year ended 31 December 2018.

Directors

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

Current:
- Elizabeth Alexander AM - Chairman
- Craig Drummond - Chief Executive Officer
- Dr Tracey Batten
- Anna Bligh AC
- David Fagan
- Peter Hodgett
- Linda Bardo Nicholls AO
- Christine O'Reilly
- Mike Wilkins AO

Review of operations

Group

Group net profit after tax decreased 15.4% to $207.7 million (1H18: $245.6 million). This was largely due to net investment income which fell by $55.6 million, driven by lower equity and credit market returns.

Health Insurance

Health Insurance operating profit increased to $281.5 million, up from $277.3 million in 1H18. This reflects continuing policyholder growth, Medibank's disciplined approach to claims management and an ongoing focus on cost control.

Health Insurance premium revenue was up 2.1% to $3,240.3 million. At a Group level, resident policyholders increased by 15,400 or 0.9% in the 12 months to December 2018. The Medibank brand saw an improvement in both acquisition and lapse rates, with the progress in retention supported by the launch of our customer priority program and further improvement is expected following the launch of the Live Better App in the coming months. ahm's customer proposition of being simple, easy and affordable continues to resonate with the market, leading to a 10.7% increase in policyholders over the last 12 months. We continued to invest in our direct acquisition channels, which has accounted for 46% of all new ahm customers in the six months to December 2018.

Health claims rose by 2.3% to $2.7 billion for the half year, reflecting a 1.7% increase in gross claims and a 50% reduction in risk equalisation receipts. The reducing reliance on risk equalisation receipts follows the on-going growth in ahm customers, who are generally younger and hold a lower level of cover.

Management expenses increased by 0.4% to $274.3 million, with the management expense ratio improving from 8.6% to 8.5%. Solid underlying cost control and the ongoing benefit from our productivity program resulted in operating expenses falling by $3.0 million or 1.3%. Depreciation and amortisation increased by $3.9 million, following the commissioning of our payroll, procurement and finance systems in November 2017. We remain on track to deliver our targeted $20 million of productivity savings during fiscal year 2019 and are building the required capability to deliver further productivity in the future.

Medibank Health

Medibank Health revenue was up 11.1% to $339.0 million, reflecting the inclusion of Home Support Services which was acquired in August 2018. Excluding revenue from the Garrison Health Service contract, Medibank Health revenue increased by 26.6% to $108.9 million, which includes 11.7% organic growth. On the same basis, operating profit increased by $3.5 million or 38.5%, reflecting the contribution from Home Support Services and our Diversified Insurance business. Services under the current Garrison contract are due to cease on 30 June 2019.

Net Investment Income

Net investment income was down from $59.7 million to $4.1 million, in-line with relevant indices. Our domestic equities portfolio was transitioned to low carbon investments in February 2019. As a result, our entire equity investment portfolio is now low carbon, aligning with our commitment to the health and wellbeing of our customers and the community.

Consistent with previous practice, in order to determine the dividend for the period, we have adjusted net investment income to normalise for the impact of the negative market returns. After normalisations the 1H19 net investment income was $39.8 million[1], down from $43.8 million[1] in 1H18.

[1] Normalisation of returns for 1H19 benchmark performance increases the net investment income by $35.8 million (1H18: decreases $16.0 million).

Rounding of amounts

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

Auditor's independence declaration

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

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

Elizabeth Alexander AM
Chairman

Craig Drummond
Chief Executive Officer

15 February 2019
Melbourne

Auditor's Independence Declaration

As lead auditor for the review of Medibank Private Limited for the half-year ended 31 December 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 review; and

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

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

CJ Heath
Partner
PricewaterhouseCoopers

Melbourne
15 February 2019

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Consolidated statement of comprehensive income

For the half-year ended 31 December 2018

	Note	31 Dec 2018 $m	31 Dec 2017 $m
Revenue			
Health Insurance premium revenue	3(a)	**3,240.3**	3,175.1
Medibank Health revenue		**320.6**	291.9
		3,560.9	3,467.0
Other income		**3.9**	8.2
Expenses			
Claims expense		**(2,666.9)**	(2,611.7)
Medical services expense		**(191.1)**	(178.3)
Employee benefits expense		**(231.3)**	(204.0)
Office and administration expense		**(40.2)**	(44.4)
Marketing expense		**(39.7)**	(41.7)
Information technology expense		**(34.9)**	(39.9)
Professional service expense		**(7.3)**	(8.1)
Lease expense		**(15.5)**	(15.0)
Depreciation and amortisation expense		**(51.3)**	(45.7)
Other expenses		**(0.3)**	-
		(3,278.5)	(3,188.8)
Profit before net investment income and income tax		**286.3**	286.4
Net investment income	5(a)	**4.1**	59.7
Profit for the half-year before income tax		**290.4**	346.1
Income tax expense	8	**(82.7)**	(100.5)
Profit for the half-year		**207.7**	245.6
Total comprehensive income for the half-year		**207.7**	245.6
Earnings per share for profit attributable to ordinary equity holders of the Company		**Cents**	Cents
Basic earnings per share		**7.5**	8.9
Diluted earnings per share		**7.5**	8.9

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

Consolidated statement of financial position

As at 31 December 2018

	Note	31 Dec 2018 $m	30 Jun 2018 $m
Current assets			
Cash and cash equivalents		**409.3**	470.1
Trade and other receivables		**290.5**	292.2
Financial assets at fair value	5(b)	**1,992.0**	2,276.5
Deferred acquisition costs		**34.7**	36.2
Other assets		**18.0**	16.0
Total current assets		**2,744.5**	3,091.0
Non-current assets			
Property, plant and equipment		**52.0**	53.6
Intangible assets	7	**409.9**	350.1
Deferred acquisition costs		**44.2**	48.7
Other assets		**1.1**	1.5
Total non-current assets		**507.2**	453.9
Total assets		**3,251.7**	3,544.9
Current liabilities			
Trade and other payables		**268.6**	350.6
Claims liabilities	3(b)	**370.9**	365.6
Unearned premium liability		**515.0**	689.5
Tax liability		**19.9**	47.4
Provisions and employee entitlements		**67.4**	80.9
Total current liabilities		**1,241.8**	1,534.0
Non-current liabilities			
Trade and other payables		**37.9**	41.0
Claims liabilities	3(b)	**12.7**	14.2
Unearned premium liability		**85.1**	83.4
Deferred tax liabilities		**6.2**	15.9
Provisions and employee entitlements		**29.2**	27.2
Total non-current liabilities		**171.1**	181.7
Total liabilities		**1,412.9**	1,715.7
Net assets		**1,838.8**	1,829.2
Equity			
Contributed equity		**85.0**	85.0
Reserves		**21.7**	21.5
Retained earnings		**1,732.1**	1,722.7
Total equity		**1,838.8**	1,829.2

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

Consolidated statement of changes in equity

For the half-year ended 31 December 2018

	Contributed equity $m	Reserves $m	Retained earnings $m	Total equity $m
Balance at 1 July 2017	85.0	24.4	1,610.4	**1,719.8**
Profit for the half-year	-	-	245.6	**245.6**
Other comprehensive income	-	-	-	**-**
Total comprehensive income for the half-year	-	-	245.6	**245.6**
Transfers upon sale of property	-	(2.2)	3.9	**1.7**
Transactions with owners in their capacity as owners:				
Dividends paid	-	-	(185.9)	**(185.9)**
Acquisition and settlement of share-based payment, net of tax	-	(4.3)	-	**(4.3)**
Share-based payment transactions	-	2.0	-	**2.0**
Balance at 31 December 2017	**85.0**	**19.9**	**1,674.0**	**1,778.9**
Balance at 1 July 2018	85.0	21.5	1,722.7	**1,829.2**
Profit for the half-year	-	-	207.7	**207.7**
Other comprehensive income	-	-	-	**-**
Total comprehensive income for the half-year	**-**	**-**	**207.7**	**207.7**
Transactions with owners in their capacity as owners:				
Dividends paid	-	-	(198.3)	**(198.3)**
Acquisition and settlement of share-based payment, net of tax	-	(2.7)	-	**(2.7)**
Share-based payment transactions	-	2.9	-	**2.9**
Balance at 31 December 2018	**85.0**	**21.7**	**1,732.1**	**1,838.8**

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

Consolidated statement of cash flows

For the half-year ended 31 December 2018

	Note	**31 Dec 2018 $m**	31 Dec 2017 $m
Cash flows from operating activities			
Premium receipts		**3,066.7**	2,994.5
Medibank Health receipts		**340.5**	339.3
Other receipts		**2.8**	3.0
Payments for claims and levies		**(2,685.8)**	(2,621.7)
Payments to suppliers and employees		**(656.9)**	(588.2)
Income taxes paid		**(119.4)**	(148.0)
Net cash outflow from operating activities	6	**(52.1)**	(21.1)
Cash flows from investing activities			
Interest received		**22.4**	19.2
Investment expenses		**(2.2)**	(2.0)
Proceeds from sale of financial assets		**1,165.3**	591.4
Purchase of financial assets		**(896.8)**	(354.4)
Purchase of business		**(70.4)**	(37.5)
Proceeds from sale of land and buildings		**-**	33.3
Purchase of plant and equipment		**(6.9)**	(1.8)
Purchase of intangible assets		**(18.3)**	(21.5)
Net cash inflow from investing activities		**193.1**	226.7
Cash flows from financing activities			
Purchase of shares to settle share-based payment		**(3.5)**	(4.3)
Dividends paid		**(198.3)**	(185.9)
Net cash outflow from financing activities		**(201.8)**	(190.2)
Net increase/(decrease) in cash and cash equivalents		**(60.8)**	15.4
Cash and cash equivalents at beginning of the half-year		**470.1**	594.6
Cash and cash equivalents at end of the half-year		**409.3**	610.0

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

Note 1: Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are consistent with those of the previous financial year and corresponding interim period, as set out in the annual financial report for the year ended 30 June 2018, except for the adoption of new accounting standards as disclosed in Note 10(a). The financial statements are for the consolidated entity (the Group), consisting of Medibank Private Limited (Medibank Private or the Company) and its subsidiaries. Medibank Private is a company limited by shares whose shares are publicly traded on the Australian Securities Exchange (ASX).

a) Basis of preparation of consolidated interim financial report

The consolidated interim financial report for the half-year period ended 31 December 2018 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

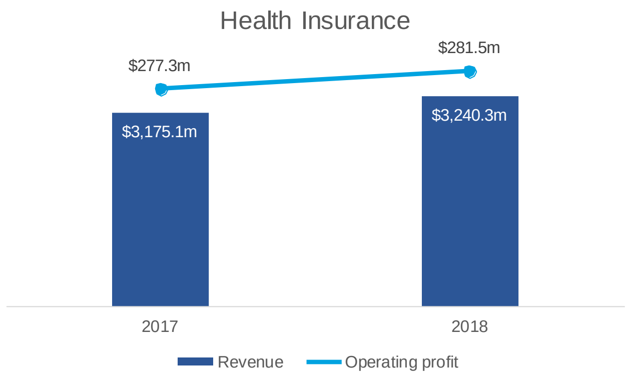
The consolidated interim financial report does not include all notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by Medibank Private during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*. This report includes, where necessary, updates to prior period comparatives for changes in classification of amounts in the current reporting period. 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.

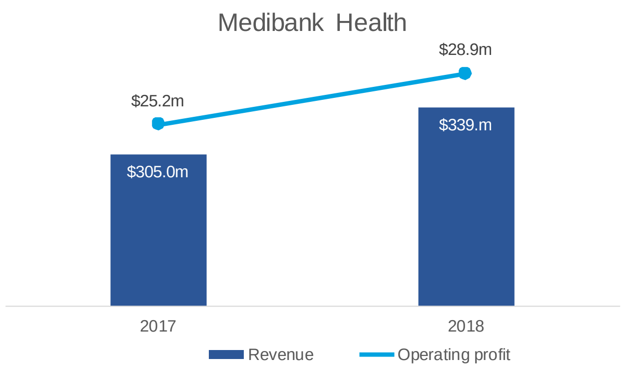
b) Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise 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:

- Insurance underwriting result
- Intangible assets
- Deferred acquisition costs
- Provisions and employee entitlements

Note 2: Segment information





a) Segment information provided to the Chief Executive Officer (CEO)

The segment information provided to the CEO for the half-year ended 31 December 2018 is as follows:

31 Dec 2018	Health Insurance $m	Medibank Health $m	Total $m
Revenues			
Total segment revenue	3,240.3	339.0	3,579.3
Inter-segment revenue	-	(18.4)	(18.4)
Revenue from external customers	**3,240.3**	**320.6**	**3,560.9**
Operating profit	**281.5**	**28.9**	**310.4**
Items included in segment operating profit:			
Depreciation and amortisation	(44.9)	(2.1)	**(47.0)**

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

Note 2: Segment information (continued)

b) 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 the segments.

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

	Note	**31 Dec 2018 $m**	31 Dec 2017 $m
Total segment operating profit		**310.4**	302.5
Unallocated to operating segments:			
Corporate operating expenses		(17.4)	(16.4)
Group operating profit		**293.0**	286.1
Net investment income	5(a)	4.1	59.7
Acquisition intangible amortisation		(3.8)	(3.5)
Gain on sale of property		-	4.9
Mergers and acquisitions expenses		(1.4)	(0.8)
Other income/(expenses)		(1.5)	(0.3)
Profit for the half-year before income tax		**290.4**	346.1

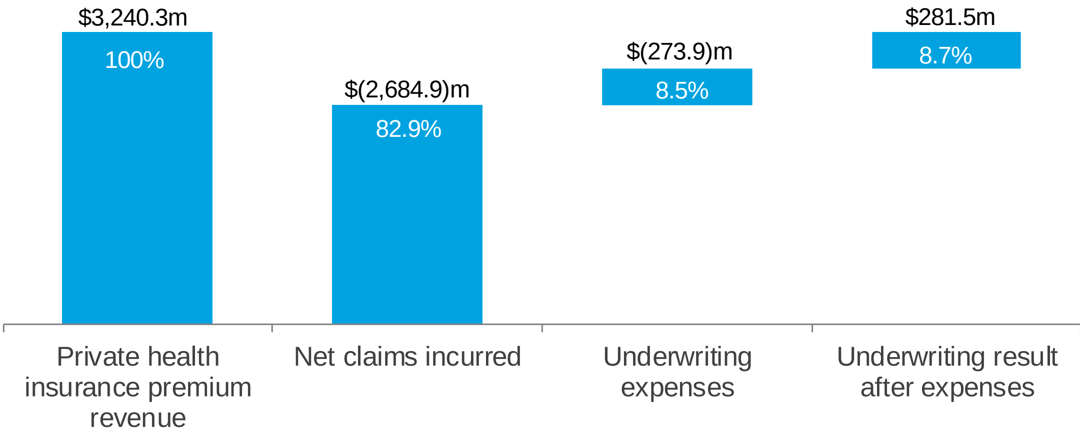
(ii) Other items

Segment operating profit excludes the following:

- Corporate operating expenses of $17.4 million (2017: $16.4 million) relating to the Group's corporate function.
- Net investment income, which comprises:
  - Interest and dividend income and related investment management expenses (refer to Note 5(a)), as this arises from investments which are managed by a central treasury function.
  - Net gains and losses on disposals of and fair value movements on financial assets and liabilities (refer to Note 5(a)), as they are not indicative of the Group's long-term performance.
- Acquisition intangible amortisation of $3.8 million (2017: $3.5 million) not allocated to segments.
- One-off income/(expenses) in relation to the gain on sale of property and mergers and acquisitions which do not relate to the current operating activities of the Group’s segments.
- Other income/(expenses) of ($1.5) million (2017: ($0.3) million) which do not relate to the trading activities of the Group’s segments, comprising primarily net sublease rent.

Note 3: Insurance underwriting result

31 December 2018 underwriting result after expenses



a) Insurance underwriting result

	Note	**31 Dec 2018 $m**	31 Dec 2017 $m
Private health insurance premium revenue		**3,240.3**	3,175.1
Claims expense			
Claims incurred	(i)	**(2,674.4)**	(2,630.4)
State levies		**(25.3)**	(24.6)
Net Risk Equalisation Special Account rebates		**15.2**	30.4
Net claims incurred excluding claims handling costs on outstanding claims liabilities		**(2,684.5)**	(2,624.6)
Movement in claims handling costs on outstanding claims liabilities		**(0.4)**	(0.1)
Net claims incurred		**(2,684.9)**	(2,624.7)
Underwriting expenses		**(273.9)**	(273.1)
Underwriting result after expenses		**281.5**	277.3

(i) Prior to elimination of transactions with the Group's other operating segments of $18.0 million (31 December 2017: $13.6 million).

Note 3: Insurance underwriting result (continued)

b) Gross claims liability

	Note	**31 Dec 2018 $m**	30 Jun 2018 $m
Current			
Outstanding claims liability - central estimate	(i,ii)	**325.2**	313.1
Risk margin	(i,iii)	**25.8**	24.8
Claims handling costs	(iv)	**8.1**	7.7
		359.1	345.6
Claims liability - bonus provision	(v)	**11.8**	20.0
Gross claims liability	(c)	**370.9**	365.6
Non-current			
Outstanding claims liability - central estimate	(i,ii)	**2.2**	1.8
Risk margin	(i,iii)	**0.2**	0.1
Claims handling costs	(iv)	**0.1**	-
		2.5	1.9
Claims liability - bonus provision	(v)	**10.2**	12.3
Gross claims liability	(c)	**12.7**	14.2

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.

(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.

Note 3: Insurance underwriting result (continued)

b) Gross claims liability (continued)

(ii) Discounting	The outstanding claims liability central estimate is discounted to present value using a risk-free rate of 2.09% per annum which equates to a reduction in the central estimate of $0.9 million (30 June 2018: 2.11%, $0.9 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 31 December 2018 is 7.8% (30 June 2018: 7.8%). ***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% (30 June 2018: 95%).
(iv) Claims handling costs	The allowance for claims handling costs at 31 December 2018 is 2.5% of the outstanding claims liability (30 June 2018: 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.

c) Reconciliation of movement in claims liabilities

	6 months 31 Dec 2018 $m	12 months 30 Jun 2018 $m
Balance at beginning of period (1 July)	**379.8**	404.4
Claims incurred during the period	**2,665.3**	5,251.4
Claims paid during the period	**(2,652.8)**	(5,231.9)
Amount over provided on central estimate	**(10.3)**	(42.0)
Risk margin	**1.1**	(1.3)
Claims handling costs	**0.5**	(0.7)
Movement in discount rate	**-**	(0.1)
Balance at end of period	**383.6**	379.8

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

Note 3: Insurance underwriting result (continued)

(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 $22.9 million decrease/increase to profit after tax and equity (30 June 2018: $22.0 million). A 1% movement in other key outstanding claims variables, including discount rate and risk margin and a one month movement in the weighted average term to settlement, would result in an insignificant decrease/increase to profit after tax and equity.

Note 4: Dividends

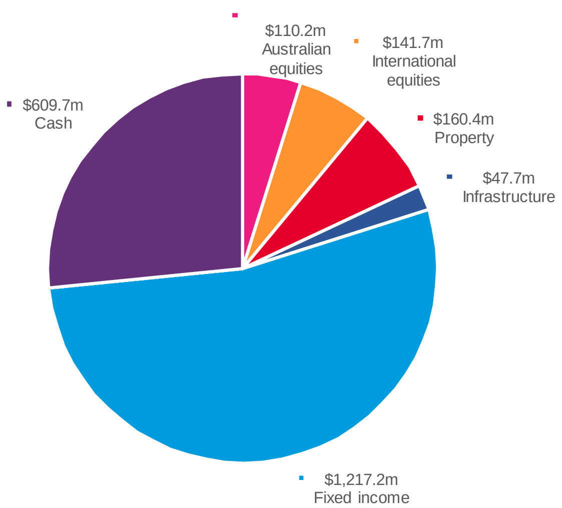
	cents per fully paid share	$m	Payment date
31 Dec 2018			
2018 final fully franked dividend	**7.20**	**198.3**	**27 September 2018**
31 Dec 2017			
2017 final fully franked dividend	6.75	185.9	28 September 2017

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

Note 5: Investment portfolio

The health fund investment portfolio comprises the following:

		Portfolio composition 31 Dec 2018	Portfolio composition 30 June 2018	Target asset allocation
Growth				
Australian equities		4.8%	5.6%	5.0%
International equities		6.2%	6.6%	6.0%
Property		7.0%	6.2%	7.0%
Infrastructure		2.1%	2.0%	2.0%
		20.1%	**20.4%**	**20.0%**
Defensive				
Fixed income	(i)	53.2%	50.1%	52.0%
Cash	(ii)	26.7%	29.5%	28.0%
		79.9%	**79.6%**	**80.0%**
		100.0%	**100.0%**	**100.0%**



For investment portfolio classification purposes:
(i) Fixed income excludes cash with maturities between 3-12 months ($314.8 million).
(ii) Cash comprises cash and cash equivalents ($409.3 million), cash with maturities between 3-12 months ($314.8 million) less non-health fund investments ($62.0 million) and operational cash ($52.4 million).

Note 5: Investment portfolio (continued)

a) Net investment income

		31 Dec 2018 $m	31 Dec 2017 $m
Interest	(i)	**24.6**	22.5
Trust distributions		**33.1**	28.5
Investment management fees		**(2.2)**	(2.1)
Net gain/(loss) on fair value movements on financial assets		**(51.7)**	9.5
Net gain on disposal of financial assets		**0.3**	1.3
		4.1	59.7

(i) Includes interest income of $0.9 million (2017: $0.5 million) relating to non-health fund investments.

b) Fair value hierarchy

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

- Level 1: Quoted prices (unadjusted current bid price) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following tables present the Group's financial assets measured and recognised at fair value on a recurring basis.

31 Dec 2018		Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at fair value through profit or loss					
Australian equities	(i)	-	110.2	-	110.2
International equities	(i)	-	141.7	-	141.7
Property		0.6	159.8	-	160.4
Infrastructure		-	47.7	-	47.7
Fixed income		95.9	1,374.6	-	1,470.5
Financial assets at fair value through other comprehensive income	(ii)	-	61.5	-	61.5
		96.5	**1,895.5**	**-**	**1,992.0**

Note 5: Investment portfolio (continued)

b) Fair value hierarchy (continued)

30 Jun 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		85.9	1,539.5	-	1,625.4
Non-health fund investments	(ii)	-	130.9	-	130.9
		88.1	2,188.4	-	2,276.5

(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) From 1 July 2018, non-health fund investments are accounted for at fair value through other comprehensive income under AASB 9 *Financial Instruments*. These investments were classified as fixed income investments and were accounted for at fair value through profit or loss at 30 June 2018. Refer to Note 10(a)(i) for further details around the impact of the adoption of AASB 9.

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

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis at 31 December 2018.

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

c) Valuation techniques

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

The fair value of level 2 financial instruments is determined using a variety of valuation techniques which make assumptions based on market conditions existing at the end of each reporting period. Valuation methods include quoted market prices or dealer quotes for similar instruments, yield curve calculations using the mid yield, vendor or independently developed models.

There are no investments classified as level 3.

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

	31 Dec 2018 $m	31 Dec 2017 $m
Profit for the half-year	**207.7**	245.6
Depreciation	**6.6**	6.3
Amortisation of intangibles assets	**24.8**	19.7
Amortisation of deferred acquisition costs	**19.9**	19.7
Net loss/(gain) on disposal of assets	**0.4**	(4.9)
Net realised loss/(gain) on financial assets	**(0.3)**	(1.3)
Net unrealised loss/(gain) on financial assets	**51.7**	(9.5)
Interest income	**(24.6)**	(22.5)
Trust distribution reinvested	**(33.1)**	(28.5)
Investment expenses	**2.2**	2.1
Non-cash share-based payments expense	**2.9**	2.0
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	**7.7**	38.6
Decrease/(increase) in deferred acquisition costs	**(13.9)**	(15.5)
Decrease/(increase) in other assets	**(1.6)**	3.5
(Decrease)/increase in net deferred tax liabilities	**(9.1)**	9.8
(Decrease)/increase in trade and other payables	**(84.6)**	(35.0)
(Decrease)/increase in unearned premium liability	**(172.7)**	(179.2)
(Decrease)/increase in claims liabilities	**3.9**	(5.5)
(Decrease)/increase in income tax liability	**(27.6)**	(57.4)
(Decrease)/increase in provisions and employee entitlements	**(12.4)**	(9.1)
Net cash outflow from operating activities	**(52.1)**	(21.1)

Note 7: Intangible assets

	Goodwill (i) $m	Customer contracts & relationships $m	Software $m	Assets under construction $m	Total $m
Gross carrying amount					
Balance at 1 July 2018	218.6	82.8	415.8	12.1	**729.3**
Additions	67.5	-	1.4	15.9	**84.8**
Transfers in/(out)	-	-	3.5	(3.7)	**(0.2)**
Disposals	-	-	-	-	**-**
Balance at 31 December 2018	286.1	82.8	420.7	24.3	**813.9**
Accumulated amortisation and impairment					
Balance at 1 July 2018	(77.4)	(63.7)	(238.1)	-	**(379.2)**
Amortisation expense	-	(3.8)	(21.0)	-	**(24.8)**
Disposals	-	-	-	-	**-**
Balance at 31 December 2018	(77.4)	(67.5)	(259.1)	-	**(404.0)**
Closing net book amount					
As at 31 December 2018	**208.7**	**15.3**	**161.6**	**24.3**	**409.9**
As at 30 June 2018	141.2	19.1	177.7	12.1	350.1

(i) Refer to Note 10(b)(i) for further details on the provisional goodwill recorded in relation to the acquisition of Home Support Services Pty Ltd.

a) Estimated impairment of goodwill and customer contracts and relationships

Key judgement and estimate:
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. Definite life intangible assets are assessed for indicators of impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Management have performed an assessment for indicators of impairment of the Group's intangible assets as at 31 December 2018 and have concluded that no indicators of impairment existed.

In assessing the goodwill for impairment, the recoverable amount of the CGU was determined based on a value-in-use calculation. The key assumptions used in testing the CGU for impairment are outlined in the Group's annual financial report for the year ended 30 June 2018. Acquired goodwill accounted for on a provisional basis is assessed for indicators of impairment.

Note 8: Income tax expense

	31 Dec 2018 $m	31 Dec 2017 $m
Current tax	**91.8**	90.7
Deferred tax	**(9.1)**	9.8
	82.7	100.5

Note 9: Contingencies

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

Note 10: Other

(a) New and amended standards adopted

The Group has not elected to apply any pronouncements before their operative date in the half-year reporting period ended 31 December 2018.

This note explains the impact of the adoption of AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 July 2018, where they are different to those applied in prior periods. The Group has applied the modified retrospective method of adoption on 1 July 2018, which does not require restatement of comparative information.

(i) AASB 9 Financial Instruments

The standard addresses the classification, measurement and derecognition of financial assets and financial liabilities. The adoption of AASB 9 resulted in changes in accounting policies.

Accounting policies

Under AASB 9, the Group classifies its financial assets in the following measurement categories, depending on the Group's business model for managing the financial assets and the contractual terms of the cash flows:

- Those to be measured subsequently at fair value through profit or loss (FVTPL).
- Those to be measured subsequently at fair value through other comprehensive income (FVOCI).
- Those to be measured at amortised cost.

Financial Assets and Financial Liabilities

The Group's financial assets consist of: cash and cash equivalents, financial assets at fair value and trade and other receivables. Management determines the classification of its financial assets at initial recognition based on the business model test and cash flow characteristics. 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. The Group's financial liabilities comprise trade and other payables. Financial liabilities are classified and measured at amortised cost and derecognised when the Group's contractual obligations are discharged, cancelled or expired.

Note 10: Other (continued)

(a) New and amended standards adopted (continued)

(i) AASB 9 Financial Instruments (continued)

Financial assets at fair value
Investments in listed and unlisted securities held by Medibank's health insurance fund are accounted for at FVTPL. Fixed income investments held by Medibank's health insurance fund are also accounted for at FVTPL, as the Group applies the fair value option to eliminate an accounting mismatch. 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.

Fixed income investments not held by Medibank's health insurance fund are accounted for at FVOCI, as the objective of these assets is to collect contractual cash flows and to sell the assets if required, and the contractual cash flows are solely payments of principal and interest. Refer to Note 5 for further details. These assets are initially and subsequently carried at fair value, with gains and losses recognised within equity in other comprehensive income until the asset is derecognised. When the assets are derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. Interest income accrues using the effective interest method and is included within net investment income in the consolidated statement of comprehensive income.

Net Investment Income
Gains or losses arising from changes in the fair value of the financial assets at FVTPL 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 FVTPL 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.

Impact of adoption of AASB 9

Classification and measurement
On 1 July 2018, the Group assessed which business models apply to the financial assets held by the Group and classified its financial instruments into the appropriate AASB 9 categories. The non-health fund investments measured at FVTPL were reclassified from financial assets at FVTPL to financial assets at FVOCI, as the objective of these assets is to collect contractual cash flows and to sell the assets if required, and the contractual cash flows are solely payments of principal and interest.

The adoption of AASB 9 resulted in a reclassification of non-health fund investments of $130.9 million measured at fair value through profit or loss at 30 June 2018 to the opening balance of financial assets at fair value through other comprehensive income. There was no impact to profit or loss or retained earnings.

Impairment
From 1 July 2018, the Group assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the receivables. This did not result in the recognition of any additional loss allowance by the Group.

Note 10: Other (continued)

(a) New and amended standards adopted (continued)

(i) AASB 9 Financial Instruments (continued)

Impairment (continued)

For financial assets classified at fair value through other comprehensive income, the Group applies the general approach, which requires recognition of a loss allowance based on either 12-month expected credit losses or lifetime expected credit losses depending on whether there has been a significant increase in credit risk since initial recognition. Expected credit losses do not reduce the carrying amount of the financial asset in the statement of financial position, which remains at fair value. Instead, a loss allowance is recognised in other comprehensive income as the accumulated impairment amount. The Group evaluated the financial assets classified at fair value through other comprehensive income for significant changes in credit risk. This did not result in any change to the loss allowance recognised by the Group

(ii) AASB 15 Revenue from contracts with customers

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

Accounting policies
The Group's policies for revenue recognition under AASB 15 is given below:

Medibank Health Revenue Recognition Accounting Policy

Medibank Health revenue is recognised when services are provided to the customer and at an amount the Group will be entitled to receive in relation to providing the services. A contract liability is recognised when the Group has an obligation to transfer services to a customer for which it has already received consideration from the customer (or an amount of consideration is receivable). Contract liabilities are recognised as Medibank Health revenue when the services are provided.

Impact of adoption of AASB 15
Adopting AASB 15 did not impact the timing or the amount of revenue recognition as the Group continues to recognise revenue when services were provided to the customer.

(iii) Other

The following standards became effective for the annual reporting period commencing on 1 July 2018, but did not have a material impact on the Group's accounting policies or on the consolidated interim financial report.

- AASB 2016-5 Classification and Measurement of Share-based Payment Transactions
- AASB 2017-1 Transfers of investment property and annual improvements

(b) New accounting standards and interpretations not yet adopted

There has been no change in the expected impact of adopting AASB 16 *Leases* to what was disclosed in Note 20(b) of annual financial report for the year ended 30 June 2018.

Note 10: Other (continued)

(c) Significant events since 30 June 2018

(i) Acquisition of Home Support Services Pty Ltd

On 29 August 2018, MH Investment Holdings Pty Ltd acquired a 100% interest in the in-home care business Home Support Services Pty Ltd (HSS) for $70.4 million. The difference between the consideration paid and the identifiable assets and liabilities of HSS, amounting to $67.5 million, has been provisionally recorded as goodwill. The Group is in the process of completing the final valuation and accounting.

(ii) Garrison Health Services contract

On 19 November 2018, Medibank was informed by the Australian Government Department of Defence that it has not been selected as the preferred tenderer for the renewal of the Garrison Health Services contract. Services under the current contract are due to cease on 30 June 2019. The operating profit from the Garrison Health Services contract for 2018 was approximately $30.0 million. Medibank is currently assessing the options and plan for the exit. These exit costs are expected to be approximately $5.0 million and have not been provided for in these financial statements as the detailed formal plan for restructuring is being developed and has not been announced to those affected.

(iii) ACCC proceedings

On 20 December 2018, the Full Federal Court unanimously dismissed the ACCC's appeal in relation to the contingent liability disclosed in Note 13(c) of the annual financial report for the year ended 30 June 2018. The ACCC did not seek leave to appeal the judgement within the relevant timeframe.

Note 11: Events occurring after the reporting period

Since 31 December 2018, Directors have declared a fully franked interim dividend of $157.0 million (5.70 cents per share) to be paid on 28 March 2019.

Apart from the matters discussed above, there have been no events occurring after the reporting period which would have a material effect on the Group's consolidated interim financial report at 31 December 2018.

Directors' declaration

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

(a) the financial statements and notes set out on pages 4 to 22 are in accordance with *the Corporations Act 2001*, including:

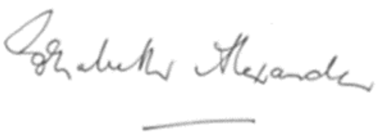
i. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and

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

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

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

On behalf of the Board,



Elizabeth Alexander AM
Chairman

Craig Drummond
Chief Executive Officer

15 February 2019
Melbourne

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Medibank Private Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors' declaration for Medibank Private Limited. The Group comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Medibank Private Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

1. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date;

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

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

This review report relates to the half-year financial report of the Company for the half-year ended 31 December 2018 included on Medibank Private Limited's web site. The Company's directors are responsible for the integrity of the Medibank Private Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed half-year financial report to confirm the information included in the reviewed half-year financial report presented on this web site.

PricewaterhouseCoopers.

PricewaterhouseCoopers

CJ Heath
Partner

Britt Hawkins
Partner

Melbourne
15 February 2019