

Tax Report 2016

For the year ended 30 June 2016

Message from the Chief Financial Officer



I am pleased to present Medibank Private Limited's (Medibank) tax report (the Report) for 2016 as part of the Australian Federal Government's initiative to promote corporate tax transparency in Australia.

Medibank Private Limited is a leading private health insurer with over 40 years of experience of delivering better health to Australians through private health insurance, complementary health services, and our work to support health and wellbeing in the community. Along our journey our focus has been and will always be to support healthcare in ways that meet the changing needs of our customers and society.

We are proud of our contributions not only to healthcare but also to Australia's employment, community, and public finances. We publish this Report on a voluntary basis, as part of our commitment to tax transparency.

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Mark Rogers
Chief Financial Officer

1. Introduction

This Report provides information on Medibank's approach to tax governance and strategy, and details tax-related payments made in the year ended 30 June 2016 (FY16). Medibank has chosen to voluntarily disclose this information in support of the Australian Government's efforts to promote tax transparency.

Medibank makes a wide range of tax-related payments to governments in the jurisdictions in which it operates. With particular focus on the Australian market, Medibank makes the vast majority of its tax payments to the Australian Federal and State/Territory governments. In addition to paying corporate tax levied on profits generated for its shareholders, Medibank also pays goods and services tax (GST), fringe benefits tax (FBT), payroll tax, stamp duties, and health insurance levies. As an Australian employer, Medibank also collects and pays "pay-as-you-go" (PAYG) taxes on behalf of employees, and contributes to employees' superannuation.

2. Our business

Medibank operates primarily in Australia, with limited operations in New Zealand (sold in November 2015) and non-operative subsidiaries in the UK and Asia during the 2015 and 2016 years. Medibank's policy is to incorporate legal entities in the foreign jurisdictions in which it carries on business and is therefore subject to the local tax regimes.

Medibank is one of Australia's leading private health insurers and earns its revenue from health insurance and other health service activities in Australia.

Medibank undertakes the following businesses:

- **Private health insurance** – the provision of private health insurance policies to persons under the Medibank and ahm brands;
- **Complementary services** – Healthcare management services for government and corporate clients, online and telephone-based health services and distribution of travel, life and pet insurance.

As part of our obligations as a regulated health insurer, Medibank maintains a portfolio of investments to satisfy its regulatory reserves. Medibank also generates income from these investments.

3. Tax governance & strategy

At Medibank, tax risk management is seen as an integral part of good corporate governance.

Medibank manages its tax framework and strategy in accordance with our tax governance policy, which has been approved by the Board and subject to review every two years. The tax governance policy and framework outlines the appropriate course of action required to ensure that all tax risks are managed promptly and appropriately. Medibank also reports its tax-related activities to the Audit & Risk Management Committee on a regular basis.

In conducting its business, Medibank is committed to ensuring that it is compliant with all statutory tax obligations in the jurisdictions in which it operates. Medibank does not engage in tax avoidance schemes or aggressive tax positions.

Medibank maintains a transparent and productive relationship with the revenue authorities, as shown through the voluntary disclosure of tax information contained in this Report. The ATO has undertaken various review activities in relation to Medibank's tax affairs, all of which have resolved in an open and transparent manner.

4. Income tax disclosures

Effective tax rate

"Effective tax rate" is calculated by dividing Medibank's income tax expense by its accounting profit before tax. The effective tax rate is calculated solely with reference to income tax and excludes other types of taxes such as GST, stamp duty, superannuation contributions, FBT, payroll tax, and PAYG withholding remitted to the ATO on behalf of Medibank's employees and eligible personnel.

As the effective tax rate is a concept calculated based on accounting profit rather than taxable income, it necessarily differs from a corporation's income tax liability, which is calculated based on the Australian tax legislation that reflects government policies and intent with respect to the taxation of corporations. In most instances, these differences are only of a timing nature, as the accounting and tax concepts of income align over time.

Why is Medibank's effective tax rate less than 30%?

Medibank's effective tax rate for FY16 is 24% (FY15: 28%) of its accounting profits based on the FY16 audited financial report. The income tax expense / (benefit) is made up of the following:

	2016 \$m	2015 \$m
Income tax expense		
Current tax	154.7	100.7
Deferred tax	0.3	16.6
Adjustment for tax of prior period	(26.3)	(6.0)
Income tax expense	128.7	111.3

Source: Note 15: Income tax of Medibank's 2016 annual report.

Medibank's effective tax rate is lower than the Australian corporate tax rate of 30% due to a number of items the details of which are provided in the following table:

	2016 \$m	2015 \$m
Profit for the year before income tax expense ¹	546.3	396.6
Tax at the Australian tax rate of 30% (2015: 30%)	163.9	119.0
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment	0.2	0.2
Non assessable gains on disposal	(0.4)	-
Tax offset for franked dividends ²	(2.2)	(1.9)
Sundry items ³	(6.5)	-
	155.0	117.3
Adjustment for tax of prior period ⁴	(26.3)	(6.0)
Income tax expense	128.7	111.3
Effective tax rate	24%	28%

Source: Note 15: Income tax of Medibank's 2016 annual report.

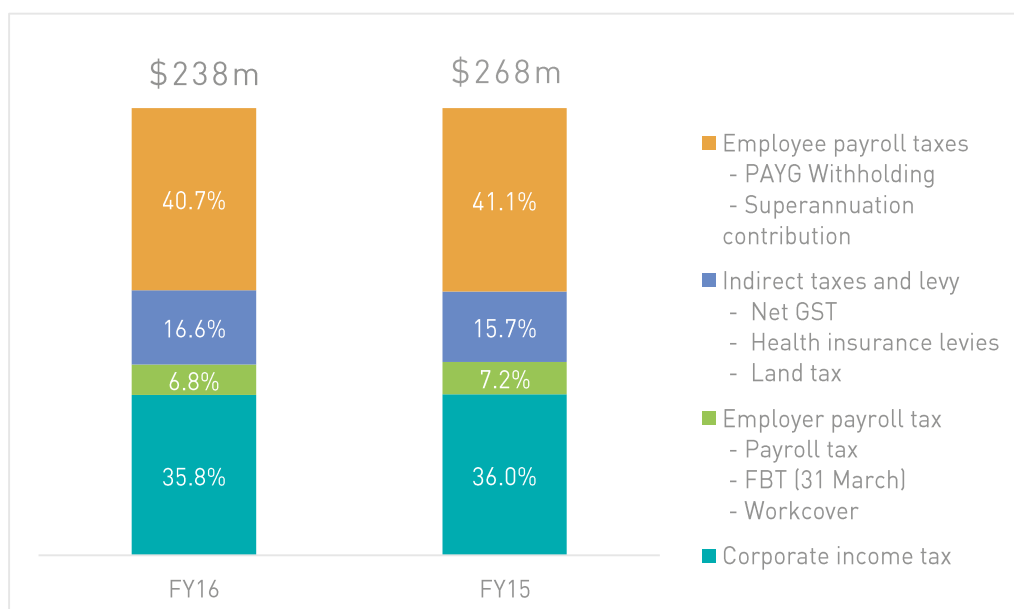
1. This includes the financial results of Medibank's foreign subsidiaries. This has not been separately disclosed as it is immaterial for the purposes of the Report.
2. This relates to dividend imputation credits received by Medibank from its investment activities. These imputation credits arise on franked dividends received by Medibank on profits which have previously been taxed in Australia and are passed on to Medibank's shareholders on payment of dividends.
3. This consists mainly of adjustments made to Medibank's investment portfolio.

4. This relates to adjustments made to Medibank’s tax estimates for prior periods, generally as a result of additional information. In particular, in FY16, Medibank received a one-off benefit of \$23.2m relating to a change in the tax position for prior periods which resulted in previously unclaimed tax deductions being allowed. This position has been endorsed by the ATO.

5. Tax contribution summary

Medibank is proud of the contributions it makes to Australia’s public finances and its role as the employer of over 3,000 employees in Australia. No tax has been paid in the UK or Asia as Medibank’s subsidiaries in the respective jurisdictions were non-operative during the 2015 and 2016 years. Taxes paid in New Zealand are immaterial for the purposes of the Report and have therefore not been separately disclosed.

The graph below provides an illustration of the tax and government imposts related payments made by Medibank to the Australian revenue authorities during FY15 and FY16.



In FY16, Medibank received a one-off income tax refund of \$23.2m relating to amounts previously taxed by the ATO. Other than income tax, Medibank has also made significant payroll and employer tax payments in Australia in its capacity as an employer and manage employee taxes withheld from employees’ remuneration and paid to the government.