

Tax Report 2017

For the year ended 30 June 2017

Message from the Chief Financial Officer



Medibank Private Limited (Medibank) supports initiatives to promote corporate tax transparency in Australia and as part of this, we publish this Tax Report annually.

Our purpose is Better Health for Better Lives. This means everything we do as an organisation is aimed at improving the health and wellbeing of Australians and helping people lead better quality lives. Medibank lives this purpose through providing private health insurance, health services, and our work to support health and wellbeing in the community. Medibank's 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.

I present to you Medibank's tax report (the Report) for 2017.



Mark Rogers
Chief Financial Officer

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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 2017 (FY17).

Medibank makes a wide range of tax-related payments to governments in the jurisdictions in which it operates. 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 is a publicly listed company on the Australian Securities Exchange which operates primarily in Australia, with non-operative subsidiaries in Asia (the Asian subsidiaries were deregistered in August 2017). Medibank's policy is to ensure that it is compliant with all statutory tax obligations in the jurisdictions in which it carried on business and in FY17, made its tax payments solely in Australia as a reflection of our domestic presence. 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:

- **Health Insurance** – the provision of private health insurance policies to persons under the Medibank and ahm brands;
- **Medibank Health** – the provision of health management services to strengthen and complement the core private Health Insurance business and help customers more actively and successfully manage their health by providing health system access and identifying pathways to optimal health and care.

As part of our obligations to hold sufficient capital 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 is reviewed and approved by the Board every two years. The policy is scheduled for its next review in December 2018. 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 reports its tax-related activities to the Audit 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. Medibank has been classified as a "Key Taxpayer" by the ATO for income tax purposes which is the lowest rating that can be reached taking into consideration the size and complexity of Medibank. The ATO has undertaken various review activities in relation to Medibank's tax affairs during FY17, which Medibank continues to engage in an open and transparent manner.

4. Income tax disclosures

Tax consolidated group

Medibank and its wholly-owned Australian subsidiaries are members of an Australian income tax consolidated group and subject to tax as a single taxpayer for income tax purposes.

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. 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 timing in 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 FY17 is 28.5% (FY16: 23.6%) of its accounting profits based on the FY17 audited financial report. The income tax expense / (benefit) is made up of the following:

	2017 \$m	2016 \$m
Current tax	171.4	154.7
Deferred tax	9.7	0.3
Adjustment for tax of prior period (i)	(1.9)	(26.3)
	179.2	128.7

Source: Note 15: Income tax of Medibank's 2017 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:

	2017 \$m	2016 \$m
Profit for the year before income tax expense	628.7	546.3
Tax at the Australian tax rate of 30% (2016: 30%)	188.6	163.9
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment	0.2	0.2
Non assessable gains on disposal	(0.9)	(0.4)
Tax offset for franked dividends ¹	(3.2)	(2.2)
Sundry items ²	(3.6)	(6.5)
	181.1	155.0
Adjustment for tax of prior period ³	(1.9)	(26.3)
Income tax expense	179.2	128.7
Effective tax rate	28.5%	23.6%

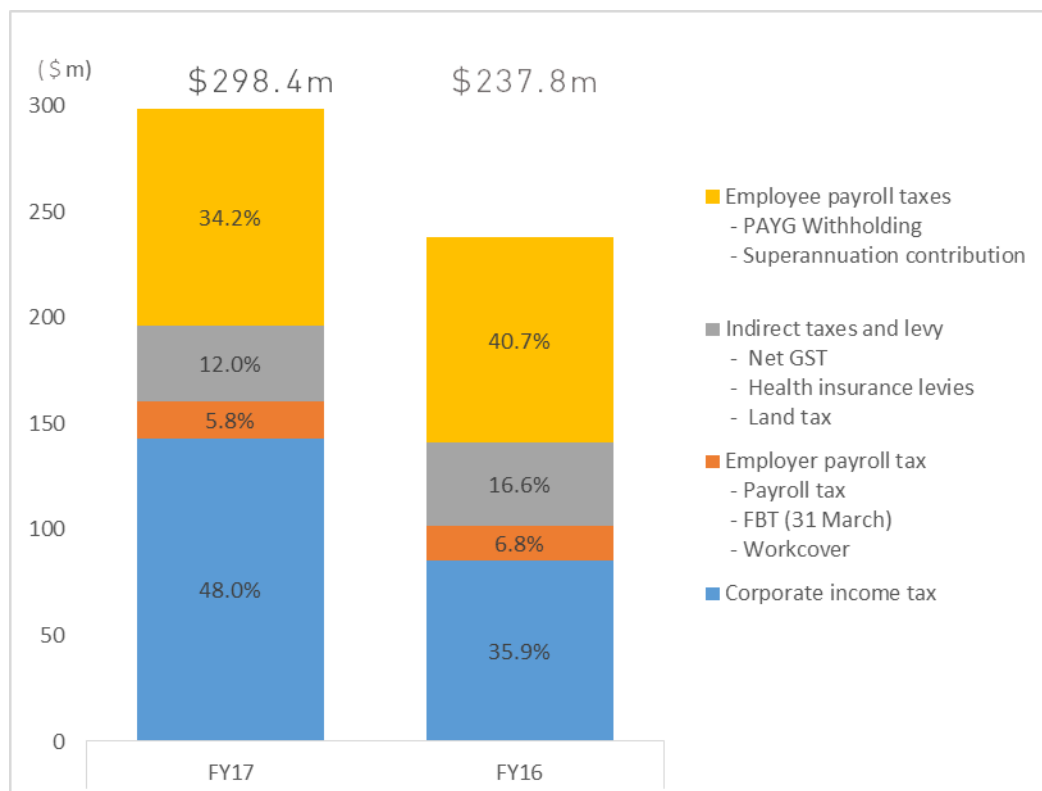
Source: Note 15: Income tax of Medibank's 2017 annual report.

1. 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.
2. This consists mainly of timing adjustments made to Medibank's investment portfolio.
3. 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 contributions

Medibank is proud of the contributions it makes to Australia’s public finances and its role as the employer of more than 2,800 employees in Australia, including 1,200 health professionals. No tax has been paid in Asia as these non-Australian subsidiaries were non-operative during the 2016 and 2017 years. In addition to income tax, Medibank has also made significant payroll and employer tax payments in Australia in its capacity as an employer and manages employee taxes withheld from employees’ remuneration and paid to the government.

The graph below provides an illustration of the taxes and levies made by Medibank to the Australian revenue authorities during FY16 and FY17.



In FY16, Medibank received a one-off income tax refund of \$23.2m relating to amounts previously taxed by the ATO which reduced the total corporate income tax paid in the relevant year.