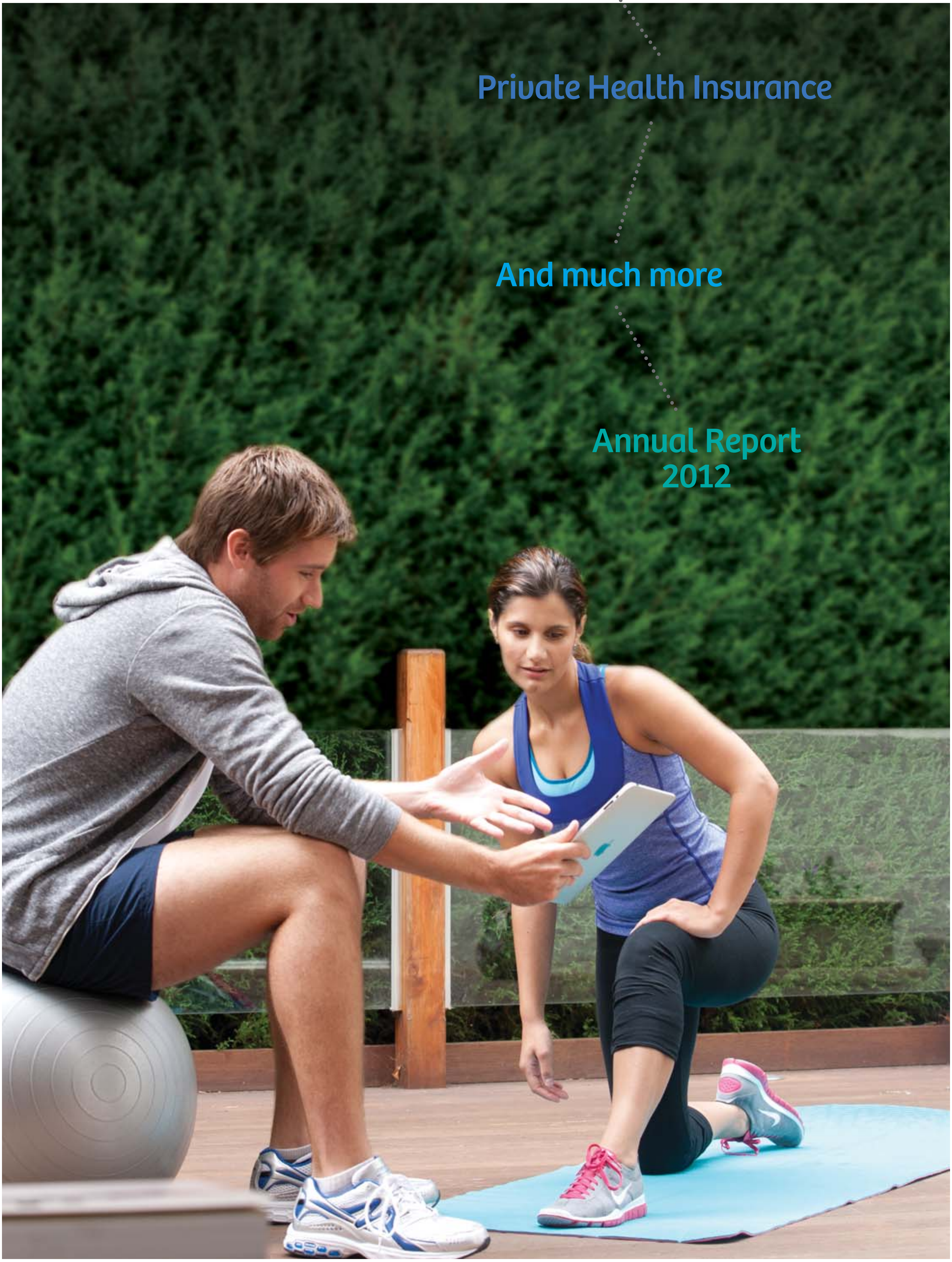
Private Health Insurance

And much more

Annual Report 2012



medibank

For Better Health

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It’s time to start thinking of Medibank as a healthcare company that offers really great health insurance

Paul McClintock AO
Chairman

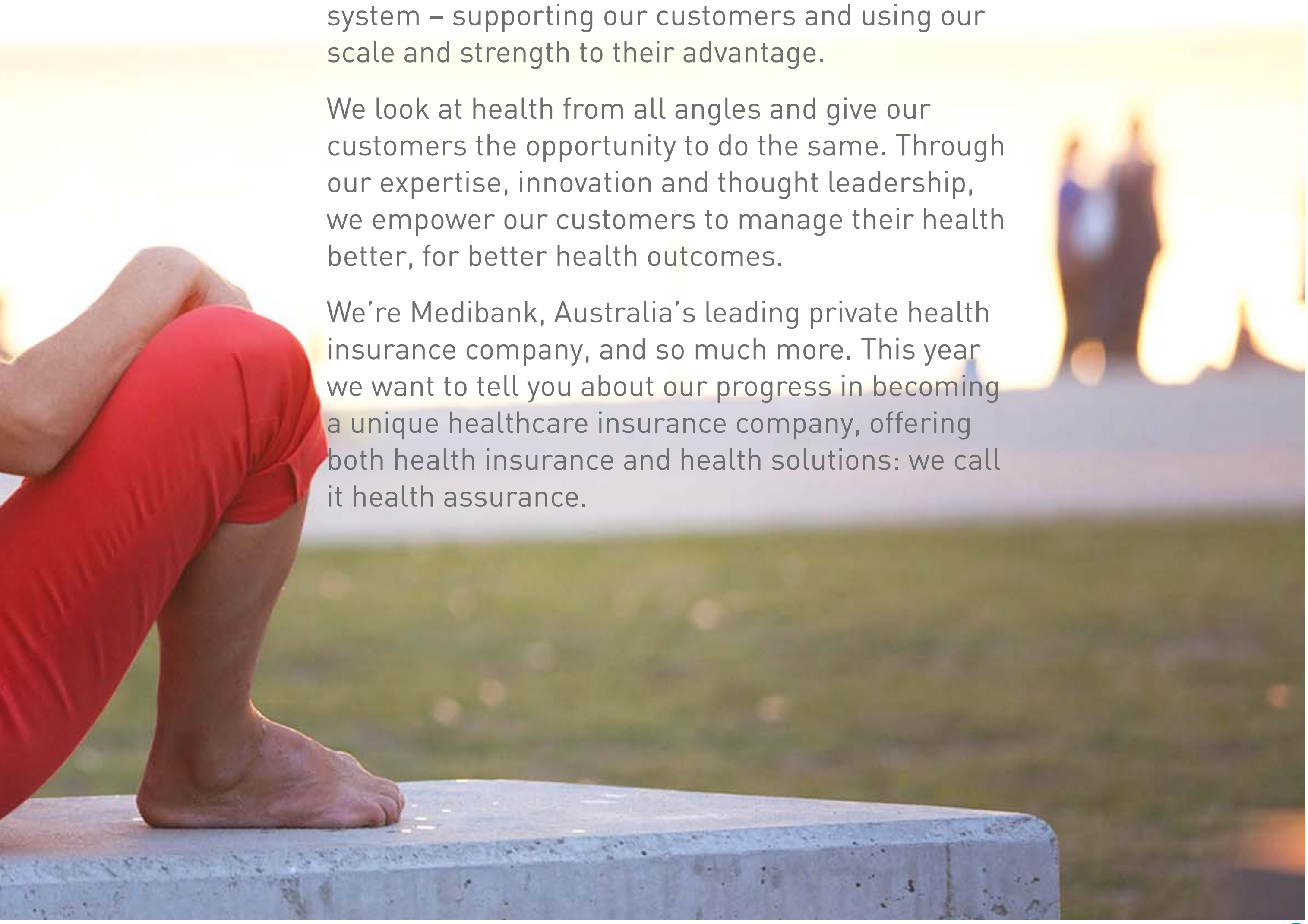
We stand for better health, we want to take care of people and we want to build a better health system.

Why? Because For Better Health is our Purpose.

We create and sustain relationships in the health system – supporting our customers and using our scale and strength to their advantage.

We look at health from all angles and give our customers the opportunity to do the same. Through our expertise, innovation and thought leadership, we empower our customers to manage their health better, for better health outcomes.

We’re Medibank, Australia’s leading private health insurance company, and so much more. This year we want to tell you about our progress in becoming a unique healthcare insurance company, offering both health insurance and health solutions: we call it health assurance.



Chairman's report

As we integrate private health insurance with innovative health solutions we're offering members and customers much more: more services, more support, more benefits and more value.

We're seeing results as we bed down our integrated strategy

Last year, our message was one of transformation, of how we're reshaping Medibank as a provider of both health insurance and health services, driven by our Purpose: For Better Health.

We have made significant progress, but in a challenging environment, volatile and changeable, earnings from the underlying business and investments this year have been affected.

Our financial results reflect this environment in which Medibank operates, including higher claims expenses than expected, lower membership growth and a sizeable investment required to invest for future growth.

These factors led to a reduced profit before tax of $197.3 million, with a reduction in the PHI underwriting result after expenses of $90.5 million. This was further compounded by external factors that saw our investment income contract considerably year on year, falling 73% due to volatile equity markets and reduced interest rates.

Whilst the profit result was disappointing, our members received considerable new value in the health insurance plans provided by Medibank in 2012, along with the most competitive rate change of the major funds (and for us one of the lowest on record) as we remain conscious of the need to strive for affordability. With the introduction of the Federal Government's means testing legislation for the PHI rebate, our challenge becomes even more serious as we now must intensify selling the value of comprehensive private health cover to Australians who do not qualify for the PHI rebate.

Our role is changing

There is no doubt we're playing a more important role in helping millions of Australians manage their health.

We believe the last 12 months is both an affirmation of our differentiated strategy and a barometer of the potential ahead.

The Medibank story today is about marshalling the considerable resources and expertise of our two businesses to create new offerings our customers want and need, and that our competitors find hard to match. It's time to start thinking of Medibank as a healthcare company that offers really great health insurance.

Bedding down our strategy

This year the message is about bedding down our strategy. While health insurance is still the heart of our business, and indeed is the mainstay of our revenues, Medibank has moved significantly towards becoming an integrated healthcare services provider.

For example, in July 2011 we won the sole provider rights for the Australian Government's *after hours GP helpline*; and in May 2012 we launched Mi Health, a range of on-demand health support services allowing members to easily draw on the knowledge and expertise of over 1,500 qualified clinical and allied health professionals.

We also introduced Medibank *healthbook* in the same month, an online health record that members control via a personalised portal, and in late June 2012 won the contract to provide all the health services to serving eligible Australian Defence Forces personnel.

For all the gains we're making as a business, we must, like all participants in the health sector, keep driving the reform process forward in a timely fashion. We all need a regulatory environment that is transparent, flexible and open to change. As the market leader, we're concerned that current premium rate approval processes are creating business uncertainty and they need to be reviewed.

The last comprehensive review of private health insurance (by the Industry Commission) took place in 1997 when the industry was struggling to attract and retain members.

The industry itself has also changed markedly: the majority of the market is comprised of for-profits rather than mutuals – not to mention the changing landscape of the broader health policy environment.

We are one of several voices calling for the Department of Health to review and reform the industry product and pricing process, because as an industry we need to continue to invest and to attract investment in order to grow.

Our greatest opportunities are in front of us

Medibank comprises two operating divisions, a private health insurance business and a health solutions business. Whilst private health insurance forms the foundation of our business, its ability to better manage the costs associated with having 3.8 million members, including increased health services consumption due to ageing, is strategically captured through the expertise of Medibank Health Solutions. In addition to building a better, more sustainable health insurance business, the teamwork of the two businesses has unlocked hidden potential which this year was evidenced when the Australian Defence Force, after a six month long thorough tender process, appointed Medibank to replace its previously contracted 300 service providers with a sole source provider.

The contract revenue over the first four years will be approximately $1.3 billion, and Medibank will oversee the service provided to 100 Australian barracks supporting 80,000 eligible armed forces personnel for Joint Health Command.

We will in fact be operating a purpose-built health system. This creative growth potential coming from the teamwork of our Health Insurance and Health Solutions businesses is just the beginning of an exciting transformation story at Medibank, as we on-board revenue from sources outside the heavily regulated health insurance sector.

The capability to deliver this new exciting venture emerged a few years ago when we acquired four health services organisations to create a health services business to complement our position as Australia's leading private health insurer.

As we look forward to the new financial year, I am pleased to see the energy and commitment of the management group in grasping the necessary performance challenges that must be achieved to ensure we restore the strong performance reputation of Medibank that we have come to expect.

I want to take this opportunity to thank my fellow Directors on the Board. Their contributions have been outstanding and all have been committed throughout the year. Steve Vamos, who joined us following Professor Just Stoelwinder's departure last year, has already demonstrated great knowledge and expertise in the business and marketing distribution of products. He has become an invaluable contributor to Medibank.

Finally to the staff, I extend my appreciation and a special thanks for their hard work and commitment to Medibank. They're the very best at what they do.

Paul McClintock AO
Chairman

Managing Director's report

It's our job to improve affordable access to quality healthcare. As the population ages, that's only possible as an integrated health insurance and health services company. That's why we now offer so much more.

It's time to start thinking differently about Medibank

As we look back on 2012, we can conclude we've done much to transform our business, and in a number of meaningful ways, Medibank is fundamentally different to how it was just a few short years ago.

Our business model has been quietly but substantially reshaped from that of a conventional private health insurer to more of an integrated health insurance and health services company – we call it health assurance. We have begun to open up a more sustainable proposition for the future of our business, accessing new business growth and profit opportunities as we take up the role of 'health service co-ordinator' for our public health and corporate clients. It's pleasing to see how the leadership team has facilitated a positive culture of collaboration across the health insurance, health solutions and corporate teams, to generate and secure more than $1.3 billion of new business for the future.

We experienced a very strong finish in June 2012, but it did not make up for a challenging year which delivered a profit before tax of $197.3 million. This result was well down on last year's record result. Group revenues increased 7% to $5.4 billion.

Of course, the year's achievements have been impacted by uncertainty in the global financial market that first affected our results in 2009. Although not in the same negative territory as we were that year, and helped by our conservative protection mechanisms, our investment income this year was $43.4 million, down by $118.2 million on the prior year.

Private Health Insurance, investing for value

Our operating margin contracted to 3.02% this year as we funded three sources of additional value to members.

Firstly, Medibank passed on the lowest premium rate change of the top six funds in the industry, with our average increase of 4.7 % pa, one of the lowest in ten years, and the fifth consecutive year of below industry average premium increases. Secondly, over 3 million hospital plan members received the benefits of the Mi Health roll-out, of which the 24 hour nurse-operated health advice line was just one feature. And finally, we experienced more than expected growth in health plan benefit utilisation, which directly contributed to our lower underwriting margin this year.

This year members claimed $4.3 billion in health benefits, which were up by $340 million, or 8.6% more than last year. By comparison, this was almost double the increase in premiums charged to members.

Within the mix, our Medibank Health Solutions division has moved into an accelerated growth phase with committed new business in Australia and New Zealand which will see it more than double in size by the end of financial year 2014. Medibank Health Solutions is set to grow significantly faster than our Private Health Insurance business.

Encouragingly, both Medibank and ahm memberships grew throughout the year, with 145,802 new memberships joining up. Within our membership base, we also now have over 53,400 members who have enrolled in a range of diverse health management programs, including diabetes management, depression and weight loss programs.

A strong – and growing – Medibank Health Solutions

During the year, our Health Solutions revenue grew 7.9% to $278.9 million, largely driven by strong organic growth and new contract wins from government agencies, corporates and educational institutions.

Since we created Medibank Health Solutions only two years ago from our four acquisitions in the health services portfolio, the business has grown strongly. However not all of the portfolios could meet our performance requirements, so in 2012 we undertook a significant restructure, which has now been completed. The one-off cost for this has been applied to the result of the Health Solutions division this year. In addition, the costs of resourcing the extensive Defence Forces health tender and the investment in our new generation video-enabled consultation platform called "Anywhere Healthcare" were also charged against the Medibank Health Solutions' profit line, resulting in an operating loss of $16.2 million.

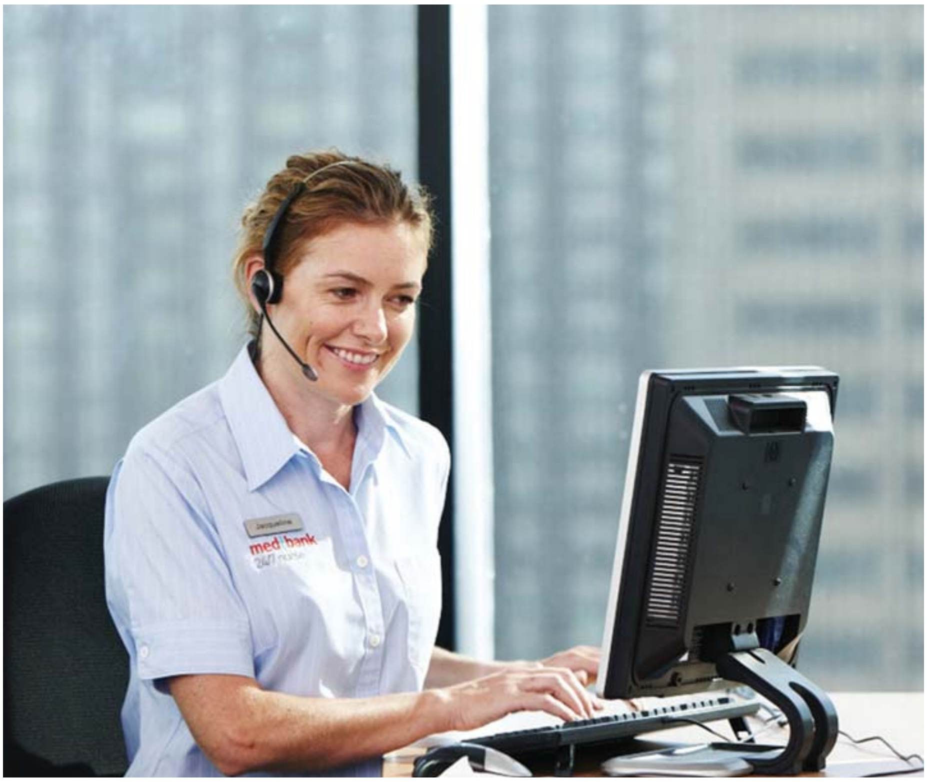
To give you a sense of our overall progress, here's a little of what has happened in the last 12 months:

Our telephone and online business, which operates NURSE-ON-CALL on behalf of the Dept of Health in Victoria, Healthdirect on behalf of NHCCN, covering NSW, WA, SA, Tasmania, NT, ACT, and Healthline for the Ministry of Health New Zealand, grew 34% in revenue in 2012. This year marked the successful debut of GP After Hours. Operated by Medibank Health Solutions, our 200 GPs have taken 154,500 calls and met the service standards required by NHCCN, the contracting authority.

Our workplace health business delivered 300,000 new visa medical examinations, a 10% increase, and we grew pre-employment assessments by 38.4%; Injury Treatment Services have increased 60%, largely driven by new contract wins, and together with contract extensions. We have won over $20 million worth of multi-year revenue contracts for Workplace Health Services in the mining and resources sectors.

Medibank is leading the way in e-health

We believe our integrated strategy and differentiated capabilities are powerful drivers of long-term growth, higher value and stronger financial performance.



Medibank Health Solutions is also playing a pioneering role in the field of online medical consultations. With the launch of Anywhere Healthcare, our members are able to visit a medical practitioner via an online virtual medical clinic. Anywhere Healthcare is currently operating video consultations through the *after hours GP helpline* in selected residential aged care facilities. Distance and geographic isolation is no longer a barrier for Australians to have a face to face consultation with a health professional now that Anywhere Healthcare is commissioned for service.

Medibank employs 200 staff in New Zealand; our nurses there operate Healthline (NZ). They enjoyed two milestones this year: the helpline operators took their 2.5 millionth call and celebrated 10 years of running the Mental Health Line. The New Zealand business also partnered with the Midlands Health Network to pilot primary healthcare coordination, including chronic disease management programs, a GP After Hours service, a hospital substitution program and the expansion of existing booking and triage services.

Our Purpose informs our strategy

Our Purpose continues to inform our strategy. For Better Health informs our values and puts our customers first. Our Purpose and our values are the heart of our culture; they produce the behaviour of collaboration and innovation that influence every product we design, every service we offer. And it encapsulates the reason we embarked on a journey of transformation, which I first signalled in the 2010 annual report, when we stated, 'to be a great health insurer, we had to do more: we had to change' and acquire the competencies of health services as well as underwriting.

So it's more than pleasing to report that this year's employee engagement survey shows 88% of our people strongly believe in, and support our Purpose.

For Better Health extends to the broader communities in which we operate in Australia and New Zealand. We encourage people to live active and healthy lives, hence our sponsorship of the Australian Open and Junior Tennis, and being the naming rights' sponsor for the 2012 Melbourne Marathon.

Now in its second year of operation, the Medibank Community Fund (MCF) promotes the same objectives for active lifestyle, healthy diet and community connectedness. Each year we commit one percent of our pre-tax profit for flagship partnerships and community and study grants.

Our employees are a key partner in MCF initiatives, and we offer them Workplace Giving and a day's community leave per year.

In closing, there's no doubt this is an exciting period in Medibank's history. We believe our integrated strategy and differentiated capabilities are powerful drivers of long-term growth, higher value and stronger financial performance.

None of what we've achieved could have been possible without the dedication of our 4,500 employees and management who have embraced Medibank's transformational change agenda. I thank them for their tireless efforts and their commitment to our Purpose. I also wish to thank Chairman Paul McClintock and our Board of Directors for their encouragement and wise counsel throughout the year. We look forward to updating you on our progress this time next year.

George Savvides
Managing Director

Key achievements

July 2011

- The Australian Government's *after hours GP helpline* launched, with Medibank Health Solutions contracted as the sole provider
- The Australian Government launched 1800 RESPECT domestic violence online support service in conjunction with Medibank Health Solutions
- Medibank's new values launched

August 2011

- Laz Cotsios appointed Group Executive – Medibank Private Health Insurance Division
- Medibank Health Solutions launched research into the mental health of regional and rural workers
- Sick at Work launched

September 2011

- Medibank's Member Experience Survey results issued, detailing the top performing hospitals in the country
- CANSTAR CANNEX awarded Medibank 'five stars' for Outstanding Value Health Insurance Hospital Cover (NT) and Outstanding Value Health Insurance Extras (NT, Qld, WA and TAS)

October 2011

- Mi Health launched in Western Australia and Queensland
- Medibank debuted on Twitter
- Medibank Health Solutions completed relocation to St Leonards office

November 2011

- Steve Vamos appointed as Non-Executive Director of Medibank
- NURSE-ON-CALL received its 2 millionth call
- Announced sponsorship of the Australian Open

December 2011

- Mi Health launched in ACT

January 2012

- The Australian Government launched the 24 Hours Breast Implant Information Line, with Medibank as provider

February 2012

- Average premium increase of 4.70% was below industry average
- New Zealand's Healthline received 2.5 millionth call
- Medibank Health Solutions celebrated ten year anniversary to conduct onshore immigration visa medical assessments for Australian Department of Immigration and Citizenship (DIAC)

March 2012

- George Savvides reappointed Managing Director for a further five years
- Entered into a contract with CBus for the construction of 720 Bourke Street, with plans to consolidate all six Melbourne offices

April 2012

- Medibank launched Reconciliation Action Plan

May 2012

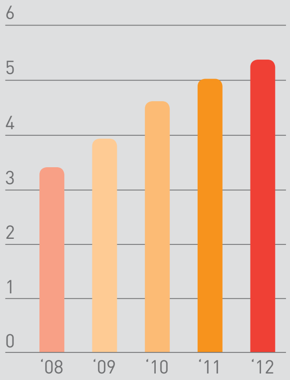
- Paul Koppelman appointed Chief Financial Officer
- Mi Health launched nationally
- Medibank launched Workplace Health: Australian workers' perspectives research
- healthbook launched, part of the Australian Government's PCEHR
- New Zealand's Mental Health Line marked its 10th anniversary

June 2012

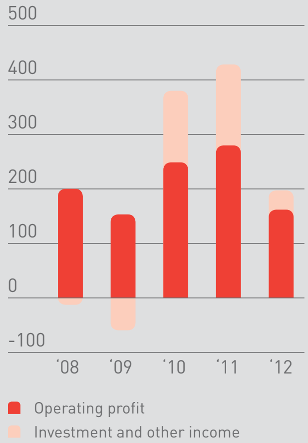
- Announced \$1.3 billion contract with the Australian Defence Force, effective from 1 July 2012
- Launched Diversity and Inclusion Strategy
- Announced naming rights sponsorship of the Medibank Melbourne Marathon

Group results

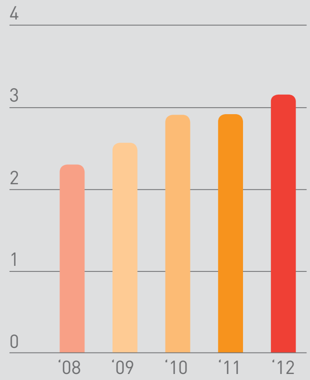
Revenue ($billion)



Net profit before tax ($million)

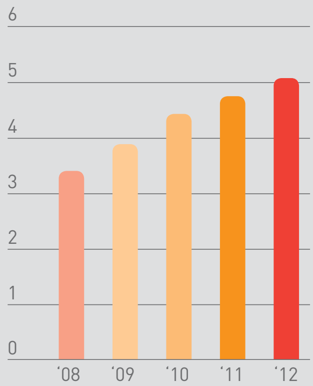


Total Assets ($billion)

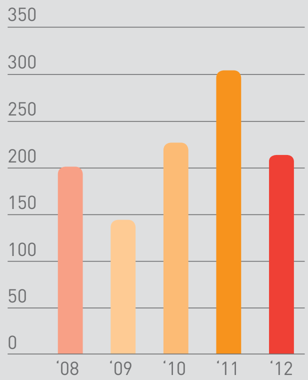


Business results Private Health Insurance

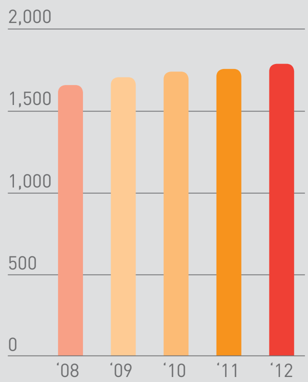
Revenue ($billion)



Underwriting result after expenses ($million)

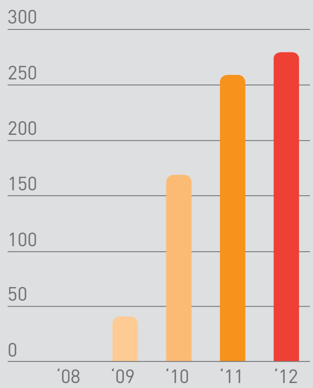


Resident memberships ('000)

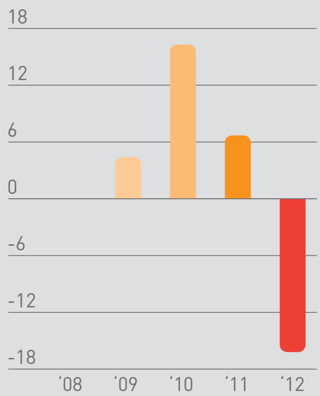


Business results Medibank Health Solutions

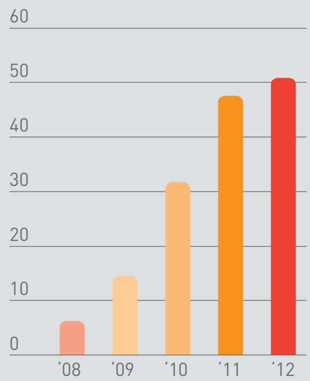
Revenue ($million)



Operating profit ($million)



Number of members in health programs ('000)



Medibank: an overview

1 We saw change coming

- **Our population is ageing,** in part due to larger numbers of ageing baby boomers, increased life expectancy and declining fertility rates. The proportion of the population aged 65 years and over is projected to rise from 13% in 2007 to 25% by 2056.*
- **The prevalence of chronic disease is increasing.** Complex, varied and long-term in nature, chronic diseases such as diabetes, chronic obstructive lung disease, cardiovascular diseases and depression contribute to the burden of illness in the community. It is estimated that nearly all Australians over 65 have one or more chronic diseases and around 80% have three or more conditions.*
- **Healthcare is a complex, multi-layered service system.** Patients increasingly need help navigating an ever more complex healthcare system, often dealing with an array of home nurses, GPs, specialist medical and hospital units. This calls for new structures and ways of collaboration, tighter communication and organised use of technology.

2 We're transforming 'on Purpose' to be a healthcare company...For Better Health

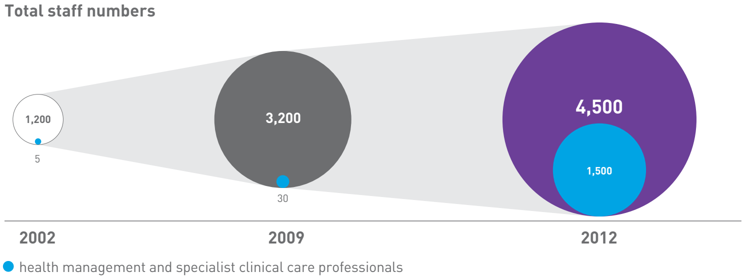
Population ageing, the increasing prevalence of chronic disease and an ever more complex health system are all driving a shift in value opportunities in the health sector in which we operate.

To be a great health insurer, we had to do more than just pay health benefits. That's why, four years ago we made the decision to create a health services business to complement and add value to our private health insurance portfolio. By harnessing the power of private health insurance and health solutions, we are changing our business mix to capture the higher-value segments of our industry sector.

Our transformation to a health assurance company has seen Medibank become a provider and coordinator of private health insurance and healthcare services designed to improve the wellbeing of our members and customers.

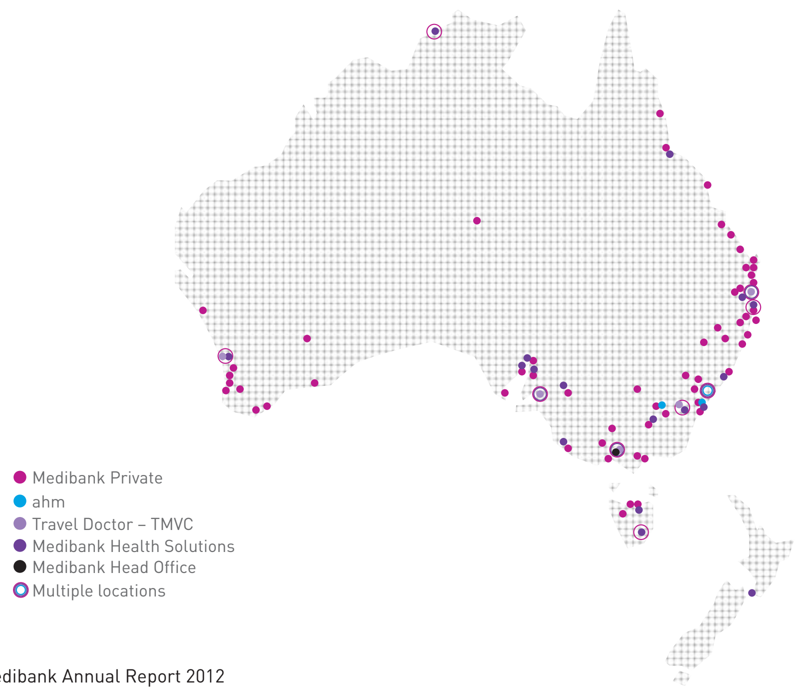
Over 1,500 health management and specialist clinical care professionals are helping customers take a more pro-active approach to their lifestyle and wellbeing using the latest in smart delivery technologies.

Total staff numbers



** Reference inside back cover for sources.*

3 We're expanding our service offering and where we operate



2 million
telephone and online-based care management interactions

1 million
hospital procedures paid for

300,000
Visa Medical Examinations on behalf of the Australian Government

154,500
callers to the after hours GP Helpline

40,000
enrolled participants in our betterhealth program

4 Today, we're a higher performing company than we were a decade ago

As an integrated healthcare services provider, our business model is more closely aligned with our members' and customers' wants and needs.

As a result, we maintained our number one position against significant opposition – a position we've held for over 36 years now – while leveraging new and exciting opportunities as a health solutions provider.

And as an integrated healthcare services provider, we're bringing customers fresh, new and inventive products and services that focus on wellness and good health to supplement their health insurance needs and in the process, moving them to the centre of a health services experience.

Put simply, we now deliver more benefits, more support and more value. Add it all up and it means deeper and longer-lasting relationships with our members and customers, which translates into more opportunities to win more of their business.

Our 2011-2012 revenue figure of $5.4 billion is a record for the company.

5 Key growth indicators

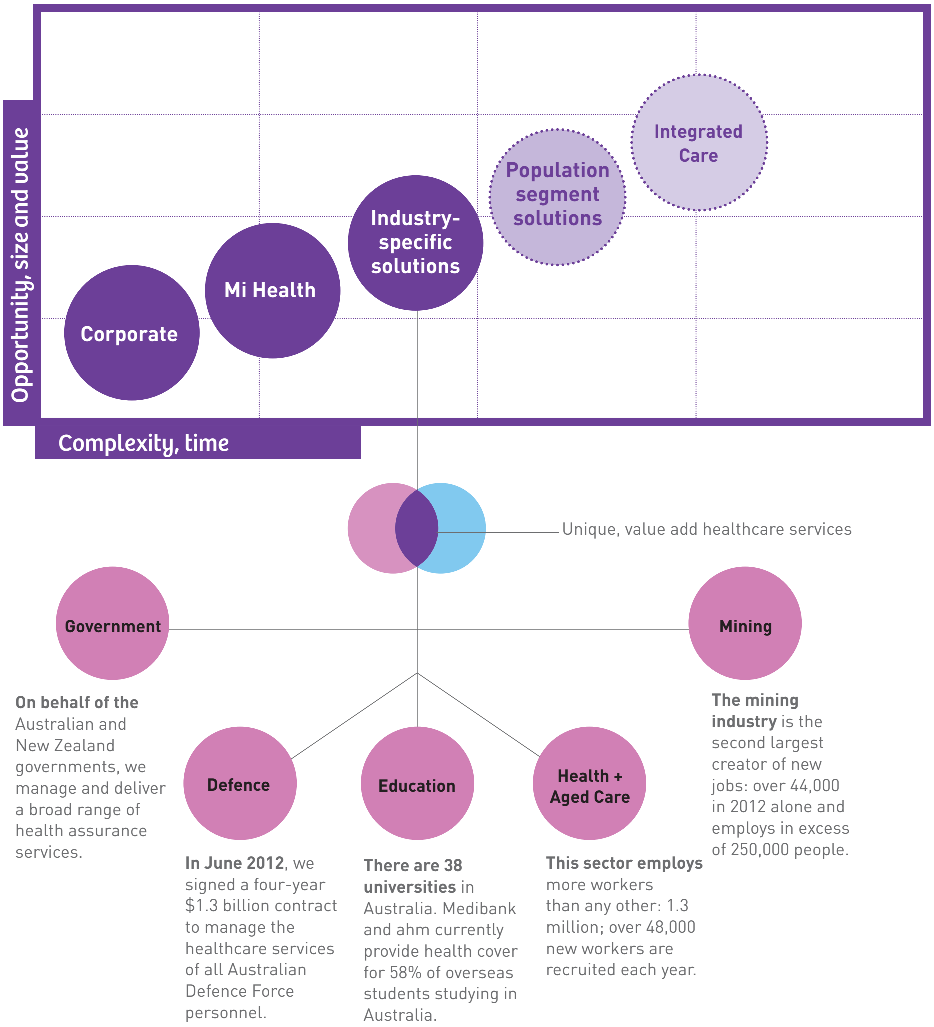
Our integrated strategy is transforming Medibank. Combining the strengths of our private health insurance business with those of our health services business, we're reshaping Medibank into a dynamic integrated healthcare services provider.

Harnessing our unique capabilities and group assets, we're designing and building specially engineered industry sector healthcare solutions to help clients meet ever increasing workplace healthcare challenges.

Industry-specific solution sets combine Medibank knowledge, people, process, operational capabilities and technology in unique ways no competitor can easily match. Well developed industry solution sets accelerate the delivery of customer value, while reducing cost, complexity, and risk for Medibank.

Put it all together and we drive:

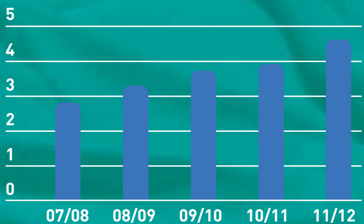
- revenue growth;
- margin expansion;
- growth initiatives; and
- acquisitions.



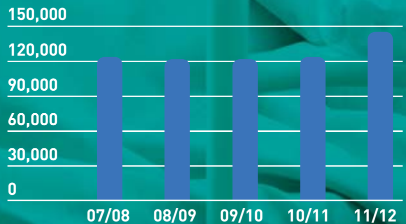
Private
Health Insurance

We're harnessing the powerhouse that is private health insurance with the value-add of health services to give our members more.

Total member benefits ($billion)



Total new to fund memberships (based on resident memberships)



More support, more services, more benefits, more value

Medibank has been transformed from being purely a private health insurer to an integrated provider of health insurance and health care services, because we firmly believe to be a great health insurer, you have to do more than just pay benefits.

That's why we're actively leveraging our industry-leading expertise and scale in private health insurance as a springboard to a range of innovation and new value-add healthcare services designed to make it easier, simpler and more convenient for our members.

As we add more services, support and benefits to our private health insurance business we, of course, become more relevant to our members, build stronger relationships, and in turn, generate greater and more sustainable earning potential for Medibank.

A year of significant achievements

There's no doubt in the last 12 months the achievements and progress we've made have been significant: sales have increased, an array of game-changing brand and marketing initiatives have been introduced and a number of major projects have been launched. Before we discuss these in more detail, let's briefly review the year.

Sales of new memberships were 12.3% higher than last year and were the second highest year on record, as many members opted to pre-pay their Private Health Insurance for 18 months rather than lose their rebate. All three sales channels — web, phone and retail — recorded their single biggest month in June 2012 in the last 12 years. In addition, sales delivery for June 2012 was 52,283 new members, a pleasing 11% higher than the corresponding month last year.

Our corporate contract wins for the past year are the highest on record and we think are a sure sign of things to come. Notable successes for the year included new agreements with the universities of NSW and Edith Cowan in WA, where we will be looking after the healthcare needs of almost 20,000 students over the next three years.

Importantly, these developments are confirmation of our integrated healthcare strategy, of the transformation of Medibank as a provider of both health insurance and health care services driven by our vision and commitment to better health for all our members and customers.

A focus of continuous improvement in private health

Of course, a great deal of the work that also makes a real difference calmly happens behind the scenes.

Our commitment to improving both the staff and customer experience within our frontline channels is a great example. To ensure a positive and more consistent customer experience, in the last 12 months we've refreshed our retail network operating practices to deliver 'best practice processes'.

The favourable performance results and increased customer recognition are proof of a successful program and indeed, it is now being introduced as an operating platform which we'll leverage with the support and input of our retail staff.

up 12.3%

Sales were 12.3% higher than last year, the second highest year on record.

145,802

The total number of new ahm and MPL resident memberships who joined the fund during the financial year.

92.5%

The growth of members lodging claims electronically through our internet or smartphone systems year-on-year.

New simplified product ranges exceed expectations

We expect the new product range, when linked to our new Mi Health offering, to be a great growth platform for the years ahead.

Simplified products exceed expectations

Our focus on continuous improvement is also noteworthy in the great response we received to our new simplified product portfolio introduced in 2011. In just short of 12 months, over 500,000 new and existing members made the switch to our new product range, a result that exceeded all expectations. We've recorded lower lapse rates on all new products and the sales conversion and product mix have notably improved.

We expect the new product range, when linked to our new Mi Health offering, to be a great growth platform for the years ahead.

Members' Choice influence grows

The Members' Choice Ancillary Network also continues to expand. In the last 12 months, we've realised a 16% growth in providers across all specialities. Specific highlights include a 24% growth in the dental network and a 26% growth in podiatry.

Of course, we continue to make significant investments in information technology to improve service quality and to enhance customer experience. A big part of our focus and attention each year is allocated to constantly improving our claims processing systems.

Benefit plans and regulations are only increasing in complexity and our industry-leading technologies ensure our network partners experience the most extensive and comprehensive claims data management and exchange platform in the country. We are now electronically connected to 196 private hospitals who now submit claims automatically, significantly eliminating paper and processing errors.

A new measure of growth, and indeed, evidence of our increasingly innovative and sophisticated technical integration, is that of members lodging claims electronically through our internet and smartphone systems. At year-end it was a 92.5% increase.

In May, we also successfully launched a new member healthbook in partnership with the Commonwealth.

ahm grows and consolidates its alternative choice position

ahm has consolidated its position as the alternative choice to mainstream health insurance funds. In the last 12 months we're pleased to report significant growth in regional areas of Eastern Australia and the metro market of Brisbane. This is, in part, due to a number of ongoing innovative service initiatives, a few of which deserve a mention:

We instigated outbound cover reviews, helping members ensure the cover they have is best suited to their need and budget and we launched Call Me, allowing members who are 'on hold' to elect a time of their choosing to have our Call Centre call them back.

We also developed a range of instructional communications to help members easily understand how to make the best use of cover offered within the available suite of ahm health management programs, as well as rewarding long standing members with newly introduced 5+ year and 20+ year loyalty categories for Our Extras product.

We reviewed and updated product pricing to improve benefits for members, providing greater value and ensuring sustainability of the fund and products. We also established a new entry level Budget Hospital cover, aimed at those who were looking to avoid Lifetime Health Cover and the Medicare Levy Surcharge. Encouragingly, 2,000 were sold within the same month it was launched.

Our investment in business-to-consumer (B2C) platforms to engage offshore education agents and connect directly with students was successfully delivered and, we're pleased to say, successfully exceeded all our targets for year one.

Mi Health adds value to our private health insurance

Mi Health is a new suite of health and wellness support services that is already transforming how members think about their health insurance.

Instead of a single focus on financial protection, Mi Health's game-changing offer is tapping into something no other health insurer in the market can offer: easy and convenient access to a range of trusted and credible healthcare advice and services, anytime, anywhere.

Offered to members with hospital cover at no additional cost, and harnessing the clinical expertise of Medibank Health Solutions, Mi Health provides a 24/7 nurse hotline, a hospital liaison service, an Online Health Hub and smartphone and mobile'apps' including Symptom Checker, Online Claiming and the Energy Balancer.

From pilot trials in late 2011 to rolling out nationally in May of this year, over 26,000 members have made calls to the 24/7 nurse hotline; over 24,500 visits were made through a Hospital Liaison Officer; more than 86,000 mobile apps have been downloaded and we've had over 70,000 Online Health Hub registrations.

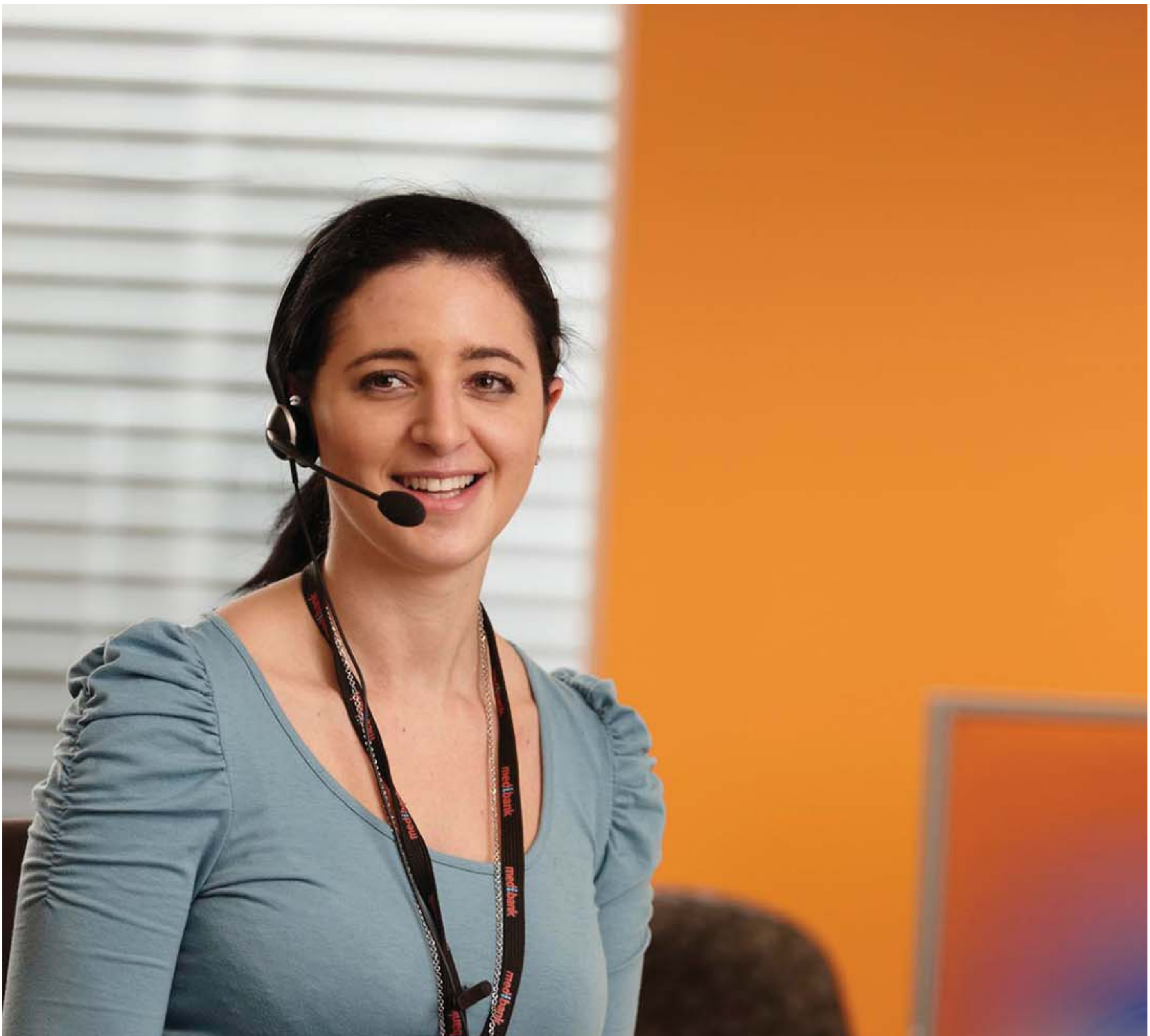
Delve a little deeper into the numbers you see a powerful story of member acceptance and support. Completion of wellness records using our Online Health Hub illustrates the point. When incorporated into Mi Health, it was revamped and integrated with the main member transaction and information portal. Since then, members completing wellness records and actively managing their healthcare information online, has increased more than tenfold, averaging more than 75 new registrations every day.

Importantly, if these figures are indicative of things to come, then in the next 12 months we can confidently expect more than 125,000 members will seek guidance and advice from a Medibank nurse. Around 100,000 hospitalised members will also enjoy a bedside visit from one of our Hospital Liaison representatives.

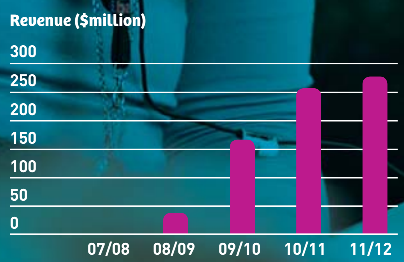
This is significant for a number of reasons: we're delivering more value-add to members, which helps build our brand; we think members are less likely to leave, which means relationships are stronger and longer lasting, and lastly, members are more likely to recommend the brand as trustworthy, great value for money and in tune with their needs.

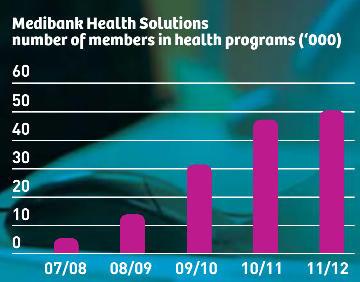
An underlying story is, of course, the crucial role mobile technologies are playing in powering our integrated healthcare strategy. Our online claiming app is a great example: in only 6 weeks more than 10% of all customer claim interactions are flowing through this channel and sales are significant and increasing, all of which bodes well for the future.

Medibank Health Solutions



Customers look to us as a trusted, 'always-on' source of valuable, accurate healthcare information to help them navigate their way through an ever more complex health system with ease and confidence.





Medibank Nurse 24/7
You don't have to be sick to need good health advice.

Hospital Support
Spending a night in hospital can be a stressful and confusing time.

More value-adds, more flexibility, more convenience

A big year for Medibank Health Solutions

The last 12 months has been a big year for Medibank Health Solutions, a year of high activity and high achievement. We launched a number of large-scale, complex initiatives, signed up some major clients, expanded our existing services and celebrated some historical milestones. Revenue was a strong $278.9 million, an increase of 7.9% on the previous year and proof that customers like what we offer.

This level of activity has come at the short term cost of lower profitability as we spend upfront to go into new markets and win new business. Investments in Anywhere Healthcare to develop this exciting new software and costs associated with winning the Defence contract have been substantial but they are all aimed at delivering growth in future years.

As the leader in a dynamic and rapidly evolving health services sector, Medibank Health Services delivers an extensive range of much-needed, innovative and cost-effective healthcare services to business and government. Over 1,500 medical and allied health professionals provide millions of healthcare interactions a year. Services are accessed across Australia and New Zealand using a range of different channels including the phone, the web and in Australia, our national network of clinics.

Customers increasingly look to Medibank Health Solutions as a trusted, 'always-on' source of valuable, accurate healthcare information, to help them navigate their way through an ever-more-complex health system with greater ease and confidence.

To illustrate the point, in the last 12 months, we:

- managed over 150,000 mental health and counselling interactions;
- conducted over 2 million telephone and online-based triage and care management interactions;
- grew participants in care management and wellness programs to over 50,000;
- made almost 300,000 Immigration/Visa Medical assessments; and
- delivered online and mobile services to 3.8 million Australians.

We also successfully implemented a number of large-scale, complex contracts, on-time and on-budget, for our government consumers, including healthdirect Australia, NURSE-ON-CALL, and the *after hours GP helpline*.

Here's a brief progress report:

NURSE-ON-CALL takes two millionth call

For more than five years we've operated NURSE-ON-CALL, a federal government funded phone service delivered on behalf of the Victorian Government. Providing immediate and expert health advice from registered nurses, 24 hours a day, 7 days a week, this popular service took its two millionth call in November 2011. This translates to an average 50 calls every hour, day and night, 365 days a year, year in, year out since the service was launched.

up 7.9%
Revenue of $278.9 million grew 7.9% year-on-year

$1.3 billion
The size of the 4-year Australian Defence Force healthcare services contract: the largest in our history.

2 million calls
NURSE-ON-CALL took its two millionth call in November 2012

Our integrated healthcare strategy promises strong, sustainable growth

Anywhere Healthcare: clinical consultations using secure video, text chat or phone technology to patients whenever and where ever they are

after hours GP helpline expands service offering

In July 2011, the new After Hours GP Medical Advice and Diagnostic Service went 'live'. Providing the Australian public with free and convenient access to general practitioners and nurses at night and on the weekends, when their usual medical practices are closed, this national telephone-based service offers the most appropriate local community point of care.

One year on, and the service now includes the capacity for healthcare professionals to deliver clinical consultations using secure video, text chat or phone technology to patients in both metropolitan and regional areas.

This exciting progress is a big step forward: clinical consultations conducted using *after hours GP helpline* means faster diagnosis, improved treatment, fewer delays, reduced waiting times and less travel. And perhaps, most beneficially, less stress and time pressure for both patients and medical staff.

Anywhere Healthcare launched

In June 2011, we announced a strategic partnership with US-based telehealth solutions company, American Well. Since then we've been working hard to adapt their leading clinical software to the Australasian market.

Called Anywhere Healthcare, and successfully launched on time on 1 July 2012, this innovative service will enable healthcare professionals great scope to deliver clinical consultations using secure video, text chat or phone technology, something particularly important for patients in rural and remote areas.

Additionally, patients in both Australia and New Zealand will be able to consult a general practitioner at any time, and general practitioners and specialists will have the flexibility and convenience to practice almost anytime and anywhere.

Online Health Hub
Looking after your health is much easier with the right guidance.

Health Apps
Make healthier decisions on the go.

A $1.3 billion contract win, our largest ever

In late June 2012, Medibank Health Solutions signed a four-year, $1.3 billion contract to manage and coordinate the healthcare of approximately 80,000 permanent and reservist personnel within the Australian Defence Force (ADF), effective from July 2012.

This substantial contract win means Medibank will be responsible for the end-to-end healthcare of all entitled serving personnel, from point of injury or illness right through to return to work.

Making the most of strengths built up over many years, we'll be exploiting our advanced network of public and private hospitals, specialists and allied health contractors to connect every ADF facility with leading local providers. Services include access to on-base medical practitioners, on-and-off-base allied health professionals, radiology, pathology and optometry services as well as a world-class telehealth service providing triage, health advice and referrals.

For the client, the benefits are compelling: instead of purchasing a range of separately run and managed healthcare services from a variety of sources and suppliers, Medibank's industry-specific solutions deliver a 'single source' solution, an integrated and interconnected network from the one provider.

Clinics, staffing, ehealth records and virtual healthcare services that support in situ facilities, function and serve as one dynamic, healthcare ecosystem, specifically engineered to meet customer expectations while reducing cost, complexity and risk.

The potential efficiency gains and cost savings for organisations of all kinds, particularly multi-nationals and companies that operate in disparate and remote locations, are powerful value propositions for both employers and their employees.

It's also a very good value proposition for Medibank: it means we combine our knowledge, our people, our products and services, our processes, our operational capabilities and our technology, all together in unique and differentiated packages to solve particular healthcare problems for customers that they can't easily get from anybody else.

Time to celebrate

Immigration medical assessments – ten year anniversary

In February 2012, Medibank Health Solutions celebrated the ten year anniversary of the first commercial agreement to conduct onshore immigration visa medical assessments on behalf of the Australian Department of Immigration and Citizenship.

Since February 2002, Medibank Health Solutions has:

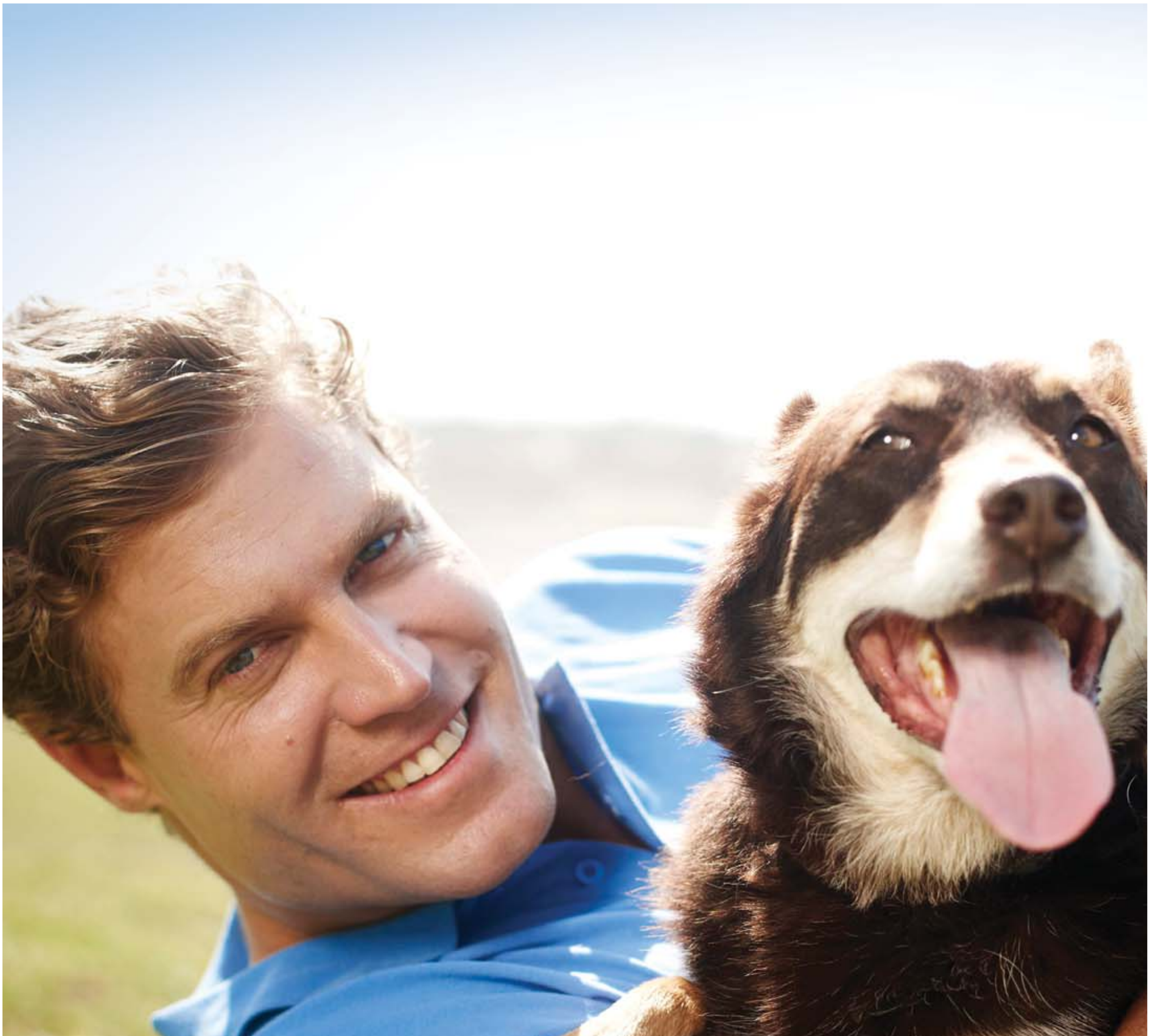
- conducted more than 1.7 million immigration visa health assessments;
- more than tripled the number of onshore visa medicals conducted annually;
- won a new five year contract following a tough competitive tender, and then had it extended through to 2014; and
- significantly reduced the time taken to conduct and complete visa medical assessments.

This financial year was also a record year with almost 300,000 medical assessments undertaken on behalf of the governments of Canada and New Zealand.

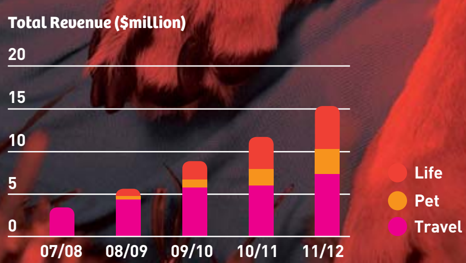
New Zealand operational highlights

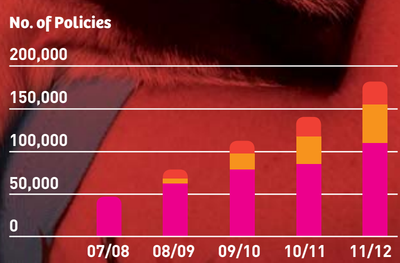
In February 2012, Healthline, New Zealand's 24/7 national health advice and triage helpline celebrated its 2.5 millionth call in 11 years. In May 2012, Mental Health Line, New Zealand's mental health telephone triage services delivered on behalf of six District Health Boards, celebrated its 10th anniversary.

Diversified Insurances



Life, travel and pet insurance not only add value for existing members and customers, they help attract new customers to the Medibank brand.





Our value-add products and services performed strongly

Four years ago we launched a range of additional products to support private health insurance, including life, pet and travel insurance. The more of our customers' insurance needs we can meet, the more likely they are to remain loyal and recommend us to others. That's good for our customers, good for growth and good for Medibank.

Life Insurance

Since our launch, we have insured well over 50,000 lives. Although we continue to maintain constant policy and revenue growth in an ever challenging competitor market, we think we can still do better.

We're recognised as Australia's largest private health insurer, but we're still a long way from being number one for all our members' insurance needs.

Consider this: approximately 1 in every 75 of our 3.8 million members has bought life insurance from us. Our objective is to improve that conversion ratio.

We believe this is achievable because our core product – private health insurance – is valued and trusted by millions of Medibank members, and as a result they are more likely to buy from us than from our competitors.

To complement our existing Life Insurance product suite, and to assist our members in protecting their financial wellbeing, we recently introduced Medibank Income Protection. Member features include premium savings and additional benefits, which are attractive value-adds.

Travel Insurance

Sales of Medibank travel insurance increased 29% year-on-year, and strong growth was evident in policy take-up by both members and non-members.

This convincing growth is in part driven by our desire to deliver greater value to customers through a process of continuous improvement. To illustrate the point, we're the first travel insurer to release an online medical assessment tool within a travel insurance product. Called Healix, this helpful tool greatly simplifies the assessment and acceptance of pre-existing medical conditions for customers when travelling. It was developed and released in partnership with the new Travel Insurance provider, Travel Insurance Partners.

We also reviewed and fine-tuned our pricing to deliver greater member value, ensuring our travel insurance growth platform remains healthy and competitive.

Pet Insurance

In an increasingly competitive market, our market leading Pet Insurance business grew a strong 37% year-on-year, with an even policy take-up amongst members and non-members.

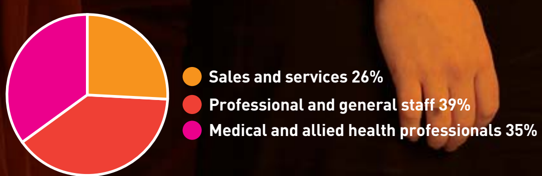
Pet Insurance is an important part of our product strategy: it's a value add for existing members and customers as well as helping attract new clients to the Medibank brand. There's no question competition is intensifying in the segment as overall advertising expenditure more than doubled in the last 12 months.

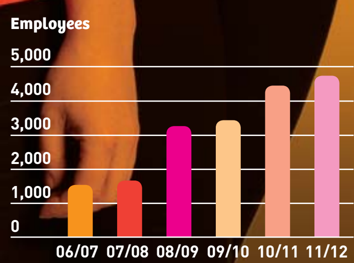
To ensure we not only protect our hard-won market leadership position, but build on it as well, we signed a two year marketing and promotional agreement with the Bondi Vet, Dr Chris Brown, in September 2011.

As the Medibank Pet Insurance ambassador, Chris will feature in all our Pet Insurance marketing and communication initiatives to drive greater brand awareness and recognition.

Our people

We have made great progress implementing our people strategy through aligning our people with Medibank's objectives and the aspirations of our Purpose – For Better Health.





thrive The way we work 'on Purpose'

Medibank people: inspired and transforming the health industry

At Medibank, our people strategy can easily be defined as developing inspired people capable of transforming the health industry – and this year, we were proud to achieve an organisational engagement score of 81% in our employee engagement survey.

To achieve this, over the past year we have focused on providing our people with greater development opportunities, concentrating our efforts in three key areas:

- culture, capability and leadership;
- performance; and
- business change and transformation.

These are discussed in more detail below:

Culture, capability and leadership: Building a consistent and empowering 'employee experience' is the key focus of Medibank's cultural, capability and leadership initiatives. Since launching our Purpose – For Better Health – in early 2011, we have spent the past year engaging and aligning employees with its essence, along with our values which have been rolled out to every Medibank workplace. This year our employee engagement survey showed that 88% of our people strongly believe and support our Purpose.

Achieving a collaborative culture is in part driven by the quality of our leadership with our leaders, helping to establish, share and communicate our Purpose. Medibank is a dynamic and rapidly transforming business, and so we have a strong focus on adaptive leadership. This ensures our leaders are confident and capable to lead their teams through change.

A key focus for us this year was the development of a talent management program and succession planning framework to ensure that members of the 'next generation' can succeed internally. To ensure the success of this program, we implemented a new capability framework aimed specifically at creating a meaningful employee experience. Linking performance, talent and capability potential, the framework empowers employees to be actively involved in driving their career and targeted development at Medibank.

Our strong commitment to diversity and inclusion is another key driver of people change and growth. Formally launched in the 2011-12 financial year, our diversity and inclusion strategy aims to build a strong sustainable business based on respect for the individual and equal opportunity for all, irrespective of gender, culture, age and disability. We are proud that at Medibank, 75% of all employees are women, 37% of senior executives are women, and 50% of all Board directors are women. Through our strategy, we hope to foster a healthy, collaborative, connected, accountable and customer-focused culture, reflective of our purpose and values.

Performance: This year Medibank introduced new incentive plans for the Group Executive and the Senior Executive population. Designed to reflect Medibank's overall approach to performance-based reward and recognition, these plans create a stronger link between overall corporate performance and individual performance. Aimed at driving positive employee behaviour through rewarding employees for performance outcomes that impact the overall success of Medibank, these plans also provide the company with greater flexibility in aligning individual performance with the key priorities of Medibank.

Business change and transformation: Medibank's transformational journey continued this year and was strongly supported by Medibank's Business Transformation Office (BTO).

The BTO has focused heavily on governance, guidance and consistency processes across the Group, and conducted health checks and Project Implementation Reviews on 21 of our major projects. The establishment of an Enterprise Investment Committee to ensure project alignment to the Group Strategy as well as clarity and consistency around Medibank's large scale investment decisions, also had great support from our BTO. This year, the BTO chose Medibank's first organisational change management model (PCI) to increase our change capability and guide the way Medibank manages change internally, supported by a newly-formed Community of Practice.

With our For Better Health Purpose, a key focus for Medibank is occupational health and safety. This year we transitioned from a divisionally-based structure to a group-wide Health and Safety Function, which has provided significant improvements in the delivery of a consistent and efficient Health and Safety system.

thrive – the way we work 'on Purpose'

Integral to Medibank's cultural transformation is to bring our Purpose and our cultural intent – healthy, collaborative, innovative and inspiring – to life in the way we work. Thrive, as this national transformation is known, gives Medibank the opportunity to create a lasting shift in our leadership approach while integrating our cultural intent with our technology and property strategies to provide greater employee engagement and productivity. Importantly, it will also extend to how we are able to bring the community and customer into who we are and what we do.

Medibank community and sponsorship

By working together we can make our communities better places to live and work

When you stop and think about it, every member and customer belongs to a community, and the relationships we build with serving members often bring us opportunities to help their communities.

Medibank Community Fund

Last year, in February 2011, we proudly launched the Medibank Community Fund, a key building block of Medibank's 'For Better Health' Purpose.

Through a range of partnerships with community organisations, the Fund links people to programs, activities and learning opportunities to promote healthy eating, physical activity, and greater community connectedness. The first year was about establishing the Fund and setting up the connections: now we're entering our second year, we're creating more interaction and bringing the fund to life.

Major partnerships

Success of the Fund's goals is built on strong partnerships and in the last 12 months, we're pleased to tell you around $1 million from the Fund was used to champion major health and wellbeing partnership programmes, including:

- heightening mental health awareness with R U OK?Day;
- ongoing support for the Heart Foundation's national walking program; and
- promotion of greater activity in parks with Victoria's People and Parks Foundation.

A further $250,000 was dedicated to the education of our next generation of healthcare providers in Australia and New Zealand with a particular focus on students from disadvantaged backgrounds.

Community Grants

Regional committees of Medibank people reviewed and allocated grants of over $600,000 to 50 local projects in Australia and New Zealand, helping communities improve healthy eating opportunities or build stronger community relationships.

Disaster relief, research and employee engagement

An important allocation is emergency relief donations, and we initiated a partnership with Red Cross to support future emergency relief and preparedness programs. Although no direct emergency relief donations were made in the past year, the fund is ready to respond when required. $150,000 was also allocated to research activities focused on the challenges of healthy ageing as well as effective strategies to support health promotion programs.

Indigenous health and wellbeing

In April of this year, we launched our first Reconciliation Action Plan (RAP), designed to map out the steps we will take to improve opportunities for Aboriginal and Torres Strait Islander people. Commitments under the Fund are delivered through the support of several community health and wellbeing programs and through the education foundation, Yalari. The Fund has also set aside $100,000 to examine health and wellbeing challenges that face Aboriginal and Torres Strait Islander people and raise awareness of these with Medibank employees.

Community Programs

Medibank Community programs provide opportunities for employees to give back to their local community through volunteering, gift matching and workplace giving.

Corporate volunteering, which is taken as a day of Community Leave, allows employees to spend time giving back to community organisations of their choice. This year staff have donated over 419 volunteer hours to a range of diverse activities including tree planting, serving meals to disadvantaged communities and assisting with fund- and awareness-raising campaigns.

This year, our employees generously gave a total of $38,302 through the gift matching program, realising a total contribution of $76,600. Workplace Giving is a scheme which allows eligible Medibank employees to support their favourite charity via a regular pre-tax pay deduction up to $500, which we again match dollar for dollar with any registered Australian charity.

Sponsorships

Of course, through our respected and valuable partnerships, we're able to increase the visibility and understanding of our core message 'For Better Health' whilst supporting a number of worthy initiatives and programs that seek to improve the wellbeing and health awareness of Australians.

Increased involvement in tennis

During the year, we amended our support and involvement in the tennis arena by announcing a sponsorship agreement with the Australian Open, Australia's premier tennis event. Making good use of the 2012 tournament, we created a visitor on-site activation area and featured a 'Better Health Day' to promote both the benefits of active and healthy lifestyles and Medibank's new products and services.

Already an existing and proud sponsor of NSW Junior Tennis, we were very happy in 2012, to increase our involvement and sponsor Australia-wide, the Medibank Junior Development Series. The program aims to inspire young people to adopt healthy attitudes and lifestyles from an early age and to nurture and support Australian tennis talent at a grass-roots level.

After seven years as naming rights sponsor of the Sydney International tournament, we renewed our involvement as a platinum sponsor of the 2012 event.

The Wiggles

Our long-standing relationship with The Wiggles continues for another year as both parties jointly promote the benefits of a healthy lifestyle, and in particular, children's health, through the Wiggle into Health program.

The Melbourne Marathon

We announced a new and titled sponsorship in 2012: the Medibank Melbourne Marathon Festival, which gives us another great opportunity to promote, encourage, and support our fellow Australians to lead healthy and active lifestyles. Not only is marathon running fun and competitive, it is also a great hobby, sociable and accessible to people of all ages and levels of fitness. A team of Medibank employees is participating in this year's marathon to raise money for charity.

Board of Directors

1. **Paul McClintock** AO
2. **George Savvides**
3. **Philip Twyman**
4. **Jane Harvey**
5. **Elizabeth Alexander** AM
6. **Leanne Rowe** AM
7. **Cherrell Hirst** AO
8. **Steve Vamos**

1. Paul McClintock AO

BA LLB (Sydney), FAICD

Non-Executive Chairman

Appointed Chairman, 19 March 2007.

Current term expires 18 March 2013.

Chairman of the Nomination Committee.

Mr McClintock is currently Chairman, Thales Australia Limited, I-MED Network Ltd and the COAG Reform Council and Director of the European Australian Business Council, Myer Holdings Limited and Perpetual Limited. His former positions include Chairman of the Expert Panel of the Low Emissions Technology Demonstration Fund, Intoll Management Limited, Symbion Health Limited, Affinity Health, Ashton Mining, Plutonic Resources and the Woolcock Institute of Medical Research; Director of the Australian Strategic Policy Institute, a Commissioner of the Health Insurance Commission and a member of the Australia-Malaysia Institute Executive Committee. From July 2000 to March 2003 he was Secretary to Cabinet and Head of the Cabinet Policy Unit in the Australian Government. Mr McClintock is an honorary fellow of the University of Sydney Faculty of Medicine, and a Life Governor of the Woolcock Institute of Medical Research.

2. George Savvides

BE (Hons) (UNSW), MBA (UTS), FAICD

Managing Director

Appointed Director, 6 September 2001.

Appointed Managing Director 19 April 2002.

Current term expires 11 March 2017.

Mr Savvides has over 20 years corporate leadership experience in the health care industry and is currently Vice President of the International Federation of Health Plans. He is a Member of the Business Council of Australia, Chairman of Arrow Leadership Australia Limited and Chairman of World Vision Australia. He is also a Member of the Australian Institute for Population Ageing Research. Mr Savvides was formerly Managing Director of Healthpoint Technologies Limited, Smith+Nephew Pty Ltd, Australasia; Managing Director and CEO, Sigma Co Ltd; General Manager, CIG Healthcare Australia; Chairman, Medicines Partnerships of Australia. He was also previously a Director of World Vision International.

3. Philip Twyman

BSc, MBA, FAICD

Non-Executive Director

Appointed Director, 21 September 2007.

Current term expires 20 December 2012.

Chairman of the Investment Committee.

Mr Twyman is currently Chairman of Swiss Reinsurance Company (Australian Board of Advice) and Director, Perpetual Limited, Swiss Re Life & Health Australia Limited, and Insurance Australia Group Limited (IAG). Mr Twyman was formerly Director, Insurance Manufacturers of Australia Pty Ltd; Executive Director, Aviva plc and Chairman of Morley Fund Management, both in the UK. He has over 20 years of board room experience of fund management and insurance, including overseas health insurers.

4. Jane Harvey

BCom (Melb), MBA (Melb), FCA, FAICD

Non-Executive Director

Appointed Director, 21 September 2007.

Current term expires 20 December 2013.

Chairman of the Audit and Risk Management Committee.

Ms Harvey is currently a Director of IOOF Holdings Limited, Colonial Foundation Trust, Telecommunications Industry Ombudsman and a member of the Advisory Board of the Department of Treasury & Finance (Vic). She also serves on the Victorian Council of the Australian Institute of Company Directors. Ms Harvey was formerly a Partner at PricewaterhouseCoopers.

5. Elizabeth Alexander AM

BCom, FAICD, FCA, FCPA

Non-Executive Director

Appointed Director, 23 October 2008.

Current term expires 27 November 2014.

Chairman of the Human Resources Committee.

Ms Alexander is currently Chairman of DEXUS Wholesale Property Limited, a Director of DEXUS Property Group, the Victorian Registration and Qualifications Authority and IOOF Foundation. She is Chancellor of the University of Melbourne and Chairs their Finance Committee. She is the former Chairman of CSL Limited, Chair of the Australia Prudential Regulatory Authority's Risk and Audit Committee, and the Portfolio Audit Committee of the Victoria Department of Education and Early Childhood Development. She is a former National President of CPA Australia and the Australian Institute of Company Directors, and a former member of the Takeovers Panel.

6. Leanne Rowe AM

MBBS, MD, FRACGP, FAICD

Non-Executive Director

Appointed Director, 17 December 2008.

Current term expires 16 December 2014.

Adjunct Associate Professor Rowe has extensive experience across the health sector including working as a rural General Practitioner and past Chairman of the Royal Australian College of General Practitioners. She was awarded the prestigious Rose Hunt Medal for service to General Practice. She is an expert in primary care and has written on the benefits of healthy lifestyles. She currently serves as Deputy Chancellor of Monash University. Professor Rowe is a Director, Medical Consulting Victoria and I-MED Network Ltd; Presiding Member, Medical Panels, Victoria and South Australia; and a Board Member of the Medical Indemnity Protection Society and MIPS Insurance Board.

7. Cherrell Hirst AO

MBBS, BEdSt D, Univ (Hons), FAICD

Non-Executive Director

Appointed Director, 16 December 2009.

Current term expires 15 December 2012.

Chairman of the Health and Business Innovation Committee.

Dr Hirst is Chair of ImpediMed Limited currently holds directorships of Avant Mutual Group, Avant Insurance Limited, Tissue Therapies Ltd and Xenome Ltd. Additionally Dr Hirst is Deputy Chair and part time CEO of QIC BioVentures and was formerly a director of Suncorp-Metway Ltd. Prior to becoming a non-executive Director Dr Hirst practiced medicine for 30 years.

8. Steve Vamos

BEng (Hons)

Non-Executive Director

Appointed Director, 24 October 2011.

Current term expires 23 October 2014.

Mr Vamos is currently a Director on the Telstra Ltd and David Jones Ltd Boards. He is also a Founding President of the Society for Knowledge Economics – a not-for profit think tank that encourages new and better practices in organisational leadership and management.

Management team

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1. George Savvides

Managing Director

Commenced role April 2002 and reappointed in March 2012 for a further five years

George Savvides was appointed Managing Director of Medibank Private, Australia's largest health insurer, in early 2002. The organisation has enjoyed membership growth and strong financial performance and expanded into health services as well as health insurance. Medibank's revenue has grown to over $5 billion per annum with a customer base of 3.8 million people.

George has twenty years experience in the Australian healthcare industry. He was Managing Director of Sigma Co Ltd, which he listed on the ASX in 1999.

George has a degree in Engineering from UniNSW and an MBA from UTS and is a Fellow of the Australian Institute of Company Directors.

He represents Australia as the Vice President on the Council of the iFHP (International Federation of Health Plans). George is Chairman of Arrow Leadership Australia and Chairman of World Vision Australia. He previously served for 12 years on both the World Vision Australia and World Vision International Boards.

He still plays veterans hockey for Melbourne University.

In 2012, The Institution of Engineers Australia nominated George amongst the top 100 most influential engineers.

2. Laz Cotsios

Group Executive, Private Health Insurance

Commenced role August 2011

Laz Cotsios was appointed Group Executive of the Private Health Insurance Division at Medibank in August 2011. Prior to joining Medibank, Laz held senior executive roles in Financial Services with well-known international and Australian companies, including UBS and Westpac. Laz brings to the role of Group Executive, his extensive experience in driving business strategy, developing new business and improving operational efficiency and customer service for large organisations which are continually evolving to meet the demands of a highly competitive environment.

Laz's division oversees Medibank's private health insurance operations, including both the Medibank Private and ahm brands. The division manages all aspects of private health insurance including sales and service, marketing and over $4 billion in member benefit claims.

3. Dr Matthew Cullen

Group Executive, Medibank Health Solutions

Commenced role July 2010

Dr Matthew Cullen is Group Executive of Medibank Health Solutions. He co-founded and was Co-President of McKesson Asia-Pacific which was acquired by Medibank Private in July 2010. Medibank Health Solutions employs over 2300 staff of whom the vast majority are healthcare professionals including doctors, nurses and allied health professionals.

Dr Cullen graduated in medicine from the University of Sydney. He is Deputy Chairman of the Schizophrenia Research Institute, a Fellow of the Royal Australian & New Zealand College of Psychiatrists and Associate Fellow of the Australian College of Health Service Executives and Australian Institute of Company Directors.

In 2012, Dr Cullen completed the prestigious Advanced Management Program at Harvard Business School in Boston, Massachusetts.

4. Cindy Shay

Executive General Manager, Provider Relations Medibank Private

Commenced role March 2010

Cindy Shay oversees the relationships with providers and the subsequent services which are provided to Medibank's 3 million members across the country at a cost in excess of $4 billion. She has broad experience within the healthcare sector encompassing the funding aspects of healthcare with Medibank and the service provision of healthcare in both the private and public sector, and supply distribution.

Cindy oversees the implementation of purchasing strategies for Medibank designed to consolidate the member value proposition and promoting 'right care in right settings'.

5. Ilona Charles

Group Executive, People & Culture

Commenced role October 2011

Ilona Charles is currently the Group Executive, People and Culture at Medibank, having joined in February 2010. In her role she is responsible for all aspects of People and Culture across the Medibank group in addition to setting up a Business Transformation Office responsible for portfolio reporting and project/change management practices and methodologies. Medibank now comprises 4,500 people over half of whom are health professionals. This is following the successful acquisition of four companies over the past two and half years.

Ilona spent the majority of her career – 14 years – at National Australia Bank in a variety of senior executive HR and business related roles. She commenced her career as an Occupational Therapist and has a Masters of Business Administration.

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6. Dr Andrew Wilson

Group Executive, Strategy and Innovation

Commenced role July 2010

Dr Andrew Wilson is responsible for Group Strategy and Innovation at Medibank including managing major growth and corporate governance and has been responsible for leading and managing the Medibank Health Solutions division since its inception.

A psychiatrist by background, Andrew founded High Performance Healthcare in 1995 which went on to become Australasia's leading telehealth company, focussing on telephone-based healthcare delivery.

Andrew also has 20 years' experience within the public health system including as a Consultant Psychiatrist and Visiting Specialist at St Vincent's Hospital. He was formerly a research fellow at the Institute of Psychiatry and a Lecturer in the School of Psychiatry at the University of New South Wales

His professional interests include primary and ambulatory care service development and quality and safety management systems in healthcare.

Until recently he has been a member of the Australian Government's National Mental Health Standing Committee on Safety and Quality, the National Mental Health Standards Implementation Steering Committee and was Deputy Chair of the Royal Australian and New Zealand College of Psychiatrists Quality Steering Committee from 2002-2008

He has published more than 50 papers in peer-reviewed scientific journals including articles on health management and the development and evaluation of new service delivery models.

7. Terry Snyders

Chief Information Officer

Commenced role September 2007

Terry Snyders, who holds a Bachelor of Applied Science and an MBA, has been working in the Information Technology sector for over 30 years. Terry worked for 18 years at ANZ in IT, concluding his career there as General Manager, Institutional Technology. In this role he was responsible for all of wholesale and international banking development and systems, which included managing an offshore development centre.

Terry brings to Medibank Private a strong project management background and extensive IT experience. As CIO, Terry leads all elements of IT investment, technology delivery and IT operations.

8. Mei Ramsay

General Counsel

Commenced role March 2011

Mei Ramsay is Group General Counsel for Medibank Private Ltd, and the Group Executive responsible for both the Legal and Company Secretariat divisions.

Mei and her team are responsible for advising the Managing Director and the Board on legal and governance issues, as well as advising all areas of the business on regulatory, compliance and commercial matters.

Mei has over 20 years' experience in the legal profession, working in both private practice and in-house. Prior to joining Medibank, Mei was the General Counsel and Company Secretary for the Asia Pacific Distribution division of Cummins Inc.

9. Paul Koppelman

Chief Financial Officer

Commenced role May 2012

Paul Koppelman is responsible for leading the Finance and Corporate Services division. Paul brings over 25 years experience in the finance industry to Medibank.

He has substantial finance experience including as General Manager of Corporate Finance for Pacific Brands, CFO for the Aluminium and Commercial divisions of BHP Billiton and CFO of AXA Australia and New Zealand.

Paul has responsibility for the finance, actuarial, treasury, planning, risk management and assurance, acquisitions, property and corporate services functions across the Medibank group. He also brings a strong background in change management and plays a key role in supporting Medibank's transformation to a dynamic and innovative health company.

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Corporate governance statement

Medibank Private Limited (the Company) is a wholly-owned Commonwealth Company as defined in the Commonwealth Authorities and Companies Act 1997 (Cth), a Government Business Enterprise (GBE), and a company subject to the Corporations Act 2001 (Cth).

The Company and its subsidiaries together are referred to as the Group in this statement. The Board of directors of the Company is responsible for the governance practices of the Group. A description of the Group's main corporate governance practices are set out below.

Governance at Medibank

The Group is committed to the highest standards of corporate governance. The governance practices are derived principally from the provisions of the Commonwealth Authorities and Companies Act 1997 (Cth) ("CAC Act") and requirements of the Governance and Oversight Guidelines for Commonwealth Government Business Enterprises (2011).

The Group is also committed to reporting in accordance with the ASX Corporate Governance Council's Principles and Recommendations (ASX Guidelines) in so far as they are applicable to an unlisted, Commonwealth owned company.

A dedicated Corporate Governance section on the Medibank website (www.medibank.com.au) provides a detailed description of the Group's governance framework and associated practices, with links to key documents.

The Group provided regular reports to the Private Health Insurance Administration Council (PHIAC) during the year in relation to its two private health insurance funds operated by the Company and its subsidiary Australian Health Management Group Pty Limited (ahm). On 1 July 2012, the ahm private health insurance fund was merged into the Medibank private health insurance fund.

PHIAC is an independent statutory authority that is responsible to the Federal Minister for Health and Ageing. The role of PHIAC is to monitor and regulate the private health insurance industry with the objectives of:

- fostering an efficient and competitive health insurance industry;
- protecting the interests of consumers; and
- ensuring the prudential robustness of individual registered organisations.

Our Shareholder

Ownership and Shareholder Minister

The Commonwealth of Australia holds all shares in the Company. The responsible Shareholder Minister is the Minister for Finance and Deregulation.

Shareholder Communication

The Shareholder Minister is briefed on a regular basis on the performance of the Group and on any significant financial, operational or strategic issues as they arise.

Under the Commonwealth GBE governance arrangements, a rolling three-year Corporate Plan is submitted annually to the Shareholder Minister. A high level summary of the Corporate Plan (the Statement of Corporate Intent) is tabled annually in Parliament. Quarterly reports on progress against the Corporate Plan are made to the Shareholder Minister.

Medibank's Annual Report is submitted to the Commonwealth Parliament in accordance with Section 9 of the CAC Act.

Annual General Meeting

The Shareholder Minister has indicated her intention to waive the requirement to hold an Annual General Meeting for the 2012 financial year. Accordingly, an Annual General Meeting will not be held in 2012.

Board of Directors

Role and Responsibilities

The Board of Directors is responsible for the overall corporate governance and the successful operation of the Group and it is accountable to the Shareholder Minister.

In carrying out its governance role, the Board must also ensure that the Group complies with all of its contractual, statutory and other legal obligations, including the requirements of all applicable regulatory bodies.

The powers and duties of the Board are specified in the Constitution of Medibank, the Corporations Act 2001 (Cth), the Board Charter and other relevant legislation and law.

Key accountabilities and matters reserved for the Board include:

- setting and reviewing objectives, goals and strategic direction, and assessing performance against these benchmarks;
- ensuring the Group is financially sound, meets prudential requirements and has appropriate financial reporting practices;
- ensuring a process is in place for the maintenance of the integrity of internal controls, risk management, delegations of authority and financial and management information systems;
- appointing, supporting, evaluating and rewarding the Managing Director;
- monitoring the Executive succession plan and ensuring a process of evaluating and rewarding key Executives;
- ensuring high business standards, ethical conduct and fostering a culture of compliance and accountability; and
- reporting to the Shareholder Minister on the Board's stewardship of the Group and monitoring the achievement of the Corporate Plan.

The Chairman leads the Board. He has responsibility for ensuring the Board receives accurate, timely and clear information to enable the Directors to analyse and constructively critique the performance of management and the Group as a whole. The Chairman is responsible for representing the Board to the Shareholder.

The Company Secretary is appointed by the Board in consultation with the Managing Director and reports directly to the Chairman. The Company Secretary is responsible for developing and maintaining information systems that are appropriate for the Board to fulfil its role. The Company Secretary is also responsible for ensuring compliance with Board procedures and provides advice to the Board, via the Chairman, on governance matters.

Board Composition

The Board of Medibank comprises seven Non-Executive Directors including a Non-Executive Chairman, and an Executive Managing Director. All current Non-Executive Directors are independent in accordance with the ASX Guidelines criteria for independence. Medibank's Non-Executive Directors comprise four women and three men.

Details of the Directors and Company Secretary, including names and qualifications, are included in the Directors' Report, together with Directors' remuneration.

Directors are appointed by the Shareholder Minister in accordance with the Company's Constitution and GBE Guidelines. Current practice is generally for terms of appointment to be of three years duration and reappointment is permissible.

Subsidiaries

The activities of each subsidiary in the Group are overseen by their own Board of Directors. These Boards comprise senior management personnel of the Medibank Group or Directors of Medibank Private Limited.

Director Induction and Education

Medibank has an induction program for new Directors, which is reviewed periodically by the Human Resources Committee.

Directors are provided with detailed briefings by management on corporate strategy and current issues affecting the Group, the private health insurance industry and the health services industry matters generally.

All Directors are provided opportunities to visit retail and customer service centres, clinics and call centres and to meet with employees and key providers of health services.

In order to achieve continuing improvement in Board performance, all Directors have access to professional development opportunities. Specifically, Directors are provided with the resources and training to enhance skills that benefit Board performance.

Conflicts of Interest

Directors must keep the Board advised on an ongoing basis of any interest that could potentially conflict with those of the Group.

Each Director is obliged to notify the other Directors of any material personal interest that he or she may have in a matter that relates to the affairs of the Group (subject to certain exceptions specified in the Corporations Act 2001 (Cth)).

Directors who may have, or may be perceived to have, a material personal interest in a matter before the Board do not receive the relevant Board papers, do not participate in discussions and abstain from voting on that matter.

Fit and Proper

The Company has a policy and effective procedures in place to ensure that individuals appointed to and holding responsible senior positions are fit and proper to undertake their prudential responsibilities.

A fit and proper assessment, in accordance with the Company's Fit and Proper policy, is conducted prior to a person being appointed into a Responsible Person position and is reassessed on an annual basis while that person remains holding a Responsible Person position.

The assessment consists of an attestation by the individual together with an assessment by either the full Board in relation to the Chairman, the Chairman in relation to a Director and the Managing Director for Group Executive and Senior Managers. The Company undertakes any necessary and relevant investigations to verify the information provided in the attestations including where considered appropriate or desirable referee checks, police checks and searches of appropriate registers. Each assessment is conducted against a set of documented character and competence assessment criteria.

The Policy includes a process for dealing with and reporting breaches of the Policy.

Independent Professional Advice and Access to Company Information

The Board and its Committees may seek advice from independent experts whenever it is considered appropriate.

With the consent of the Chairman, individual Directors may seek independent professional advice at the expense of the Company on any matter connected with the discharge of their responsibilities.

Each Director has the right of access to all relevant Group information and to the Group's management.

Director Remuneration

The Commonwealth Remuneration Tribunal sets remuneration and travel allowances for Non-Executive Directors, including the Chairman. The Managing Director's remuneration is set in consultation with the Remuneration Tribunal under its advisory jurisdiction. No retirement benefits, other than statutory superannuation, are payable to Non-Executive Directors upon expiry of office.

Details of Directors' remuneration are included in the Directors' Report.

Director Dealings in Company Shares

As the Commonwealth of Australia holds all shares in Medibank Private Limited, no trading in the Company's shares is possible.

Board Meetings

The Board met nine times during the year.

The agendas for Board meetings are prepared in conjunction with the Chairman, the Managing Director and the Company Secretary. Board reports are circulated in advance of Board meetings. Management Executives are regularly involved in Board discussions.

Board Performance

A review of Board performance is conducted annually by way of alternate formal and informal assessment. The aim is to undertake an objective assessment of the performance of the Board as a whole, its Committees and the Directors. An informal review was conducted during the 2012 calendar year. During the year the Board regularly assessed its performance.

Board Committees

To assist in the performance of its responsibilities, the Board has established a number of Board Committees, being the:

- Audit and Risk Management Committee;
- Human Resources Committee;
- Investment Committee;
- Nomination Committee; and
- Health and Business Innovation Committee.

Each Committee operates under a charter approved by the Board, which is reviewed periodically. Copies of the charters can be found in the Corporate Governance section of the Company's website.

Board Committees monitor and facilitate detailed discussion on particular issues and other matters as delegated by the Board.

With the exception of the Investment Committee (which has been delegated certain decision making responsibilities), the Committees have no delegated authority, but make recommendations and report to the Board of Directors on appropriate and relevant issues.

Details of Committee membership and attendance are included in the Directors' Report.

Audit and Risk Management Committee

There are currently four Non-Executive Directors on the Audit and Risk Management Committee. The Managing Director attends Audit and Risk Management Committee meetings by invitation. The Chairman of this Committee, Ms J Harvey, is an independent Non-Executive Director who is not the Chairman of the Board.

The role of the Audit and Risk Management Committee is to assist the Board in relation to the reviewing and reporting of financial information, risk management and compliance.

Key responsibilities include:

- reviewing the annual financial report;
- monitoring the strategic risks and the risk management process;
- monitoring the activities and performance of the internal audit and compliance functions;
- reviewing the performance of the External Auditor;
- monitoring the effectiveness of the internal control framework;
- monitoring the effectiveness of the Company's fraud control policies and procedures; and
- monitoring the procedures in place to ensure compliance with the legislation, regulations and codes.

The Committee Charter recommends that the Committee meet at least four times per year. The Committee met four times during the year.

The External Auditor met with the Audit and Risk Management Committee four times during the year and, on one occasion, without management being present.

Human Resources Committee

The Human Resources Committee comprises four Non-Executive Directors. The Managing Director attends Committee meetings by invitation.

The Chairman of the Committee, Ms E Alexander, is an independent Non-Executive Director.

The role of the Committee is to review and make recommendations to the Board in relation to:

- the Group's policy for recruitment, remuneration and diversity;
- the Group's performance in relation to health and safety;
- the performance of the Managing Director and his direct reports;
- Senior Executive remuneration; and
- Senior Executive succession planning and development.

The Committee Charter recommends that the Committee meet twice a year. The Committee met seven times during the year.

Investment Committee

The Investment Committee currently comprises three Non-Executive Directors and the Managing Director. The Chairman of the Committee, Mr P Twyman, is an independent Non-Executive Director.

The primary role of the Committee is to formulate and recommend the investment strategy to the Board and to monitor the effectiveness of that strategy to achieve optimum return relative to risk whilst meeting all prudential capital requirements.

The Committee Charter recommends that the Committee meet three times a year. The Committee met three times during the year.

Nomination Committee

The Nomination Committee comprises five Non-Executive Directors. The Managing Director attends Committee meetings by invitation.

The Chairman of the Committee, Mr P McClintock, is an independent Non-Executive Director.

The primary role of the Committee is to review and make recommendations to the Board in relation to Board performance evaluation, Board composition, appointment, succession planning, recruitment and selection of the Managing Director.

The Committee Charter recommends that the Committee meet as required.

The Committee met once during the year.

Health and Business Innovation Committee

The Health and Business Innovation Committee currently comprises three Non-Executive Directors and the Managing Director. The Chairman of the Committee, Dr Cherrell Hirst, is an independent Non-Executive Director.

The primary role of the Committee is to review, on behalf of the Board, strategic initiatives covering health and business innovation before they appear in the Corporate Planning process. These initiatives are aimed at improving value to customers.

The Committee Charter recommends that the Committee meet at least three times a year. The Committee met four times during the year.

Accountability and Audit

External Audit

In accordance with the Commonwealth Authorities and Companies (CAC) Act 1997 (Cth), the Commonwealth Auditor-General audits the records and Financial Statements of the Company and the Group. The Australian National Audit Office (ANAO) contracted with PricewaterhouseCoopers to audit the Company and the Group for the 2012 financial year on behalf of the Auditor-General.

The Group applied audit independence principles in relation to the External Auditors.

The Audit and Risk Management Committee meets with the External Auditor during the year to:

- discuss the external audit and internal audit plans, identify any significant changes in structure, operations, internal controls or accounting policies likely to impact the Financial Statements;
- review the results and findings of the auditor, the adequacy of accounting and financial controls, and monitor the implementation of any recommendations made; and
- finalise annual reporting, review the preliminary financial report prior to sign-off and any significant adjustments required as a result of the auditor's findings.

Internal Control Framework

The Board is responsible for the overall internal control framework and for reviewing its effectiveness, but recognises that no cost-effective internal control system will preclude all errors and irregularities. The systems are intended to provide appropriate assurance on:

- accuracy and completeness of financial reporting;
- safeguarding of assets;
- maintenance of proper accounting records;
- segregation of roles and responsibilities;
- compliance with applicable legislation, regulation and best practice; and
- identification and mitigation of business risks.

The key features of the control environment include the Charters for the Board and each of its Committees, a clear organisational structure with documented delegation of authority from the Board to Executive Management and defined procedures for the approval of major transactions and capital expenditure.

Internal Audit

Internal auditing is an independent objective assurance and consulting activity designed to add value and improve the Group's operations. It helps the Group accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. It operates under a Charter from the Audit and Risk Management Committee that gives it unrestricted access to review all activities. The internal audit function is managed by the General Manager Internal Audit who reports directly to the Chair of the Audit and Risk Management Committee.

A risk-based approach is used to develop an annual Internal Audit Plan which is reviewed and approved by the Audit and Risk Management Committee and the Board. All audits are conducted in a manner that conforms to international internal auditing standards. All significant audit reports and a summary of other audit reports are reviewed by the Audit and Risk Management Committee.

Risk Management

The Board has approved the risk management system which is based on ISO31000:2009, the International Standard for Risk Management. Overseen by the Chief Risk officer, the system includes a Board-approved risk appetite, policy and risk management strategy, as well as comprehensive procedures to identify, measure, monitor and manage risk, including control effectiveness and related mitigation plans. Material risks are assessed on a regular basis and the Audit and Risk Management Committee receives and considers regular reports on their status.

Certification by Managing Director and Chief Financial Officer

In accordance with Board policy, the Managing Director, Chief Financial Officer and other senior executives provide a self-assessment sign-off regarding the controls and activities of the Group, including assurance as to the Group's financial condition.

This process supports the Managing Director and Chief Financial Officer's written certification to the Board under ASX Guideline Recommendation 7.3 that the certifications they give to the Board under Section 295A of the Corporations Act (as to the integrity of the Company's Financial Statements) are founded on a sound system of risk management and internal compliance and control that implements the policies adopted by the Board, and that the Group's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Based on the evaluation performed as at 30 June 2012, the Managing Director and Chief Financial Officer concluded that, as of the evaluation date, such risk management and internal compliance and control systems were reasonably designed to ensure that the Financial Statements and notes of the Group are in accordance with the Corporations Act 2001 (Cth) and there are reasonable grounds to believe the Group will be able to pay its debts as and when they become due and payable.

Compliance

The Group has established a comprehensive compliance management framework which is based on the Australian Standard for Compliance. The Compliance function supports the organisation in identifying, managing and monitoring its compliance obligations. In addition, the Compliance function conducts reviews in accordance with a Compliance Plan which is reviewed and approved annually by the Audit and Risk Management Committee and the Board.

Ethical Standards

The Group has documented key governance policies and procedures. These include the Group's Purpose, Vision, Values and Behaviours, as well as policy statements on conduct and ethical behaviour, the role and responsibilities of the Board and key Executives, and compliance with statutory and stakeholder reporting obligations. These policies are reviewed on a regular basis.

The Board has approved a Code of Conduct which sets out clearly the ethical standards that are expected of all Directors, managers and employees in their dealings with members, suppliers and each other. Any action or omission that contravenes the Code of Conduct constitutes misconduct and is subject to counselling or disciplinary action appropriate to the circumstances.

All Directors, managers and employees must avoid conflicts as well as the appearance of conflicts between personal interests and the interests of the Group.

The reporting of fraud and other inappropriate activity is encouraged by the Board and management via a formal, confidential reporting system and other internal processes.

These processes ensure that people making a report are protected from any discrimination or intimidation, and are reflected in the Company's Whistleblower policy.

Director's report

The Board of Directors of Medibank Private Limited ('Medibank') has pleasure in submitting its report.

Board of Directors

The names and details of the Directors in office at any time during the financial year, including the period until the date of this report, are as follows.

Current Directors

Paul McClintock AO
BA LLB (Sydney), FAICD
(Non-Executive Chairman)

Appointed Chairman from 19 March 2007.
Current term expires 18 March 2013.
Chairman of the Nomination Committee.

Mr McClintock is currently Chairman, Thales Australia Limited, I-MED Network Ltd and the COAG Reform Council and Director of the European Australian Business Council, Myer Holdings Limited and Perpetual Limited.

His former positions include Chairman of the Expert Panel of the Low Emissions Technology Demonstration Fund, Intoll Management Limited, Symbion Health Limited, Affinity Health, Ashton Mining, Plutonic Resources and the Woolcock Institute of Medical Research; Director of the Australian Strategic Policy Institute, a Commissioner of the Health Insurance Commission and a member of the Australia-Malaysia Institute Executive Committee.

From July 2000 to March 2003 he was Secretary to Cabinet and Head of the Cabinet Policy Unit in the Australian Government.

Mr McClintock is an honorary fellow of the University of Sydney Faculty of Medicine, and a Life Governor of the Woolcock Institute of Medical Research.

George Savvides
BE (Hons) (UNSW), MBA (UTS), FAICD
(Managing Director)

Appointed Director from
6 September 2001.
Appointed Managing Director
19 April 2002.
Current term expires 11 March 2017.

Mr Savvides has over 20 years corporate leadership experience in the health care industry and is currently Vice President of the International Federation of Health Plans. He is a Member, Australian Institute for Population Ageing Research and also a Member, Business Council of Australia, Chairman of Arrow Leadership Australia Limited and Chairman of World Vision Australia.

Mr Savvides was formerly Managing Director of Healthpoint Technologies Limited, Smith+Nephew Pty Ltd, Australasia; Managing Director and CEO, Sigma Co Ltd; General Manager, CIG Healthcare Australia; Chairman, Medicines Partnerships of Australia. He was also previously a Director of World Vision International.

Philip J Twyman
BSc, MBA, FAICD
(Non-Executive Director)

Appointed Director from
21 September 2007.
Current term expires 20 December 2012.
Chairman of the Investment Committee.

Mr Twyman is currently Chairman of Swiss Reinsurance Company (Australian Board of Advice) and Director, Perpetual Limited, Swiss Re Life & Health Australia Limited, and Insurance Australia Group Limited (IAG).

Mr Twyman was formerly Director, Insurance Manufacturers of Australia Pty Ltd; Executive Director, Aviva plc and Chairman of Morley Fund Management, both in the UK. He has over 20 years of board room experience of fund management and insurance, including overseas health insurers.

Jane Harvey
BCom (Melb), MBA (Melb), FCA, FAICD
(Non-Executive Director)

Appointed Director from
21 September 2007.
Current term expires 20 December 2013.
Chairman of the Audit and Risk
Management Committee.

Ms Harvey is currently a Director of IOOF Holdings Limited, Colonial Foundation Trust, Telecommunications Industry Ombudsman and a member of the Advisory Board of the Department of Treasury & Finance (Vic). She also serves on the Victorian Council of the Australian Institute of Company Directors.

Ms Harvey was formerly a Partner at PricewaterhouseCoopers.

Elizabeth Alexander AM
BCom, FAICD, FCA, FCPA
(Non-Executive Director)

Appointed Director from 23 October 2008.
Current term expires 27 November 2014.
Chairman of the Human Resources
Committee.

Ms Alexander is currently Chairman of DEXUS Wholesale Property Limited, a Director of DEXUS Property Group, the Victorian Registration & Qualifications Authority and IOOF Foundation. She is Chancellor of the University of Melbourne and Chairs their Finance Committee.

She is the former Chairman of CSL Limited, Chair of the Australia Prudential Regulatory Authority's Risk and Audit Committee, and the Portfolio Audit Committee of the Victoria Department of Education and Early Childhood Development.

She is a former National President of CPA Australia and the Australian Institute of Company Directors, and a former member of the Takeovers Panel.

Leanne Rowe AM
MB BS, MD, FRACGP, FAICD
(Non-Executive Director)

Appointed Director from
17 December 2008.
Current term expires
16 December 2014.

Adjunct Associate Professor Rowe has extensive experience across the health sector including working as a rural General Practitioner and past Chairman of the Royal Australian College of General Practitioners. She has been awarded the prestigious Rose Hunt Medal for service to General Practice. She is an expert in primary care and has written on the benefits of healthy lifestyles. She currently serves as Deputy Chancellor of Monash University.

Professor Rowe is a Director, Medical Consulting Victoria and I-MED Network Ltd; Presiding Member, Medical Panels, Victoria and South Australia; and a Board Member of the Medical Indemnity Protection Society and MIPS Insurance Board.

Cherrell Hirst AO
MBBS, BEdSt D, Univ (Hon), FAICD
(Non-Executive Director)

Appointed Director from
16 December 2009.
Current term expires 15 December 2012.
Chairman of the Health and Business Innovation Committee.

Dr Hirst is Chair of ImpediMed Limited currently holds directorships of Avant Mutual Group, Avant Insurance Limited, Tissue Therapies Ltd and Xenome Ltd. Additionally Dr Hirst is Deputy Chair and part time CEO of QIC BioVentures and was formerly a director of Suncorp-Metway Ltd.

Prior to becoming a non-executive Director Dr Hirst practiced medicine for 30 years.

Steve Vamos
BEng (Hon)
(Non-Executive Director)

Appointed Director from 24 October 2011.
Current term expires 23 October 2014.

Mr Vamos is currently a Director on the Telstra Ltd and David Jones Ltd Boards. He is also a Founding President of the Society for Knowledge Economics – a not-for profit think tank that encourages new and better practices in organisational leadership and management.

Company Secretary

Stephen Harris
ACSA, ICSA, CA, GAICD

Appointed Company Secretary on
6 July 2007.

Mr Harris has extensive experience in Corporate Governance, Financial Reporting and Policy, Corporate Taxation as well as Assurance and Accounting Services obtained across a range of large Australian and international companies in varied industries.

Directors' Interests

The Commonwealth of Australia is the sole shareholder in the Company. No Director holds shares or options in Medibank Private.

Principal Activities

The principal activities of the Group during the financial year were to:

- operate its private health insurance businesses in accordance with the Private Health Insurance Act (2007) and PHIAC regulations;
- operate its health solutions business.

The Company directly or indirectly provides a range of insurance services in Australia, such as:

- hospital insurance for private patients;
- ancillary or extras cover;
- private health insurance for overseas students and visitors to Australia;
- life insurance;
- travel insurance;
- pet insurance; and

the latter three under agency agreements with third party providers.

The Group's Health Solutions Division also provides services predominately in Australia and New Zealand including:

- health management;
- health triage;
- the operation of dental and eyecare practices;
- occupational rehabilitation; and
- travel health.

Results

The Group's 2011/12 after tax profit was $126,595,000 (2010/11 $299,646,000).

Dividends

Dividends paid to the Shareholder during the financial year were as follows:

	2012	2011
	$'000	$'000
Final ordinary dividend for the year ended 30 June 2011, paid on 31 October 2011	64,271	48,831
Interim ordinary dividend for the six months ended 31 December 2011, paid on 30 April 2012	26,970	85,552
	91,241	134,383

In addition to the above dividends there was a special member determined dividend of $300 million paid on 15 June 2011.

Review of Operations

A review of the Group's operations is contained in the Chairman's and Managing Director's Reports, and other sections of the Annual Report.

Significant Changes in the State of Affairs

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

Directors' Meetings

The number of meetings of the Board of Directors and Board Committees during the year ended 30 June 2012, and attendance by Directors at those meetings.

Director	Board		Audit and Risk Management Committee		Health and Business Innovation Committee		Investment Committee		Human Resources Committee		Nomination Committee	
	H	A	H	A	H	A	H	A	H	A	H	A
P McClintock	9	9	–	–	–	–	3	3	–	–	1	1
G Savvides	9	9	4	4	4	4	–	–	–	–	–	–
J Harvey	9	9	4	4	–	–	3	3	–	–	1	1
P Twyman	9	8	4	3	–	–	3	3	7	6	1	1
E Alexander	9	9	4	4	–	–	–	–	7	7	1	1
L Rowe	9	9	4	4	4	3	–	–	–	–	–	–
C Hirst	9	9	–	–	4	4	–	–	7	7	1	1
S Vamos	6	5	–	–	2	2	–	–	2	2	–	–

H – Number of meetings held during the time the Director held office or was a member of that Committee during the year.
A – Number of meetings attended.

Significant Events after the Balance Date

With effect from 1 July 2012, the Group was awarded a four year contract to manage and coordinate the healthcare of entitled personnel within the Australian Defence Force (ADF). Under the contract the Group will be responsible for the healthcare of Australian based serving personnel, from point of injury or illness right through to return to work. The services will include access to on-base medical practitioners, on-and-off-base allied health professionals, radiology, pathology and optometry services and a world-class telehealth service (triage, health advice and referrals).

Except for that described above, no matter or circumstance has arisen since 30 June 2012 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years, or
- the results of those operations in future financial years, or
- the Group's state of affairs in future financial years.

Likely Developments and Future Results

Directors anticipate that revenue growth will be sustained in the 2012/13 financial year despite parts of the business being subject to major contract renewals and a general level of uncertainty about economic conditions.

On the 1 July 2012, changes that income test the Federal Government Rebate (FGR) on Private Health Insurance came into effect. The changes mean the FGR on private health insurance for individuals earning over $84,001 or couples with an income of $168,001 or more will be reduced from the current 30% on a sliding scale down to zero. Whilst the Group has received prepayments of premiums to avoid these changes from a substantial number of members, the longer term financial impact on the Group's private health insurance business from changes to the FGR is not certain.

The Group merged its two health benefits funds, Medibank Private and Australian Health Management on 1 July 2012 and focus will continue to be on developing expanded services to our members and customers.

The Group will continue to invest in streamlining its operational effectiveness and efficiency in the private health insurance core business by investing in the continuation of the systems renewal program, and implementing improvements to its product suite and distribution model, as well as consider ways of developing new service offerings for its members.

The Group was awarded a four year contract to manage and coordinate the healthcare of entitled personnel within the Australian Defence Force (ADF) effective 1 July 2012. The Group's Health Solutions Division will continue to focus on activities generating further growth in its health management business.

During 2012/13, the Group will also explore opportunities that will continue to grow and diversify its business throughout the markets in which it operates.

Investment income will continue to be subject to the effects of the global economic environment and the inherent market volatility, with this risk being managed by implementing an investment strategy consistent with the Group's risk profile.

The Board expects to pay a special dividend totalling $300 million in the next financial year, subject to maintenance of the Group's capital adequacy target (refer Note 19(d)) following the special dividend payment.

1. Remuneration Report

This report outlines the remuneration arrangements in place for Directors and Executives of the Group.

Key management personnel have authority and responsibility for planning, directing, and controlling the activities of the Company and the Group. Key management personnel comprise the Directors of the Company and certain Executives of the Company and the Group.

2. Board Policy on Remuneration

The Human Resources Committee has recommended, and the Board has adopted, a policy that remuneration will:

- reward Executives for corporate financial and operational performance against targets set by reference to appropriate benchmarks;
- align the interests of the Executives to reward growth in enterprise value;
- link reward with the strategic goals and performance of Medibank; and
- ensure total remuneration is competitive by market standards.

Human Resources Committee responsibilities include making recommendations to the Board in relation to:

- the Group's policy for recruitment, remuneration and diversity,
- the Group's performance in relation to health and safety,
- the performance of the Managing Director and his direct reports,
- Senior Executive remuneration and
- Senior Executive succession planning and development.

Details of the composition and responsibilities of the Committees are set out in the Corporate Governance Statements which are available on the Company's website. The Committee and senior management receive advice on matters relating to remuneration from both internal and external sources. The Chairman of the HR Committee commissions and receives advice on Executive Remuneration directly from independent remuneration advisors. This advice is shared with the Chairman of the Board, the other members of the HR Committee and relevant senior management.

3. Remuneration Strategy and Structure

Medibank operates a strong performance-based approach to remuneration. Our philosophy is to ensure the mix and quantum of remuneration properly reflects the responsibilities and duties of our Executives. The remuneration approach adopted by Medibank provides a competitive reward proposition, targeted at attracting, motivating and retaining the most appropriately qualified, talented and experienced individuals.

The Managing Director's fixed remuneration is reviewed annually by the Board and recommendations for adjustment are made by reference to Commonwealth Remuneration Tribunal determinations. The Managing Director did not participate in the long term incentive plan and does not participate in the deferred short term incentive plan.

The Board has a policy that remuneration packages of Executives include both a fixed component and an at-risk or performance related component. The Board views the Short-Term Incentive as an essential driver of Medibank's strong performance based approach to remuneration. The mix between fixed remuneration and at-risk remuneration is designed to provide incentive to Executives, and reflects competitive market conditions for this level of role.

Short-Term Incentive (STI)

For the Managing Director the STI can deliver up to 60 percent of Fixed Remuneration and for other key management personnel who are members of the Group Executive, the STI can deliver a maximum of 100 percent of their fixed remuneration. In setting measures for the STI, the Board aims to balance the focus on generating profit, with the development of sustainable value and improving the customer experience. Two thirds of the Group Executive's STI is deferred for payment for a period of up to two years, with half the deferred amount paid in each of the subsequent two years. Deferred payments are subject to further performance measures in the second and third years. These measures are in place to ensure and reward sustained performance over the medium term.

Long-Term Incentive (LTI)

Group Executives (excluding the Managing Director), who were employed at the time of the grant in November 2009, were invited to participate in the financial year 2010 LTI from which they can earn a maximum of between 12.5 and 15 percent of fixed remuneration (depending on their role). This was half the previous allocations and was the final allocation under this LTI plan.

The following summarises the mix of reward elements for the Non-Executive Directors and Senior Executives:

Elements of Remuneration		Directors[1]		Group Executives
		Non-Executive	Executive (MD)	
Fixed Remuneration	Cash salary	✘	✔	✔
	Cash fees	✔	✘	✘
	Superannuation	✔	✔	✔
	Other benefits[2]	✔	✔	✔
Short-Term Incentives	Cash	✘	✔	✔
Long-Term Incentives	Cash	✘	✘	✔[3]
Other Payments	Cash	✘	✘	✔
Post Employment	Service agreements	✘	✔	✔
	Termination payments	✘	✔	✔

1 *Commonwealth Remuneration Tribunals Jurisdiction.*

2 *Includes insurance and the value of fringe benefits.*

3 *During the 2010 financial year the Board decided to phase out the cash-based LTI with the final assessment occurring at the end of the financial year 2012.*

4. Key Management Personnel

In addition to the Non-Executive Directors, the following are Senior Executives who are members of the Group Executive and have been the key management personnel during the financial year and to whom this report applies.

Name	Role	Commenced in Role
G Savvides[1]	Managing Director	19 April 2002
L Cotsios[2]	Group Executive Private Health Insurance	22 August 2011
P Koppelman[3]	Chief Financial Officer	7 May 2012
M Cullen	Group Executive – Medibank Health Solutions	1 July 2010
A Wilson	Group Executive – Integrated Care and Innovation	1 July 2010
C Shay	Group Executive – Provider Relations	7 March 2011
I Charles	Group Executive – People and Culture	1 February 2010
M Ramsay	Group General Counsel	31 March 2011
T Snyders	Chief Information Officer	5 September 2007

Former	Role	Cessation Date
B Levy[4]	Chief Executive Officer – Private Health Insurance Division	22 August 2011
M Sammells[4]	Chief Financial Officer	18 October 2011

[1] *Commenced in the role as interim, 1 April 2003 appointed permanently. Previously, Non-Executive Board member 6 September 2001 to 18 April 2002.*

[2] *Commenced in the role replacing Mr Levy*

[3] *Commenced in the role replacing Mr Sammells*

[4] *Ceased being a member of the Group Executive*

5. Executive Remuneration

To ensure market competitiveness of fixed remuneration, reference data is sourced from various surveys and where appropriate, specialist remuneration consultants to provide an objective basis for benchmarking Executive remuneration. During the financial year 2012, the Human Resources Committee received advice from Guerdon Associates in relation to the remuneration for the Group Executive. Guerdon Associates were engaged directly by the Chair of the Human Resources committee who also received the advice directly. In 2011-12 the consideration for this advice was $38,961. In addition, management referred to surveys from the Hay Group during the year to benchmark executive roles to the market.

The Managing Director's fixed remuneration is reviewed annually by the Board and recommendations for adjustment are made in reference to Commonwealth Remuneration Tribunal determinations. During 2012 the Board received advice from Ernst and Young in relation to the Managing Director. Ernst and Young were engaged directly by the Chairman of the Board who also received the advice directly. In 2011-12 consideration for this advice was $19,765.

In 2012, the Shareholder approved the re-appointment of the Managing Director for a five-year term until 11 March 2017.

5.2 Short-Term Incentive plan – Summary table

What is the STI?	An annual cash incentive plan directly linked to specific annual performance targets.
Who participates in the STI?	All Group Executives; this includes the Managing Director.
What are the changes from the financial year 2011 plan?	For 2012 there has been no change to the quantum or structure of the Managing Director's STI. During the financial year 2011 the board commissioned a report by Guerdon Associates regarding Group Executive remuneration excluding the Managing Director. The Board has accepted these recommendations and they have been implemented for the financial year 2012. These changes include the introduction of a governance gate, an introduction of a threshold level which represents the minimum levels of performance required prior to any payment, an increase to the quantum awarded and an increase in the proportion deferred.
Are there changes for financial year 2013?	For 2013 the corporate plan level for performance will, where applicable, form the target level of performance for the plan. In the 2012 plan this level of performance was the threshold level of performance for some measures.
What is a governance gate?	An element of the Incentive plan for 2012 is a governance/compliance gateway that gives effect to Board oversight of any compliance or governance issues involving Group Executives during the year.
How much of the STI payment is deferred?	For the financial year 2012, 67 percent of the STI payment to Group Executives (excluding the Managing Director) will be deferred for a period of two years.
Why does the Board consider the STI an appropriate incentive?	The STI is designed to put a significant proportion of Executive total remuneration at-risk against meeting targets linked to Medibank's annual business objectives contained in the Corporate Plan which is approved annually by the Shareholder.
Who assesses the performance of Group Executives?	The Managing Director assesses the performance of Group Executives at the end of each financial year and submits the results of his evaluation to the Board for approval.
Who assesses the performance of the Managing Director?	The Board agrees the Managing Director's key performance indicators and assesses his performance against those targets at the end of the financial year, having conferred with the Human Resources Committee.
What are the performance conditions?	The performance conditions comprise financial and non-financial targets. In setting the performance conditions the Board considers the balance between the expected behaviours that the plan will drive versus the management of risk and reward within the business.

Why were these conditions chosen?	The targets are set in line with Medibank's Annual Business Plan and three year rolling Corporate Plan.
Are threshold, target and stretch performance conditions imposed?	Yes. The STI and the performance conditions set under the STI have been designed to motivate and reward high performance, as such specific performance levels have been set for any payment (threshold) as well as for on target and maximum payment.
How well were the performance conditions met in the financial year 2012?	Details of performance are provided in Section 6 of this report.

5.3 Long-Term Incentive plan – Summary table

What is the LTI?	The LTI is a cash based incentive plan that was introduced in the financial year 2007. During the financial year 2010 the Board reviewed the current LTI and decided it would be phased out. The last grant was made in the financial year 2010, with the final test period at the end of the financial year 2012.
Who participates in the LTI?	Members of the Group Executive (excluding the Managing Director) at the date of allocation were eligible to participate subject to an invitation from the Board.
Why has the Board decided to phase out the LTI?	During the financial year 2010 the Board conducted a review of the Executive remuneration strategy. The Board has decided to replace the LTI with an incentive plan with a deferred component (table 5.2).
What are the key features of the LTI?	The LTI rewards eligible Executives for certain financial and transformation goals achieved over the term of the plan.
What is the outcome of the 2010 plan?	Details of performance are provided in Section 6 of this report.

6. Company Performance – the Link to Reward

The Board's policy is that there should be an alignment between Executive reward and Company performance. Therefore, the entire at-risk component of Executive remuneration is tied to the performance of the Executive and the organisation.

6.1 Company Financial Performance

The following table provides details of the financial performance of the Group over the past five years. From 1 October 2009 the status of Medibank changed to a "for profit" entity which now pays both tax to the Government and dividends to its Shareholder.

	Financial Year				
Measure	**2008**	**2009[1]**	**2010[2]**	**2011[3]**	**2012**
Revenue ($M)	3,391	3,917	4,579	5,009	**5,357**
Operating Profit Before Tax ($M)[4]	200	153	245	280	**162**
Profit Before Tax ($M)	187	94	380	428	**197**
Total Dividends Paid ($M)	–	–	33	434[5]	**91**

[1] *Medibank acquired the Health Solutions business and ahm during the financial year 2009.*

[2] *Medibank Private Limited became a "for profit" entity and commenced paying a dividend to the Shareholder.*

[3] *Medibank acquired McKesson Asia-Pacific Pty Ltd on 1 July 2010.*

[4] *Excludes investment performance, amortisation on acquired intangibles and impairment of goodwill.*

[5] *Includes a special member determined dividend of $300 million.*

6. Company Performance – the Link to Reward (continued)

6.2 Short-Term Incentive plan

The Short-Term Incentive plan includes measures tied to a number of key performance objectives. Measures (threshold, target and stretch) are set annually, covering corporate, financial and more direct operational performance targets. The mix and weighting of measures may vary annually, depending on the focus of the organisation for the coming financial year. These are cascaded to individual Executives participating in the plan. An annual performance contract is struck with each Executive, incorporating measures set and agreed to by the Board.

For 2012 performance was assessed against company financial, market share, customer service, people, divisional revenue and transformation measures.

The following table represents the average percentage of the maximum STI which has been achieved by Key Management Personal over the past five years:

	Financial Year				
	2008	2009	2010	2011	2012
STI Received	81.7%	93.8%	90.3%	72.6%	55.1%

6.3 Long-Term Incentive plan

The Board has approved payment for this plan at 30% of the maximum payment. The plan is based on the following measures, market share, return on capital and transformation (retirement of IT legacy systems).

6.4 Remuneration mix for Senior Executives

The following table summarises the mix between fixed and performance based remuneration for the Senior Executives for financial year 2012 based on achievement of target performance:

Name	Fixed Remuneration	Short Term Incentive	Long Term Incentive	Total
G Savvides	77%	23%	–	100%
P Koppelman	67%	33%	–	100%
L Cotsios	67%	33%	–	100%
M Cullen	67%	33%	–	100%
A Wilson	67%	33%	–	100%
C Shay	67%	33%	–	100%
I Charles	67%	33%	–	100%
M Ramsay	67%	33%	–	100%
T Snyders	64%	32%	4%	100%
B Levy	73%	22%	5%	100%
M Sammells	64%	32%	4%	100%

7. Executive Service Agreements

Terms of employment (including all components of remuneration) for the Managing Director and Group Executives are formalised in individual employment contracts. Specific information relating to the terms of the service agreements contained within these contracts is set out in section 7.2.

7.1 Post-employment

Key Executives have been engaged under the terms of service agreements that act as a form of retention mechanism. Payable upon cessation of employment, the agreement provides compensation for constraints regarding working for a competitor for up to six months.

7.2 Summary of specific terms

Name	Notice Period by Medibank	Notice Period by Executive	Maximum Termination Payment	Maximum Termination Payment
G Savvides	6 months[1]	3 months	6 months	12 months[2]
P Koppelman	6 months	3 months	6 months	6 months[2]
L Cotsios	6 months	3 months	6 months	6 months[2]
M Cullen	6 months	6 months	6 months	6 months
A Wilson	6 months	6 months	6 months	6 months
C Shay	6 months	3 months	6 months	6 months
I Charles	6 months	3 months	6 months	6 months
M Ramsay	6 months	3 months	6 months	6 months
T Snyders	6 months	3 months	6 months	6 months

[1] *Minimum notice period for G. Savvides is 6 months, with a maximum of 12 months.*

[2] *The maximum payment includes an additional 6 months due to redundancy resulting from a change in control.*

7.3 Other Payments

With the acquisition of McKesson Asia-Pacific Pty Ltd in 2010, Dr Cullen and Dr Wilson, formally joint CEOs of McKesson Asia-Pacific, joined Medibank as Group Executives. Dr Cullen and Dr Wilson were the original founders of the McKesson business in Australia and New Zealand.

To maintain the focus through the two years following the acquisition, Dr Cullen and Dr Wilson are participating in a commission plan based on achieving pre-determined revenue targets. Payments are based on monthly revenue achievement with a maximum payment of $200,000 per annum.

Details of the above payments are included in the table in section 9.1 under Other Payments.

The integration of McKesson and leveraging of the expanded capabilities of the Group are important factors in maximizing the investment return for the acquisition. In acknowledging the value Dr Cullen and Dr Wilson will provide in maximizing the value of the acquisition, they will receive certain retention payments if they remain employed by Medibank until 30 June 2013. They will only become entitled to the retention payments if they are still employed when they become eligible for the payment.

8. Non-Executive Remuneration

Non-Executive Directors' fees, including committee fees, are set by the Commonwealth Remuneration Tribunal. The level of fees is not set with reference to measures of Company performance.

As determined by the Commonwealth Remuneration Tribunal, Non-Executive Directors' fees were increased by 3.4 percent with effect from 1 July 2011. The Chairman received an annual fee of $121,850 and other Non-Executive Directors received a fee of $60,980 per annum from that date.

In addition, Directors who sit on the Audit and Risk Management Committee received an additional fee. The fee for the Chair of the Audit and Risk Management Committee is $14,270 per annum and members of Audit and Risk Management Committee receive $7,135 per annum.

Directors are entitled to life insurance cover and may purchase private health insurance and other insurance products on the same terms as employees. Compulsory statutory superannuation contributions are also made.

Details of Non-Executive Directors' remuneration for the financial year are set out in the following table:

30 June 2012	Directors Fees[a]	Audit & Risk Management Committee	Non Monetary Benefits[b]	Superannuation Benefits[c]	Total Remuneration
	$	$	$	$	$
Non-Executive Directors					
P McClintock (Chairman)	121,850	–	6,583	10,959	**139,392**
J Harvey	60,980	14,270	7,105	6,768	**89,123**
P Twyman	60,980	7,135	4,088	6,126	**78,329**
E Alexander	60,980	7,135	60	6,126	**74,301**
L Rowe	60,980	7,135	9,242	6,126	**83,483**
S Vamos	40,575	–	26	3,652	**44,253**
C Hirst	60,980	–	2,087	5,485	**68,552**
Total Non-Executive Directors Remuneration	**467,325**	**35,675**	**29,191**	**45,242**	**577,433**

30 June 2011	Directors Fees[a]	Audit & Risk Management Committee	Non Monetary Benefits[b]	Superannuation Benefits[c]	Total Remuneration
	$	$	$	$	$
Non-Executive Directors					
P McClintock (Chairman)	117,816	–	2,105	10,603	**130,524**
J Stoelwinder	58,957	–	7,119	5,306	**71,382**
J Harvey	58,957	13,793	1,951	6,548	**81,249**
P Twyman	58,957	6,897	1,490	5,927	**73,271**
E Alexander	58,957	6,897	60	5,927	**71,841**
L Rowe	58,957	6,897	1,802	5,927	**73,583**
C Hirst	58,957	–	341	5,306	**64,604**
Total Non-Executive Directors Remuneration	**471,558**	**34,484**	**14,868**	**45,544**	**566,454**

[a] *Represents actual directors fees paid during the financial year.*

[b] *Non Monetary Benefits include death, total & permanent disablement, salary continuance, subsidised health insurance and fringe benefits that are on the same terms and conditions that are available to employees of the Group.*

[c] *Compulsory superannuation contributions made on behalf of non-executive directors to satisfy the Company's obligations under applicable Superannuation Guarantee Charge legislation.*

9 Details of Remuneration

9.1 Directors' and Group Executives' remuneration

Details of each element of remuneration for the Key Management Personnel (KMP) (as defined in *AASB 124 Related party Disclosures*), which includes the Directors, specified members of the Group Executives and the five highest paid Executives of the group, are included in the table below:

30 June 2012	Short-Term				Post Employment	Long-Term	
	Salary & Fees[b] $	STI[c] $	Other Payments[d] $	Non Monetary Benefits[e] $	Superannuation $	Other [f, g] $	Total Remuneration $
Current Directors[a]							
P McClintock (Chairman)	121,850	–	–	6,583	10,959	–	**139,392**
J Harvey	75,250	–	–	7,105	6,768	–	**89,123**
P Twyman	68,115	–	–	4,088	6,126	–	**78,329**
E Alexander	68,115	–	–	60	6,126	–	**74,301**
L Rowe	68,115	–	–	9,242	6,126	–	**83,483**
S Vamos	40,575	–	–	26	3,652	–	**44,253**
C Hirst	60,980	–	–	2,087	5,485	–	**68,552**
Total Director Remuneration	**503,000**	**–**	**–**	**29,191**	**45,242**	**–**	**577,433**
Current Executives							
G Savvides (Managing Director)	782,444	435,000	–	45,510	50,313	49,087	**1,362,354**
L Cotsios	420,445	62,500	–	23,149	34,727	3,564	**544,385**
P Koppelman	83,600	74,937	–	4,776	6,987	696	**170,996**
A Wilson	408,588	89,932	252,869	16,173	37,584	24,001	**829,147**
M Cullen	410,053	91,444	252,869	23,338	37,584	23,944	**839,232**
I Charles	386,244	85,283	–	19,583	34,302	10,582	**535,994**
T Snyders	433,346	91,233	–	17,465	38,128	27,306	**607,478**
M Ramsay	321,074	70,859[j]	60,000[j]	23,209	28,327	4,694	**508,163**
C Shay	307,027	47,206	50,000	11,008	28,285	15,500	**459,026**
Total Current Executive Remuneration	**3,552,821**	**1,048,394**	**615,738**	**184,211**	**296,237**	**159,374**	**5,856,775**
Former Executives							
B Levy[h]	108,900	50,347	–	6,816	1,253	5,605	**172,921**
M Sammells[i]	166,987	–	–	7,659	7,855	(454)	**182,047**
Total Former Executives Remuneration	**275,887**	**50,347**	**–**	**14,475**	**9,108**	**5,151**	**354,968**

[a] *Directors comprise all those who acted at any time during the reporting period.*

[b] *Salary of Executives includes accruals for annual leave.*

[c] *STI includes Superannuation when paid.*

[d] *A Wilson and M Cullen received commission payments. Eligibility for these payments ceased on 30 June 2012. In addition, A Wilson, M Cullen and C Shay are each entitled to payments of $50,000 in recognition of the successful outcome from the ADF tender.*

[e] *Non Monetary Benefits may include death, total & permanent disablement, salary continuance, subsidised health insurance and fringe benefits that are on the same terms and conditions that are available to employees of the Group.*

[f] *Long-Term Other comprises accrual for long service leave.*

[g] *The amount of LTI paid represents 30% of the maximum LTI available.*

[h] *While B Levy ceased in his KMP role on 19 August 2011, he continues to be employed. The total remuneration disclosed includes salary up to the date he ceased to be a KMP.*

[i] *While M Sammells ceased to be Chief Financial Officer 18 October 2011, he continued to be employed until 11 January 2012. The total remuneration disclosed includes salary up to the date he ceased to be Chief Financial Officer.*

[j] *The STI includes a pro-rata bonus of $19,924 relating to the 2011 Financial Year and a one-off payment of $60,000 post commencement of employment.*

9 Details of Remuneration (continued)

9.1 Directors' and Group Executives' remuneration (continued)

30 June 2011	Short-Term				Post Employment	Long-Term	
	Salary & Fees[b] $	STI[c] $	Other Payments[d] $	Non Monetary Benefits[e] $	Superannuation $	Other [c, f, g] $	Total Remuneration $
Current Directors[a]							
P McClintock (Chairman)	117,816	–	–	2,105	10,603	–	**130,524**
J Stoelwinder	58,957	–	–	7,119	5,306	–	**71,382**
J Harvey	72,750	–	–	1,951	6,548	–	**81,249**
P Twyman	65,854	–	–	1,490	5,927	–	**73,271**
E Alexander	65,854	–	–	60	5,927	–	**71,841**
L Rowe	65,854	–	–	1,802	5,927	–	**73,583**
C Hirst	58,957	–	–	341	5,306	–	**64,604**
Total Director Remuneration	**506,042**	**–**	**–**	**14,868**	**45,544**	**–**	**566,454**
Current Executives							
G Savvides (Managing Director)	743,777	428,108	–	26,892	48,968	18,743	**1,266,488**
B Levy	606,828	224,654	–	22,314	52,813	98,177	**1,004,786**
M Sammells	506,281	204,855	–	15,162	43,587	74,350	**844,235**
T Snyders	346,198	202,487	–	13,421	32,444	50,079	**644,629**
I Charles	359,907	153,149	–	11,097	31,207	4,080	**559,440**
M Ramsay[h]	68,791	–	–	6,827	5,659	521	**81,798**
A Wilson	367,811	232,388	697,131	4,174	34,477	21,645	**1,357,626**
M Cullen	400,119	232,388	697,131	4,944	34,477	21,583	**1,390,642**
C Shay[h]	87,543	29,436	–	3,069	7,852	2,655	**130,555**
Total Current Executive Remuneration	**3,487,255**	**1,707,465**	**1,394,262**	**107,900**	**291,484**	**291,833**	**7,280,199**
Former Executives							
S Macionis[h]	131,245	52,450	–	3,143	11,141	–	**197,979**
Total Former Executives Remuneration	**131,245**	**52,450**	**–**	**3,143**	**11,141**	**–**	**197,979**

[a] *Directors comprise all those who acted at any time during the reporting period.*

[b] *Salary of Executives includes accruals for annual leave.*

[c] *STI and LTI includes Superannuation when paid.*

[d] *Includes payment made on commencement of employment and annual commission payments.*

[e] *Non Monetary Benefits may include death, total & permanent disablement, salary continuance, subsidised health insurance and fringe benefits that are on same terms and conditions that are available to employees of the Group.*

[f] *Long-Term other comprises accrual for long service leave and Long-Term Incentive plan.*

[g] *The amount of LTI paid represents 60% of the maximum LTI available.*

[h] *Remuneration to M Ramsay, C Shay and S Macionis relate to the period in which they were a Key Management Person only.*

9.2 Managing Director and Group Executives' STI

Details relating to the Managing Director and Group Executives' STI achieved and paid are set out in the table below:

30 June 2012	Actual STI Achieved[a]	STI Paid as % of Maximum STI	STI Not Paid as % of Maximum STI	% of Maximum STI Deferred
Managing Director				
G Savvides	435,000	86.8%	13.2%	–
Current Group Executives				
L Cotsios	187,500	37.5%	62.5%	66.6%
P Koppelman	74,937	54.5%	45.5%	–
A Wilson	269,797	59.5%	40.5%	66.6%
M Cullen	274,331	60.5%	39.5%	66.6%
I Charles	255,850	59.5%	40.5%	66.6%
T Snyders	273,700	59.5%	40.5%	66.6%
M Ramsay	152,806	42.0%	58.0%	66.6%
C Shay	141,619	41.5%	58.5%	66.6%
Former Group Executive				
B Levy[b]	50,347	50.0%	50.0%	–

[a] *STI constitutes a cash incentive earned during the 2012 Financial Year including the non deferred portion disclosed as STI in section 9.1 that is expected to be paid in September 2012.*

[b] *Relates to the period in which B Levy was a Key Management Person only.*

30 June 2011	Actual STI Payment[a]	STI Paid as % of Maximum STI	STI Not Paid as % of Maximum STI	% of Maximum STI Deferred
Managing Director				
G Savvides	428,108	88.0%	12.0%	–
Current Group Executives				
B Levy	224,654	59.3%	40.7%	25.00%
M Sammells	204,855	64.3%	35.7%	25.00%
T Snyders	202,487	64.3%	35.7%	25.00%
I Charles	153,149	64.3%	35.7%	25.00%
M Ramsay[b]	–	–	–	–
A Wilson	232,388	88.8%	11.2%	25.00%
M Cullen	232,388	88.8%	11.2%	25.00%
C Shay[c]	29,436	71.2%	28.8%	–
Former Group Executive				
S Macionis[c]	52,450	64.3%	35.7%	–

[a] *STI constitutes a cash incentive earned during the 2011 Financial Year and the non deferred portion was paid in September 2011.*

[b] *STI not applicable for the 2011 Financial Year due to commencement date.*

[c] *Relates to the period in which S Macionis and C Shay was a Key Management Person only.*

9 Details of Remuneration (continued)

9.3 Group Executive Long-Term Incentive

Detail the payments to the members of the Group Executive who participate in the financial year 2010 Long-Term Incentive plan are set out in the table below:

Name	Actual LTI Paid	LTI Paid as a % of maximum	LTI Forfeited as a % of maximum
T Snyders	17,250	30%	70%

Indemnification of Directors and Officers

A Deed of Indemnity, Access and Insurance has been entered into between Medibank and each of its Directors. Under the deed, Medibank agrees to indemnify out of the property of Medibank each Director against any liability the Director may incur to another person (other than Medibank or a related body corporate) as a Director of Medibank.

A Director is not indemnified in respect of any liability arising out of conduct involving a lack of good faith. There have been no claims made pursuant to the deed.

Article 66.1 of Medibank's constitution provides that Medibank indemnifies each officer of Medibank against any liability incurred in his or her capacity as an officer of Medibank (other than a liability to Medibank itself or a related body corporate) unless liability arises out of conduct on the part of the officer which involves a lack of good faith.

Medibank paid a premium in respect of insurance covering each of the Directors, Secretaries and Executive Officers of the Group against liabilities and expenses arising from any claim(s) made against them as a result of work performed in their respective capacities to the extent permitted by law.

Rounding

Medibank is a Company of the kind specified in Australian Securities and Investment Commission class order 98/100. In accordance with that class order, amounts in the Financial Statements and the Directors' Report have been rounded to the nearest thousand dollars, or in certain cases, to the nearest dollar unless specifically stated to be otherwise.

Environmental Issues

The Group's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

Auditor Independence

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

Resolution of Directors

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

Paul McClintock AO
Chairman

George Savvides
Managing Director

Melbourne, 31 August 2012

Australian National
Audit Office

MEDIBANK PRIVATE LIMITED
FINANCIAL REPORT 2011-12
AUDITOR'S INDEPENDENCE DECLARATION

In relation to my audit of the financial report of Medibank Private Limited and its consolidated entities for the year ended 30 June 2012, to the best of my knowledge and belief, there have been:

(i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and

(ii) no contravention of any applicable code of professional conduct.

Australian National Audit Office

Ian Goodwin
Group Executive Director
Delegate of the Auditor-General
Canberra
31 August 2012

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT 2600
Phone (02) 6203 7300 Fax (02) 6203 7777

Income Statement

For the financial year ended 30 June 2012

	Note	Consolidated 2012 $'000	2011 $'000
Revenue			
Private health insurance premium revenue	4(a)	5,062,300	4,737,792
Health solutions revenue		278,897	258,397
Other		15,819	12,520
		5,357,016	5,008,709
Expenses			
Claims expense	4(a)	(4,305,240)	(3,965,233)
Employee benefits expense		(445,924)	(377,887)
Office and administration expense		(119,223)	(108,412)
Marketing expense		(91,551)	(88,006)
Information technology expense		(70,732)	(54,310)
Professional service expense		(71,814)	(58,586)
Lease expense	4(b)	(33,313)	(29,555)
Depreciation and software amortisation expense	4(c)	(43,629)	(35,654)
Other expenses		(13,651)	(11,211)
		(5,195,077)	(4,728,854)
Operating profit		161,939	279,855
Investment and other income/(expense)			
Investment income	4(d)	96,036	166,028
Investment expense	4(e)	(52,640)	(4,477)
Other income/(expense)	4(f)	877	(3,055)
Amortisation of acquisition intangibles	4(g)	(8,931)	(9,932)
Total investment and other income/(expense)		35,342	148,564
Profit for the year before income tax		197,281	428,419
Income tax expense	5(a)	(70,686)	(128,773)
Profit for the year		126,595	299,646

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

Statement of comprehensive income

For the financial year ended 30 June 2012

	Consolidated	
	2012	2011
	$'000	$'000
Profit for the year	126,595	299,646
Other comprehensive income, net of tax		
Revaluation of land & buildings	(118)	64
Actuarial [loss]/gain on retirement benefit obligation	(1,398)	(10)
Exchange differences on translation of foreign operations	115	(93)
	(1,401)	(39)
Total comprehensive income for the year	125,194	299,607

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

Balance Sheet

As at 30 June 2012

	Note	Consolidated 2012 $'000	2011 $'000
Current assets			
Cash and cash equivalents	6	613,713	647,357
Trade and other receivables	7	352,040	232,493
Inventories	8	1,588	1,418
Investments	9	1,672,868	1,536,076
Tax Receivable		20,842	–
Other assets	10	8,294	11,781
Total current assets		2,669,345	2,429,125
Non-current assets			
Property, plant and equipment	11	77,442	83,678
Deferred tax assets	12	48,302	42,041
Intangible assets	13	350,354	348,497
Other assets	10	236	293
Total non-current assets		476,334	474,509
Total assets		3,145,679	2,903,634
Current liabilities			
Trade and other payables	14	924,628	704,586
Financial liabilities at fair value through profit or loss	15	4,949	2,265
Claims liabilities	16	357,798	351,702
Tax liability		–	123,607
Provisions	17	44,664	50,621
Total current liabilities		1,332,039	1,232,781
Non-current liabilities			
Trade and other payables	14	117,301	24,424
Claims liabilities	16	13,224	18,790
Deferred tax liabilities	18	31,291	18,487
Provisions	17	32,660	23,941
Total non-current liabilities		194,476	85,642
Total liabilities		1,526,515	1,318,423
Net assets		1,619,164	1,585,211
Equity			
Contributed equity	19	85,000	85,000
Reserves	20	18,189	18,192
Retained earnings	21	1,515,975	1,482,019
Total equity		1,619,164	1,585,211

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

Statement of Changes in Equity

For the financial year ended 30 June 2012

Consolidated	Contributed equity	Reserves	Retained earnings	Total equity
	$'000	$'000	$'000	$'000
Balance at 1 July 2010	85,000	18,221	1,616,766	1,719,987
Profit for the year	–	–	299,646	299,646
Other comprehensive income	–	(29)	(10)	(39)
Total comprehensive income for the year	–	(29)	299,636	299,607
Transactions with owners in their capacity as owners:				
Dividends paid	–	–	(434,383)	(434,383)
Balance at 30 June 2011	85,000	18,192	1,482,019	1,585,211
Profit for the year	–	–	126,595	126,595
Other comprehensive income	–	(3)	(1,398)	(1,401)
Total comprehensive income for the year	–	(3)	125,197	125,194
Transactions with owners in their capacity as owners:				
Dividends paid	–	–	(91,241)	(91,241)
Balance at 30 June 2012	85,000	18,189	1,515,975	1,619,164

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

Statement of Cash Flows

For the financial year ended 30 June 2012

	Note	Consolidated 2012 $'000	2011 $'000
Cash flows from operating activities			
Premium receipts		5,270,431	4,774,439
Health Solutions receipts		282,618	251,374
Other receipts		17,974	13,591
Payments for claims and levies		(4,311,580)	(3,989,419)
Payments to suppliers and employees		(846,018)	(698,718)
Income taxes paid		(207,970)	(87,827)
Dividends paid		(91,241)	(434,383)
Net cash (outflow)/inflow from operating activities	31	114,214	(170,943)
Cash flows from investing activities			
Payment for purchase of subsidiaries, net of cash acquired	25	–	(139,011)
Interest received		73,718	96,267
Investment expenses		(5,995)	(4,477)
Proceeds from sale of financial assets		956,570	365,524
Purchase of financial assets		(1,119,524)	(708,865)
Proceeds from sale of plant and equipment		599	136
Purchase of plant and equipment		(14,519)	(19,625)
Purchase of intangible assets		(38,707)	(28,074)
Net cash (outflow)/inflow from investing activities		(147,858)	(438,125)
Net (decrease)/increase in cash and cash equivalents		(33,644)	(609,068)
Cash and cash equivalents at beginning of period		647,357	1,256,425
Cash and cash equivalents at end of period	6	613,713	647,357

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

Notes to the Financial Statements

Note 1: Summary of significant accounting policies

The financial statements of Medibank Private Limited ("Medibank Private" or "the Company") for the financial year ended 30 June 2012 ("2012") were authorised for issue in accordance with a resolution of the Directors on 31 August 2012. Medibank Private is an unlisted public company incorporated in Australia. It is a company limited by shares and is wholly-owned by the Commonwealth of Australia.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Medibank Private and its subsidiaries.

a) Basis of preparation

These general-purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*. Medibank Private is a for-profit entity for the purpose of preparing the financial statement.

The consolidated financial statements of the Medibank Private group ("the Group") also comply with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Group has elected to apply the following pronouncement to the annual reporting period beginning 1 July 2011:

- AASB 1054 *Australian Additional Disclosures*, AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project*

This includes applying the revised pronouncement to the comparatives in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. None of the items in the financial statements had to be restated as the result of applying these standards.

The group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2011.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss, land and buildings, intangibles, and claims liabilities.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Medibank Private (''parent entity'') as at 30 June 2012 and the results of all subsidiaries for the year then ended. Medibank Private and its subsidiaries together are referred to in this financial report as the Group or the Consolidated Entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to Note 1(k)).

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 have been changed where necessary to ensure consistency with the policies adopted by the Group.

c) Segment reporting

AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 require segment information to be reported based on the information that is provided internally to the chief operating decision maker. The standards are applicable to annual reporting periods beginning on or after 1 January 2009. These standards apply to for-profit entities whose debt or equity instruments are traded in a public market or that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market. As the Group does not fall under this definition, segment information is not required.

The Group carries out business primarily in the provision of private health insurance and health services. The Group operates within Australia, New Zealand and the United Kingdom.

d) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Medibank Private's functional and presentation currency.

Note 1: Summary of significant accounting policies (continued)

d) Foreign currency translation (continued)

Foreign currency transactions are translated into Australian currency at the rates of exchange prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are attributable to part of the net investment in a foreign operation.

Net foreign exchange gains or losses are presented in the income statement within investment income or investment expense.

The Group entered into derivative contracts in the financial year including foreign exchange forward and swap contracts. These transactions are used to minimise exposure as per the protection strategy on financial assets at fair value through profit or loss as outlined in Note 1(p).

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transaction), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment repaid, a proportionate share of such exchange difference is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, trade rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

Revenue is recognised for the major business activities as follows:

(i) Private health insurance premium revenue (premium revenue)

Premium revenue comprises premiums received inclusive of any Federal Government Rebate.

Premium revenue is recognised in the income statement from the commencement date of the current period of insurance cover, in accordance with the pattern of the incidence of risk expected to match the seasonality of claims over the term of the insurance cover. Premium revenue includes the movement in the contributions in arrears which is assessed based on the likelihood of collection established from past experience. Premium revenue relating to future financial periods is classified as unearned premium liability in the balance sheet.

The Australian Government provides a rebate in respect of the premium paid for resident private health insurance. The rebate is 30% for persons aged under 65, 35% for persons aged from 65 to 69, and 40% for persons aged 70 and above. For certain categories of policyholders, the premium received by the Group is net of this Government rebate. In such instances, the Group receives the rebate directly from the Government. This rebate is recognised in the income statement as premium revenue. Rebates due from the Government but not received at balance date are recognised as receivables.

(ii) Health solutions revenue

Health solutions revenue includes the provision of face-to-face injury management, rehabilitation, allied health and specialist clinical services (including travel health and dental and eyecare products and services), telephone triage, chronic disease management, web-based health and wellness advice and the provision of clinical decision support software to companies, government and consumers. Revenue from these services 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.

(iii) Investment income

Unit trust distribution income and income arising from investments in direct mandates is recognised when the right to receive is established. Interest income accrues using the effective interest method. Refer to Note 1(p) for details on the measurement of gains and losses on financial assets measured at fair value through profit or loss and derivative financial instruments.

(iv) Sale of non-current assets

The gain or loss on disposal of non-current assets 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).

(v) Travel, pet and life insurance commission

Travel, pet and life insurance commission is recognised as income in the period in which the service is provided based on the commission agreement.

(vi) Dividends

Dividends are recognised as revenue when the right to receive payment is established.

f) Claims expense

Claims expense consist of claims paid, changes in claims liabilities, amounts receivable from and payable to the Risk Equalisation Trust Fund, applicable state levies and costs incurred providing dental, optical and health management services.

g) Health insurance contracts acquisition costs

Costs incurred in obtaining and writing private health insurance contracts are expensed directly in the income statement.

h) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss as a deduction against the related expense over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in the non-current liabilities as deferred income and are credited on a straight line basis over the expected lives of the related assets.

i) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

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 in the countries where the company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from 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. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by 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 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.

Deferred tax liabilities and assets are not recognised 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 the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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. 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.

Current and deferred tax is recognised in 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.

Medibank Private and its wholly owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

j) 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 (Note 22). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease incentives

In the event that lease incentives are received to enter into non-cancellable operating leases, such incentives 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.

Note 1: Summary of significant accounting policies (continued)

k) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred and the liabilities incurred. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. 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. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

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. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified as either equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

l) Impairment of assets

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. Other assets 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 to sell 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 (cash-generating units).

m) Cash and cash equivalents

Cash and cash equivalents in the balance sheet 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 statement of cash flows, cash and cash equivalents includes all cash assets as described above, net of outstanding bank overdrafts.

n) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days, except for premiums in arrears as outlined below. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Objective evidence of impairment for premiums in arrears is 63 days past due. Objective evidence of impairment for trade receivables and sundry debtors is 60 to 90 days past due. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. 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. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

o) Inventories

Inventories consist of dental and optical stock and other medical supplies which are valued at the lower of cost and net realisable value. The cost is assigned to individual items of inventories based on the weighted average cost method.

p) Investments and other financial assets

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, trade and other receivables, and held-to-maturity investments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held to maturity, re-evaluates this designation at the end of each reporting period.

i) Assets Backing Insurance Liabilities

Financial assets that back insurance liabilities that are within the scope of AASB 139 *Financial Instruments: Recognition and Measurement* and are permitted to be designated as "at fair value through profit or loss", have been designated as "at fair value through profit or loss" under AASB 139 *Financial Instruments: Recognition and Measurement* on first application of AASB 1023 *General Insurance Contracts* or on initial recognition of the asset.

The Group has determined that the financial assets attributable to its private health insurance funds (Medibank Private and Australian Health Management), that have a quoted market price in an active market or whose fair value can be reliably measured, are financial assets permitted to be designated as assets backing general insurance liabilities of its private health insurance funds.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in fair value are recognised in the profit or loss and are included in investment income or investment expenses. The fair value of these arrangements is determined using valuation techniques, or market price where available. Valuation techniques include the use of option valuation models and require assumptions regarding inputs such as risk-free rates, strike rates, volatility and term to maturity to be made. Derivatives are carried as assets when their fair value is positive. Derivatives are carried as liabilities when their fair value is negative.

ii) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets.

iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

Recognition and derecognition

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.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Trade and other receivables are subsequently carried at amortised cost using the effective interest method. Held to maturity investments accrue at the effective interest method.

Financial assets at fair value through profit or loss are subsequently carried at fair value. 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 profit or loss within investment income or investment expenses in the period in which they arise. Dividend income through financial assets at fair value though profit or loss is recognised in profit or loss as part of investment income when the Group's right to receive payments is established. Interest income from these financial assets is included in the investment income. Financial assets that are designated at fair value through profit and loss, consist of externally managed equity trusts and direct mandates, and an internally managed fixed income portfolio.

Note 1: Summary of significant accounting policies (continued)

p) Investments and other financial assets (continued)

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date, with the exception of foreign currency positions which are valued at the price sourced from an appropriate external source on the balance sheet date. If quoted market prices are not available, fair values are estimated on the basis of pricing models or other recognised valuation techniques. The assumptions used as inputs into these models include the value of variables such as risk-free rates, volatility, strike rates, time to expiry, credit-default swap levels, and correlations.

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Assets carried at amortised cost

For trade and other receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

Impairment testing of trade receivables is described in Note 1(n).

(q) Property, plant and equipment

Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated as historical cost less depreciation, except for purchases costing less than $1,000 which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total). Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only 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. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss 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 reserves in equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. 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 profit or loss.

Assets under construction are not depreciated until in use.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their costs or revalued amounts, net of any residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

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.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(l)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. 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.

r) Intangibles

(i) Goodwill

Goodwill is measured as described in Note 1(k). Goodwill on acquisition of subsidiaries is included in intangible assets. 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. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(ii) Software

Costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software intangibles. Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis over periods generally ranging from 2.5 to 5 years, the only exception being certain software acquired as part of the acquisition of Medibank Health Solutions Telehealth Pty Ltd which is amortised over 10 years.

(iii) Customer contracts and relationships

Customer contracts and relationships acquired as part of a business combination are recognised separately from goodwill. The customer contracts and relationships are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation of customer contracts and relationships is calculated on a straight-line basis over the expected useful lives, which range from 10 to 12 years.

(iv) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new systems or services) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from 3 to 5 years.

s) Net Risk Equalisation Trust Fund levies

Under the provisions of the Private Health Insurance legislation, all private health insurers must participate in the Risk Equalisation Trust Fund. Through the Risk Equalisation Trust Fund, all private health insurers share the cost of proportions of the eligible claims of all persons aged 55 years and over, and claims meeting the high cost claim criteria.

The amount payable to or receivable from the Risk Equalisation Trust Fund is determined by the Private Health Insurance Administration Council after the end of each quarter. Estimated provisions for amounts payable or receivable are provided for periods for which determinations have not yet been made, including an estimate of risk equalisation for unpresented and outstanding claims.

t) Claims liabilities and unexpired risk liability

(i) Claims liabilities

The liability for outstanding claims provides for claims received but not assessed and claims incurred but not received. The liability is based on an actuarial assessment taking into account 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 Medibank Private and Australian Health Management, 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 include internal and external costs incurred in connection with the negotiation and settlement of claims. Claims handling costs comprise all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Medibank Private's PackagePlus product range includes a benefit category, PackageBonus, covering additional health related services. A feature of this benefit category is that any unused PackageBonus in a calendar year is carried forward to future calendar years subject to a maximum limit. Accordingly, 95% (2011: 94%) of the PackageBonus entitlements, less the amount paid in relation to these entitlements, has been included in claims liabilities to reflect the expected future utilisation of this benefit in respect of membership up to 30 June 2012. A risk margin has also been added to reflect the inherent uncertainty in the central estimate.

Note 1: Summary of significant accounting policies (continued)

t) Claims liabilities and unexpired risk liability (continued)

Medibank Private's Ultra Health Cover includes a benefit category, Ultra Bonus, covering additional health related services. A feature of this benefit category is that any unused Ultra Bonus in a calendar year is carried forward to future calendar years without limit. Accordingly, 100% (2011: 100%) of the Ultra Bonus entitlements, less the amount paid in relation to these entitlements, has been included in claims liabilities to reflect the expected future utilisation of this benefit in respect of membership up to 30 June 2012. Since the benefit has been provisioned assuming 100% utilisation, no risk margin has been added to the central estimate.

(ii) Unexpired risk liability

The liability adequacy test is required to be performed to determine whether the insurance liability in respect of unearned premium liability (contributions in advance) and insurance contracts renewable before the next pricing review (constructive obligation) is adequate to cover the present value of expected cash flows relating to future claims arising from rights and obligations under current insurance coverage, plus an additional risk margin 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.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs then the unearned premium liability is deemed to be deficient. Liability adequacy testing did not result in any deficiency as at 30 June 2012 and 2011 for Medibank Private and Australian Health Management.

u) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition, except for unearned premium liability. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Unearned premium liability

The proportion of premium received or receivable that has not been earned at the end of each reporting period is recognised in the balance sheet as unearned premium liability. The liability for unearned premiums is taken to the income statement over the term of the insurance cover. Refer also to Note 14 for details of the split between the current and non-current portion of this balance.

v) Provisions

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 and 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. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

w) Employee entitlements

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service, are recognised in respect of employee's services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee entitlements. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service, is recognised in the provision for employee entitlements and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period using Commonwealth Government Bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(iii) Bonus plans

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the performance of the employee against targeted and stretch objectives, and the profit of the company. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(iv) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or to providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(v) Retirement benefit obligations

All employees of the Group are entitled to benefits from either of the defined benefit superannuation funds (refer to Note 1(x)), Commonwealth Superannuation scheme (CSS), and the Public Sector Superannuation Scheme (PSS), or other funds as nominated by the individual employees. The CSS and PSS are defined benefit schemes for the Australian Government and provide defined lump sum benefits based on years of service and final average salary. All other funds are defined contribution which receive fixed contributions from Group companies, and the Group's legal or constructive obligation is limited to these contributions.

The liability or asset recognised in respect of the defined benefit superannuation plans is presented in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability or asset is reported by the Department of Finance and Deregulation as an administered item.

The Group makes employer contributions to the employees superannuation schemes at rates determined by an actuary to be sufficient to meet the current cost to the Australian Government for the superannuation entitlements of the Group's employees. The Group accounts for the contributions as if they were contributions to defined contribution plans.

Contributions to the defined contribution fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

x) Defined benefit fund

One of the Group's subsidiaries, Australian Health Management makes contributions to two defined benefit superannuation funds that provide defined benefit amounts for employees on retirement. These funds are now closed to new members.

The net obligation in respect of these defined benefit funds is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. The benefit is discounted in order to determine its present value and the fair value of any plan assets is deducted. All actuarial gains and losses are recognised directly in equity.

Management do not consider the net obligation in respect of these defined benefit funds to be material to the Group as at 30 June 2012.

y) Contributed equity

Fully paid ordinary shares are classified as contributed equity.

z) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

aa) Goods and Services Tax (GST)

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 balance sheet.

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.

ab) Equity Reserve

The parent entity has previously entered into a restructure of administrative arrangements, which gave rise to an equity reserve (refer Note 20) 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.

Note 1: Summary of significant accounting policies (continued)

ac) Rounding of amounts

The Group is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars.

ad) Insurance contracts

Insurance contracts are defined as a contract under which the Group accepts significant insurance risk from another party by agreeing to compensate those insured from the adverse effects of a specified uncertain future event. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect.

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 reduces significantly during the period. The Group has determined that all insurance cover provided (excluding those insurance contracts for travel, life and pet insurance where the Group does not act as underwriter) are insurance contracts. The insurance risk assumptions are detailed in Note 2.

ae) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for the Group
AASB 9 and AASB 2009-11	Financial Instruments and Amendments to Australian Accounting Standards arising from AASB 9	All financial assets and liabilities to be recognised at fair value except debt instruments with basic loan features that are managed on a contracted yield basis. The standard is not applicable until 1 January 2013, therefore the Group is unable to assess its full impact. Based on the existing recognition of financial assets, the Group does not expect a material impact.	1 January 2013	1 July 2013
AASB 1053 and AASB 2010-2	Application of Tiers of Australian Accounting Standards and Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements	Introduction of a revised differential reporting framework in Australia. A two-tier reporting framework will apply to all entities preparing general purpose financial statements. Medibank Private is not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the entity.	1 July 2013	1 July 2013
Revised AASB 9 and AASB 2010-7	Financial Instruments and Amendments to Australian Accounting Standards arising from AASB 9	Revision to include classification and measurement requirements for financial liabilities, as well as the recognition and derecognition of financial instruments. The Group is currently evaluating the impact of the revision.	1 January 2013	1 July 2013

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for the Group
AASB 2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets	Amendment introduces a practical approach for measuring deferred tax liabilities and assets when investment property is measured using the fair value model. The Group does not own investment property, therefore the amendment will have no impact on the financial statements of the entity.	1 January 2012	1 July 2012
AASB 10, AASB 11, AASB 12, revised AASB 27, AASB 28, and AASB 2011-7	Consolidated Financial Statements, Joint Arrangements, Disclosure of Interests in other entities, Separate financial statements, Investments in associates and Joint Ventures, and Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards	The objective of these standards is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The Group is currently evaluating the impact of the changes.	1 January 2013	1 July 2013
AASB 13 and AASB 2011-8	Fair Value Measurement and Amendments to Australian Accounting Standards arising from AASB 13	AASB 13 and AASB 2011-8 seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The Group is currently evaluating the impact of the standard.	1 January 2013	1 July 2013
AASB119, AASB 2011-10, and AASB 2011-11	Employee Benefits, Amendments to Australian Accounting Standards arising from AASB 119 (September 2011), and Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements	The revised standard requires the recognition of all re-measurements of defined benefit liabilities/assets immediately in other comprehensive income and the calculation of a net income or expense by applying the discount rate to the net defined benefit liability or asset. A number of additional disclosures could also affect the timing and recognition of termination benefits. Based on its existing defined benefit liabilities/assets the Group does not expect a material impact.	1 January 2013	1 July 2013
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they will be recycled to profit or loss in the future. It is a presentation change with minimal impact to the Group.	1 July 2012	1 July 2012
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	The amendment removes the individual key management personnel disclosure requirements from AASB 124 Related Party Disclosures. This will reduce the disclosure required in the notes to the financial statements, but it will not affect any amounts recognised in the financial statements.	1 July 2013	1 July 2013

Note 1: Summary of significant accounting policies (continued)

ae) New accounting standards and interpretations (continued)

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for the Group
AASB 2012-3	Financial Instruments: Presentation	This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities. The Group is currently evaluating the impact of the changes.	1 Jan 2014	1 July 2014
AASB 2012-2	Financial Instruments: Disclosures	These disclosure changes focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements, irrespective of whether they are offset. The Group is currently evaluating the impact of the changes.	1 Jan 2013	1 July 2013

** Application date is for the annual reporting periods beginning on or after the date shown in the above table.*

af) Parent entity financial information

The financial information for the parent entity, Medibank Private, disclosed in Note 32 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of Medibank Private.

(ii) Tax consolidation legislation

Medibank Private and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Medibank Private, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Medibank Private also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Medibank Private for any current tax payable assumed and are compensated by Medibank Private for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Medibank Private under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Note 2: Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Ultimate liability arising from claims made under insurance coverage

Provision is made for the estimated cost of claims incurred but not settled at balance date.

(i) Insurance risk assumptions

The estimation of outstanding claims liabilities is based largely on the assumption that past claims settlement patterns are an appropriate predictor of expected future claims settlement patterns and involves a variety of actuarial techniques that analyse experience, trends and other relevant factors. The process for establishing the outstanding claims provision involves extensive consultation with internal actuaries, claims managers and other senior management. The process includes monthly internal claims review meetings attended by senior divisional management and the Chief Actuary.

The critical assumption in the determination of the outstanding claims liability is the extent to which claim incidence and development patterns are consistent with past experience.

(ii) Central estimates

The outstanding claims provision comprises the central estimate and a risk margin. The central estimate is an estimate of the level of claims provision that is intended to contain no intentional under or over estimation. The risk margin is added to the central estimate of outstanding claims to achieve a desired probability of adequacy. The outstanding claims provision is discounted at risk-free rates of return to reflect the time value of money.

Central estimates for each class of business are determined based on analysis of historical experience which assumes an underlying pattern of claims development and payment. The final selected central estimates are based on a judgemental consideration of the results and qualitative information.

Central estimates are calculated excluding the impact of the Risk Equalisation Trust Fund. A separate estimate is made of levies payable to and recoveries from the Risk Equalisation Trust Fund.

An overall risk margin is determined after consideration of the uncertainty of the outstanding claims estimate.

The objective for Medibank Private is to achieve at least a 95% probability of sufficiency (2011: 95%). The risk margin applied at 30 June 2012 is 4.4% which equates to $13,331,000 as reflected in Note 16 (a) (2011: 4.9%, $14,338,000).

The objective for Australian Health Management is to achieve at least a 95% probability of sufficiency (2011: 95%). The risk margin applied at 30 June 2012 is 8.9% which equates to $2,837,000 as reflected in Note 16 (a) (2011: 8.3%, $2,548,000).

The calculation of the risk margin has been based on an analysis of the past experience of each Fund of the Group. This analysis examined the volatility of past payments in comparison to the central estimate.

(iii) Financial assumptions used to determine outstanding claims provision

The outstanding claims provision is discounted to net present value using a risk-free rate of return.

The risk-free rate applied to the outstanding claims provision of Medibank Private at 30 June 2012 is 3.49% which equates to $1,678,000 (2011: 5.03%, $2,095,000).

The risk-free rate applied to the outstanding claims provision of Australian Health Management at 30 June 2012 is 3.49% which equates to a discount of $149,000 (2011: 5.03%, $224,000).

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

The impact of changes in key outstanding claims variables are summarised below. Each change has been calculated in isolation of the other changes and each change shows the impact on profit and equity assuming that there is no change to another variable.

		Financial Impact			
		Consolidated			
		2012		2011	
	Movement in variable	Profit/(loss)	Equity	Profit/(loss)	Equity
		$'000	$'000	$'000	$'000
Central estimate	1%	(3,667)	(3,667)	(3,657)	(3,657)
Central estimate	-1%	3,667	3,667	3,657	3,657
Discount rate	1%	563	563	522	522
Discount rate	-1%	(571)	(571)	(528)	(528)
Risk Margin	1%	(5,847)	(5,847)	(6,001)	(6,001)
Risk Margin	-1%	5,847	5,847	6,001	6,001
Weighted average term to settlement*	+1 month	1,059	1,059	1,524	1,524
Weighted average term to settlement	-1 month	(1,063)	(1,063)	(1,530)	(1,530)

** The weighted average term to settlement reflects the estimate of when outstanding claims are expected to be paid.*

Note 2: Critical accounting estimates and judgements (continued)

a) Ultimate liability arising from claims made under insurance coverage (continued)

(v) PackageBonus provision

A provision is included in the accounts to cover expected future utilisation of PackageBonus benefits accrued in respect of past membership. The true cost of the PackageBonus entitlement cannot be known with certainty until any unclaimed entitlements expire, five years after they were credited to the PackageBonus account. The expected ultimate utilisation rate of current PackageBonus entitlements is 95% (2011: 94%) based on a regular analysis of past claims experience.

A risk margin is added to the central estimate to achieve a desired probability of adequacy. The objective for Medibank Private is to achieve at least a 95% probability of sufficiency. The risk margin applied at 30 June 2012 is 1.8% of PackageBonus entitlements which equates to $4,479,000 (2011: 2.4%, $6,473,000).

A provision is included in the accounts to cover expected future utilisation of Ultra Bonus benefits accrued in respect of past membership. The expected ultimate utilisation rate of current Ultra Bonus entitlements is 100% (2011: 100%).

A risk margin has not been added to the central estimate of the Ultra Bonus provision since it has been provisioned assuming 100% utilisation.

The PackageBonus and Ultra Bonus provisions are discounted at risk-free rates of return to reflect the time value of money. The risk-free rate applied to these provisions of Medibank Private at 30 June 2012 is 3.49% which equates to $58,000 (2011: 5.03%, $181,000).

b) Classification and valuation of investments

Medibank Private and Australian Health Management classify investments in listed and unlisted securities as financial assets that back insurance liabilities and are therefore designated at initial recognition as at fair value through profit or loss. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the end of the reporting period, with the exception of foreign currency positions which are valued at the price sourced from an appropriate external source at the end of the reporting period. If quoted market prices are not available, fair values are estimated on the basis of pricing models or other recognised valuation techniques. The assumptions used as inputs into these models include the value of variables such as risk-free rates, volatility, strike rates, time to expiry, credit-default swap levels, and correlations.

c) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 1(l). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to Note 13 for details of these assumptions and the potential impact of changes to the assumptions.

d) Long service leave provision

As discussed in Note 1(w), the liability for long service leave is recognised and measured as the present value of the estimated future long service leave cash flows to be made in respect of all employees as at the balance date. In determining the present value of the liability, attrition rates and pay increases through inflation have been taken into account.

e) Allowance for impairment loss on trade and other receivables

Collectability of trade receivables is reviewed on an ongoing basis. Receivables that are known to be uncollectible are written off when identified. An allowance for impairment is raised when there is objective evidence that the receivable will not be collected. Due to the large number of debtors, this assessment is based on supportable past history and historical write-offs of bad debts with all receivables greater than 90 days past due being considered. The impairment loss is outlined in Note 7.

f) Useful lives of software

The Group's management determines the estimated useful lives and related amortisation charges for its software and technology. This estimate is based on projected product lifecycles for its high-tech segment. It could change significantly as a result of technical innovations and competitor actions. Where software and technology is purchased or developed to enter new or uncertain but strategically important markets it is expensed as incurred. Medibank Health Solutions Telehealth holds software/technology whose estimated useful life, management estimates as 10 years. All other software is estimated to have a useful life of 2.5 to 5 years.

Note 3: Financial risk management

This note is prepared in accordance with *AASB 7 "Financial Instruments: Disclosures"* and reflects risk management policies and procedures associated with financial instruments and capital and insurance contracts. The Group's principal financial instruments comprise cash and short term money market instruments (including bank bills, negotiable certificates of deposit, term deposits, and commercial paper), debentures and floating rate notes (both domestic and global), domestic equity trusts, global equity trusts, domestic listed shares, domestic and global property trusts.

The positions in these financial instruments are determined by Board policy in order to achieve appropriate levels of return for risk from the funds available. A strategic asset allocation is set and/or 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 are also established and reviewed by the Investment Committee of the Board. The Group predominantly enters into derivative transactions to principally offset positions in equity and forward currency markets, with the sole purpose of managing its risks to equity market downturns and currency risks arising from its investment operations. Short term derivative contracts are also used to maintain exposures to certain asset classes. It is the Group's policy that at no time throughout the period will trading of these derivative instruments for purposes other than risk management be undertaken, unless explicitly approved by the Board Investment Committee.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, price risk, credit risk and liquidity risk. The Group uses different methods to measure and manage the different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate, price risk and foreign exchange risk. In analysing exposure to these risks, consideration is given to interest rate expectations, potential renewals of existing positions, and any expected changes in asset allocation. Ageing analyses and monitoring of counter party credit quality are undertaken to manage credit risk, whilst liquidity risk is monitored through the development of future rolling cash flow forecasts. Equity price risk is managed through the use of diversification and limit setting on investments in each country, sector and market. Additionally derivative instruments are used to limit the Group's exposure to downside risks.

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

(i) 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. Market risk comprises three types of risk: market interest rates (interest rate risk), foreign exchange rates (currency risk), and market prices (price risk).

The following policies and procedures are in place to mitigate the Group's exposure to market risk:

- Compliance with the investment policy is monitored and exposures and breaches are reported to the Board Investment Committee. The policy is reviewed regularly for changes in the risk environment.
- Strict control over hedging activities.

The Capital Adequacy Standard requires insurance companies to perform "resilience tests" to determine the exposure to market risk and to hold sufficient capital reserves to cover this risk. Medibank Private and Australian Health Management require that additional capital be held at a level in excess of the minimal capital requirement.

(a) Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fixed interest rate instruments expose the Group to fair value interest risk, whilst floating rate instruments expose the Group to cash flow risk and fair value risk.

The Group's exposure to the risk of changes in market interest rates consists of its exposure to cash and cash equivalents, investments in unit trusts and floating rate investments. The Group's current policy is to not hedge against falls in market interest rates.

If interest rates had differed for the entire reporting period by the amounts illustrated in the table below, with all other variables remaining constant, profit and equity would have been affected as follows:

Consolidated	Financial Impact			
	Profit		Equity	
Judgements of reasonably possible movements	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
+140 bps (2011: +175 bps)	26,538	32,388	26,538	32,388
-140 bps (2011: -175 bps)	(26,538)	(32,388)	(26,538)	(32,388)

The assessment of reasonably possible movements was made with guidance from the Australian Department of Finance and Deregulation (DOFD).

Note 3: Financial risk management (continued)

(i) Market risk (continued)

(a) Interest rate risk (continued)

At balance date, the Group had the following financial assets exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

	Consolidated 2012 $'000	2011 $'000
Assets		
Cash & cash equivalents	**613,713**	647,357
Financial assets at fair value through profit and loss		
– Debentures and Notes	**982,944**	852,321
– Unit Trusts	**341,683**	353,354
	1,938,340	1,853,032

Cash equivalents are short term money market investments primarily incorporating bills, commercial papers, negotiable certificate of deposits, and term deposits. Debentures and notes primarily consist of floating rate notes (FRN's) and other term debt instruments. 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. The interest rates on longer term investments are reset every 90 days on average.

Assets held to maturity are investments in floating rate notes within one of the Group's subsidiaries. These investments are held at a fixed interest rate for the duration of the investment.

(b) Foreign currency risk

Foreign currency risk is the risk that the fair value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's investments in global equity trusts are exposed to fluctuations in currency exchange rates. Forward rate contracts are entered into between the Australian dollar and the following currencies: US dollar, Canadian dollar, Japanese Yen, the Euro and Pound Sterling, Hong Kong dollar, Singapore dollar and Swiss Franc in order to minimise this exposure. The Group's investment policy states that this foreign currency risk is to be mitigated by using forward currency contracts.

The Group also has transactional currency exposures which arise from purchases in currencies other than the functional currency. These transactions consist of operational costs within trade and other payables which are minimal, and purchases of foreign currency denominated investments.

The Group has exposure to foreign currency translation risk through its subsidiaries located in the UK and New Zealand respectively. The functional currency of these subsidiaries is different from the Group's presentation currency and is translated into the presentation as described in Note 1(d).

At 30 June 2012, the Group had the following net exposure to foreign currency movements:

	Consolidated 2012 $'000	2011 $'000
Assets		
Net Financial assets at fair value through profit and loss		
– Debentures and Notes	**73,775**	73,655
– Unit Trusts	**240,424**	252,958
	314,199	326,613

The Group has forward currency contracts that are subject to fair value movements through profit or loss as foreign exchange rates move.

At 30 June 2012, the Group had entered offsetting positions for 90% (2011: 96%) of its foreign currency translation exposure resulting from Global investments.

Had exchange rates moved as illustrated in the table below, with all other variables held constant, profit and equity would have been affected as follows:

Consolidated entity	Profit		Equity	
Judgements of reasonably possible movements	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
AUD/USD +15% (2011: +15%)	(2,586)	(854)	(2,586)	(854)
AUD/USD -15% (2011: -15%)	2,586	854	2,586	854
AUD/GBP +15% (2011: +15%)	(402)	(157)	(402)	(157)
AUD/GBP -15% (2011: -15%)	402	157	402	157
AUD/EUR +15% (2011: +15%)	(1,035)	(392)	(1,035)	(392)
AUD/EUR -15% (2011: -15%)	1,035	392	1,035	392
AUD/JPY +15% (2011: +15%)	(340)	(165)	(340)	(165)
AUD/JPY -15% (2011: -15%)	340	165	340	165
AUD/NZD +15% (2011: +15%)	(790)	928	(790)	928
AUD/NZD -15% (2011: -15%)	790	(928)	790	(928)

The assessment of reasonably possible movements was made with reference to published consensus forecasts or market expectations of potential movements in the relevant exchange rates and guidance from DOFD.

Management believes the balance date risk exposures are representative of the risk exposure inherent in the financial statements.

(c) Price risk

Equity price risk is 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's equity price risk arises from investments in equity, absolute return funds and listed property securities. It is managed by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector and market, and careful planned use of derivative financial instruments.

The Group holds and sells European style put and call options to protect its exposure to Australian and Global equities.

Note 3: Financial risk management (continued)

(i) Market risk (continued)

(c) Price risk (continued)

The following sensitivity analysis is based on the equity price risk exposures in existence at the balance sheet date.

Had the market prices moved, as illustrated in the table below, with all other variables held constant, profit and equity would have been affected as follows:

Consolidated entity	Profit		Equity	
Judgements of reasonably possible movements	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Australian Equity & Absolute Return Fund +10%	32,764	26,083	32,764	26,083
Australian Equity & Absolute Return Fund -10%	(32,764)	(26,083)	(32,764)	(26,083)
Australian Property Investments +9%	8,812	7,947	8,812	7,947
Australian Property Investments -9%	(8,812)	(7,947)	(8,812)	(7,947)
Global Listed Property Investments +9%	4,720	3,712	4,720	3,712
Global Listed Property Investments -9%	(4,720)	(3,712)	(4,720)	(3,712)
Global Equity Investments +12%	21,997	23,331	21,997	23,331
Global Equity Investments -12%	(21,997)	(23,331)	(21,997)	(23,331)
Emerging Market Investments +20%	2,186	2,484	2,186	2,484
Emerging Market Investments -20%	(2,186)	(2,484)	(2,186)	(2,484)

The assessment of reasonably possible movements was made with reference to published forecasts or market expectations of potential movements in the relevant equity markets.

Management believe the balance date risk exposures are representative of the risk exposure inherent in the financial statements.

(ii) Credit risk

(a) Investments

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables, financial assets at fair value through profit and loss and derivative instruments. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

Credit risk exposure is measured by reference to exposures by ratings bands, country, industry and instrument type.

The Group maintains a counter party exposure policy where the majority of credit exposure is limited to the A- or higher rated categories for long term investments, and A2 or higher for short term investments. All debt securities are rated investment grade (as measured by external rating agencies such as Standard & Poor's). Departures from this policy require Board approval.

There is a geographical concentration to Australian domiciled banks and corporations, which is managed through the use of exposure limits.

The Group does not have any financial instruments to mitigate exposure against credit risk and all investments are unsecured (except for covered bonds, asset backed securities and mortgage backed securities). However, the impact of default of counter parties is minimised through the use of Board approved limits by counter party and rating, diversification of counter parties, and the conservative policy to maintain investments in investment grade entities only.

(b) Trade and other receivables

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, 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.

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.

There are no significant concentrations of premium credit risk within the Group.

(c) Counter party credit risk ratings

The following table provides information regarding the credit risk exposure of the Group at 30 June 2012 by classifying assets according to credit ratings of the counter parties. AAA is the highest possible rating. Assets that fall outside the range AAA to BBB are classified as non-investment grade. The below table highlights the short term rating as well as the equivalent long term ratings bands as per published Standard & Poor's correlations.

Consolidated Short Term Long Term 2012	A-1+ AAA $'000	A-1+ AA $'000	A-1 A $'000	A-2 BBB $'000	B & below BB & below $'000	Not rated $'000	Total $'000
Assets							
Cash/cash equivalents	35,310	441,511	112,698	38,880	–	(14,686)	613,713
Premiums in arrears	–	–	–	–	–	11,660	11,660
Trade and other Receivables	–	–	–	–	–	340,380	340,380
Financial Assets							
Unit Trusts – Unlisted	–	–	–	–	–	340,653	340,653
Direct Aust Listed & Absolute mandates	–	–	–	–	–	334,076	334,076
Debentures & notes	139,175	571,084	214,751	57,934	–	–	982,944
Private Equity	–	–	–	–	–	1,030	1,030
Derivatives	–	8,556	5,609	–	–	–	14,165
Liabilities							
Derivatives	–	(1,364)	(3,585)	–	–	–	(4,949)
Total	174,485	1,019,787	329,473	96,814	–	1,013,113	2,633,672

Consolidated Short Term Long Term 2011	A-1+ AAA $'000	A-1+ AA $'000	A-1 A $'000	A-2 BBB $'000	B & below BB & below $'000	Not rated $'000	Total $'000
Assets							
Cash/cash equivalents	10,156	485,191	49,038	117,999	–	(15,026)	647,358
FRN's held to maturity	–	–	–	–	–	–	–
Premiums in arrears	–	–	–	–	–	11,274	11,274
Trade and other Receivables	–	–	–	–	–	232,493	232,493
Financial Assets							
Unit Trusts – Unlisted	–	–	–	–	–	350,132	350,132
Direct Aust Listed & Absolute mandates	–	–	–	–	–	321,213	321,213
Debentures & notes	197,481	534,583	101,315	18,942	–	–	852,321
Private Equity	–	–	–	–	–	3,222	3,222
Derivatives	–	6,462	2,726	–	–	–	9,188
Liabilities							
Derivatives	–	(1,152)	(1,113)	–	–	–	(2,265)
Total	207,637	1,025,084	151,966	136,941	–	903,308	2,424,936

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 as indicated in the balance sheet.

Note 3: Financial risk management (continued)

(iii) 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 counter party 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 policy is to hold at least 40% of its' total investment assets in short term, highly liquid bank bills, tradeable commercial paper and short dated floating rate notes, maturing in 365 days or less.

The table below reflects all contractually fixed pay-offs for settlement and interest resulting from recognised financial liabilities as at 30 June 2012 as well as the respective undiscounted cash flows for the respective upcoming fiscal years are presented. Cash flows for financial liabilities without fixed amount or timing are based on the conditions existing at 30 June 2012.

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Trade payables and other financial liabilities mainly originate from the financing of assets used in our 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 remaining contractual maturities of the Group's financial liabilities are:

Consolidated	under 6 months	6 to 12 months	1-2 years	over 2 years	Total contractual cash flows	Carrying amount
2012	$'000	$'000	$'000	$'000	$'000	$'000
Non-derivatives						
Trade and other payables	242,417	493	640	1,024	244,574	244,574
Unearned premium liability	511,436	170,282	103,692	11,945	797,355	797,355
Claims liabilities	332,717	26,830	10,638	2,857	373,042	371,022
Total non-derivatives	**1,086,570**	**197,605**	**114,970**	**15,826**	**1,414,971**	**1,412,951**

Consolidated	under 6 months	6 to 12 months	1-2 years	over 2 years	Total contractual cash flows	Carrying amount
2011	$'000	$'000	$'000	$'000	$'000	$'000
Non-derivatives						
Trade and other payables	248,150	1,247	825	1,403	251,625	251,625
Unearned premium liability	390,426	63,416	15,703	7,840	477,385	477,385
Claims liabilities	329,706	24,329	12,512	6,660	373,207	370,492
Total non-derivatives	**968,282**	**88,992**	**29,040**	**15,903**	**1,102,217**	**1,099,502**

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.

(iv) Fair value measurements

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

i. Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

ii. 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

iii. 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 assets and liabilities measured and recognised at fair value at 30 June 2012.

Consolidated	Level 1	Level 2	Level 3	Total
Year ended 30 June 2012	**$'000**	**$'000**	**$'000**	**$'000**
Financial Assets				
Financial assets at fair value through profit or loss	567,566	1,104,272	1,030	1,672,868
	567,566	**1,104,272**	**1,030**	**1,672,868**
Financial Liabilities				
Financial liabilities at fair value through profit or loss	–	(4,949)	–	(4,949)
	–	**(4,949)**	–	**(4,949)**

Consolidated	Level 1	Level 2	Level 3	Total
Year ended 30 June 2011	**$'000**	**$'000**	**$'000**	**$'000**
Financial Assets				
Financial assets at fair value through profit or loss	348,856	1,182,420	4,800	1,536,076
	348,856	**1,182,420**	**4,800**	**1,536,076**
Financial Liabilities				
Financial liabilities at fair value through profit or loss	–	(2,265)	–	(2,265)
	–	**(2,265)**	–	**(2,265)**

Note 3: Financial risk management (continued)

(iv) Fair value measurements (continued)

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 financial instruments that are not traded in an active market is determined using a variety of valuation techniques. The Group uses a variety of methods and makes assumptions that are 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. These instruments are included in level 2 classification.

The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2.

All other investments, where the valuation technique is based on significant unobservable inputs are included in level 3.

There were no significant transfers between level 1 and level 2.

The following tables present the changes in level 3 instruments for the year ended 30 June 2012:

	Consolidated 2012	2011
	$'000	$'000
Opening balance	**4,800**	9,991
Transfers into level 3	–	–
Transfers out of level 3	–	–
Purchases	–	356
Sales	**(1,431)**	(2,643)
Gains/(Losses) recognised in profit or loss	**(2,339)**	(2,904)
Closing balance	**1,030**	4,800

The opening value of level 3 holdings in the consolidated entity comprised of investment in one frozen unit trust, various debentures and notes that have been valued using valuation models with unobservable inputs, and a direct investment in two unlisted domestic companies.

The closing value is made up of the investment in the private equity trust and the two direct investments in an unlisted domestic company. Due to the nature of the business the valuations of these investments could not be based on observable market inputs and therefore, are classified as a level 3 investment. The other balance is made up of the continued holding in the frozen unit trust.

(v) Insurance risk

Medibank Private and Australian Health Management provide private health insurance across a range of services, including: hospital insurance for private patients, ancillary or extras cover, and private health insurance for overseas students studying in Australia. The Group also provides private health insurance for overseas visitors to Australia. These services are written as two types of contracts, Hospital and/or Ancillary cover. This business does not result in significant exposure to concentrations of risk because contracts written cover a large volume of members across all states in Australia.

The table below provides an overview of the key variables upon which the cash flows of the insurance contracts are dependant.

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	Ancillary benefits defined by the insurance contract or relevant Deed	Claims incidence and claims inflation

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

Claims management

Strict claims management ensure the timely and correct payment of claims in accordance with policy conditions and provider contracts. Claims are monitored on a monthly basis 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. Insurance risks and experience for the industry are also monitored by the Private Health Insurance Administration Council (PHIAC).

Prudential capital requirements

All private health insurers are required to comply with prudential capital requirements providing a buffer against certain levels of adverse experience. In addition, the Board also has a target level of capital in excess of the prudential requirement. Actual capital exceeds these levels, providing a buffer against adverse claims experience.

Ability to vary premium rates

The Group has the ability to vary future premium rates subject to the approval of the Minister for Health and Ageing.

Risk Equalisation

The Private Health Insurance Act requires resident private health insurance contracts to meet community rating requirements, prohibiting health insurers from discriminating 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 Trust Fund under which all private health insurers share the cost of proportions of the eligible claims of all persons aged 55 years and over, and claims meeting the high cost claim criteria.

Concentration of Health Risk

The Group has health insurance contracts covering several classes of health insurance business, including: hospital insurance for private patients, ancillary or extras cover, and private health insurance for overseas students and visitors to Australia. This business does not result in significant exposure to concentrations of risk because contracts written cover a large volume of persons across all states in Australia.

Note 4: Revenue and expenses

	Consolidated 2012 $'000	2011 $'000
(a) Insurance underwriting result		
Premium revenue	5,062,300	4,737,792
Claims expense		
Claims incurred	(4,346,340)	(3,954,048)
State levies	(42,003)	(40,435)
Net Risk Equalisation Trust Fund levies	83,103	29,250
	(4,305,240)	(3,965,233)
Other claims expense	(5,716)	(18,939)
Net claims incurred	(4,310,956)	(3,984,172)
Underwriting expenses	(538,594)	(450,392)
Underwriting result after expenses	212,750	303,228
(b) Lease expense		
Operating lease rental expense	33,313	29,555
	33,313	29,555
(c) Depreciation and software amortisation		
Depreciation – land and buildings	802	803
Depreciation – plant and equipment	6,654	6,982
Depreciation – leasehold improvements	8,363	7,239
Amortisation – software	27,810	20,630
	43,629	35,654
(d) Investment income		
Interest	81,359	96,762
Trust distributions	5,807	10,013
Dividend income	8,870	8,429
Net gain on disposal of financial assets	–	13,732
Net gain on fair value movements on financial assets	–	37,092
	96,036	166,028
(e) Investment expense		
Investment management fees	6,052	4,477
Net loss on disposal of financial assets	41,619	–
Net loss on fair value movements on financial assets	4,969	–
	52,640	4,477
(f) Other income/(expense)		
Interest	36	105
Other income	2,342	1,527
Impairment – goodwill	–	(2,523)
Revaluation – land and buildings	(1,501)	(2,164)
	877	(3,055)
(g) Amortisation of acquisition intangibles		
Amortisation – customer contracts & relationships	7,143	8,144
Amortisation – software	1,788	1,788
	8,931	9,932

	Consolidated 2012 $'000	2011 $'000
(h) Government Grants		
Credited against the following expenses		
Employee benefits expense	3,864	–
Professional service expense	2,567	–
Office and administration expense	209	–
Marketing expense	1	–
Information technology expense	177	–
	6,818	–

As part of the Australian Government's Personally Controlled Electronic Health Record (PCEHR) initiative, Medibank received grants totalling $6,818,000 (2011: nil) excluding GST. In accordance with AASB 120, these grants were credited against the underlying operating expense as detailed above. There are no unfulfilled conditions or other contingencies attaching to these grants.

Note 5: Income tax expense

	Consolidated 2012 $'000	2011 $'000
(a) Income tax expense		
Current tax	64,353	129,991
Deferred tax	7,141	4,058
Adjustment for current tax of prior period	(808)	(5,276)
	70,686	128,773
Deferred income tax (revenue)/expense included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets (Note 12)	(5,637)	(982)
(Decrease)/increase in deferred tax liabilities (Note 18)	12,778	5,040
	7,141	4,058

Note 5: Income tax expense (continued)

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

	Consolidated 2012	2011
	$'000	$'000
Profit for the year before income tax expense	197,281	428,419
Tax at the Australian tax rate of 30% (2011 – 30%)	59,184	128,526
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment	496	628
Tax offset for franked dividends	(1,883)	(1,369)
Tax base restatement for investments	(1,274)	1,015
Provision for Uncertain Tax Position[i]	(5,151)	5,151
Adjustment for Rights to Future Income[ii]	20,503	(2,461)
Amortisation of Intangibles	1,879	–
Net R&D tax concession[iii]	(2,207)	–
Acquisition costs	–	1,302
Impairment	84	719
Sundry items	(137)	538
	71,494	134,049
Adjustment for current tax of prior period	(808)	(5,276)
Income tax expense	70,686	128,773

[i] *The Rights to Future Income ("RTFI") amendments recommended in the Board of Taxation Review were substantively enacted on 27 Jun 2012 and the Parent Entity has subsequently reversed its prior year uncertain tax provision for the 2011 RTFI deduction of $5.1m.*

[ii] *In light of the RTFI amendments the Parent Entity will no longer be eligible for RTFI deductions claimed for the 2010 and 2011 financial years in respect of the private health insurance contracts of Australian Health Management and certain health service contracts of Medibank Health Solutions. The Parent Entity has consequently recognised in the current year the denial of these prior year deductions being $4.4m for 2010 and $3.9m for 2011 respectively.*

The denial of prior year RTFI deductions in respect of the private health insurance contracts of Australian Health Management has also resulted in the Parent Entity recognising the underlying deferred tax impact in the current year of $12.2m.

[iii] *During the 2012 financial year, the Parent Entity recognised its benefit in respect of the Research & Development ("R&D") tax concession lodged during the year for the 2010 and 2011 financial years being $4.9m and $4.2m respectively. This benefit is net of any deferred tax impact required to be recognised by the Parent Entity in respect of fixed assets subject to the R&D tax concession.*

	Consolidated 2012	2011
	$'000	$'000
(c) Amounts recognised in other comprehensive income		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to other comprehensive income		
Net deferred tax – (credited)/ debited directly to other comprehensive income	(598)	(60)
	(598)	(60)

(d) Tax consolidation legislation

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Medibank Private.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Medibank Private for any current tax payable assumed and are compensated by Medibank Private for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Medibank Private under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable / payable under tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Note 6: Cash and cash equivalents

	Consolidated	
	2012	2011
	$'000	$'000
Cash and cash equivalents	613,713	647,357

Bank overdraft facility

The Group has an unsecured overdraft facility from the bank which is reviewed annually as follows:

	Consolidated	
	2012	2011
	$'000	$'000
Amount used	1,368	–
Amount unused	3,390	8,217
	4,758	8,217

Note 7: Trade and other receivables

		Consolidated 2012	2011
		$'000	$'000
Premiums in arrears		11,660	11,274
Allowance for impairment loss	(i)	(2,496)	(3,037)
		9,164	8,237
Trade Receivables		93,013	69,779
Allowance for impairment loss	(ii)	(1,445)	(1,703)
		91,568	68,076
Goods and services tax		1,623	4,026
Government rebate scheme	(a)	207,490	127,947
Risk Equalisation Trust Fund		42,195	24,207
		251,308	156,180
Total trade and other receivables		352,040	232,493

[a] *Government rebate scheme is non-interest bearing and generally on 15-day terms.*

(i) Allowance for impairment loss – Premiums in arrears

Premiums in arrears are non-interest bearing. An allowance for impairment loss is generally recognised when there is objective evidence that a premium in arrears is impaired. An allowance for impairment loss of $2,496,000 (2011: $3,037,000) has been recognised by the Group. This amount has been offset against 'premium revenue' in the income statement.

Movements in the allowance for impairment loss for premiums in arrears were as follows:

	Consolidated 2012	2011
	$'000	$'000
Balance at 1 July	3,037	2,899
Charge for the year	899	1,576
Amounts recovered	(1,383)	(1,283)
Amounts written-back	(57)	(155)
Balance at 30 June	2,496	3,037

(ii) Allowance for impairment loss – Trade receivables

Trade receivables are non-interest bearing and are generally on 7-30 day terms. An allowance for impairment loss is generally recognised when there is objective evidence that a trade receivable is impaired. An allowance for impairment loss of $1,445,000 (2011: $1,703,000) has been recognised by the Group at 30 June 2012. The movement for the period forms part of 'other expenses' in the income statement.

Movements in the allowance for impairment loss for Trade receivables were as follows:

	Consolidated 2012	2011
	$'000	$'000
Balance at 1 July	1,703	595
Acquisition of subsidiaries	–	181
Charge for the year	186	1,165
Amounts recovered	(388)	(26)
Amounts written-off	(56)	(212)
Balance at 30 June	1,445	1,703

(a) Considered impaired

Consolidated	Total	0-30 days	31-60 days	61-90 days	+91 days
	$'000	$'000	$'000	$'000	$'000
2012					
Premiums in arrears	2,496	753	1,111	315	317
Trade receivables	1,445	–	–	–	1,445
	3,941	753	1,111	315	1,762
2011					
Premiums in arrears	3,037	723	1,252	619	443
Trade receivables	1,703	168	–	5	1,530
	4,740	891	1,252	624	1,973

(b) Past due but not considered impaired

Consolidated	Total	0-30 days	31-60 days	61-90 days	+91 days
	$'000	$'000	$'000	$'000	$'000
2012					
Premiums in arrears	9,164	6,075	2,944	42	103
Trade receivables	7,845	2,837	1,517	1,387	2,104
	17,009	8,912	4,461	1,429	2,207
2011					
Premiums in arrears	8,237	5,799	1,976	262	200
Trade receivables	5,756	1,856	1,666	938	1,296
	13,993	7,655	3,642	1,200	1,496

Note 7: Trade and other receivables (continued)

(ii) Allowance for impairment loss – Trade receivables

Receivables past due but not considered impaired at 30 June 2012 for the Group are $24,294,000 (2011: $13,993,000). Each operating unit has been in contact with the relevant debtor and is satisfied that payment will be received in full. 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.

Note 8: Inventories

	Consolidated 2012 $'000	2011 $'000
Medical Supplies	1,588	1,418

Note 9: Investments

	Consolidated 2012 $'000	2011 $'000
Financial assets at fair value through profit and loss		
Unit trusts	340,653	350,132
Australian listed equities	334,076	321,213
Debentures and notes	982,944	852,321
Private Equity	1,030	3,222
Derivatives	14,165	9,188
	1,672,868	1,536,076

Financial assets at fair value through profit or loss consists of investments in unit trusts (whose underlying assets are listed shares or property), direct investment in shares and share related contracts and therefore have no fixed maturity date or coupon rate.

Debentures and notes are interest bearing and are reset either monthly, quarterly or biannually with an average maturity of 2,330 days (2011: 2,338 days).

Floating rate notes are classified as investments in the Group's balance sheet. They are carried at market value.

Note 10: Other assets

		Consolidated 2012 $'000	2011 $'000
Current			
Prepayments	(i)	8,294	11,780
Other current assets		–	1
		8,294	11,781

Terms and conditions relating to other current assets:
(i) Expenses paid in advance.

		Consolidated 2012 $'000	2011 $'000
Non-current			
Defined benefit superannuation fund		–	47
Artworks	(ii)	236	246
		236	293

(ii) These represent works of art displayed at the Medibank Private Head Office and are measured at cost.

All amounts are not considered past due or impaired.

Fair value and credit risk

The carrying value of other assets is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value. Collateral is not held as security.

Note 11: Property, plant and equipment

Consolidated	Land and buildings	Plant and equipment	Leasehold improvements	Assets under construction	Total
	$'000	$'000	$'000	$'000	$'000
2012					
Gross carrying amount					
Balance at 1 July 2011	37,717	46,731	50,816	6,320	141,584
Additions	–	4,158	9,192	1,168	14,518
Transfers in/(out)	–	3,330	3,147	(6,477)	–
Disposals	–	(3,608)	(2,185)	(269)	(6,062)
Revaluations	(1,826)	–	–	–	(1,826)
Impairment	–	(336)	(1,409)	–	(1,745)
Balance at 30 June 2012	35,891	50,275	59,561	742	146,469
Accumulated depreciation					
Balance at 1 July 2011	(1,501)	(27,063)	(29,342)	–	(57,906)
Depreciation expense	(802)	(6,654)	(8,363)	–	(15,819)
Disposals	–	2,752	1,794	–	4,546
Revaluations	152	–	–	–	152
Balance at 30 June 2012	(2,151)	(30,965)	(35,911)	–	(69,027)
2011					
Gross carrying amount					
Balance at 1 July 2010	39,892	40,996	43,570	971	125,429
Acquisition of subsidiaries	–	2,292	696	84	3,072
Additions	14	5,631	7,660	6,320	19,625
Transfers in/(out)	–	134	855	(1,007)	(18)
Disposals	–	(2,026)	(1,961)	(48)	(4,035)
Revaluations	(2,189)	–	–	–	(2,189)
Impairment	–	(296)	(4)	–	(300)
Balance at 30 June 2011	37,717	46,731	50,816	6,320	141,584
Accumulated depreciation					
Balance at 1 July 2010	(853)	(21,831)	(23,969)	–	(46,653)
Depreciation expense	(803)	(6,982)	(7,239)	–	(15,024)
Disposals	–	1,750	1,866	–	3,616
Revaluations	155	–	–	–	155
Balance at 30 June 2011	(1,501)	(27,063)	(29,342)	–	(57,906)
Closing net book amount					
As at 30 June 2012	**33,740**	**19,310**	**23,650**	**742**	**77,442**
As at 30 June 2011	36,216	19,668	21,474	6,320	83,678

(a) Valuations of land and buildings

The valuation basis of land and buildings is fair value being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, based on current observable prices in an active market for similar properties in the same location and condition. The revaluations of the land and buildings were made as at 30 June 2012 and were based on independent assessments by external valuation experts who were members of the Australian Property Institute.

(b) Carrying amounts that would have been recognised if land and buildings were stated at cost

If the land and buildings were stated on the historical cost basis, the amounts would be as follows:

	Consolidated	
	2012	2011
	$'000	$'000
Land and buildings		
Cost	36,917	36,917
Accumulated depreciation	(4,330)	(3,488)
Net book amount	32,587	33,429

Note 12: Deferred tax assets

	Consolidated 2012	2011
	$'000	$'000
Deferred tax balances comprise temporary differences attributable to:		
Financial assets at fair value through profit & loss	3,862	6,774
Property, plant, equipment & software intangibles	15,970	10,134
Employee benefits	18,158	13,297
	37,990	30,205
Other		
Accruals	4,905	5,589
Defined Benefit Fund Deficit	537	–
Accrued income	284	833
Business capital costs	1,223	1,692
Restructure provision	708	1,151
Leases payable	423	549
Make good provision	1,562	1,400
Intangible assets	214	38
Other	456	584
Sub-total Other	10,312	11,836
Total deferred tax assets	48,302	42,041
Deferred tax assets to be recovered within 12 months	31,109	30,215
Deferred tax assets to be recovered after more than 12 months	17,193	11,826
	48,302	42,041

Movements – Consolidated	Financial assets at fair value through profit and loss	Property, plant, equipment & software	Employee Benefits	Other	Total
	$'000	$'000	$'000	$'000	$'000
At 1 July 2010	11,366	8,664	8,816	9,616	38,462
Acquisition of a subsidiary	–	177	1,344	1,011	2,532
Credited to the income statement	(4,592)	1,228	3,137	1,209	982
Credited directly to other comprehensive income	–	65	–	–	65
At 30 June 2011	6,774	10,134	13,297	11,836	42,041
Credited to the income statement	(2,912)	5,811	4,861	(2,123)	5,637
Credited directly to other comprehensive income	–	25	–	599	624
At 30 June 2012	3,862	15,970	18,158	10,312	48,302

Note 13: Intangible assets

Consolidated	Goodwill	Customer Contracts & Relationships[i]	Software[ii]	Assets under construction	Total
	$'000	$'000	$'000	$'000	$'000
2012					
Gross carrying amount					
Balance at 1 July 2011	199,480	82,080	155,080	14,181	**450,821**
Additions	–	–	22,109	16,598	**38,707**
Transfers in/(out)	–	–	5,212	(5,212)	**–**
Disposals	–	–	(2,900)	–	**(2,900)**
Balance at 30 June 2012	199,480	82,080	179,501	25,567	**486,628**
Accumulated amortisation and impairment					
Balance at 1 July 2011	(2,523)	(15,235)	(84,566)	–	**(102,324)**
Amortisation expense	–	(7,143)	(29,598)	–	**(36,741)**
Disposals	–	–	2,791	–	**2,791**
Balance at 30 June 2012	(2,523)	(22,378)	(111,373)	–	**(136,274)**
2011					
Gross carrying amount					
Balance at 1 July 2010	100,136	58,347	109,097	12,128	**279,708**
Acquisition of subsidiaries	99,344	23,733	19,855	636	**143,568**
Additions	–	–	13,309	14,765	**28,074**
Transfers in/(out)	–	–	13,366	(13,348)	**18**
Disposals	–	–	(547)	–	**(547)**
Balance at 30 June 2011	199,480	82,080	155,080	14,181	**450,821**
Accumulated amortisation and impairment					
Balance at 1 July 2010	–	(7,091)	(62,554)	–	**(69,645)**
Amortisation expense	–	(8,144)	(22,418)	–	**(30,562)**
Disposals	–	–	406	–	**406**
Impairment	(2,523)	–	–	–	**(2,523)**
Balance at 30 June 2011	(2,523)	(15,235)	(84,566)	–	**(102,324)**
As at 30 June 2012	**196,957**	**59,702**	**68,128**	**25,567**	350,354
As at 30 June 2011	196,957	66,845	70,514	14,181	**348,497**

[i] *Amortisation of customer contracts and relationships of $7,143,000 (2011: $8,144,000) is included in amortisation of acquisition intangibles in the income statement.*

[ii] *Software includes capitalised development costs being an internally generated intangible asset and software acquired through the purchase of Medibank Health Solutions Telehealth Pty Ltd. Amortisation of software of $27,810,000 (2011: $20,630,000) is included in depreciation and amortisation expense in the income statement. The remaining 1,788,000 (2011: $1,788,000) is included in amortisation of acquisition intangibles in the income statement.*

Note 13: Intangible assets (continued)

(a) Impairment charge

The impairment charge of $2,523,000 in 2011 arose from the revision in value-in-use impairment calculations for Work Solutions Australia Pty Ltd and The Travel Doctor – TMVC Pty Ltd as a result of the loss of the Job Capacity Assessment Contract. No impairment charge was recognised in 2012.

(b) Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to which CGU is expected to benefit from the synergies of the combination.

A CGU level summary of the goodwill allocation is presented below.

CGU	Total
	$'000
2012	
Australian Health Management	96,133
Medibank Health Solutions (including Carepoint)	8,850
Medibank Health Solutions Telehealth	91,974
	196,957
2011	
Australian Health Management	96,133
Medibank Health Solutions	1,480
Carepoint	7,370
Medibank Health Solutions Telehealth	91,974
	196,957

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. The Carepoint business is now included in the MHS CGU for impairment testing of goodwill.

(c) Key assumptions used for value-in-use calculations

CGU	Growth rate	Discount
	%	%
2012		
Australian Health Management	2.5%	16.5%
Medibank Health Solutions (including Carepoint)	2.5%	15.8%
Medibank Health Solutions Telehealth	2.5%	15.7%
2011		
Australian Health Management	2.5%	16.7%
Medibank Health Solutions	2.5%	17.7%
Carepoint	2.5%	18.7%
Medibank Health Solutions Telehealth	2.5%	16.1%

The growth rate disclosed above represents the weighted average growth rate used to extrapolate cash flows beyond the budget period.

In performing the value-in-use 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.

These assumptions have been used for the analysis of each CGU. The weighted average growth rates used are consistent with forecasts included in industry reports. The discount rates used reflect specific risks relating to the relevant CGU.

Note 14: Trade and other payables

	Note	Consolidated 2012 $'000	2011 $'000
Current			
Trade creditors	(i)	170,354	163,686
Other creditors and accrued expenses	(ii)	62,222	77,480
Unearned premium liability	(iii)(a)	681,717	454,823
Risk Equalisation Trust Fund	(iv)	8,023	7,982
Lease incentives	(v)	521	615
Defined benefit superannuation fund		1,791	–
		924,628	704,586

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

	Note	Consolidated 2012 $'000	2011 $'000
Non-current			
Unearned premium liability	(iii)(a)	115,638	22,562
Lease incentives	(v)	1,663	1,862
		117,301	24,424

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) Unearned premium liability is non-interest bearing.

(iv) Amount payable to the Risk Equalisation Trust Fund is non-interest bearing.

(v) 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.

(a) Unearned premium liability

	Consolidated 2012 $'000	2011 $'000
Balance at 1 July	477,385	433,407
Deferral of premium on contracts written during the year	775,690	471,647
Earnings of premiums deferred in prior years	(455,720)	(427,669)
Balance at 30 June	797,355	477,385

Note: movement includes both current and non-current provision.

Note 15: Financial liabilities at fair value through profit or loss

	Note	Consolidated 2012	2011
		$'000	$'000
Current			
Derivatives	(i)	4,949	2,265
		4,949	2,265

Terms and conditions relating to the above financial instruments:

(i) Derivatives are European structured and fully tradeable on secondary markets. Pay-off is calculated at option expiry.

Note 16: Claims liabilities

(a) Gross claims liability

	Note	Consolidated 2012	2011
		$'000	$'000
Current			
Claims liability – central estimate of the expected present value of future payments for claims liabilities	(i), 2(a)(ii)	333,512	326,129
Risk margin	(ii), 2(a)(ii,v)	18,701	20,041
Claims handling costs	(iii)	5,585	5,532
Gross claims liability	16(c)	357,798	351,702
Non-current			
Claims liability – central estimate of the expected present value of future payments for claims liabilities	(i), 2(a)(ii)	11,187	15,402
Risk margin	(ii), 2(a)(ii,v)	1,946	3,317
Claims handling costs	(iii)	91	71
Gross claims liability	16(c)	13,224	18,790

(i) The expected future payments of claims liabilities are discounted to present value using a risk-free rate of 3.49% pa (2011: 5.03% pa).

(ii) The risk margin for the Parent entity of 4.4% (2011: 4.9%) of the underlying outstanding claims liabilities and 1.8% (2011: 2.4%) of PackageBonus entitlements for Medibank Private has been estimated to equate to a probability of adequacy of at least 95% (2011: 95%).

The risk margin of 8.9% (2011: 8.3%) of the underlying claims liabilities for Australian Health Management has been estimated to equate to a probability of adequacy of at least 95% (2011: 95%).

(iii) The allowance for claims handling costs for Medibank Private at 30 June 2012 is 1.57% of the claims liability (2011: 1.56%).

The allowance for claims handling costs for Australian Health Management at 30 June 2012 is 2.5% of the claims liability (2011: 2.5%).

(b) Claims incurred

Information regarding credit risk is set out in Note 3. Interest rate risk is not applicable as claims liabilities are non-interest bearing.

Current year claims relate to risks borne in the current financial year. The prior year amount represents the difference between the claims liability at the end of the previous financial year and the claims cost recognised in the current financial year for claims incurred in prior financial years, based on claims payments made during the year.

Consolidated	Prior	Current	Total
	$'000	$'000	$'000
2012			
Claims incurred			
Undiscounted	7,280	4,338,445	4,345,725
Movement in Discount	–	615	615
	7,280	4,339,060	4,346,340
2011			
Claims incurred			
Undiscounted	(23,769)	3,977,293	3,953,524
Movement in Discount	–	524	524
	(23,769)	3,977,817	3,954,048

(c) Reconciliation of movement in claims liabilities

	Consolidated	
	2012	2011
	$'000	$'000
Balance at 1 July	370,492	400,277
Additional provision	349,216	342,882
Amounts utilised during the year	(353,943)	(349,693)
Movement in claims handling costs	73	(920)
Movement in risk margin	(2,711)	1,192
Movement in discounting	615	524
Amount under/(over) provided	7,280	(23,770)
Balance at 30 June	371,022	370,492

Note: movement includes both current and non-current

Note 17: Provisions

	Note	Consolidated 2012	2011
		$'000	$'000
Current			
Restructuring	(i)	8,121	11,468
Make good	(ii)	471	575
Employee Entitlements	(iii)	36,072	38,396
Other	(iv)	–	182
		44,664	50,621
Non-current			
Restructuring	(i)	–	1,647
Make good	(ii)	5,486	3,972
Employee Entitlements	(iii)	27,174	18,322
		32,660	23,941

Movement in provisions

The following movements in provisions include both current and non-current balances.

	Consolidated 2012	2011
	$'000	$'000
(i) Restructuring		
Balance at 1 July	13,115	6,640
Additional provision	3,355	10,629
Amounts utilised during the year	(6,754)	(3,565)
Reversal of unused provision	(1,595)	(589)
Balance at 30 June	8,121	13,115

The restructuring provision relates to various restructuring programs.

	Consolidated 2012	2011
	$'000	$'000
(ii) Make good		
Balance at 1 July	4,547	3,797
Additional provision	1,801	1,223
Amounts utilised during the year	(162)	(468)
Reversal of unused provision	(229)	(5)
Balance at 30 June	5,957	4,547

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.

	Consolidated 2012 $'000	2011 $'000
(iii) Employee Entitlements		
Balance at 1 July	56,718	48,157
Acquisition of subsidiary	–	5,058
Additional provision	52,737	30,694
Amounts utilised during the year	(35,561)	(24,792)
Reversal of unused provision	(10,648)	(2,399)
Balance at 30 June	63,246	56,718

This provision incorporates annual leave, long service leave, termination payments, and profit-sharing and bonus plans. Refer to Note 1(w) for the relevant accounting policy and details of the significant estimations and assumptions applied in the measurement of employee entitlements.

	Consolidated 2012 $'000	2011 $'000
(iv) Other		
Balance at 1 July	182	591
Additional provision	–	182
Amounts utilised during the year	(182)	(534)
Reversal of unused provision	–	(57)
Balance at 30 June	–	182

Note 18: Deferred tax liability

	Consolidated 2012	2011
	$'000	$'000
Deferred tax balances comprise temporary differences attributable to:		
Financial assets at fair value through profit and loss	4,009	7,053
Intangibles	24,541	7,672
Property, plant, equipment & software intangibles	2,384	3,405
	30,934	18,130
Other		
Defined benefit fund surplus	–	59
Other	357	298
Sub-total Other	357	357
Total deferred tax liabilities	31,291	18,487
Deferred tax liabilities to be settled within 12 months	4,366	7,410
Deferred tax liabilities to be settled after more than 12 months	26,925	11,077
	31,291	18,487

Movements – Consolidated	Financial assets at fair value through profit and loss	Intangibles	Property, plant, equipment & software	Other	Total
	$'000	$'000	$'000	$'000	$'000
At 1 July 2010	4,122	–	2,484	514	7,120
Acquisition of subsidiary	–	5,846	471	5	6,322
Charged/(credited) to the income statement	2,931	1,826	450	(167)	5,040
Charged directly to other comprehensive income	–	–	–	5	5
At 30 June 2011	7,053	7,672	3,405	357	18,487
Charged/(credited) to the income statement	(3,044)	16,869	(1,047)	–	12,778
Charged directly to other comprehensive income	–	–	26	–	26
At 30 June 2012	4,009	24,541	2,384	357	31,291

Note 19: Contributed equity

	Consolidated 2012 $'000	2011 $'000
(a) Fully paid ordinary shares		
Ordinary shares fully paid	85,000	85,000

(b) Movements in shares on issue

	2012		2011	
	Number of shares	$'000	Number of shares	$'000
Balance at 1 July	85,000,100	85,000	85,000,100	85,000
Issued during the financial year	–	–	–	–
Balance at 30 June	85,000,100	85,000	85,000,100	85,000

(c) Terms and conditions of contributed equity

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company, 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 the company or reduction of capital, have the right to participate in the distribution of the surplus assets of the company.

(d) Capital management

The two private health insurance funds of the Group (Medibank Private and Australian Health Management) are required to maintain minimum levels of capital to meet both solvency and capital adequacy requirements.

The Solvency Standard sets out the level of capital required to ensure that under a range of adverse circumstances the two private health insurance funds of the Group can meet their existing obligations to members and creditors. This is essentially based on ensuring sufficient capital is available to meet accrued liabilities and obligations if there was an orderly termination of the fund.

The Capital Adequacy Standard sets out the level of capital required based on a going concern basis where the requirement is for the two private health insurance funds of the Group to demonstrate that they have sufficient capital to accept contributions from new and existing members, fund their business plans (including the payment of dividends to the Shareholder), absorb short term adverse experience from time to time, and continue to remain solvent. The Board expects to pay a special dividend totalling $300 million in the next financial year, subject to maintenance of the Group's capital adequacy target.

The two private health insurance funds of the Group are required to comply with these standards on a continuous basis and report results to PHIAC on a quarterly basis. Both funds have been in compliance with these standards throughout the year.

The Board of the Group has established a capital adequacy target for the two private health insurance funds of the Group in excess of the prudential capital adequacy requirements to cover both investment and non-investment risks. This buffer is required to protect against adverse variations in experience that could reduce retained earnings and/or increase the statutory minimum capital adequacy requirement in order to reduce the likelihood of a breach of the capital adequacy requirements. Capital is managed against this target and performance is reported to the Board.

Refer to Note 29 for details of the Group's excess over the solvency reserve as at 30 June 2012.

Note 20: Reserves

	Consolidated 2012 $'000	2011 $'000
Equity reserve	17,819	17,819
Revaluation reserve	348	466
Foreign currency translation reserve	22	(93)
	18,189	18,192

Movements:	Consolidated 2012 $'000	2011 $'000
Equity reserve[i]		
Balance at July 1	17,819	17,819
Contribution to equity	–	–
Balance at 30 June	17,819	17,819
Revaluation reserve[ii]		
Balance at July 1	466	402
Revaluation of land & buildings – gross	(169)	129
Deferred tax (Note 12)	51	(65)
Balance at 30 June	348	466
Foreign currency translation reserve		
Balance at July 1	(93)	–
Currency translation differences arising during the year	115	(93)
Balance at 30 June	22	(93)

[i] *The equity reserve resulted from a restructure of administrative arrangements in 2009.*

[ii] *The revaluation reserve is used to record increments and decrements on the revaluation of non-current assets, as described in Note 1(q).*

Note 21: Retained earnings

	Note	Consolidated 2012 $'000	2011 $'000
Balance at 1 July		1,482,019	1,616,766
Net profit for the year		126,595	299,646
Items of other comprehensive income recognised directly in retained earnings			
Actuarial gain/(loss) on retirement benefit obligation, net of tax		(1,398)	(10)
Dividends paid	(a)	(91,241)	(434,383)
Balance at 30 June		1,515,975	1,482,019

(a) Dividends paid

	Consolidated 2012 $'000	2011 $'000
Final unfranked dividend for the year ended 30 June 2011 of $0.75 (2010: $0.57) per fully paid share paid on 31 October 2011.	**64,271**	48,831
Interim unfranked dividend for the year ended 30 June 2012 of $0.32 (2011: $1.01) per fully paid share paid on 30 April 2012.	**26,970**	85,552
Special unfranked dividend for the year ended 30 June 2012 nil (2011: $3.53 per fully paid share paid on 15 June 2011)	**–**	300,000
	91,241	434,383

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

In addition to the above dividends, since year end, the Directors have not yet recommended payment of a final dividend (2011: $0.75 per fully paid share totalling $64,271,000 unfranked). The dividend, which is expected to be paid in October 2012 out of retained earnings at 30 June 2012, will be declared in a Director's meeting subsequent to signing these financial statements.

(c) Franking account

Under the tax consolidation regime, the franking credits of each entity within the Medibank Group belong to the head entity, Medibank Private. Since all dividends paid to the Shareholder have been unfranked, the franking credits of the Group relate only to the payment of income tax. However as the Shareholder cannot use the accumulated franking credits, the Group's franking account is not disclosed in this financial report.

Note 22: Commitments

	Consolidated 2012 $'000	2011 $'000
(a) Capital expenditure commitments		
Estimated capital expenditure contracted for at balance date, but not provided for, payable:		
Property, plant & equipment	**50**	496
Intangible assets	**–**	525
	50	1,021

Property plant and equipment capital expenditure commitments relate to retail centre refurbishments whilst intangible asset capital commitments are predominantly related to IT projects. In preparing the 2012 commitments disclosure, a reclassification was required from capital to other expenditure commitments for prior year totalling $3,364,000 to ensure consistency of information provided between the two years.

	Consolidated 2012 $'000	2011 $'000
(b) Operating lease commitments		
Future operating lease rentals not provided for, payable:		
Within one year	**42,675**	35,771
After one year but not more than five years	**91,129**	77,078
Longer than five years	**207,983**	4,195
Total minimum lease payments	**341,787**	117,044

Note 22: Commitments (continued)

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. For the majority of operating leases for retail property there are renewal options. Purchase options exist in relation to operating leases for motor vehicles at the end of their term. Renewal and purchase options exist in relation to operating leases for office equipment. No operating leases contain restrictions on financing or other leasing activities. The increase in Lease commitments greater than five years relates to the integration of all Melbourne based offices into one location which is expected to occur in 2014.

	Consolidated 2012	2011
	$'000	$'000
(c) Other expenditure commitments		
Other commitments not provided for, payable:		
Within one year	35,191	37,521
After one year but not more than five years	28,307	32,727
Longer than five years	–	–
	63,498	70,248

Other commitments consist of IT outsourcing, IT software, sponsorship agreements and property maintenance commitments. In preparing the 2012 commitments note, a reclassification has occurred between capital and other expenditure commitments for prior year totalling $3,364,000. In addition, a contract in existence that was not disclosed as a commitment last year has also been included in the comparative year. The total value of this contract is $6,610,000.

Total commitments payable	405,335	188,313

	Consolidated 2012	2011
	$'000	$'000
(d) Lease commitments: Group as lessor		
Operating lease commitments not accrued for, receivable:		
Within one year	321	534
After one year but not more than five years	–	315
Longer than five years	–	–
	321	849

The Group leases unused office space under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights.

Note 23: Key management personnel

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 2012.

	Consolidated 2012	2011
	$'000	$'000
Short term	**6,274,064**	7,404,630
Post Employment	**350,587**	348,169
Long term	**164,525**	291,833
	6,789,176	8,044,632

Details of key management personnel remuneration are disclosed in the Directors' Report.

Note 24: Related party transactions

Transactions with related parties

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

A number of these entities transacted with the Group in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties 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.

Transactions entered into directly by Directors or Director related entities with the Group have been either trivial or domestic in nature.

There have been no loans to Directors or specified executives during the year.

The company is wholly owned by the Commonwealth Government. No director holds shares in the company.

Note 25: Business Combinations

Purchase consideration – cash outflow

On 1 July 2010, the Group satisfied all necessary conditions to acquire 100% of the shares in Medibank Health Solutions Telehealth Pty Ltd ("MHST") through a Share Purchase Agreement. On 30 August 2010, the Group acquired 100% of Carepoint Holdings Pty Ltd ("Carepoint"), with consideration of $7.2 million being paid in total. Immediately following the acquisition, the assets of the business were transferred to Medibank Health Solutions. Carepoint Holdings Pty Ltd was de-registered on 21 June 2011. The cash outflow associated with these acquisitions are shown below. There were no acquisitions in the financial year ending 30 June 2012.

	Consolidated 2012	2011
	$'000	$'000
Outflow of cash to acquire subsidiaries, net of cash required	**–**	153,952
Cash consideration	**–**	–
Less: Balances acquired	**–**	–
Cash	**–**	(14,941)
	–	139,011

Note 26: Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(b).

Name of entity	Country of incorporation	Class of Units	Ownership interest 2012	Ownership interest 2011
			%	%
Australian Health Management Group Pty Ltd	Australia	Ordinary Shares	100	100
– International Health Benefits Pty Ltd *	Australia	Ordinary Shares	100	100
– Dencare Australia Pty Ltd *	Australia	Ordinary Shares	100	100
– Carelink Australia Pty Ltd*	Australia	Ordinary Shares	100	100
– Mercantile Mutual Health Pty Ltd *	Australia	Ordinary Shares	100	100
– Total Health Pty Ltd *	Australia	Ordinary Shares	100	100
Medibank Health Solutions Pty Ltd	Australia	Ordinary Shares	100	100
– Work Solutions Australia Pty Ltd#	Australia	Ordinary Shares	100	100
– The Travel Doctor TMVC Pty Ltd#	Australia	Ordinary Shares	100	100
– IQ Consultants Pty Ltd *#	Australia	Ordinary Shares	100	100
– Medibank Health Solutions Telehealth Pty Limited#	Australia	Ordinary Shares	100	100
– Fitness2Live Pty Ltd#	Australia	Ordinary Shares	100	100
– Fitness2Live (UK) Ltd	United Kingdom	Ordinary Shares	100	100
– Medibank Health Solutions New Zealand Limited	New Zealand	Ordinary Shares	100	100

* *These entities were non-operating entities during the year ended 30 June 2012.*

\# *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 Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to the Medibank Health Solutions Pty Ltd Annual Report for the year ended 30 June 2012.*

Note 27: Contingencies

There is no material contingent asset or liability at the end of each reporting period.

Note 28: Auditor's remuneration

Amounts received or due and receivable by the auditor, Australian National Audit Office and its contractor, for:

	Consolidated 2012	2011
	$	$
Australian National Audit Office		
– Auditing the financial report	655,969	659,651
– Other services – regulatory reporting	98,942	113,041
PricewaterhouseCoopers		
– Auditing the financial report	26,245	24,342
– Audit of regulatory returns	15,980	24,722
– Other assurance services	–	–
– Non audit services	442,347	102,806
	1,239,483	924,562

The Australian National Audit Office sub-contracted the audit of the financial report of the Group to PricewaterhouseCoopers for the year ended 30 June 2012 and 2011.

Note 29: Solvency reserve

The Solvency Reserve of the health benefits fund of Medibank Private, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, as at 30 June 2012 is $742,430,000. Total Net Assets are $1,459,048,000 representing an excess of $716,618,000 over the Solvency Reserve.

The Solvency Reserve of the health benefits fund of Australian Health Management, as per the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, as at 30 June 2012 is $48,093,000. Total Net Assets are $201,055,000 representing an excess of $152,962,000 over the Solvency Reserve.

Refer also to Note 19(d) for details of the Group's strategy regarding its meeting of these requirements.

Note 30: Events occurring after the reporting period

With effect from 1 July 2012, the Group was awarded a four year contract to manage and coordinate the healthcare of entitled personnel within the Australian Defence Force (ADF). Under the contract the Group will be responsible for the healthcare of Australian based serving personnel, from point of injury or illness right through to return to work. The services will include access to on-base medical practitioners, on-and-off-base allied health professionals, radiology, pathology and optometry services and a world-class telehealth service (triage, health advice and referrals).

Note 31: Reconciliation of profit after income tax to net cash flow from operating activities

	Consolidated	
	2012	2011
	$'000	$'000
Profit for the year	126,595	299,646
Depreciation	15,819	15,024
Amortisation of software intangibles	27,810	20,630
Amortisation of acquisition intangibles	8,931	9,932
Loss on disposal of plant and equipment	1,211	199
Net realised (gain)/loss on financial assets	41,619	(13,732)
Net unrealised (gain)/loss on financial assets	4,969	(37,092)
Interest income	(81,395)	(96,867)
Dividend income reinvested	(8,870)	(8,429)
Trust distribution reinvested	(5,807)	(10,013)
Investment expenses	6,052	4,477
Asset impairment	3,125	5,214
Dividends paid included in cash flows from operations	(91,241)	(434,383)
Change in operating assets and liabilities, net of effects from purchase of controlled entities:		
(Increase) in trade and other receivables	(122,594)	(33,257)
(Increase) in inventories	(170)	(32)
(Increase) in other assets	(18,590)	(5,168)
(Increase) in deferred tax assets	(6,261)	(1,047)
Increase in trade and other payables	320,522	91,363
Increase (decrease) in claims liabilities	530	(29,786)
(Decrease) increase in income tax liability	(123,607)	37,013
Increase in deferred tax liabilities	12,804	5,045
Increase in provisions	2,762	10,320
Net cash inflow (outflow) from operating activities	114,214	(170,943)

Note 32: Parent entity financial information

(a) Summary financial information

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

	Consolidated 2012 $'000	2011 $'000
Balance Sheet		
Current assets	2,304,675	2,038,713
Total assets	2,963,657	2,690,426
Current liabilities	1,156,710	1,076,210
Total liabilities	1,313,846	1,141,842
Shareholder's equity		
Issued capital	85,000	85,000
Reserves		
Equity reserve	17,819	17,819
Retained earnings	1,546,992	1,445,765
	1,649,811	1,548,584
Profit for the year	192,469	288,960
Total comprehensive income	192,469	288,960

(b) 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 consolidated entity as the fair value of the guarantees is immaterial.

(c) Contingent liabilities of the parent entity

The parent entity has no material contingent liabilities at the end of the reporting period.

(d) Contractual commitments for the acquisition of property, plant and equipment

As at 30 June 2012, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling $50,000 (2011: $496,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

Director's Declaration

In accordance with a resolution of the directors of Medibank Private Limited, we state that:

In the opinion of the directors:

(a) the financial statements and notes set out on pages 52 to 106 are in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2012 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(a) 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 Managing Director and Chief Financial Officer in accordance with section 295A of the *Corporations Act 2001* for the financial period ending 30 June 2012.

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

On behalf of the Board,

Paul McClintock AO
Chairman

George Savvides
Managing Director

Melbourne, 31 August 2012

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the members of Medibank Private Limited

I have audited the accompanying financial report of Medibank Private Limited for the year ended 30 June 2012, which comprises: the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, Notes to and forming part of the Financial Statements, including a Summary of Significant Accounting Policies, and the Directors' Declaration of the consolidated entity. The consolidated entity comprises Medibank Private Limited and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of Medibank Private Limited 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 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 Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Medibank Private Limited's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Medibank Private Limited's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT 2600
Phone (02) 6203 7300 Fax (02) 6203 7777

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting my audit, I have complied with the independence requirements of the *Corporations Act 2001*.

Opinion

In my opinion:

1. the financial report of Medibank Private Limited is in accordance with the *Corporations Act 2001*, including:

    (a) giving a true and fair view of Medibank Private Limited's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

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

2. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(a).

Australian National Audit Office

Ian Goodwin
Group Executive Director
Delegate of the Auditor-General
Canberra
31 August 2012

Medibank Private retail sites

New South Wales
Albury
Armidale
Ballina
Bankstown
Blacktown
Bondi Junction
Brookvale
Burwood
Cabramatta
Campbelltown
Casino
Castle Hill
Charlestown
Chatswood
Coffs Harbour
Erina
Greenhills
Griffith
Gunnedah
Haymarket
Hornsby
Hurstville
Inverell
Lismore
Liverpool
Macksville
Miranda
Nelsons Bay
North Ryde
Nowra
Orange
Pagewood, Eastgardens
Parramatta
Penrith
Raymond Terrace
Richmond
Rouse Hill
Sydney, Martin Place
Tweed Heads
Wagga Wagga
Wallsend
Wollongong
University of NSW

Western Australia
Albany
Armadale
Belmont
Bentley
Booragoon
Bunbury
Busselton
Cannington
Claremont
Clarkson
Collie
Denmark
East Victoria Park
Esperance
Geraldton
Hillarys Whitford
Innaloo
Joondalup
Kalgoorlie
Karratha
Karrinyup
Maddington
Mandurah
Midland
Morley
Perth
Rockingham
Secret Harbour
Subiaco

Victoria
Bendigo
Box Hill
Broadmeadows
Camberwell
Chadstone
Cheltenham, Southland
Cranbourne
Dandenong
Docklands
Doncaster
Frankston
Geelong
Glen Waverley
Knox City
Maribyrnong, Highpoint
Melbourne, Galleria
Plenty Valley
Preston, Northland
Ringwood
Sale
Traralgon
Watergardens
Wendouree, Ballarat
Werribee

Queensland
Brisbane
Broadbeach, Pacific Fair
Bundaberg West
Cairns
Caloundra
Capalaba
Carindale
Chermside
Garden City, Mt Gravatt
Gladstone
Gympie
Indooroopilly
Ipswich
Loganholme
Mackay
Maroochydore
Maryborough
Northlakes
Robina
Rockhampton
Southport
Sunnybank
Toowoomba
Townsville

South Australia
Adelaide
Berri
Colonnades Noarlunga
Elizabeth
Gawler
Marion Oaklands Park
Modbury
Mount Gambier
Port Augusta
Port Lincoln
Port Pirie
West Lakes
Whyalla

Tasmania
Burnie
Devonport
Glenorchy
Hobart
Kingston
Launceston

Australian Capital Territory
Belconnen
Civic
Tuggeranong Greenway
Woden

Northern Territory
Alice Springs
Casuarina
Darwin
Palmerston

ahm Private Health Insurance

New South Wales
Wollongong

Dental and Eyecare Practices

New South Wales
Parramatta
Sydney
Wagga Wagga

Medibank Private
Health Solutions sites

New South Wales
Botany
Newcastle
Parramatta
Surry Hills
Wollongong

Western Australia
Malaga
Perth
Welshpool
Bibra Lake

Victoria
Dandenong
Laverton North
Melbourne

Queensland
Brisbane
Brisbane Airport
Cannon Hill
Hyde Park
Oxley
Raceview
Southport
Townsville

South Australia
Adelaide

Tasmania
Hobart

Australian Capital Territory
Canberra-Woden

Northern Territory
Darwin

New Zealand
Wellington

The Travel Doctor – TMVC

New South Wales
Albury-Wodonga
Campbelltown
Chatswood
Newcastle
Parramatta
Sydney
Wollongong

Western Australia
Perth
Fremantle

Victoria
Albury-Wodonga
Docklands
Frankston
Melbourne
North Bayswater
Southbank

Queensland
Spring Hill

South Australia
Adelaide

Australian Capital Territory
Canberra

Northern Territory
Darwin

Tasmania
Launceston

Corporate directory

Company name
Medibank Private Limited

Current Directors (at 31 August 2012)
Paul McClintock (Chairman)
George Savvides (Managing Director)
Elizabeth Alexander
Jane Harvey
Cherrell Hirst
Leanne Rowe
Philip Twyman
Steve Vamos

Company Secretary
Stephen Harris

Registered office
Level 17, 700 Collins Street
Docklands, Victoria 3008

ACN
080 890 259

ABN
47 080 890 259

Medibank Private Limited is a
Registered Private Health Insurer

Group General Counsel
Mei Ramsay

Auditor
Auditor-General

Bankers
Westpac Banking Corporation

Contact details
132 331

Ask_us@medibank.com.au

Photography
Elisabeth Jane Photography and others

References: page 10

Our population is ageing

ABS: 3222.0 – Population Projections, Australia, 2006 to 2101.

http://www.abs.gov.au/Ausstats/abs@.nsf/mf/3222.0

http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/1370.0~2010~Chapter~Population%20projections%20(3.4)

The prevalence of chronic disease is increasing

Aged Care Australia, DoHA: Help with chronic diseases.

http://www.agedcareaustralia.gov.au/internet/agedcare/publishing.nsf/content/Chronic%20diseases-5

DoHA: Chronic disease – prevalence.

http://www.health.gov.au/internet/main/publishing.nsf/content/chronic#pre

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