

APPENDIX 4D
MEDIBANK PRIVATE LIMITED
ABN 47 080 890 259

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Medibank Private Limited Group			
	31 Dec 2016	Half-year ended 31 Dec 2015	Movement	Movement
	\$m	\$m	\$m	%
Health Insurance premium revenue	3,117.9	3,080.0	37.9	1.2%
Complementary Services revenue	279.3	300.6	(21.3)	(7.1%)
Revenue (excluding net investment and other income) from ordinary activities	3,397.2	3,380.6	16.6	0.5%
Net investment and other income	80.0	24.7	55.3	223.9%
Total income from continuing operations	3,477.2	3,405.3	71.9	2.1%
Profit from ordinary activities after tax attributable to shareholders	231.9	227.6	4.3	1.9%
Net profit attributable to shareholders	231.9	227.6	4.3	1.9%

The results are summarised as follows:

- Health Insurance premium revenue increased 1.2 per cent or \$37.9 million to \$3,117.9 million
- Complementary Services revenue decreased 7.1 per cent or \$21.3 million to \$279.3 million
- Net investment and other income increased 223.9 per cent or \$55.3 million to \$80.0 million
- Profit from ordinary activities increased 1.9 per cent or \$4.3 million to \$231.9 million

For further information refer to the Directors' report in the attached Interim financial report of Medibank Private Limited for the half-year period ended 31 December 2016.

Dividend information

On 28 September 2016, a fully franked final dividend of 6.0 cents per ordinary share amounting to \$165.2 million was paid to shareholders, in respect of the six months ended 30 June 2016.

A fully franked interim dividend of 5.25 cents per ordinary share was declared on 17 February 2017 in respect of the six months ended 31 December 2016, payable on 29 March 2017 to shareholders on the register as at close of business on 8 March 2017.

Net tangible assets per ordinary share

	31 Dec 2016	31 Dec 2015
	cents	cents
Net tangible assets per ordinary share	48.1	45.2

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

This report should be read in conjunction with the Medibank Private Limited annual report for the year ended 30 June 2016, and is lodged with the ASX under listing rule 4.2A.

MEDIBANK PRIVATE LIMITED

ABN 47 080 890 259

**INTERIM FINANCIAL REPORT
31 DECEMBER 2016**

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The directors of Medibank Private Limited (Medibank or the Group) present their report on the consolidated entity for the half-year ended 31 December 2016.

Directors

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

- Elizabeth Alexander - Chairman
- Craig Drummond - Managing Director and Chief Executive Officer (appointed 4 July 2016)
- Anna Bligh
- David Fagan
- Cherrell Hirst
- Peter Hodgett
- Linda Bardo Nicholls
- Christine O'Reilly

Review of operations

Group

Group net profit after tax was up 1.9% to \$231.9 million primarily reflecting the strong investment income result, offsetting a lower operating profit for the Health Insurance business.

Health Insurance

Health Insurance operating profit decreased to \$249.4 million, down from \$271.7 million in the six months to 31 December 2015, reflecting increased investment in customer initiatives, new IT system amortisation and moderately higher growth in utilisation rates. Health claims rose 1.5% to \$2,589.9 million and gross margin decreased from 17.2% to 16.9%.

Health Insurance premium revenue was up 1.2% to \$3,117.9 million. Industry volume growth continued to slow, which is indicative of the challenging conditions currently being experienced. However, underperformance relative to the market in both customer acquisition and lapse impacted growth. Medibank brand volumes were down with the customer experience negatively impacted by issues associated with the embedding of the new IT system. The ahm brand continued to grow.

Management expenses were up 8.3% to \$278.6 million and the MER was up from 8.4% to 8.9%, reflecting continued investment in customer initiatives and the commencement of amortisation of the new IT system.

Complementary Services

Complementary Services revenue declined 7.1% to \$279.3 million, however operating profit rose 88.0% to \$17.3 million, primarily due to the divestment of underperforming businesses in the six months to 31 December 2015.

Net Investment Income

Net investment income rose to \$76.8 million due to relatively higher equity market returns, as well as stronger credit markets, which more than offset the lower cash rate.

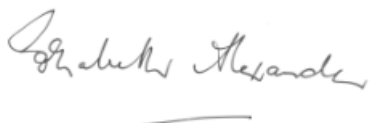
Rounding of amounts

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

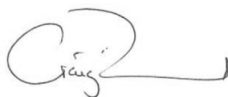
Auditor's independence declaration

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

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



Elizabeth Alexander
Chairman



Craig Drummond
Managing Director

17 February 2017
Melbourne



Auditor's Independence Declaration

As lead auditor for the review of Medibank Private Limited for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

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

A handwritten signature in black ink, appearing to read 'Chris Dodd'.

Chris Dodd
Partner
PricewaterhouseCoopers

Melbourne
17 February 2017

Consolidated statement of comprehensive income

For the half-year ended 31 December 2016

	Note	31 Dec 2016 \$m	31 Dec 2015 \$m
Revenue			
Health Insurance premium revenue	3(a)	3,117.9	3,080.0
Complementary Services revenue		279.3	300.6
		3,397.2	3,380.6
Other income		3.2	6.1
Expenses			
Claims expense		(2,577.4)	(2,548.5)
Medical services expense		(200.0)	(208.9)
Employee benefits expense		(177.9)	(173.0)
Office and administration expense		(41.9)	(41.5)
Marketing expense		(45.8)	(43.5)
Information technology expense		(39.7)	(24.3)
Professional service expense		(13.7)	(31.0)
Lease expense		(14.8)	(20.0)
Depreciation and amortisation expense		(41.8)	(30.3)
Other expenses		(0.9)	(2.1)
		(3,153.9)	(3,123.1)
Profit before net investment income and income tax		246.5	263.6
Net investment income	5(a)	76.8	18.6
Profit for the half-year before income tax		323.3	282.2
Income tax expense	8	(91.4)	(54.6)
Profit for the half-year		231.9	227.6
Other comprehensive income, net of tax			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		-	(0.6)
<i>Items that will not be reclassified to profit or loss</i>			
Actuarial gain/(loss) on retirement benefit obligation		0.2	-
		0.2	(0.6)
Total comprehensive income for the half-year		232.1	227.0
Earnings per share for profit attributable to ordinary equity holders of the Company		Cents	Cents
Basic earnings per share		8.4	8.3
Diluted earnings per share		8.4	8.3

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

Consolidated statement of financial position

As at 31 December 2016

	Note	31 Dec 2016 \$m	30 Jun 2016 \$m
Current assets			
Cash and cash equivalents		524.5	438.7
Trade and other receivables		302.9	313.1
Financial assets at fair value through profit or loss	5(b)	1,740.3	2,015.8
Deferred acquisition costs		31.6	31.1
Other assets		15.5	13.8
Total current assets		2,614.8	2,812.5
Non-current assets			
Property, plant and equipment		86.6	93.3
Intangible assets	7	319.7	312.9
Deferred acquisition costs		42.7	45.0
Other assets		3.0	2.5
Total non-current assets		452.0	453.7
Total assets		3,066.8	3,266.2
Current liabilities			
Trade and other payables		287.1	333.9
Claims liabilities	3(b)	366.1	396.3
Unearned premium liability		496.8	664.0
Tax liability		50.3	63.8
Provisions and employee entitlements		55.1	60.5
Total current liabilities		1,255.4	1,518.5
Non-current liabilities			
Trade and other payables		33.9	34.7
Claims liabilities	3(b)	16.2	21.3
Unearned premium liability		64.1	65.3
Deferred tax liabilities		20.2	11.9
Provisions and employee entitlements		33.4	35.8
Total non-current liabilities		167.8	169.0
Total liabilities		1,423.2	1,687.5
Net assets		1,643.6	1,578.7
Equity			
Contributed equity		85.0	85.0
Reserves		21.4	23.4
Retained earnings		1,537.2	1,470.3
Total equity		1,643.6	1,578.7

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

Consolidated statement of changes in equity

For the half-year ended 31 December 2016

	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total equity \$m
Balance at 1 July 2015	85.0	21.1	1,335.9	1,442.0
Profit for the half-year	-	-	227.6	227.6
Other comprehensive income	-	(0.6)	-	(0.6)
Total comprehensive income for the half-year	-	(0.6)	227.6	227.0
Transfers upon sale of properties	-	(0.7)	1.5	0.8
Transactions with owners in their capacity as owners:				
Dividends paid	-	-	(146.0)	(146.0)
Share-based payment transactions	-	1.9	-	1.9
Balance at 31 December 2015	85.0	21.7	1,419.0	1,525.7
Balance at 1 July 2016	85.0	23.4	1,470.3	1,578.7
Profit for the half-year	-	-	231.9	231.9
Other comprehensive income	-	-	0.2	0.2
Total comprehensive income for the half-year	-	-	232.1	232.1
Transactions with owners in their capacity as owners:				
Dividends paid	-	-	(165.2)	(165.2)
Acquisition and settlement of share-based payment, net of tax	-	(3.4)	-	(3.4)
Share-based payment transactions	-	1.4	-	1.4
Balance at 31 December 2016	85.0	21.4	1,537.2	1,643.6

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

Consolidated statement of cash flows

For the half-year ended 31 December 2016

	Note	31 Dec 2016 \$m	31 Dec 2015 \$m
Cash flows from operating activities			
Premium receipts		2,953.9	2,908.1
Complementary Services receipts		306.4	329.9
Other receipts		3.4	1.4
Payments for claims and levies		(2,649.5)	(2,618.2)
Payments to suppliers and employees		(593.5)	(648.6)
Income taxes paid		(96.5)	(60.8)
Net cash outflow from operating activities	6	(75.8)	(88.2)
Cash flows from investing activities			
Interest received		20.0	20.9
Investment expenses		(1.7)	(2.2)
Proceeds from sale of financial assets		545.4	696.2
Purchase of financial assets		(206.5)	(427.1)
Proceeds from sale of businesses		-	23.1
Proceeds from sale of land and buildings		-	6.5
Purchase of plant and equipment		(0.9)	(2.9)
Purchase of intangible assets		(25.9)	(32.7)
Net cash inflow from investing activities		330.4	281.8
Cash flows from financing activities			
Purchase of shares to settle share-based payment		(3.6)	-
Dividends paid		(165.2)	(146.0)
Net cash outflow from financing activities		(168.8)	(146.0)
Net increase/(decrease) in cash and cash equivalents		85.8	47.6
Cash and cash equivalents at beginning of the half-year		438.7	408.7
Cash and cash equivalents at end of the half-year		524.5	456.3

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

Note 1: Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are consistent with those of the previous financial year and corresponding interim period, as set out in the annual financial report for the year ended 30 June 2016. The financial statements are for the consolidated entity (the Group), consisting of Medibank Private Limited (Medibank Private or the Company) and its subsidiaries. Medibank Private is a company limited by shares whose shares are publicly traded on the Australian Securities Exchange (ASX).

a) Basis of preparation of consolidated interim financial report

The consolidated interim financial report for the half-year period ended 31 December 2016 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The consolidated interim financial report does not include all notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by Medibank Private during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

b) New and amended standards adopted

The Group has not elected to apply any pronouncements before their operative date in the half-year reporting period ended 31 December 2016.

The following standards became effective for the annual reporting period commencing on 1 July 2016, but did not have a material impact on the Group's accounting policies or on the consolidated interim financial report.

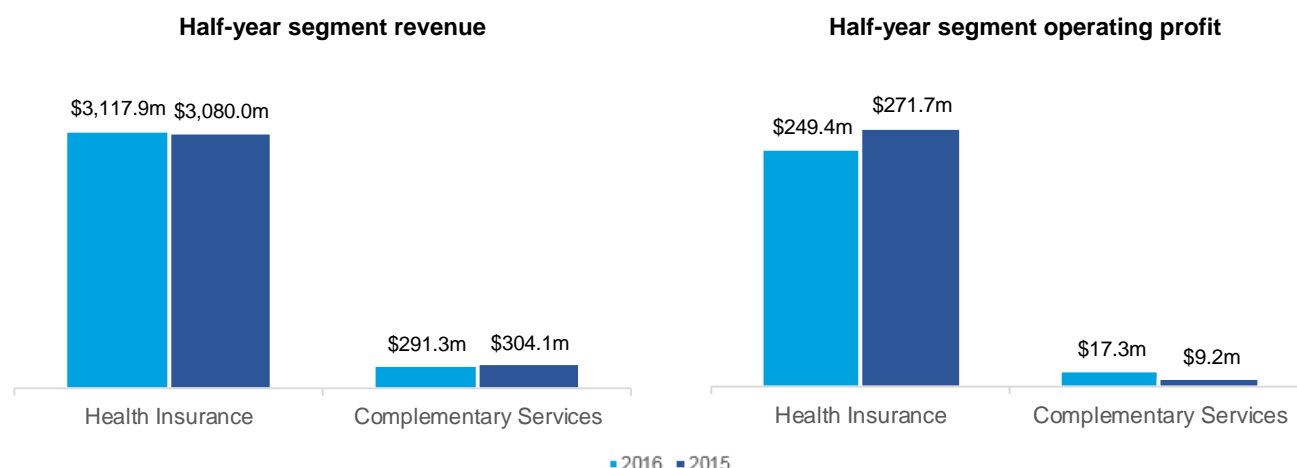
- AASB 2014-3 Accounting for acquisitions of interests in joint operations
- AASB 2014-4 Clarification of acceptable methods of depreciation and amortisation
- AASB 2014-9 Equity method in separate financial statements
- AASB 2015-1 Annual Improvements 2012-2014
- AASB 2015-2 Disclosure Initiative: Amendments to AASB 101
- AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application Paragraphs
- AASB 1057 Application of Australian Accounting Standards

c) Critical accounting estimates and judgements

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

- Note 3: Insurance underwriting result
- Note 5: Investment portfolio
- Note 7: Intangible assets

Note 2: Segment information



a) Segment information provided to the Chief Executive Officer

The segment information provided to the Chief Executive Officer for the half-year ended 31 December 2016 is as follows:

	Health Insurance \$m	Complementary Services \$m	Total \$m
31 Dec 2016			
Revenues			
Total segment revenue	3,117.9	291.3	3,409.2
Inter-segment revenue	-	(12.0)	(12.0)
Revenue from external customers	3,117.9	279.3	3,397.2
Operating profit	249.4	17.3	266.7
	Health Insurance \$m	Complementary Services \$m	Total \$m
31 Dec 2015			
Revenues			
Total segment revenue	3,080.0	304.1	3,384.1
Inter-segment revenue	-	(3.5)	(3.5)
Revenue from external customers	3,080.0	300.6	3,380.6
Operating profit	271.7	9.2	280.9

Note 2: Segment information (continued)

b) Other segment information

(i) Segment operating profit or loss

The Chief Executive Officer measures the performance of the Group's reportable segments based on the operating profit of the segments.

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

	Note	31 Dec 2016 \$m	31 Dec 2015 \$m
Total segment operating profit		266.7	280.9
Unallocated to operating segments:			
Corporate operating expenses		(16.5)	(13.6)
Group operating profit		250.2	267.3
Other expenses		(6.9)	(9.8)
Other income		3.2	6.1
Net investment income	5(a)	76.8	18.6
Profit for the half-year before income tax		323.3	282.2

(ii) Other items

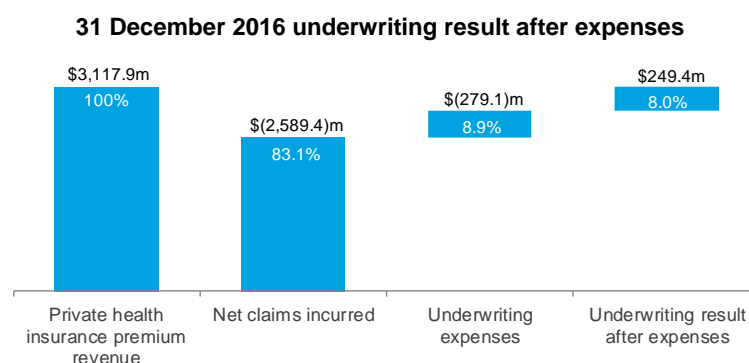
Segment operating profit also excludes the following:

- Depreciation and amortisation and operating expenses of the Group's corporate function of \$16.5 million (31 December 2015: \$13.6 million), which are not allocated to segments;
- Other expenses of \$6.9 million (31 December 2015: \$9.8 million) which do not relate to the trading activities of the Group's segments;
- Other income of \$3.2 million (31 December 2015: \$6.1 million) which does not relate to the trading activities of the Group's segments; and
- Net investment income, which comprises:
 - Interest, distribution and dividend income and related investment management expenses (refer to Note 5(a)), as this arises from investments which are managed by a central treasury function; and
 - Net gains and losses on disposals of and fair value movements on financial assets and liabilities (refer to Note 5(a)), as they are not indicative of the Group's long-term performance.

(iii) Segment assets and segment liabilities

No information regarding segment assets and segment liabilities has been disclosed, as these amounts are not reported to the Chief Executive Officer for the purpose of making strategic decisions.

Note 3: Insurance underwriting result



a) Insurance underwriting result

	Note	31 Dec 2016 \$m	31 Dec 2015 \$m
Private health insurance premium revenue		3,117.9	3,080.0
Claims expense			
Claims incurred	(i)	(2,617.9)	(2,546.7)
State levies		(24.1)	(24.2)
Net Risk Equalisation Special Account rebates		52.1	19.8
Net claims incurred excluding claims handling costs on outstanding claims liabilities		(2,589.9)	(2,551.1)
Movement in claims handling costs on outstanding claims liabilities		0.5	(0.9)
Net claims incurred		(2,589.4)	(2,552.0)
Underwriting expenses		(279.1)	(256.3)
Underwriting result after expenses		249.4	271.7

(i) Prior to elimination of transactions with the Group's other operating segments of \$12.0 million (31 December 2015: \$3.5 million).

Note 3: Insurance underwriting result (continued)

b) Gross claims liability

	Note	31 Dec 2016 \$m	30 Jun 2016 \$m
Current			
Outstanding claims liability - central estimate	3(b)(i,ii)	320.2	339.9
Risk margin	3(b)(i,iii)	25.1	26.6
Claims handling costs	3(b)(iv)	8.0	8.5
		353.3	375.0
Claims liability - bonus provision	3(b)(v)	12.8	21.3
Gross claims liability	3(c)	366.1	396.3
Non-current			
Outstanding claims liability - central estimate	3(b)(i,ii)	4.9	5.3
Risk margin	3(b)(i,iii)	0.4	0.4
Claims handling costs	3(b)(iv)	0.1	0.1
		5.4	5.8
Claims liability - bonus provision	3(b)(v)	10.8	15.5
Gross claims liability	3(c)	16.2	21.3

Key estimate:

The liability for outstanding claims provides for claims received but not assessed and claims incurred but not received. It is based on an actuarial assessment that considers historical patterns of claim incidence and processing.

The outstanding claims estimate is based on the hospital, ancillary and overseas valuation classes. Estimated outstanding claims for ancillary are calculated using statistical methods adopted for all service months. Estimated outstanding claims for hospital and overseas are calculated using statistical methods adopted for all services months but with service levels for the most recent two service months being based on the latest forecast. Adjustments are then applied to reflect any unusual or abnormal events that may affect the estimate of service levels such as major variability to claims processing volumes. The process for establishing the outstanding claims provision involves consultation with internal actuaries, claims managers and other senior management. The process includes monthly internal claims review meetings attended by senior management and the Chief Actuary. The critical assumption in determining the outstanding claims liability is the extent to which claim incidence and development patterns are consistent with past experience.

(i) Outstanding claims liability - central estimate	<p>The outstanding claims liability comprises the central estimate and a risk margin (refer to Note 3 (b)(iii)). The central estimate is an estimate of the level of claims liability.</p> <p>Key estimate</p> <p>The central estimate is based on statistical analysis of historical experience which assumes an underlying pattern of claims development and payment. The final selected central estimate is based on a judgemental consideration of this analysis and other qualitative information. The central estimate excludes the impact of the Risk Equalisation Special Account. A separate estimate is made of levies payable into and recoveries from this account.</p>
(ii) Discounting	<p>The outstanding claims liability central estimate is discounted to present value using a risk-free rate of 1.81 percent per annum which equates to a reduction in the central estimate of \$0.8 million (30 June 2016: 1.96 percent, \$0.9 million).</p>

Note 3: Insurance underwriting result (continued)

b) Gross claims liability (continued)

(iii) Risk margin	<p>An overall risk margin considers the uncertainty surrounding the outstanding claims liability. The risk margin applied to the Group's outstanding claims central estimate (net of risk equalisation) at 31 December 2016 is 7.7 percent (30 June 2016: 7.7 percent).</p> <p>Key estimate The risk margin is based on an analysis of past experience, including comparing the volatility of past payments to the central estimate. The risk margin has been estimated to equate to the Group's objective of achieving a probability of adequacy of at least 95 percent (30 June 2016: 95 percent).</p>
(iv) Claims handling costs	<p>The allowance for claims handling costs at 31 December 2016 is 2.5 percent of the outstanding claims liability (30 June 2016: 2.5 percent).</p>
(v) Claims liabilities - bonus provision	<p>Certain private health insurance products (Package Bonus, Ultra Bonus and Membership Bonus) include benefits that carry forward. Package Bonus carries forward unused benefit entitlements in a calendar year for five calendar years. Membership Bonus carries forward unused benefit entitlements in a calendar year for 10 calendar years. Ultra Bonus carries forward unused benefit entitlements without limit.</p> <p>The Group's claims liabilities include a provision to cover expected future utilisation of these benefit entitlements of the current membership.</p> <p>Key estimate The bonus provision includes the total entitlement available to members under the terms of the relevant insurance policies, less any amounts utilised, with a probability of utilisation based on past experience and current claiming patterns applied. The true cost of these entitlements cannot be known with certainty until any unclaimed entitlements are processed.</p>

c) Reconciliation of movement in claims liabilities

	6 months 31 Dec 2016 \$m	12 months 30 Jun 2016 \$m
Balance at beginning of period (1 July)	417.6	410.6
Claims incurred during the period	2,623.0	5,178.4
Claims paid during the period	(2,641.1)	(5,137.1)
Amount over provided on central estimate	(15.2)	(36.7)
Risk margin	(1.6)	0.8
Claims handling costs	(0.5)	1.5
Movement in discount	0.1	0.1
Balance at end of period	382.3	417.6

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

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

The central estimate, discount rate, risk margin and weighted average term to settlement are the key outstanding claims variables. A 10 percent increase/decrease in the central estimate would result in a \$22.8 million decrease/increase to profit after tax (30 June 2016: \$24.2 million) and a \$22.8 million decrease/increase to equity (30 June 2016: \$24.2 million). A 1 percent movement in other key outstanding claims variables, including discount rate, risk margin and weighted average term to settlement, would result in an insignificant decrease/increase to profit after tax and equity.

Note 4: Dividends

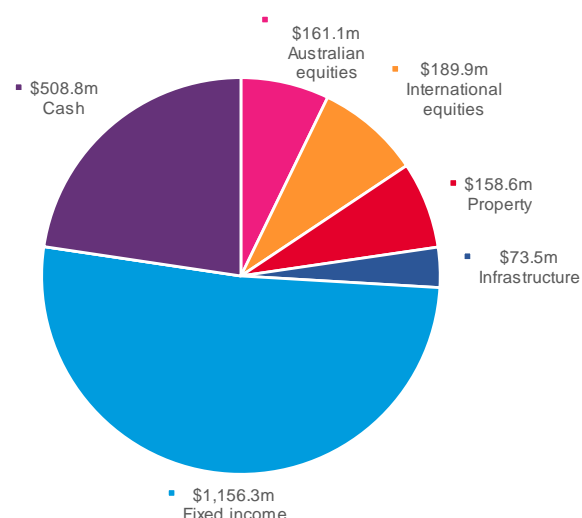
	cents per fully paid share	\$m	Payment date
31 Dec 2016			
2016 final fully franked dividend	6.0	165.2	28 September 2016
31 Dec 2015			
2015 final fully franked dividend	5.3	146.0	28 September 2015

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

Note 5: Investment portfolio

The Group's investment portfolio comprises the following:

	Portfolio composition 31 Dec 2016	Portfolio composition 30 June 2016	Target asset allocation
Growth			
Australian equities	7.2%	7.4%	6.0%
International equities	8.4%	7.9%	8.0%
Property (i)	7.1%	6.2%	8.0%
Infrastructure	3.3%	3.0%	3.0%
	26.0%	24.5%	25.0%
Defensive			
Fixed income (ii)	51.4%	49.3%	50.0%
Cash (iii)	22.6%	26.2%	25.0%
	74.0%	75.5%	75.0%
	100.0%	100.0%	100.0%



For investment portfolio classification purposes:

- (i) Property includes Land and Buildings (\$24.2 million)
- (ii) Fixed income excludes cash with maturities between 3-12 months (\$25.1 million)
- (iii) Cash comprises cash and cash equivalents (\$524.5 million), cash with maturities between 3-12 months (\$25.1 million) less cash held for day to day operations of the business (\$40.8 million).

Key judgement and estimate:

The Group classifies its investments in listed and unlisted securities as financial assets that back insurance liabilities and are therefore designated at fair value on initial recognition. In determining the fair value of investments, 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. Investments for which valuation is based on significant unobservable inputs as described above are those classified as level 3 in the fair value measurement hierarchy.

Note 5: Investment portfolio (continued)

a) Net investment income

	31 Dec 2016 \$m	31 Dec 2015 \$m
Interest	22.0	23.1
Trust distributions	28.0	29.8
Dividend income	-	4.9
Investment management fees	(1.7)	(2.0)
Net gain/(loss) on fair value movements on financial assets	22.4	(49.9)
Net gain on disposal of financial assets	6.1	12.7
	76.8	18.6

b) Fair value hierarchy

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

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

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

		Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
31 Dec 2016					
Financial assets at fair value through profit or loss					
Australian equities	(i)	-	161.1	-	161.1
International equities	(i)	-	189.9	-	189.9
Property		1.7	132.7	-	134.4
Infrastructure		-	73.5	-	73.5
Fixed income		88.1	1,093.3	-	1,181.4
		89.8	1,650.5	-	1,740.3

		Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
30 Jun 2016					
Financial assets at fair value through profit or loss					
Australian equities	(i)	-	179.9	-	179.9
International equities	(i)	-	191.5	-	191.5
Property		1.6	126.1	-	127.7
Infrastructure		-	71.9	-	71.9
Fixed income		145.2	1,299.6	-	1,444.8
		146.8	1,869.0	-	2,015.8

- (i) Australian and international equities are categorised within level 2 of the fair value measurement hierarchy as they are indirectly held through unit trusts.

Note 5: Investment portfolio (continued)

b) Fair value hierarchy (continued)

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

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis at 31 December 2016.

The Group recognises any transfers into and transfers out of fair value hierarchy levels from the date of effect of the transfer. At 31 December 2015, Australian equities with a carrying amount of \$161.1 million were transferred from level 1 to level 2 as the investments in the equities were through an unlisted unit trust. At 30 June 2015, Medibank had a direct investment in these exchange traded equities and therefore were classified as level 1.

c) Valuation techniques

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

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

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.

There are no investments classified as level 3.

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

	31 Dec 2016 \$m	31 Dec 2015 \$m
Profit for the half-year	231.9	227.6
Depreciation	6.9	7.6
Amortisation of intangibles assets	18.7	11.0
Amortisation of deferred acquisition costs	16.2	11.7
Impairment of trade receivables	-	0.1
Net loss/(gain) on disposal of assets	1.0	0.8
Net realised loss/(gain) on financial assets	(6.1)	(12.7)
Net unrealised loss/(gain) on financial assets	(22.4)	49.9
Interest income	(22.0)	(23.1)
Dividend income reinvested	-	(4.9)
Trust distribution reinvested	(28.0)	(29.8)
Investment expenses	1.7	2.0
Gain on sale of businesses	-	(4.5)
Settlement costs for sale of businesses	-	(19.2)
Non-cash share-based payments expense	1.4	1.9
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	5.0	(8.6)
Decrease/(increase) in deferred acquisition costs	(14.4)	(9.2)
Decrease/(increase) in other assets	(2.1)	(1.6)
(Decrease)/increase in net deferred tax liabilities	8.4	(4.0)
(Decrease)/increase in trade and other payables	(46.9)	(93.7)
(Decrease)/increase in unearned premium liability	(168.4)	(168.3)
(Decrease)/increase in claims liabilities	(35.3)	(29.7)
(Decrease)/increase in income tax liability	(13.6)	21.1
(Decrease)/increase in provisions and employee entitlements	(7.8)	(12.6)
Net cash outflow from operating activities	(75.8)	(88.2)

Note 7: Intangible assets

	Goodwill \$m	Customer Contracts & Relationships \$m	Internally Generated Software \$m	Acquired Software \$m	Assets under construction \$m	Total \$m
Gross carrying amount						
Balance at 1 July 2016	188.8	80.6	345.1	17.8	12.4	644.7
Additions	-	-	11.8	-	14.1	25.9
Transfers in/(out)	-	-	7.4	-	(7.4)	-
Disposals	-	-	(20.4)	-	-	(20.4)
Balance at 31 December 2016	188.8	80.6	343.9	17.8	19.1	650.2
Accumulated amortisation and impairment						
Balance at 1 July 2016	(81.5)	(50.0)	(182.7)	(17.6)	-	(331.8)
Amortisation expense	-	(3.5)	(15.0)	(0.2)	-	(18.7)
Disposals	-	-	20.0	-	-	20.0
Balance at 31 December 2016	(81.5)	(53.5)	(177.7)	(17.8)	-	(330.5)
Closing net book amount						
As at 31 December 2016	107.3	27.1	166.2	-	19.1	319.7
As at 30 June 2016	107.3	30.6	162.4	0.2	12.4	312.9

a) Estimated impairment of goodwill and customer contracts and relationships

Key judgement and estimate:

The Group tests whether goodwill and customer contract and relationship assets have suffered any impairment on an annual basis, or more frequently if events or changes in circumstances indicate that they may be impaired.

Management have performed an assessment for indicators of impairment of the Group's intangible assets as at 31 December 2016 and have concluded that no indicators of impairment existed.

In assessing the goodwill for impairment, the recoverable amount of the CGU was determined based on a value-in-use calculation. The key assumptions used in testing the CGU for impairment are outlined in the Group's annual financial report for the year ended 30 June 2016.

Note 8: Income tax expense

	31 Dec 2016 \$m	31 Dec 2015 \$m
Current tax	83.1	81.9
Deferred tax	8.3	(4.1)
Adjustment for tax of prior period (i)	-	(23.2)
	91.4	54.6

- (i) Medibank was successful in having a change in tax position for prior periods endorsed by the Australian Taxation Office in December 2015 resulting in a previously unclaimed tax deduction being allowed. This deduction was recorded in the 2016 financial year.

Note 9: Contingencies

On 16 June 2016, the Australian Competition and Consumer Commission (ACCC) issued proceedings in the Federal Court of Australia against Medibank Private Limited. The ACCC alleges that Medibank engaged in misleading and deceptive conduct, made false representations and representations liable to mislead the public, and engaged in unconscionable conduct by failing to notify members of changes to contractual arrangements with a number of in-hospital diagnostic service providers. A trial has been set to commence on 14 March 2017. Medibank denies the allegations and will be defending the claim. In the event that a Court finds in the ACCC's favour, the Group may have potential liabilities, including pecuniary penalties. Medibank and the ACCC have continued to move through the court process during the period ended 31 December 2016.

Note 10: Events occurring after the reporting period

Since 31 December 2016, Directors have declared a fully franked interim dividend of \$144.6m (5.25 cents per share) to be paid on 29 March 2017.

Apart from the interim dividend declared, there have been no events occurring after the reporting period which would have a material effect on the Group's consolidated interim financial report at 31 December 2016.

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

- (a) the financial statements and notes set out on pages 4 to 19 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 31 December 2016 and of its performance for the half-year ended on that date; and
 - ii. complying with *Australian Accounting Standards, the Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the Company and the Group will be able to pay their debts as and when they become due and payable.

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

On behalf of the Board,



Elizabeth Alexander AM
Chairman



Craig Drummond
Chief Executive Officer

17 February 2017
Melbourne



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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Medibank Private Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Medibank Private Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Medibank Private Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757

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Conclusion

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

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.


PricewaterhouseCoopers

Chris Dodd
Partner


Britt Hawkins
Partner

Melbourne
17 February 2017