Annual Report 2016

medibank
For Better Health

CONTENTS

Mat

Medibank Advocacy Team Leader

Mat leads a team whose sole focus is to look after our customers. His role is to coach and support our people so they are able to effectively respond to our customers' feedback and any concerns they might have. Medibank's For Better Health purpose plays a big part in Mat's day, particularly in his conversations with customers about how Medibank can help them achieve their health goals.

Sukhinder

Senior Sales Consultant

Sukhinder has been a member of the Medibank retail team since 2012, assisting current customers and helping new ones find the cover that suits them best. In Sukhinder's own life, better health means more balance and being active. She wants the same for her customers. To her, healthier customers equal happier customers and she loves helping them make positive choices leading to better health.

Eva and Olive

ahm members for 18 months

Eva (five) and Olive (three) live with younger sister Indigo and their parents. For this family of five, ahm cover provides peace of mind. Mum Katrina first experienced the value of private health insurance with the birth of Eva, and she would not be without the value-for-money cover that ahm provides. With everyone happy and healthy, the girls love roaming around their nanna and pop's farm on the weekend.

ABOUT MEDIBANK

Purpose: For Better Health

Vision: To be Australia's No.1 trusted partner in whole of life health and wellness

Medibank Private Limited is a leading private health insurer, with close to 40 years of experience delivering better health to Australians.

We look after the health cover needs of 3.8 million members through our Medibank and ahm brands and deliver a wide range of programs to support health and wellbeing in the community.

We also deliver a range of complementary services including health management for government and other clients, and distribute travel, life and pet insurance.

We are a strong advocate for a sustainable private health system that delivers value, transparency and affordability.

Medibank Private Limited is listed on the Australian Securities Exchange (ASX:MPL) and is headquartered in Melbourne. For more information, visit **www.medibank.com.au**

Elizabeth

Medibank member for 32 years

(pictured with her Medibank Care Navigator, Matthew)

Elizabeth is 79 years old and lives with her husband Warren. With chronic asthma, fibromyalgia, heart disease and at risk of a fall, she participates in CareComplete - a range of programs created by Medibank to help people with chronic conditions live healthier lives. Matthew provides ongoing support to Elizabeth, coordinating services for her such as physiotherapy, hydrotherapy and podiatry. This means Elizabeth can continue to live independently and enjoy the things she loves, particularly singing with her choir (she is an accomplished soprano).

Jacqui

Medibank member for six months

(pictured with her beagle cross something, Dennis)

Jacqui is 26 years old and works as a science teacher at a public secondary school. With hospital and extras cover, she makes good use of her optical and remedial massage benefits and is covered for a knee reconstruction in case she needs one in the future. These benefits are particularly important to her due to the rough and tumble of being a member of the Toxic Avengers in the Victorian Roller Derby League (VRDL).

FINANCIAL SUMMARY

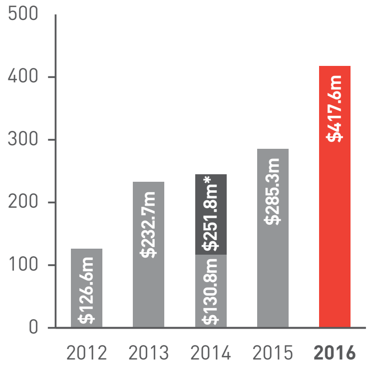
All data is presented on a statutory basis

11

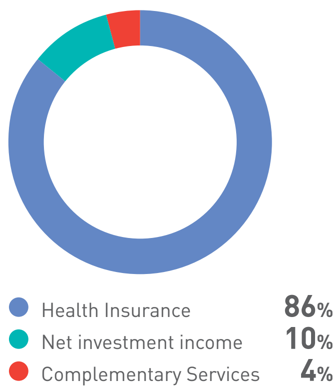
cents per share

Total dividend for 2016 (interim and final) fully franked

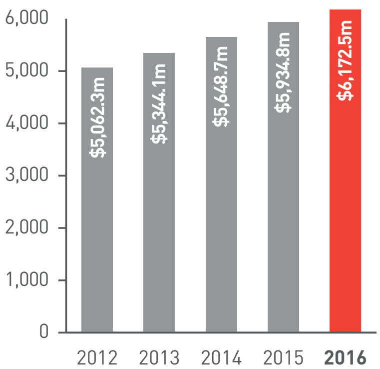
Group net profit after tax ($m)



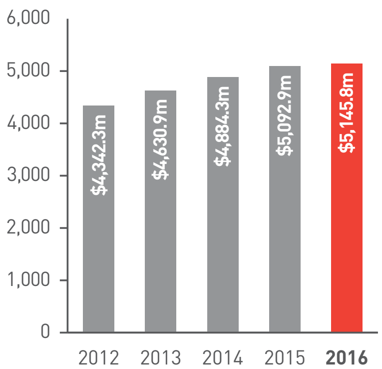
Composition of 2016 profit before tax†



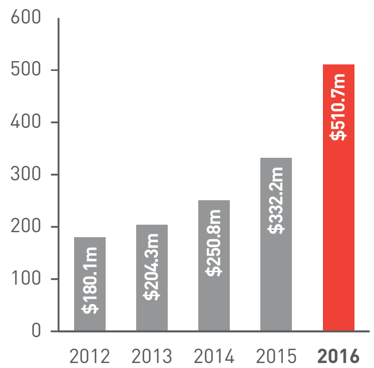
Health Insurance Premium revenue ($m)



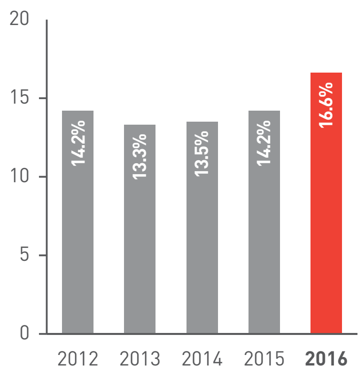
Health Insurance Net claims expense (including risk equalisation) ($m)



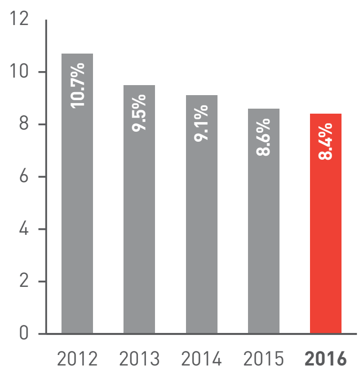
Health Insurance Operating profit ($m)



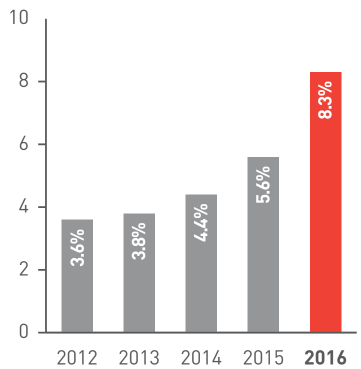
Health Insurance Gross margin



Health Insurance Management expense ratio



Health Insurance Operating margin



* Excludes impairment and restructuring expenses in 2014 ($134.7 million before tax; $121.0 million after tax) in relation to the write-down of goodwill mainly associated with the Telehealth business and costs incurred in relation to the reorganisation within Complementary Services.

† Before unallocated expenses.

BUSINESS SNAPSHOT

Who we're here for

3.8 million members

27.6% Market share[1]

What we did

$5.1 billion

Member benefits paid

26,000,000+

Ancillary services such as dental, optical and physiotherapy covered

1,300,000+

Hospital admissions covered

500,000+

Surgeries covered

How we did it

467

Number of hospital providers in our Members' Choice network[2]

13,552

Number of ancillary providers in our Members' Choice network[2]

2,388

Number of employees[3]

51% Senior leader positions held by women

1. Calculated based on principal policyholders at 30 June 2016.
2. At 30 June 2016.
3. Full-time equivalent at 30 June 2016.

CHAIRMAN'S MESSAGE

Elizabeth Alexander
Chairman

On behalf of the Board, I am pleased to be able to report a sound financial result for the year and to declare a total dividend of 11 cents per share fully franked, comprising interim of 5 cents per share and final of 6 cents per share.

At our annual general meeting last year, I spoke about Medibank's health cost leadership strategy. The Australian healthcare system is changing, with factors such as the ageing population and increasing prevalence of chronic disease putting pressure on healthcare costs. Medibank's commitment to health cost leadership remains unchanged and is a key driver in achieving results for the Health Insurance business.

Having said that, there is still much work to be done around revenue. A stronger focus on customers will strengthen our offering and the value we provide, and positively impact our performance in this area.

We know that transparency, affordability and value are important to our customers and critical to maintaining the sustainability of Australia's world class health system. During the year we made recommendations to the Australian Government across many areas. These included support for an industry-wide approach to making health insurance easier to understand, making prostheses pricing fairer and improving information sharing between consumers and insurers. This work, as well as our partnerships across the health sector, will help us to deliver better health outcomes for members and greater sustainability for the industry.

I am delighted to welcome Craig Drummond as Medibank's new Managing Director and Chief Executive Officer. Appointed in July 2016 following a comprehensive executive search, Craig brings strong leadership and strategic capability to the company. His strategic and operational experience, together with his unwavering focus on the customer, will provide the leadership we need to build confidence in Medibank and deliver benefits to our customers and our shareholders.

Thank you to Medibank's management team, and all of our people, for their commitment and effort in 2016. We have delivered some good results and I want to thank everyone for their contribution.

The support of our shareholders and their involvement in our company is greatly valued by the Board, and we thank you and encourage your continued participation.

Your company is in a strong financial position, and I am confident that we are well placed to meet the challenges and opportunities ahead.

CEO'S MESSAGE

Craig Drummond
Chief Executive Officer

I am delighted to have joined Medibank as Chief Executive Officer. Medibank has a strong purpose and clear commitment to delivering better health to our 3.8 million members and all Australians.

During the year, we paid a record $5.1 billion in benefits to our customers, supporting them through more than 1.3 million hospital admissions and 500,000 surgeries, and covering more than 26 million ancillary services such as dental, optical and physiotherapy.

In 2016 Medibank delivered a sound financial result, with Group net profit after tax (NPAT) up 46 percent to $417.6 million. Central to this performance was the Health Insurance business, which recorded an operating profit of $510.7 million and an increase in gross margin to 16.6 percent. This result reflected Medibank's commitment to health cost leadership and management cost discipline, as well as a sector-wide slowing in the growth of hospital utilisation rates.

Over the past 12 months the business has continued to drive initiatives aimed at reducing waste and inefficiency in the healthcare system. While this helped Medibank to deliver its lowest average premium increase in four years, rising healthcare costs continued to put pressure on premiums and contributed to customer lapse and cover reductions across the sector. Revenue growth remained soft, partly due to industry growth being the slowest in a decade, but also because Medibank performed below its peers in acquiring new members and retaining existing ones.

Clearly Medibank needs to be more focused on our customers. We need to get the basics right and invest in delivering a better customer experience and value. This includes cutting call waiting times, creating better and more transparent products, improving the quality of our online and digital services and, fundamentally, strengthening our customers' trust in us.

To ensure our customers are at the centre of our decision making, senior executives' short-term performance incentives will incorporate the Net Promoter Score—a key customer advocacy metric—in 2017 and beyond. This will focus the behaviours of our organisation.

I'm excited about the opportunities to substantially enhance the quality of the product and services offered to our customers and build Medibank's position in the Australian healthcare industry. What is good for customers will be good for business and good for long-term shareholder value. I look forward to working collaboratively with our stakeholders to build a more customer-focused and sustainably successful business.

OPERATING AND FINANCIAL REVIEW

1. About Medibank

Medibank Private Limited (Medibank) is Australia's leading private health insurer. Medibank's core business is Health Insurance, whereby it underwrites and distributes private health insurance policies under its two brands: Medibank and ahm. Medibank also has a group of related businesses, "Complementary Services", which capitalise on Medibank's experience and expertise, and support the Health Insurance business. As Medibank maintains assets to satisfy its regulatory reserves, it can also generate significant investment income from its portfolio of investment assets.

Medibank was founded in 1976 as a private health insurer owned and operated by the Australian Government. It has operated on a for-profit basis since 2009. On 25 November 2014, Medibank was sold by the Australian Government by way of an initial public offering (IPO) and listed on the Australian Securities Exchange. As at 30 June 2016, Medibank had 2,388 full-time equivalent employees.

2. Financial and operating performance

References to '2015' and '2016' are to the financial years ended on 30 June 2015 and 30 June 2016, respectively, unless otherwise stated. The "Group" refers to the consolidated entity, consisting of Medibank and its subsidiaries.

2.1 Group summary income statement

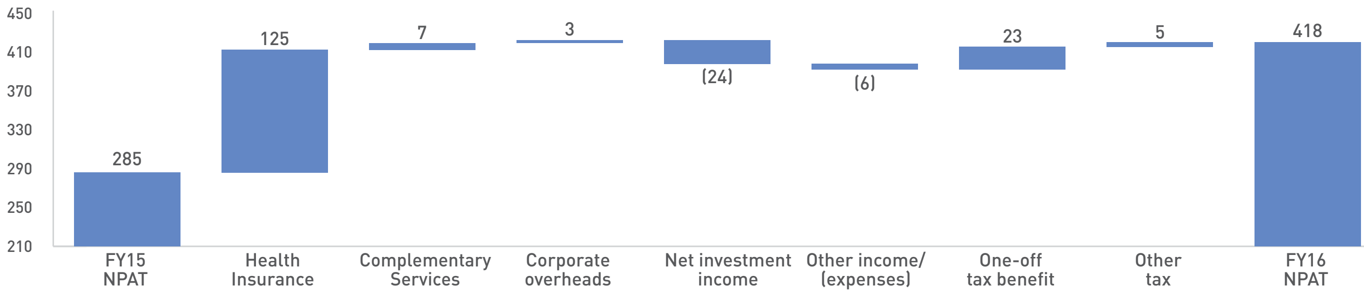
Year ended 30 June ($m)	2016	2015	Change
Health Insurance premium revenue	6,172.5	5,934.8	4.0%
Complementary Services revenue	569.3	641.2	(11.2)%
Revenue	**6,741.8**	**6,576.0**	**2.5%**
Health Insurance operating profit	510.7	332.2	53.7%
Complementary Services operating profit	24.8	14.2	74.6%
Segment operating profit	**535.5**	**346.4**	**54.6%**
Corporate overheads	(30.0)	(33.6)	(10.7)%
Net investment income	59.3	93.8	(36.8)%
Other income/(expenses)	(18.5)	(10.0)	85.0%
Profit before tax	**546.3**	**396.6**	**37.7%**
Income tax expense	(128.7)	(111.3)	15.6%
Net profit after tax	**417.6**	**285.3**	**46.4%**
Earnings per share[1] (cents)	15.2	10.4	46.4%
Dividend[2] (cents per share)	11.0	5.3	n.m.[3]

1. Assumes 2,754,003,240 shares on issue for the 2015 and 2016 years.
2. The inaugural dividend for 2015 was paid in respect of the seven month period from 1 December 2014 to 30 June 2015. The 2016 dividend relates to a 12 month period, and comprises an interim dividend of 5.0 cents per share and a final dividend of 6.0 cents per share.
3. Not meaningful.

Net profit after tax (NPAT) increased by $132.3 million or 46.4 percent, from $285.3 million in 2015 to $417.6 million in 2016. This was principally due to the 53.7 percent or $178.5 million improvement in operating profit in the Health Insurance business. Other significant movements included:

- Net investment income fell by $34.5 million.
- Other income/(expenses) includes a one-off system migration adjustment charge in 2016 of $14.0 million relating to the Group revising the basis for determining the unearned premium liability. The revision was made as a result of the implementation of a new core policy management system. The 2015 amount included $8.0 million in relation to one-off costs associated with the company's initial public offering.
- Income tax expense in 2016 includes a one-off tax benefit of $23.2 million due to 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.

2016 NPAT result – analysis of movements ($ million)[1]



1. For all items other than one-off tax benefit and other tax, amount is based on pre-tax movement less 30 percent allowance for tax.

The key reasons for the movements in Health Insurance and Complementary Services results, and net investment income, are outlined in this report.

Health Insurance

Year ended 30 June ($m)	2016	2015	Change
Health Insurance premium revenue	6,172.5	5,934.8	4.0%
Net claims expense (including risk equalisation)	(5,145.8)	(5,092.8)	1.0%
Gross profit	1,026.7	842.0	22.0%
Management expenses	(516.0)	(509.8)	1.2%
Operating profit	510.7	332.2	53.7%
Gross margin	**16.6%**	**14.2%**	**240 bps**
Management expense ratio	**8.4%**	**8.6%**	**(20 bps)**
Operating margin	**8.3%**	**5.6%**	**270 bps**

The Health Insurance business contributed 91.6 percent of Group revenue and 95.4 percent of segment operating profit in 2016. The Health Insurance business operates a single health fund through its two brands which are managed on an overall portfolio basis with an emphasis on Group outcomes. In 2016, 97.8 percent of Health Insurance revenue came from resident health insurance policies sold to the retail and corporate segments, with the balance from overseas visitors' and students' health cover policies.

Premium revenue increased by 4.0 percent. This increase was underpinned by government approved average premium rate rises of 6.59 percent (effective from 1 April 2015) and 5.64 percent (effective from 1 April 2016). Average revenue per policy increased by 5.1 percent reflecting cover reductions and sales mix changes towards lower value products.

The number of members decreased by 2.6 percent, from 3.90 million to 3.80 million. This was below the broader market which recorded the lowest growth in ten years due to slowing population growth and a levelling off in the health insurance participation rate.

Growth was impacted by below market performance in both the acquisition and lapse of members. While Medibank brand volumes were down, the ahm brand continued to grow, albeit at a slower rate. Member switching between health insurers increased further in the period and the Medibank brand's underperformance in this segment was the largest contributor to the market share reduction in 2016.

Health claims paid on behalf of members (claims expenses) are the largest cost for the Health Insurance business, representing 83.4 percent of premium income in 2016. Claims paid on behalf of members increased by $53.0 million, or 1.0 percent, to $5.1 billion.

The Health Insurance gross margin rose from 14.2 percent in 2015 to 16.6 percent in 2016. Margins benefited from an industry-wide slowdown in the growth of hospital utilisation rates. There were also a range of Medibank-specific initiatives that improved health claims management, especially Medibank's payment integrity program which continues to reduce improper claims, and improved hospital contracting including an enhanced focus on the quality of health outcomes.

Management expenses increased by $6.2 million or 1.2 percent in 2016. The ratio of management expenses to premium revenue (MER) fell from 8.6 percent in 2015 to 8.4 percent in 2016. There was continued investment in enhancing operational capability, as well as increased reinvestment in marketing, including a relaunch of the Medibank brand. The MER reduction primarily reflected the realisation of additional operating efficiencies.

Medibank's Health Insurance operating profit of $510.7 million was an increase from 2015 of $178.5 million or 53.7 percent. The key drivers behind this result were premium revenue growth, effective management of health claims and slowing hospital utilisation rates across the industry. Consequently, the Health Insurance operating margin rose from 5.6 percent in 2015 to 8.3 percent in 2016.

Complementary Services

The Complementary Services businesses contributed 8.4 percent of Group revenue and 4.6 percent of segment operating profit in 2016. The continuing businesses are the provision of health management (primarily the Australian Defence Force contract for health services) and telehealth services for government and corporate customers, and the sale of travel, life and pet insurance products. The role of Complementary Services is to strengthen and complement the core Health Insurance business by enhancing customer loyalty, and by providing health system access and identifying pathways to optimal care. The businesses are expected to provide an appropriate stand-alone financial return.

Following completion of a strategic review of the Complementary Services businesses in 2015, Medibank's Workplace Health and Travel Doctor businesses were sold to Sonic Healthcare in October 2015.

In 2016, Complementary Services revenue decreased by $71.9 million or 11.2 percent and operating profit increased by $10.6 million or 74.6 percent, primarily due to the impacts of the divestment of underperforming businesses.

Net Investment income

Medibank's investment portfolio was $2.4 billion at 30 June 2016, consisting of cash and other investments. This investment portfolio provides liquidity to cover insurance liabilities related to the Health Insurance business, and satisfies Medibank's obligations to maintain regulatory reserves to meet health claims and to fund ongoing operations. In 2016, net investment income reduced by $34.5 million or 36.8 percent, due primarily to lower interest rates and significantly lower returns from equity markets compared with 2015.

2.2 Group financial position

Medibank's net asset position increased by $136.7 million (9.5 percent) to $1,578.7 million at 30 June 2016.

The major movement during the year was the $51.1 million increase in the net balance of intangible assets associated with the final stages of Medibank's new core policy management system, known as Project DelPHI.

As at 30 June 2016, Medibank's balance sheet remained debt free.

2.3 Capital management and dividends

Medibank's capital management objective is to maintain a strong financial risk profile and capacity to meet financial commitments. As at 30 June 2016, Medibank's total Health Insurance business-related capital of 12.7 percent of premium revenue, after the allowance for declared but unpaid dividends, was within Medibank's targeted range of 12 percent to 14 percent.

Dividends paid or payable in respect of profits from the financial year totalled 11.0 cents per share (fully franked) ($302.9 million) comprising:

- An interim dividend of 5.0 cents per share (fully franked) ($137.7 million) paid on 29 March 2016 in respect of the six month period ended 31 December 2015.
- A final dividend of 6.0 cents per share (fully franked) ($165.2 million) to be paid on 28 September 2016 in respect of the six month period ended 30 June 2016.

It is the Board's intention to pay dividends in arrears for the six-month periods ending 31 December (interim dividend) and 30 June (final dividend) each year. The Board's current policy is to target a payout ratio of between 70 percent and 80 percent of annual underlying NPAT. Underlying NPAT is calculated based on NPAT adjusted for short-term outcomes that are expected to normalise over the medium to longer term, most notably in relation to the level of gains or losses from investments, and for one-off items, especially those that are non-cash, such as asset impairments.

2.4 Management changes

In March 2016, Medibank announced the appointment of Craig Drummond as the new Managing Director and Chief Executive Officer, effective 4 July 2016. David Koczkar, Medibank's Chief Operating Officer, served as acting Chief Executive Officer in the interim from 1 April 2016, when George Savvides retired after 14 years leading Medibank.

In January 2016, Sarah Harland commenced in the role of Executive General Manager Technology & Operations, and became part of Medibank's Executive Committee. She was responsible for leading the Technology & Operations functions of Medibank and the IT Transformation program of work. She resigned effective on 3 June 2016 to relocate interstate for personal reasons.

3. Strategy and future prospects

Medibank's purpose is "For Better Health" and its vision is to be Australia's number one trusted partner to support whole of life health and wellbeing.

Medibank seeks to grow shareholder value by profitably growing its customer base while achieving affordable, consistent and quality health outcomes for its customers.

Medibank's primary objective is to optimise its Health Insurance business through a strong focus on customers' needs and outcomes, improved product performance, better marketing and sales effectiveness, and continued emphasis on health cost leadership and operational excellence.

In the shorter term, management is particularly focused on prioritising customers' needs and outcomes as part of restoring the health of the Medibank brand and improving premium revenue growth. This will include an emphasis on:

- improving the value Medibank offers to customers;
- bedding down the new core policy management system;
- reducing call waiting times;
- making claiming easier; and
- strengthening customer engagement through digital channels.

Execution of these strategic initiatives aims to deliver enhanced customer engagement and experience, profitable revenue growth, increased efficiency and productivity, and sustainable margins.

Over time, Medibank sees value in evolving from a traditional health insurer to health assurer to influence different parts of the healthcare value chain. This will help to improve the quality of life and healthcare experience of customers as well as address the rising cost of healthcare. This will also provide diversification into further non-regulated income streams where opportunities present and where they complement the core Health Insurance business.

In the medium to longer term, growth in the Australian healthcare industry is expected to continue to benefit from a range of factors. These include:

- a growing and ageing population;
- increasing wealth per adult;
- increasing demand for medical treatment due to improved technology and treatment methods, and the increased prevalence of chronic diseases; and
- an increase in the number and range of services on offer, as well as increasing use of these services.

Nevertheless, the industry challenges which have arisen from changing consumer behaviour due to ongoing affordability considerations and increased switching, as well as rising provider costs and product utilisation rates, are likely to persist in the medium to longer term.

Against this backdrop, expectations are for continued overall government support for the sector and its regulatory settings, and for the health insurance participation rate to remain steady as the private sector continues to share the burden with the broader public health system. Nearer term regulatory change is expected to be focused on reforming prosthetics pricing and product transparency, including through the implementation of a gold/silver/bronze classification system. Both developments are expected to ultimately be positive for both customers and the sector.

4. Material business risks

The material business risks which could adversely affect Medibank's operations, business strategies and financial prospects are summarised below:

Healthcare costs and utilisation: rising healthcare costs affect product margins, erode the value proposition and can result in members reducing cover. Medibank is addressing these issues with various programs, including focusing on quality outcomes and long term affordability for customers in its approach to provider negotiations.
Competition and customer lapse: private health insurers and comparison websites compete to attract and retain members on price, products, service and channels, increasing member switching. Medibank continually assesses its product and channel mix to optimise margins and market share.
Product pricing and design: products may be mispriced or incorrectly designed and pricing is ultimately subject to government approval. Product profitability is closely monitored and compared to actuarially-derived costings.
Improper claims: these can represent a material source of cost and can result from fraudulent or erroneous health claims made by providers and members, including over-servicing or miscoding. Medibank's payment integrity program focuses on identifying, preventing and recovering improper claims.
Capital management and investment returns: Medibank's investment portfolio is subject to normal market risks (such as interest rates, exchange rates and equity market volatility) that can affect investment valuations and income volatility. Medibank actively manages its capital and investments in line with its risk appetite and investment policies.
Healthcare provider agreements: Medibank aims to be a health cost leader and introduce provider quality standards. Failure to reach contractual agreements may result in poor customer experiences, brand damage and loss of market share. Medibank strives to reach agreement with its providers, but has contingency plans in place for unfavourable negotiation scenarios.
Information technology: Medibank may be affected by cyber-attacks or failure in critical data, processes or systems. IT controls are continually under review and are protected through the use of detective, preventative and response tools. Medibank is also in the final stages of replacing its core policy management systems, so there is a risk of failure to deliver on time, within budget and with the required functionality. Key project components are being delivered under a fixed price agreement with external parties.
Regulation: government policy and regulation may change, potentially reducing the effectiveness of regulatory incentives and resulting in members discontinuing or reducing levels of cover. Medibank engages with key stakeholders and participates in industry forums to encourage informed policy setting and regulation.

GOVERNANCE

DIRECTORS

Name and title	Biography
Elizabeth Alexander AM *Chairman and Independent Non-executive Director* BCom, FAICD, FCA, FCPA	Elizabeth was appointed a director in October 2008 and Chairman in March 2013. She is Chairman of the Nomination Committee and member of the Audit and Risk Management Committee. As a former partner at PricewaterhouseCoopers (1977–2002), Elizabeth specialised in the area of risk management and corporate governance. Elizabeth is currently Chairman of DEXUS Wholesale Property Limited and a director of DEXUS Funds Management Limited as part of the DEXUS Property Group, and a director of the IOOF Foundation. She is Chancellor of the University of Melbourne and Chair of its Finance Committee, and a director of the Victorian Registration and Qualifications Authority. Elizabeth was previously Chairman of CSL Limited and a director of Boral Limited and Amcor Limited. She is a former Chair of the Australian Prudential Regulation Authority's Risk and Audit Committee. Elizabeth is also a former National President of CPA Australia and the Australian Institute of Company Directors, and a former member of the Takeovers Panel. Directorships of other listed companies held in the past three years: DEXUS Property Group, since 1 January 2005
Craig Drummond *Managing Director and Chief Executive Officer* BCom, CA, SF Fin	Craig was appointed Managing Director and Chief Executive Officer on 4 July 2016. He is a member of the Investment and Capital Committee. Craig is a Director of the Geelong Football Club Limited and the Florey Institute of Neuroscience and Mental Health. He is also a member of the Finance Committee of the Ian Potter Foundation Limited. Prior to joining Medibank, Craig was Group Executive Finance and Strategy of National Australia Bank Limited (NAB), having joined NAB in November 2013. At NAB, his focus was the strategic realignment and repositioning of the bank, its balance sheet and its performance management systems. Prior to NAB, Craig was Chief Executive Officer and Country Head of Bank of America. Earlier in his career, Craig joined JBWere, a leading Australian stockbroker and wealth manager, in equity research and subsequently held roles including Chief Operating Officer, Chief Executive Officer and Executive Chairman of Goldman Sachs JBWere. Directorships of other listed companies held in the past three years: Nil
Anna Bligh *Independent Non-executive Director* BA (QLD)	Anna was appointed a director in December 2012. She is a member of the Investment and Capital Committee and the People and Remuneration Committee. Anna has extensive experience in leadership and public policy, including in the fields of healthcare, finance, infrastructure and project management. Anna is currently the Chief Executive Officer of YWCA NSW and a director of Bangarra Dance Theatre Australia. Anna previously held several roles in the Queensland Government, including Premier, Treasurer, Minister for Finance, Minister for State Development, Minister for Trade and Innovation and Minister for Education. She was also a member of the Queensland Cabinet Budget Review Committee for 11 years. Directorships of other listed companies held in the past three years: Nil

Name and title	Biography
David Fagan *Independent Non-executive Director* LLB, LLM, GAICD	David was appointed a director in March 2014. He is a member of the Investment and Capital Committee and the People and Remuneration Committee. David is a highly experienced banking and major projects lawyer with more than 35 years experience. He acted for major banks and corporate clients with Clayton Utz, and was Clayton Utz's Chief Executive Partner from May 2001 to June 2010. David is a director and Chair of the Audit Committee of The Global Foundation, and a director of Hilco Merchant Australia Pty Limited, Hilco Oz Pty Limited and Grocon Funds Management Group. He is a director and Chair of the Audit and Risk Committee of UBS Grocon Real Estate Investment Management and on the advisory board of Chase Corporate Advisory. David also chaired the Medibank Privatisation Committee which operated during 2014 in preparation for the privatisation process. Directorships of other listed companies held in the past three years: Nil
Dr Cherrell Hirst AO *Independent Non-executive Director* FTSE, MBBS, BEdSt, D.Univ (Hon), FAICD	Cherrell was appointed a director in December 2009. She is a member of the Audit and Risk Management Committee and the People and Remuneration Committee. Cherrell has practised medicine for 30 years and is a highly experienced company director. Cherrell is the Chairman of ImpediMed Limited and Factor Therapeutics Limited. She is a director of Gold Coast Hospital and Health Service, and RSL Care Limited. She is also Chairman of the Advisory Board of the Institute of Molecular Bioscience at the University of Queensland. Cherrell is a former director of Telesso Technologies Limited, Suncorp Group Limited, Avant Mutual Group and Avant Insurance Limited. From 1994 to 2004, Cherrell was Chancellor of the Queensland University of Technology. Directorships of other listed companies held in the past three years: ImpediMed Limited, since 1 August 2005 Factor Therapeutics Limited (previously Tissue Therapies Limited), since 30 June 2009 Telesso Technologies Limited, 9 October 2012 – 1 November 2013
Peter Hodgett *Independent Non-executive Director* BSc (Hons), FIAA, FAHRI, FAICD	Peter was appointed a director in June 2013. He is Chairman of the Investment and Capital Committee, and a member of the Audit and Risk Management Committee and the Nomination Committee. Peter is currently a director of Colonial First State Investments Limited, Colonial Mutual Superannuation Pty Limited and Avanteos Investments Limited. Previously, Peter worked for AMP for more than 20 years in a wide variety of business and functional roles, including Chief Actuary during its demutualisation, General Manager of Human Resources and Strategy, and as Global Director of Finance and Operations for Henderson Global Investors in the United Kingdom. Directorships of other listed companies held in the past three years: Nil

DIRECTORS (continued)

Name and title	Biography
Linda Bardo Nicholls AO *Independent Non-executive Director* BA, MBA (Harvard), FAICD	Linda was appointed a director in March 2014. She is Chairman of the People and Remuneration Committee and a member of the Nomination Committee. Linda has more than 30 years experience as a senior executive and director in banking, insurance and funds management in Australia, New Zealand and the United States. She is Chairman of Japara Healthcare Limited and a director of Fairfax Media Limited and the Olivia Newton-John Cancer Research Institute. Linda was previously Chairman of KDR Victoria Pty Ltd (Yarra Trams), Healthscope Limited and Australia Post, and a director of Pacific Brands Limited, St George Bank Sigma Pharmaceuticals Limited and Insurance Manufacturers of Australia. Linda was also a member of the Walter and Eliza Hall Institute of Medical Research. Directorships of other listed companies held in the past three years: Fairfax Media Limited, since 26 February 2010 Japara Healthcare Limited, since 19 March 2014 Pacific Brands Limited, 24 October 2013 – 15 July 2016 Sigma Pharmaceuticals Limited, 5 December 2005 – 9 December 2015
Christine O'Reilly *Independent Non-executive Director* BBus	Christine was appointed a director in March 2014. She is Chairman of Audit and Risk Management Committee and a member of the Nomination Committee. Christine has more than 30 years of financial and infrastructure experience both in Australia and internationally. Christine is currently a director of CSL Limited, Transurban Group, EnergyAustralia and Baker IDI, and is Deputy Chair of Care Australia. She was formerly Co-head of Unlisted Infrastructure at Colonial First State Global Asset Management, and prior to that was Chief Executive and Managing Director of GasNet Australia Group. Directorships of other listed companies held in the past three years: CSL Limited, since 16 February 2011 Transurban Group, since 12 April 2012

Company Secretary	
Mei Ramsay *Group General Counsel and Company Secretary* BA, LLB, LLM	Mei was appointed Group General Counsel in March 2011 and Company Secretary in October 2014. Mei has more than 20 years experience in the legal profession, both as internal counsel and in private practice. Prior to joining Medibank, Mei held various legal positions at Cummins, Coles Myer, Southcorp, Minter Ellison and Arnold Bloch Leibler.

CORPORATE GOVERNANCE STATEMENT

The Board is committed to maximising business performance, generating appropriate levels of shareholder value and financial returns, and sustaining the growth and success of Medibank. In conducting business in accordance with these objectives, the Board seeks to ensure that Medibank is properly managed to protect and enhance shareholder interests, and that Medibank, its directors, officers and employees operate in an appropriate environment of corporate governance. The Board has in place a framework for governing Medibank. This includes adopting internal controls, risk management processes and corporate governance policies and practices, designed to promote responsible management and ethical conduct.

Medibank was founded in 1976 as a private health insurer and operated by the Australian Government. In 1998, Medibank Private Limited became the operating entity with the Commonwealth of Australia as the sole shareholder. In 2014 the Australian Government sold Medibank by way of an initial public offering, and divested itself of all its shares in Medibank. Medibank listed on the Australian Securities Exchange (ASX) on 25 November 2014.

ASX Corporate Governance Council Recommendations

During the year Medibank had in place policies and practices which comply with the recommendations in the 3rd edition of the ASX Corporate Governance Council Corporate Governance Principles and Recommendations. As a registered private health insurer, Medibank also complies with an industry specific governance standard issued by the Australian Prudential Regulation Authority (APRA). The key corporate governance practices applied at Medibank are described in this statement. Corporate governance policies are listed on page 25 and available on the corporate website.

Roles and responsibilities of the Board and management

The Board provides overall strategic guidance for Medibank and effective oversight of management. Responsibility for the governance of Medibank, including establishing and monitoring key performance goals, rests with the Board. The Board monitors the operational performance and financial position of Medibank, as well as overseeing the business strategy, and approving strategic goals. In performing its role the Board is committed to sound corporate governance practices.

The Board Charter articulates the Board's roles and responsibilities, its membership and operation and which responsibilities may be delegated to committees or to management. Specific responsibilities have been reserved by the Board in key areas of strategy, governance, executive appointments, financial approvals and reporting, disclosure and risk management. The Board has established four standing committees to assist in performing its responsibilities by examining in detail particular issues and making recommendations to the Board. A description of these committees can be found on page 19. The Chief Executive Officer has responsibility for managing the day-to-day affairs of Medibank. The Chief Executive Officer manages Medibank in accordance with the Board-approved corporate plan, the corporate strategy and policies, and within the risk appetite set by the Board. A detailed delegation framework defines the decision-making and expenditure limits which apply at various levels of management.

Key areas of focus for the Board in 2016

- Chief executive officer succession and appointment of the new Managing Director and Chief Executive Officer, Craig Drummond
- Strategy, corporate plan, budget and performance targets
- Oversight of business performance
- Full year and half year financial results and monitoring results against guidance provided to the market
- Annual review and update of the strategic risk framework
- Oversight of key projects including Project DelPHI, a major IT project
- Customer proposition, engagement and experience
- Marketing strategy and initiatives
- Hospital contracting strategy and contract renewals
- Regulatory compliance
- Corporate governance matters
- Remuneration framework

Structure and composition of the Board

Throughout the year the Board comprised seven non-executive directors, including a non-executive Chairman. In addition, until his retirement on 31 March 2016 George Savvides held the role of executive Managing Director and Chief Executive Officer, the position held by Craig Drummond since 4 July 2016.

Biographies of the directors, including their skills, experience and year of appointment, are set out on page 12 of the annual report. Details of directors' attendance at Board and committee meetings during the year ended 30 June 2016 is on page 27. The length of service of the non-executive directors ranges from two years and three months to seven years and eight months.

The Chairman of the Board, Elizabeth Alexander, is an independent, non-executive director. She is responsible for ensuring that the Board functions effectively, and for communicating the views of the Board to the public. Her responsibilities include leading Board and shareholder meetings and overseeing Board composition to ensure the Board is appropriately skilled for Medibank's needs.

Independence

Directors are expected to bring an independent judgement to bear on all Board decisions. A director is considered independent if the director is a non-executive director who is not a member of management, and is free of any business or other relationship that could materially interfere with the exercise of their unfettered and independent judgement or could reasonably be perceived to do so. Each director provides periodic updates of their interests, positions, associations and relationships, and the Board regularly assesses the independence of each director in light of the interests disclosed. The Board has assessed the interests, positions, associations and relationships of each director as at the date of this report. It has determined that all of its non-executive directors are independent and were independent during the reporting period. The Board does not consider the previous or current Managing Director and Chief Executive Officer to be independent as this is an executive role. To provide an opportunity for independent discussion, the non-executive directors meet without management present at the commencement of each Board meeting.

Board skills mix

The Nomination Committee reviews the balance of skills, experience, independence, knowledge and diversity of the directors.

During 2016 the Nomination Committee further refined the matrix of skills and experience required for the Board in light of the Board's responsibilities and Medibank's strategic objectives and risks. The Board believes that collectively it has good industry and operational experience in insurance, healthcare, executive leadership, investment and public policy, coupled with skills and knowledge in strategy, financial, legal, human resources and project management. However, in light of industry movements and changes in technologies, the Board has identified that it would be enhanced by additional skills and operational expertise in respect to the customer proposition and the marketing and application of digital technologies in this area.

In addition to the necessary skills and experience, the review confirmed that each director demonstrates the following personal attributes:

- diligence in contributing to teamwork, debate and specialist advice and support to Medibank
- sufficient time capacity to meet the responsibilities of a non-executive director
- honesty and integrity

Based on this review and having regard to the comments above in relation to enhancing the Board's skill mix, the Board considers that collectively the directors have the skills and the technical and sector experience necessary to govern the Company and drive performance in light of the specific risks facing Medibank.

Appointment and re-election of directors

Appointments of directors have been made in accordance with the Medibank Constitution, and before listing in accordance with the Government Business Enterprise Governance and Oversight Guidelines. At the annual general meeting in October 2014 just prior to listing all directors were re-elecetd, and in October 2015 at the annual general meeting Christine O'Reilly and Peter Hodgett were re-elected.

The Medibank Constitution provides that directors will be appointed by the Board and are subject to election by shareholders at the annual general meeting following their appointment. Since listing there have been no new non-executive directors appointed. Individuals may also be nominated by shareholders for election as director at the annual general meeting.

The Constitution requires an election of directors at each annual general meeting, and a director must retire and may stand for re-election by the third annual general meeting following the director's election, or at the annual general meeting prior to the third anniversary of the listing, whichever is the later. Linda Nicholls and David Fagan will retire and offer themselves for re-election at the upcoming annual general meeting on 9 November 2016.

Before appointing a person as a director, the Board would first undertake checks as to that person's character, experience and background, including criminal and bankruptcy checks. Although not a requirement for Medibank or the health insurance industry, Medibank has a 'Fit and Proper Policy for Responsible Persons' based on APRA's Fit and Proper Prudential Standard. This standard requires that a person in a position of responsibility, including a director, be assessed prior to appointment as to whether the person meets the fit and proper requirements. The person must have the appropriate skills, experience and knowledge to perform the role and act with the requisite character, diligence, honesty, integrity and judgement.

Upon appointment each non-executive director enters into a service agreement setting out the terms of the director's appointment. This includes the requirement to build a shareholding in Medibank in order to align the interests of directors with shareholders. The minimum shareholding policy for a non-executive director is to acquire shares with a value equal to one year's base fee after tax over a period of five years.

The current directors have participated in Medibank's director induction program directed at building knowledge of Medibank's strategy, operations and key people. Ongoing professional development opportunities range from formal briefing sessions on topics such as blockchain technology, briefings by key stakeholders and regulators, conference attendance and one-on-one discussions on technical aspects of the business. The professional development program is informed through a survey of directors as to their training and information needs.

As part of the appointment process Medibank enters into a deed of indemnity, insurance and access with each director. Each director is indemnified against liability in connection with their role as a director and Medibank is required to maintain a directors' and officers' insurance policy. The deed confirms and extends the director's general law rights of access to board papers and other records of Medibank.

The Chairman and the Board have complete and open access to the Chief Executive Officer, Executive Committee and to senior management as required. If necessary, a director may seek independent professional advice at Medibank's expense in respect of any matter connected with the discharge of the director's responsibilities.

Company secretary

Mei Ramsay was appointed by the Board as the Company Secretary of Medibank, and is also its Group General Counsel and a member of the senior leadership team. Her qualifications and experience are set out in the directors' report. The Company Secretary works closely with the Chairman to support the effectiveness of the Board and its committees and advises the directors on governance matters.

Board performance evaluation

The Nomination Committee is responsible for reporting to the Board on the evaluation of the performance of the Chairman, Board and committees. In 2016 the Chairman of the Committee led an internal Board evaluation by way of a detailed directors' survey seeking feedback in the areas of: strategy, risk management, operations, relationship with management, meetings, committees, board papers, logistics and the role and performance of the Chairman. Following the survey, the Committee discussed and evaluated the outcomes and referred relevant action items to the Board.

The evaluation of each non-executive director was performed by the Chairman, which was also informed by the results of the directors' survey. Following the performance evaluation of the directors standing for re-election in 2016, the Chairman and the other directors were satisfied that those directors continue to make a valuable contribution through the skills they bring to the Board and their understanding of Medibank, and that they have each met the time requirements to fulfil their duties as a director.

Committees of the Board

The Board has established four standing committees which assist in the execution of its responsibilities. Each committee is governed by a charter setting out the committee's role, responsibilities, membership and processes.

The membership, roles and responsibilities of each committee are summarised in the table below. The committees each comprise at least three members, all of whom are independent non-executive directors. The membership of the Investment and Capital Committee also includes the Chief Executive Officer. The Chairman of the Board is chairman of the Nomination Committee. The Board appoints other independent non-executive directors to chair the other committees.

The relevant qualifications and experience of the members of each committee can be found in the director biographies on page 12 of the annual report. The number of meetings of each committee and individual attendances of the committee members at those meetings is found in the directors' report on page 27 of the annual report.

Committee membership As at 19 August 2016	Key roles and responsibilities	Key areas of focus in 2016
Audit and Risk Management Committee • Christine O'Reilly (Chairman) • Elizabeth Alexander • Cherrell Hirst • Peter Hodgett	• Integrity of external financial reporting and financial statements • Appointment, remuneration, independence and competence of external auditors • Systems to ensure effective management of financial and non- financial risks • Systems and procedures for compliance with relevant laws, regulations and codes • Internal and external audit processes Internal control framework	• Full and half year financial results and dividend considerations • Oversight of Risk Management framework • Oversight of regulatory compliance • Oversight of Clinical Governance Framework • Review of major IT project (Project DelPHI) • Review of payment integrity program • External and internal audit planning and review of reports • Oversight of appointment of the new General Manager Internal Audit, Risk & Compliance
People and Remuneration Committee • Linda Bardo Nicholls (Chairman) • Anna Bligh • David Fagan • Cherrell Hirst	• Remuneration framework and arrangements for the Chief Executive Officer and senior executives • Executive management succession planning • Incentive schemes and equity-based remuneration plans • Measurable objectives for diversity • Performance in relation to health and safety matters	• Executive remuneration and structuring • Executive performance evaluation • Remuneration reporting • Workforce planning • Diversity and inclusion • Employee engagement • Employee health and safety
Investment and Capital Committee • Peter Hodgett (Chairman) • Anna Bligh • David Fagan • Craig Drummond	• Oversight of investment and capital management activities • Oversight of the investment strategy and Capital Management Policy • Monitoring the effectiveness of the investment process • Authorising delegated investment decisions	• Asset allocation • ESG settings- excluding tobacco investments • Capital position • Fund manager appointments and assessment • Dividend considerations • Investment performance reports
Nomination Committee • Elizabeth Alexander (Chairman) • Christine O'Reilly • Linda Bardo Nicholls • Peter Hodgett	• Director selection and appointment • Board composition • Board succession planning • Performance evaluation of the Board, committees and individual directors	• Board, committee and director performance evaluation • Board skills matrix • Director re-election and succession • Corporate governance matters

Further information about the activities of the People and Remuneration Committee during 2016 can be found in the remuneration report on page 30 of the annual report.

George Savvides was a member of the Investment and Capital Committee until his retirement on 31 March 2016. Craig Drummond joined the Committee upon commencement in his role as Chief Executive Officer on 4 July 2016.

The performance evaluation of the Board conducted during June 2016 included assessment of the handling by committees of the issues and challenges which arose during the year.

Executive management

Senior executives have a clear understanding of their roles and responsibilities through position descriptions and a structured performance management system. Each senior executive has entered into a service contract with Medibank setting out their terms of employment. The remuneration policies and practices applying to the senior executives who are defined as key management personnel are detailed in the remuneration report.

The remuneration report contains the performance measures applied to executive committee members and the process for the annual evaluation of their performance. A performance evaluation was undertaken during 2016 in accordance with that process for each executive committee member as at 30 June 2016, as well as the previous Managing Director who retired on 31 March 2016.

Ethical standards for management and employees

Central to the Board's governance framework is a culture of ethical behaviour based on Medibank's four key values: customer focus, accountability, integrity and respect. These values are intended to guide the way employees work together and engage with customers, business partners, governments and the wider community, and are supported by a range of policies and procedures.

The Medibank Code of Conduct sets out the way employees, including executives, work and the practical principles and minimum standards of expected behaviour. Responsibilities include behaving in a manner that promotes health, safety and wellbeing, fosters relationships of trust and respect, avoids conflicts of interest, including not offering or accepting secret commissions or bribes, and protecting confidential information. Medibank has in place different options for dealing with breaches of the Code of Conduct depending on the circumstances. Through the Whistleblower Policy identification and reporting of all conduct that is inappropriate or exposes Medibank to unacceptable loss or risk is encouraged and whistleblowers are protected from victimisation or disadvantage as a response to making reports. A whistleblower reporting service called Medibank Alert is available through an external provider enabling employees to report conduct anonymously, or limit who is informed of the whistleblower's identity.

Ethical conduct is supported by further corporate policies and associated training, including in the areas of anti-bribery, anti-corruption and conflicts of interest.

Medibank has a health and safety management system in place to ensure it meets legislative requirements and proactively addresses its key risks in health and safety. The Health, Safety and Wellbeing Policy underpins the objective to prevent injury and illness through a culture of health promotion, injury prevention and early intervention.

A Share Trading Policy applies to directors, executives, employees and contractors. Restrictions include blackout periods during which trading in Medibank shares by directors, executives and specific corporate employees is prohibited. These periods apply in the lead up to the release of financial results and at other times as required.

Diversity

Medibank is committed to creating an inclusive culture that acknowledges and embraces difference in all its forms and leverages the benefits that diversity and inclusion brings to employees, shareholders, customers and the community. Medibank recognises that all employees are different, and these differences create organisational benefits.

The Board has adopted a Diversity and Inclusion Policy that supports and facilitates an inclusive environment. The policy outlines the role of the People and Remuneration Committee in recommending to the Board measurable objectives for diversity and annually assessing progress against these. The policy is reviewed annually and is available on the corporate website. A Diversity and Inclusion Strategy supports the policy and sets out the measurable objectives established by the Board.

The Board emphasises the importance of having a gender diverse leadership team which is supported by Medibank's commitment to having and maintaining at least 40 percent female representation in the Senior Leader population. As at June 2016 the actual representation was 51 percent.

In May 2016 Medibank completed the reporting of its gender equality indicators under the Workplace Gender Equality Act 2012 (Cth). The reports can be accessed on the corporate website. As at 30 June 2016 the respective proportions of men and women on the Board, in senior executive positions and across the whole organisation were as follows:

Position	Men	Women	% women
Board	**2**	**5**	**71%**
Executive Committee	3	1	25%
Other executives and general managers	25	28	53%
Senior Leader* total	**28**	**29**	**51%**
Senior managers	111	65	37%
Other managers	193	280	59%
Non-managers	467	1,504	76%
Overall (excluding Board)	**799**	**1,878**	**70%**

*"Senior Leader positions" includes all executive and general management positions (or equivalent), and was a population of 57 people as at 30 June 2016.

In 2015 the Board set measurable objectives for achieving gender diversity with a commitment to report progress in achieving these in the 2016 corporate governance statement. For 2016 the measurable objectives were:

Measurable objective:	Progress towards achievement
Medibank has a target of at least one male and one female on the shortlist for each vacant role being recruited in Bands 1-4 (manager and above).	All recruitment shortlists for roles recruited in Bands 1-4 contained at least one male and one female.
Medibank will conduct unconscious bias testing and training for all senior executives (executive team and their direct reports) by June 2016.	Senior leaders took part in a "Diversity Walk" that included unconscious bias awareness during the year. A comprehensive leadership program that includes unconscious bias testing and training was also piloted, with full roll-out to all senior executives to occur in 2017.
During 2015-2016 the Board will formally engage with and support the development of high potential future Medibank leaders, including at least 50 percent women.	The Board engaged with high potential future Medibank leaders through attendance and presentations at board meetings, and through board lunches at which 52 percent of attendees were women. A gender working group was also established to recommend and support gender equality initiatives to ensure employees enjoy the same opportunities and rewards at Medibank, regardless of gender.
By December 2015 Medibank will conduct consultation sessions with a cross-section of employees with the aim of improving gender equality in the workplace.	Former Managing Director George Savvides met with a cross section of employees in 2015 to discuss gender equality issues in the workplace. A Gender Working Group was also established to support gender equality initiatives at Medibank.

For 2017 the Board has set the following measurable objectives for achieving diversity at Medibank, including gender diversity, and is committed to reporting progress achieved against these in the 2017 corporate governance statement:

1. We will continue to actively support flexible work practices (e.g. part-time, working from home, flexible start/finish time, job sharing) with the aim of increasing the percentage of employees working flexibly;
2. We will conduct a review of our Parental Leave policies with the aim of better supporting working parents before, during and after Parental Leave;
3. We will strive to achieve at least 40 percent female representation within manager (Band 4) roles in order to grow the pool of future female leaders;
4. We will aim to achieve gender balance across our talent pipelines, with at least 50 percent women identified across our high potential talent and Graduate Program pools; and
5. We will increase the representation of people with disabilities, Indigenous Australian Peoples and those aged over 55 within our workforce.

Further demonstrating our commitment to gender diversity, we were also recognised as a Top 40 employer for lesbian gay bisexual transgender intersex (LGBTI) inclusion through our participation in the Australian Workplace Equality Index. Significant progress has also been made against the Reconciliation Action Plan (RAP), with all actions in our third RAP (which covered 2014-2016) successfully completed. This plan details our formal contribution to reconciliation and addressing health inequality between Indigenous and other Australians, and can be accessed on the corporate website.

Market and shareholder communication

Market disclosure

Medibank promotes investor confidence and the rights of shareholders through ensuring the immediate disclosure of market sensitive information regarding Medibank. The measures to further these commitments are detailed in the Disclosure and Communication Policy established by the Board. This is designed to facilitate compliance with Medibank's obligations under the ASX Listing Rules and the Corporations Act by assigning authorisation processes for market announcements, and reserving certain matters for approval by the Board. Processes for engagement with analysts and investors are detailed in the policy, as well as the assignment of spokespersons for market and media communications. Awareness and compliance is promoted by compulsory periodic online employee training, and additional information sessions for those likely to become aware of potentially market sensitive information.

The Board is supported by a management Disclosure Committee responsible for considering potentially market sensitive information, and monitoring Medibank's disclosure processes and reporting framework. The charter for the Disclosure Committee is available within the Disclosure and Communication Policy.

Information about Medibank and its governance

Medibank's website provides information about the company and its corporate governance, and an area specifically for prospective and existing Medibank shareholders linking to Medibank's results, annual reports, share price, ASX announcements and annual general meeting materials. A shareholder calendar of upcoming events is maintained on the website, along with information to assist investors to manage their shareholdings. Medibank's share register is managed by Computershare which provides an accessible online platform for shareholders to access and manage their shareholdings.

Medibank encourages shareholders to receive communications securely by email for reasons of speed, security, environmental friendliness and to reduce costs. Except where a shareholder elects to receive information by post, Medibank communicates with shareholders through email and other electronic channels, including notices of meetings and online voting on the annual general meeting resolutions.

Investor relations program

Medibank follows a calendar of regular disclosures to the ASX of its financial and operational results. Medibank conducts briefings, meetings, telephone calls and webcasts for institutional and retail investors, analysts and financial media to provide a greater understanding of the business, and the half year and full year results. This is generally co-ordinated and attended by Medibank Investor Relations, and includes scheduled briefings and ad hoc meetings with institutional and private investors, analysts and financial media to provide a forum for two-way communications between them and the company. In October 2015, for example, Medibank conducted an investor day attended by a broad group of institutional investors and analysts. Presentations given by senior management were lodged with the ASX, and attendees were provided the opportunity for questions and answers.

Communication with the investment community is generally through the Chief Executive Officer, the Chief Financial Officer and the General Manager Investor Relations and, in respect of governance and remuneration issues, the Chairman. Feedback from engagement with the investor community is communicated to the Board at each Board meeting.

In all communications with investors, analysts and media, only publicly available information and information which is not market sensitive is discussed. In order to ensure that all shareholders have equal and timely access to material information concerning Medibank, advance notification of investor and analyst results briefings is announced via the ASX. The briefing presentation slides are released on the ASX and subsequently, together with webcast presentations, made available on the corporate website.

Shareholder meetings

The Board encourages shareholders to attend the annual general meeting and take the opportunity to ask questions of the Board. The meeting is held at an accessible venue in Melbourne. For shareholders unable to attend, the meeting is webcast live, and is then available on the corporate website. The external auditor attends the annual general meeting and is available at the meeting to answer questions relevant to the audit report.

Medibank provides shareholders with a clear and concise notice of meeting setting out the business to be considered, including all material information relevant to the election or re-election of directors. These materials, together with the presentations to the annual general meeting and the voting results, are released to the ASX and then made available in the annual general meeting section of the corporate website.

Integrity of financial reporting

The Board has a strong commitment to the integrity and quality of its financial reporting and its systems for risk management, compliance and internal control.

The Audit and Risk Management Committee provides a non-executive review of the effectiveness of Medibank's financial reporting and risk management framework, and assists the Board in carrying out its accounting, auditing, risk management, regulatory compliance and financial reporting responsibilities.

The Audit and Risk Management Committee currently comprises four non-executive directors. The chairman of the committee is an independent non-executive director who is not the chairman of the Board. Committee members are appointed based on their qualifications and experience to ensure that the committee can adequately discharge its duties. The current committee comprises directors with accounting and financial expertise and experience, and who between them have a deep understanding of the health and insurance industries. Any director may attend committee meetings. Representatives of management, the internal audit function and the external auditors are invited as required.

Financial reporting assurances

The preparation of the full year and half year financial statements is subject to a detailed process of review and approval by the Board supported by the Audit and Risk Management Committee.

As required under section 295A of the Corporations Act, the Board receives a declaration from the Chief Executive Officer and the Chief Financial Officer that the financial records of the company have been properly maintained and the financial statements and notes comply with accounting standards and give a true and fair view of the consolidated entity's financial position and performance for the financial period. This includes a written declaration that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively in all material respects in relation to financial reporting risks.

This declaration was received by the Board prior to approving the financial statements for the half year ended 31 December 2015 and the full year ended 30 June 2016.

Risk management

Medibank maintains a system of risk oversight, risk management and internal control over material business risks, including the accuracy of financial reporting. This is designed to provide reasonable assurance of the implementation of the Board's financial reporting policies, the integrity of the Group's financial reporting and management of its material business risks within the Board- approved risk appetite.

Business risks are discussed in the operating and financial review section on page 6 of the annual report and can be broadly categorised as strategy, insurance, financial, operational and regulatory risks. These include economic sustainability risks. Medibank has not identified any material exposures to environmental or social sustainability risks.

Risk management framework

Medibank's Risk Management Statement, describing the framework and the roles and responsibilities of the Board and management in managing risk, is available in the corporate governance section on Medibank's website.

The Board has overall responsibility for Medibank's risk management framework including setting the risk management policy and determining the risk appetite for Medibank. The Board reviews, at least annually, the policies and procedures on risk oversight and management and satisfies itself that management has developed and implemented a sound system of risk management and internal control to meet prudential and statutory requirements.

The Audit and Risk Management Committee assists the Board in setting the risk management policy and appetite and monitoring whether the business is operating within the limits set. The committee performs a detailed review, at least annually, of the risk management system to ascertain whether it effectively manages material business risks and is operating effectively in relation to financial reporting risks. If required, the committee considers reports concerning material risk events and incidents and oversees their resolution by management.

The Board is further assisted by the Investment and Capital Committee, which oversees the implementation and monitoring of the Investment Strategy and Capital Management Policy approved by the Board, including monitoring the effectiveness of the investment process in achieving optimum return relative to risk.

Risk, control and assurance model

The risk management framework sets out clearly-defined criteria to analyse, evaluate and prioritise material business risk. This includes systematically assessing risk consequences in terms of impact upon clinical governance, employee safety, regulatory, legal, financial, shareholder, reputation, operations and business performance.

During 2016 the Board assessed the risk management framework and concluded that the material risks are within the overall risk appetite but there remains scope for further mitigation and improvement. The current focus is to more closely align, where appropriate, Medibank's risk management framework with that prescribed by APRA for the general insurance industry, as the regulation of the private health insurance industry transitions to APRA from the Private Health Insurance Administration Council (PHIAC).

Internal audit

Medibank has an internal audit function. Its role is to provide independent and objective assurance to the Audit and Risk Management Committee on the adequacy and effectiveness of the risk management framework, financial reporting processes and internal control and compliance systems. The annual internal audit plan, which is approved by the committee, is developed using a risk-based approach and is driven by Medibank's strategy, risk profile and governance principles. The internal audit charter provides the internal audit team unrestricted access to review all activities of the business. The internal audit function is supplemented by the engagement of external subject matter experts when required.

The head of the internal audit function is the General Manager, Internal Audit, Risk and Compliance. To ensure the independence of the internal audit function the role reports directly to the committee chairman, with a direct communication line to the Chief Executive Officer and administrative reporting line to the Chief Financial Officer. The General Manager Internal Audit, Risk and Compliance reports to each committee meeting on progress against the annual internal audit plan, audit findings and recommendations, business insights and the status of management actions.

This corporate governance statement is accurate and up to date as at 19 August 2016 and has been approved by the Board.

Medibank governance documents available on the corporate website

Corporate Governance document	Location of disclosure	ASX Principle
Board charter Diversity & Inclusion Policy	Website Website	1.1 1.5
Nomination Committee charter	Website	2.1
Code of Conduct	Website	3.1
Audit and Risk Management Committee charter	Website	4.1
Disclosure and Communication Policy	Website	5.1
Notice of annual general meeting	Website	6.3
Audit and Risk Management Committee charter Investment and Capital Committee charter	Website Website	7.1 7.1
People and Remuneration Committee charter Remuneration report Share Trading Policy	Website Annual Report Website	8.1 8.2 8.3

DIRECTORS' REPORT

For the year ended 30 June 2016

The directors of Medibank Private Limited (Medibank) present their report on the consolidated entity consisting of Medibank and the entities it controlled (collectively referred to as the Group) for the year ended 30 June 2016.

References to 2015 and 2016 are to the financial years ended on 30 June 2015 and 30 June 2016 respectively unless otherwise stated.

Directors

The names of directors in office during the 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
- George Savvides – Managing Director and Chief Executive Officer (retired 31 March 2016)

Details of each director's qualifications, experience and special responsibilities are set out on page 12 to 14 and form part of the directors' report.

Principal activities

The principal activities of the Group during the financial year were as a private health insurer, whereby it underwrites and distributes private health insurance policies under its two brands, Medibank and ahm. Medibank is also a provider of complementary services that capitalise on its experience and expertise, and support the Health Insurance business. There were no significant changes in the nature of those activities during the year.

Operating and financial review

Details of the operating and financial review of the Group including a review of operations during the year and results of those operations is included in the operating and financial review on page 6 of this report.

Significant changes in state of affairs

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

Events since end of financial year

No matter or circumstance has arisen since the end of the financial year that has significantly affected, or may significantly affect Medibank's operations, or the results of those operations, or Medibank's state of affairs in future financial years.

Dividends

Dividends paid or declared by the Company during and since the end of the year are set out in Note 6 to the financial statements and further set out below:

- A dividend of 5.3 cents per share (fully franked) was declared in respect of the seven month period from listing to 30 June 2015 and paid on 28 September 2015 to shareholders registered on 7 September 2015;
- An interim dividend of 5.0 cents per share (fully franked) was declared in respect of the six month period to 31 December 2015 and paid on 29 March 2016 to shareholders registered on 8 March 2016; and
- A final dividend of 6.0 cents per share (fully franked) has been declared in respect of the six month period to 30 June 2016 payable on 28 September 2016 to shareholders registered on 7 September 2016.

Directors' attendance at meetings

The table below shows the number of board and committee meetings held and the number of meetings attended by directors during the year:

Director	Board		Audit and Risk Management Committee		Investment and Capital Committee		Nomination Committee		People and Remuneration Committee		Board Sub Committee	
	A	B	A	B	A	B	A	B	A	B	A	B
Elizabeth Alexander	11	11	5	5	3*		1	1	3*		2	2
Anna Bligh	11	11	3*		4	4	1*		4	4		
David Fagan	10	11	5*		4	4			4	4		
Cherrell Hirst	11	11	5	5	3*				4	4		
Peter Hodgett	11	11	5	5	4	4	1	1	3*		1	1
Linda Bardo Nicholls	10	11	4*		2*		–	1	4	4		
Christine O'Reilly	11	11	5	5	1*		1	1	1*		2	2
George Savvides#	10	10	3*		3	3			3*		1	1

A Indicates the number of meetings attended during the period.
B Indicates the number of meetings held during the time the director held office or was a member of the committee during the year.
* Indicates that the director attended committee meetings by invitation.
\# George retired as Managing Director and Chief Executive Officer on 31 March 2016.

Options and performance rights

During the financial year 2,192,200 performance rights were issued to senior executives pursuant to Medibank's Performance Rights Plan. No performance rights have been issued since the end of the financial year up to the date of this report.
No performance rights were eligible to vest or to be exercised during the financial year. Further information regarding performance rights is included in the remuneration report on page 30.

Directors' interests in securities

The relevant interests of directors in Medibank securities at the date of this report were:

Director	Ordinary shares	Performance rights
Elizabeth Alexander	54,786	–
Craig Drummond	–	–
Anna Bligh	3,835	–
David Fagan	30,016	–
Cherrell Hirst	7,150	–
Peter Hodgett	67,800	–
Linda Bardo Nicholls	27,150	–
Christine O'Reilly	52,325	–

Environmental regulation

The Group's operations are not subject to any particular or significant environmental regulation under either Commonwealth or State law.

Indemnification and insurance of directors and officers

Medibank's constitution permits Medibank to indemnify, to the maximum extent permitted by law, every person who is or has been a director or officer or senior manager of the Group. The indemnity applies to liabilities incurred by a person in the relevant capacity (except liability for legal costs). The indemnity may however also apply to certain legal costs incurred in obtaining advice or defending legal proceedings. Further, Medibank's constitution permits Medibank to maintain and pay insurance premiums for a director and officer liability insurance covering every person who is or has been a director or officer or senior manager of the Group, to the extent permitted by law.

Consistent with the provisions in Medibank's constitution, Medibank has entered into deeds of indemnity, insurance and access with current and former directors. Under these deeds, Medibank:

- indemnifies current and former directors against liabilities incurred as a director to the maximum extent permitted by law;
- is required to maintain a directors' and officers' insurance policy covering current and former directors against liabilities incurred in their capacity as directors. Disclosure of the insurance premium and the nature of the liabilities covered by the insurance are prohibited by the contract of insurance; and
- grants current and former directors access to Medibank's records for the purpose of defending any relevant action.

Auditor's independence declaration

A copy of the auditor's independence declaration given by PricewaterhouseCoopers in relation to its compliance with independence requirements of section 307C of the Corporations Act is set out on page 111.

Non-audit services

During the year PricewaterhouseCoopers, the Group's external auditor, performed certain other services to the Group in addition to statutory responsibilities as auditor.

The amounts paid or payable for those services were:

Year ended 30 June – $'000	2016	2015
Audit fees	1,358.5	1,230.5
Assurance services fees:		
Audit of regulatory returns	119.5	119.5
Non-audit service fees:		
Taxation services	105.0	152.0
Other	49.0	70.3
Total	**1,632.0**	**1,572.3**

Further information is provided in Note 20 of the financial statements.

Based on the advice provided by the Audit and Risk Management Committee the directors are satisfied that provision of non-audit services during the year by PricewaterhouseCoopers is compatible with the general standard of independence for auditors imposed by the Corporations Act, and that the provision of the non-audit services did not compromise the auditor independence requirements of the Corporations Act for the following reasons:

- All non-audit services provided were approved in accordance with the process set out in Medibank's policies, including being reviewed by the Audit and Risk Management Committee to ensure that provision of the services did not impact the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board.

Remuneration report

The remuneration report on page 30 forms part of the directors' report.

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.

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

Elizabeth Alexander AM
Chairman

Craig Drummond
Managing Director & Chief Executive Officer

19 August 2016
Melbourne

REMUNERATION REPORT

For the financial year ended 30 June 2016

Contents

Dear Shareholder,

We are pleased to present Medibank's 2016 remuneration report. Each year the Board determines remuneration outcomes after consideration of company performance, individual performance and market practice. This ensures remuneration practices remain effective at attracting and retaining talented people to deliver long-term sustainable shareholder value.

As outlined in our previous remuneration report, the comparator benchmark for 2016 was changed to the ASX 11 to 100 excluding mining and energy companies. Having regard to this benchmark, during 2016 Executive Committee members, excluding the former Managing Director and Chief Executive Officer and the Chief Financial Officer, received an increase in total target remuneration (fixed remuneration plus target short-term and long-term incentives). A minimal increase to the base fee of the Chairman also occurred during the year, with no changes for other non-executive directors.

Managing Director and Chief Executive Officer transition

On 31 March 2016 George Savvides retired after more than 14 years as Managing Director and Chief Executive Officer of Medibank. David Koczkar, Chief Operating Officer, served as Acting Chief Executive Officer between April and July prior to the commencement of Craig Drummond as Managing Director and Chief Executive Officer on 4 July 2016. Mr Koczkar received an allowance of $225,000 in recognition of the additional responsibilities during his time as Acting Chief Executive Officer. As outlined in the ASX release on 29 March 2016, Mr Drummond's remuneration package includes fixed remuneration of $1.5 million, target short-term incentive (STI) opportunity of 100 percent of fixed remuneration and a long-term incentive (LTI) opportunity of 150 percent of fixed remuneration.

Incentive payments

STI payments for Executive Committee members were lower this year in comparison to 2015, averaging 59 percent of their maximum opportunity. This reflects a year of lower than expected revenue growth, contrasted with the success of benefit claims management and control of operating expenses which resulted in a 46 percent increase in net profit after tax.

No vesting of LTI performance rights occurred during 2016 as Medibank's first grant of LTI will not be tested until the end of the 2017 financial year. During the year Executive Committee members were granted LTI that will be tested at the end of the 2018 financial year against two separate hurdles.

2017 remuneration settings

Having regard to the median of Medibank's existing market comparator group, the overall base and committee fees for non-executive directors have been increased by 9.9 percent with effect from 1 July 2016. Total fees remain within the annual fee cap of $2 million which was established at listing.

Remuneration settings for Executive Committee members will be reviewed by the new Managing Director and Chief Executive Officer prior to the annual general meeting.

The full report that follows provides readers with a detailed view of the 2016 remuneration outcomes. Shareholders are encouraged to vote in favour of the report's adoption at our annual general meeting in November.

Yours sincerely,

Linda Bardo Nicholls AO
Chairman, People and Remuneration Committee

1. Key management personnel overview

This report outlines the remuneration arrangements for the key management personnel (KMP) of Medibank, which comprises all non-executive directors and those executives who have authority and responsibility for planning, directing and controlling the activities of the Group.

The following executives were classified as KMP during the 2016 financial year, all of whom are members of Medibank's Executive Committee (ExCo) and, unless otherwise indicated, were classified as KMP for the entire year.

ExCo member	Position	Term as KMP	Contract type	Notice period Employee	Notice period Medibank
David Koczkar	Chief Operating Officer and Acting Chief Executive Officer[1]	31 March 2014 – Current	Ongoing	3 months	6 months
Kylie Bishop	Executive General Manager, People and Culture	12 July 2013 – Current	Ongoing	3 months	6 months
Paul Koppelman	Chief Financial Officer	7 May 2012 – Current	Ongoing	3 months	6 months
Andrew Wilson	Executive General Manager, Provider Networks and Integrated Care	1 July 2010 – Current	Ongoing	3 months	6 months
Former ExCo member					
George Savvides	Managing Director and Chief Executive Officer	19 April 2002 – 31 March 2016	Fixed term	6 months	12 months
Sarah Harland[2]	Executive General Manager, Technology and Operations	11 January 2016 – 3 June 2016	Ongoing	3 months	6 months

1. Mr Koczkar was Acting Chief Executive Officer (in addition to his role as Chief Operating Officer) for the period from 1 April 2016 through to and including 3 July 2016.
2. Ms Harland ceased in the position of Executive General Manager, Technology & Operations effective 3 June 2016.

The remuneration framework and outcomes for the non-executive directors are detailed in sections 9 to 11 of this report.

2. Remuneration governance

Medibank's remuneration framework is designed to create value for shareholders by ensuring Medibank attracts, rewards and retains employees responsibly, with a focus on business outcomes and shareholder wealth creation, individual performance, the organisation's risk management framework, and applicable regulations.

2.1 The role of Board in remuneration

The People and Remuneration Committee's role is to assist and advise the Board on remuneration and other people and culture policies and practices. These policies and practices are designed to:

- enable Medibank to attract, retain and motivate non-executive directors, executives and employees who will create value for shareholders within an appropriate risk management framework. This is achieved by providing remuneration packages that are externally competitive and aligned with the long-term interests of Medibank and its shareholders;
- be fair and appropriate having regard to the performance of Medibank and the relevant non-executive director, executive or employee;
- ensure any termination benefits are justified and appropriate; and
- comply with relevant legal requirements.

The Charter of the People and Remuneration Committee can be found in the Corporate Governance section of the Medibank website.

As at 30 June 2016, the People and Remuneration Committee comprised the following independent non-executive directors:

- Linda Bardo Nicholls AO (Chairman);
- Cherrell Hirst AO;
- Anna Bligh; and
- David Fagan.

For meeting attendance information with respect to the People and Remuneration Committee, refer to the directors' attendance at meetings table on page 27 of the directors' report. For biographical information on the Medibank non-executive directors, including those listed above, refer to pages 12 to 14 of the directors' report.

2.2 Use of remuneration consultants

The Board directly engages external advisors to provide input to the process of reviewing ExCo and non-executive director remuneration. During 2016, the Chairman of the People and Remuneration Committee engaged KPMG to provide the following to assist the Board in its decision making:

- benchmarking data in respect of KMP remuneration;
- information regarding market practices in relation to short-term incentive (STI) and long-term incentive (LTI) performance measures, LTI grant methodology and dividends forgone;
- assistance with shareholder communication including the remuneration report, annual general meeting preparation and ASX announcements; and
- accounting information including valuations and relative total shareholder return (TSR) calculations.

The engagement of KPMG was undertaken directly by the Board, independent of management, and based on an agreed set of protocols governing the manner in which the engagement would be developed by KPMG and provided to the Board. These protocols ensure that the following steps are taken:

- KPMG takes instructions from the People and Remuneration Committee and the Board, and is accountable to the Board for all work completed;
- during the course of any assignment KPMG may seek input from management, however deliverables are provided directly to the Committee and considered by Board; and
- professional fee arrangements are agreed directly with the Chairman of the People and Remuneration Committee.

The work undertaken by KPMG in 2016 did not constitute a remuneration recommendation for the purposes of the Corporations Act 2001.

2.3 Executive remuneration policies

2.3.1 Performance evaluation of ExCo members

At the outset of each performance year, the Board determines the measures against which ExCo members will be assessed. The measures are a combination of Company and role specific performance measures with weightings attributed to each measure. These measures and applicable weightings are combined to form a balanced scorecard against which each ExCo member is individually assessed when determining both STI outcomes and fixed remuneration increases. STI outcomes are also subject to Medibank meeting a Health Insurance operating profit target, defined as the operating profit of Medibank's Health Insurance business, which acts as a gateway to any STI payment being made. Additional detail on STI performance measures are included in sections 4.3 and 5 of this report.

At the completion of the performance year, the Managing Director reviews each ExCo member against the role specific measures and presents an evaluation of their performance to Board. The Board then reviews the Managing Director's evaluations and reserves ultimate discretion over performance outcomes to ensure alignment with shareholder interests. In 2016, Mr Savvides completed reviews of each ExCo member prior to his retirement on 31 March 2016, with the Acting Chief Executive Officer Mr Koczkar providing supplementary feedback for the remaining period of the performance year.

The performance of the Managing Director is reviewed by the Chairman in consultation with other non-executive directors to ensure remuneration outcomes are aligned with Company performance and shareholder interests.

2.3.2 Termination provisions in ExCo member contracts

Termination provisions included in ExCo member contracts are limited to six months payment of fixed remuneration, in lieu of notice, or 12 months in the case of the Managing Director.

If an ExCo member is assessed by the Board as a 'good leaver' (meaning they cease employment by reason of death, serious disability, permanent incapacity, retirement, redundancy or with Board approval), the cash STI award in respect of the performance year in which they leave would be paid on a pro rata basis at the end of the STI performance period. The deferred component of the STI award will be paid in cash (rather than performance rights) on a pro rata basis with payment deferred until 12 months following the payment of the cash component. Any previously deferred STI would remain restricted until the applicable vesting date, unless determined otherwise by the Board. Performance rights issued as an LTI would be retained in full by a 'good leaver' in relation to the former Managing Director and on a pro rata basis in relation to other ExCo members. These would remain unvested and subject to the same vesting conditions that will be assessed at the end of the performance period. Further details of the termination provisions that relate to the STI and LTI plans are detailed in section 4 of this report.

Retirement of Mr Savvides

On 21 October 2015, Medibank announced that the Board and Mr Savvides had agreed to bring forward his anticipated retirement date to March 2016. In line with that announcement, Mr Savvides remained in the Managing Director position until 31 March 2016 when he provided Medibank with his notice of retirement.

The table below details the key terms of Mr Savvides' retirement arrangements in line with the Board's assessment of Mr Savvides as a 'good leaver':

Key terms	Details
Termination payments	On the retirement date (31 March 2016), Mr Savvides received the following payments in accordance with his employment agreement. 1. Payment of six months fixed remuneration in lieu of notice; and 2. Payment of accrued and untaken annual and long service leave. No other payments were made to Mr Savvides in connection with his retirement.
2016 STI	As outlined in section 2.3.2, as a 'good leaver' Mr Savvides is entitled to a pro rata STI award in respect of the 2016 performance year, subject to the achievement of Company and role specific performance measures. This award will be paid to Mr Savvides at the same time as all other STI awards in October 2016. The deferred component of the 2016 STI award will be paid to Mr Savvides in cash (rather than performance rights) in October 2017, in accordance with Medibank's Executive STI Plan Rules.
2016 LTI	Mr Savvides did not receive a grant under the 2016 LTI Plan.
2015 deferred STI and LTI performance rights	In accordance with the terms of each offer, the 2015 deferred STI and LTI performance rights previously granted to Mr Savvides will be retained in full and remain subject to the same vesting and performance conditions of the original offer. There will be no accelerated or automatic vesting of equity awards previously made to Mr Savvides in connection with his retirement.

2.3.3 Clawback of executive performance based remuneration

The Board has an Executive Remuneration Clawback Policy that provides discretion to the Board to reduce, cancel, or recover (clawback) any performance-based awards made to a senior executive employee in certain circumstances. Events that could warrant such action include:

- serious misconduct or fraud by the employee;
- unsatisfactory performance by the employee to the detriment of strategic Company objectives;
- error in the calculation of a performance measure related to performance-based remuneration; or
- a misstatement of the Group's financial statements.

The Executive Remuneration Clawback Policy provides that, if any of these events had occurred in the previous five financial years, the Board may, in its absolute discretion, withhold an employee's performance-based payments, require the repayment of all, or part of, previous performance-based awards, or require the forfeiture of previously deferred and unvested performance-based rewards.

2.3.4 Executive shareholding requirements

The Board has an Executive Minimum Shareholding Policy that applies to all members of ExCo to strengthen the alignment between executives' and shareholders' interests in the long-term performance of Medibank. The policy requires ExCo members to hold Medibank shares equivalent to the value of 100 percent of their annual fixed remuneration within five years of appointment to the Executive Committee.

All Medibank shares and unvested performance rights that are subject to a tenure based hurdle which are held by or on behalf of the executive (for example within a family trust or self-managed superannuation fund where they are the beneficial owner) will count towards satisfaction of the minimum shareholding requirement.

ExCo members are restricted from selling their vested employee equity holdings, other than to satisfy income tax obligations, until they meet the minimum shareholding requirement.

As at 30 June 2016, progress towards the minimum shareholding requirement for each ExCo member is provided below:

ExCo member	Minimum shareholding requirement $[1]	Value of eligible shareholdings as at 30 June 2016 $[2]
David Koczkar	800,000	751,999
Kylie Bishop	430,000	436,939
Paul Koppelman	690,000	792,267
Andrew Wilson	725,000	786,570

1. Minimum shareholding requirement based on ExCo members' total fixed remuneration (TFR) as at 30 June 2016.
2. Value has been calculated with reference to the total number of eligible shares or performance rights held by each ExCo member, multiplied by the closing price of Medibank's shares on 30 June 2016 ($2.95).

2.3.5 Share Trading Policy

Medibank has a Share Trading Policy to ensure that all employees understand their obligations in relation to dealing in Medibank shares. The Share Trading Policy describes restrictions on buying and selling Medibank shares for the Board, executive directors, senior executives and other Medibank employees.

In addition, non-executive directors, ExCo members, other senior employees and employees with potential access to inside information are deemed to be "Restricted Employees". They are required to seek approval before dealing in Medibank shares and are subject to share trading blackouts prior to financial results announcements and other times, as required. The policy also restricts employees from entering into transactions relating to Medibank shares which limit their economic risks, including in relation to the LTI Plan and equity based component of the STI Plan.

Medibank's Share Trading Policy can be found on the corporate website under Corporate Governance.

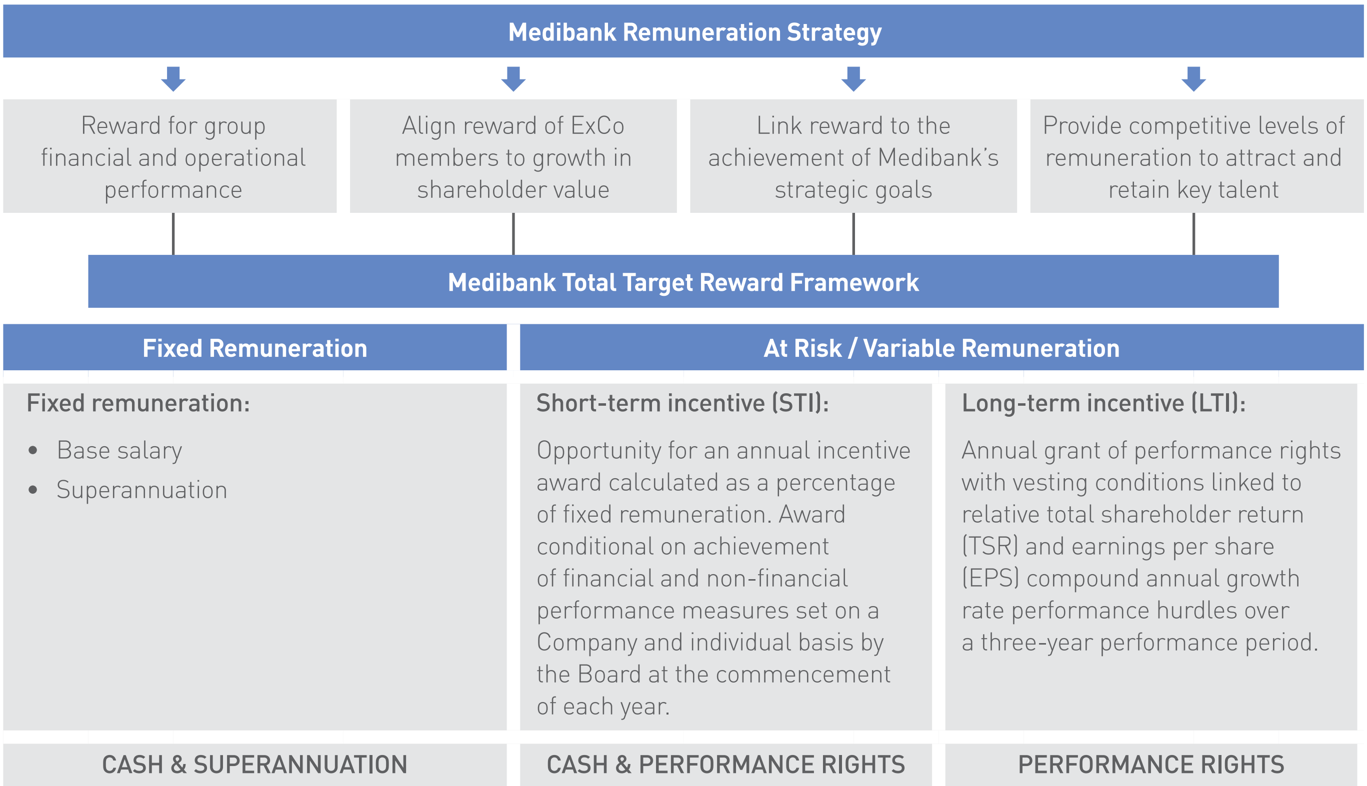
3. Remuneration strategy

Medibank's remuneration strategy is designed to focus ExCo members on executing the Group strategy and achieving business objectives to increase shareholder value. To achieve this, Medibank's remuneration framework has been developed to directly link remuneration to business outcomes, individual performance and behaviour. It is designed to:

- align the interests of ExCo members with increasing shareholder value;
- reward ExCo members for the achievement of Medibank's strategic goals (financial and operational) against targets set with reference to appropriate benchmarks; and
- provide the necessary levels of remuneration to attract and retain key talent.

The relationship between Medibank's remuneration strategy and framework and how this is designed to focus ExCo members on delivering improved shareholder value is illustrated in the diagram below:

Figure 1



4. Executive remuneration mix

In determining the mix of executive remuneration at Medibank, the Board aims to find a balance between:

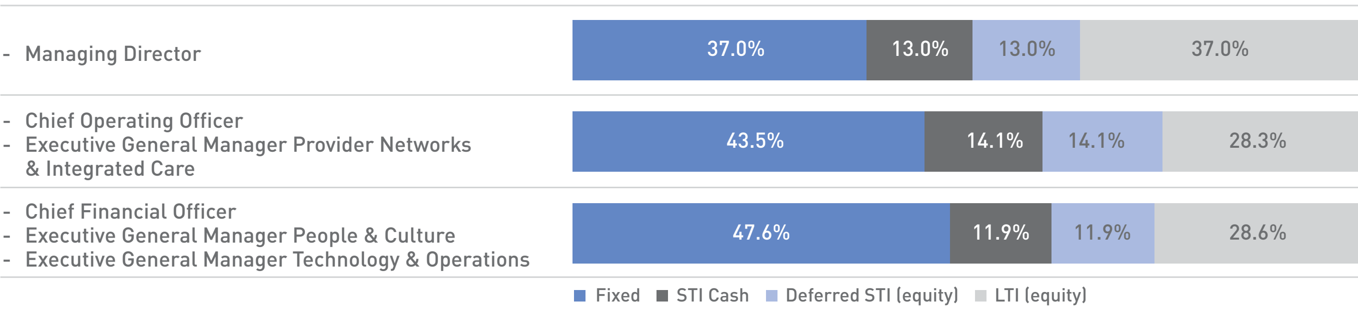
- fixed and at-risk remuneration;
- short-term and long-term remuneration; and
- remuneration delivered in cash and deferred equity.

4.1 Remuneration overview

In determining the target remuneration for ExCo members, the Board has aimed to develop an effective remuneration framework that increases shareholder value by rewarding strong business performance. Consistent with this strategy are the deferral arrangements in place across both the STI and LTI components to ensure ExCo members are acting in the best long-term interests of Medibank in achieving sustained business performance and sustainable benefit for its shareholders.

The illustration below provides an overview of the 2016 target remuneration mix for the former Managing Director (Mr Savvides) and other ExCo members.

Figure 2 – 2016 target remuneration mix



4.2 Total fixed remuneration

Total fixed remuneration (TFR) represents the fixed portion of executive remuneration and includes base salary, salary packaged benefits and employer superannuation contributions.

4.2.1 2016 Total fixed remuneration

Fixed remuneration is determined with reference to the executive's level of knowledge, skill and experience and the size and complexity of the roles. To inform the setting of competitive fixed remuneration levels, the Board has regard for disclosed market-related median pay levels from companies in the ASX 11 – 100 (excluding mining and energy companies).

Details of 2016 fixed remuneration levels are provided below:

ExCo member	Total fixed remuneration 2016 $[2]
David Koczkar	800,000
Kylie Bishop	430,000
Paul Koppelman	690,000
Andrew Wilson	725,000
Former ExCo member	
George Savvides	1,200,000
Sarah Harland[1]	500,000

1. The TFR for Ms Harland was effective from her commencement date of 11 January 2016.
2. 2016 TFR for ExCo members were effective from 1 July 2015.

4.3 Short-term incentive (STI)

ExCo members are eligible to participate in Medibank's STI Plan. The target and maximum annual STI that may be awarded to ExCo members is expressed as a percentage of their respective TFR.

4.3.1 Annual STI opportunity

The table below represents the target and maximum annual STI opportunity as a percentage of TFR for ExCo members in 2016.

ExCo member	2016 Target	2016 Maximum
David Koczkar	65%	100%
Kylie Bishop	50%	100%
Paul Koppelman	50%	100%
Andrew Wilson	65%	100%
Former ExCo member		
George Savvides	70%	100%
Sarah Harland[1]	n/a	n/a

1. As Ms Harland ceased in her position as Executive General Manager Technology & Operations effective 3 June 2016, she was not eligible for an award under the 2016 STI Plan.

4.3.2 Key features of the STI Plan

What is the Short-Term Incentive Plan?	An opportunity for ExCo members to earn an annual incentive payment calculated as a percentage of their annual fixed remuneration conditional on the achievement of financial and non-financial measures.
What is the period over which performance is assessed?	The STI performance period is the financial year 1 July to 30 June.
How are STI payments delivered?	50 percent of STI awarded to ExCo members will be paid as cash, with the remaining 50 percent deferred for 12 months (deferred STI). Deferred STI will be provided in the form of 12-month deferred performance rights under the Performance Rights Plan.
When are STI payments made?	The cash component of the STI award is paid in October following the completed performance period and auditing of accounts, with performance rights in respect of the deferred STI component granted shortly thereafter.
What method is used to determine the number of performance rights granted to each participant as part of the deferred STI?	Performance rights under the STI Plan are granted at face value. The deferred STI value for each ExCo member is 50 percent of their STI outcome for the respective performance year. For the 2016 deferred STI component, the number of performance rights to be granted to each ExCo member will be determined using the volume weighted average price of Medibank shares on the ASX during the 10 trading days up to and including 6 October 2016.
Are deferred STI performance rights entitled to receive a dividend payment?	Deferred STI performance rights do not attract dividends during the deferral period. However, on vesting of these performance rights, an adjustment will be made to ensure the participant receives a benefit equivalent to any dividends paid by Medibank during the deferral period. This adjustment will be made to the participant in the form of Medibank shares.

What are the performance conditions under the STI Plan?	Performance conditions under the STI Plan are determined by the Board at the commencement of each performance period. For 2016, the performance measures under the STI Plan were as follows: • Group operating profit (excluding investment income); • management expense ratio; • health insurance revenue growth; and • role specific metrics. STI outcomes are also subject to Medibank meeting a Health Insurance operating profit target, defined as the operating profit of Medibank's Health Insurance business, which acts as a gateway to any STI payment being made.
What is the relationship between Company performance and the award of STI?	At the commencement of each performance period, the Board sets target and stretch performance levels for each of the Company and role based performance measures. STI awards are only made for performance at or above target.
What happens to STI entitlements if an ExCo member leaves the Company?	Pro rata payment of STI applies to ExCo members who leave the Company other than those who resign, are terminated due to misconduct, fraud and/or unsatisfactory performance. Incentive payments are not accelerated on cessation of employment and are always paid in accordance with the normal business cycle. This is to ensure that STI is only paid when performance over the period meets or exceeds, the agreed performance measures. In the case of a 'good leaver' receiving an STI award, 50 percent of any STI awarded will be deferred in cash for 12 months (rather than performance rights). Previously deferred STI granted as performance rights will be retained in full by ExCo members who leave the Company other than those who resign, are terminated due to misconduct, fraud and/or unsatisfactory performance. The deferred performance rights will, however, remain in restriction until the vesting date of that offer.
In what circumstances are STI entitlements forfeited?	In the event an ExCo member resigns or their employment is terminated due to misconduct, fraud and/or unsatisfactory performance, the ExCo member will forfeit any payment under the STI Plan, including any unvested deferred STI grants, unless otherwise determined by the Board.

4.4 Long-term incentive (LTI)

In 2015 Medibank established a Performance Rights Plan to enable the creation of an LTI Plan designed to focus Medibank's ExCo members on delivering sustained business performance and shareholder value.

The table below represents the annual LTI allocation value as a percentage of TFR for ExCo members in 2016.

4.4.1 Annual LTI allocation

ExCo member	2016 LTI value as % of TFR
David Koczkar	65%
Kylie Bishop	60%
Paul Koppelman	60%
Andrew Wilson	65%
Former ExCo member	
George Savvides[1]	n/a
Sarah Harland[2]	n/a

1. As the impending retirement of Mr Savvides was announced prior to the grant of the 2016 LTI, Medibank determined that it was not appropriate to grant any awards under the 2016 LTI offer to Mr Savvides.
2. As Ms Harland commenced on 11 January 2016 she was not eligible to participate in the 2016 LTI grant.

4.4.2 Key features of the LTI Plan

What is the Long-Term Incentive Plan?	An incentive plan in which ExCo members are allocated performance rights under the Medibank Performance Rights Plan. Vesting and exercise of the performance rights are dependent on the Company achieving certain performance hurdles over a set performance period of three financial years.
What is the aim of the LTI Plan?	The Medibank LTI Plan is designed to: • align the interests of ExCo members more closely with the interests of shareholders, by providing an opportunity for those executives to receive an equity interest in Medibank through the granting of performance rights; and • assist in the motivation, retention and reward of ExCo members.
What is the performance period for 2016 LTI Plan?	The performance period for the 2016 LTI Plan is three financial years commencing on 1 July 2015. A three year performance period strikes a balance between providing a reasonable period to align reward with shareholder return and the LTI acting as a vehicle for executive motivation and retention.
What are performance rights?	Performance rights issued under the LTI Plan are conditional rights for the holder to subscribe for fully paid ordinary shares in the Company. Each performance right entitles the holder to subscribe for one ordinary share if the performance conditions are met at the conclusion of the performance period. No amount is payable by the participant upon grant of the performance rights, or upon exercise of the performance rights once they have vested.
What method is used to determine the number of performance rights granted to each participant?	Performance rights under the LTI Plan are granted at face value. The face value for each ExCo member is determined as a percentage of their TFR as detailed in section 4.4.1. For the 2016 LTI Plan, the number of performance rights granted to each ExCo member was determined using the volume weighted average price of Medibank shares on the ASX during the 10 trading days up to and including, 30 June 2015. That average price was $2.06.

What are the performance hurdles under the 2016 LTI Plan?	Performance rights issued under the 2016 LTI Plan are subject to two separate performance measures: • 50 percent of the performance rights will be subject to a vesting condition based on Medibank's EPS CAGR (earnings per share compound annual growth rate) over the performance period (EPS performance rights). The starting point for EPS will be calculated using Medibank's underlying profit as at 30 June 2015 and the performance period for the EPS performance hurdle will run for three years from 1 July 2015 through to 30 June 2018. Further detail on the profit measure used in the calculation of EPS is provided in section 4.4.3; and • 50 percent of the performance rights will be subject to a relative total shareholder return (TSR) vesting condition, measured over the performance period (TSR performance rights). Medibank's relative TSR will be compared to a comparator group comprising companies with a market capitalisation positioned within the ASX 11-100 (excluding mining and energy companies). Both performance hurdles under the 2016 LTI Plan have threshold levels which need to be achieved before vesting commences. Details of these thresholds are outlined in the vesting schedule in section 4.4.3.
When do the performance rights vest?	The performance hurdles are assessed as soon as practicable after the completion of the relevant performance period. The number of performance rights that vest (if any) will be relative to the achievement against the performance hurdles. See section 4.4.3 for the vesting schedule associated with each performance hurdle.
Are the performance hurdles re-tested?	No, performance hurdles are only tested once at the end of the relevant performance period. Any performance rights that remain unvested at the end of the performance period will be immediately forfeited.
Are LTI performance rights entitled to receive a dividend payment?	LTI performance rights do not attract a dividend during the performance period, as they are still subject to performance hurdles that will determine the number of rights that convert to ordinary Medibank shares.
In what circumstances are LTI entitlements forfeited?	LTI entitlements are forfeited if performance hurdles are not met. In the event an ExCo member is not considered a 'good leaver' (meaning they cease employment for any reason other than death, serious disability, permanent incapacity, retirement, redundancy or with Board approval), the performance rights held (granted, but not vested) by that participant on cessation of employment will be automatically forfeited.
What happens to LTI entitlements if an ExCo member leaves the Company?	If an ExCo member is a 'good leaver' (meaning they cease employment by reason of death, serious disability, permanent incapacity, retirement, redundancy, or with Board approval): • in the case of the former Managing Director, the performance rights held (granted, but not vested) on cessation of employment will remain un-vested and will continue to be subject to the same vesting conditions that will be assessed at the end of the performance period; and • in the case of other ExCo members, a portion of the performance rights held (granted, but not vested) by that participant on cessation of employment will be forfeited on a pro rata basis according to a formula which takes into account the length of time the participant has held (granted, but not vested) the performance right relative to the performance period for the grant. The remaining performance rights will remain unvested and will be tested at the end of the performance period against the existing vesting conditions.

4.4.3 LTI hurdles explained

Performance rights issued under the 2016 LTI Plan are subject to two separate performance measures: 50 percent of the performance rights will be subject to an EPS CAGR vesting condition; and 50 percent will be subject to a relative TSR vesting condition. These performance hurdles were chosen by the Board as they believe both EPS CAGR and relative TSR are transparent, well understood and tested mechanisms to measure performance and provide a strong link between executive reward and shareholder wealth creation. Both hurdles are explained in detail below.

2016 EPS performance rights

For any of the 2016 EPS performance rights to vest, the EPS target, as determined by the Board, must be achieved. The percentage of 2016 EPS performance rights that vest, if any, will be determined at the end of the performance period by reference to the following vesting schedule:

Medibank's EPS CAGR over the performance period	Percentage of EPS performance rights that vest
Less than 7% EPS CAGR	Nil
At 7% EPS CAGR	50%
Between 7% and 15% EPS CAGR	Straight-line pro rata vesting between 50% and 100%
15% EPS CAGR or greater	100%

Medibank's performance against the EPS hurdle is calculated based on the CAGR of Medibank's EPS over the performance period. EPS is based on underlying profit which adjusts statutory NPAT where appropriate, for short-term outcomes that are expected to normalise over the medium to longer term, most notably in relation to the level of gains or losses from investments, and for one-off items, especially those that are non-cash, such as asset impairments. The CAGR from an EPS base calculated at the beginning of the performance period will be calculated on Medibank's fully diluted EPS using Medibank's underlying NPAT for the year ending 30 June 2018. As set out in the table above, the resulting CAGR will determine the level of vesting for the EPS performance rights.

2016 TSR performance rights

For any of the 2016 TSR performance rights to vest, Medibank must achieve the threshold TSR ranking over the performance period. The percentage of the 2016 TSR performance rights that vest, if any, will be based on Medibank's TSR ranking at the end of the performance period, as set out in the following vesting schedule:

Medibank's TSR rank in the 2016 comparator group	Percentage of TSR performance rights that vest
Less than 50th percentile	Nil
Equal to 50th percentile	50%
Greater than 50th and up to 75th percentile	Straight-line pro rata vesting between 50% and 100%
At or above 75th percentile	100%

The TSR of Medibank and other companies within the comparator group, expressed as a compound annual rate of return, will be comprised of:

a. the change in share price of the relevant entity over the performance period determined, as set out below; and
b. the value of all dividends and other shareholder benefits paid or otherwise, made available to shareholders in the relevant company during the performance period determined on the basis that:
   i. the dividends and shareholder benefits are reinvested in securities in the relevant company at the closing price of the securities on the date the dividend or shareholder benefit was paid or otherwise made available to shareholders of the company; and
   ii. franking credits are disregarded.

In determining the change in share price of the relevant company, the value of securities on the start date and end date of the performance period will be based on the volume weighted average price of the securities (VWAP) over the 20 ASX trading days up to and including the relevant date. The VWAP on the end date of the performance period will be adjusted for any stock splits that occur during the performance period.

4.4.4 Comparator group for TSR performance rights

In line with the benchmark group chosen by the Board to position executive remuneration in 2016, the comparator group to be used for the 2016 TSR performance rights performance hurdle will be the ASX 11-100 (excluding mining and energy companies).

5. Linking remuneration and performance in 2016

5.1 Measuring performance

At the commencement of the 2016 financial year, the Board determined target and stretch levels of performance for each of the Company and role specific STI performance measures for ExCo members. In setting target and stretch levels of performance, the Board considers a number of factors including prior year performance, Medibank's strategic objectives and shareholder expectations. The Board also ensures that performance levels are set for the current year in the context of achieving longer term financial and strategic goals.

At the completion of the performance year, ExCo members are assessed against the Company and role specific performance measures to determine STI award outcomes. For an ExCo member to achieve a target STI award (as outlined in section 4.3.1), performance against all Company and role specific measures must be at the target level of performance as set by the Board, in addition to the achievement of the Health Insurance operating profit gateway measure. Therefore, no STI awards are made for below target performance, or if the Health Insurance operating profit gateway measure is not met. At target performance would represent a strong achievement and be in line with Medibank's strategic objectives and shareholder expectations.

A stretch STI award (therefore, award at maximum) for an ExCo member would require stretch or above performance against all Company and role specific measures as set by the Board, in addition to the achievement of the Health Insurance operating profit gateway measure. This would represent exceptional performance, well above those of Medibank's strategic plan and shareholder expectations.

5.2 2016 STI performance scorecard

The following table details the 2016 STI performance scorecard measures, weightings and outcomes as applied to the Managing Director and other ExCo members.

		Weighting		
Measure	Description	Managing Director	Other ExCo members	2016 performance outcome
Health Insurance operating profit	Gross profit less management expenses of Medibank's Health Insurance business. As the key measure of underlying business performance for Medibank's core business, the Board believes that Health Insurance operating profit represents an appropriate financial gateway for the payment of STI awards.	Gateway	Gateway	$510.7m Exceeded
Group operating profit	Gross profit less management expenses of the Group. Group operating profit excludes investment income (the exclusion of investment income reflects the limited influence that ExCo members have over the external factors impacting investment returns). Group operating profit represents the core financial measure for the annual STI Plan and reflects the Board's belief that it is the best measure of underlying business performance and value created for shareholders over the performance period.	50%	35%	$505.5m Stretch
Management expense ratio (MER)	Management expense ratio (MER), calculated as management expenses of the Health Insurance Fund divided by premium revenue. MER focuses the Company on improving operational efficiencies across the organisation and improved value creation for shareholders.	20%	20%	8.4% Target
Health Insurance revenue growth	Year on year percentage growth in revenue within Medibank's Health Insurance business. Health Insurance revenue growth is a headline financial measure that is of particular focus for shareholders and focuses management on growing its member base while retaining existing customers. The adoption of Health Insurance revenue growth in the assessment of STI performance further strengthens the alignment between driving long-term shareholder value and executive reward.	20%	25%	4.0% Below Target
Role-specific	Role specific targets set on an individual basis against measurable KPIs. Measurable role specific metrics are aligned to one of financial performance, leadership performance or the achievement of specific strategic objectives and chosen by Board to ensure achievement of Medibank's Group objectives for the year and to drive sustainable shareholder wealth creation.	10%	20%	Ranging between below target and above target

5.3 Medibank's 2016 financial performance

Medibank's 2016 annual financial performance is provided in the table below in addition to the average 2016 STI award achieved by ExCo members as a percentage of maximum opportunity. The purpose of this table is to illustrate the relationship between the key indicators of shareholder wealth creation and STI award outcomes for Medibank executives. As Medibank's executive reward framework changed significantly to reflect the privatisation that took place on 25 November 2014, the financial performance and STI outcomes have not been listed for financial years prior to 2015.

Measure	2016	2015
Group operating profit[1]	**$505.5m**	$320.0m
Group net profit after tax (NPAT)[1]	**$417.6m**	$291.8m
Dividend	**11.0 cents p/s**	5.3 cents p/s
Share price as at 1 July	**$2.01**	$2.15[2]
Share price as at 30 June	**$2.95**	$2.01
Average ExCo STI as a percentage of maximum opportunity	**59%**	64%

1. Consistent with the Prospectus, the Group operating profit and Group NPAT figures for 2015 reflect pro forma financial information and is derived from the statutory consolidated income statement adjusted to reflect the half year of corporate costs as a publically listed entity and the exclusion of the one-off costs of the IPO and certain significant and other items.
2. The 2015 share price of $2.15 reflects Medibank's share price at the time of listing on the ASX on 25 November 2014.

5.4 2016 STI awards

The table below provides a summary of STI awards for the 2016 performance year.

ExCo member	Total STI achieved $	STI cash (50%) $	STI deferred (50%) $	Total STI achieved as % of target	Total STI achieved as % of max opportunity
David Koczkar	488,000	244,000	244,000	94%	61%
Kylie Bishop	236,500	118,250	118,250	110%	55%
Paul Koppelman	310,500	155,250	155,250	90%	45%
Andrew Wilson	467,625	233,813	233,812	99%	65%
Former ExCo member					
George Savvides[1]	640,626	320,313	320,313	101%	71%
Sarah Harland[2]	n/a	n/a	n/a	n/a	n/a

1. Mr Savvides ceased employment with Medibank on 31 March 2016. His STI award outcomes reflect his part-year service. Mr Savvides' STI deferred component ($320,313) will be paid in cash (rather than performance rights) in October 2017, in accordance with Medibank's Executive STI Plan Rules.
2. As Ms Harland ceased in the position of Executive General Manager Technology & Operations effective 3 June 2016, she was not eligible for an award under the 2016 STI Plan.

6. 2016 actual remuneration

The table below represents the 2016 'actual' remuneration for ExCo members and includes all cash payments made in relation to 2016 in addition to deferred STI awards that vested in 2016.

Statutory remuneration disclosures prepared in accordance with the Corporations Act 2001 and Australian Accounting Standards differ to the numbers presented below, as they include (among other benefits) expensing for equity grants that are yet to realise and may never be realised. The statutory remuneration table in respect of the ExCo members is presented in section 7.

ExCo member	Base salary and superannuation	Cash STI for performance to 30 June 2016	Other cash payments[3]	Total cash payments in relation to 2016	Deferred STI awards that vested in 2016[4]	Total 2016 actual remuneration
David Koczkar	806,154	**244,000**	225,000	**1,275,154**	63,064	**1,338,218**
Kylie Bishop	433,308	**118,250**	–	**551,558**	148,387	**699,945**
Paul Koppelman	695,308	**155,250**	–	**850,558**	272,120	**1,122,678**
Andrew Wilson	730,577	**233,813**	–	**964,390**	291,412	**1,255,802**
Former ExCo member						
George Savvides[1]	946,319	**320,313**	1,134,990	**2,401,622**	–	**2,401,622**
Sarah Harland[2]	201,923	**–**	–	**201,923**	–	**201,923**

1. Mr Savvides ceased employment with Medibank on 31 March 2016. Base salary, superannuation and STI amounts shown reflect his part-year service.
2. The actual remuneration reported for Ms Harland reflects the period she was a KMP between 11 January and 3 June 2016.
3. Other cash payments include a one-off allowance ($225,000) made to Mr Koczkar in recognition of his three months as Acting Chief Executive Officer; and payments made to Mr Savvides including a termination payment equivalent to six months in lieu of notice ($595,173) in line with contractual obligations and payment of outstanding annual and long-service leave entitlements ($539,817).
4. Deferred STI awards that vested in 2016 relate to deferred cash STI awards in respect of 2014.

7. Statutory remuneration tables

7.1 Statutory remuneration table

The following table has been prepared in accordance with Section 300A of the Corporations Act 2001 and details the statutory accounting expense of all remuneration related items for the ExCo members. Note that, in contrast to the table in section 6 that details 2016 actual remuneration, the table below includes accrual amounts for equity awards being expensed throughout 2016 that are yet to, and may never, be realised by the ExCo member.

		Short-term benefits				Post-employment benefits	Long-term benefits		Equity-based benefits	Other	
ExCo member	Financial year	Salary[3] $	STI $	Other[4] $	Non-monetary benefits[5] $	Super-annuation $	Leave[6] $	Deferred STI[7] $	Performance rights[8] $	Termination benefits[9] $	Total remun-eration $
David Koczkar	**2016**	**789,359**	**244,000**	**225,000**	**18,736**	**25,192**	**26,445**	**–**	**712,949**	**–**	**2,041,681**
	2015	706,084	232,349	143,023	12,946	25,384	19,533	–	303,453	–	1,442,772
Kylie Bishop	**2016**	**416,668**	**118,250**	**–**	**15,976**	**25,192**	**13,626**	**–**	**389,501**	**–**	**979,213**
	2015	361,494	135,003	–	11,503	25,384	22,051	–	176,317	–	731,752
Paul Koppelman	**2016**	**651,951**	**155,250**	**–**	**21,935**	**25,191**	**27,604**	**–**	**637,386**	**–**	**1,519,317**
	2015	657,032	232,349	–	12,325	25,384	51,930	–	303,453	–	1,282,473
Andrew Wilson	**2016**	**681,000**	**233,813**	**–**	**28,337**	**36,786**	**35,910**	**–**	**693,512**	**–**	**1,709,358**
	2015	641,972	232,349	–	20,003	31,663	44,740	–	303,453	–	1,274,180
Former ExCo member											
George Savvides[1]	**2016**	**929,161**	**320,313**	**–**	**51,368**	**30,135**	**21,943**	**320,313**	**1,226,500**	**595,173**	**3,494,906**
	2015	1,017,915	302,835	–	20,331	35,846	101,657	–	602,147	–	2,080,731
Sarah Harland[2]	**2016**	**184,405**	**–**	**–**	**11,525**	**17,518**	**–**	**–**	**–**	**–**	**213,448**
	2015	–	–	–	–	–	–	–	–	–	–
Total ExCo remun-eration	**2016**	**3,652,544**	**1,071,626**	**225,000**	**147,877**	**160,014**	**125,528**	**320,313**	**3,659,848**	**595,173**	**9,957,923**
	2015	3,384,497	1,134,885	143,023	77,108	143,661	239,911	–	1,688,823	–	6,811,908

1. Mr Savvides ceased employment with Medibank on 31 March 2016 and therefore the cash salary, superannuation and STI amounts detailed reflect his part-year service.
2. Statutory remuneration reported for Ms Harland reflects the period she was a KMP between 11 January and 3 June 2016.
3. Salary includes annual base salary paid on a fortnightly basis and accrued but untaken annual leave entitlements which are expected to be taken in the next twelve months.
4. Other payments with respect to Mr Koczkar relate to a one-off allowance of $225,000 made to Mr Koczkar in recognition of his three months as Acting Chief Executive Officer and a one-off $250,000 sign-on payment made to Mr Koczkar in November 2014 in line with his contractual arrangement upon joining Medibank in March 2014 and remaining employed as at 31 October 2014.
5. Non-monetary benefits may include death, total and permanent disablement insurance, salary continuance insurance, subsidised Medibank health insurance and fringe benefits that are on the same terms and conditions that are available to all employees of the Group.
6. Long-term leave comprises an accrual for long service leave and accrued but untaken annual leave entitlements which are not expected to be taken in the next twelve months.
7. Deferred STI is in relation to George Savvides' deferred component of the FY16 STI award which will be paid in cash (rather than performance rights) in October 2017, in accordance with Medibank's Executive STI Plan rules.
8. Performance rights include equity-based remuneration incurred during the relevant financial year for deferred STI, additional STI and LTI. The values are based on the grant date fair value amortised on a straight-line basis over the performance period.
9. Termination payment amount for Mr Savvides refers to a termination payment equivalent to six months in lieu of notice ($595,173) in line with contractual obligations.

7.2 Performance related remuneration statutory table

The following table provides an analysis of the non-performance related (fixed remuneration) and performance related (STI and LTI) components of the 2016 remuneration mix for Medibank's ExCo members as detailed in the 'Statutory remuneration table'.

		Non-performance related	Performance related remuneration				
ExCo member	**Financial year**	**Fixed remuneration[1]**	**Cash STI**	**Deferred STI[2]**	**LTI[3]**	**Total performance related remuneration**	**Total**
David Koczkar	**2016**	**53.1%**	12.0%	22.3%	12.6%	**46.9%**	**100%**
Kylie Bishop	**2016**	**48.1%**	12.1%	25.9%	13.9%	**51.9%**	**100%**
Paul Koppelman	**2016**	**47.8%**	10.2%	27.1%	14.9%	**52.2%**	**100%**
Andrew Wilson	**2016**	**45.8%**	13.6%	26.4%	14.2%	**54.2%**	**100%**
Former ExCo member							
George Savvides	**2016**	**46.6%**	9.2%	27.0%	17.2%	**53.4%**	**100%**
Sarah Harland	**2016**	**100.0%**	0.0%	0.0%	0.0%	**0.0%**	**100%**

1. Fixed remuneration includes the accounting expense from all columns of the 'Statutory remuneration table' other than 'Cash STI' and 'Performance rights'.
2. Deferred STI includes the 2016 accounting expense of the 2015 and 2016 deferred STI and 2015 additional STI opportunity components of the 'Deferred STI' and 'Performance rights' columns of the 'Statutory remuneration table'.
3. LTI includes the 2016 accounting expense of the 2015 and 2016 LTI component of the 'Performance rights' column of the 'Statutory remuneration table'.

8. Executive Committee equity awards

8.1 Executive Committee equity award transactions

Details of STI and LTI performance rights grants made to Executive Committee members during 2016 and in prior years are provided below.

ExCo member	Award type	Grant date	Units granted	Vesting and exercise date[1]	Unit price $[2]	Fair value at grant $[3]	Total face value of grant $	Total fair value of grant $
David Koczkar	2016 LTI performance rights	29 October 2015	252,426	1 July 2018	2.06	1.82	519,998	459,415
	2015 Deferred STI performance rights	29 October 2015	94,450	6 Oct 2016	2.46	–	232,347	–
	2015 Additional STI performance rights	29 October 2015	160,465	6 Oct 2016	2.15	–	345,000	–
	2015 LTI performance rights	22 May 2015	192,558	1 July 2017	2.15	1.39	414,000	267,656
Kylie Bishop	2016 LTI performance rights	29 October 2015	125,242	1 July 2018	2.06	1.82	257,999	227,940
	2015 Deferred STI performance rights	29 October 2015	54,879	6 Oct 2016	2.46	–	135,002	–
	2015 Additional STI performance rights	29 October 2015	93,236	6 Oct 2016	2.15	–	200,457	–
	2015 LTI performance rights	22 May 2015	111,882	1 July 2017	2.15	1.39	240,546	155,516
Paul Koppelman	2016 LTI performance rights	29 October 2015	200,970	1 July 2018	2.06	1.82	413,998	365,765
	2015 Deferred STI performance rights	29 October 2015	94,450	6 Oct 2016	2.46	–	232,347	–
	2015 Additional STI performance rights	29 October 2015	160,465	6 Oct 2016	2.15	–	345,000	–
	2015 LTI performance rights	22 May 2015	192,558	1 July 2017	2.15	1.39	414,000	267,656
Andrew Wilson	2016 LTI performance rights	29 October 2015	228,762	1 July 2018	2.06	1.82	471,250	416,347
	2015 Deferred STI performance rights	29 October 2015	94,450	6 Oct 2016	2.46	–	232,347	–
	2015 Additional STI performance rights	29 October 2015	160,465	6 Oct 2016	2.15	–	345,000	–
	2015 LTI performance rights	22 May 2015	192,558	1 July 2017	2.15	1.39	414,000	267,656

ExCo member	Award type	Grant date	Units granted	Vesting and exercise date[1]	Unit price $[2]	Fair value at grant $[3]	Total face value of grant $	Total fair value of grant $
Former ExCo member								
George Savvides	2015 Deferred STI performance rights	29 October 2015	123,103	6 Oct 2016	2.46	–	302,833	–
	2015 Additional STI performance rights	29 October 2015	348,837	6 Oct 2016	2.15	–	750,000	–
	2015 LTI performance rights	22 May 2015	558,138	1 July 2017	2.15	1.39	1,199,997	775,812
Sarah Harland	–	–	–	–	–	–	–	–

1. The vesting and exercise date represents the earliest possible date the performance rights may vest, being the end of the performance period. The actual vesting and exercise date will be at a time and manner determined by the Board following the end of the performance period with Medibank to notify the holder at that time. Any performance rights that do not vest at this point will immediately expire.
2. The unit price for each award have been determined as follows:
   — The unit price for the 2016 LTI performance rights was determined using the volume weighted average price of Medibank shares on the ASX during the 10 trading days up to and including 30 June 2015.
   — The unit price for the 2015 deferred STI performance rights was determined using the volume weighted average price of Medibank shares on the ASX during the 10 trading days up to and including 6 October 2015.
   — The unit price for both the 2015 additional STI performance rights and 2015 LTI performance rights was the final price of the Medibank initial public offer as paid by a successful applicant under the Institutional Offer.
3. The fair value at grant has been based on a valuation by independent external consultants in accordance with accounting standard AASB 2 "Share Based Payments". The fair values for both the 2015 and 2016 LTI grants are used for accounting purposes only as all LTI grants are made using the face value, as outlined in section 4.4.2.

8.2 Executive Committee members' equity holdings

Details of the equity holdings of ExCo members and their related parties are provided in the table below.

ExCo member	Equity type	Balance 1 July 2015	Granted as remun -eration	Acquired	Vested awards Number	Vested awards %	Forfeited awards Number	Forfeited awards %	Balance 30 June 2016 Number	Maximum value yet to vest[1] $
David Koczkar	Ordinary shares	–	–	–	–	–	–	–	–	–
	STI performance rights	–	254,915	–	–	–	–	–	254,915	577,347
	LTI performance rights	192,558	252,426	–	–	–	–	–	444,984	727,071
Kylie Bishop	Ordinary shares	–	–	–	–	–	–	–	–	–
	STI performance rights	–	148,115	–	–	–	–	–	148,115	335,460
	LTI performance rights	111,882	125,242	–	–	–	–	–	237,124	383,456
Paul Koppelman	Ordinary shares	13,650	–	–	–	–	–	–	13,650	–
	STI performance rights	–	254,915	–	–	–	–	–	254,915	577,347
	LTI performance rights	192,558	200,970	–	–	–	–	–	393,528	633,421
Andrew Wilson	Ordinary shares	11,719	–	–	–	–	–	–	11,719	–
	STI performance rights	–	254,915	–	–	–	–	–	254,915	577,347
	LTI performance rights	192,558	228,762	–	–	–	–	–	421,320	684,002

ExCo member	Equity type	Balance 1 July 2015	Granted as remun -eration	Acquired	Vested awards Number	Vested awards %	Forfeited awards Number	Forfeited awards %	Balance 30 June 2016 Number	Maximum value yet to vest[1] $
Former ExCo member										
George Savvides	Ordinary shares	122,000	–	–	–	–	–	–	122,000	–
	STI performance rights	–	471,940	–	–	–	–	–	471,940	1,052,833
	LTI performance rights	558,138	–	–	–	–	–	–	558,138	775,812
Sarah Harland	Ordinary shares	–	–	–	–	–	–	–	–	–
	STI performance rights	–	–	–	–	–	–	–	–	–
	LTI performance rights	–	–	–	–	–	–	–	–	–

1. The maximum value yet to vest has been determined by multiplying the balance of STI performance rights at 30 June 2016 by the value at grant and LTI performance rights at 30 June 2016 by the fair value at grant.

9. Non-executive director remuneration and framework

Non-executive director fees are determined by the Board reflecting the role, market benchmarks and the objective of the Company to attract highly skilled and experienced independent non-executive directors. All non-executive directors are required to hold shares in the Company to align with shareholder interests.

9.1 Non-executive director remuneration

Component	Delivered	Description
Base fee	Cash & superannuation	The base fee represents remuneration for service on the Medibank Board. The base fee for the Chairman represents the entire remuneration for that role.
Committee fees	Cash & superannuation	Committee fees represent remuneration for chairing, or membership of, Board committees.

9.1.1 Non-executive director Fee Cap

Under Medibank's Constitution, the total fees paid in any financial year to all non-executive directors for their services (excluding, for these purposes, the salary of any executive director) must not exceed, in aggregate, the amount fixed in 2014 at $2 million per annum (Fee Cap). Shareholder approval is required for any increase to the Fee Cap. The Fee Cap will remain unchanged for the year commencing 1 July 2016.

9.1.2 2016 non-executive director remuneration

Under Medibank's Constitution, the Board is responsible for determining the total amount paid to each non-executive director as remuneration for their services. In making this determination, the Board has taken into account the level of work required for the role and has regard to the median remuneration paid to non-executive directors of companies positioned within the ASX 11-100 (excluding mining and energy companies).

9.1.3 2017 non-executive director remuneration

As in 2016, the Board considered it appropriate to position the non-executive directors at the median of the benchmark group, being the ASX 11-100 (excluding mining and energy companies). Following the benchmarking exercise the Board chose to:

- Increase the Chairman base fee from $400,000 to $425,000;
- Increase the non-executive director base fee from $140,000 to $155,000;
- Increase the People and Remuneration Committee and Investment and Capital Committee chair fee from $25,000 to $30,000; and
- Increase the People and Remuneration Committee and Investment and Capital Committee member fee from $12,000 to $15,000.

Non-executive director fees applicable throughout 2016 and 2017 are set out below:

	From 1 July 2015 $	From 1 July 2016 $
Base fee per annum		
Chairman	400,000	**425,000**
Non-executive directors	140,000	**155,000**
Committee chairman fees		
Audit and Risk Management Committee	35,000	**35,000**
People and Remuneration Committee	25,000	**30,000**
Investment and Capital Committee	25,000	**30,000**
Committee membership fees		
Audit and Risk Management Committee	17,000	**17,000**
People and Remuneration Committee	12,000	**15,000**
Investment and Capital Committee	12,000	**15,000**

9.2 Non-executive director superannuation

Medibank meets its obligations under the Superannuation Guarantee legislation by paying superannuation contributions in respect of non-executive directors to their nominated complying superannuation funds up to the concessional contribution limits, as prescribed by current income tax law. These superannuation contributions for non-executive directors are drawn from the overall fees paid to non-executive directors.

9.3 Shareholding policy for non-executive directors

Medibank has a minimum shareholding policy that requires non-executive directors acquire shares with a value equal to one year's base fee after tax over a period of five years. Non-executive directors do not participate in, or receive, any performance-based remuneration as part of their role and do not participate in any equity plans that operate within the Group.

As at 30 June 2016, all non-executive directors have either met the minimum shareholding requirement or are on track to do so within the five-year period. Further details of current non-executive director shareholdings and their progress towards meeting the minimum shareholding requirement are provided in section 11.

10. Non-executive director statutory remuneration table

		Short-term benefits		Post-employment benefits	
Non-executive director	Financial year	Cash salary and fees $	Non-monetary[1] $	Super-annuation $	Total $
Elizabeth Alexander	**2016**	**383,596**	**–**	**19,481**	**403,077**
	2015	279,814	–	16,947	296,761
Anna Bligh	**2016**	**150,924**	**2,295**	**14,338**	**167,557**
	2015	109,528	1,989	10,405	121,922
David Fagan	**2016**	**150,924**	**2,224**	**14,338**	**167,486**
	2015	114,800	1,965	10,906	127,671
Cherrell Hirst	**2016**	**155,525**	**852**	**14,775**	**171,152**
	2015	125,833	757	11,954	138,544
Peter Hodgett	**2016**	**167,488**	**2,371**	**15,912**	**185,771**
	2015	132,774	2,045	12,614	147,433
Linda Bardo Nicholls	**2016**	**151,844**	**2,882**	**14,425**	**169,151**
	2015	117,779	727	11,189	129,695
Christine O'Reilly	**2016**	**161,047**	**488**	**15,299**	**176,834**
	2015	130,069	–	12,357	142,426
Total non-executive director remuneration	**2016**	**1,321,348**	**11,112**	**108,568**	**1,441,028**
	2015	1,010,597	7,483	86,372	1,104,452

1. Non-monetary benefits may include death, total and permanent disablement insurance, salary continuance insurance, subsidised Medibank health insurance and fringe benefits that are on the same terms and conditions that are available to all employees of the Group.

11. Non-executive director ordinary shareholdings

Non-executive director	Equity Type	Balance 1 July 2015	Acquired during the year	Balance 30 June 2016	Minimum shareholding requirement[1] $	Value of eligible shareholdings as at 30 June 2016[2] $	Minimum shareholding requirement deadline
Elizabeth Alexander	Ordinary shares	4,786	50,000	54,786	200,000	161,619	25 November 2019
Anna Bligh	Ordinary shares	3,835	–	3,835	70,000	11,313	25 November 2019
David Fagan	Ordinary shares	30,016	–	30,016	70,000	88,547	25 November 2019
Cherrell Hirst	Ordinary shares	7,150	–	7,150	70,000	21,093	25 November 2019
Peter Hodgett	Ordinary shares	7,800	60,000	67,800	70,000	200,010	25 November 2019
Linda Bardo Nicholls	Ordinary shares	7,150	20,000	27,150	70,000	80,093	25 November 2019
Christine O'Reilly	Ordinary shares	6,454	45,871	52,325	70,000	154,359	25 November 2019

1. Minimum shareholding requirement based on annual non-executive director base fees for 2016 and an assumed tax rate of 50 percent.
2. Value has been calculated with reference to the total number of eligible shares held by each non-executive director, multiplied by the closing price of Medibank's shares on 30 June 2016 ($2.95).

12. Medibank's comparator groups

Detailed below are a list of companies that have either been added or excluded from Medibank's comparator groups for the period 2015-2017. As explained in sections 4.2, 4.4 and 10.1 of this report, these comparator groups have been used for the purposes of benchmarking executive and non-executive director remuneration and for the assessment of Medibank's relative TSR performance under its LTI Plan.

The companies listed below have either been added or excluded from Medibank's comparator groups in line with Board's intent on benchmarking remuneration and comparing performance against organisations of similar size and from similar industries.

2015 Comparator group

Excluded companies	Included insurance companies[1]
Alumina Limited	Suncorp Group Limited
BlueScope Steel Limited	AMP Limited
Fletcher Building Limited	Insurance Australia Group Limited
Iluka Resources Limited	
James Hardie Industries	
Sims Metal Management Limited	
Beach Energy Limited	

1. The insurance companies listed above were only included in the 2015 comparator group for the purposes of benchmarking executive and non-executive remuneration.

2016 and 2017 comparator group

Excluded companies	
Rio Tinto Limited	Alumina Limited
Origin Energy Limited	BlueScope Steel Limited
Oil Search Limited	Worley Parsons Limited[1]
Newcrest Mining Limited	Sims Metal Management Limited[1]
Caltex Australia Limited	Iluka Resources Limited
Santos Limited	South32 Limited[2]
Fortescue Metals Group Limited	

1. Worley Parsons Limited and Sims Metal Management Limited were only excluded from the 2016 comparator group.
2. South32 Limited is only excluded from the 2017 comparator group.

FINANCIAL REPORT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 30 June 2016

	Note	2016 $m	2015 $m
Revenue			
Health Insurance premium revenue	3(a)	6,172.5	5,934.8
Complementary Services revenue		569.3	641.2
		6,741.8	**6,576.0**
Other income		**10.5**	**11.8**
Expenses			
Claims expense		(5,130.4)	(5,083.9)
Employee benefits expense	14(a)(ii)	(326.4)	(379.0)
Medical services expense		(409.1)	(404.3)
Office and administration expense		(88.1)	(105.2)
Marketing expense		(96.9)	(89.5)
Information technology expense		(54.7)	(59.7)
Professional service expense		(47.1)	(33.3)
Lease expense		(32.6)	(43.5)
Depreciation and amortisation expense		(63.8)	(64.7)
Other expenses		(16.2)	(21.9)
		(6,265.3)	**(6,285.0)**
Profit before net investment income and income tax		**487.0**	**302.8**
Net investment income	7(a)	59.3	93.8
Profit for the year before income tax		**546.3**	**396.6**
Income tax expense	15(a)	(128.7)	(111.3)
Profit for the year		**417.6**	**285.3**
Other comprehensive income, net of tax			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	11	(0.6)	(0.2)
Items that will not be reclassified to profit or loss			
Revaluation of land and buildings	11	–	(0.1)
		(0.6)	(0.3)
Total comprehensive income for the year		**417.0**	**285.0**

Earnings per share for profit attributable to ordinary equity holders of the Company		Cents	Cents
Basic earnings per share	6(b)	15.2	10.4
Diluted earnings per share	6(b)	15.2	10.4

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Note	2016 $m	2015 $m
Current assets			
Cash and cash equivalents	9(d)	438.7	408.7
Trade and other receivables	9(b)	313.1	301.2
Financial assets at fair value through profit or loss	7(b)	2,015.8	1,971.8
Deferred acquisition costs	4	31.1	22.4
Other assets		13.8	7.9
Assets held for sale		–	14.6
Total current assets		**2,812.5**	**2,726.6**
Non-current assets			
Property, plant and equipment	12	93.3	106.1
Intangible assets	13	312.9	261.8
Deferred acquisition costs	4	45.0	45.3
Other assets		2.5	1.1
Total non-current assets		**453.7**	**414.3**
Total assets		**3,266.2**	**3,140.9**
Current liabilities			
Trade and other payables	9(c)	333.9	383.0
Claims liabilities	3(b)	396.3	387.5
Unearned premium liability	5	664.0	668.4
Tax liability		63.8	26.9
Provisions and employee entitlements	14	60.5	69.2
Total current liabilities		**1,518.5**	**1,535.0**
Non-current liabilities			
Trade and other payables	9(c)	34.7	36.1
Claims liabilities	3(b)	21.3	23.1
Unearned premium liability	5	65.3	57.2
Deferred tax liabilities	15(c)	11.9	5.6
Provisions and employee entitlements	14	35.8	41.9
Total non-current liabilities		**169.0**	**163.9**
Total liabilities		**1,687.5**	**1,698.9**
Net assets		**1,578.7**	**1,442.0**
Equity			
Contributed equity	10	85.0	85.0
Reserves	11	23.4	21.1
Retained earnings		1,470.3	1,335.9
Total equity		**1,578.7**	**1,442.0**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June 2016

	Contributed equity $m	Reserves $m	Retained earnings $m	Total equity $m
Balance at 1 July 2014	85.0	20.9	1,288.0	1,393.9
Profit for the year	–	–	285.3	285.3
Other comprehensive income	–	(0.3)	–	(0.3)
Total comprehensive income for the year	**–**	**(0.3)**	**285.3**	**285.0**
Transfers upon sale of properties (Note 11)	–	(1.3)	1.4	0.1
Transactions with owners in their capacity as owners:				
Dividends paid	–	–	(238.8)	(238.8)
Share-based payment transactions	–	1.8	–	1.8
Balance at 30 June 2015	**85.0**	**21.1**	**1,335.9**	**1,442.0**
Profit for the year	–	–	417.6	417.6
Other comprehensive income	–	(0.6)	–	(0.6)
Total comprehensive income for the year	**–**	**(0.6)**	**417.6**	**417.0**
Transfers upon sale of properties (Note 11)	–	(0.7)	0.5	(0.2)
Transactions with owners in their capacity as owners:				
Dividends paid	–	–	(283.7)	(283.7)
Share-based payment transactions	–	3.6	–	3.6
Balance at 30 June 2016	**85.0**	**23.4**	**1,470.3**	**1,578.7**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 30 June 2016

	Note	2016 $m	2015 $m
Cash flows from operating activities			
Premium receipts		6,159.5	5,990.6
Complementary Services receipts		612.7	740.7
Other receipts		6.3	16.7
Contribution received towards fitout of property		–	30.4
Payments for claims and levies		(5,141.4)	(5,042.4)
Payments to suppliers and employees		(1,199.4)	(1,261.6)
Income taxes paid		(85.4)	(97.3)
Net cash inflow from operating activities	9(d)	**352.3**	**377.1**
Cash flows from investing activities			
Interest received		42.2	46.4
Investment expenses		(3.7)	(5.0)
Proceeds from sale of financial assets		1,011.4	625.3
Purchase of financial assets		(1,040.1)	(1,055.4)
Proceeds from sale of businesses		23.3	–
Proceeds from sale of property, plant and equipment		–	4.0
Proceeds from sale of land and buildings		6.5	–
Purchase of plant and equipment		(2.6)	(6.1)
Purchase of intangible assets		(75.6)	(46.8)
Net cash outflow from investing activities		**(38.6)**	**(437.6)**
Cash flows from financing activities			
Dividends paid		(283.7)	(238.8)
Net cash outflow from financing activities		**(283.7)**	**(238.8)**
Net increase/(decrease) in cash and cash equivalents		**30.0**	**(299.3)**
Cash and cash equivalents at beginning of year		408.7	708.0
Cash and cash equivalents at end of year		**438.7**	**408.7**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 June 2016

SECTION 1: BASIS OF PREPARATION

Overview

This section outlines the basis on which the Group's financial statements are prepared. Specific accounting policies are described in the note to which they relate.

Note 1: Basis of preparation

(a) Corporate information

Medibank Private Limited (Medibank or the Company) is a for-profit company incorporated in Australia, whose shares are publicly traded on the Australian Securities Exchange (ASX). The Company was admitted to the official list of the ASX on 25 November 2014. Prior to this, the Company was wholly owned by the Commonwealth Government.

The financial statements of Medibank for the financial year ended 30 June 2016 were authorised for issue in accordance with a resolution of the directors on 19 August 2016. The directors have the power to amend and reissue the financial statements.

(b) Basis of preparation

The financial statements are general purpose financial statements which:

- are for the consolidated entity ("the Group") consisting of Medibank ("parent entity") and its subsidiaries;
- have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the Corporations Act 2001;
- have been prepared under the historical cost convention, with the exception of financial assets measured at fair value through profit or loss, land and buildings which are measured at fair value, and claims liabilities which are measured at the present value of expected future payments;
- are presented in Australian dollars, which is Medibank's functional and presentation currency;
- have been rounded off in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 to the nearest hundred thousand dollars unless otherwise stated;
- adopt all new and amended accounting standards that are mandatory for 30 June 2016 reporting periods. Refer to Note 21(a) for further details; and
- do not apply any pronouncements before their operative date. Refer to Note 21(b) for details of new standards and interpretations which have been issued but are not effective for 30 June 2016 reporting periods.

(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 4: Deferred acquisition costs
- Note 7: Investment portfolio
- Note 13: Intangible assets
- Note 14: Provisions and employee entitlements

(d) Events occurring after the reporting period

There have been no events occurring after the reporting period which would have a material effect on the Group's financial statements at 30 June 2016.

SECTION 2: OPERATING PERFORMANCE

Overview

This section explains the operating results of the Group for the year, and provides insights into the Group's result by reference to key areas, including:

- **Results by operating segment;**
- **Insurance underwriting result; and**
- **Shareholder returns.**

Note 2: Segment information

Segment reporting accounting policy

Operating segments are identified based on the separate financial information that is regularly reviewed by the Chief Operating Decision Maker (CODM). The term CODM refers to the function performed by the Chief Executive Officer in assessing performance and determining the allocation of resources across the Group.

(a) Description of segments

Segment information is reported on the same basis as the Group's internal management reporting structure, which determines how the Group is organised and managed at the reporting date.

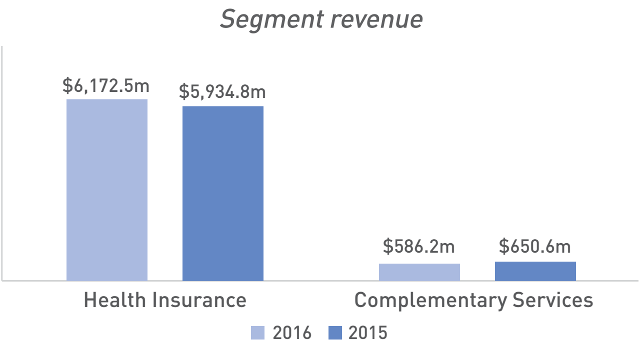
For the financial year ended 30 June 2016, the Group was organised for internal management reporting purposes into two reportable segments, Health Insurance and Complementary Services.

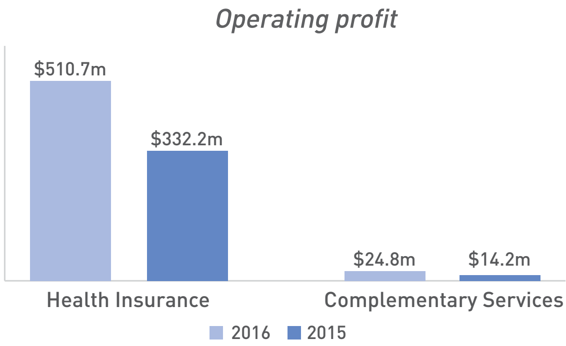
Health Insurance	Offers private health insurance products including hospital cover and extras cover, as stand-alone products or packaged products that combine the two. Hospital cover provides members with health cover for hospital treatments, whereas extras cover provides members with health cover for healthcare services such as dental, optical and physiotherapy. The segment also offers health insurance products to overseas visitors and overseas students.
	Private health insurance premium revenue recognition accounting policy Premium revenue is recognised on a straight line basis over the period of insurance cover and is measured at the fair value of the consideration received or receivable.
Complementary Services	Derives its revenue from a range of activities including contracting with government and corporate customers to provide health management services, as well as providing a range of telehealth services in Australia and New Zealand. In addition, the Group distributes diversified insurance products on behalf of other insurers as part of a broader strategy to retain members and leverage its distribution network.
	Complementary Services revenue recognition accounting policy Complementary Services revenue 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.

NOTE 2: SEGMENT INFORMATION (continued)

(b) Segment information provided to the Chief Executive Officer

The Chief Executive Officer measures the performance of the Group's reportable segments based on the operating profit of those segments. The segment information provided to the Chief Executive Officer for the year ended 30 June 2016 is as follows:





Year ended 30 June 2016	Health Insurance $m	Complementary Services $m	Total $m
Revenues			
Total segment revenue	6,172.5	586.2	6,758.7
Inter-segment revenue	–	(16.9)	(16.9)
Revenue from external customers	**6,172.5**	**569.3**	**6,741.8**
Operating profit	**510.7**	**24.8**	**535.5**
Items included in segment operating profit:			
Depreciation and amortisation	(51.4)	(4.5)	(55.9)

Year ended 30 June 2015	Health Insurance $m	Complementary Services $m	Total $m
Revenues			
Total segment revenue	5,934.8	650.6	6,585.4
Inter-segment revenue	–	(9.4)	(9.4)
Revenue from external customers	**5,934.8**	**641.2**	**6,576.0**
Operating profit	**332.2**	**14.2**	**346.4**
Items included in segment operating profit:			
Depreciation and amortisation	(44.2)	(9.2)	(53.4)

(c) Other segment information

(i) Segment revenue

Segment revenue from external customers reported to the Chief Executive Officer is measured in a manner consistent with that in the Group's consolidated statement of comprehensive income. Transactions between segments are carried out at arm's length basis and are eliminated on consolidation. The Group is not reliant on any one major customer.

(ii) Segment operating profit or loss

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

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

	Notes	2016 $m	2015 $m
Total segment operating profit		**535.5**	**346.4**
Unallocated to operating segments:			
Corporate operating expenses		(29.7)	(30.8)
Depreciation and amortisation		(0.3)	(2.8)
Group operating profit		**505.5**	**312.8**
Acquisition intangible amortisation	13	(7.6)	(8.5)
Other expenses		(7.4)	(13.3)
Unearned premium liability adjustment		(14.0)	–
Other income		10.5	11.8
Net investment income	7(a)	59.3	93.8
Profit for the year before income tax		**546.3**	**396.6**

(iii) Other items

Segment operating profit excludes the following:

- Depreciation and amortisation of $7.9 million (2015: $11.3 million) and operating expenses of the Group's corporate function of $29.7 million (2015: $30.8 million), which are not allocated to segments;
- Other expenses of $7.4 million (2015: $13.3 million) which do not relate to the trading activities of the Group's segments;
- Unearned premium liability adjustment of $14.0 million (2015: nil) which relates to a system migration adjustment resulting from the Group revising the basis for determining the unearned premium liability. The revision was made as a result of the implementation of a new system. The adjustment is being processed in this financial period as the revisions are minor in each respective financial year. The full amount is recognised within "Other expenses" in the consolidated statement of comprehensive income;
- Other income of $10.5 million (2015: $11.8 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 7(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 7(a)), as they are not indicative of the Group's long-term performance.

NOTE 2: SEGMENT INFORMATION (continued)

(C) OTHER SEGMENT INFORMATION (continued)

(iv) 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.

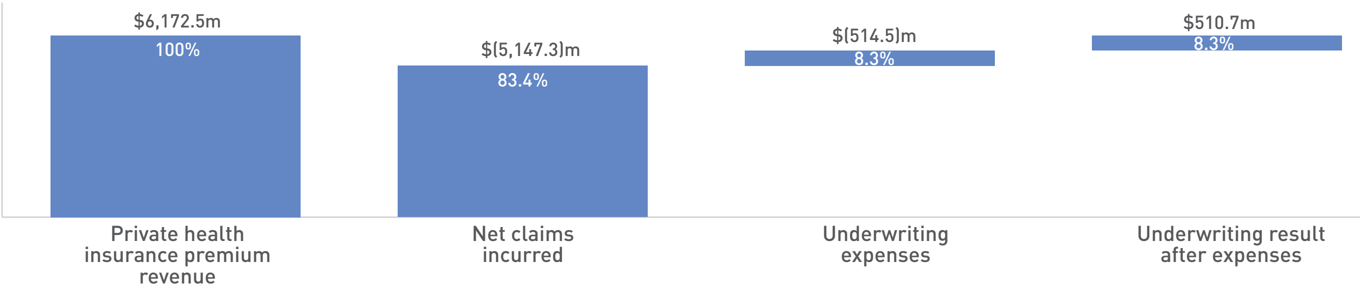
(v) Geographic information

Segment revenues based on the geographical location of customers has not been disclosed, as the Group derives substantially all of its revenues from its Australian operations.

Note 3: Insurance underwriting result

This note presents the Group's insurance underwriting result and provides information on the Group's claims liabilities, which comprise the outstanding claims liability and the provision for bonus entitlements.

2016 underwriting result after expenses



Insurance contracts accounting policy

An insurance contract arises when the Group accepts significant insurance risk from another party by agreeing to compensate them from the adverse effects of a specified uncertain future event. The significance of insurance risk depends on both the probability and magnitude of an insurance event.

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 significantly reduces during the period. With the exception of travel, life and pet insurance where the Group does not act as an underwriter, all other types of insurance cover are insurance contracts.

(a) Insurance underwriting result

	Notes	2016 $m	2015 $m
Private health insurance premium revenue		6,172.5	5,934.8
Claims expense			
Claims incurred	(i)	(5,161.0)	(5,123.5)
State levies		(48.3)	(46.7)
Net Risk Equalisation Special Account rebates		63.5	77.4
Net claims incurred excluding claims handling costs on outstanding claims liabilities		(5,145.8)	(5,092.8)
Claims handling costs on outstanding claims liabilities		(1.5)	(0.1)
Net claims incurred		(5,147.3)	(5,092.9)
Underwriting expenses		(514.5)	(509.7)
Underwriting result after expenses		**510.7**	**332.2**

(i) Prior to elimination of transactions with the Group's other operating segments of $16.9 million (2015: $9.2 million).

Private health insurance premium revenue recognition accounting policy

Premium revenue is recognised in the statement of comprehensive income when the amount can be reliably measured and it is probable that future economic benefits will flow to the entity. Premium revenue is recognised on a straight line basis from the commencement date of the current period of insurance cover. Premium revenue is measured at the fair value of the consideration received or receivable.

Premium revenue includes the movement in the premiums 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 an unearned premium liability in the consolidated statement of financial position.

The Australian Government provides a rebate for premiums paid for eligible resident private health insurance policyholders. Eligible policyholders can elect to receive this entitlement by paying the net amount of the premium, with the rebate being paid directly by the government to the Group. This rebate is recognised within premium revenue in the statement of comprehensive income. Rebates due from the government but not received at balance date are recognised as receivables.

Net Risk Equalisation Special Account levies and rebates accounting policy

Under legislation, all private health insurers must participate in the Risk Equalisation Special Account, formerly the Risk Equalisation Trust Fund, in which all private health insurers share the cost of the eligible claims of members aged 55 years and over, and claims meeting the high cost claim criteria.

The Australian Prudential Regulation Authority (APRA) determines the amount payable to or receivable from the Risk Equalisation Special Account after the end of each quarter. Provisions for estimated amounts payable or receivable are provided for periods where determinations have not yet been made. This includes an estimate of risk equalisation for unpresented and outstanding claims.

NOTE 3: INSURANCE UNDERWRITING RESULT (continued)

(b) Gross claims liability

	Notes	2016 $m	2015 $m
Current			
Outstanding claims liability – central estimate	(i) (ii)	339.9	334.3
Risk margin	(iii)	26.6	25.8
Claims handling costs	(iv)	8.5	7.0
		375.0	367.1
Claims liability – bonus provision	(v)	21.3	20.4
Gross claims liability		**396.3**	**387.5**
Non-current			
Outstanding claims liability – central estimate	(i) (ii)	5.3	5.1
Risk margin	(iii)	0.4	0.4
Claims handling costs	(iv)	0.1	0.1
		5.8	5.6
Claims liability – bonus provision	(v)	15.5	17.5
Gross claims liability		**21.3**	**23.1**

Claims liabilities and provisions accounting policy

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. 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, 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 from the negotiation and settlement of claims. Claims handling costs comprise all direct expenses of the claims department and general administrative costs directly attributable to the claims function.

Key estimate

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	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. *Key estimate* **The central estimate is based on statistical analysis of historical experience which assumes an underlying pattern of claims development and payment. The final selected central estimate is based on a judgemental consideration of this analysis and other qualitative information. The central estimate excludes the impact of the Risk Equalisation Special Account. A separate estimate is made of levies payable to and recoveries from the account.**
(ii) Discounting	The outstanding claims liability central estimate is discounted to present value using a risk-free rate of 1.96 percent per annum which equates to a reduction in the central estimate of $0.9 million (2015: 2.15 percent, $1.1 million).
(iii) Risk margin	An overall risk margin considers the uncertainty surrounding the outstanding claims liability. The risk margin applied to the Group's outstanding claims central estimate (net of risk equalisation) at 30 June 2016 is 7.7 percent (2015: 7.7 percent). *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 (2015: 95 percent).**
(iv) Claims handling costs	The allowance for claims handling costs at 30 June 2016 is 2.5 percent of the outstanding claims liability (2015: 2.1 percent).
(v) Claims liabilities – bonus provision	Certain private health insurance products (Package Bonus, Ultra Bonus and Membership Bonus) include benefits that carry forward. Package Bonus carries forward unused benefit entitlements in a calendar year for five calendar years. Membership Bonus carries forward unused benefit entitlements in a calendar year for 10 calendar years. Ultra Bonus carries forward unused benefit entitlements without limit. The Group's claims liabilities include a provision to cover expected future utilisation of these benefit entitlements of the current membership. *Key estimate* **The bonus provision includes the total entitlement available to members under the terms of the relevant insurance policies, less any amounts utilised, with a probability of utilisation based on past experience and current claiming patterns applied. The true cost of these entitlements cannot be known with certainty until any unclaimed entitlements are processed.**

NOTE 3: INSURANCE UNDERWRITING RESULT (continued)

(c) Claims incurred

Information regarding liquidity risk is set out in Note 9(e). 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.

Claims expense accounting policy

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

(d) Reconciliation of movement in claims liabilities

	2016 $m	2015 $m
Balance at 1 July	410.6	407.1
Claims incurred during the year	5,178.4	5,141.8
Claims settled during the year	(5,137.1)	(5,111.1)
Amount over provided on central estimate	(36.7)	(28.4)
Risk margin	0.8	0.7
Claims handling costs	1.5	0.1
Movement in discount	0.1	0.4
Balance at 30 June	**417.6**	**410.6**

Note: Movement includes both current and non-current. Claims incurred and claims settled exclude levies and rebates.

(e) 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 $24.2 million decrease/increase to profit after tax (2015: $23.7 million) and a $24.2 million decrease/increase to equity (2015: $23.7 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.

(f) Insurance risk management

The Group provides private health insurance products for Australian residents, private health insurance for overseas students studying in Australia and overseas visitors to Australia. These services are written as two types of contracts: hospital and/or ancillary cover.

The table below sets out the key variables upon which the cash flows of the insurance contracts are dependent.

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 services.	Ancillary benefits defined by the insurance contract or relevant deed.	Claims incidence and claims inflation.

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

Mechanisms to manage risk

Claims management	Strict claims management ensures the timely and correct payment of claims in accordance with policy conditions and provider contracts. Claims are monitored monthly 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 regulator, APRA.
Prudential capital requirements	All private health insurers must comply with prudential capital requirements to provide a buffer against certain levels of adverse experience. The Board has a target level of capital which exceeds the regulatory requirement.
Ability to vary premium rates	The Group can vary future premium rates subject to the approval of the Minister for Health.
Risk equalisation	Private health insurance legislation requires resident private health insurance contracts to meet community rating requirements. This prohibits discrimination 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 Special Account.
Concentration of health risk	The Group has health insurance contracts covering hospital and ancillary cover, and private health insurance for overseas students and visitors to Australia. There is no significant exposure to concentrations of risk because contracts cover a large volume of people across Australia.

Note 4: Deferred acquisition costs

Movements in the deferred acquisition costs are as follows:

	2016 $m	2015 $m
Balance at beginning of year	67.7	38.0
Costs deferred during the year	33.6	45.1
Amortisation expense	(25.2)	(15.4)
	76.1	**67.7**

Note: Movement includes both current and non-current.

Deferred acquisition costs accounting policy

Acquisition costs incurred in obtaining health insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the consolidated statement of comprehensive income in subsequent reporting periods.

Deferred acquisition costs are amortised systematically over the average expected retention period of the insurance contracts to which they relate, in accordance with the expected pattern of the incidence of risk under the insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding actual and expected premium revenue. The Group amortises these costs on a straight-line basis over a period of 4 years (2015: 4 years). This is subject to the results of liability adequacy testing (refer to Note 5). The appropriateness of the average expected retention period of the insurance contracts is an accounting policy judgement and is reassessed annually on the basis of historical lapse rates for members who are subject to these acquisition costs.

Key judgement and estimate

The amortisation period of 4 years has been determined based on the average expected retention period of members. The actual retention period of a member can be longer or shorter than 4 years. The straight line method systematically follows the initial period of customer tenure with some customers remaining with Medibank over a longer period of time. The Group maintains data on the retention period of all members, and performs a retention period analysis of those who are subject to these acquisition costs.

Note 5: Unearned premium liability

Movement in the unearned premium liability is as follows:

	2016 $m	2015 $m
Balance at 1 July	725.6	664.9
Deferral of premium on contracts written during the year	672.1	682.1
Earnings of premiums deferred in prior years	(668.4)	(621.4)
Balance at 30 June	**729.3**	**725.6**

Note: Movement includes both current and non-current.

Liability adequacy testing did not result in the identification of any deficiency as at 30 June 2016 and 2015 which would require the recognition of an unexpired risk liability.

Unearned premium liability accounting policy

The proportion of premium received that has not been earned at the end of each reporting period is recognised in the consolidated statement of financial position as unearned premium liability. The liability for unearned premiums is non-interest bearing and is released to the statement of comprehensive income as revenue in accordance with Note 3(a) over the term of the insurance cover, which for the purpose of measuring the unearned premium liability, is between the attachment date and the date the premium has been paid up to.

Unexpired risk liability accounting policy

A liability adequacy test is required to be performed in respect of the unearned premium liability (premiums in advance) and insurance contracts renewable before the next pricing review (constructive obligation), net of related deferred acquisition costs. The purpose of the test is to determine whether the insurance liability is adequate to cover the present value of expected cash outflows relating to future claims arising from rights and obligations under current insurance coverage. An additional risk margin is included in the test 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 outflows 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, the unearned premium liability is deemed to be deficient, with the entire deficiency being recorded immediately in the statement of comprehensive income. The deficiency is recognised first by writing down any related intangible assets and then related deferred acquisition costs, with any excess being recorded in the consolidated statement of financial position as an unexpired risk liability.

Deferred acquisition costs which are not included in this test are separately assessed for recoverability and are amortised in accordance with the Group's accounting policy set out in Note 4.

Note 6: Shareholder returns

(a) Dividends

(i) Dividends provided for or paid

	Note	Cents per fully paid share	$m	Payment date
2016				
2015 final fully franked dividend		5.3	146.0	28 September 2015
2016 interim fully franked dividend		5.0	137.7	29 March 2016
2015	(i)			
2014 final unfranked dividend		1.5	42.0	30 October 2014
Special unfranked dividend		7.1	196.8	30 October 2014

(i) The dividends paid in 2015 were paid prior to the Company being admitted to the official list of the ASX.

The dividend per share for the current financial year has been calculated based on the number of shares outstanding at the payment date.

NOTE 6: SHAREHOLDER RETURNS (continued)

(A) DIVIDENDS (continued)

(ii) Dividends not recognised at the end of the reporting period

On 19 August 2016, the directors proposed a final fully-franked dividend for the year ended 30 June 2016 of 6.0 cents per share. The dividend is expected to be paid on 28 September 2016 and has not been provided for as at 30 June 2016.

(iii) Franking account

Franking credits available at 30 June 2016 for subsequent reporting periods based on a tax rate of 30 percent are $28.1 million (2015: $42.5 million).

Dividends accounting policy

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.

(b) Earnings per share

	2016	2015
Profit for the year attributable to ordinary equity holders of the Company ($m)	417.6	285.3
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	2,754,003,240	2,754,003,240

Basic earnings per share accounting policy

Basic earnings per share (EPS) is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the reporting period, adjusted for bonus elements in ordinary shares issued during the reporting period and excluding treasury shares.

Diluted earnings per share accounting policy

Diluted EPS adjusts the figures used in the determination of basic EPS to take into account:

- the after income tax effect of any interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Overview

This section provides insights into the Group's exposure to market and financial risks, and outlines how these risks are managed. This section also describes how the Group's capital is managed.

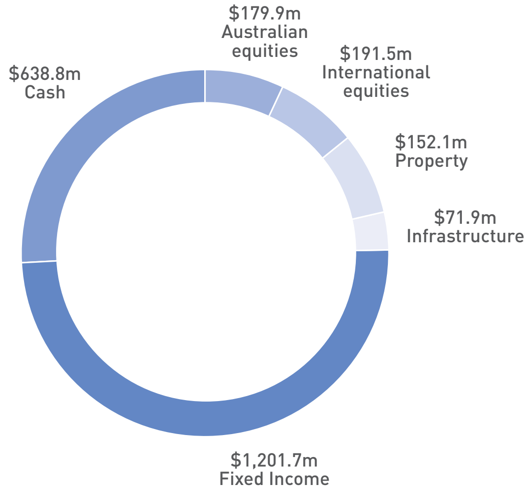
Note 7: Investment portfolio

This note contains information on the Group's net investment income and the carrying amount of the Group's investments.

Medibank's investments reflect the Board-approved Capital Management Policy which outlines risk appetite, the expected risks and returns of different asset classes, APRA regulatory requirements, and the need for stability and liquidity of its capital base. Consequently, Medibank's investment portfolio is skewed towards defensive (less risky and generally lower returning) assets rather than growth (riskier but potentially higher returning) assets.

The Group's investment portfolio comprises the following:

	Portfolio composition 2016	Portfolio composition 2015	Target asset allocation
Growth			
Australian equities	7.4%	6.8%	6.0%
International equities	7.9%	7.8%	8.0%
Property [i]	6.2%	6.2%	8.0%
Infrastructure	3.0%	3.0%	3.0%
	24.5%	**23.8%**	**25.0%**
Defensive			
Fixed Income [ii]	49.3%	48.9%	50.0%
Cash[iii]	26.2%	27.3%	25.0%
	75.5%	**76.2%**	**75.0%**
	100.0%	**100.0%**	**100.0%**



For investment portfolio classification purposes:

(i) Property includes Land and Buildings ($24.4 million)

(ii) Fixed income excludes cash with maturities between 3-12 months ($243.1 million)

(iii) Cash comprises cash and cash equivalents ($438.7 million), cash with maturities between 3-12 months ($243.1 million) less cash held for day to day operations of the business ($43.0 million).

NOTE 7: INVESTMENT PORTFOLIO (continued)

Assets backing insurance liabilities: financial assets at fair value through profit or loss accounting policy

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. Transaction costs relating to these financial assets are expensed in the consolidated statement of comprehensive income. These assets are subsequently carried at fair value, with gains and losses recognised within net investment income in the consolidated statement of comprehensive income.

The Group has determined that the financial assets attributable to its health benefits fund 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 insurance liabilities of its private health insurance fund. Financial assets that are designated at fair value through profit or loss, consist of externally managed equity trusts and direct mandates, and an internally managed fixed income portfolio.

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. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Key judgement and estimate

The measurement of fair value may in some cases be subjective, and investments are categorised into a hierarchy, depending on the level of subjectively involved. The hierarchy is described in (b).

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.

(a) Net investment income

Net investment income is presented net of investment management fees in the consolidated statement of comprehensive income.

	2016 $m	2015 $m
Interest	46.7	51.4
Trust distributions	37.7	21.4
Dividend income	3.4	8.2
Investment management fees	(3.6)	(5.0)
Net gain/(loss) on fair value movements on financial assets	(30.3)	13.5
Net gain on disposal of financial assets	5.4	4.3
	59.3	**93.8**

Net investment income accounting policy

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 the statement of comprehensive income within net investment income in the period in which they arise.

Dividend income and trust distribution income derived from financial assets at fair value though profit or loss is recognised in the statement of comprehensive income as part of net investment income when the Group's right to receive payments is established. Interest income from these financial assets accrues using the effective interest method and is also included in net investment income.

(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.

At 30 June 2016	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at fair value through profit or loss				
Australian equities	–	179.9	–	179.9
International equities	–	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
Derivatives	–	–	–	–
	146.8	**1,869.0**	**–**	**2,015.8**

At 30 June 2015	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at fair value through profit or loss				
Australian equities	163.3	–	–	163.3
International equities	–	185.0	–	185.0
Property	1.0	115.6	–	116.6
Infrastructure	–	71.0	–	71.0
Fixed income	163.2	1,272.4	–	1,435.6
Derivatives	–	0.3	–	0.3
	327.5	**1,644.3**	**–**	**1,971.8**

NOTE 7: 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 30 June 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 are now through an unlisted unit trust. At 30 June 2015, the Group had a direct investment in these exchange traded equities and therefore were classified as level 1.

Note 8: Financial risk management

This note reflects risk management policies and procedures associated with financial instruments and capital and insurance contracts. The Group's principal financial instruments comprise cash and cash equivalents, which are short-term money market instruments, fixed income (floating rate notes, asset-backed securities, syndicated loans, fixed income absolute return funds and hybrid investments), property, infrastructure, Australian equities and international equities.

The positions in these financial instruments are determined by Board policy. A strategic asset allocation is set and 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 is also established and reviewed by the Investment and Capital Committee. At no time throughout the period will trading of derivative instruments for purposes other than risk management be undertaken, unless explicitly approved by the Investment and Capital Committee. The Group did not trade in derivative instruments during the period. The Group was in compliance with this policy during the current and prior financial year.

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 these risks. These include monitoring levels of exposure to interest rate, price risk and foreign exchange risk. In analysing exposure to these risks, the Group considers interest rate expectations, potential renewals of existing positions, and any expected changes in asset allocation. Ageing analysis and monitoring of counterparty credit quality are undertaken to manage credit risk, whilst liquidity risk is monitored through future rolling cash flow forecasts. Equity price risk is managed through diversification and limit setting on investments in each country, sector and market.

Primary responsibility for consideration and control of financial risks rests with the Investment and Capital Committee under the authority of the Board. The Board 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.

(a) 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.

(i) Interest rate risk

Description

The risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

At the balance date, the Group had exposure to the risk of changes in market interest rates in respect of its cash and cash equivalents and fixed income investments. 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, and resets interest rates on longer-term investments every 90 days on average.

The Group's current policy is not to hedge against falls in market interest rates.

Exposure

At the balance date, the Group had the following financial assets exposed to Australian variable interest rate risk:

	2016 $m	2015 $m
Cash and cash equivalents	438.7	408.7
Financial assets at fair value through profit or loss – Fixed income	1,444.8	1,435.6
	1,883.5	**1,844.3**

Sensitivity

A 50 bps increase/decrease in interest rates for the entire reporting period, with all other variables remaining constant, would have resulted in a $6.3 million increase/decrease to profit after tax (2015: $6.4 million) and a $6.3 million increase/decrease to equity (2015: $6.4 million). The sensitivity analysis has been conducted using assumptions from published economic data.

(ii) Foreign currency risk

Description

The risk that the fair value of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group's investments in syndicated loans and infrastructure are externally managed and currency exposures are fully economically hedged by the fund manager. International equities are externally managed and approximately half of the foreign currency exposure is unhedged.

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.

Exposure

At 30 June 2016, the Group had the following net exposure to foreign currency movements:

	2016 $m	2015 $m
Financial assets at fair value through profit or loss – International equities	108.2	89.4

The balance of the international equities portfolio of $83.3 million (2015: $95.6 million) is not exposed to foreign currency movements.

Sensitivity

A 10 percent increase/decrease in foreign exchange rates, with all other variables remaining constant, would have resulted in a $8.4 million decrease/increase to profit after tax (2015: $7.0 million) and a $8.4 million decrease/increase to equity (2015: $7.0 million). Balance date risk exposures represent the risk exposure inherent in the financial statements.

NOTE 8: FINANCIAL RISK MANAGEMENT (continued)

(A) MARKET RISK (continued)

(iii) Price risk

Description

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 property, infrastructure, Australian equities and international equities. It is managed by setting and monitoring objectives and constraints on investments, diversification plans and limits on investments in each country, sector and market.

Sensitivity

The following sensitivity analysis is based on the equity price risk exposures on average balances at balance date. It shows the effect on profit after tax and equity if market prices had moved, with all other variables held constant.

	Equity and profit after tax	
Judgements of reasonably possible movements	2016 $m	2015 $m
Australian equities:		
+10.0%	12.0	9.9
-10.0%	(12.0)	(9.9)
International equities:		
+10.0%	13.2	9.1
-10.0%	(13.2)	(9.1)
Property:		
+10.0%	8.5	7.9
-10.0%	(8.5)	(7.9)
Infrastructure:		
+10.0%	5.0	4.7
-10.0%	(5.0)	(4.7)

(b) Credit risk

(i) Cash and cash equivalents and financial assets at fair value through profit or loss

Description

The risk of potential default of a counterparty, with a maximum exposure equal to the carrying amount of these instruments. Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, financial assets at fair value through profit or loss and trade and other receivables. Credit risk exposure is measured by reference to exposures by ratings bands, country, industry and instrument type.

Exposure

The Investment Management Policy limits the majority of internally managed credit exposure to A- or higher rated categories for long-term investments, and A2 or higher for short-term investments (as measured by external rating agencies such as Standard & Poor's). Departures from this policy and the appointment of external managers require Board approval.

The Group does not have any financial instruments to mitigate credit risk and all investments are unsecured (except for covered bonds, asset-backed securities and mortgage-backed securities). However, the impact of counterparty default is minimised through the use of Board approved limits by counterparty and rating and diversification of counterparties.

Sensitivity	The geographical concentration to Australian domiciled banks and corporations is managed through counterparty exposure limits. These limits specify that no more than 25 percent (2015: 25 percent) of the cash portfolio can be invested in any one counterparty bank and no more than 10 percent (2015: 10 percent) in any one counterparty corporate entity. In the Group's fixed income portfolio, the maximum amounts that can be invested in any one counterparty bank and any one counterparty corporate entity are 50 percent (2015: 50 percent) and 15 percent (2015: 15 percent) of the portfolio respectively. As at 30 June 2016 and 2015, the counterparty exposure of the Group was within these limits.

(ii) Trade and other receivables

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

(iii) Counterparty credit risk ratings

The following tables outlines the Group's credit risk exposure at 30 June 2016 by classifying assets according to credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range AAA to BBB are classified as non-investment grade. The table highlights the short-term rating as well as the equivalent long-term rating bands as per published Standard & Poor's correlations. 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 in the consolidated statement of financial position.

Short-term Long-term 2016	A-1+ AAA $m	A-1+ AA $m	A-1 A $m	A-2 BBB $m	Not rated $m	Total $m
Assets						
Cash and cash equivalents	15.0	150.7	173.3	94.2	5.5	438.7
Premiums in arrears	–	–	–	–	10.1	10.1
Trade and other receivables	–	–	–	–	303.0	303.0
Financial assets						
Australian equities	–	–	–	–	179.9	179.9
International equities	–	–	–	–	191.5	191.5
Property	–	–	–	–	127.7	127.7
Infrastructure	–	–	–	–	71.9	71.9
Fixed income	112.9	476.7	408.5	149.5	297.2	1,444.8
Total	**127.9**	**627.4**	**581.8**	**243.7**	**1,186.8**	**2,767.6**

Within the not rated fixed income portfolio, $258.1 million (2015: $234.9 million) is invested in unrated unit trusts, majority of which are investment grade assets and Senior Loans.

NOTE 8: FINANCIAL RISK MANAGEMENT (continued)

(B) CREDIT RISK (continued)

(III) COUNTERPARTY CREDIT RISK RATINGS (continued)

Short-term Long-term 2015	A-1+ AAA $m	A-1+ AA $m	A-1 A $m	A-2 BBB $m	Not rated $m	Total $m
Assets						
Cash and cash equivalents	0.3	186.6	129.8	107.2	(15.2)	408.7
Premiums in arrears	–	–	–	–	8.0	8.0
Trade and other receivables	–	–	–	–	293.2	293.2
Financial assets						
Australian equities	–	–	–	–	163.3	163.3
International equities	–	–	–	–	185.0	185.0
Property	–	–	–	–	116.6	116.6
Infrastructure	–	–	–	–	71.0	71.0
Fixed income	159.5	500.3	331.2	179.6	265.0	1,435.6
Derivatives	–	0.3	–	–	–	0.3
Total	**159.8**	**687.2**	**461.0**	**286.8**	**1,086.9**	**2,681.7**

Note 9: Working capital

(a) Capital management

The Company's health benefits fund is required to maintain sufficient capital to comply with APRA's solvency and capital adequacy standards. The solvency standard aims to ensure that the fund has enough cash or liquid assets to meet all of its liabilities as they become due, even if the cash flow is 'stressed'. The standard consists of a requirement to hold a prescribed level of cash, and also mandates a liquidity management plan.

The capital adequacy standard aims to ensure that there is sufficient capital within a health benefits fund to enable the ongoing conduct of the business of the fund. The standard consists of a requirement to hold a prescribed level of assets to be able to withstand adverse experience, and also mandates a capital management policy. The capital management policy includes target capital levels, capital trigger points and corrective active plans.

The health benefits fund is required to comply with these standards on a continuous basis and report results to APRA on a quarterly basis. The fund has been in compliance with these standards throughout the year.

The Board has established a capital management policy for the health benefits fund. Capital is managed against this policy and performance is reported to the Board on a monthly basis.

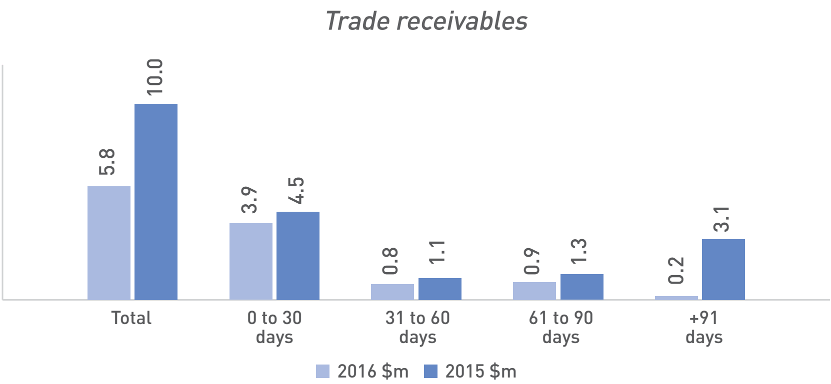
The Group's working capital balances are summarised in this note.

(b) Trade and other receivables

	Note	2016 $m	2015 $m
Premiums in arrears		13.6	12.9
Allowance for impairment loss		(3.5)	(4.9)
		10.1	**8.0**
Trade receivables		138.6	116.7
Allowance for impairment loss		(1.3)	(2.1)
		137.3	**114.6**
Government rebate scheme	(i)	126.6	129.8
Risk Equalisation Special Account		17.7	23.2
Accrued revenue		17.8	24.2
Other receivables		3.6	1.4
		165.7	**178.6**
Total trade and other receivables		**313.1**	**301.2**

(i) Government rebate scheme is non-interest bearing and generally on 15-day terms.

(i) Past due but not considered impaired



Trade receivables past due but not impaired at 30 June 2016 for the Group are $5.8 million (2015: $18.0 million). Each business unit of the Group has reviewed their individual debtors and is satisfied that payment will be received in full.

Premiums in arrears past due but not impaired at 30 June 2016 for the Group are $10.1 million (2015: $8.0 million).

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 9: WORKING CAPITAL (continued)

(B) TRADE AND OTHER RECEIVABLES (continued)

Trade and other receivables accounting policy

Trade and other receivables are non-interest bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment loss. Trade receivables are presented as current assets except for those with maturities greater than 12 months after the reporting period, which are classified as non-current assets. Trade receivables are generally due for settlement within 7 - 30 days.

Trade and other receivables are tested for impairment in accordance with the impairment of assets accounting policy in Note 21(c). 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 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. 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 loss on trade receivables is recognised within other expenses in the consolidated statement of comprehensive income. 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 trade receivables previously written off are credited against other expenses in the statement of comprehensive income. The amount of the impairment loss on premiums in arrears is offset against premium revenue.

(c) Trade and other payables

	Note	2016 $m	2015 $m
Current			
Trade creditors	(i)	262.7	286.3
Other creditors and accrued expenses	(ii)	67.5	92.6
Lease incentives	(iii)	2.9	3.2
Other payables		0.8	0.9
		333.9	**383.0**
Non-current			
Lease incentives	(iii)	34.7	36.1
		34.7	**36.1**

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) 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.

Trade and other payables accounting policy

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

(d) Reconciliation of profit after income tax to net cash flow from operating activities

	2016 $m	2015 $m
Profit for the year	417.6	285.3
Depreciation	15.4	20.0
Amortisation of intangible assets	23.2	29.3
Amortisation of deferred acquisition costs	25.2	15.4
(Gain)/loss on disposal of assets	0.4	(0.4)
Impairment of trade receivables	–	0.4
Net realised gain on financial assets	(5.4)	(4.3)
Net unrealised (gain)/loss on financial assets	30.3	(13.5)
Interest income	(46.7)	(51.4)
Dividend income reinvested	(3.4)	(8.2)
Trust distribution reinvested	(37.7)	(21.4)
Investment expenses	3.6	5.0
Gain on sale of businesses	(4.2)	–
Settlement costs for sale of businesses	(19.8)	–
Non-cash share-based payment expense	3.7	1.8
Changes in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(7.0)	37.2
(Increase)/decrease in deferred acquisition costs	(33.5)	(45.1)
(Increase)/decrease in other assets	(6.6)	(0.7)
Increase/(decrease) in deferred tax liabilities	6.3	14.0
Increase/(decrease) in trade and other payables	(51.3)	73.2
Increase/(decrease) in unearned premium liability	3.7	60.7
Increase/(decrease) in claims liabilities	7.0	3.5
Increase/(decrease) in income tax liability	37.0	0.1
Increase/(decrease) in provisions and employee entitlements	(5.5)	(23.8)
Net cash inflow from operating activities	**352.3**	**377.1**

NOTE 9: WORKING CAPITAL (continued)

(D) RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES (continued)

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position 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 3 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.

(e) Liquidity risk

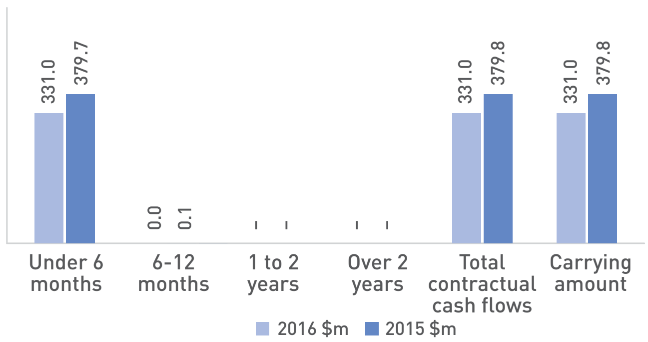
Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. It may result from either the inability to sell financial assets quickly at their fair values; or a counterparty failing on repayment of a contractual obligation; 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 target asset allocation is to hold at least 25 percent (2015: 25 percent) of its total investment assets in cash, maturing in 365 days or less.

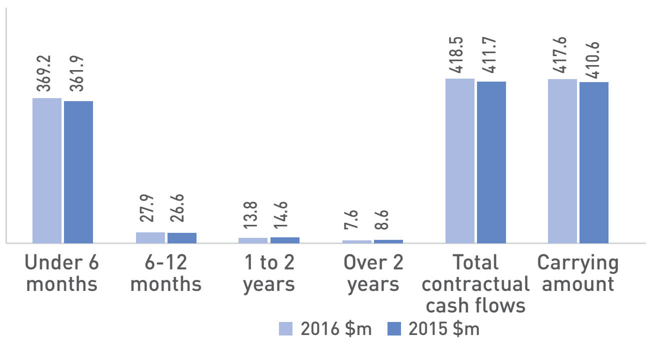
Trade payables and other financial liabilities mainly originate from the financing of assets used in ongoing operations such as property, plant and equipment and investments in working capital. These assets are considered by the Group in the overall liquidity risk. To monitor existing financial liabilities 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 graphs below reflect all contractually fixed pay-offs for settlement and interest resulting from recognised financial liabilities as at 30 June 2016, as well as the respective undiscounted cash flows for the respective upcoming fiscal years. Cash flows for financial liabilities without fixed amount or timing are based on the conditions existing at 30 June 2016.

Trade and other payables



Claims liabilities



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.

Note 10: Contributed equity

(a) Movements in shares on issue

		Number of shares	$ per share	$m
1 July 2014	Opening balance	85,000,100	1.00	85.0
16 October 2014	Share split prior to IPO	2,669,003,140	–	–
30 June 2015 and 30 June 2016	**Closing balance**	**2,754,003,240**		**85.0**

A share split took place prior to the Group's IPO in the year ended 30 June 2015, whereby an additional 31.4 shares were issued for every one existing share. The share split did not increase the balance of the Group's contributed equity, as no new shares were issued.

(b) Terms and conditions of contributed equity

Fully paid ordinary shares are classified as 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.

Note 11: Reserves

Reserve	2016 $m	2015 $m	Nature and purpose of reserve
Equity reserve	17.8	17.8	During the 2009 financial year, the parent entity entered into a restructure of administrative arrangements, which gave rise to an equity reserve 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.
Revaluation reserve	0.2	0.9	The revaluation reserve is used to record increments and decrements on the revaluation of non-current assets, as described in Note 12.
Foreign currency translation reserve	–	0.6	The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.
Share-based payment reserve	5.4	1.8	The share-based payments reserve is used to record the cumulative expense recognised in respect of performance rights issued to key management personnel. Refer to Note 17 for details.
Total	23.4	21.1	

SECTION 4: OTHER ASSETS AND LIABILITIES

Overview

This section provides insights into the operating assets used and liabilities incurred to generate the Group's operating result.

Note 12: Property, plant and equipment

	Land and buildings $m	Plant and equipment $m	Leasehold improvements $m	Assets under construction $m	Total $m
2016					
Gross carrying amount					
Balance at 1 July 2015	27.4	39.3	88.7	0.5	155.9
Additions	–	0.4	2.1	0.1	2.6
Transfers in/(out)	–	–	0.4	(0.4)	–
Disposals	–	(5.8)	(9.2)	–	(15.0)
Balance at 30 June 2016	**27.4**	**33.9**	**82.0**	**0.2**	**143.5**
Accumulated depreciation and impairment					
Balance at 1 July 2015	(2.5)	(19.3)	(28.0)	–	(49.8)
Depreciation expense	(0.5)	(2.7)	(12.2)	–	(15.4)
Disposals	–	5.8	9.2	–	15.0
Balance at 30 June 2016	**(3.0)**	**(16.2)**	**(31.0)**	**–**	**(50.2)**
2015					
Gross carrying amount					
Balance at 1 July 2014	38.2	38.3	65.6	68.5	210.6
Additions	–	2.6	4.2	0.3	7.1
Transfers in/(out)	–	14.6	53.7	(68.3)	–
Disposals	(3.6)	(12.0)	(16.6)	–	(32.2)
Revaluations	(0.2)	–	–	–	(0.2)
Assets held for sale	(7.0)	(4.2)	(18.2)	–	(29.4)
Balance at 30 June 2015	**27.4**	**39.3**	**88.7**	**0.5**	**155.9**
Accumulated depreciation and impairment					
Balance at 1 July 2014	(2.2)	(26.1)	(44.3)	–	(72.6)
Depreciation expense	(0.6)	(7.2)	(12.2)	–	(20.0)
Disposals	0.7	10.8	16.3	–	27.8
Revaluations	(0.6)	–	–	–	(0.6)
Assets held for sale	0.2	3.2	12.2	–	15.6
Balance at 30 June 2015	**(2.5)**	**(19.3)**	**(28.0)**	**–**	**(49.8)**
Closing net book amount					
As at 30 June 2016	**24.4**	**17.7**	**51.0**	**0.2**	**93.3**
As at 30 June 2015	**24.9**	**20.0**	**60.7**	**0.5**	**106.1**

(a) Valuations of land and buildings

Land and buildings are shown at fair value, based on full valuations that are performed every 3 years or when market conditions significantly change. The revaluations of the Group's land and buildings were last made in the financial year ended 30 June 2014 and were based on independent assessments by external valuation experts who were members of the Australian Property Institute. An update to the valuation was performed at 30 June 2016 and confirmed that the carrying amount approximates fair value at balance date.

The valuation methodology reconciles the estimated value of the land and buildings under the capitalisation and the discounted cash flow approaches, and assumes a notional lease at market rent subject to normal commercial terms and conditions.

Under the capitalisation approach, the net market rental income as at the valuation date is capitalised at an appropriate market yield to estimate the value of the property. Under the discounted cash flow approach, the estimated future annual net cash flows over a notional lease term, including the expected terminal sales value, are discounted to present value.

The fair value of land and buildings is included in Level 3 in the fair value hierarchy.

Significant assumptions used in the valuation include:

	2016 %	2015 %
Capitalisation approach		
Core market yield	9.3	9.5
Discounted cash flow approach		
Discount rate	9.8	9.8
Terminal yield	9.5	10.0

An increase in either the yield and/or the discount rate would result in a decrease in the valuation of the property. Similarly, decreases in these inputs would result in an increase in the valuation. Based on the range of potential values for these inputs provided in the valuation report, there are no reasonably possible movements which would have a significant impact on the valuation.

(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:

	2016 $m	2015 $m
Land and buildings		
Cost	28.1	28.1
Accumulated depreciation	(4.8)	(4.2)
Net book amount	**23.3**	**23.9**

(c) Capital expenditure commitments

	2016 $m	2015 $m
Capital expenditure contracted for at the end of the reporting period but not recognised as liabilities	–	**1.2**

NOTE 12: PROPERTY, PLANT AND EQUIPMENT (continued)

(C) CAPITAL EXPENDITURE COMMITMENTS (continued)

Property, plant and equipment accounting policy

Land and buildings (none of which are investment properties) 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. Other property, plant and equipment is stated as historical cost less depreciation. 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 the statement of comprehensive income 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 a reserve in equity. To the extent that the increase reverses a decrease previously recognised in the statement of comprehensive income, the increase is first recognised in the statement of comprehensive income. 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 the statement of comprehensive income.

Depreciation

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.

Disposal

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). These gains or losses are included in the statement of comprehensive income. 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.

Note 13: Intangible assets

	Goodwill $m	Customer Contracts & Relationships $m	Internally Generated Software (i) $m	Acquired Software (i) $m	Assets under construction $m	Total $m
2016						
Gross carrying amount						
Balance at 1 July 2015	199.5	82.1	222.2	17.9	74.0	595.7
Additions	–	–	0.6	0.2	74.8	75.6
Transfers in/(out)	–	–	136.4	–	(136.4)	–
Disposals	(10.7)	(1.5)	(14.1)	(0.3)	–	(26.6)
Balance at 30 June 2016	**188.8**	**80.6**	**345.1**	**17.8**	**12.4**	**644.7**
Accumulated amortisation and impairment						
Balance at 1 July 2015	(91.5)	(43.9)	(180.6)	(17.9)	–	(333.9)
Amortisation expense	–	(7.6)	(15.6)	–	–	(23.2)
Transfers in/(out)	–	–	(0.3)	0.3	–	–
Disposals	10.0	1.5	13.8	–	–	25.3
Balance at 30 June 2016	**(81.5)**	**(50.0)**	**(182.7)**	**(17.6)**	**–**	**(331.8)**
2015						
Gross carrying amount						
Balance at 1 July 2014	199.5	82.1	209.1	17.9	42.7	551.3
Additions	–	–	4.4	–	43.2	47.6
Transfers in/(out)	–	–	11.9	–	(11.9)	–
Disposals	–	–	(3.2)	–	–	(3.2)
Balance at 30 June 2015	**199.5**	**82.1**	**222.2**	**17.9**	**74.0**	**595.7**
Accumulated amortisation and impairment						
Balance at 1 July 2014	(91.5)	(36.7)	(153.5)	(16.6)	(9.5)	(307.8)
Amortisation expense	–	(7.2)	(20.8)	(1.3)	–	(29.3)
Transfers in/(out)	–	–	(9.5)	–	9.5	–
Disposals	–	–	3.2	–	–	3.2
Balance at 30 June 2015	**(91.5)**	**(43.9)**	**(180.6)**	**(17.9)**	**–**	**(333.9)**
As at 30 June 2016	**107.3**	**30.6**	**162.4**	**0.2**	**12.4**	**312.9**
As at 30 June 2015	**108.0**	**38.2**	**41.6**	**–**	**74.0**	**261.8**

(i) Software includes capitalised development costs being an internally generated intangible asset and software acquired through the purchase of Medibank Health Solutions Telehealth Pty Ltd.

During the financial year, costs incurred in relation to Medibank's new customer relationship management system (known as "DelPHI") were capitalised to internally generated software.

NOTE 13: INTANGIBLE ASSETS (continued)

(a) Impairment tests for goodwill

Impairment accounting policy

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

Below is a CGU level summary of the Group's goodwill allocation and the key assumptions made in determining the recoverable amounts.

	2016			2015		
	Goodwill allocation $m	Growth rate %	Discount rate %	Goodwill allocation $m	Growth rate %	Discount rate %
Health Insurance	96.2	2.5	11.6	96.2	2.5	13.1
Complementary Services Telehealth	11.1	2.5	14.0	11.8	2.5	15.4

Health Insurance CGU	The recoverable amount of the Health Insurance CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on the corporate plan approved by the Board. Cash flows beyond the corporate plan period are extrapolated using the estimated growth rates, with a terminal value assumed in the calculations.
Complementary Services Telehealth CGU	The recoverable amount of the Complementary Services Telehealth CGU is based on a value-in-use calculation, which uses 2 year cash flow projections per the Group's corporate plan approved by the Board. Cash flows that are beyond this period, but within the period that management can reliably estimate, are extrapolated using the estimated growth rates. No terminal value has been assumed in the calculations.

(b) Inputs and key assumptions used for recoverable amount calculations

The following key assumptions have been made in determining the recoverable amounts of the Group's CGUs:

Growth rates and discount rates	The growth rate disclosed above represents the weighted average growth rate used to extrapolate cash flows beyond the budget period. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates as per industry forecasts. In performing the recoverable amount 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. The discount rates used reflect specific risks relating to the relevant CGU.
Health Insurance CGU	• Forecast revenue comprising estimated change in the number of members and future premium revenue rate rises; and • Forecast claims and operating expenses.

Complementary Services Telehealth CGU	• Forecast revenue for the market sector and specific forecasts for key customer contracts; • Forecast direct expenses and allocated corporate costs; and • Period over which to assess the forecasts.

The impact of reasonably possible changes are as follows:

Health Insurance CGU	There are no reasonably possible changes in key assumptions that could have resulted in an impairment charge for the Health Insurance CGU in the current or prior financial year.
Complementary Services Telehealth CGU	The key assumption in the Complementary Services Telehealth CGU is the cash flow forecast. The ability to meet these cash flows, which are based on the Group's corporate plan, could impact the recoverability of the CGU. The business model of the CGU is contract based by nature and the forecast cash flows contain assumptions around expected contract renewals, new wins and losses. In estimating the recoverable amount of the CGU, the Group has used the approved corporate plan for the next 2 years and extrapolated this for a period of 6 years, being the period over which management can reliably estimate the cash flows. This cash flow estimate assumes that current contract renewal options will be exercised by the customers. This assumption is based on management's past experience and knowledge of the market in which the CGU operates.

(c) Capital expenditure commitments

	2016 $m	2015 $m
Capital expenditure contracted for at the end of the reporting period but not recognised as liabilities	11.8	27.1

Intangible asset capital expenditure commitments as at 30 June 2015 related to committed expenditure in respect of the development of new software. The majority of the work has been completed during the 2016 financial year.

Intangible assets accounting policy

GOODWILL

Accounting policy

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 (CGUs) for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose.

Key estimates

On an annual basis, the Group tests whether goodwill has suffered any impairment.

In assessing goodwill for impairment, the recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to Note 13(b) above for details of these assumptions.

NOTE 13: INTANGIBLE ASSETS (continued)

(C) CAPITAL EXPENDITURE COMMITMENTS (continued)

Intangible assets accounting policy continued

SOFTWARE

Accounting policy

Costs incurred in acquiring software and licences 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. Software intangibles are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over the expected useful lives of the software, generally estimated to have a useful life of 1.5 to 7 years. Amortisation is recognised in depreciation and amortisation expense in the statement of comprehensive income.

Key estimates

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 and 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. The useful lives of the Group's

CUSTOMER CONTRACTS AND RELATIONSHIPS

Accounting policy

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 for assets currently owned by the Group is 10 to 12 years and is recognised in depreciation and amortisation expense in the statement of comprehensive income.

Key estimates

Customer contracts and relationships are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. A key assumption in testing customer contracts and relationships for impairment is the retention of the underlying contracts. Assumptions are made around renewal of these contracts and associated cash flows based on contracted renewal options and the Group's commercial and strategic long-term plans.

Note 14: Provisions and employee entitlements

(a) Employee entitlements

(i) Employee entitlements

	2016 $m	2015 $m
Employee entitlements		
Current	33.0	39.7
Non-current	14.9	18.7
Total employee entitlements	**47.9**	**58.4**

This provision incorporates annual leave, long service leave, termination payments and bonus plans.

(ii) Employee benefits expense

Included in the Group's employee benefits expense are the following:

	2016 $m	2015 $m
Defined contribution superannuation expense	21.2	23.5
Other long-term benefits expense	3.0	4.8
Termination benefits expense	5.0	6.0
Share-based payment expense	3.6	1.8

Employee entitlements accounting policy

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefit obligations – key estimate

Liabilities for employee entitlements includes long service leave and annual leave which are not expected to be settled wholly within 12 months after the end of the period. The liabilities are measured at the present value of expected future payments using the projected unit credit method, taking into account 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 corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows. The obligations are presented as current liabilities in the consolidated statement of financial position if the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

Bonus plans

The Group recognises a liability for bonuses based on a formula that takes into consideration the performance of the employee against targeted and stretch objectives, the profit of the Group and other financial and non-financial key performance indicators. The Group recognises a provision when it is contractually obliged or where there is a past practice that has created a constructive obligation.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises costs for a restructuring that is within the scope of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

NOTE 14: PROVISIONS AND EMPLOYEE ENTITLEMENTS (continued)

(b) Provisions

	Restructuring $m	Make good $m	Medical services $m	Other $m	Total $m
Balance at 1 July 2015	15.6	9.0	6.9	21.2	52.7
Additional provision	4.7	0.1	9.1	10.6	24.5
Amounts utilised during the year	(9.5)	(0.7)	(6.9)	(8.1)	(25.2)
Reversal of unused provision	(1.5)	(2.1)	–	–	(3.6)
Balance at 30 June 2016	**9.3**	**6.3**	**9.1**	**23.7**	**48.4**
Balance comprised of:					
Current	5.1	1.8	9.1	11.5	27.5
Non-current	4.2	4.5	–	12.2	20.9

(i) Restructuring provision

The restructuring provision relates to onerous lease provisions which were raised as part of a significant restructuring programme undertaken by the Group in 2014, and redundancy costs associated with various restructuring programs.

Onerous lease provisions are included in the restructuring provision where they relate to space that the Group will no longer continue to utilise as a result of undertaking a restructuring program. Onerous lease provisions which do not arise from restructuring programs are classified as other provisions.

(ii) Make good provision

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.

(iii) Medical services provision

This provision relates to the estimated cost of sub contracted medical services incurred but not settled or processed at balance date.

The estimated cost was calculated utilising a number of inputs including the number of invoices on hand, an estimate of the invoices not yet received, the average past invoice value or contractual price and the mix of medical service providers.

(iv) Other provision

The other provision includes estimated commissions payable to third parties in relation to the acquisition of health insurance contracts, which becomes payable once certain criteria are met, and an onerous lease provision recognised on one of the Group's properties, which did not arise as a result of a restructuring program.

Provisions accounting policy

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. Expected future payments are discounted using market yields at the end of the reporting period using corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows. The increase in the provision due to the passage of time is recognised as interest expense.

(c) Contingent liabilities

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. Due to the preliminary nature of these proceedings the outcome is uncertain.

SECTION 5: OTHER

Overview

This section includes additional information that must be disclosed to comply with the Accounting Standards, the Corporations Act 2001 and the Corporations Regulations.

Note 15: Income tax

Tax consolidation legislation

Medibank and its wholly owned Australian controlled entities are members of a tax consolidated group. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are offset in the consolidated financial statements.

The entities in the tax consolidated group entered into a tax sharing agreement which limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Medibank.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Medibank for any current tax payable and are compensated by Medibank for any current tax receivable.

(a) Income tax expense

	Note	2016 $m	2015 $m
Current tax		154.7	100.7
Deferred tax		0.3	16.6
Adjustment for tax of prior period	(i)	(26.3)	(6.0)
		128.7	**111.3**

(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 of $23.2 million being allowed. This deduction has been recorded in the current financial year.

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

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

(c) Deferred tax assets and liabilities

	2016 $m	2015 $m
Deferred tax balances comprise temporary differences attributable to items:		
Recognised in the income statement		
Trade and other receivables	(0.3)	1.9
Financial assets at fair value through profit or loss	(16.5)	(23.0)
Other assets	(22.8)	(20.3)
Property, plant and equipment	4.6	5.1
Intangible assets	(25.0)	(23.6)
Employee entitlements	15.8	18.3
Provisions and other payables	29.8	33.6
Business capital costs	1.6	2.4
	(12.8)	**(5.6)**
Recognised directly in other comprehensive income		
Revaluation of land and buildings	(0.1)	(1.0)
Actuarial loss on retirement benefit obligation	1.0	1.0
	0.9	**–**
Net deferred tax (liabilities)/assets	**(11.9)**	**(5.6)**

NOTE 15: INCOME TAX (continued)

(C) DEFERRED TAX ASSETS AND LIABILITIES (continued)

Income tax accounting policy

Current taxes accounting policy
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. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, and establishes provisions where appropriate.

Deferred taxes accounting policy
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 income tax is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, other than for the following:

- Where they arise from the initial recognition of goodwill;
- Where they arise from the 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; or
- 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 temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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.

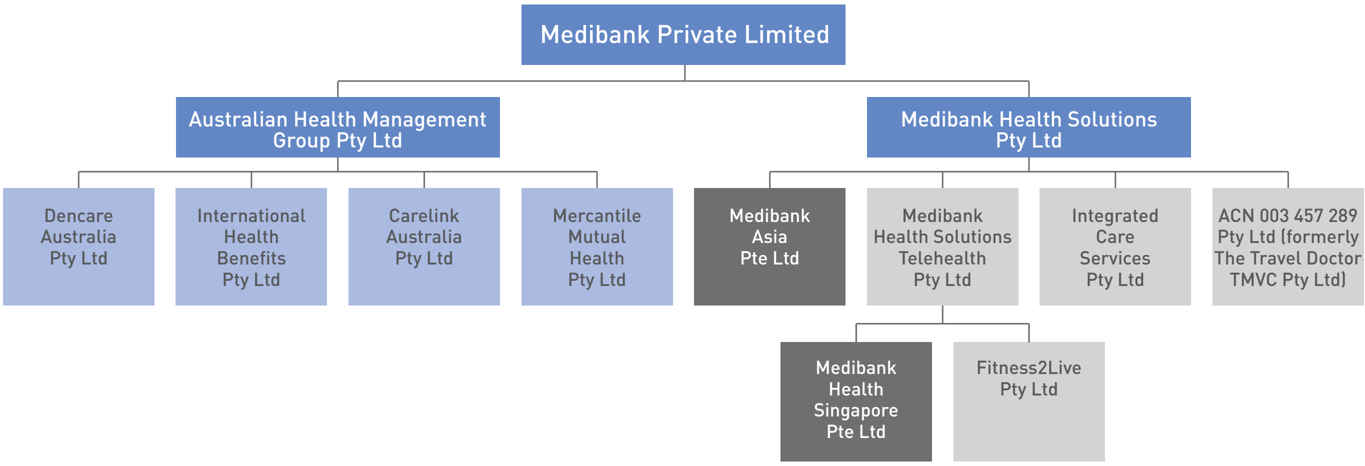
Current and deferred tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Offsetting balances
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. 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.

Note 16: Group structure

(a) Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries, which are 100 percent owned.



- These entities were non-operating entities during the financial years ended 30 June 2015 and 2016.
- 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 the ASIC Class Order 98/1418. For further information refer to the Medibank Health Solutions Pty Ltd Annual Report.
- These entities were incorporated in Singapore in 2015 and were non-operating entities during the financial years ended 30 June 2015 and 2016. All other entities in the Group were incorporated in Australia.

Changes in the group structure since 30 June 2015:

(i) Medibank Health Solutions New Zealand Ltd was disposed of on 30 November 2015 (2015: 100 percent owned by Medibank Health Solutions Telehealth Pty Ltd).

(ii) The sales of Workplace Health, Travel Doctor and Medibank Health Solutions New Zealand Ltd resulted in an aggregate $4.2 million gain on disposal being recognised as other income in the consolidated statement of comprehensive income.

Principles of consolidation accounting policy

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred and the liabilities incurred. 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. 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.

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 are consistent with the policies adopted by the Group.

NOTE 16: GROUP STRUCTURE (continued)

(b) Parent entity financial information

(i) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2016 $m	2015 $m
Balance sheet		
Current assets	2,650.6	2,570.0
Total assets	3,169.3	3,051.4
Current liabilities	1,408.5	1,413.5
Total liabilities	1,608.6	1,616.6
Shareholders' equity		
Issued capital	85.0	85.0
Reserves		
Equity reserve	6.3	6.3
Revaluation reserve	1.8	1.8
Share-based payment reserve	5.4	1.8
Retained earnings	1,462.2	1,339.9
	1,560.7	**1,434.8**
Profit for the year	**405.9**	**287.0**
Total comprehensive income	**405.9**	**287.0**

(ii) 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 Group as the fair value of the guarantees is immaterial.

(iii) Contingent liabilities of the parent entity

Refer to Note 14(c) for details of the contingent liability of the parent entity.

(iv) Contractual commitments for the acquisition of property, plant and equipment

As at 30 June 2016, the parent entity had nil contractual commitments for the acquisition of property, plant or equipment totalling (2015: $1.2 million). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

Parent entity financial information accounting policy

The financial information for the parent entity, Medibank, has been prepared on the same basis as the consolidated financial statements, except as set out below:

- Investments in subsidiaries are accounted for at cost less accumulated impairment losses in the financial statements of Medibank; and
- Assets or liabilities arising under tax funding arrangements with the tax consolidated entities are recognised by Medibank as current assets or current liabilities.

(c) Related party transactions

Certain key management personnel hold director positions in other entities, some of which transacted with the Group during the 2016 financial year. All transactions that occurred were in the normal course of business. The terms and conditions of the transactions 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. There have been no loans to directors or specified executives during the current or prior financial years.

Note 17: Share-based payment

(a) Share-based payment arrangements

Performance rights to acquire shares in the Company are granted to executive committee members as part of Medibank's short-term incentive (STI) and long-term incentive (LTI) plans. The plans are designed to:

- align the interests of employees participating in the plan more closely with the interests of shareholders by providing an opportunity for those employees to receive an equity interest in Medibank through the granting of performance rights; and
- assist in the motivation, retention and reward of executive committee members.

Performance rights granted do not carry any voting rights.

(i) LTI offer

Under the LTI plan, performance rights were granted to members of the executive committee as part of their remuneration. Performance rights granted under the LTI plan are subject to the following performance hurdles:

- 50 percent of the performance rights will be subject to a vesting condition based on Medibank's absolute EPS CAGR (earnings per share compound annual growth rate) over the performance period; and
- 50 percent of the performance rights will be subject to a relative total shareholder return (TSR) vesting condition, measured over the performance period against a comparator group of companies.

Both performance hurdles under the 2015 grant and 2016 grant have threshold levels which need to be achieved before vesting commences. Details of these thresholds are outlined in the remuneration report.

The vesting conditions for the performance rights in the 2015 grant will be tested over a performance period commencing on 1 December 2014 and ending on 30 June 2017. The vesting conditions for the performance rights in the 2016 grant will be tested over a performance period commencing on 1 July 2015 and ending on 30 June 2018. The vesting conditions must be satisfied for the performance rights to vest. On satisfaction of the vesting conditions, each performance right will convert into a fully paid ordinary share on a one-for-one basis.

The number of rights granted in the 2016 grant was determined based on the monetary value of the LTI award, divided by the volume weighted average share price over the 10 trading days leading up to the start of the performance period ($2.06).

(ii) Annual STI offer

Under the Group's STI plan, 50 percent of STI awarded to executive committee members is paid in cash after the announcement of financial results. The remaining 50 percent is deferred for 12 months in the form of performance rights granted under the Performance Rights Plan. Vesting of deferred performance rights is conditional on the participant remaining employed by the Company until the end of the 12 month deferral period.

On vesting of the performance rights, each performance right will convert into a share on a one-for-one basis, subject to any adjustment required to ensure that the participant receives a benefit equivalent to any dividends paid by Medibank during the deferral period.

The number of rights to be granted will be determined based on the monetary value of the STI award, divided by the volume weighted average share price over the 10 trading days up to and including the payment date of cash STI.

NOTE 17: SHARE-BASED PAYMENT (continued)

(A) SHARE-BASED PAYMENT ARRANGEMENTS (continued)

Share-based payment accounting policy

The Group provides benefits to executive committee members in the form of share-based payment, whereby executive committee members render services in exchange for rights over shares (performance rights). These benefits are provided as part of the Group's short-term incentive and long-term incentive plans.

The fair value of the performance rights is recognised as an employee benefits expense, with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the performance rights granted, which includes any market performance conditions and the impact of any non-vesting conditions, but excludes the impact of any service and non-market performance vesting conditions. Non-market vesting conditions are included in assumptions about the number of performance rights that are expected to vest.

The total expense is recognised over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At the end of each reporting period, the Group revises its estimates of the number of awards that are expected to vest based on the non-market vesting conditions. The impact of the revision to original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to equity.

(b) Performance rights granted

Below is a summary of performance rights granted under the LTI plan during the current financial year:

		Number of equity instruments			
		EPS performance rights		TSR performance rights	
	Note	2016	2015	2016	2015
Outstanding at 1 July		642,482	–	642,482	–
Granted		403,700	720,126	403,700	720,126
Forfeited	(i)	–	(77,644)	–	(77,644)
Outstanding at 30 June		**1,046,182**	**642,482**	**1,046,182**	**642,482**
Exercisable at 30 June		–	–	–	–

(i) Forfeited relates to instruments that lapsed on cessation of employment.

(c) Fair value of performance rights granted

Below is a summary of the fair values of the 2015 Plan and the 2016 Plan and the key assumptions used in determining the valuation. The fair value was determined in consultation with the Group's professional service advisors, KPMG including key inputs and the valuation methodology for the performance rights granted.

		TSR performance rights		EPS performance rights	
	Note	2016 grant	2015 grant	2016 grant	2015 grant
Grant date		29 October 2015	22 May 2015	29 October 2015	22 May 2015
Date of commencement of service period		1 July 2015	1 December2014	1 July 2015	1 December 2014
Expected expiry date		30 June 2018	30 June 2017	30 June 2018	30 June 2017
Fair value at grant date		$1.53	$0.79	$2.10	$1.99
Share price at grant date		$2.40	$2.18	$2.40	$2.18
Dividend yield (per annum effective)		3.8%	3.4%	3.8%	3.4%
Risk free discount rate (per annum)		1.8%	2.0%	n/a	n/a
Valuation method		Monte Carlo simulation model	Monte Carlo simulation model	Black-Scholes option pricing methodology	Black-Scholes option pricing methodology
Volatility assumptions (per annum)	(i)				
Medibank		22%	21%	n/a	n/a
Comparator group average		23%	25%	n/a	n/a
Correlation between comparator companies' TSR		30%	20%	n/a	n/a

(i) The expected stock volatility is a measure of the amount by which the price is expected to fluctuate during a period. As Medibank's shares were not traded prior to listing on the ASX in the current financial year, the expected stock volatility was based on that of a comparator group of companies, having regard to the historic monthly total share return volatility (where the company has been listed for at least 3 years), current implied volatilities and consideration of future volatility expectations.

The fair value of the EPS performance rights granted under both plans was calculated using the Black-Scholes option pricing methodology. The fair value of these performance rights does not take into account the probability of the EPS performance hurdle being met, as it is a non-market related vesting condition. The fair value of the TSR performance rights under both plans was calculated using a Monte Carlo simulation model. The probability of the TSR performance hurdle being met is taken into account in the fair value of these performance rights, as it is a market related vesting condition.

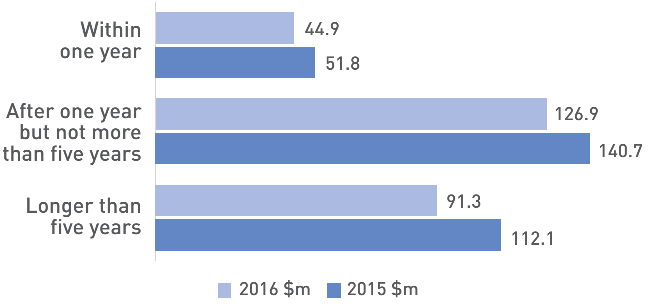
Note 18: Key management personnel remuneration

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 2015. Detailed remuneration disclosures are provided in the remuneration report.

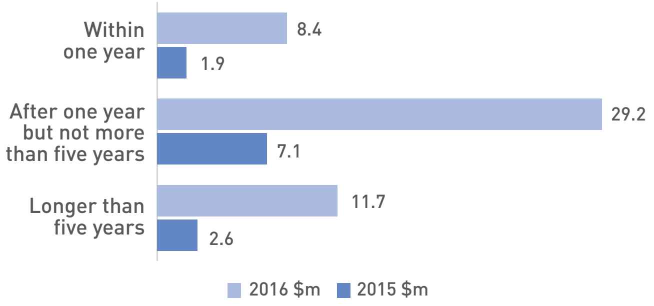
	2016 $	2015 $
Short-term benefits	6,429,507	6,727,884
Post-employment benefits	268,582	259,970
Long-term benefits	445,841	254,634
Termination benefits	595,173	345,000
Share-based payments	3,659,848	1,740,628
	11,398,951	**9,328,116**

Note 19: Commitments

Operating lease commitments – lessee



Operating lease payments receivable – lessor



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 Group leases unused office space under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights.

Leases accounting policy

Operating 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. 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.

Onerous lease contracts

The Group recognises a provision (refer to Note 14(b)) for losses on lease contracts when the Group's unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the minimum net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

Note 20: Auditor's remuneration

During the year the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms:

	Note	2016 $	2015 $
PricewaterhouseCoopers Australia (PwC):			
Amounts received or due and receivable by the Company's auditor for:			
– An audit or review of the financial report of the Company and any other entity within the Group		1,358,500	1,188,130
Other assurance services in relation to the Company and any other entity within the Group:			
– Audit of regulatory returns		119,500	119,500
Other services in relation to the Company and any other entity within the Group:			
– Other non-audit services	(i)	153,984	222,309
Network firms of PwC:			
Amounts received or due and receivable by the Company's auditor for:			
– An audit or review of the financial report of the New Zealand entity performed by PwC New Zealand		–	42,370
Total remuneration of PwC and network firms		**1,631,984**	**1,572,309**

(i) Other non-audit services in relation to reporting, tax and IT.

Note 21: Other

(a) New and amended standards adopted

The following standards became effective for the financial year ended 30 June 2016, but did not have a material impact on the Group's accounting policies or on the consolidated financial report:

(i) AASB 2013-9: Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments

The Standard contains three main parts and makes amendments to a number of Standards and Interpretations.

Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1.

Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other standards.

Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 *Hedge Accounting* into AASB 9 *Financial Instruments.*

This amendment makes amendments across various accounting standards, but has had no material impact on the Group's financial statements.

(ii) AASB 2015-3: Amendments to Australian Accounting Standards arising from the withdrawal of AASB 1031 Materiality

The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards. This amendment has had no material impact on the Group's financial statements.

(b) New accounting standards and interpretations

Certain new accounting standards have been published that are not mandatory for 30 June 2016 reporting periods, but will be applicable to the Group in future reporting periods. The Group's assessment of the impact of these new standards is set out below.

Other accounting standards that will become applicable in future reporting periods, but which are considered insignificant to the Group, are set out in (iii) below.

(i) AASB 9: Financial Instruments (and subsequent amendments)

The revised standard addresses the classification, measurement and derecognition of financial assets and financial liabilities. All financial assets and liabilities are to be recognised at fair value with the exception of debt instruments with basic loan features that are managed on a contracted yield basis. As the Group currently classifies its investments at fair value through profit or loss, the Group does not expect this to have a material impact. The derecognition rules have been transferred from AASB 139 and have not been changed.

AASB 9 also introduces the expected credit losses model which is based on the concept of providing for expected impairment losses at inception of a contract. As the impairment requirements of AASB 9 do not apply to the financial assets at fair value through profit or loss, no significant impact is expected for the Group's investments.

The Group will be required to evaluate trade receivables for expected lifetime losses, if their credit risk has increased significantly since initial recognition, which is presumed to be the case for receivables that are more than 30 days past due. This is likely to result in the recognition of additional impairment losses by the Group, but based on the ageing profile of the amounts currently past due but not impaired (refer to Note 9(b)), the Group does not expect a significant impact on the financial statements.

Application date of standard:* 1 January 2018

Application date for the Group: 1 July 2018

* Application date is for the annual reporting periods beginning on or after the date stated.

(ii) AASB 15: Revenue from contracts with customers

AASB 15 *Revenue from Contracts with Customers* was issued in May 2015 and is effective for reporting periods beginning on or after 1 January 2018. It is expected that the Group will adopt AASB 15 on 1 July 2018.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The Group's health insurance premium revenue will be outside the scope of the standard, as these are accounted for under AASB 1023 *General Insurance Contracts*.

AASB 15 will require the Group to identify deliverables in contracts with customers that qualify as "performance obligations". The transaction price receivable from customers must be allocated between the Group's performance obligations under the contracts on a relative stand-alone selling price basis. The standard will also require additional disclosures for disaggregation of revenue, information about performance obligations, remaining performance obligations, costs to obtain or fulfil contracts and other qualitative disclosures.

The Group is in the process of assessing the full impact of the application of AASB 15. The financial impact on the financial statements has not yet been fully quantified.

NOTE 21: OTHER (continued)

(B) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)

(iii) AASB 16: Leases

AASB 16 *Leases* was issued in February 2016 and is effective for reporting periods beginning on or after 1 January 2019. It is expected that the Group will adopt AASB 16 on 1 July 2019.

The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months with the exception of low value assets. Lessors continue to classify leases as operating or finance, with AASB 16's approach to lessor accounting substantially unchanged from AASB 117.

The Group's preliminary analysis of leases indicates that these arrangements would be required to be brought onto the statement of financial position with an asset and corresponding liability being recognised. The Group is in the process of assessing the full impact of the application of AASB 16. The financial impact on the financial statements has not yet been fully quantified.

(iv) Other

- 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 2014-10 Sale or contribution of assets between an investor and its associate or joint venture
- 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
- AASB 2016-1 IASB issues narrow scope amendments to IAS 12 Income taxes
- AASB 2016-2 IASB issues narrow scope amendments to IAS 7 Statement of cash flows
- IFRS 2 (Amendments) Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

It is not expected that these accounting standards, upon adoption, will have any material impact on the financial results of the Group.

(c) Other accounting policies

Impairment of assets accounting policy

Assets other than goodwill, 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 of disposal 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 (CGUs).

Financial assets and financial liabilities accounting policy

The Group classifies its financial assets in the following categories: cash and cash equivalents, financial assets at fair value through profit or loss, and trade and other receivables. Management determines the classification of its financial assets at initial recognition and depends on the purpose for which the financial assets were acquired.

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.

The Group's financial liabilities comprise trade and other payables. Financial liabilities are derecognised when the Group's contractual obligations are discharged, cancelled or expired.

Goods and Services Tax (GST) accounting policy

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 consolidated statement of financial position.

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.

DIRECTORS' DECLARATION

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

(a) the financial statements and notes set out on pages 55 to 109 are in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Group's financial position as at 30 June 2016 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(b) 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 Chief Executive Officer and Chief Financial Officer in accordance with section 295A of the *Corporations Act 2001* for the year ended 30 June 2016.

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

On behalf of the Board,

Elizabeth Alexander AM
Chairman

Craig Drummond
Managing Director & Chief Executive Officer

19 August 2016
Melbourne

AUDITOR'S INDEPENDENCE DECLARATION

Auditor's Independence Declaration

As lead auditor for the audit of Medibank Private Limited for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

2. no contraventions of any applicable code of professional conduct in relation to the audit.

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

Chris Dodd
Partner
PricewaterhouseCoopers

Melbourne
19 August 2016

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

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

Report on the financial report

We have audited the accompanying financial report of Medibank Private Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Medibank Private Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company 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 the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, 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

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 the consolidated entity's preparation and fair presentation of the financial report 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 the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

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Auditor's opinion

In our opinion:

(a) the financial report of Medibank Private Limited is 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 2016 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included within the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Medibank Private Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of Medibank Private Limited (the company) for the year ended 30 June 2016 included on Medibank Private Limited's web site. The company's directors are responsible for the integrity of Medibank Private Limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

Chris Dodd
Partner

Melbourne
19 August 2016

SHAREHOLDER INFORMATION

The shareholder information below is at 19 August 2016.

Distribution of equity securities

Size of shareholding	Number of shareholders	Number of shares
1 – 1,000	51,268	47,716,259
1,001 – 5,000	195,284	566,816,147
5,001 – 10,000	23,908	165,183,665
10,001 – 100,000	11,832	255,833,476
100,001 and over	318	1,718,453,693
Total	**282,610**	**2,754,003,240**

Unmarketable parcels

There were 899 holdings of less than a marketable parcel ($500) of shares (177 shares based on a market price of $2.84 per share) and such holders held a total of 46,659 shares.

20 largest shareholdings

	Name of holder	Number of shares	% of issued capital
1.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	497,908,985	18.08
2.	J. P. MORGAN NOMINEES AUSTRALIA LIMITED	401,197,217	14.57
3.	NATIONAL NOMINEES LIMITED	197,956,660	7.19
4.	CITICORP NOMINEES PTY LTD	178,780,080	6.49
5.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – GSCO ECA	74,674,800	2.71
6.	BNP PARIBAS NOMINEES PTY LIMITED <DRP>	58,209,243	2.11
7.	CITICORP NOMINEES PTY LTD <COLONIAL FIRST STATE INV A/C>	36,899,386	1.34
8.	NATIONAL NOMINEES LIMITED <DB A/C>	34,400,220	1.25
9.	NATIONAL NOMINEES LIMITED <N A/C>	30,959,781	1.12
10.	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PI POOLED A/C>	30,865,055	1.12
11.	BNP PARIBAS NOMINEES PTY LIMITED <AGENCY LENDING DRP A/C>	23,056,546	0.84
12.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	8,451,247	0.31
13.	RBC INVESTOR SERVICES AUSTRALIA PTY LIMITED <VFA A/C>	6,806,537	0.25
14.	THE SENIOR MASTER OF THE SUPREME COURT <COMMON FUND NO 3 A/C>	6,500,000	0.24
15.	DIVERSIFIED UNITED INVESTMENT LIMITED	5,737,677	0.21
16.	BNP PARIBAS NOMINEES PTY LIMITED <AGENCY LENDING COLLATERAL>	5,556,000	0.20
17.	AMP LIFE LIMITED	4,966,396	0.18
18.	CUSTODIAL SERVICES PTY LIMITED <BENEFICIARIES HOLDING A/C>	4,521,115	0.16
19.	NAVIGATOR AUSTRALIA LIMITED <MLC INVESTMENT SETT A/C>	4,131,621	0.15
20.	UBS NOMINEES PTY LTD	3,895,000	0.14
		1,615,473,566	**58.66**

Substantial shareholders

As at 19 August 2016 the following holder had provided a substantial shareholding notice:

Name of holder	Number of shares	% of issued capital
BLACKROCK INC.	137,903,731	5.01

Voting rights

At a general meeting of the Company, every shareholder present in person or by proxy, attorney or representative has one vote on a show of hands and, on a poll, one vote for each share held.

On-market share buy-back

There is no current on-market share buy-back.

Ownership restriction

The Medibank Private Sale Act 2006 (Cth) ("MPSA") stipulates that no single person (aggregated with their associates) may hold more than a 15 percent stake in the Company (an "unacceptable ownership situation"). These restrictions will cease to apply on 1 December 2019, being five years after the Commonwealth's sale of its equity in the Company. Under the MPSA, the Company must take all reasonable steps to ensure that an unacceptable ownership situation does not arise.

The Constitution provides that a person must not enter into a transaction if it is likely to result in an unacceptable ownership situation. The Constitution also enables the Company to request information to determine if an unacceptable ownership situation exists or is likely to exist, and apply to the Court for relevant orders if an unacceptable ownership situation does exist.

FINANCIAL CALENDAR

Key dates

Full year results announcement	19 August 2016
Ex-dividend share trading commences	6 September 2016
Record date for final dividend	7 September 2016
Payment date for final dividend	28 September 2016
Annual general meeting	9 November 2016
Half year results announcement	February 2017
Payment date for interim dividend	March 2017

The above dates and payments are subject to confirmation. Any change will be notified to the Australian Securities Exchange (ASX).

CORPORATE DIRECTORY

COMPANY

Medibank Private Limited

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Web: www.computershare.com.au

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For Better Health

Medibank Private Limited ABN 47 080 890 259