

medibank
PRIVATE
SHARE OFFER



Share in the future
of Medibank Private

PROSPECTUS

Initial Public Offering of Fully Paid Ordinary Shares

IMPORTANT NOTICES

Offer

The Offer contained in this Prospectus is an invitation to acquire fully paid ordinary shares in Medibank Private Limited (ABN 47 080 890 259) (**MPL**) (the **Shares**).

The Offer in Australia and New Zealand is made through this Prospectus.

Lodgement and Listing

This Prospectus is dated 20 October 2014 and was lodged with the Australian Securities and Investments Commission (**ASIC**) on that date. None of ASIC, ASX Limited (**ASX**) or their respective officers take any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

MPL will apply to the ASX for listing and quotation of its Shares on the ASX within seven days after the date of this Prospectus (**Prospectus Date**).

During the course of the Offer, the Commonwealth of Australia (**Commonwealth**) and MPL may provide information to investors in Australia about any significant new development relevant to the Offer through newspaper advertisements in Australia.

ASIC has granted relief to permit the publication of any supplementary prospectus that may be necessary by means of an advertisement placed in at least two daily newspapers circulating generally throughout Australia and a daily newspaper circulating generally in each state and territory of Australia. A copy of any supplementary prospectus will also be made available during the course of the Offer on www.medibankprivateshareoffer.com.au.

Expiry Date

This Prospectus expires on the date which is 13 months after the Prospectus Date (**Expiry Date**) and no Shares will be issued or transferred on the basis of this Prospectus after the Expiry Date.

Note to Applicants

The information contained in this Prospectus is not financial product advice and does not take into account the investment objectives, financial situation or particular needs of any prospective investor.

It is important that you read this Prospectus carefully and in full before deciding whether to invest in MPL. In particular, in considering the prospects of MPL, you should consider the risks that could affect the financial performance of MPL and its controlled entities (together known as **Medibank Private**). You should carefully consider these risks in light of your personal circumstances, investment objectives, financial situation and particular needs (including financial and taxation issues) and seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest in MPL. Some of the key risks that should be considered by prospective investors are set out in Sections 1 and 5. There may be risks in addition to the risks set out in those sections that should be considered in light of your personal circumstances.

No person named in this Prospectus, nor any other person, guarantees the performance of Medibank Private, the repayment of capital or the payment of a return on the Shares.

As set out in Section 7, it is expected that the Shares will be quoted on the ASX initially on a conditional and deferred settlement basis. The Commonwealth and MPL disclaim all liability, whether in negligence or otherwise, to persons who trade Shares before receiving their transaction confirmation statements.

No offering where offering would be illegal

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the Shares or the Offer, or to otherwise permit a public offering of Shares, in any jurisdiction outside

Australia and New Zealand. The distribution of this Prospectus (including in electronic form) outside Australia and New Zealand may be restricted by law, and persons who come into possession of this Prospectus outside Australia and New Zealand should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

This Prospectus may not be distributed to, or relied upon by, any person in the United States unless accompanied by the Institutional Offering Memorandum as part of the Institutional Offer.

The Shares have not been, and will not be, registered under the US Securities Act of 1933 (the **US Securities Act**) or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold, directly or indirectly, in the United States unless the Shares are registered under the US Securities Act or are offered or sold pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and applicable US state securities laws. See Section 10.13 for more information on selling restrictions that apply to the offer and sale of Shares outside of Australia.

Information for New Zealanders

New Zealand mutual recognition

No offer is made to New Zealand investors under this Prospectus until the Exposure Period (defined below) has expired. The Offer to New Zealand investors is a regulated offer made under Australian and New Zealand law. In Australia, this is Chapter 8 of the *Corporations Act 2001* (Cth) (**Corporations Act**) and *Corporations Regulations 2001* (Cth) (**Corporations Regulations**). In New Zealand, this is Part 5 of the Securities Act 1978 (NZ) and the Securities (Mutual Recognition of Securities Offerings – Australia) Regulations 2008 (NZ).

The Offer and the content of this Prospectus are principally governed by Australian rather than New Zealand law. In the main, the Corporations Act and Corporations Regulations set out how the Offer must be made.

There are differences in how securities are regulated under Australian law. For example, the disclosure of fees for collective investment schemes is different under the Australian regime.

The rights, remedies, and compensation arrangements available to New Zealand investors in Australian securities may differ from the rights, remedies and compensation arrangements for New Zealand securities.

Both the Australian and New Zealand securities regulators have enforcement responsibilities in relation to the Offer. If you need to make a complaint about the Offer, please contact the Financial Markets Authority, Wellington, New Zealand. The Australian and New Zealand regulators will work together to settle your complaint.

The taxation treatment of Australian securities is not the same as for New Zealand securities. See Section 10.17 for more information on New Zealand tax considerations.

If you are uncertain about whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial adviser.

Payments are not in New Zealand dollars

The Offer may involve a currency exchange risk. The currency for the Shares is not New Zealand dollars. The value of the Shares will go up or down according to changes in the exchange rate between that currency and New Zealand dollars. These changes may be significant. If you expect the Shares to pay any amounts in a currency that is not New Zealand dollars, you may incur significant fees in having the funds credited to a bank account in New Zealand in New Zealand dollars.

Securities that are able to be traded on a financial market

If the Shares are able to be traded on a securities market and you wish to trade the Shares through that market, you will have to make arrangements for a participant in that market to sell the Shares on your behalf. If the securities market does not operate in New Zealand, the way in which the market operates, the regulation of participants in that market, and the information available to you about the Shares and trading may differ from securities markets that operate in New Zealand.

Obtaining a copy of this Prospectus

A hard copy of this Prospectus is available free of charge to any persons in Australia by calling the Medibank Private Share Offer Information Line on 1800 998 778 (within Australia) or +61 3 9415 4011 (outside Australia) from 8.00 am to 10.00 pm (Australian Eastern Daylight Time (**AEDT**)) during the Offer Period. This Prospectus is also available in electronic form to any Australian and New Zealand investor at www.medibankprivateshareoffer.com.au. The Offer constituted by this Prospectus in electronic form at www.medibankprivateshareoffer.com.au is available only to persons within Australia and New Zealand. It is not available to persons in any other jurisdictions (including the United States). Applications for Shares may only be made on an Application Form attached to or accompanying this Prospectus, or in its paper copy form, which may be downloaded in its entirety by Australian and New Zealand investors from www.medibankprivateshareoffer.com.au. See Section 7 for more information.

Exposure Period

The Corporations Act prohibits the Commonwealth from processing applications to purchase Shares under this Prospectus (**Application**) in the seven-day period after the date of lodgement of this Prospectus (**Exposure Period**). The Exposure Period may be extended by ASIC by up to a further seven days. The Exposure Period is to enable this Prospectus to be examined by market participants prior to the sale of Shares. The examination may result in the identification of deficiencies in this Prospectus.

Applications received during the Exposure Period will not be processed until after the expiry of that period. No preference will be conferred on Applications received during the Exposure Period.

Photographs and diagrams

Photographs and diagrams used in this Prospectus that do not have descriptions are for illustrative purposes only and should not be interpreted to mean that any person shown in them endorses this Prospectus, or its contents, or that the assets shown in them are owned by MPL. Diagrams and maps used in this Prospectus are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the Prospectus Date.

Forward-looking statements

No person is authorised to give any information or make any representation in connection with the Offer which is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Commonwealth, MPL, the Directors, the Joint Lead Managers (being Deutsche Bank AG, Sydney Branch, Goldman Sachs Australia Pty Ltd and Macquarie Capital (Australia) Limited, together known as the **JLMs**) or any other person in connection with the Offer.

This Prospectus contains forward-looking statements, including the Forecast Financial Information in Section 4, which are identified by words such as 'will', 'may', 'expect', 'indicative', 'intend', 'seek', 'would', 'should', 'could', 'continue', 'plan', 'probability', 'risk', 'forecast', 'likely', 'estimate', 'anticipate' or 'believe' and other similar words that involve risks and uncertainties. These statements are based on

an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the Prospectus Date, are expected to take place (including the key assumptions set out in Section 4).

Such forward-looking statements are not guarantees of future performance and involve uncertainties, assumptions, known and unknown risks, and other important factors, many of which are beyond the control of the Commonwealth, MPL, the Directors and management. Forward-looking statements should therefore be read in conjunction with, and are qualified by reference to, Sections 4 and 5, and other information in this Prospectus.

Each of the Commonwealth and MPL cannot and does not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Prospectus will actually occur, and investors are cautioned not to place undue reliance on these forward-looking statements.

This Prospectus, including the industry overview in Section 2, uses market data, industry forecasts and projections. The Commonwealth and MPL have obtained significant portions of this information from market research prepared by third parties. There is no assurance that any of the forecasts contained in the reports, surveys and research of such third parties that are referred to in this Prospectus will be achieved. The Commonwealth and MPL have not independently verified, and cannot give any assurances, as to the accuracy and completeness of the market data and industry forecasts and projections contained in this Prospectus. Estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed in the risk factors in Section 5.

Except where required by law, the Commonwealth and MPL have no intention of updating or revising the forward-looking statements, or publishing prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus.

These forward-looking statements are subject to various risk factors that could cause Medibank Private's actual results to differ materially from the results expressed or anticipated in these statements. These risk factors are set out in Section 5.

Statements of past performance

This Prospectus includes information regarding the past performance of Medibank Private. Investors should be aware that past performance should not be relied upon as being indicative of future performance.

Financial year periods

All references to FY12, FY13, FY14 and FY15 appearing in this Prospectus are to the historical financial years ended 30 June 2012, 30 June 2013 and 30 June 2014 and the forecast financial year ending 30 June 2015, respectively, unless otherwise indicated.

Financial Information presentation

The basis of preparation and presentation of the Financial Information is set out in Section 4. The Statutory Financial Information has been prepared in accordance with the recognition and measurement principles of the Australian Accounting Standards (AAS) (including the Australian Accounting Interpretations), issued by the Australian Accounting Standards Board (AASB) which are consistent with International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board (IASB).

The Financial Information in this Prospectus is presented in an abbreviated form insofar as it does not include all of the presentation disclosures, statements or comparative information required by AAS applicable to general purpose financial reports

prepared in accordance with the Corporations Act.

This Prospectus includes Forecast Financial Information that has been prepared by the Directors based on an assessment of current economic and operating conditions and the Directors' best estimate of general and specific assumptions regarding future events and actions as set out in Sections 4.8.1 and 4.8.2. The Forecast Financial Information has been presented on both a statutory and pro forma basis and is unaudited. The basis of preparation and presentation of the Pro Forma Forecast Financial Information, to the extent relevant, is consistent with the basis of preparation and presentation for the Pro Forma Historical Financial Information.

The Pro Forma Financial Information has been prepared in accordance with the recognition and measurement requirements of AAS other than that it includes adjustments which have been prepared in a manner consistent with AAS, that reflect (i) the recognition of certain items in periods different from the applicable period under AAS; (ii) the exclusion of certain transactions that occurred in the relevant periods; and (iii) the impact of certain transactions as if they occurred on or before 1 July 2011 in the Historical Financial Information or on 1 July 2014 in the Forecast Financial Information.

Medibank Private's activities are presented in this Prospectus as comprising two segments, namely Health Insurance and Complementary Services, with overheads that are not allocated to these segments presented as corporate overheads. In contrast, Medibank Private's statutory financial statements for FY14 were reported in accordance with AASB Operating Segments, which became applicable to Medibank Private for the annual reporting period commencing on 1 July 2013. Under that accounting standard, Medibank Private has one reportable segment (Health Insurance) and the results of non-reportable segments, including Complementary Services, are aggregated within the 'all other segments' category in its statutory financial statements for FY14. See Section 4.4 and Appendix A of this Prospectus for more information.

The Financial Information should be read in conjunction with, and is qualified by reference to, the information contained in Section 4 and Appendix A of this Prospectus including, in the case of the Forecast Financial Information, the general assumptions and specific assumptions, sensitivity analysis, the risk factors in Section 5 and the additional information in Section 10.

Any discrepancies between totals and sums of components in tables and figures contained in this Prospectus are due to rounding.

Medibank Private website

Any references to Medibank Private's website are provided for convenience only, and none of the documents or other information on Medibank Private's website, or any other website referred to in the sources contained in this Prospectus, is incorporated in this Prospectus by reference.

Defined terms and abbreviations

Defined terms and abbreviations used in this Prospectus have the meanings defined in the Glossary set out in Appendix C. These words are usually capitalised.

Unless otherwise stated or implied, references to times in this Prospectus are to the time in Canberra, the Australian Capital Territory (ACT), Australia. All financial amounts contained in this Prospectus are expressed in Australian dollars unless otherwise stated.

Privacy

By filling out the Application Form to apply for Shares you are providing personal information to the Australian Government Department of Finance (Department of Finance), MPL and Computershare Investor Services Pty Limited (Share Registry). The

Department of Finance, MPL and the Share Registry may collect, hold and use that personal information in order to process your Application, service your needs as a Shareholder, provide facilities and services that you request and carry out appropriate administration.

If you do not provide the information requested in the Application Form, the Department of Finance, MPL and the Share Registry may not be able to process or accept your Application.

Your personal information may be provided to Medibank Private's agents and service providers on the basis that they deal with such information in accordance with Medibank Private's privacy policy and applicable laws. Medibank Private's agents and service providers may be located outside Australia where your personal information may not receive the same level of protection as that afforded under Australian law.

The types of agents and service providers that may be provided with your personal information and the circumstances in which your personal information may be shared are:

- the Share Registry for ongoing administration of the Shareholder register;
- printers and other companies for the purpose of preparing and distributing of statements and for handling mail;
- market research companies for the purpose of analysing the Shareholder base and for product development and planning; and
- legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated actions.

If an Applicant becomes a Shareholder, the Corporations Act requires MPL to include information about that Shareholder (including name, address and details of the Shares held) in its public register of Shareholders. If you do not provide all the information requested, your Application Form may not be able to be processed.

The information contained in MPL's register of Shareholders must remain there even if that person ceases to be a Shareholder. Information contained in MPL's register of Shareholders is also used to facilitate dividend payments, corporate communications (including financial results, annual reports and other information that MPL may wish to communicate to its Shareholders) and compliance with legal and regulatory requirements. An Applicant has a right to access and correct the information that the Department of Finance, MPL and the Share Registry hold about that person and to make complaints. Applicants can obtain a copy of Medibank Private's privacy policy by visiting the Medibank Private website (www.medibank.com.au). By submitting an Application, you agree that MPL and the Share Registry may communicate with you in electronic form or contact you by telephone in relation to the Offer.

Questions

If you have any questions about how to apply for Shares, please call the Medibank Private Share Offer Information Line on 1800 998 778 (within Australia) or +61 3 9415 4011 (outside Australia) from 8.00 am to 10.00 pm AEDT during the Offer Period. If you have any questions about whether to invest in MPL you should seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest in MPL.

This Prospectus is important and should be read carefully and in full.

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IMPORTANT DATES

Important dates

Record Date for Policyholder Offer and Employee Offer	11.59 pm (AEST) Saturday, 27 September 2014
Prospectus Date	Monday, 20 October 2014
Retail Offer opens ¹	Tuesday, 28 October 2014
Retail Offer closes and Applications due by 11.59 pm	Friday, 14 November 2014
Institutional Offer and Bookbuild opens	7.00 am Tuesday, 18 November 2014
Institutional Offer and Bookbuild closes	12 noon Thursday, 20 November 2014
Final pricing and basis of allocation announced	Tuesday, 25 November 2014
Expected commencement of trading on the ASX (on a conditional and deferred settlement basis) ²	Tuesday, 25 November 2014
Settlement of the Offer	Friday, 28 November 2014
Transfer of Shares under the Offer (trading on an unconditional and deferred settlement basis commences) ³	Monday, 1 December 2014
Expected dispatch of transaction confirmation statements	Thursday, 4 December 2014
Shares expected to begin trading on a normal settlement basis	Friday, 5 December 2014
First settlement date of all ASX trades	Wednesday, 10 December 2014
Expected first dividend payment	September 2015

Note:

The above dates are indicative only. All times are references to AEDT, except where stated otherwise. The Commonwealth reserves the right to vary the dates and times of the Offer, which includes closing the Offer early, extending the close of the Offer, or accepting late Applications, either generally or in particular cases, without notifying any recipients of this Prospectus or any Applicants. Investors are encouraged to submit their Applications as soon as possible after the Offer opens. See Section 7 for more information.

1. The Corporations Act prohibits the Commonwealth from processing Applications to purchase Shares under this Prospectus in the seven-day period after the Prospectus Date. This period may be extended by ASIC by up to a further seven days.
2. See Section 7.8.2 for more information on conditional and deferred settlement trading.
3. See Section 7.8.2 for more information on unconditional and deferred settlement trading.

KEY OFFER STATISTICS

Key Offer statistics

Indicative Price Range ⁴	\$1.55 – \$2.00 per Share
Total number of Shares offered for sale under the Offer ⁵	2,754 million
Total number of Shares offered for sale under the Offer as a percentage of total Shares on issue at Completion of the Offer ⁵	100%
Market capitalisation at the Indicative Price Range ⁶	\$4,269 – \$5,508 million
Indicative pro forma forecast FY15 price/earnings ratio ^{7, 8}	16.5x – 21.3x
Forecast fully franked dividend for the seven months to 30 June 2015 ⁹	4.9 cents per Share
Implied FY15 dividend yield to be paid to Shareholders at the 2015 record date (based on simple annualisation) ¹⁰	4.2% – 5.4%
Implied normalised FY15 dividend yield (based on a 75% payout ratio of FY15 Underlying NPAT ¹¹ , being the mid-point of the Board's dividend policy (shown for illustrative purposes only)) ¹²	3.5% – 4.5%

4. This is the indicative range for the Final Price. The Final Price may be set below, within or above the Indicative Price Range (see Section 7 for more information). Shares may trade below the lower end of the Indicative Price Range.
5. The Commonwealth is offering to sell 100% of the Shares in MPL, but it reserves the right to sell a lesser amount of Shares under the Offer taking into consideration the objective of a successful Listing, market conditions and other factors.
6. The market capitalisation is calculated as the Indicative Price Range multiplied by the total number of Shares on issue immediately following Completion of the Offer. If Shares trade below the lower end of the Indicative Price Range after Listing, the market capitalisation may be lower.
7. The Forecast Financial Information is based on the assumptions and accounting policies set out in Section 4 and is subject to the key risks set out in Section 5. There is no guarantee that forecasts will be achieved. Certain financial information included in this Prospectus is described as pro forma for the reasons described in Section 4. Forecasts have been included in this document for FY15.
8. This ratio is commonly referred to as a forward price to earnings ratio, or forward price/earnings ratio, and is calculated as the market capitalisation at the Indicative Price Range divided by the pro forma forecast FY15 net profit after tax (**NPAT**) of \$258.2 million.
9. Subject to the forecasts in the Forecast Financial Information being achieved and other relevant factors, the Board of Directors (**Board**) expects to pay this dividend in September 2015 in respect of the period from 1 December 2014 to 30 June 2015 based on the number of Shares on issue immediately following the Offer. It is currently expected that this dividend will be fully franked.
10. Dividends declared and forecast in relation to FY15 have been determined by Medibank Private in consultation with the Commonwealth, as the current sole Shareholder of MPL, with a view to establishing an appropriate capital structure for Medibank Private at initial public offering (**IPO**). This has resulted in the Commonwealth and Medibank Private agreeing that MPL pay:
 - to the Commonwealth prior to the IPO: a \$42.0 million final dividend for FY14, and a \$196.8 million special dividend, comprising \$138.0 million from retained earnings as at 30 June 2014 and a further \$58.8 million from earnings for the five months to 30 November 2014; and
 - to MPL Shareholders post the IPO: an inaugural dividend for FY15 of 4.9 cents per Share (or \$135 million) in September 2015 in respect of the seven-month period, from 1 December 2014 to 30 June 2015. This dividend will be calculated with reference to Medibank Private's earnings for the seven-month period ending 30 June 2015. These earnings are expected to be stronger than those in the first five months, given forecast lower claims expenses in December and January.

The dividend payable to MPL Shareholders post the IPO is subject to the forecasts in the Forecast Financial Information being achieved and a number of other factors the Board may consider relevant. The yield of 4.2% to 5.4% is calculated as the annualised amount of the targeted dividend of 4.9 cents per Share to be paid in September 2015 (i.e. multiplied by 12 and divided by 7), multiplied by 2,754 million Shares on issue immediately following the Offer, divided by the market capitalisation at the Indicative Price Range. The Board's policy is to target a payout ratio of between 70% and 80% of annual Underlying NPAT. Medibank Private's FY16 dividend payout ratio is expected to be in the range of 70% to 75% of FY16 Underlying NPAT.
11. Pro forma forecast FY15 NPAT has been used as a proxy for FY15 Underlying NPAT. Underlying NPAT will be calculated based on statutory 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 (**Underlying NPAT**). Underlying NPAT is not a measure that Medibank Private has historically reported and accordingly is not represented in the Financial Information.
12. The payment of a dividend is at the discretion of the Board and will be a function of a number of factors the Board may consider relevant, including the general business environment; the operating and financial condition of Medibank Private; future funding requirements; capital management initiatives; tax considerations (including the level of franking credits available); any contractual, legal or regulatory restrictions on Medibank Private in relation to the payment of dividends; and any other factors the Directors may consider relevant. No assurance can be given about future dividends, the level of franking of such dividends (if any) or the payout ratios for any future period as these matters will depend upon future events, as well as the key risks set out in Section 5. See Section 4.11.4 for more information on Medibank Private's dividend policy. Medibank Private cannot pass on to Australian resident Shareholders the benefit of any franking credits accrued prior to the date of Listing. The yield of 3.5% to 4.5% (shown for illustrative purposes only) is calculated as the FY15 pro forma forecast NPAT multiplied by 75% (being the mid-point of the Board's current target payout ratio range of 70% to 80% of Underlying NPAT) divided by the market capitalisation at the Indicative Price Range.



Australian Government



MESSAGE FROM THE MINISTER FOR FINANCE SENATOR THE HON MATHIAS CORMANN



Dear Investor,

On behalf of the Australian Government, I am delighted to offer you the opportunity to participate in the initial public offering of Medibank Private.

This offer gives all Australians an opportunity to share in the future of Medibank Private.

Healthcare in Australia is a \$147 billion industry and private health insurance is an integral part of that industry. Medibank Private has grown to become Australia's largest private health insurer, providing cover to over 3.8 million people nationwide.

Prospective investors should be aware that an investment in Medibank Private, like any investment, involves risks and future returns are not guaranteed by the Australian Government.

Importantly, the value of shares can go down as well as up. You should read this Prospectus carefully and in full before you make any investment decision. You may wish to seek the advice of a broker or financial adviser if you are considering whether to invest in Medibank Private.

The Medibank Private Share Offer is an exciting opportunity for all Australians to share in Medibank Private's future and I am pleased to invite you to participate.

Kind regards,

Senator the Hon Mathias Cormann
Minister for Finance

20 October 2014



MESSAGE FROM THE CHAIRMAN OF MEDIBANK PRIVATE

ELIZABETH ALEXANDER AM



Dear Investor,

On behalf of the Board of Directors it is with great pleasure that I invite you to become a Shareholder in Medibank Private.

At Medibank Private, we stand For Better Health.

The Medibank Private health fund has been providing health insurance for Australians since 1976, and today provides health insurance cover for over 3.8 million people nationwide. In doing this we seek to achieve affordable, consistent and quality outcomes for our customers, whilst driving shareholder value by servicing and profitably growing our customer base.

The Medibank Private Share Offer provides the opportunity to invest in Australia's largest private health insurer with:

- forecast continued operating profit growth, underpinned by forecast growth of 19.1% in the pro forma operating profit of Medibank Private's Health Insurance business, in FY15;
- an attractive forecast dividend yield for FY15;
- a national market share of 29.1%¹ through its two brands, Medibank and ahm;
- an industry supported by a regulatory framework and government incentives which encourage people to maintain private health insurance; and
- a highly experienced Board and management team with significant business and industry experience.

As with other companies, Medibank Private is subject to a range of risks, some of which are specific to its business activities, and others which apply to the private health insurance sector and health care industry generally. These include Medibank Private's strategy not being effective, mispricing (including as a result of a failure to obtain a satisfactory annual premium increase) or incorrect design of its products, failure to reach satisfactory agreements with healthcare providers, lower than expected investment returns, dependence on effective information technology systems, rising healthcare costs affecting the affordability of private health insurance, changes in regulation and government policy and competition within the health insurance industry. These risks, and others, are further discussed in Section 5 of this Prospectus.

This Prospectus also contains detailed information about the Offer, Medibank Private's business, the private health insurance industry generally, and the financial and operating performance of Medibank Private. I encourage you to read it carefully and in its entirety before making your investment decision.

On behalf of my fellow Directors, thank you for considering this opportunity and I look forward to welcoming you as a Shareholder.

Yours sincerely,

Elizabeth Alexander AM
Non-Executive Chairman

1. Calculated based on the principal customer named on the PHI policy as per 30 June 2014 Private Health Insurance Administration Council data.

SECTION 1

INVESTMENT OVERVIEW

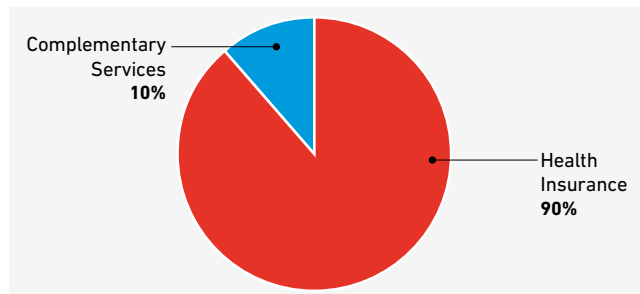


Topic	Summary	For more information
1.1. INTRODUCTION		
What is Medibank Private?	<ul style="list-style-type: none"> Medibank Private is Australia's largest private health insurer with a 29.1%¹ market share. Medibank Private's health insurance business (Health Insurance) offers private health insurance (PHI), Overseas Visitors Health Cover (OVHC), and Overseas Student Health Cover (OSHC) through two national brands (Medibank and ahm). 55.2%² of Australians have some form of PHI (Policyholders). Over 3.8 million people are covered by Medibank Private's PHI, OVHC and OSHC policies. Medibank Private also generates revenue from a number of related activities that use Medibank Private's experience and expertise and support the Health Insurance business (Complementary Services). Medibank Private employs more than 3,400 people. 	Section 3
Where are Medibank Private's operations?	<ul style="list-style-type: none"> Medibank Private operates throughout Australia, and also has a limited presence in New Zealand and Singapore. Medibank Private has its head office in Melbourne. 	Section 3
Who owns Medibank Private?	<ul style="list-style-type: none"> The Commonwealth is the sole Shareholder in MPL. Medibank Private was founded in 1976 as a private health insurer owned and operated by the Australian Government. In 1998, MPL became the operating entity of the Medibank Private business, and Medibank Private has operated as a commercial business since then. In 2009, Medibank Private became a for-profit private health insurer. The <i>Medibank Private Sale Act 2006</i> (Cth) (Sale Act) was enacted in 2006 and facilitates the sale of MPL. On 26 March 2014, the Australian Government announced its intention to sell MPL by IPO. 	Section 3

1.2. KEY FEATURES OF MEDIBANK PRIVATE'S BUSINESS MODEL

How does Medibank Private generate revenue?³	<ul style="list-style-type: none"> Medibank Private is forecast to generate 90% of its pro forma FY15 revenue⁴ from its Health Insurance business. Health Insurance is Medibank Private's core business, providing hospital cover (Hospital Cover) and extras cover (Extras Cover) (or a combination) under the Medibank brand and the ahm brand, as well as OVHC and OSHC. Health Insurance generates revenue from premiums paid by Policyholders. Medibank Private is forecast to generate the remaining 10% of its pro forma FY15 revenue⁴ from Complementary Services, which generate service fees, commissions and other income from: <ul style="list-style-type: none"> contracted health management services for government and corporate clients; online and telephone-based health services; and the distribution of travel, life and pet insurance, as an authorised agent for other insurers. 	Sections 3 and 4
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Figure 1.1: Composition of pro forma forecast FY15 revenue^{3,5}



1. Calculated based on the principal customer named on the PHI policy (**Principal Policyholder**) as per 30 June 2014 Private Health Insurance Administration Council (PHIAC) data.

2. *Quarterly Statistics, June 2014*, PHIAC, Canberra.

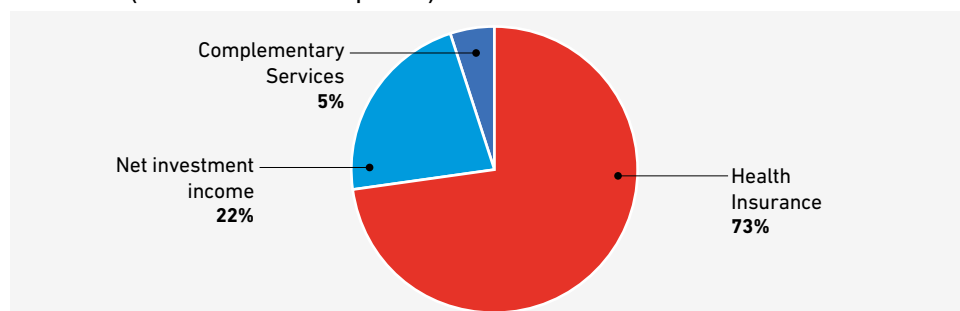
3. In accordance with accounting standards, investment income is not treated as revenue.

4. See Section 4 for more information.

5. \$6,635.5 million total revenue, comprising \$5,996.7 million of Health Insurance premium revenue and \$638.8 million of Complementary Services revenue (see Tables 4.2 and 4.7 in Section 4).

Topic	Summary	For more information
What are Medibank Private's primary expenses?	<ul style="list-style-type: none"> Medibank Private's primary expenses are payments for claims made by Policyholders under their PHI policies. Policyholders are entitled to claim when they incur healthcare expenditure covered by their policies. Claim amounts are mainly paid directly to the healthcare provider on behalf of the Policyholder. 82% of Medibank Private's pro forma forecast FY15 operating expenses are expected to be Policyholder claims expenses.⁶ This figure is net of risk equalisation, which is explained in Section 1.3. Medibank Private also incurs other expenses such as those relating to employees, marketing, information technology (IT) and property leases. Consistent with industry practice, Medibank Private does not reinsure PHI claims expenses outside of risk equalisation. 	Section 3
How does Medibank Private generate profit?	<ul style="list-style-type: none"> Medibank Private's profit is generated by its Health Insurance and Complementary Services segments. Medibank Private also generates investment income from its investment portfolio of cash and other assets.⁷ 	Sections 3 and 4

Figure 1.2: Composition of pro forma forecast FY15 profit before tax (before unallocated expenses)⁸



What are the drivers of performance in the Health Insurance segment?	<ul style="list-style-type: none"> Performance of the Health Insurance segment is driven by acquiring and retaining Policyholders, designing profitable PHI products and effectively managing claims expenses and other costs. Medibank Private's strategy to acquire and retain Policyholders is executed through its two brands, the Medibank brand and the ahm brand, which principally target customers at different life stages: <ul style="list-style-type: none"> The Medibank brand is the premium PHI brand with broad and flexible health insurance cover, widely distributed through Medibank Private's retail locations, call centres, Medibank Private's website and broker and corporate arrangements. The ahm brand is positioned around affordability and is distributed through comparison websites, ahm's website and a call centre. Medibank Private's approach to product design is based on customer needs, actuarial analysis and an assessment of likely claiming behaviours of customers on that product. Medibank Private's strategy to effectively manage claims expenses and the quality of services provided is focused on relationships with providers, product design, benefits utilisation and reducing improper claims. Medibank Private has a dedicated team with primary responsibility for delivering this strategy. Medibank Private's strategy to manage operating expenses other than claims expenses and cost of sales (Management Expenses), which primarily comprise employee expenses and sales and marketing expenses, is based on a cost-reduction program which commenced in FY13. Further programs to identify cost savings and efficiencies are ongoing. 	Section 3
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6. Calculated as \$5,183.5 million of claims expenses (including risk equalisation) divided by \$6,353.4 million (representing total revenue of \$6,635.5 million less operating profit of \$282.1 million). See Table 4.2 for more information.

7. The investment portfolio provides liquidity to cover insurance liabilities related to the Health Insurance business and satisfies Medibank Private's obligations to maintain regulatory reserves to meet claims expenses and to fund ongoing operations.

8. This allocation is calculated based on \$293.3 million of Health Insurance operating profit, \$89.7 million of net investment income, and \$21.1 million of Complementary Services operating profit respectively as a percentage of the sum of \$362.9 million of profit before tax plus corporate overhead costs of \$32.4 million plus other expenses of \$8.9 million. Corporate overhead costs and other expenses have not been allocated to a segment and have therefore not been taken into account when calculating the percentages by segment shown (see Tables 4.2 and 4.7 in Section 4).

Topic	Summary	For more information
What is Medibank Private's strategy to increase Shareholder value?	<ul style="list-style-type: none"> Medibank Private seeks to drive Shareholder value by servicing and profitably growing its customer base while achieving affordable, consistent and quality outcomes for its customers. To enable this, Medibank Private continues to develop its core capabilities in customer insights, health provider relationship management and chronic disease management. Medibank Private calls this 'health assurance'. Medibank Private's key areas of strategic focus are: <ul style="list-style-type: none"> profitable revenue growth through disciplined customer acquisition and retention initiatives; active enhancement of Health Insurance underwriting margins; operational excellence to reduce costs and improve the customer experience; leveraging or extending core capabilities to address growth opportunities in the broader health and insurance industries; and investment in people and capabilities. 	Section 3
How does Medibank Private manage its capital?	<ul style="list-style-type: none"> As a registered private health insurer in Australia, Medibank Private must comply with regulatory capital adequacy and solvency requirements, including a Capital Management Policy approved by its Board. As at 30 June 2014, Medibank Private's Health Insurance business had tangible and liquid capital (net of declared but unpaid dividends) equivalent to 12.4% of estimated premiums for the next 12 months, which is higher than both the Board's policy objective of at least 12.0%, and the regulatory capital adequacy requirements. 	Sections 3 and 4.11

1.3. THE ROLE OF PHI IN THE AUSTRALIAN HEALTHCARE INDUSTRY

What are the characteristics of the Australian healthcare industry?	<ul style="list-style-type: none"> The Australian healthcare industry consists of public and private organisations that provide healthcare services to consumers. These include hospital services, medical treatments, medications and other related services. The Organisation for Economic Co-operation and Development (OECD) considers the Australian healthcare system to be high quality, delivering good health outcomes for the population.⁹ The Australian healthcare industry is an integral part of the Australian economy, representing approximately 9.7%¹⁰ of gross domestic product (GDP) in FY13. Australian healthcare expenditure¹¹ has been increasing at a faster rate than nominal GDP¹², growing at a compound annual growth rate (CAGR) of 7.9% from \$68.8 billion in 2003 to more than \$147.4 billion in 2013, compared to nominal GDP growing at a CAGR of 6.6%¹⁰, and PHI growing at a CAGR of 8.6%¹³ over the same period. Total Australian healthcare expenditure in 2013 was approximately \$147.4 billion, of which approximately: <ul style="list-style-type: none"> 68% was funded by the Australian Government and state and territory governments (the public healthcare system); 24% was funded by individuals and organisations other than PHI; and 8% was funded by the PHI industry.¹⁴ 	Section 2
How does PHI complement the public healthcare system?	<ul style="list-style-type: none"> Private health insurers complement the public healthcare system by providing affordable healthcare options and additional choice for Policyholders, which helps lessen demand for free public hospital services. The Australian Government helps support a sustainable level of participation in PHI through a range of policy initiatives. The benefits of holding PHI include: <ul style="list-style-type: none"> coverage for a range of healthcare services that are not covered, or only partially covered, by the public healthcare system (e.g. dental and physiotherapy services); and choice of treating medical practitioner and reduced waiting periods for elective surgery (which is not the case for free public hospital services). 	Section 2

9. OECD 2013, *Health at a Glance 2013: OECD Indicators*, OECD, Paris.

10. Australian Institute of Health and Welfare 2014, *Health Expenditure Australia 2012–13*, Health and welfare expenditure series no. 52, cat. no. HWE 61, AIHW, Canberra (AIHW 2012-13 Report).

11. Healthcare expenditure includes hospital expenditure, medical services, dental services, other health practitioner services, pharmaceuticals and community and public health services, other recurrent expenditure (such as medical services, health research, administration, patient transport services, and aids and appliances) and capital expenditure.

12. Nominal GDP refers to GDP that has not been adjusted for inflation.

13. PHIAC 2014, *The Operations of Private Health Insurers Annual Report 2003–13* PHIAC, Canberra (PHIAC 2012-13 Report). Based on June year end.

14. AIHW 2012-13 Report.

Topic	Summary	For more information
What Australian Government policy incentives exist for Australians to obtain and maintain PHI?	<ul style="list-style-type: none"> There are three main Australian Government incentives for Australians to obtain and maintain PHI: <ul style="list-style-type: none"> Lifetime Health Cover (LHC), which enables people who obtain and maintain appropriate Hospital Cover from an early age (generally at or before the age of 31) to avoid paying a loading on the premium for their chosen product; the PHI rebate, funded by the Australian Government, which applies to PHI premiums and, for Australians whose income is below the top threshold, is between 9.68% and 38.72% of the premium depending upon income level and age; and the Medicare Levy Surcharge (MLS), an income tax surcharge, which high-income earners can avoid by having appropriate Hospital Cover. These measures were introduced between 1997 and 2000, resulting in a significant increase in PHI participation. Participation rates have remained stable since that time and have recently increased. The Australian Government's policy priorities for PHI are described in Section 2.3.13. 	Section 2
How is PHI in Australia different from general and life insurance?	<ul style="list-style-type: none"> In Australia, PHI has its own governing legislation and is regulated differently from general and life insurance. An important difference between PHI and general and life insurance is that PHI is community rated. Community rating means that no Australian can be refused a PHI policy, or particular product features, or asked to pay a higher premium, because of their past claims history or health risk status (Community Rating). This is intended to make PHI accessible to all Australians. By contrast, general and life insurance is typically risk rated in Australia. For example, an Australian life insurer can charge a person with diabetes a higher premium on a life insurance policy compared to a person who does not have diabetes, whereas an Australian private health insurer cannot charge that person a higher PHI premium. The Community Rating system is supported by the risk equalisation arrangements for the PHI industry (see below). Australian PHI legislation also guarantees portability, enabling Policyholders to switch between insurers (and between policies) without the need for them to re-serve waiting periods on comparable PHI cover. 	Section 2
What is risk equalisation?	<ul style="list-style-type: none"> Risk equalisation supports Community Rating. Risk equalisation is designed to support Community Rating in order that it does not significantly disadvantage those private health insurers with higher cost Policyholders. Private health insurers with higher-claiming Policyholders receive a quarterly payment from an industry fund whereas private health insurers with lower-claiming Policyholders are required to make a payment to the fund. The current scheme has been in operation since 2007 and is operated by the Commonwealth regulator, with a reinsurance mechanism in place since the early 1950s. Medibank Private is currently a net recipient of risk equalisation payments. 	Section 2
What is the difference between Medicare and Medibank Private?	<ul style="list-style-type: none"> Medicare is an Australian Government program through which all Australian residents are eligible to receive rebates for medical services (and limited other healthcare services). Medicare is funded through the tax system. Unlike Medicare, PHI is an optional consumer product for Australian residents. Medibank Private is one of 34 businesses in Australia that provide PHI to consumers. 	Section 2

Topic	Summary	For more information
1.4. KEY STRENGTHS		
Australia's largest private health insurer built around a highly recognisable, long-established brand	<ul style="list-style-type: none"> Medibank Private is the largest private health insurer in Australia, and its annual total revenue has grown from \$2.5 billion to \$6.4 billion over the last decade. Medibank Private has over 1.9 million Principal Policyholders (the primary holder of the PHI policy responsible for paying the premium) and OVHC and OSHC customers. Based on Principal Policyholders, this gave Medibank Private the largest PHI market share of 29.1% as at 30 June 2014.¹⁵ Medibank Private is one of the largest two private health insurers in every Australian state and territory.¹⁶ This position is supported by a national retail distribution network. Medibank Private has two PHI brands: the highly recognisable, long-established Medibank brand and the repositioned ahm brand. This provides Medibank Private with greater flexibility in product design and distribution. Medibank Private has established relationships with approximately 450 private hospitals¹⁷ and more than 7,500 other healthcare providers¹⁸ throughout Australia. 	Sections 3 and 4
Positive healthcare and PHI industry fundamentals	<ul style="list-style-type: none"> Medibank Private primarily operates in the Australian PHI industry. This industry is a key component of the Australian healthcare system, facilitating customer choice and helping alleviate funding pressure on the public healthcare system. The PHI industry benefits from longstanding government incentives and initiatives designed to encourage Australians to obtain and maintain PHI policies. Growth in the Australian PHI industry is linked to growth in the private healthcare and hospital sector, and is supported by strong macroeconomic drivers including: <ul style="list-style-type: none"> a growing population; increasing wealth per capita which aids affordability; and an ageing population and increasing healthcare utilisation and costs, which drive the continued consumer incentive to hold PHI, as well as the Australian Government's ongoing support for sustainable PHI participation rates. 	Section 2
Attractive financial profile with strategies in place to deliver disciplined forecast earnings growth	<ul style="list-style-type: none"> Medibank Private's pro forma operating profit is forecast to increase by 10.5% from FY14 to FY15, underpinned by forecast growth of 19.1% in the pro forma operating profit of the Health Insurance business. If the impact of the non-renewal of the Immigration Contract¹⁹ within Complementary Services is excluded, pro forma operating profit is forecast to increase by 20.1% from FY14 to FY15. The forecast growth in the Health Insurance business in FY15 is primarily expected to come from: <ul style="list-style-type: none"> revenue growth of 6.2%; a stable gross margin of 13.5% in FY14 and 13.6% in FY15; a reduction in the Management Expense Ratio (MER) from 9.2% to 8.7%; and the operating profit margin increasing from 4.4% to 4.9%. Medibank Private's pro forma NPAT is forecast to be \$258.2 million in FY15, representing a high pro forma forecast return on equity (ROE) of 18.4% for FY15.²⁰ Medibank Private had no debt on its balance sheet as at 30 June 2014 and is not expected to have any debt on its balance sheet as at the date of Listing. PHI is relatively less capital intensive than general and life insurance in Australia. This is primarily due to PHI claims generally being settled within three months and the impact risk equalisation has on reducing the effect of any high claims expenses from Policyholders. As at 30 June 2014, Medibank Private had cash and investments of \$2.2 billion on its balance sheet. 	Section 4

15. Calculated based on Principal Policyholders as per 30 June 2014 PHIAC data.

16. Market share based on total policies per PHIAC 2012-13 Report.

17. Contracted private hospitals as at 27 August 2014.

18. Contracted healthcare providers as at 22 September 2014.

19. The contract between the Commonwealth and Medibank Private for the provision of medical services relating to migration and visa processing (**Immigration Contract**). The Immigration Contract was not renewed with effect from July 2014 (with a transition period to November 2014, but with no revenue being received between August 2014 and November 2014), having contributed \$15.5 million to pro forma FY14 NPAT. While this has not been adjusted in the Pro Forma Financial Information, Section 4.3.2 illustrates the impact on the historical and forecast financial information included in this Prospectus of the non-renewal of the Immigration Contract in order to illustrate the historical and forecast performance of the ongoing businesses excluding the revenue and expenses arising from this contract.

20. Calculated by dividing the pro forma forecast FY15 NPAT by the average of the total equity as at 30 June 2014 and 30 June 2015. The forecast total equity as at 30 June 2015 is calculated by taking the total statutory equity as at 30 June 2014, adding the pro forma forecast FY15 NPAT and deducting the targeted dividends to be paid in FY15.

Topic	Summary	For more information
Attractive dividend yield	<ul style="list-style-type: none"> Subject to the forecasts in the Forecast Financial Information set out in Section 4 being achieved and other relevant factors, the Board expects to pay a fully franked dividend of 4.9 cents per Share in September 2015 in respect of the period from 1 December 2014 to 30 June 2015. This equates to a forecast FY15 dividend yield (based on simple annualisation) of 4.2% to 5.4%²¹ and a forecast FY15 dividend yield based on FY15 NPAT of 3.5% to 4.5%.²² 	Section 4.11.4
Experienced management team and Board	<ul style="list-style-type: none"> The Medibank Private management team is highly experienced with significant health, financial services and retail industry expertise. Medibank Private's Managing Director, George Savvides, has more than 25 years experience in the healthcare industry and has been Medibank Private's Managing Director for the past 12 years. Medibank Private's Board comprises well-qualified Directors with significant corporate experience and a broad range of expertise. 	Section 6
1.5. KEY RISKS		
Medibank Private's strategy may not be effective	<ul style="list-style-type: none"> Medibank Private's strategy is summarised in Section 1.2. If Medibank Private's strategy is not effective, its market share may be adversely affected, its revenue may be lower than anticipated, its costs may be higher than anticipated and its profitability may be adversely affected. Medibank Private's strategy in contracting, or choosing not to contract, with healthcare providers is intended to drive improved value for money and Policyholder quality outcomes. If this strategy is ineffective, it may lead to reputational damage and loss of Policyholder goodwill without a corresponding commercial benefit. If Medibank Private's systems and processes are not effective in detecting, preventing and recovering improper claims, the cost of Medibank Private's claims expense will potentially increase above forecasts. 	Sections 5.2.1, 5.2.3 and 5.2.5
PHI products may be mispriced or incorrectly designed	<ul style="list-style-type: none"> In order to price its PHI policies, Medibank Private needs to forecast claims expenses and other key variables. Pricing and forecasting involves judgement and strategy, including assessing the likely pricing approach of Medibank Private's competitors. Material mispricing decisions (including as a result of errors in the actuarial assumptions adopted), or an inability to obtain the premium increases sought, may adversely affect Medibank Private's financial performance or result in a loss of Policyholders or both. 	Sections 5.2.2 and 5.2.6
Satisfactory agreements may not be reached with healthcare providers	<ul style="list-style-type: none"> The value proposition offered by Medibank Private depends on whether it can ensure a satisfactory financial outcome for Policyholders when they receive hospital or other healthcare services. These financial outcomes are achieved by entering into agreements with private hospitals and other relevant healthcare providers. Failure to have satisfactory agreements in place with private hospitals and other relevant healthcare providers may impact Medibank Private's operating results, the attractiveness of its policies, its ability to grow its business profitably or its reputation. 	Section 5.2.3
Lower than expected investment returns may affect Medibank Private's financial performance	<ul style="list-style-type: none"> Medibank Private's investment portfolio is subject to general economic and market conditions and normal market risks which may impact the value of Medibank Private's investments from time to time. As a portion of Medibank Private's net profit is generated from its investment portfolio, lower than expected investment returns may adversely affect Medibank Private's financial performance. 	Section 5.2.4
Medibank Private depends on effective IT systems	<ul style="list-style-type: none"> Effective information systems and data integrity are critical to Medibank Private's operations. Loss of, or damage to, Medibank Private's systems or data could significantly damage Medibank Private's reputation, affect its relationships with suppliers and Policyholders and ultimately harm its business. Medibank Private is undertaking a broad IT renewal program (IT Renewal Program), which includes replacing the core policy and customer relationship management systems for the Medibank brand (Project DelPHI) and other associated projects. A failure to complete the IT Renewal Program on time, within budget and with the required level of functionality may have an adverse impact on customer service, financial performance, regulatory compliance and future competitiveness. 	Sections 5.2.7 and 5.2.8
Rising healthcare costs may threaten the affordability of PHI	<ul style="list-style-type: none"> The sustainability of the PHI industry depends upon low-risk Policyholders holding PHI. If the overall PHI participation rate becomes unsustainable (e.g. PHI as a product category becomes unaffordable or unattractive for low-risk Policyholders), leaving mainly higher-risk Policyholders holding PHI, it may have an adverse effect on the PHI industry, including Medibank Private. On an industry-wide basis, some drivers of rising healthcare costs are outside the influence of private health insurers. 	Section 5.3.1

21. Refer to footnote 10 on page 3.

22. Refer to footnote 12 on page 3.

Topic	Summary	For more information
Government policy and regulation may change	<ul style="list-style-type: none"> PHI is regulated and is therefore sensitive to regulatory change. If Medibank Private fails to adequately respond to such changes or does not do so as effectively as its competitors, its business, operations and financial results may be adversely affected. Medibank Private, like all private health insurers, is likely to be affected if there are adverse changes to Australian Government policies which support participation in PHI (LHC, the PHI rebate and the MLS). In addition, any changes to Community Rating (or risk equalisation) may affect private health insurers differently. Any changes in the public healthcare system may increase Policyholders' utilisation of their PHI policies and adversely affect Medibank Private's claims expenses. Pending the passage of legislation, the functions of PHIAC will be split and transferred to the Australian Prudential Regulation Authority (APRA) and the Department of Health by 1 July 2015, with a view to closing the agency. 	Sections 5.3.2 and 5.3.3
Competitor actions and changes in the competitive landscape may disadvantage Medibank Private	<ul style="list-style-type: none"> The PHI market in Australia is competitive and competitive dynamics and/or a failure to compete successfully may adversely impact Medibank Private's Policyholder numbers and financial performance. Consumers' increased use of the internet, and comparison websites in particular, to select and purchase PHI policies has led to increased competition, an emphasis on lower-cost products and higher acquisition costs in some channels. Medibank Private's strategy for responding to these market dynamics may not be successful in maintaining market share and profitability. 	Section 5.3.4
Other key risks	<ul style="list-style-type: none"> A number of other key risks relating specifically to an investment in Medibank Private and PHI, and generally to an investment in the Shares, are included in Section 5, including reputational and operational risks (such as IT risks) and general risks. 	Section 5

1.6. KEY FINANCIAL INFORMATION

What is the key financial information?	<ul style="list-style-type: none"> The following table contains Pro Forma Financial Information for Medibank Private for the periods indicated. While this does not represent the statutory results of Medibank Private, Medibank Private believes it provides useful information as it permits investors to examine what it considers to be the underlying financial performance of the business. 	Section 4
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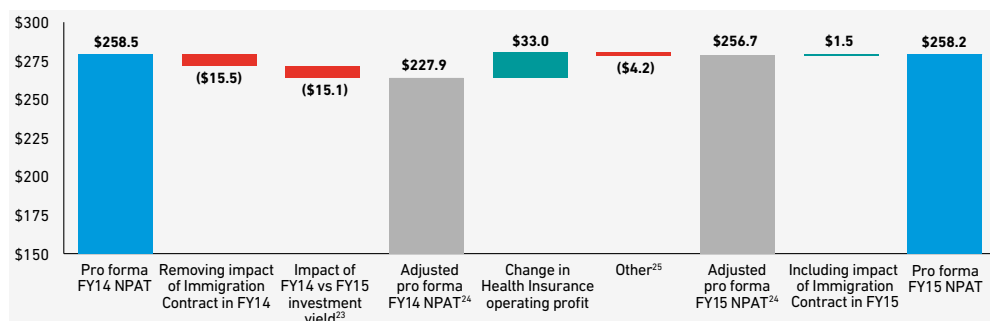
YE 30 June (\$M)	Pro forma historical			Pro forma forecast
	FY12	FY13	FY14	FY15
Health Insurance premium revenue	5,062.3	5,344.1	5,648.7	5,996.7
Complementary Services revenue	287.5	507.6	718.4	638.8
Total revenue	5,349.8	5,851.6	6,367.1	6,635.5
Operating profit	174.1	196.5	255.3	282.1
Net investment income	43.4	144.4	113.9	89.7
NPAT	149.9	243.9	258.5	258.2
Net assets^a			1,393.9	
<i>Key Medibank Private ratios</i>				
– Total revenue growth		9.4%	8.8%	4.2%
– Operating profit margin	3.3%	3.4%	4.0%	4.3%
– Operating profit growth		12.9%	29.9%	10.5%
– ROE				18.4%
<i>Key Health Insurance ratios^b</i>				
– Premium revenue growth		5.6%	5.7%	6.2%
– Gross margin	14.2%	13.3%	13.5%	13.6%
– MER	10.6%	9.6%	9.2%	8.7%
– Operating profit margin	3.6%	3.7%	4.4%	4.9%
– Operating profit growth		8.1%	24.1%	19.1%

a. Subsequent to 30 June 2014, MPL declared \$238.8 million of dividends payable to the Commonwealth that will be paid prior to Completion of the Offer. These dividends comprise a \$42.0 million final dividend for FY14, and a \$196.8 million special dividend, comprising \$138.0 million from retained earnings as at 30 June 2014 and a further \$58.8 million from earnings for the five months to 30 November 2014.

b. After inter-segment eliminations (see Section 4.4).

Topic	Summary	For more information																				
What is the key financial information? <i>continued</i>	<ul style="list-style-type: none">The following table contains the statutory results for Medibank Private for the periods indicated. <table><tr><th></th><th colspan="3">Audited statutory historical</th><th>Statutory forecast</th></tr><tr><th>YE 30 June (\$M)</th><th>FY12</th><th>FY13</th><th>FY14</th><th>FY15</th></tr><tr><td>Total revenue</td><td>5,357.0</td><td>5,860.6</td><td>6,371.8</td><td>6,635.5</td></tr><tr><td>NPAT</td><td>126.6</td><td>232.7</td><td>130.8</td><td>250.9</td></tr></table> <ul style="list-style-type: none">The Immigration Contract was not renewed with effect from July 2014 (with a transition period to November 2014, but with no revenue being received from August 2014 to November 2014), having contributed \$15.5 million to pro forma FY14 NPAT. While this has not been adjusted in the Pro Forma Financial Information, Section 4.3.2 illustrates the effect on Medibank Private's historical and forecast financial performance if this contract is excluded to illustrate the performance of the ongoing business (e.g. excluding the impact of the Immigration Contract, forecast pro forma operating profit growth is 20.1% from FY14 to FY15).		Audited statutory historical			Statutory forecast	YE 30 June (\$M)	FY12	FY13	FY14	FY15	Total revenue	5,357.0	5,860.6	6,371.8	6,635.5	NPAT	126.6	232.7	130.8	250.9	Section 4
	Audited statutory historical			Statutory forecast																		
YE 30 June (\$M)	FY12	FY13	FY14	FY15																		
Total revenue	5,357.0	5,860.6	6,371.8	6,635.5																		
NPAT	126.6	232.7	130.8	250.9																		
What dividends does Medibank Private expect to pay for FY15?	<ul style="list-style-type: none">Dividends declared and forecast in relation to FY15 have been determined by Medibank Private in consultation with the Commonwealth, as the current sole Shareholder of MPL, with a view to establishing an appropriate capital structure for Medibank Private at IPO. This has resulted in the Commonwealth and Medibank Private agreeing that MPL pay:<ul style="list-style-type: none">to the Commonwealth prior to the IPO: a \$42.0 million final dividend for FY14, and a \$196.8 million special dividend, comprising \$138.0 million from retained earnings as at 30 June 2014 and a further \$58.8 million from earnings for the five months to 30 November 2014; andto MPL Shareholders post the IPO: an inaugural dividend for FY15 of 4.9 cents per Share (or \$135 million) in September 2015 in respect of the seven-month period, from 1 December 2014 to 30 June 2015. This dividend will be calculated with reference to Medibank Private's earnings for the seven-month period ending 30 June 2015. These earnings are expected to be stronger than those in the first five months, given forecast lower claims expenses in December and January.The dividend payable to MPL Shareholders post the IPO is subject to the forecasts in the Forecast Financial Information being achieved and a number of other factors the Board may consider relevant as set out below.	Section 4																				
What is Medibank Private's dividend policy?	<ul style="list-style-type: none">It is the Board's current intention for Medibank Private to pay dividends in arrears for the six-month periods ending 31 December (interim dividend) and 30 June (final dividend) each year. It is anticipated that interim dividends will be paid in or around March and final dividends will be paid in or around September, following the relevant financial period.The Board's policy is to target a payout ratio of between 70% and 80% of annual Underlying NPAT. Medibank Private's FY16 dividend payout ratio is expected to be in the range of 70% to 75% of FY16 Underlying NPAT.The payment of a dividend is at the discretion of the Board and will be a function of a number of factors the Board may consider relevant, including the general business environment, the operating and financial condition of Medibank Private, future funding requirements, capital management initiatives, tax considerations (including the level of franking credits available), any contractual, legal or regulatory restrictions on Medibank Private in relation to the payment of dividends and any other factors the Directors may consider relevant.No assurance can be given about future dividends, the level of franking of such dividends (if any) or the payout ratios for any future period as these matters will depend upon future events, as well as the key risks set out in Section 5. Medibank Private cannot pass on to Australian resident Shareholders the benefit of any franking credits accrued prior to the date of Listing.	Section 4.11.4																				
Why does the trend in Medibank Private's pro forma NPAT from FY14 to FY15 differ from that in the pro forma operating profit?	<ul style="list-style-type: none">Medibank Private's pro forma operating profit is forecast to increase by 10.5% from FY14 to FY15, whereas pro forma NPAT is forecast to decrease by 0.1%. This compares to a 20.1% increase in operating profit and 5.6% increase in NPAT if the impact of the Immigration Contract was excluded.Medibank Private's forecast change in pro forma NPAT from FY14 to FY15 is expected to be driven by three major factors:<ul style="list-style-type: none">the impact of the non-renewal of the Immigration Contract (as described in Section 4.3.2);a lower forecast investment yield in FY15 of 4.5% compared to 5.5% in FY14 (as described in Section 4.8.3); andthe largely offsetting improvement in operating profit margin (as described in Section 4.8.3).Medibank Private's average monthly investment balance is forecast to decrease in FY15 from FY14, which is also expected to impact pro forma NPAT through lower forecast investment income in FY15.	Section 4																				

Topic	Summary	For more information
Why does the trend in Medibank Private's pro forma NPAT from FY14 to FY15 differ from that in the pro forma operating profit? <i>continued</i>	<ul style="list-style-type: none"> Figure 1.3 below illustrates the impact of these three major factors on pro forma FY14 NPAT to arrive at forecast pro forma FY15 NPAT. <p>Figure 1.3: Components of the change in pro forma FY14 NPAT to pro forma forecast FY15 NPAT (\$M)</p>	Section 4



1.7. DIRECTORS AND SENIOR MANAGEMENT

Who are the Directors of Medibank Private?	<ul style="list-style-type: none"> Elizabeth Alexander AM – Non-executive Chairman George Savvides – Managing Director Anna Bligh – Non-executive Director David Fagan – Non-executive Director Dr Cherrell Hirst AO – Non-executive Director Peter Hodgett – Non-executive Director Linda Bardo Nicholls AO – Non-executive Director Christine O'Reilly – Non-executive Director 	Section 6.1
Who are the members of Medibank Private's senior management team?	<ul style="list-style-type: none"> George Savvides – Managing Director Paul Koppelman – Chief Financial Officer (CFO) Laz Cotsios – Chief Customer Officer David Koczkar – Chief Operating Officer (COO) Dr Andrew Wilson – Executive General Manager, Provider Networks and Integrated Care (PNIC) Kylie Bishop – Executive General Manager, People & Culture Mei Ramsay – Group General Counsel and Company Secretary Andrew Matthews – Chief Actuary Chris Richardson – General Manager, Treasury and Investor Relations Muir Watson – Chief Risk Officer 	Section 6.2

1.8. SIGNIFICANT INTERESTS, KEY PEOPLE AND RELATED PARTY TRANSACTIONS

Who is the existing Shareholder and what will its interest be following Completion of the Offer?	<ul style="list-style-type: none"> The Commonwealth currently owns 100% of MPL. The Commonwealth's objective in undertaking the Offer is to sell 100% of the Shares in MPL, but it reserves the right to sell a lesser amount of Shares under the Offer (and to defer the sale of any remaining Shares) taking into consideration the objective of a successful Listing, market conditions and other factors. The Offer is expected to raise \$4,269 million to \$5,508 million based on a sale of 100% of MPL and the Indicative Price Range of \$1.55 to \$2.00 per Share. None of the proceeds of the Offer will be received by Medibank Private. If the Commonwealth retains any Shares in MPL after Completion of the Offer, the Commonwealth intends to sell those Shares at a later time not being earlier than the announcement of Medibank Private's FY15 results and in a manner of its choosing. 	Sections 7.1 and 10.10
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23. Calculated as the 30% tax effected difference between the FY14 and FY15 investment yield applied to FY14 average monthly investment balance.

24. Provided for illustrative purposes only.

25. Comprises movements in Complementary Services operating profit (excluding the Immigration Contract), corporate overheads, other income and tax expense, and the impact on investment income of a lower average monthly investment balance.

Topic	Summary	For more information
Will any Shares be subject to restrictions on disposal or holdings²⁶ following Completion of the Offer?	<ul style="list-style-type: none"> The Medibank Private Share Trading Policy requires Employees who acquire Shares in the Offer to hold their Shares for a minimum period of 90 days. Otherwise, none of the Shares will be subject to restrictions on disposal following Completion of the Offer. The Sale Act prohibits any one person (aggregated with its associates) acquiring or holding more than 15% of the Shares at any time. This prohibition applies for five years after the Commonwealth sells all of its equity in MPL. If the Commonwealth retains Shares in MPL, the 15% limit will apply based on the proportion of Shares not held by the Commonwealth. The 15% limit on individual holdings will not affect ordinary day-to-day trading in the Shares. However, an injunction can be sought under the Sale Act, and divestment provisions under MPL's Constitution may apply, to require a disposal if a Shareholder exceeds the 15% limit. 	Section 10.10
What are some of the implications for Medibank Private if the Commonwealth retains a shareholding in MPL?	<ul style="list-style-type: none"> The sale of the Commonwealth's Shares will affect Medibank Private's statutory obligations as described in Section 10.9. Certain provisions in Commonwealth legislation will cease to apply to Medibank Private once MPL ceases to be Commonwealth controlled. For a description of these changes see Sections 10.9 and 10.10. If the Commonwealth retains any Shares in MPL after Completion of the Offer, then: <ul style="list-style-type: none"> the end date for the 15% individual shareholding limit and Australian identity requirements for Medibank Private described in Section 10.11.2 will be postponed; amendments to certain Commonwealth statutes will not take effect and Medibank Private will remain subject to those statutes; and the powers of the Minister for Finance to request assistance from MPL and the Board under the Sale Act as described in Section 10.10 will remain in relation to the sale of those remaining Shares. 	Sections 10.9 and 10.10
What significant benefits are payable to Directors and other persons connected with Medibank Private or the Offer and what significant interests do they hold?	<ul style="list-style-type: none"> Medibank Private's Managing Director, George Savvides, members of the Executive Committee, and other senior management will be eligible to participate in Medibank Private's STI Plan. In FY15, this includes a one-off additional opportunity linked to the achievement of operating profit as set out in the Forecast Financial Information. In addition, on or shortly after Completion of the Offer, Medibank Private intends to grant George Savvides and members of the Executive Committee performance rights under the Performance Rights Plan as the long term incentive component of their remuneration for FY15. Directors are entitled to remuneration and fees on commercial terms as disclosed in Section 6.3.2. Advisers and other service providers are entitled to fees for services as disclosed in Section 6.3.1. 	Sections 6.3.1 and 6.3.2
1.9. ABOUT THE OFFER		
What is the Offer?	<ul style="list-style-type: none"> The Commonwealth is offering to sell 100% of the Shares in MPL, but it reserves the right to sell a lesser amount of Shares under the Offer (and to defer the sale of any remaining Shares) taking into consideration the objective of a successful Listing, market conditions and other factors. 	Section 7
Who is the Issuer of this Prospectus?	<ul style="list-style-type: none"> For the purposes of the Corporations Act, this Prospectus is issued by the Commonwealth, as the sole Shareholder in MPL. For the purposes of the Securities Act 1978 (New Zealand), both the Commonwealth and MPL are 'issuers'. 	Section 7
What are the components of the Offer?	<ul style="list-style-type: none"> The Offer comprises a Retail Offer and an Institutional Offer. 	Section 7.3
What is the Institutional Offer and who is eligible to participate in the Institutional Offer?	<ul style="list-style-type: none"> The Institutional Offer consists of an invitation to bid for Shares made to Institutional Investors including: <ul style="list-style-type: none"> Institutions in Australia and New Zealand under this Prospectus; Institutions in a number of selected international jurisdictions under the Institutional Offering Memorandum; and Brokers who elect to bid for Shares under the Institutional Offer on behalf of their Australian and New Zealand resident retail clients under this Prospectus as Broker-sponsored bids. 	Section 7.5

26. In addition to restrictions on holdings applicable to companies generally, for example, under the Corporations Act or the *Foreign Acquisitions and Takeovers Act 1975* (Cth).

Topic	Summary	For more information
What is the Retail Offer and who is eligible to participate in the Retail Offer?	<ul style="list-style-type: none"> The Retail Offer being made under this Prospectus consists of: <ul style="list-style-type: none"> the Policyholder Offer, which is open to Eligible Policyholders to apply for Shares at the Retail Price²⁷; the Employee Offer, which is open to Eligible Employees to apply for Shares at the Retail Price²⁷; the Broker Firm Offer, which is open to Australian and New Zealand resident retail clients of a participating Broker who are offered a firm allocation of Shares by their Broker at the Retail Price²⁷; and the General Public Offer, which is open to Australian resident retail investors and consists of an invitation to apply for Shares at the Retail Price.²⁷ 	Section 7.3
How will the shares be allocated under the Offer?	<ul style="list-style-type: none"> Under the Retail Offer, a proportion of Shares will be allocated to Broker Firm Applicants as part of the Broker Firm Offer. The allocation of Shares to the Broker Firm Offer will be determined by the Commonwealth, having regard to the level of demand in the Broker Firm Offer and any other factors that the Commonwealth considers appropriate. The Commonwealth will retain the ability to Clawback broker firm allocations by up to 20% following the completion of the Bookbuild. A proportion of Shares will also be reserved for Applications by Eligible Employees, who will receive a minimum guaranteed allocation of \$2,000 worth of Shares per Eligible Employee. If the Offer is over-subscribed and scaling of Retail Offer Applications is required: <ul style="list-style-type: none"> Eligible Employees who apply for Shares as part of the Employee Offer can be allocated an amount of Shares up to 30% higher than Applicants who apply for Shares as part of the General Public Offer and did not pre-register (this benefit does not apply to the first \$2,000 worth of Shares applied for, which is guaranteed). Eligible Policyholders who pre-registered and apply for Shares as part of the Policyholder Offer can be allocated an amount of Shares up to 30% higher than Applicants who apply for Shares as part of the General Public Offer and did not pre-register. Eligible Policyholders who did not pre-register and apply for Shares as part of the Policyholder Offer can be allocated an amount of Shares up to 15% higher than Applicants who apply for Shares as part of the General Public Offer and did not pre-register. Applicants who pre-registered and apply for Shares as part of the General Public Offer can be allocated an amount of Shares up to 15% higher than Applicants who apply for shares as part of the General Public Offer and did not pre-register. The allocation which is available to Applications under the Policyholder Offer is only available to one Application for each PHI policy issued under either the Medibank or ahm brands on the Record Date. 	Section 7.6
Is the Offer underwritten?	<ul style="list-style-type: none"> The Offer is not underwritten. 	Section 7.1
Who will receive the proceeds of the Offer?	<ul style="list-style-type: none"> The Commonwealth will receive the proceeds of the Offer. None of the proceeds of the Offer will be received by Medibank Private. 	Section 7.2
What is the proposed use of funds raised pursuant to the Offer?	<ul style="list-style-type: none"> The Australian Government has announced that the proceeds from the sale of Medibank Private will be re-invested into productivity enhancing infrastructure through the Australian Government's Asset Recycling Initiative. 	Section 7.2
Why is the Offer being conducted?	<ul style="list-style-type: none"> The purpose of the Offer is to: <ul style="list-style-type: none"> provide an opportunity for the Commonwealth to sell down its entire shareholding in MPL; provide Medibank Private with full commercial independence and access to capital markets; and remove the Commonwealth as owner of a market participant in the PHI industry while retaining its role as a regulator. 	Section 7.2
Can the Offer be withdrawn?	<ul style="list-style-type: none"> The Commonwealth reserves the right not to proceed with the Offer, or any part of it, at any time before settlement of the Offer. If the Offer or any part of it is cancelled, all Application Payments, or the relevant Application Payments, will be refunded in full (without interest) as soon as practicable in accordance with the requirements of the Corporations Act. 	Section 7
How can I apply?	<ul style="list-style-type: none"> If you are an eligible retail investor in Australia, you may apply for Shares either: <ul style="list-style-type: none"> online by visiting www.medibankprivateshareoffer.com.au and making your Application Payment using BPAY® or Direct Debit; or by mailing your completed paper Application Form together with your Application Payment using the reply paid envelope that will accompany your paper copy of the Prospectus. Eligible retail investors in Australia or New Zealand may also apply for Shares by submitting a completed Application Form to their Broker together with their Application. 	Application Instructions

27. The Retail Price will only apply to the first \$250,000 worth of Shares (rounded down to the nearest Share) allocated to you under the Retail Offer. If you are allocated Shares above \$250,000, you will pay the Final Price for those Shares.

Topic	Summary	For more information
What are the key dates for the Retail Offer?	<ul style="list-style-type: none"> The Retail Offer opens on 28 October 2014 and is expected to close at 11.59 pm (AEDT) on 14 November 2014. The Commonwealth reserves the right to vary the dates and time of the Offer, which includes closing the Retail Offer early or extending the close of the Retail Offer, without notifying any recipients of this Prospectus or any Applicants. Investors are encouraged to submit their Applications and Application Payment as soon as possible after the Offer opens. 	Important Dates and Key Offer Statistics
What is the minimum Application size under the Offer?	<ul style="list-style-type: none"> The minimum Application size is \$2,000, and multiples of \$100 thereafter. 	Section 7
How much do I pay for Shares?²⁸	<ul style="list-style-type: none"> Applicants under the Institutional Offer will pay the Final Price, which will be determined at the conclusion of the Bookbuild and may be set at a price below, within or above the Indicative Price Range of \$1.55 to \$2.00 per Share. Applicants under the Retail Offer will pay the Retail Price, which will be the lower of the Retail Price Cap of \$2.00 per Share and the Final Price. 	Sections 7.1 and 7.5.4
Will the Shares be quoted?	<ul style="list-style-type: none"> MPL will apply to the ASX no later than seven days after the Prospectus Date for admission of MPL to the official list of the ASX and quotation of the Shares on the ASX (which is expected to be under the code MPL). It is anticipated that quotation will initially be on a conditional and deferred settlement basis. Completion of the Offer is conditional on the ASX agreeing to quote the Shares on the ASX and on settlement of the Offer under the proposed Settlement Underwriting Agreement. If ASX approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Payments received will be refunded (without interest) as soon as practicable in accordance with the requirements of the Corporations Act. MPL will not be listed on the New Zealand Stock Exchange and the Shares will not be quoted on that exchange. 	Section 7
Is there any brokerage, commission or stamp duty payable by Applicants?	<ul style="list-style-type: none"> No brokerage, commission or stamp duty is payable by Applicants on Shares allocated under the Offer. 	Section 7
What are the tax implications of investing in the Shares?	<ul style="list-style-type: none"> Shareholders may be subject to Australian income tax or withholding tax on any dividends paid. The tax consequences of any investment in the Shares will depend upon an investor's particular circumstances, particularly for non-resident Shareholders. Applicants should obtain their own tax advice prior to deciding whether to invest. 	Section 10.16
When will I receive confirmation that my Application has been successful?	<ul style="list-style-type: none"> On or around 25 November 2014, the Commonwealth will confirm (by placing advertisements in major national and metropolitan newspapers in Australia) the Final Price, the Retail Price and the basis of allocation of Shares to all successful Applicants. From 25 November 2014, retail investors who have been allocated Shares may visit www.medibankprivateshareoffer.com.au or call 1800 998 778 (within Australia) or +61 3 9415 4011 (outside Australia) to obtain confirmation on their allocation of Shares. In doing so, you will need your Application Reference Number. If you are a Broker Firm Applicant and wish to confirm whether your Application was successful, you should contact your Broker. 	Section 7.7
How will I receive updates on significant developments during the period of the Offer?	<ul style="list-style-type: none"> If any significant new developments occur during the period of the Offer, the Commonwealth will update investors by publishing advertisements in newspapers, making that information available on www.medibankprivateshareoffer.com.au and supplementing this Prospectus as necessary. 	Important Notices
Where can I find more information about this Prospectus or the Offer?	<ul style="list-style-type: none"> You can visit the Medibank Private Share Offer website at www.medibankprivateshareoffer.com.au or call the Medibank Private Share Offer Information Line on 1800 998 778 (toll free within Australia) or +61 3 9415 4011 (outside Australia) from 8:00 am to 10:00 pm (AEDT) Monday to Friday during the Offer Period. 	Important Notices and Section 10

28. The Retail Price will only apply to the first \$250,000 worth of Shares (rounded down to the nearest Share) allocated to you under the Retail Offer. If you are allocated Shares above \$250,000, you will pay the Final Price for those Shares.

SECTION 2

INDUSTRY OVERVIEW



2.1. OVERVIEW

The Australian healthcare industry consists of public and private organisations that provide healthcare services to consumers. These include hospital services, medical treatments, medications and other related services. The OECD considers the Australian healthcare system to be high quality, delivering good health outcomes for the population.¹

Total Australian healthcare expenditure was estimated to be \$147.4 billion in FY13.² Approximately 68% of this was publicly funded by the Australian Government and state and territory governments, including through Medicare and the Pharmaceutical Benefits Scheme (**PBS**).² The PHI industry funded approximately 8%, with the remaining 24% funded by individuals and other organisations (such as general insurers who may fund healthcare services that are excluded under the *Private Health Insurance Act 2007* (Cth) (**PHI Act**), including medical treatment covered by compulsory third-party insurance).² The PHI industry complements the public healthcare system by providing additional choice and affordability for Policyholders through:

- funding for treatment in private hospitals or as a private patient in public hospitals;
- greater choice of clinician, medical service provider and location, as well as generally shorter waiting periods for some elective procedures compared to the public healthcare system; and
- additional funding for healthcare services (e.g. dental and physiotherapy services) that are not covered or are only partially covered by Medicare.

The PHI industry generated approximately \$19.3 billion in PHI premium revenue in 2014 and has grown at a CAGR of 8.4% since 2004.³ This growth rate is faster than the growth in each of Australia's nominal GDP, healthcare expenditure² and PHI claims expenses over a similar period.³

PHI plays a significant role in assisting the Australian Government to manage the long-term healthcare funding challenge. Given its role in the Australian healthcare system, a number of longstanding Australian Government initiatives are in place to encourage PHI participation and reduce reliance on the public healthcare system (e.g. through reducing demand for free public hospital services).

The key underlying drivers of growth in the PHI industry include a growing population, increasing wealth per capita (which aids affordability) and an ageing population with increasing healthcare utilisation and costs. Together, these result in a continued incentive for individuals to hold PHI and for Australian Government policy to support a sustainable level of PHI participation.

The following section provides an overview of the Australian healthcare industry, the role of PHI, the characteristics and growth drivers of the PHI industry, the competitive landscape, and the regulatory and policy settings applicable to PHI.

1. OECD 2013, *Health at a Glance: OECD Indicators*, OECD, Paris.

2. AIHW 2012-13 Report.

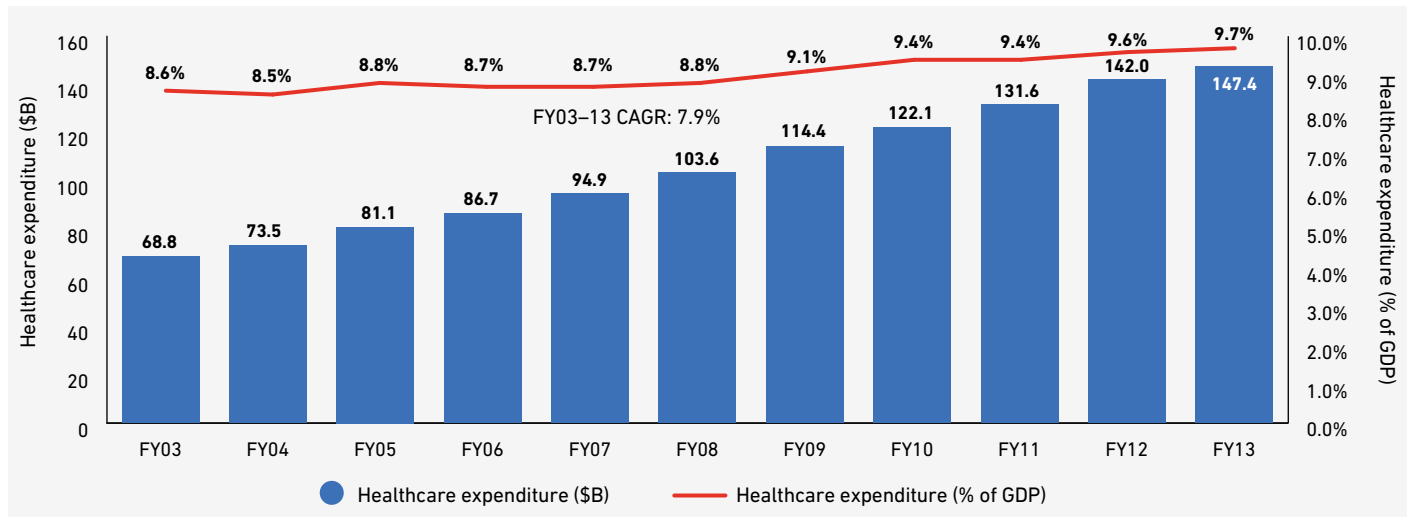
3. *Quarterly Statistics June 2014*, PHIAC, Canberra.

2.2. AUSTRALIAN HEALTHCARE INDUSTRY

2.2.1. Australian healthcare industry expenditure

The Australian healthcare industry is an integral part of the Australian economy, representing approximately 9.7%⁴ of GDP in FY13. Australian healthcare expenditure⁵ has been increasing at a faster rate than nominal GDP⁶, growing at a CAGR of 7.9% from \$68.8 billion in FY03 to more than \$147.4 billion in FY13, compared to nominal GDP growing at a CAGR of 6.6%⁴, and PHI growing at 8.6%⁷ over the same period.

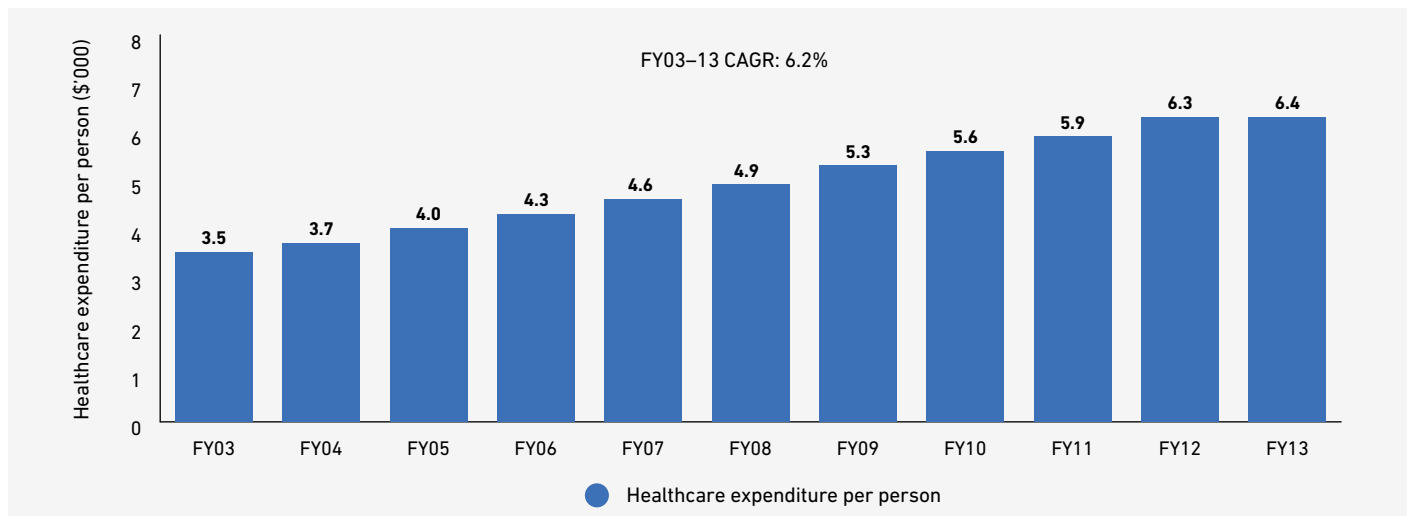
Figure 2.1: Total Australian healthcare expenditure (FY03–13)



Source: AIHW 2012-13 Report.

Annual healthcare expenditure per person has also increased at a CAGR of 6.2% p.a. from \$3,510 in FY03 to \$6,430 in FY13.⁸

Figure 2.2: Growth in Australian healthcare expenditure per person (FY03–13)



Source: AIHW 2012-13 Report.

4. AIHW 2012-13 Report.

5. Healthcare expenditure includes hospital expenditure, medical services, dental services, other health practitioner services, pharmaceuticals and community and public health services, other recurrent expenditure (such as health research, administration, patient transport services, and aids and appliances) and capital expenditure.

6. Nominal GDP refers to gross domestic product that has not been adjusted for inflation.

7. PHIAC 2012-13 Report. Based on June year end.

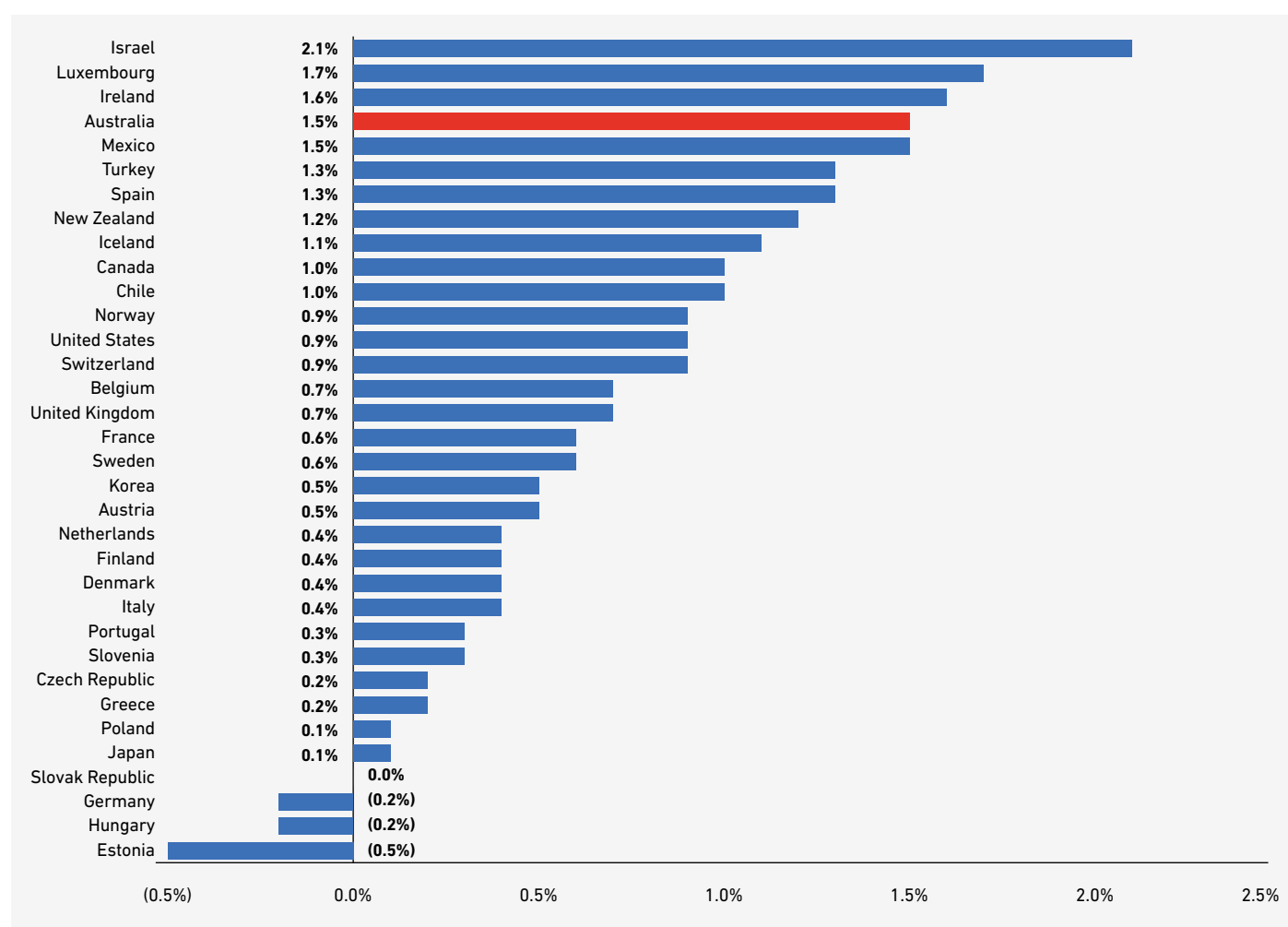
8. AIHW 2012-13 Report.

2.2.2. Drivers of growth in the Australian healthcare industry

Growth in the Australian healthcare industry is expected to be driven by:

- a growing population, in recent years Australia has been one of the fastest growing among OECD countries (see Figure 2.3), and which based on Australian Bureau of Statistics (ABS) data is projected to grow at a CAGR of 1.7% p.a. from 2012 to 2022⁹;
- an ageing population, with the proportion of people aged 65 and older projected to grow from 14% of the total population in June 2012 to 17% by June 2022.¹⁰ This represents an expected increase of 1.2 million people in this age group;
- increasing wealth per adult, with Australia having a relatively high GDP per capita (see Figure 2.5) and median wealth in US dollar (USD) terms of US\$219,500, one of the highest in the world¹¹. This has grown at a CAGR of 6% from 2003 to 2013 on a constant currency basis¹²;
- increasing demand for medical treatment due to improved technology and treatment methods (which also play a role in increasing life expectancy) and the increased prevalence of chronic diseases; and
- an increasing number and range of services on offer, and increasing use of these services.

Figure 2.3: Population growth of OECD countries (2000–12 CAGR)



a. Australia had net migration of 2.2 million people from 2004 to 2013.

Source: International Monetary Fund 2014, World Economic Outlook April 2014, IMF, Washington.

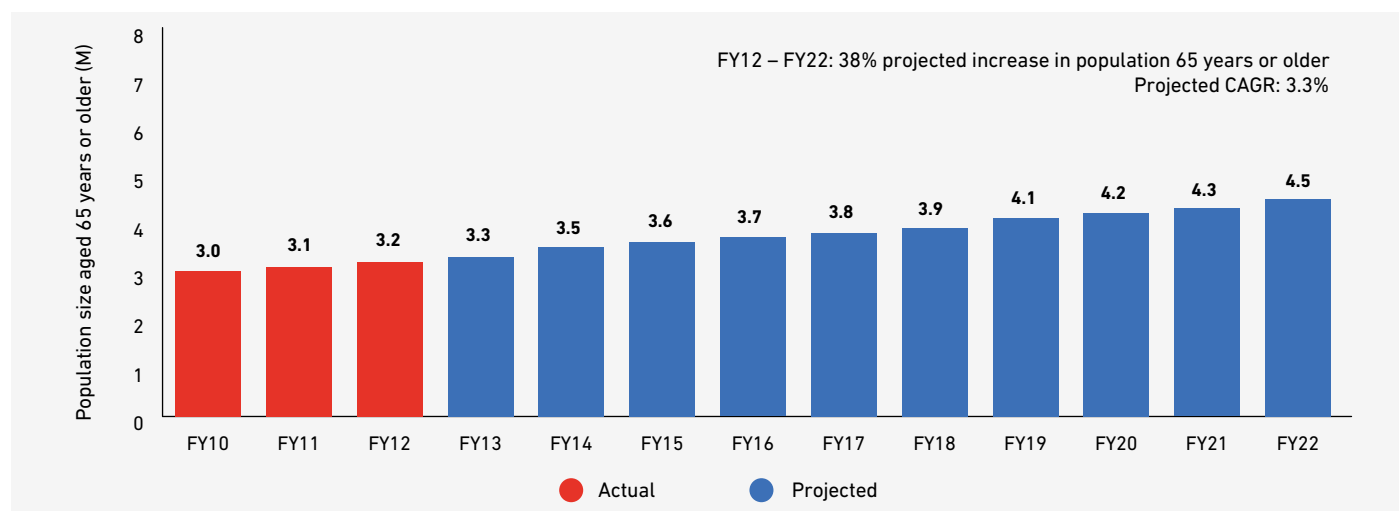
9. ABS 2014, *Australian Demographic Statistics, Dec 2013*, cat. no. 3101.0, ABS, Canberra and ABS 2013, *Population Projections, Australia, 2012 (base) to 2101*, cat. no. 3222.0, Series B, ABS, Canberra.

10. ABS 2014, *Population by Age and Sex, Regions of Australia, 2013*, cat. no. 3235, ABS, Canberra.

11. Credit Suisse Research Institute 2013, *Global Wealth Report 2013*, Credit Suisse AG, Zurich. Median wealth in Australian dollar terms of \$243,889 based on exchange rate of A\$1:US\$0.90.

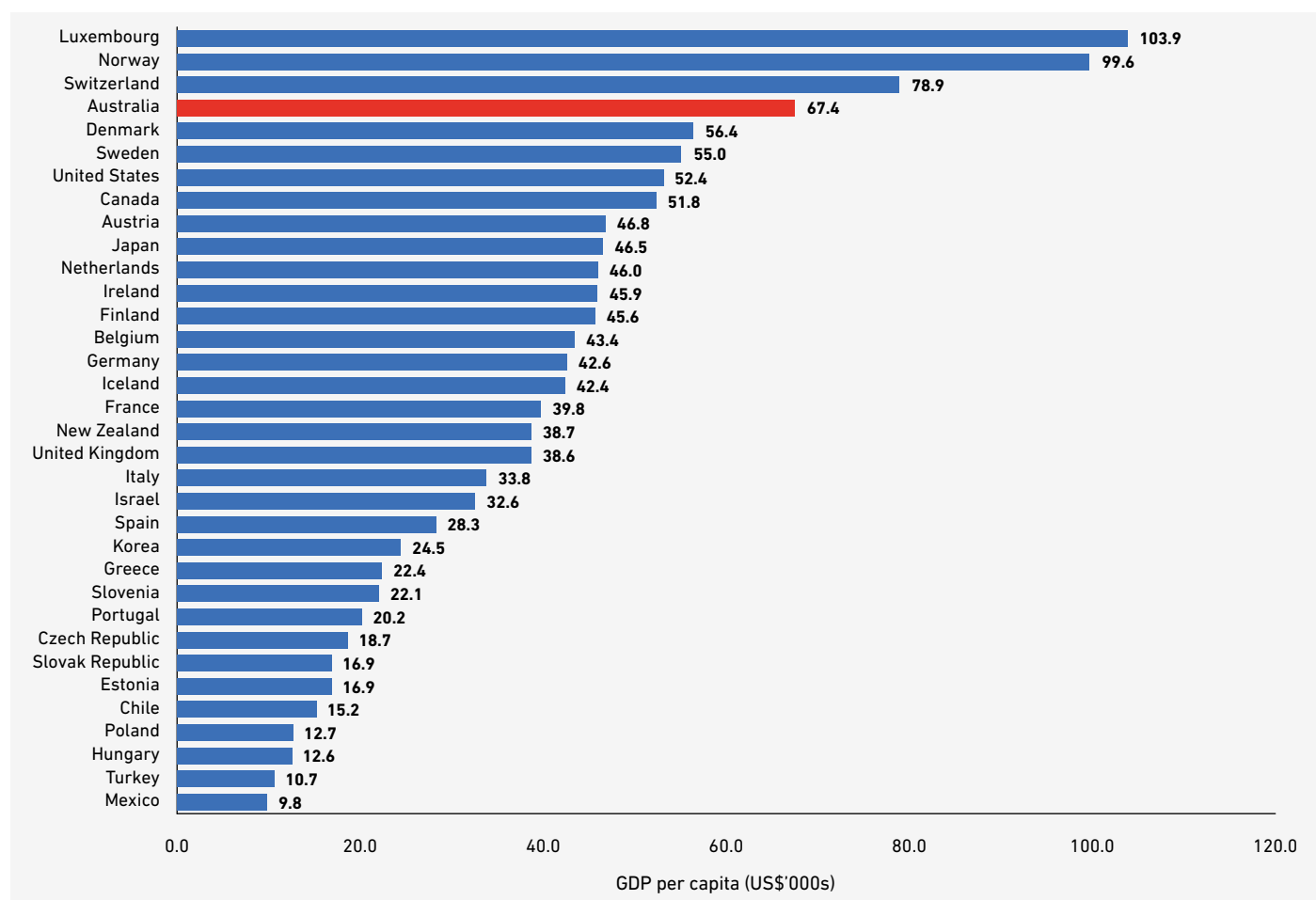
12. Credit Suisse Research Institute 2013, *Global Wealth Report Databook 2013*, Credit Suisse AG, Zurich.

Figure 2.4: Australia's population aged 65 years or older



Source: Australian Bureau of Statistics, based on June year end.

Figure 2.5: GDP per capita of OECD countries in 2012

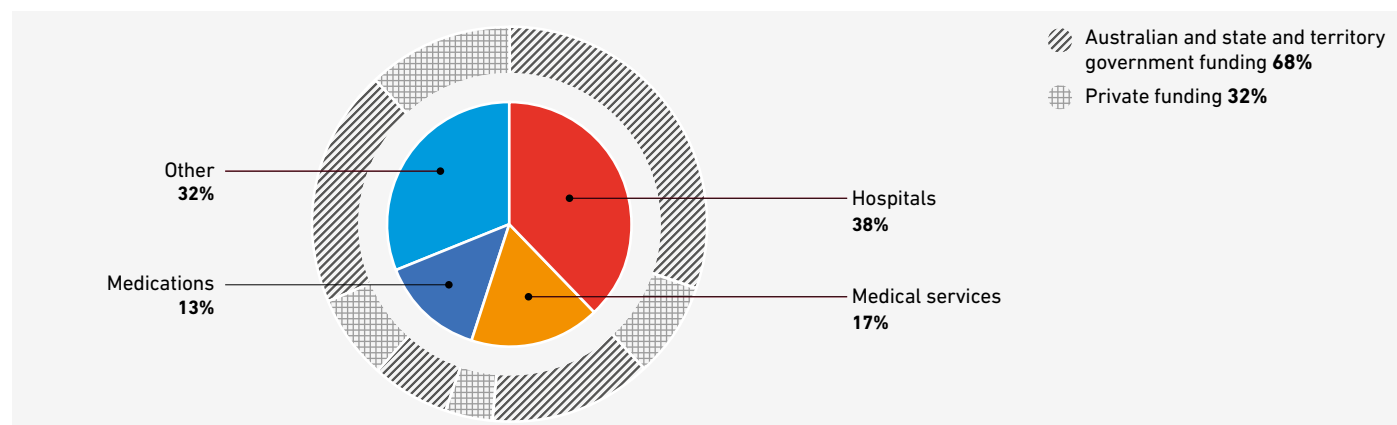


Source: The World Bank 2014, World Development Indicators, GDP per capita for 2012 (current US\$).

2.2.3. Australian healthcare expenditure and funding

Total Australian healthcare expenditure for FY13 was estimated to be \$147.4 billion.¹³ Hospital expenditure accounted for approximately 38% of this.¹⁴ Medical services, including general practitioner (GP) services and diagnostics (pathology and medical imaging)¹⁵, accounted for 17% and medications accounted for 13%. The remaining 32% comprised patient transport (ambulance services), capital expenditure, dental services, public and community health, other health practitioners' services, aids and appliances, administration and research.

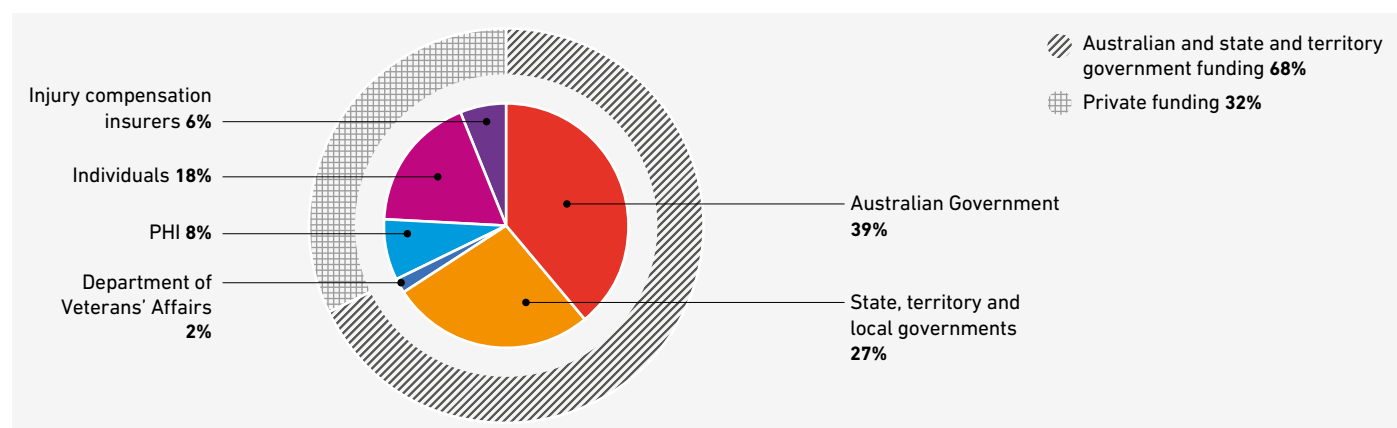
Figure 2.6: Total Australian healthcare expenditure by area (FY13): \$147.4 billion¹⁶



Source: AIHW 2012-13 Report.

In FY13, expenditure by the Australian Government and by state and territory governments accounted for approximately 68% of total healthcare expenditure. The remaining 32% was funded by private health insurers, general insurers (e.g. compulsory third-party insurance) and personal expenditure by individuals.

Figure 2.7: Sources of funding of total Australian healthcare expenditure (FY13): \$147.4 billion



Source: AIHW 2012-13 Report.¹⁷

Note: PHI contribution stated excludes impact of Australian Government PHI rebate. The Department of Veterans' Affairs purchases health services for eligible members of the veteran community. While funded by the Australian Government, it is a separate program.

13. AIHW 2012-13 Report.

14. AIHW 2012-13 Report. Public hospital services exclude certain services undertaken in hospitals (such as non-admitted dental services, community health services, patient transport services, public health activities and health research) and can include services provided offsite, such as hospital in the home, dialysis or other services.

15. Most medical services are provided on a fee-for-service basis and attract benefits under Medicare. Includes both private in-hospital medical services and out-of-hospital medical services, and non-MBS medical services, such as the provision of vaccines for overseas travel, as well as some expenditure by the Australian Government under alternative funding arrangements. Excludes medical services provided to public admitted patients in public hospitals and medical services provided to public patients at outpatient clinics in public hospitals.

16. Public and private funding breakdown includes medical expenses tax rebate.

17. Australian Government expenditure includes PHI premium rebates.

2.2.4. The public healthcare system in Australia

The main components of Australia's public healthcare system are the Medicare Benefits Schedule (**MBS**) which provides reimbursement to patients for medical services, the free public hospital system and the PBS. All three are available to Australian residents or eligible overseas representatives (**Eligible Persons**) without income testing, regardless of whether they have PHI cover.

Medicare

Medicare was established in 1984 and is the main public funding program for healthcare services in Australia. It is funded through general revenue. All Eligible Persons are able to receive rebates when they pay for medical services and certain other healthcare services. The MBS lists the medical and healthcare services that attract a Medicare rebate.

Medical practitioners and other healthcare providers can set their fees at their discretion. The Medicare rebate, calculated with reference to the MBS, is set by the Australian Government as a percentage of a standard fee for a particular service or treatment (the **Schedule Fee**). Accordingly, an individual may be required to contribute to expenses in the event that the cost of the service or treatment is greater than the amount of the applicable Medicare rebate.

The public hospital system

The public hospital system is administered by state and territory governments and is partly funded by the Australian Government. All public hospitals must be operated in accordance with the 'Medicare Principles', which require that Eligible Persons be given the choice to be treated as public patients (i.e. free of charge) and are therefore prioritised based on clinical need, and that Eligible Persons have equitable access to such services regardless of geographic location. An Eligible Person may receive free hospital treatment at a public hospital regardless of whether or not the individual has PHI cover. Public patients in public hospitals do not have a choice of medical practitioner and are subject to waiting lists for elective (non-urgent) surgery.

The Pharmaceutical Benefits Scheme

The PBS was established in 1948 and is a scheme under which the Australian Government subsidises the cost of many medications above a mandatory amount paid by Eligible Persons. The subsidy is paid directly to the supplier of the medication, mainly pharmacies.

Other sources of funding

Other programs in place to fund certain healthcare services in Australia include:

- residential aged care, which is funded partly through Australian Government subsidies that are paid directly to the operators of residential care services and partly through individual user charges. PHI does not cover fees and charges for residential aged care;
- the Department of Veterans' Affairs (**DVA**), which – through a parallel (and, in some areas, enhanced) system – purchases healthcare services for eligible members of the veteran community. These services include access to public and private hospitals, rehabilitation providers and appliances, mental health services, GPs, dentists, allied health providers, pharmaceuticals, as well as to the Veterans' Home Care and Community Nursing programs. While funded by the Australian Government, it is a separate program; and
- providers of general insurance, which may include state and territory-owned compensation bodies or privately owned general insurers. In cases where compensation is available, such as for hospitalisation arising from a car accident covered by a compulsory third-party insurance scheme, these healthcare services are generally paid for by the underwriter of the policy or scheme.

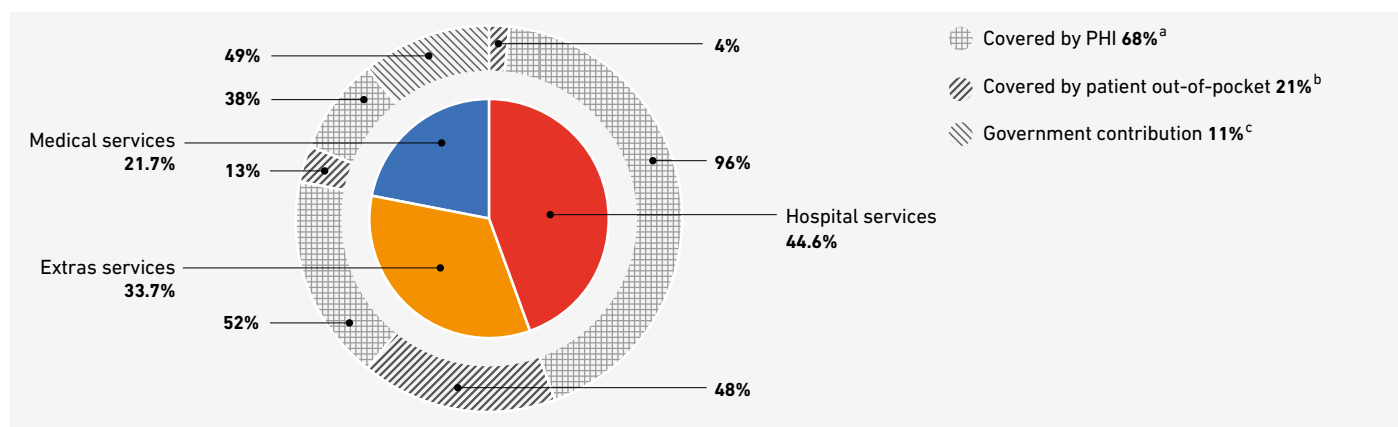
2.2.5. Funding of privately insured services

PHI cover has two forms – Hospital Cover and Extras Cover. Hospital Cover pays for some or all of the costs of treatment at a hospital, as well as some services arranged or provided by a hospital in a non-hospital setting. Extras Cover, which is also known as 'general' or 'ancillary' cover, helps to meet the cost of out-of-hospital services such as dental, optical and physiotherapy services. A Policyholder may choose to obtain Hospital Cover, Extras Cover or a combination.

Under Hospital Cover or Extras Cover, private health insurers can fund a range of healthcare services. Those services can broadly be divided into three categories: medical services, hospital (accommodation and theatre) services and extras services. Some of these services are eligible for a Medicare rebate in addition to PHI funding and, in some cases, a further contribution by the Policyholder may be required to cover the total cost of the services. The respective contributions of PHI, Medicare and Policyholders vary between hospital services, medical services and extras services such as dental and physiotherapy.¹⁸ In FY13, the total cost of healthcare services that were covered by PHI policies was \$22.4 billion, with over 68% of this cost funded by PHI¹⁹, 21% by patients directly (i.e. 'out-of-pocket' expenses) and the remaining 11% by governments.

18. Source: PHIAC 2012-13 Report, June year end. Hospital services include accommodation, meals, theatre fees, in-hospital nursing care, medicines and disposables. Medical services include services provided by authorised medical specialists. Extras services relate to ancillary services, hospital substitute treatment and chronic disease management programs.

19. PHIAC 2012-13 Report, June year end.

Figure 2.8: Funding for privately insured health services, 2012–13: \$22.4 billion²⁰

a. Calculated as (96% x 44.6%) plus (52% x 33.7%) plus (38% x 21.7%).

b. Calculated as (4% x 44.6%) plus (48% x 33.7%) plus (13% x 21.7%).

c. Calculated as 49% x 21.7%.

Source: PHIAC 2012-13 Report. June year end.

When Policyholders are required to contribute to the total cost of healthcare services covered by PHI, this is known as a 'gap payment'. This payment is equivalent to the difference between the fee charged by the healthcare services provider, and the combined Medicare rebate and PHI benefit.

Private health insurers may have in place a negotiated agreement or a gap cover scheme with particular healthcare providers which may limit or remove the requirement for their Policyholders to make a gap payment (see Section 2.3.7 for more information on contract arrangements).

Under some policies, Policyholders can also agree to meet a portion of their potential claim amounts in order to pay a lower premium. These contributions can take the form of:

- co-payments: a co-payment means that the Policyholder agrees to pay an agreed amount each time a service is provided (**Co-Payment**); and
- an excess or front-end deductible: an excess is an amount of money a Policyholder agrees to pay (up to a maximum amount) for a hospital stay or towards hospital expenses before a PHI claim becomes payable (e.g. a Policyholder may agree to pay the first \$500 of hospital expenses in a year, after which no further excess is payable) (**Excess**).

2.2.6. The relationship between Medicare and PHI

Medicare and PHI provide varying levels of cover across in-hospital and out-of-hospital services. The differences between relying on Medicare for in-hospital and out-of-hospital services and having PHI are summarised below.

In-hospital services and hospital treatment

In Australia, public hospital treatment and accommodation as a 'public patient' is available free of charge to Eligible Persons. However, public patients cannot elect to be treated by medical practitioners of their choice (these are nominated by the public hospital) and they usually face waiting lists for elective surgery. Also, although prostheses are provided free to public patients, they may be offered a more limited choice of devices compared to private patients.

A patient who holds PHI can be treated in a private hospital or elect to be treated as a private patient in a public hospital. Patients with PHI can choose their medical practitioner and may avoid waiting lists and/or have reduced waiting periods. When treatment is conducted in a private hospital, the patient will be billed for hospital facility and accommodation fees and fees charged by the medical specialists who treated the patient during the hospital admission. Medicare rebates (representing 75% of the Schedule Fee) are available for expenses relating to in-hospital medical services; however, there are no Medicare rebates for hospital fees, such as private patient hospital accommodation and theatre fees.

Typical PHI Hospital Cover policies (with the exception of Co-Payments and Excesses) cover the costs of hospital treatment as follows:

- PHI generally covers the full cost of both hospital and medical fees for treatment as a private patient in a public hospital.
- Due to extensive use of contracts with private hospitals, PHI generally covers the full cost of hospital fees for treatment in a private hospital.
- Gap payments will often apply in relation to medical fees for treatment in a private hospital, as pricing is at the discretion of the treating medical specialists.

²⁰ Medical services, in this instance, refers to services provided by medical practitioners.

Hospital Cover policies may also cover treatments conducted in a non-hospital setting that are provided or arranged with the direct involvement of a hospital (e.g. nurse visits and chemotherapy at home).

Out-of-hospital services

Medicare rebates are available for most out-of-hospital medical services. The Medicare rebate ranges from 85% to 100% of the Schedule Fee for the service. Services for which Medicare rebates are available include out-of-hospital services provided by medical practitioners (including specialists), tests and examinations required for diagnosis of illnesses (e.g. X-rays and pathology), eye tests by optometrists, some dentistry services and some allied health services (but only as part of a health plan overseen by a GP).

Depending on policy terms and level of cover, Extras Cover PHI policies pay for out-of-hospital services that Medicare does not cover, including ambulance services in states where ambulance services are not provided free of charge, dental examinations and treatment, physiotherapy and other therapies (e.g. podiatry, occupational therapy and speech therapy), and alternative therapies (e.g. chiropractic, osteopathy, acupuncture and naturopathy). PHI can also contribute towards the cost of non-PBS drugs (e.g. travel vaccinations) up to per-item and annual limits, which may differ depending on PHI policy cover.

PHI does not generally cover out-of-hospital services by medical practitioners (other than hospital substitute treatments).

2.3. AUSTRALIAN PHI INDUSTRY

2.3.1. Size of industry

The size of the Australian PHI industry is approximately \$19.3 billion p.a. based on PHI premium revenue generated in FY14.²¹ PHI premium revenue grew at a CAGR of 8.4% between FY04 and FY14, compared to a CAGR of 8.3% for PHI claims over the same period.²¹ By comparison, overall healthcare expenditure grew at a CAGR of 7.9% between FY03 and FY13.²²

Figure 2.9: Total PHI industry premium revenue FY04 to FY14

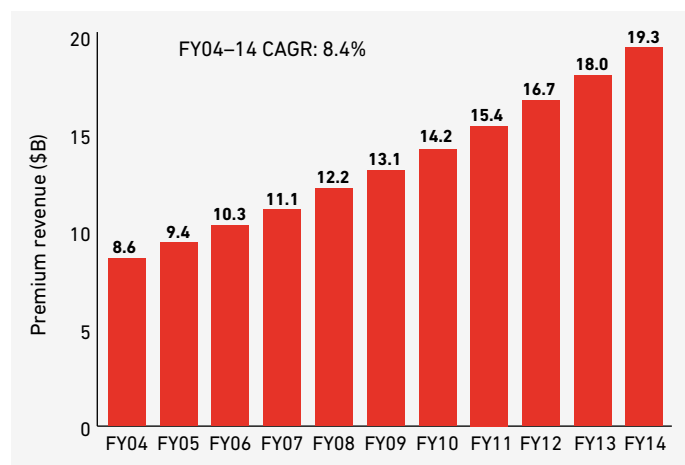
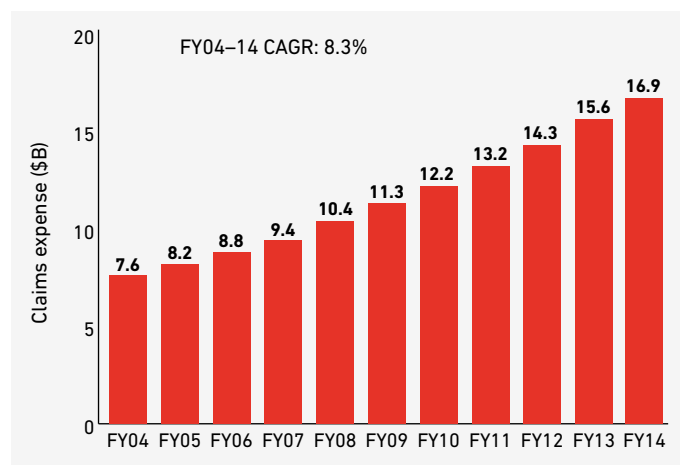


Figure 2.10: Total PHI industry claims expenses FY04 to FY14



Source: PHIAC 2014 Report and Quarterly Statistics June 2014.
Based on June year end.

Source: PHIAC 2014 Report and Quarterly Statistics June 2014.
Based on June year end.

For the year ended June 2014, total industry premium revenue was \$19.3 billion, total industry claims expenses were \$16.9 billion (87.4% of industry premium revenue), and total industry management expenses were \$1.7 billion (8.5% of industry premium revenue), resulting in a net underwriting result for the industry of \$1.1 billion (a net industry underwriting margin of 4.1%).²³

As at 30 June 2014, 47.2% of the Australian population (approximately 11.1 million people) had Hospital Cover (either alone or with Extras Cover) and 55.2% (approximately 13 million people) had one or both of Hospital Cover or Extras Cover.²³

21. PHIAC 2012-13 Report and Quarterly Statistics June 2014, PHIAC, Canberra. Based on June year end.

22. AIHW 2012-13 Report.

23. Quarterly Statistics June 2014, PHIAC, Canberra.

2.3.2. Industry structure

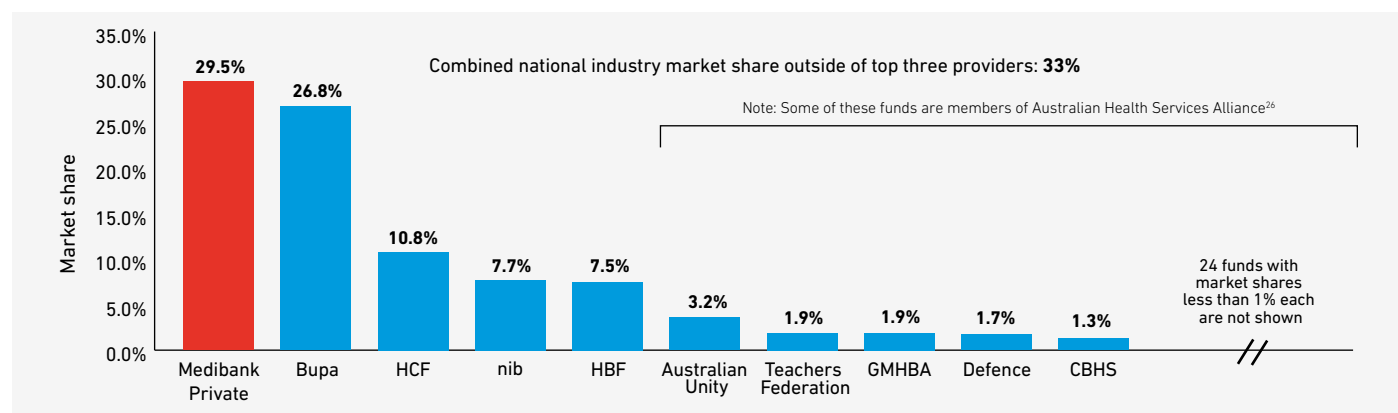
As at 30 September 2014, the PHI industry comprised 34 private health insurers, which are generally categorised by:

- Membership criteria: 22 of the 34 private health insurers are open private health insurers, which offer PHI policies to the general public, and represented 92% of total PHI premium revenue in 2013.²⁴ The 12 remaining private health insurers are restricted private health insurers that offer PHI policies to Policyholders from specific employment groups, professional associations or unions.
- Profit status: 10 of the 34 private health insurers are for-profit, operating with the aim of returning a profit to their shareholders.²⁴ For-profit private health insurers accounted for 67% of total PHI industry premium revenue in 2013.²⁴ The other 24 private health insurers are not-for-profit private health insurers.

The structure of the PHI industry has changed over the past decade as the industry has experienced consolidation, demutualisation, the conversion of not-for-profit private health insurers to for-profit private health insurers, and the emergence of new distribution channels, including comparison websites. Other reasons include, but are not limited to, government objectives, health policies, technology and consumer behaviours.

The PHI industry is relatively concentrated and competitive, with the top three private health insurers accounting for 67% of Principal Policyholders nationally.²⁴ Smaller private health insurers are mainly not-for-profit insurers and include all the PHI industry's restricted insurers. Medibank Private is the largest private health insurer, with a national market share of 29.1% of the PHI industry as at 30 June 2014 based on the number of Principal Policyholders.²⁵ A number of smaller private health insurers, representing an aggregate market share of approximately 16% by number of Principal Policyholders, are members of the Australian Health Service Alliance, which provides contract and claims management services for its member private health insurers, including negotiating provider contracts on their behalf.²⁶

Figure 2.11: Top 10 PHI industry market share in Australia by number of Principal Policyholders



Source: PHIAC 2012-13 Report. Market share as at 30 June 2013. Medibank Private's market share as at 30 June 2014 was 29.1%.

Note: Of the top 10 funds, HCF, HBF, Teachers Federation, GMHBA, Defence and CBHS are not-for-profit.²⁷

2.3.3. Characteristics of the Australian PHI industry

A number of features of the PHI industry differentiate it from other forms of insurance and other health insurance systems globally. These include Australian Government incentives to support participation in PHI, the regulation of premiums, the principle of Community Rating and the risk equalisation scheme that supports it, and the guarantee of portability without the need to re-serve waiting periods on comparable PHI cover.

24. PHIAC 2012-13 Report and *Quarterly Statistics June 2014*, PHIAC, Canberra. Based on June year end.

25. Calculated based on Principal Policyholders and per 30 June 2014 PHIAC data. The Medibank brand's market share, based on Principal Policyholders, was 25.5%, and the ahm brand's market share was 3.6%.

26. Twenty six private health insurers, representing an aggregate market share of approximately 16% by number of Principal Policyholders, are members of the Australian Health Service Alliance, which is a collective group responsible for facilitating arrangements between hospitals, medical practitioners and health service providers on behalf of its participating private health insurers.

27. On 18 September 2014, Primary Health Care Limited announced it had reached an agreement to acquire private health insurer Transport Health from the Transport Friendly Society for \$18 million. Transport Health is the fourth smallest PHI fund in Australia by number of Principal Policyholders. As part of the transaction, Transport Health has applied to PHIAC to convert to an open private health insurer.

Government initiatives to support participation in PHI

A number of Australian Government initiatives are in place to incentivise Australians to obtain and maintain PHI in order to maintain a balance between public and private healthcare funding:

- **MLS:** The MLS is a surcharge on taxpayers who earn above a certain threshold and who do not hold an appropriate level of PHI Hospital Cover. It is collected through the income taxation system and amounts to an additional 1.0% to 1.5% of taxable income for individuals earning more than \$90,000 annually, and families earning more than \$180,000 annually. The rate of the MLS depends on an individual's income and is paid in addition to the Medicare Levy. The MLS was introduced in 1997.
- **LHC:** Under LHC, a 2% loading is imposed on the premium payable under a PHI Hospital Cover policy for every year that an individual delayed taking out PHI Hospital Cover after their base day (generally, for Australian citizens, a person's LHC base day is 1 July following their 31st birthday).²⁸ Individuals who obtain Hospital Cover before their base day, and maintain their cover, ensure the lowest possible level of premium for their chosen products (except where discounts apply). LHC was introduced in 2000.
- **PHI rebate:** The PHI rebate is a rebate provided by the Australian Government to subsidise Principal Policyholders in covering the cost of PHI premiums. For eligible Principal Policyholders, the rebate differs based on age and income thresholds, and ranges between 9.68% and 38.72% of the premium (above a certain income threshold no rebate applies). For example, an average Medibank Private Hospital Cover premium for a family cost approximately \$4,000 in 2013. Assuming a 29% rebate, this premium decreased to approximately \$2,840. Similarly, an average Medibank Private Hospital Cover premium for an individual cost approximately \$1,900 in 2013. Assuming a 29% rebate, this premium decreased to approximately \$1,349. The PHI rebate was introduced in 1999.

Recent Australian Government policy changes seek to achieve healthcare expenditure savings by reducing the cost of Australian Government support for the PHI rebate. The key changes are:

- the introduction of PHI rebate income testing, which is subject to age, the number of children covered under the policy and income thresholds. The full PHI rebate is available to individuals earning \$90,000 or less annually and families earning \$180,000 or less annually. A reduced rebate is available to individuals earning \$140,000 or less annually and families earning \$280,000 or less annually. This compares to the average annual earnings for an individual in Australia of approximately \$58,550.²⁹ Income testing of the PHI rebate has been in effect since 1 July 2012;
- from 1 July 2013, the PHI rebate no longer applies to the LHC loading component of a Policyholder's premium; and
- capping the rate of growth in the PHI rebate by indexing the PHI rebate percentage by the lower of Consumer Price Index (**CPI**) and the industry-weighted average premium increase (rebate adjustment factor). Previously the PHI rebate percentage had remained fixed year on year and was simply applied to each actual premium.³⁰

In addition, in the 2014–15 Federal Budget, the Australian Government announced the freezing of the indexation of income test thresholds for the MLS and PHI rebate for three years from 1 July 2015 (this is subject to the passing of legislation). Due to the effect of wage inflation, if enacted this change will have the dual effect of causing more Australians to be subject to the MLS, while also increasing the cost of holding PHI for some Policyholders.

Regulation of PHI premiums

Changes in PHI premiums are overseen by the Minister for Health. If private health insurers wish to change their PHI premiums, they are required to submit details of their proposed PHI premium changes by product to the Minister for Health. Generally, proposals are submitted once a year in mid-November, although PHI premium rate changes can be requested at any time. In recent years, proposed changes have been examined by PHIAC, which provides advice to the Minister for Health. Approval must be given unless the Minister for Health is of the view that a PHI premium change would be contrary to the public interest in accordance with Section 66-10 of the PHI Act. Approved PHI premium changes are then announced by the Minister for Health. This usually happens in February and proposed PHI premium changes typically apply from 1 April of that year.

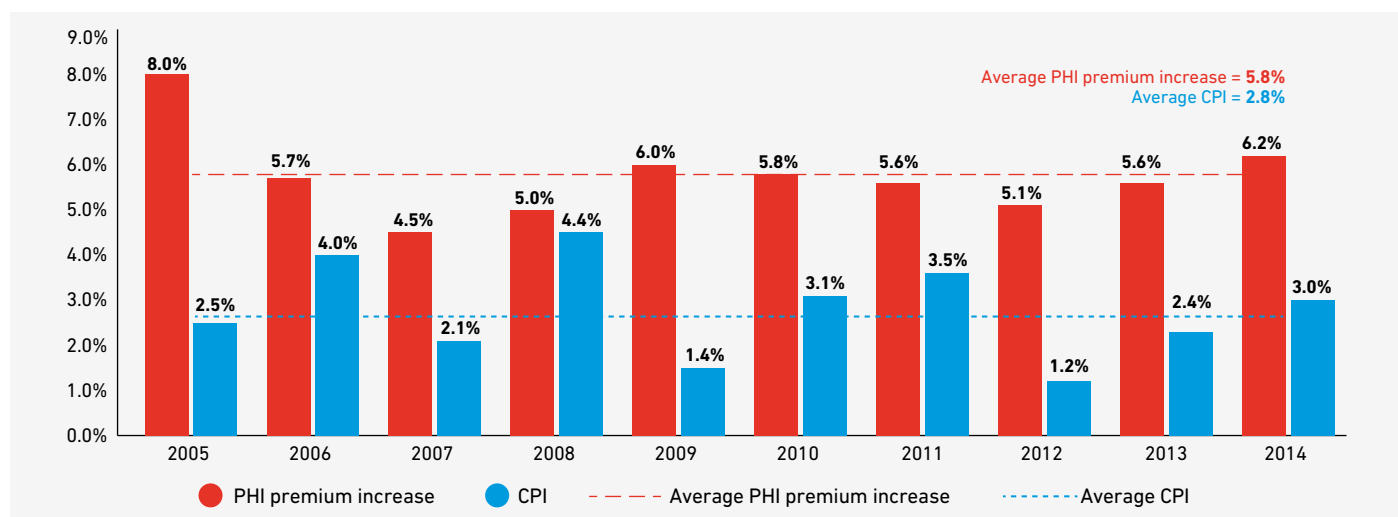
The process for the 2015 premium approval round will be the same process as that conducted in 2013 and 2014.

Over the past 10 years, average PHI premium increases have generally been close to healthcare expense inflation but well above CPI. Figure 2.12 illustrates that premium increases have averaged 5.8% over the last 10 years.

28. For immigrants, it is the later of 1 July following their 31st birthday and the 12-month anniversary of the day they were registered for full Medicare benefits. The maximum LHC loading a person may be required to pay is 70%. Generally, the LHC loading is removed after 10 years of continuous payment of PHI Hospital Cover premiums including LHC loading as long as PHI Hospital Cover is retained.

29. ABS 2014, *Average Weekly Earnings, Australia, May 2014*, cat. no. 6302.0, ABS, Canberra. Average annual earnings represents average weekly total earnings of all employees (\$1,122.90) times 52.14 weeks. This estimate reflects a trend estimate that has been seasonally adjusted and smoothed to reduce the impact of irregular or non-seasonal influences.

30. For example, in the 2014 premium year (the first year of the operation of the indexation method), for an individual Policyholder under the age of 65 and below the top income threshold of \$140,001, the rebate percentages are 9.68% if the Policyholder is earning between \$105,001 and \$140,000 annually (instead of 10%), 19.36% if the Policyholder is earning between \$90,001 and \$105,000 annually (instead of 20%) and 29.04% if the Policyholder is earning less than \$90,000 annually (instead of 30%).

Figure 2.12: Average PHI premium increases since 2005

Source: Premium increases for 2010 to 2014 were sourced from the Department of Health 2014, Premium Round Individual Insurer Average Premium Increases, 24 January 2014, DoH Canberra. Premium increases from 2004 to 2009 were sourced from the Parliament of Australia 2009, Private Health Insurance Increases – An Overview, 13 August 2009, Parliament of Australia, Canberra. CPI sourced from the Australian Bureau of Statistics 2014, Consumer Price Index, Australia, June 2014, cat. no. 6401.0, ABS, Canberra.

Community Rating

Community Rating is one of the key features of PHI regulation in Australia. Community Rating means that no Australian can be refused a PHI policy, or particular product features, or asked to pay a higher premium (subject to certain limited exceptions such as LHC loading) because of their past claims history, age or health risk status. This means that a private health insurer cannot discriminate by varying PHI premium rates or refusing to insure or sell any policy on the basis of an individual's health, age, lifestyle or how likely an individual is to make a claim. Accordingly, the principle of Community Rating requires that the PHI premium paid for a Policyholder's PHI product, and the cover that is provided under the PHI product, are standard subject to any applicable LHC loading, PHI rebate and/or state and territory premium differences. The objective of the Community Rating principle is to ensure that PHI is accessible and affordable.

Some PHI products have been developed to target a particular age group (e.g. by excluding cover for procedures that younger Policyholders are unlikely to need). These products are nonetheless open to Policyholders of all ages and PHI premiums for these products do not vary with age (unless LHC loading applies).

Community Rating is an important difference between PHI and general and life insurance in Australia. General and life insurance can be risk rated. For example, an Australian life insurer can charge a person with diabetes a higher premium on a life insurance policy compared to a person who does not have diabetes, whereas an Australian private health insurer cannot charge a person with diabetes a higher PHI premium than a person who does not have diabetes.

Risk Equalisation Trust Fund

The Risk Equalisation Trust Fund arrangements support the Community Rating principle. Through the Risk Equalisation Trust Fund, private health insurers share some of the claims expenses of Policyholders aged over 55 and other high-claiming Policyholders.

The scheme works by pooling and redistributing private health insurers' proportion of eligible claims expenses, so that each individual private health insurer's exposure to those expenses is adjusted to match its general hospital market share in the relevant state or territory. Separate Risk Equalisation Trust Fund pools operate within each state and territory.³¹

31. The applicable jurisdictions for risk equalisation are the Northern Territory; New South Wales and the Australian Capital Territory; Western Australia, including the territory of Christmas Island and the territory of the Cocos (Keeling) Islands; and each of the other states.

Risk equalisation results in private health insurers with lower-claiming Policyholders – typically those who are younger and healthier – usually being net contributors to the scheme while private health insurers with higher-claiming Policyholders – typically those with older, less healthy Policyholders – tend to be net receivers from the scheme.

The redistribution is calculated based on the average benefit paid by private health insurers (per state) to Policyholders in their age-based pool (Policyholders over the age of 55) and the high-cost claimants pool (accumulated claims exceeding \$50,000 per claimant over four rolling quarters). Private health insurers pay or receive a levy into or out of the Risk Equalisation Trust Fund on a quarterly basis, so a private health insurer that paid a higher proportion of risk equalised benefits than its overall market share average will have an amount receivable from the Risk Equalisation Trust Fund, whereas a private health insurer that paid a lower proportion than its overall market share will have an amount payable to the Risk Equalisation Trust Fund. The Risk Equalisation Trust Fund does not equalise all risk factors associated with higher claims expenses and does not completely remove the benefit of having a lower-claiming Policyholder base or the commercial incentive to achieve operating efficiencies. Risk equalisation is also subject to certain service exclusions (e.g. obstetrics).

Table 2.1 below sets out the percentage of eligible benefits for inclusion in the risk equalisation calculation by age cohort within the age pool, and reflects the applicable percentage for the high-cost claimants pool. The high-cost claimants pool limits the net claims expense to a private health insurer from a single Policyholder to a maximum of \$50,000 plus 18% of that Policyholder's claims costs above this threshold in a rolling 12-month period.

Table 2.1: Eligible benefits included in the age pool and high-cost claimants pool

	Age cohort	Percentage of eligible benefits included in pool
Age pool	0–54	0.0%
	55–59	15.0%
	60–64	42.5%
	65–69	60.0%
	70–74	70.0%
	75–79	76.0%
	80–84	78.0%
	85+	82.0%
High-cost claimants pool		82.0% of net claims over \$50,000 in a year (rolling 12 months per person post age-based pool)

Source: *PHIAC 2013, Risk Equalisation Financial Year Results by Insurer and State, PHIAC, Canberra.*

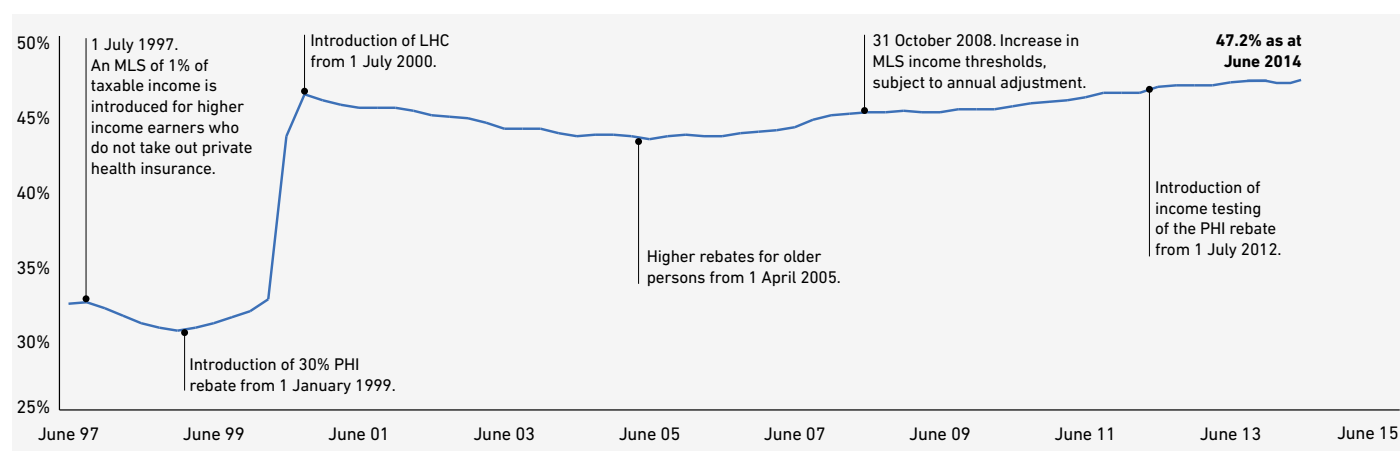
Portability and waiting periods

The PHI Act guarantees Policyholders 'portability'. This means Policyholders can switch PHI policies between private health insurers that offer similar or equivalent levels of cover without having to re-serve waiting periods. However, private health insurers may impose a waiting period for any extra benefits or services on a new PHI product when the cover is upgraded. For any services where the entire waiting period has not been served on the previous PHI product, the balance will generally need to be served with the new private health insurer.

The PHI Act provides maximum periods for which Policyholders can be required to wait before they can claim Hospital Cover benefits in the event they transfer from one policy to another or obtain new PHI policies. Waiting periods that are part of Extras Cover are not regulated.

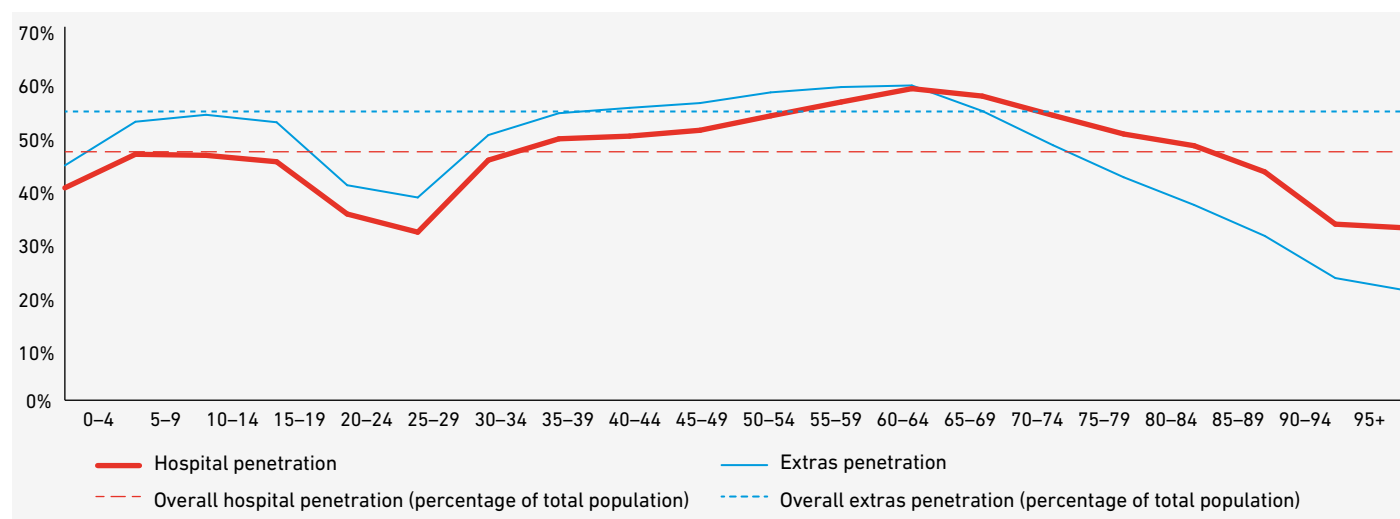
2.3.4. PHI participation rates

The proportion of the Australian population covered by PHI Hospital Cover has been stable since 2000. Due to the significance of PHI in the funding of healthcare services, Australian Government initiatives have been supportive of PHI participation rates at a level which maintains an appropriate balance between public and private funding in the Australian healthcare system. The combination of Australian Government initiatives to encourage and support PHI, including the introduction of the MLS in 1997, PHI rebate in 1999 and LHC in 2000, has led to a significant increase in participation rates since 1997. Recent adjustments to the PHI rebate regime (see Section 2.3.3) have not reduced overall participation rates (in fact, PHI participation rates have slightly increased).

Figure 2.13: Policyholders with Hospital Cover as a percentage of the Australian population

Source: PHIAC 2014, Membership and Trends Australia March 2014 and Quarterly Statistics June 2014, PHIAC, Canberra.

PHI participation rates are influenced by age and affordability, while individuals' decisions to obtain or maintain PHI often relate to milestones such as establishing households, having children and retirement. Under the age of 70, PHI participation is lowest among the 20 to 29 age group, when cover under family PHI policies generally ceases³², LHC loadings do not yet take effect and the MLS may have limited application (due to lower income levels). Participation tends to increase strongly in the 30 to 34 and 34 to 39 age groups once the LHC loadings and tax incentives take effect, and due to family and lifestyle. Participation rates are then stable up to the 60 to 64 age group. PHI participation rates decline thereafter, possibly due to the retirement of the older population, which decreases income and may impact affordability.

Figure 2.14: Proportion of the population with Hospital and Extras Cover by age

Source: PHIAC 2014, Membership Coverage, June 2014, PHIAC, Canberra.

2.3.5. Health insurance products for overseas students and visitors

Private health insurers are permitted to provide health-related services and programs and offer health insurance (OVHC and OSHC) to Non-eligible Persons, such as overseas students and other temporary visitors to Australia. It is generally a condition of Australian working and student visas that the visa holder takes out one of these products, which generally covers medically required hospital admissions and a portion of the medical practitioner's fees.

32. Under Medibank Private's policies, family membership extends to include children who have reached the age of 21 but are under 25, are studying full time, and are neither married nor living in a de facto relationship ('student dependants'). For an additional cost, a family can also extend their membership to include children who have reached the age of 21 but are under 25, are neither married nor living in a de facto relationship, and who are not studying full time ('adult dependants').

2.3.6. Distribution of PHI products

PHI products are distributed and sold through a variety of channels including:

- retail locations: private health insurers may operate retail store networks to enable potential and existing customers to transact in person;
- telephone: call centre operations may be used to sell and inform customers of new PHI products and promotions being launched;
- online: certain private health insurers sell PHI products through their own websites;
- comparison websites: private health insurers may market and advertise their PHI products on a website operated by third parties. Potential customers use these websites to find and compare different PHI products and purchase the one that is best suited to their needs. Comparison websites generally charge private health insurers a commission for sales of PHI policies via, or associated with, their website. The Australian Government also provides a for-information-only comparison website service (www.PrivateHealth.gov.au);
- corporate distribution: PHI products can be distributed and promoted via corporate arrangements and contracts, often offering discounts, subsidies and benefits to employees (however, generally the employer does not pay the PHI premium, which remains the responsibility of the individual Policyholder); and
- partnerships and alliances: private health insurers may leverage opportunities to form beneficial relationships with other businesses to encourage cross-selling and distribution of PHI products.

Standardised product disclosure, new technology and the emergence of comparison websites allow the public to compare PHI products and provided customers with greater access to PHI product prices and terms. As a result, some private health insurers have shifted away from traditional retail store distribution channels towards online distribution. The PHI industry has also experienced greater competition from smaller private health insurers which market primarily through this channel.

Additionally, there has been a growing trend of private health insurers targeting certain customer segments through tailored distribution strategies of certain brands (e.g. distribution of PHI policies to younger demographics or value-oriented consumers through online channels only).

2.3.7. Contract relationships with health providers

Private health insurers commonly enter into contracts with private hospitals and other healthcare providers (e.g. dentists) to manage the costs and quality of patient outcomes, as well as to minimise out-of-pocket expenses for their Policyholders. Private health insurers provide approximately 47% of the funding of private hospitals, with a further 34% funded by state and territory governments or government-related bodies, 12% coming from individuals directly³³ and the remainder coming from other sources.

Most private health insurers and private hospitals have negotiated agreements known in the industry as a Hospital Purchaser Provider Agreement (**HPPA**). These agreements detail the fees that the private health insurer pays towards the cost of hospital services incurred by its Policyholders. These fees represent the benefits payable to Policyholders but are paid directly to the private hospital on the Policyholder's behalf, less any Excess or Co-Payments to be funded by the Policyholder.

An HPPA may include terms that share risk between the private health insurer and the hospital (e.g. hospital services may be billed on an episodic basis so that the hospital is paid an agreed price by the private health insurer based on the type of case rather than length of stay, thereby transferring the financial risk of the patient requiring an extended length of stay from the private health insurer to the hospital).

The PHI Act also provides a minimum level of benefit for Policyholders who receive hospital services in a private hospital that does not have an HPPA with their private health insurer, through either:

- minimum default benefit rates, which represent the lowest daily amount of benefits payable by a private health insurer for admission to private hospitals that are not eligible for second-tier benefits. The minimum default benefits rates are determined annually by the Australian Government under the PHI Act and are generally well below the market rates for private hospital services; or
- second-tier benefit rates, which represent benefits payable only for treatment in facilities that have obtained 'second-tier' status³⁴ (available on application for facilities that are accredited and have appropriate billing and informed financial consent processes) and are calculated by the private health insurer at 85% of the private health insurer's average contracted rate for an equivalent episode of hospital treatment at comparable private hospitals within a particular state or territory.

In practice this means that Policyholders who are treated at non-contracted private hospitals have some PHI coverage for their hospital fees, but are likely to need to make a gap payment to the private hospital. The gap payment will typically be a lower amount if the relevant private hospital has second-tier status.

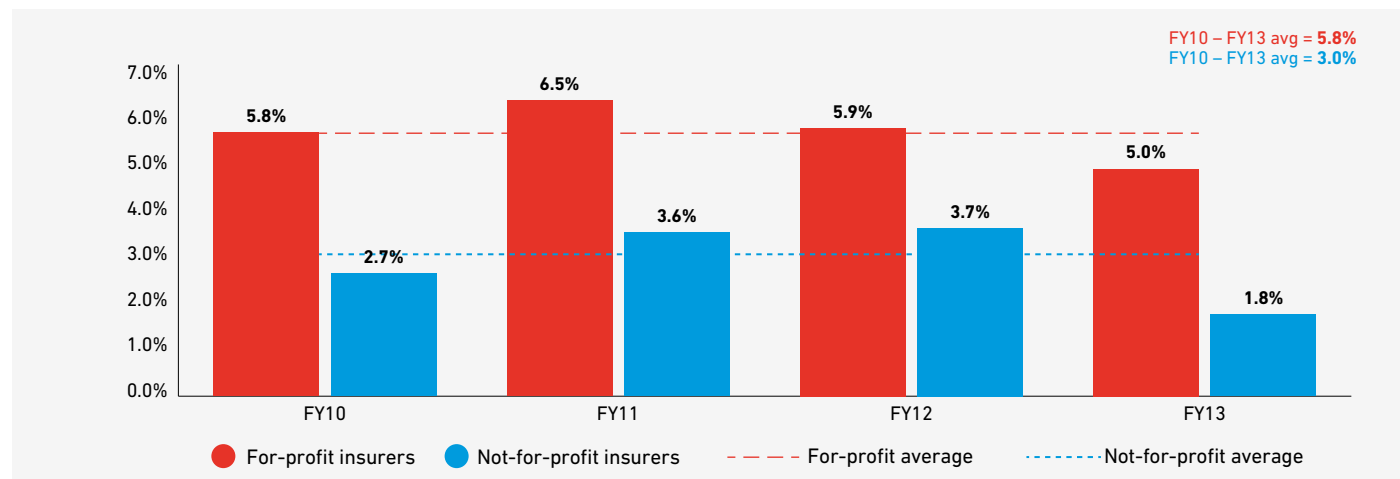
33. AIHW 2012-13 Report.

34. Second-tier benefit rates are not applicable for public hospitals.

2.3.8. PHI industry profitability

The Australian PHI industry generated an ROE of 18% in FY13.³⁵ PHI profitability as measured by net underwriting margin (as reported by PHIAC)³⁶ has been relatively stable since 2010, as illustrated in Figure 2.15 below. For-profit insurers have averaged 5.8% net underwriting margin and not-for-profit insurers have averaged 3.0% net underwriting margin over this same period. Medibank Private has averaged 4.5% while Bupa, Medibank Private's largest competitor, has averaged 6.5%, and nib, the only private health insurer listed on the ASX, has averaged 5.6%.³⁷

Figure 2.15: Net underwriting margin of top 10 private health insurers since 2010 (for-profit and not-for-profit private health insurers)

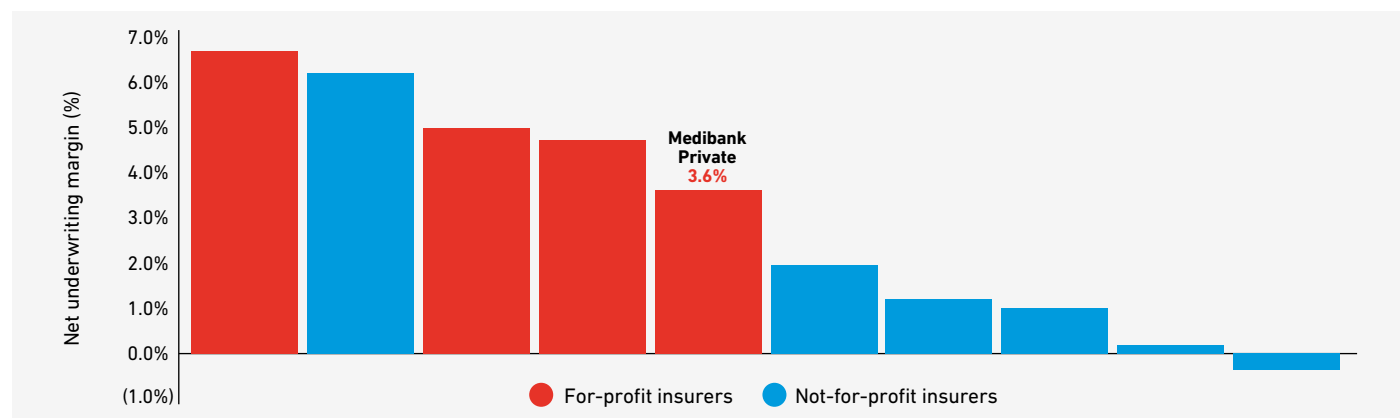


Source: PHIAC 2012-13 Report.

Note: Funds presented on a pro forma basis for acquisitions made between 2010 and 2013. Net underwriting margin based on simple average of the relevant industry participants and calculated as total premiums less total claims and Management Expenses. For-profit net underwriting margin based on aggregate net underwriting margin for Medibank Private, Bupa, nib and Australian Unity. Not-for-profit net underwriting margin based on aggregate net underwriting margin for HCF, HBF, Teachers Federation, GMHBA, Defence and CBHS. Net underwriting margin expressed as a percentage of premiums.

In FY13, Medibank Private earned a net underwriting margin of 3.6% (as reported by PHIAC)³⁶, as shown in Figure 2.16 below.

Figure 2.16: Top 10 FY13 PHI industry net underwriting margins



Source: PHIAC 2012-13 Report. Net underwriting margin calculated as total premiums less total claims and management expenses. Net underwriting margin expressed as a percentage of premiums.

35. PHIAC 2012-13 Report. Based on June year end.

36. PHIAC defines net underwriting margin as premium revenue, less benefits expense, less risk equalisation expense, less management expenses, expressed as a percentage of premium revenue.

37. PHIAC 2012-13 Report.

2.3.9. Competitive landscape

Private health insurers compete with each other based on price, product design, product distribution and promotional activities. Furthermore, private health insurers may compete for particular customer segment participation, under one or multiple brands. Private health insurers generally have Policyholders spread across all states and territories. Although all private health insurers are able to operate nationally and most have some participation in each state and territory, Medibank Private is the only private health insurer that is among the largest two in each state and territory.³⁸

Scale is an important advantage in the PHI industry, as established competitors potentially have greater bargaining power with major healthcare providers (including private hospitals). Larger private health insurers are also able to leverage greater advertising and marketing spend to build upon their brand name and brand loyalty.

Competition within the PHI market can be seen through the diversity of private health insurers, the range of PHI products on offer, the transferability of PHI policies across private health insurers and the choice, information and flexibility provided to customers.

2.3.10. Industry developments

Emergence of comparison websites

The competitiveness of the PHI market has intensified with online distribution and the emergence of comparison websites to compare and evaluate services and prices. Comparison websites and consumer network campaigns have increased the level of information available to customers, and further enhanced competition within the industry as smaller private health insurers gain greater market exposure. This increased competition has also led to an increase in Policyholders switching private health insurers across the industry, as well as increased costs and margin pressures on private health insurers through increased commissions paid to intermediary and comparison websites that support product sales. Private health insurers have managed this trend by strategically targeting specific customer segments through this emerging channel.

Greater customer focus and care

Private health insurers have also shifted focus towards providing wider health-related and customer-centred services to differentiate their PHI products, and to attract and retain Policyholders. Many private health insurers also distribute diversified insurance products such as travel and life insurance as part of their offering. These policies are commonly underwritten by third parties.

Private health insurers have moved to play a broader role in managing the health of Policyholders, beyond being a health insurance underwriter, by making contact with Policyholders at stages throughout their life to influence better health outcomes. Some private health insurers are increasingly investing in health management capabilities, including linkages with primary care providers such as GPs, and telephone and online health management services, with an initial aim of enhancing customer loyalty and a longer-term aim of improving the health and wellbeing of their Policyholders and thereby helping to control claims expenditure.

Chronic disease programs through primary care providers

Given rising rates of chronic disease in Australia, chronic disease management programs delivered in conjunction with primary healthcare providers are emerging as an opportunity for private health insurance providers to reduce hospital admissions and improve patient outcomes. Chronic disease management programs draw on a range of interventions that include care planning, case management and increased education and support that may result in improved health outcomes for patients.

Integrated healthcare and medical services solutions

Some businesses are looking to outsource the provision of integrated healthcare services. This can include a comprehensive range of healthcare and medical service solutions that provide innovative and cost-effective health management services, including access to medical practitioners; allied health professionals; general treatment and telehealth services; and delivering triage, health advice and referral services. Private health insurers with integrated health solution capabilities (offering access to healthcare from the point of injury up until the completion of the rehabilitation process) may be particularly relevant for businesses and governments looking to manage costs and risks in relation to work-related injury.

Telehealth services

Telehealth services use communication technologies, such as video-conferencing, telephone and online to deliver health services and transmit health information. Telehealth technology can improve access to health-related services for people living in regional, rural and remote areas. Patients who previously had to travel to the nearest major city to see a specialist can instead use video-conferencing, which might be offered at their local GP or another local healthcare venue. Telehealth technology such as online chat functionality can often be appealing to a younger generation, who are now using these platforms to access services such as mental health counselling and support. Businesses are also using telehealth technology for employees based in remote areas (e.g. fly-in, fly-out workers) who may need access to healthcare advice and support.

Government, non-government organisations and businesses are using telehealth services as a cost-effective way to access a wide range of healthcare services, including triage, mental health support and counselling, GP services, specialist and allied health services, and chronic disease management programs.

38. Market share based on total policies per the PHIAC 2012–13 Report.

2.3.11. PHI Act and regulation of PHI

In Australia, PHI policies can only be offered by entities that are registered as private health insurers with PHIAC, the independent prudential regulator of PHI. The regulation of PHI is governed by the PHI Act and is separate from the regulation of broader insurance in Australia.

The PHI regulatory framework is designed to ensure that the PHI industry is efficient and competitive, the interests of customers are protected, and individual private health insurers are prudentially safe. The PHI legislation:

- sets out the rules governing PHI products and the premium-setting process;
- imposes solvency and Capital Adequacy Standards and establishes the prudential standards framework applicable to health benefits funds (see Section 4.11.1 for more information on solvency and capital adequacy);
- governs the administration of the Risk Equalisation Trust Fund, which allows for the pooling of risk between insurers to support the principle of Community Rating;
- sets out the roles and enforcement functions of:
 - the Minister for Health;
 - PHIAC; and
 - the Private Health Insurance Ombudsman (**PHIO**), which deals with consumer interests and disputes;
- details industry support schemes such as the PHI rebate and LHC schemes; and
- regulates the discounting of PHI premiums. Any discount must be for a permitted reason and the cumulative cost of all discounts must not exceed 12% of the underlying PHI premium in any year (with some relaxation for joining promotions).

PHIAC's administrative, regulatory and industry engagement activities include registration of private health insurers; administering the Risk Equalisation Trust Fund; monitoring the performance of private health insurers and reviewing their governance and operations; developing solvency, capital adequacy and prudential standards under the PHI Act; fostering increased competition; engaging with the industry participants regarding products and pricing; and publishing reports on the industry and private health insurer operations.

Pending the passage of legislation, the functions of PHIAC will be split and transferred to APRA and the Department of Health by 1 July 2015, with a view to abolishing the agency.

As at the Prospectus Date, APRA has not determined its approach to prudential regulation of the PHI industry except that it does not intend to make any changes to the existing capital and solvency standards for private health insurers before 1 July 2016.

Similarly, pending passage of legislation the responsibilities of the PHIO will be transferred to the Office of the Commonwealth Ombudsman by 1 July 2015.

2.3.12 National Commission of Audit

The Australian Government established a National Commission of Audit in October 2013 as an independent body to review and report on the performance, functions and roles of the Australian Government. The National Commission of Audit's report, which was released on 1 May 2014 and is publicly available, made several recommendations of relevance to PHI including:

- requiring higher-income earners to take out PHI for basic health services (e.g. GP services and public hospital services) in place of Medicare. The initial high-income thresholds would be \$88,000 for singles and \$176,000 for families;
- precluding higher-income earners from accessing the PHI rebate;
- significantly increasing the MLS so that taxpayers above the high-income threshold would be required to pay an MLS of 3% to 3.5% of taxable income, rather than 1% to 1.5% as they do under the current MLS;
- reforming the PHI market to provide greater incentives for efficient and cost effective health management through:
 - deregulating the premium-setting process for PHI, to replace price approval with price monitoring;
 - allowing private health insurers to expand their coverage to primary care settings (e.g. GP services and outpatient consultations with medical specialists);
 - relaxing community rating to allow private health insurers to vary premiums to account for a limited number of lifestyle factors which materially increase a person's health risk, including smoking; and
 - reforming the Risk Equalisation Trust Fund arrangements, potentially using a system of prospective risk adjusted payments (i.e. where payments into or out of the Risk Equalisation Trust Fund are based on the risk characteristics of a private health insurer's Policyholders, rather than on the private health insurer's actual benefits expenditure on higher risk Policyholders).

2.3.13 Australian Government policy priorities for PHI

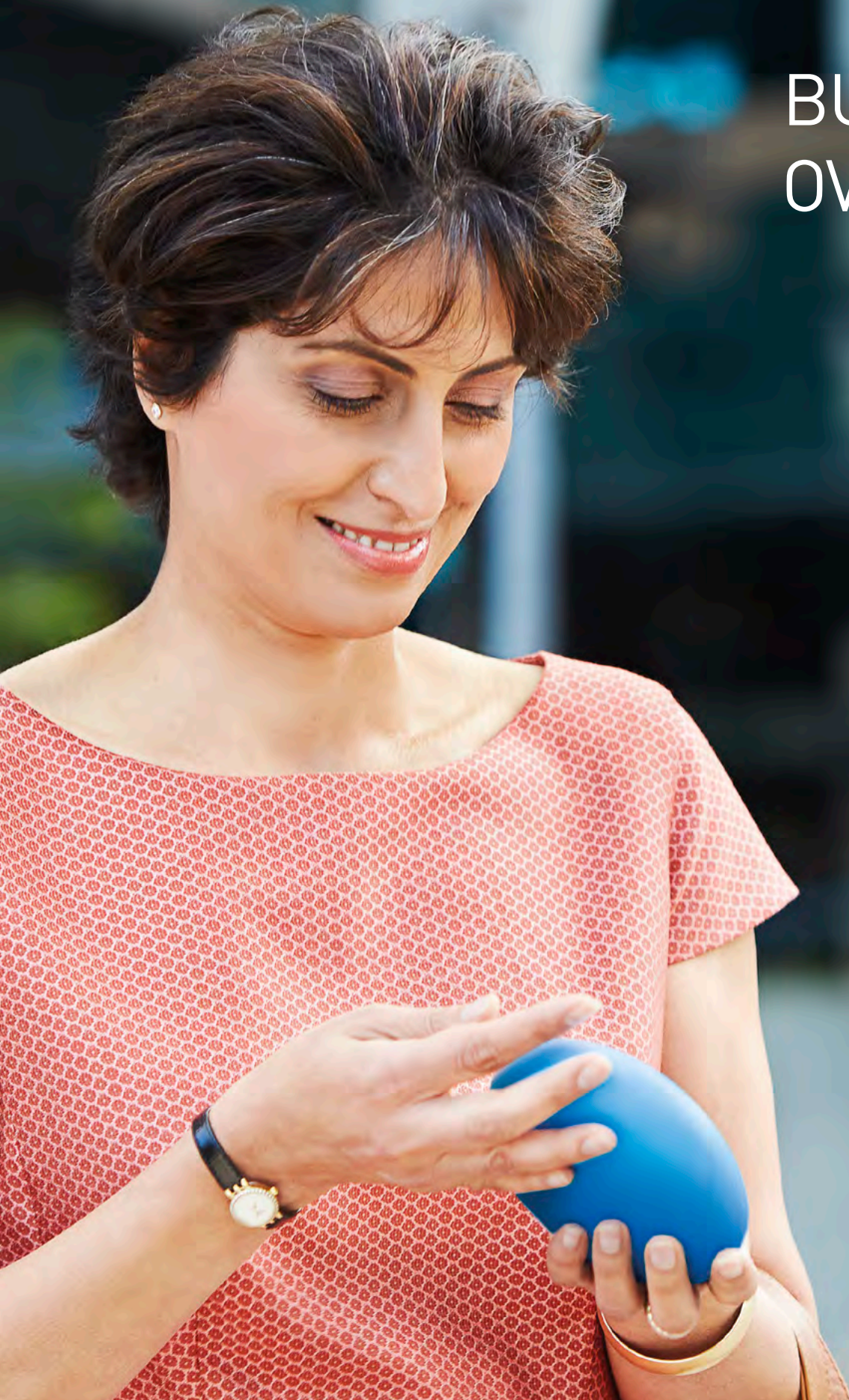
The Australian Government is committed to promoting PHI as a means of ensuring the sustainability of the Australian health care system and has committed to restoring the PHI rebate when it is fiscally responsible to do so.

In support of this, the Australian Government may consider short and long term options for private health reform.

Consideration may be given to the recommendations of the National Commission of Audit, and to proposals developed from within Government and industry. Any significant reforms will be the subject of industry, consumer and stakeholder consultation. If reforms are supported, implementation will not occur before 1 July 2015, and in many cases will be subject to the passage of legislation.

SECTION 3

BUSINESS OVERVIEW



3.1. INTRODUCTION

Medibank Private's core business is the underwriting and distribution of PHI policies through its two brands, Medibank and ahm. Medibank Private offers Hospital Cover and Extras Cover to customers in Australia as well as health insurance to overseas visitors and students.

Medibank Private also participates in the broader healthcare industry through the provision of integrated healthcare services to Policyholders, government, corporate and other customers. These services allow Medibank Private to develop core capabilities that can be leveraged to deliver health and other outcomes that support and enhance the Health Insurance business.

Medibank Private is headquartered in Melbourne, Victoria, and has operations throughout Australia, a presence in New Zealand and a representative office in Singapore.

Key facts about Medibank Private:

- Medibank Private is Australia's largest private health insurer, with:
 - 29.1% national market share based on total Principal Policyholders as at 30 June 2014¹;
 - more than 1.9 million Principal Policyholders and OVHC and OSHC customers, and over 3.8 million people covered, as at 30 June 2014²;
 - one of the largest two private health insurers in every Australian state and territory.³
- Medibank Private had more than 90 retail locations and had 34 clinics⁴ throughout Australia as at 30 June 2014.
- In FY14, Medibank Private's Health Insurance segment generated \$5.6 billion of PHI premium revenue and its Complementary Services segment generated \$0.7 billion of non-PHI revenue.
- In FY14, Medibank Private paid \$4.9 billion in claims expenses to hospitals, ancillary providers, specialists and other health professionals on behalf of Policyholders, as well as customers with OVHC and OSHC.
- As at 30 June 2014, Medibank Private had \$2.2 billion in cash and investments on its consolidated balance sheet, which generated net investment income of \$113.9 million in FY14.

3.1.1. Medibank Private's business model

Medibank Private is forecast to derive 90% of its pro forma revenue in FY15 from its Health Insurance business.⁵ This business generates premium revenues from the sale of new PHI policies and the renewal of existing PHI policies by Principal Policyholders and the sale and renewal of OVHC and OSHC policies.

The Principal Policyholder may elect to include other Policyholders on their PHI policy, including their spouse, partner, children or other eligible dependants. Key drivers of revenue include annual premium increases, as well as growth in the number of people holding PHI, OVHC and OSHC policies and the level of cover they hold.

Medibank Private also earns revenue through its Complementary Services from fees paid by Policyholders and retail, corporate and government customers for providing health-related services, such as health management and telehealth services, and earns commissions and other income for distributing travel, life and pet insurance products as an authorised representative of other insurers.

Like most insurance companies, Medibank Private can generate significant investment income from its portfolio of investment assets. Figures 3.1 and 3.2 show the relative contribution of the Health Insurance business, and Complementary Services and investment income to Medibank Private's pro forma forecast FY15 revenues and the composition of Medibank Private's pro forma forecast FY15 profit before tax.

1. Calculated based on Principal Policyholders as per 30 June 2014 PHIAC data.

2. The 3.8 million people covered include persons covered by Medibank Private's PHI, OVHC and OSHC policies.

3. Market share based on total policies per the PHIAC 2012-13 Report.

4. These clinics operate within Medibank Private's Workplace Health and Travel Doctor businesses. See Section 3.5 for more information. Since 30 June 2014, four clinics which were previously used to provide services under the Immigration Contract have closed.

5. Refer to Figure 1.1 in Section 1.2.

Figure 3.1: Pro forma forecast FY15 revenue^{6,7}

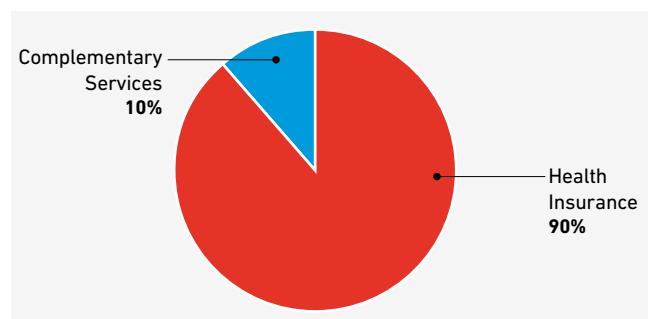
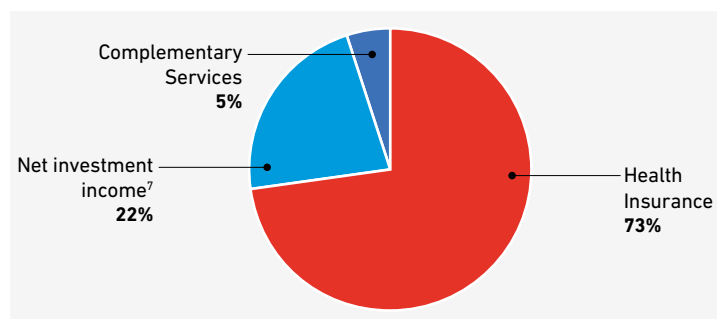


Figure 3.2: Composition of pro forma forecast FY15 profit before tax (before unallocated expenses)⁸



In FY14, 80% of Medibank Private's operating expenses were attributable to the claims it paid under PHI policies for eligible health expenditure incurred by Policyholders, net of risk equalisation. These amounts are usually paid directly to hospitals and other healthcare providers by Medibank Private on behalf of Policyholders, but can also be reimbursed to Policyholders. In FY14, Medibank Private paid out \$4.9 billion in claims, comprising \$3.7 billion relating to hospital expenses and \$1.2 billion relating to extras expenses.

Medibank Private also incurs operational expenses including employee expenses, advertising expenses, corporate expenses, occupancy and IT costs, and commissions paid to intermediaries including the operators of comparison websites.

3.2. BUSINESS HISTORY

The Medibank Private health fund commenced operations in 1976 as an Australian Government-owned not-for-profit fund operated through the Health Insurance Commission which was a statutory authority. MPL was incorporated by the Commonwealth in 1997 and became the operating entity of the Medibank Private business in 1998, with the Commonwealth as its sole shareholder. Medibank Private also acquired ahm, a Wollongong-based private health insurance business, in 2009.

Between 2009 and 2011, Medibank Private acquired the following businesses:

- Health Services Australia, a provider of travel and occupational health services, which the Australian Government transferred to Medibank Private in 2009. Health Services Australia held a significant contract to provide pre-migration visa-related health screening services to the Department of Immigration and Border Protection (**Immigration Contract**);
- McKesson Asia Pacific, a provider of Telehealth and healthcare services in Australia and New Zealand, which Medibank Private acquired in 2010; and
- Carepoint, a provider of occupational health, rehabilitation and travel health services in Western Australia.

Between 2011 and 2014, Medibank Private operated these businesses together with other business ventures (e.g. ADF Health Services Contract – see Section 3.5.1 for more information) as a standalone division known as Medibank Health Solutions. After a competitive tender, the Immigration Contract was not renewed with effect from July 2014. Medibank Private subsequently undertook a significant internal reorganisation to reduce the fixed cost base of these operations and more closely integrate them with the Health Insurance business. These operations, together with the distribution of travel, life and pet insurance, are now referred to as Complementary Services.⁹

In 2013, Medibank Private repositioned the ahm brand to ensure both PHI brands provide a distinct value proposition.

In 2014, the Australian Government announced its intention to sell its Shares in MPL during FY15. Further details of Medibank Private's history are summarised in Figure 3.3.

6. \$6,635.5 million total revenue, comprising \$5,996.7 million of Health Insurance premium revenue and \$638.8 million of Complementary Services revenue (see Tables 4.2 and 4.7 in Section 4).

7. In accordance with accounting standards, investment income is not treated as revenue.

8. This allocation is calculated based on \$293.3 million of Health Insurance operating profit, \$89.7 million of net investment income, and \$21.1 million of Complementary Services operating profit respectively as a percentage of the sum of \$362.9 million of profit before tax plus corporate overhead costs of \$32.4 million plus other expenses of \$8.9 million. Corporate overhead costs and other expenses have not been allocated to a segment and have therefore not been taken into account when calculating the percentages by segment shown (see Tables 4.2 and 4.7 in Section 4).

9. Medibank Private continues to market some of these services under the Medibank Health Solutions brand.

Figure 3.3: A timeline showing Medibank Private's history



10. A Wollongong-based business acquired to increase PHI market share as well as benefit from its innovative health management services offering. This included a retail dental and eyecare business which was subsequently sold in 2014.

11. A provider of travel and occupational health services to government and corporate customers of which ownership was transferred to Medibank Private by the Australian Government. The provision of pre-migration visa health screening services to prospective Australian migrants on behalf of the Commonwealth was included as part of this transfer (the Immigration Contract).

12. A leading provider of phone and web-based healthcare services in Australia and New Zealand.

13. A provider of occupational health, rehabilitation, immigration and travel health services to industrial companies across Western Australia.

14. Included McKesson and Health Services Australia.

15. Also launched a new suite of products across the Health Insurance business to reflect the two-brand strategy.

3.3. STRATEGIC FOCUS

Medibank Private seeks to drive Shareholder value by servicing and profitably growing its customer base while achieving affordable, consistent and quality outcomes for its customers. To enable this, Medibank Private continues to develop its core capabilities in customer insights, health provider relationship management and chronic disease management. Medibank Private calls this 'health assurance'.

Medibank Private's strategic priorities are focused on using its health assurance capabilities to increase revenues by attracting and retaining customers, increase underwriting margins and improve operational efficiency, thereby driving profitable growth.

Table 3.1: Medibank Private's key areas of strategic focus

	Strategic focus	Description
#1	Profitable revenue growth through disciplined customer acquisition and retention initiatives	<ul style="list-style-type: none">• Development of tailored PHI products under the Medibank and ahm brands to meet a diverse range of customer needs.• Alignment of Medibank Private's distribution footprint to customer preferences.• Targeted use of comparison websites to distribute ahm-branded products.• Investment in digital capabilities to enhance Medibank Private's online sales and customer service functionality, and to improve customer insights.
#2	Active enhancement of Health Insurance underwriting margins	<ul style="list-style-type: none">• A focus on more strategic contracting with healthcare providers and increased focus on the quality of patient outcomes.• Targeting four key areas to manage claims expenses, namely:<ul style="list-style-type: none">— relationships with hospitals: developing hospital relationships to manage cost and quality of patient outcomes;— product design: balancing product pricing and features such as covered services and claims limits;— benefits utilisation: developing strategies to support and assist the care of high-needs Policyholders including those with chronic diseases; and— reducing improper claims: improving the detection, recovery and prevention of improper claims.
#3	Operational excellence to reduce costs and improve the customer experience	<ul style="list-style-type: none">• A continuing cost-reduction program focused on reducing the MER, corporate overheads and other costs through:<ul style="list-style-type: none">— simplifying critical business processes while improving the customer experience (e.g. claims processing); and— reviewing the activities undertaken within the Complementary Services segment to ensure they provide value to the Health Insurance business.
#4	Leveraging or extending core capabilities to address growth opportunities in the broader health and insurance industries	<ul style="list-style-type: none">• Investing in businesses that enhance Medibank Private's insights into better health management in order to reduce claims expenses.• Taking advantage of new market opportunities within the broader health and insurance industries which leverage or extend Medibank Private's core capabilities.
#5	Investment in people and capabilities	<ul style="list-style-type: none">• Developing the skilled workforce required to drive business performance and profitability through:<ul style="list-style-type: none">— investment in strong management capabilities, leadership development and talent management; and— an active focus on employee engagement and collaboration.• Robust performance management and Shareholder value creation.• Consolidation of Melbourne sites and a reconfigured workplace environment to generate efficiencies and enhance effectiveness.

3.4. HEALTH INSURANCE BUSINESS

3.4.1. PHI products

Medibank Private offers PHI products including Hospital Cover and Extras Cover, as stand-alone products or packaged products that combine the two. Hospital Cover provides Policyholders with PHI cover for hospital treatments, whereas Extras Cover provides Policyholders with PHI cover for healthcare services such as dental, optical and physiotherapy.

Table 3.2 summarises key features of Medibank Private's PHI products and the decisions Policyholders need to make about the nature and extent of their cover, and which determine the premium payable for that cover.

Table 3.2: Key features of PHI products

	Hospital Cover	Extras Cover
Medibank Private's products (both Medibank- and ahm-branded)	<ul style="list-style-type: none">All of Medibank Private's resident Hospital Cover products meet the benefit requirements set out in the PHI Act:<ul style="list-style-type: none">Basic covers include ambulance and coverage of hospital treatment for psychiatric care, rehabilitation and palliative care.Mid-tier covers include services provided in basic cover, plus generally include heart-related services, reconstruction services (knee and shoulder) and colonoscopies.Top-tier covers include services provided in mid-tier cover, plus generally include obstetrics, major eye procedures and hip and knee replacements.	<ul style="list-style-type: none">Medibank Private provides a range of Extras Cover products that can include dental, optical, physiotherapy, podiatry and alternative therapies.Subject to annual or lifetime claim limits and sub-limits.
Pricing variables	<ul style="list-style-type: none">Excesses and Co-Payments: the Excess or Co-Payment required under the policy.	<ul style="list-style-type: none">Range of healthcare services: The type of ancillary services covered in the policy.Limits: Limits that apply on eligible services that can be claimed.Benefit level: The amount for a given claim that Medibank Private will reimburse. This is sometimes represented as a percentage of the final treatment cost that Medibank Private will reimburse.

3.4.2. Health insurance products for overseas students and visitors



Medibank Private also offers OSHC and OVHC. Taking out health insurance is generally a condition of Australian working and student visas. These customers are generally not covered (or not fully covered) by Medicare or the Pharmaceutical Benefits Scheme (**PBS**), so these products provide a level of cover for primary and specialist care and pharmaceuticals as well as hospital treatment. OVHC and OSHC policies are less regulated than PHI, and are not part of the risk equalisation arrangements.

OVHC and OSHC policies accounted for 2.6% of Medibank Private's premium revenue and 2.1% of claims expenses for FY14.

3.4.3. Brands and distribution

Medibank Private markets its PHI products under two brands, the Medibank brand and the ahm brand. Each brand offers a distinct value proposition, enabling Medibank Private to target a greater share of market through differentiated products and distribution strategies. This strategy also enables Medibank Private to retain Policyholders who might otherwise switch their provider should their PHI needs change.

Table 3.3: Overview of Medibank Private's Health Insurance brands

		
Brand position	<ul style="list-style-type: none"> • Comprehensive 	<ul style="list-style-type: none"> • Essentials
Product proposition	<ul style="list-style-type: none"> • Full-service 	<ul style="list-style-type: none"> • Flexible, simple
Policyholders and OVHC and OSHC customers (30 June 2014)	<ul style="list-style-type: none"> • 3.4 million 	<ul style="list-style-type: none"> • 0.4 million
Distribution strategy	<ul style="list-style-type: none"> • More than 90 retail locations Australia-wide • Medibank call centres (in-house and external) • Medibank website • Brokers • Corporate distribution arrangements 	<ul style="list-style-type: none"> • Comparison websites and call centres • ahm website • ahm call centre

Since its 2013 repositioning from a regional brand to a national, essentials-focussed PHI offering, ahm has become one of the fastest growing PHI brands, with the number of Policyholders holding ahm products increasing more than six times faster than the growth of the PHI industry over the 12 months to 31 March 2014. This has contributed to Medibank Private broadly maintaining its overall market share, despite a decline in Medibank-branded policies. The ahm growth includes some Policyholders switching from Medibank-branded policies, as well as new Policyholders switching from other private health insurers, and Policyholders taking out PHI for the first time. Table 3.4 below reflects the composition of the annual change in Principal Policyholder numbers for the period of the Historical Financial Information.

Table 3.4: Composition of the annual change in Principal Policyholder numbers

('000s)	FY12	FY13	FY14
Total			
Opening balance	1,753.6	1,785.1	1,803.7
Acquisitions	188.2	191.2	213.7
Lapses	(156.7)	(172.7)	(187.4)
Closing balance	1,785.1	1,803.7	1,830.1
– Acquisition rate ^{a,b}	10.6%	10.7%	11.8%
– Lapse rate ^{a,b,c}	8.9%	9.6%	10.3%
Medibank-branded policies			
Opening balance	1,586.5	1,610.1	1,615.0
Acquisitions	159.5	151.7	146.8
Lapses	(135.8)	(146.9)	(157.3)
Closing balance	1,610.1	1,615.0	1,604.5
– Acquisition rate ^{a,b}	10.0%	9.4%	9.1%
– Lapse rate ^{a,b,c}	8.5%	9.1%	9.8%
ahm-branded policies			
Opening balance	167.1	175.0	188.7
Acquisitions	28.7	39.5	66.9
Lapses	(20.9)	(25.8)	(30.1)
Closing balance	175.0	188.7	225.5
– Acquisition rate ^{a,b}	16.8%	21.7%	32.3%
– Lapse rate ^{a,b,c}	12.2%	14.2%	14.5%

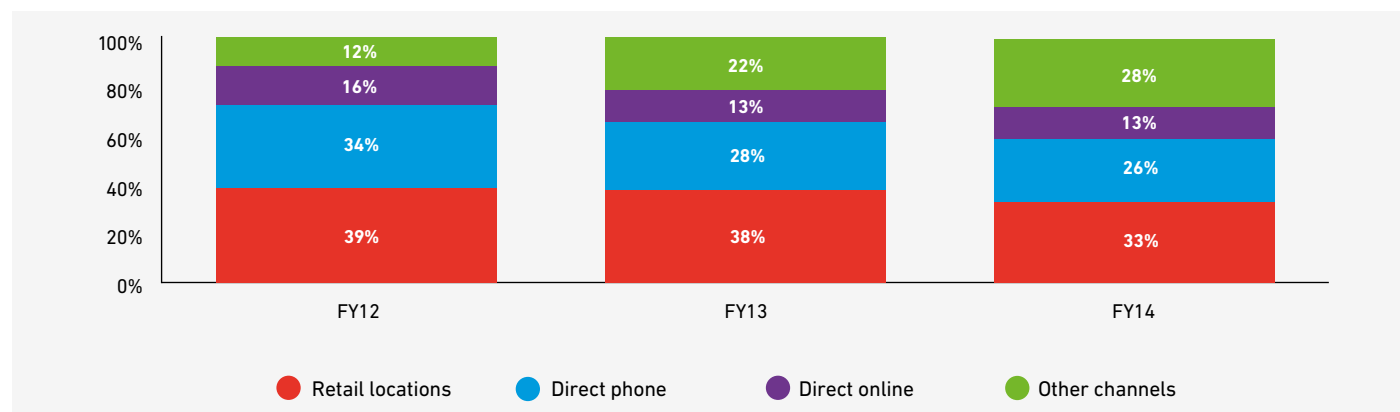
a. Lapse and acquisition volumes include transfers of Principal Policyholders between ahm and Medibank Private.

b. Acquisition and lapse rate percentages are based on the average of the opening and closing balances for the financial year.

c. Medibank Private's estimation of lapse rates excluding transfers from Medibank to ahm is 8.8% in FY12, 9.5% in FY13 and 10.0% in FY14.

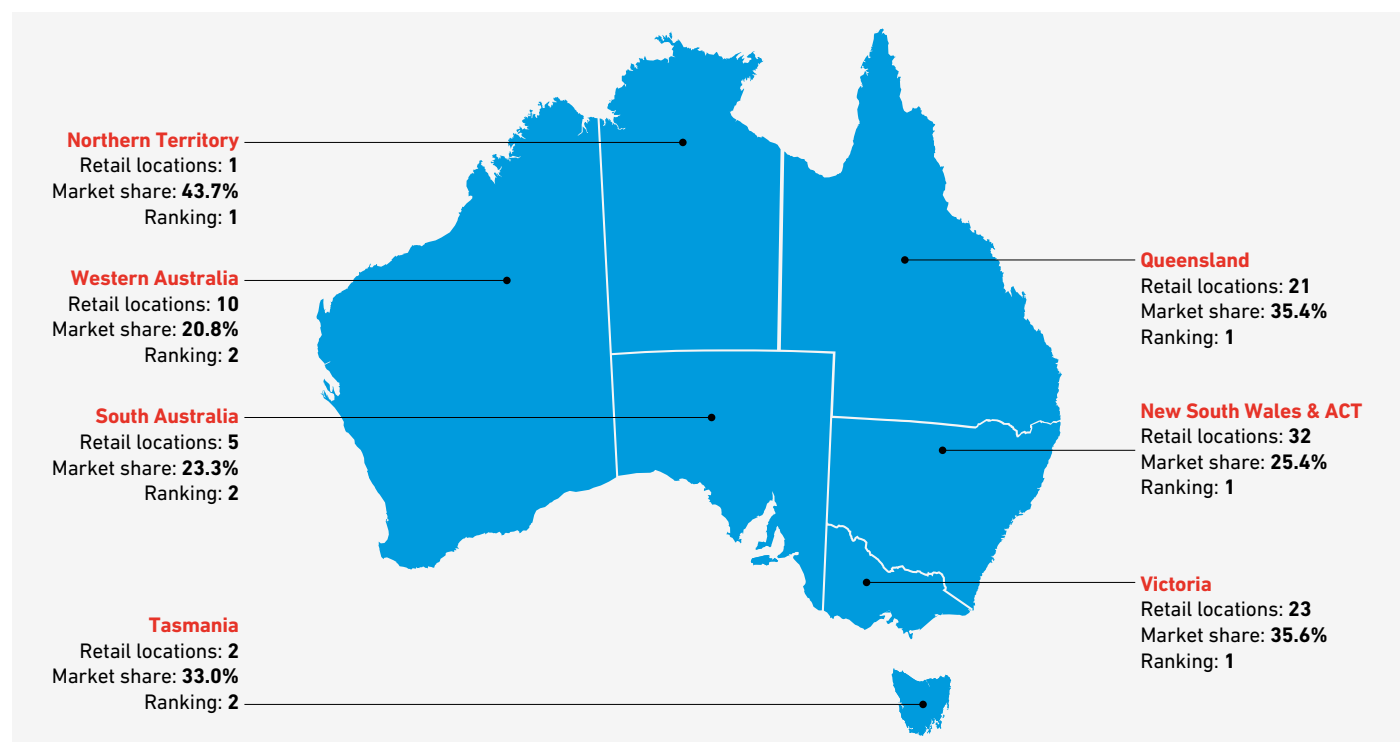
Figure 3.4 summarises the key channels through which Principal Policyholders have been acquired for FY12, FY13 and FY14.

Figure 3.4: Acquisitions by sales channel



As at 30 June 2014, Medibank Private had a significant national retail distribution network of more than 90 retail locations (see Figure 3.5) to assist with the sale of Medibank-branded PHI products, maintain strong brand awareness and service its customers. Medibank-branded PHI products are not sold through comparison websites which typically incur an increased Policyholder acquisition cost.

Figure 3.5: Medibank Private's national presence¹⁶



16. Retail locations and market share as at 30 June 2014. Ranking based on Principal Policyholders in the PHIAC 2012-13 Report. Market share calculated based on Principal Policyholders as per 30 June 2014. PHIAC data.

3.4.4. Target customers

As at 30 June 2014, Medibank Private had more than 1.9 million Principal Policyholders and OVHC and OSHC customers and more than 3.8 million people covered by its policies. Australian retail customers account for more than 93% of Medibank Private's Health Insurance customers, with the remaining customers being overseas students and visitors, as well as corporate customers, as detailed in Table 3.5.

Table 3.5: Overview of Medibank Private's target customers

Customer	Overview of products provided
Consumer	
Australian retail	<ul style="list-style-type: none"> Provides PHI products to Australian individuals, couples and families.
Overseas students (OSHC)	<ul style="list-style-type: none"> Provides health insurance products to international students in Australia and their dependants. Medibank Private has commercial agreements with universities and other large educational institutions and is one of the leading providers of OSHC.
Overseas visitors (OVHC)	<ul style="list-style-type: none"> Provides health insurance products to overseas visitors including skilled worker visa holders and other overseas visitors on temporary visas, and non-working visitors such as tourists.
Corporate	<ul style="list-style-type: none"> Provides PHI products to individuals through arrangements with employers to fully or partially subsidise PHI products for their workforce. Medibank Private also provides health services that assist companies to maintain a healthy and productive workforce. Designed to acquire a growing source of new business by offering employees a customised product range.

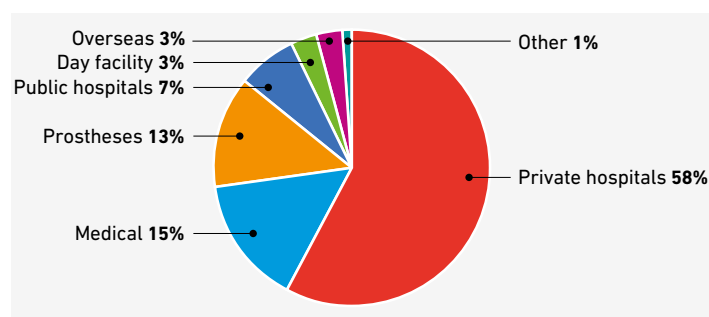
3.4.5. Management of claims expenses

Claims expenses are the largest expense within the Health Insurance business and are therefore a major determinant of Medibank Private's profitability. Medibank Private's strategy to effectively manage claims expenses and the quality of customer service is focused on relationships with healthcare providers, product design, benefits utilisation and reducing improper claims. Medibank Private has a dedicated team with primary responsibility for delivering this strategy, known as the PNIC team.

Effectively managing claims expenses may result in higher margins, permit Medibank Private to maintain margins in the face of industry-wide cost pressures or enable it to enhance the relative affordability of its policies in order to increase market share.

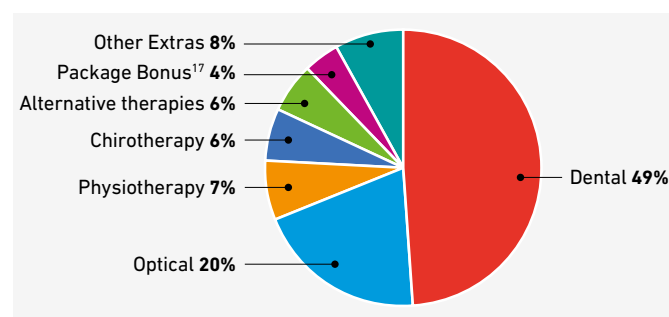
Figures 3.6 and 3.7 reflect the FY14 composition of Medibank Private's Hospital Cover claims expenses (which are primarily payments to private hospitals, including accommodation-related services and medicines provided) and Extras Cover claims expenses, which are primarily payments for dental and optical services.

Figure 3.6: FY14 Hospital claims expenses, by type



Total = \$3.7 billion

Figure 3.7: FY14 Extras claims expenses, by type



Total = \$1.2 billion

Benefit from investing in reducing claims expenses

Under the current Australian risk equalisation scheme, claims expense reductions are shared across the industry. Nevertheless, Medibank Private benefits from reducing claims expenses for two key reasons – first, only a portion of claims expenses are shared through risk equalisation, and secondly, Medibank Private is contributing to a reduction in the size of the industry pools.

17. Package Bonus relates to expenses associated with bonuses on eligible products – PremierPlus, AdvantagePlus, SmartPlus and HealthyPlus. The Package Bonus is an amount of money that accumulates each year to help pay for a range of approved Policyholder and health-related expenses. Any Policyholders may claim Package Bonus benefits up to the maximum membership limit. There is a six-month waiting period and entitlements apply from 1 January each year.

The portion of claims expense savings that Medibank Private may retain the benefit of ranges from 100% for claims expenses of Policyholders under the age of 55, to an estimated 42% of savings in respect of claims expenses for Policyholders over the age of 85. Based on the age and claims profile of Policyholders in FY14, Medibank Private estimates that it retained the benefit of, on average, an estimated 70% of the total gross claims expense savings.¹⁸

The overall reduction in the size of industry pools benefits Medibank Private by lowering the amount per Policyholder that Medibank Private has to pay into the Risk Equalisation Trust Fund.

Relationships with providers

Medibank Private has relationships with most of the private hospitals across Australia in order to meet its Policyholders' health needs. These hospitals agree to provide their services to Medibank Private Policyholders at a negotiated price.¹⁹ The key agreements under which Medibank Private manages claims expenses with hospitals are HPPAs.

Medibank Private and private hospitals enter into HPPAs that set out their respective obligations in relation to payment of claims. In addition to its continuing focus on the prices payable for hospital services, in contract negotiations and in deciding whether to enter into HPPAs, Medibank Private is increasingly focusing on:

- the quality of patient care at that hospital; and
- demand for the services provided by a particular hospital.

For further details on Medibank Private's material contracts with its hospital networks, see Section 10.4.1.

Product design

Medibank Private's objective is for its products to deliver customer value, be market competitive and be consistent with delivering its target profitability levels. In designing its products Medibank Private seeks to meet the needs of its customers while balancing product pricing with features such as covered services and claim limits. For example, Medibank Private generally offers more services as part of Extras Cover with a higher premium. Conversely, lower-priced products generally have lower claim limits and a more restricted range of covered services.²⁰ Product design is the primary lever for managing Extras Cover claims expenses. Medibank Private relies on its team of actuaries as part of achieving this balance.

Benefits utilisation

Increasing benefits utilisation has accounted for approximately 70% of the growth in Hospital Cover claims expenses between FY12 and FY13. The balance of claims growth is accounted for through the increase in costs associated with each hospital treatment. Medibank Private, like many other funders in the Australian healthcare industry, is increasing its focus on managing the growth in claims expenses through a number of strategies, including those aimed at supporting primary care givers such as GPs to better prevent chronic diseases.

Medibank Private's strategies in this regard include a focus on high-needs Policyholders. For instance, 2.2% of the Medibank-branded Policyholders accounted for 35.2% of the Medibank-branded claims expenses relating to hospital and medical claims expenses²¹ over the period between FY10 and FY13. Medibank Private is starting to work with these Policyholders, initially with a small group, to provide them with support to improve their health. By supporting these Policyholders and their primary care givers to achieve better health outcomes, Medibank Private intends to reduce related claims expenses.

Reducing improper claims

Medibank Private is focused on identifying, preventing and recovering funds for improper or ineligible PHI claims. These improper claims range from unintentional errors (such as submitting the same claim more than once), through to fraud (e.g. deliberate submission of a claim for a service that was not provided). Medibank Private aims to reduce improper claims through improved claims processing rules, data and analytics tools to identify improper payments, and manual audit and investigation functions.

18. For example, Medibank Private retains \$18 of every \$100 of gross cost savings Medibank Private achieves with Policyholders over the age of 85 (or 18%, being 100% less the 82% of eligible benefits included in the pool), while the Risk Equalisation Trust Fund pool is reduced by the remaining \$82. Of the \$82 reduction, Medibank Private benefits to the extent of its market share (for the purposes of this calculation, assumed for all age cohorts to be 29.1% based on Medibank Private's market share as at 30 June 2014) or \$24. Therefore, Medibank Private's assumed retained cost saving for Policyholders over the age of 85 is \$18 + \$24 = \$42 (or 42%).

19. Extras providers who form part of the Members' Choice network also enter into contracts with Medibank Private, but the purpose of these contracts is more to provide a benefit to Policyholders than to manage claims expenses.

20. For ahm-branded Extras Cover products which have an aggregate claim limit covering all service categories, this principle is reflected in lower aggregate claim limits for its more affordable products.

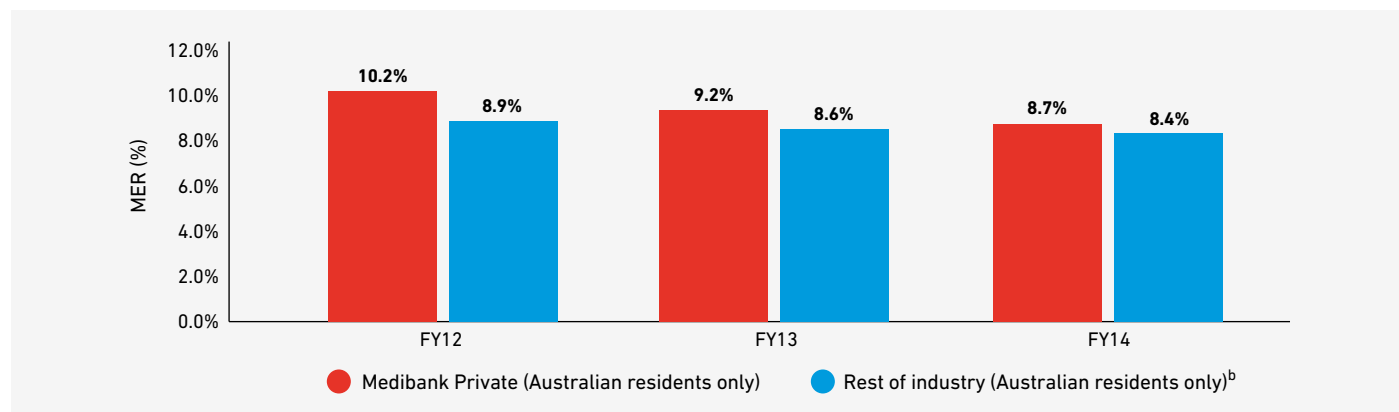
21. Before risk equalisation.

3.4.6. Reduction in Management Expenses

The majority of Management Expenses for Health Insurance comprise employee expenses and sales and marketing expenses. Employee expenses include salaries and training costs for customer service, claims processing, and other administrative and management personnel. Other costs which constitute Management Expenses include occupancy costs, IT expenditure, depreciation and amortisation.

During FY13, Medibank Private embarked on an organisation-wide cost-reduction program in order to identify sustainable cost savings to be realised over time. Programs to identify further cost savings and efficiencies are ongoing. Figure 3.8 reflects the impact of those cost savings and efficiencies on Medibank Private's MER, which has progressively declined to a level closer to the industry average.

Figure 3.8: Management Expense Ratio^a



a. Medibank Private's MER has been presented in this Figure 3.8 on a basis directly comparable with the industry data, which only applies to Australian resident business. Medibank Private's Health Insurance MER presented in Table 4.3 includes OSHC and OVHC policies which are not included in the industry data, and which was 10.6% for FY12, 9.6% for FY13 and 9.2% for FY14.

b. Rest of industry data represents the aggregate of all private health insurers in Australia excluding Medibank Private.

Source: Medibank Private; PHIAC 2014, The Operations of Private Health Insurers Annual Report 2012–13 and Private Health Insurance Administration Council 2014; Quarterly Statistics June 2014, PHIAC, Canberra.

3.5. COMPLEMENTARY SERVICES

Over the last five years, Medibank Private has extended its operations beyond traditional PHI underwriting to build its health assurance capability and take advantage of new market opportunities. Medibank Private refers to these activities as 'Complementary Services'.

Activities in this segment include 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, Medibank Private distributes diversified insurance products on behalf of other insurers as part of a broader strategy to retain Policyholders and leverage its distribution network.

Medibank Private also has a representative office in Singapore that focuses on developing relationships in the Asian market for future business opportunities.

Medibank Private reviews its businesses and activities in these areas on an ongoing basis. Opportunities are evaluated to ensure they meet the needs of customers and are consistent with Medibank Private's broader financial and strategic aims, including providing an acceptable stand-alone return. Medibank Private is currently undertaking a strategic review in respect of certain businesses and activities within Complementary Services that are not providing a stand-alone return to Medibank Private and/or are not consistent with Medibank Private's broader financial and strategic aims.

The services provided by Medibank Private as part of its Complementary Services are described below.

3.5.1. Population Health Management

Population Health Management is the co-ordination of healthcare services for groups (or specific populations) whose healthcare needs are met by a single funder, such as the Department of Defence. Examples of potential populations not directly serviced by Medibank Private include people funded by the Department of Veterans' Affairs and the National Disability Insurance Agency.

Provision of Population Health Management services builds Medibank Private's health assurance capability set by providing insights into healthcare management. These insights not only provide continuous improvement opportunities for customers of Medibank Private's Population Health Management services, but can also be leveraged by Medibank Private's Health Insurance business to improve product design and preventative care programs.

ADF Health Services Contract (Department of Defence)

In 2012, Medibank Health Solutions Pty Ltd (a subsidiary of MPL) entered into a four-year contract to deliver a national integrated healthcare service to the Australian Defence Force (ADF) (**ADF Health Services Contract**). Medibank Private has a standalone business supporting this contract.

Medibank Private has leveraged its core capabilities in contract management to create a third-party provider network for the ADF. Medibank Private manages and co-ordinates more than 1,100 on-base primary healthcare experts, more than 4,300 medical specialists, 254 hospitals and more than 8,300 allied health professionals. This network provides access to on-base and off-base healthcare services including pathology services, imaging and radiology services and a health hotline for about 60,000 permanent and about 20,000 reservist uniformed personnel from point of injury or illness to recovery.

Medibank Private's relationship with the Department of Defence and the ADF population has enabled it to develop its reputation as an efficient and effective healthcare provider. The business provides efficient and effective access to services including prevention, treatment and rehabilitation for both physical and mental health. Medibank Private has subcontracted the provision of on-base medical services to Aspen Medical Services. See Section 10.4.2 for more information about the ADF Health Services Contract.

3.5.2. Telehealth

Medibank Private is one of the largest telehealth providers in Australia and New Zealand, with more than 700 staff delivering a range of healthcare services via phone, online and video. Services include disease management, health coaching, mental health counselling, after-hours GP helplines, 24x7 Nurse Triage and online health portals. Medibank Private has contracts with Commonwealth, state, territory and local governments in Australia, and with the New Zealand Government for the provision of HealthLine services in New Zealand on a fee-for-service basis. Telehealth services are delivered by qualified healthcare professionals.

In 2013, Medibank Private launched Anywhere Healthcare which allows customers to access a medical specialist online; creating a virtual clinic. Anywhere Healthcare also allows patients to see specialists at their local GP clinic without having to travel long distances, which also enables a patient's local GP to conduct any physical tests required on behalf of the specialist.

Through the provision of these services Medibank Private has built its knowledge of health triage and remote care, thereby strengthening its health assurance capabilities. The Telehealth business also generates insights which can be used to inform product design in the Health Insurance business. Medibank Private's relationship with multiple government healthcare funders has established its reputation as a capable provider of contracted health services.

3.5.3. Corporate Health Services

Medibank Private has developed Corporate Health Services to take advantage of opportunities in the market for company-funded health services such as pre-employment health checks and health and wellbeing programs.

Medibank Private currently employs health professionals to provide face-to-face services via a national network of clinics through its Workplace Health business. These clinics provide services to a broad range of customers, including Australian, state and territory and local governments; companies; not-for-profit organisations; and individuals. The clinics offer health assessments, vaccinations, injury treatment and management services.

3.5.4. Diversified Consumer Businesses

Diversified Consumer Businesses provide Medibank Private with the opportunity to sell multiple products to new and existing Medibank Private customers through its retail channels.

Diversified Insurance

Medibank Private distributes travel, life and pet insurance products as the authorised agent of other insurers. These are sold to both Medibank Private Policyholders and other individuals. Medibank Private Policyholders receive a discount as part of Medibank Private's customer retention strategy.

Travel Doctor

Travel Doctor provides onsite and in-store medical consultations, advice and vaccinations to corporate customers and, increasingly, to the public.

3.6. INVESTMENT PORTFOLIO

3.6.1. Overview

Medibank Private has a large investment portfolio consisting of cash and other investments. This portfolio provides liquidity to cover insurance liabilities related to the Health Insurance business and satisfies Medibank Private's obligations to maintain regulatory reserves to meet claims expenses and to fund ongoing operations.

Medibank Private invests its funds in accordance with its Board-approved Capital Management Policy which determines strategic asset allocations that take into account its risk appetite, the expected risks and returns of different asset classes, PHIAC regulatory requirements, and the need for stability and liquidity of its capital base. Consequently, Medibank Private's investment portfolio is skewed towards conservative (less risky and generally lower-returning) assets rather than growth (riskier but potentially higher-returning) assets. Conservative assets include cash and cash equivalents, and fixed income products such as term deposits and investment-grade floating rate notes. Growth assets include domestic and international equities, as well as property.

Medibank Private engages the services of an external asset consultant, currently JANA Investment Advisers, to provide it with independent advice as required on the asset allocation and management of its investment portfolio.

The Board and/or the Investment and Capital Committee (a sub-committee of the Board – see Section 6.4.3 for more information) fulfil a number of functions, including approving categories of permitted investments (and external managers thereof), approving the target asset allocation which governs the amount able to be invested in each asset class, and monitoring overall investment performance.

At 30 June 2014, Medibank Private's investment portfolio was \$2.2 billion and had generated \$113.9 million in net investment income in FY14.

3.6.2. Portfolio composition

The investment portfolio asset allocation must be within certain parameters around the Board-approved target allocation. As at 30 June 2014, Medibank Private had an asset allocation of 82% conservative and 18% growth assets (against targets of 83% and 17%, respectively). In July 2014, the Board approved a change in the target asset allocation to 75% conservative assets and 25% growth assets following a review of the long-term investment strategy. This change in asset allocation is expected to be implemented by 31 December 2014.

Figure 3.9: Portfolio composition as at 30 June 2014

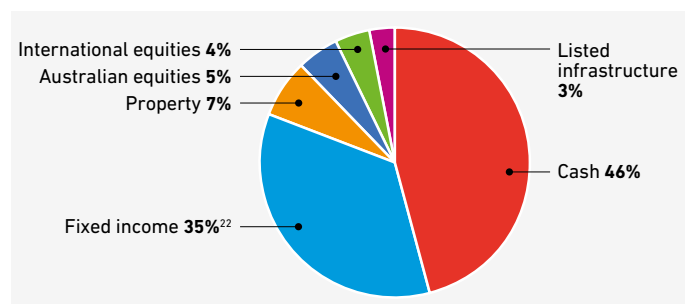
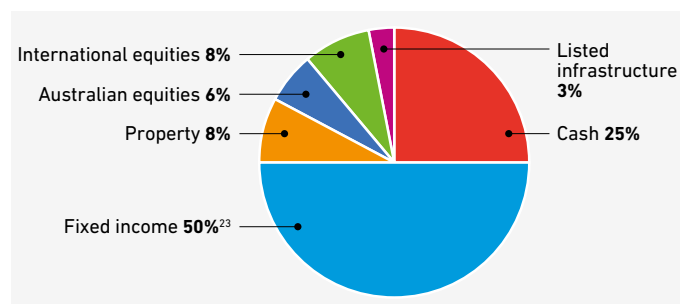


Figure 3.10: Target asset allocation by 31 December 2014



22. Floating rate notes and asset-backed investments (23%); other fixed income (12%).

23. Floating rate notes and asset-backed investments (30%); other fixed income (20%).

Table 3.6: Description of asset classes

Asset class		Description
Conservative assets	Cash	<ul style="list-style-type: none"> Comprises call accounts, bank bills, term deposits, promissory notes, commercial paper and certificates of deposit. At least 90% of the cash portfolio is invested with a term of 185 days or less.
	Fixed income	<ul style="list-style-type: none"> Comprises floating rate notes, asset-backed securities, syndicated loans (hedged), fixed income absolute return funds and hybrid investments (tier 1 capital) of Australian financial institutions. Floating rate notes and asset-backed investments are investment grade and are internally managed (average credit rating of AA-).²⁴ Syndicated loans are externally managed and currency exposures are fully hedged. Fixed income absolute return funds are externally managed. Hybrid investments are internally managed.
Growth assets	Property	<ul style="list-style-type: none"> Currently comprises only unlisted Australian property trusts and a direct investment in ahm's former head office in Wollongong. Permitted investments include listed and unlisted Australian entities related to prime property investment and direct property held for operational purposes.
	Listed infrastructure	<ul style="list-style-type: none"> Comprises equity investments in infrastructure-related entities listed on stock exchanges in the MSCI Developed Markets Indexes, and managed funds investing in the same. Investments via external managers with currency exposure are fully hedged.
	Australian equities	<ul style="list-style-type: none"> Comprises equity investments in entities listed on the ASX, and managed funds investing in the same. Passive investment approach comprising predominantly index funds. No equity derivative overlays.
	International equities	<ul style="list-style-type: none"> Comprises equity investments in entities listed on overseas stock exchanges in the MSCI Developed Markets Indexes, and managed funds investing in the same. Mixed approach – a combination of index funds and active external managers. Approximately half of the foreign currency exposure is hedged. No equity derivative overlays.

3.6.3. Portfolio management

Medibank Private manages the majority of its investment portfolio internally, where the appropriate expertise exists. However, where more specialist skills are required or there is greater potential variability of returns in asset classes, Medibank Private engages external managers.

Medibank Private directly manages its investments in cash, floating rate notes, mortgage asset-backed securities, hybrid investments and direct property. In doing so, Medibank Private focuses on the level of expected return relative to the expected level of risk. Medibank Private takes into account its assessment of the outlook for the general economy and the relevant markets, together with any relevant company or investment-specific factors. Any direct property investment also takes account of operational requirements and considerations.

All investment decisions are made in the context of Medibank Private's investment policies as approved by the Board, which include constraints regarding matters such as the liquidity, maturity, counterparty risk and portfolio concentration of individual investments and/or the investment portfolio.

24. As at 30 June 2014.

3.7. INFORMATION TECHNOLOGY

Medibank Private relies on a range of IT solutions to effectively carry out its customer sales and service, operational and administrative functions. Medibank Private has a continuing strategy to rationalise and simplify the IT infrastructure supporting the business, which Medibank Private's management expects will reduce IT operational costs.

Medibank Private's IT services operate through a centralised organisational structure, with approximately 375 employees and contractors supporting the business. Medibank Private's core IT teams are located in Melbourne and manage more than 300 applications and 1,500 servers.

Medibank Private began a progressive core IT systems upgrade process four years ago and has now replaced all three of its claims processing systems. Medibank Private is undertaking the IT Renewal Program which comprises decommissioning Medibank Private's legacy mainframe, upgrading its digital sale and services systems, improving data warehouse and business intelligence systems, and undertaking Project DelPHI (set out below). The IT Renewal Program is expected to be completed during calendar year 2016 (see Section 4.5.4 for more information).

Project DelPHI is the main component of the IT Renewal Program and is designed to replace the customer, policy, premium and product management systems for the Medibank brand with a single, integrated commercial insurance software suite. Medibank Private has entered into separate agreements with IBM Australia Limited for services, and SAP Australia Pty Limited for the licence of software, in respect of this project.

The IT Renewal Program is designed to provide an integrated IT services environment to support growth in Policyholder numbers, cost savings and the timely and efficient deployment of initiatives across Medibank Private. Once the IT Renewal Program has been completed, Medibank Private will have replaced all of its key legacy IT platforms. In addition, Medibank Private is investing in its data analytics capability to enable the enhanced development of tailored products as well as improved management of claims expenses.

3.8. EMPLOYEES AND OFFICES

As at 30 September 2014, Medibank Private employed 3,438 people, 2,894 of whom were full-time equivalent (FTE) employees including more than 760 health professionals. A total of 1,675 FTE employees were engaged in the provision of services to Policyholders and OSHC and OVHC customers, and 1,187 FTE employees were engaged in the Complementary Services segment. Figures 3.11 and 3.12 summarise Medibank Private's FTEs by state (including New Zealand) and by business.

Some of Medibank Private's employees are covered by enterprise agreements, which provide for certain employee entitlements and create obligations on the employer beyond what would be required by statute. One such agreement has a nominal expiry date of 31 December 2014. Preparation for bargaining on a replacement agreement has commenced. If a new agreement is not reached by the nominal expiry date, the covered employees may be entitled to take protected industrial action as part of the bargaining process.

Figure 3.11: FTEs, by jurisdiction (30 September 2014)

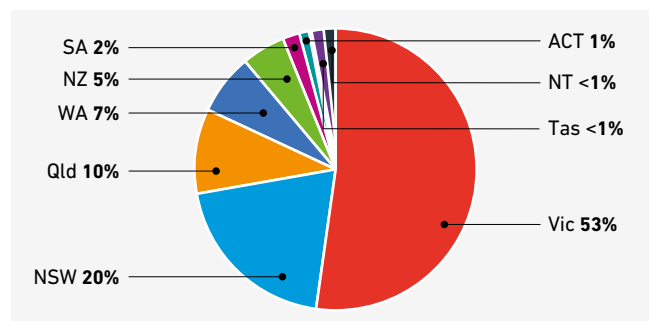
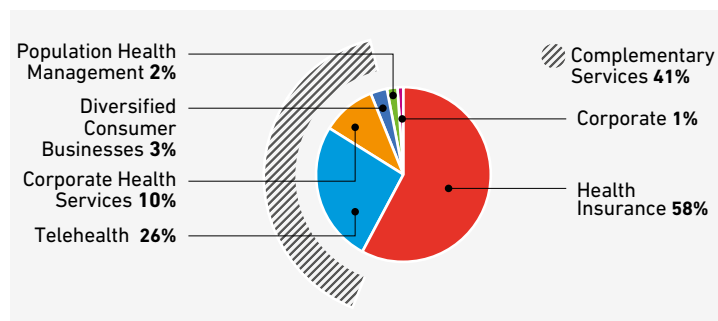


Figure 3.12: FTEs, by business (30 September 2014)



Total FTEs (30 September 2014): 2,894

As at 30 June 2014, Medibank Private had a national footprint of over 90 retail locations and 34 clinics. Medibank Private generally leases the premises required for its operations; however, Medibank Private owns properties in Wollongong (the former ahm head office) and Sydney. Medibank Private recently sold a property in Sydney which is expected to close in calendar year 2015.

Medibank Private has recently completed a significant project to consolidate its six office locations in Melbourne into a single headquarters in Melbourne with a reconfigured workplace environment designed to generate efficiencies. Medibank Private began occupying the new premises in August 2014. The capital cost of the project is expected to be approximately \$75.0 million (see Section 4.5.4).

SECTION 4

FINANCIAL INFORMATION



4.1. INTRODUCTION

The financial information of Medibank Private provided in Section 4 and Appendix A includes the consolidated financial information as summarised in Table 4.1 below for FY12, FY13 and FY14, as well as the forecast FY15 (**Financial Information**).

Table 4.1: Summary of the Financial Information in Section 4 and Appendix A

	Pro Forma Financial Information	Statutory Financial Information
Historical Financial Information	<ul style="list-style-type: none"> • Pro Forma Historical Financial Information for FY12, FY13 and FY14 comprises the: <ul style="list-style-type: none"> — pro forma historical consolidated income statements (see Section 4.3); and — pro forma historical consolidated cash flows (see Section 4.6.1). 	<ul style="list-style-type: none"> • Statutory Historical Financial Information comprises the: <ul style="list-style-type: none"> — audited statutory historical consolidated income statements for FY12, FY13 and FY14 (see Appendix A, Table 1); — audited statutory historical consolidated cash flows for FY12, FY13 and FY14 (see Appendix A, Table 3); and — audited statutory historical consolidated balance sheet as at 30 June 2014 (see Section 4.5). • Adjusted Statutory Historical Financial Information comprises the: <ul style="list-style-type: none"> — adjusted statutory historical consolidated income statements for FY12, FY13 and FY14 (see Appendix A, Table 2).
Forecast Financial Information	<ul style="list-style-type: none"> • Pro Forma Forecast Financial Information for FY15 comprises the Directors': <ul style="list-style-type: none"> — pro forma forecast consolidated income statement (see Section 4.3); and — pro forma forecast consolidated cash flows (see Section 4.6.1). 	<ul style="list-style-type: none"> • Statutory Forecast Financial Information for FY15 comprises the Directors': <ul style="list-style-type: none"> — statutory forecast consolidated income statement (see Section 4.3); and — statutory forecast consolidated cash flows (see Section 4.6.1).

Also described in Section 4 and Appendices A and B are:

- the basis of preparation and presentation of the Financial Information (see Section 4.2);
- management's discussion and analysis of the Pro Forma Historical Financial Information (see Section 4.7);
- key assumptions underpinning the Forecast Financial Information (see Sections 4.8.1 and 4.8.2);
- the key sensitivities in respect of the Forecast Financial Information (see Section 4.9);
- Medibank Private's capital adequacy and solvency requirements, policy and position (see Section 4.11);
- Medibank Private's dividend policy (see Section 4.11.4);
- commitments and contingencies (see Section 4.12);
- Medibank Private's financial risk management framework (see Section 4.13);
- Medibank Private's statutory historical consolidated income statements and statutory historical consolidated cash flows for FY12, FY13 and FY14 (see Appendix A); and
- Medibank Private's significant accounting policies (see Appendix B).

The information in Section 4 and Appendices A and B should be read in conjunction with the key risks set out in Section 5 and the other information contained in this Prospectus. All amounts disclosed in the tables are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest \$100,000. Any discrepancies between totals and sums of components in tables and figures contained in this Prospectus are due to rounding. Tables have not been amended by Medibank Private to correct immaterial summation differences that may arise from this rounding convention.

4.2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL INFORMATION

4.2.1. Overview

The Directors are responsible for the preparation and presentation of the Financial Information.

The Financial Information included in this Prospectus is intended to present potential investors with information to assist them in understanding the underlying historical financial performance, cash flows and financial position of Medibank Private, together with Forecast Financial Information for FY15.

The Statutory Financial Information has been prepared in accordance with the recognition and measurement principles of the AAS (including the Australian Accounting Interpretations) issued by the AASB, which are consistent with IFRS and interpretations issued by the IASB.

The Pro Forma Financial Information has been prepared in accordance with the recognition and measurement requirements of AAS other than that it includes adjustments which have been prepared in a manner consistent with the AAS, that reflect: (i) the recognition of certain items in periods different from the applicable period under AAS; (ii) the exclusion of certain transactions that occurred in the relevant periods; and (iii) the impact of certain transactions as if they occurred on or before 1 July 2011 in the Historical Financial Information or on 1 July 2014 in the Forecast Financial Information.

The Pro Forma Financial Information does not represent the actual financial results and cash flows of Medibank Private for the periods indicated. Medibank Private believes that it provides useful information as it permits investors to examine what it considers to be the underlying financial performance and cash flows of its business presented on a consistent basis with the Forecast Financial Information.

The Financial Information is presented in abbreviated form and does not include all of the presentation disclosures, statements or comparative information as required by the AAS applicable to general purpose financial reports prepared in accordance with the Corporations Act.

In preparing the Financial Information, other than in respect of the change in accounting policy for deferred acquisition costs reflected in the pro forma adjustments (see Section 4.3.3), the accounting policies of Medibank Private have been applied consistently throughout the periods presented. Significant accounting policies of Medibank Private relevant to the Financial Information are detailed in Appendix B and are also disclosed in Note 1 to the audited consolidated financial statements of Medibank Private for the year ended 30 June 2014, which are available on the Medibank Private Share Offer website (www.medibankprivateshareoffer.com.au).

The Financial Information presented in this Prospectus has been reviewed in accordance with the Australian Standard on Assurance Engagements ASAE 3450 'Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information' by Ernst & Young Transaction Advisory Services Limited, as stated in its *Independent Limited Assurance Report on the Historical Financial Information* and *Independent Limited Assurance Report on the Directors' Forecast Financial Information* provided in Section 8. Investors should note the scope and limitations of the respective reports.

4.2.2. Basis of preparation of the Historical Financial Information

The audited consolidated financial statements of Medibank Private for FY12, FY13 and FY14 (the **Audited Financial Statements**) are available on the Medibank Private Share Offer website (www.medibankprivateshareoffer.com.au). The Commonwealth Auditor-General is the statutory auditor and the Auditor-General's delegate issued unqualified audit opinions in respect of the Audited Financial Statements. A further description of how this information has been extracted or derived, as applicable, from Medibank Private's Audited Financial Statements is set out in Appendix A of this Prospectus. The Statutory Historical Financial Information has been extracted (in the case of FY14 from the FY14 Audited Financial Statements and in the case of FY13 from the comparative information for FY13 in the FY14 Audited Financial Statements) and derived (in the case of FY12 from the comparative information for FY12 in the FY13 Audited Financial Statements, which have been presented on a consistent basis as the FY14 Audited Financial Statements), as applicable, as set out in Appendix A of this Prospectus.

The Adjusted Statutory Historical Financial Information included in this Prospectus reflects the manner in which Medibank Private classifies certain revenues and expenses for management reporting purposes differently to that presented in the Audited Financial Statements in order to better understand and assess the performance of the business as if it comprised two segments, as described above and in Section 4.4 of this Prospectus. The reclassifications described in Appendix A have been applied to the audited statutory historical consolidated income statements of Medibank Private for FY12, FY13 and FY14 in order to derive the Adjusted Statutory Historical Financial Information.

Appendix A includes a reconciliation of the audited statutory historical consolidated income statements of Medibank Private for FY12, FY13 and FY14 to the adjusted statutory historical consolidated income statements and pro forma consolidated income statements of Medibank Private for these periods.

The Pro Forma Historical Financial Information has been prepared solely for inclusion in this Prospectus and has been derived from the Statutory Historical Financial Information, adjusted for certain significant items and pro forma adjustments. Details of those adjustments that have been applied to the Statutory Historical Financial Information are as follows:

- Tables 4.5 and 4.6 in Section 4.3.3 provide a reconciliation from the adjusted statutory consolidated operating profit and audited statutory historical consolidated NPAT of Medibank Private derived from the Audited Financial Statements to the pro forma historical consolidated operating profit and NPAT of Medibank Private for FY12, FY13 and FY14, with a full reconciliation to the audited statutory historical consolidated income statements for FY12, FY13 and FY14 set out in Appendix A. The adjusted statutory operating profit presented in Table 4.5 differs to that reported in the Audited Financial Statements for FY12 and FY13 as a result of reclassifications made by management to better understand and assess the performance of the business as if it comprised two segments (as described further in Section 4.4). The FY14 Audited Financial Statements did not specifically present this operating profit result.
- Table 4.11 in Section 4.6.2 provides a reconciliation between the statutory historical consolidated cash flows and the pro forma historical consolidated cash flows of Medibank Private for FY12, FY13 and FY14.

Medibank Private's activities are presented in this Prospectus as comprising two segments, namely Health Insurance and Complementary Services, with overheads that are not allocated to these segments presented as corporate overheads. Medibank Private's statutory financial statements for FY14 were reported in accordance with AASB8 *Operating Segments*, which became applicable to Medibank Private for the annual reporting period commencing on 1 July 2013. Under that accounting standard, Medibank Private has one reportable segment (Health Insurance) and the results of non-reportable segments, including Complementary Services, are aggregated within the 'all other segments' category. See Section 4.4 and Note 4 to the Audited Financial Statements for FY14, which are available on the Medibank Private Share Offer website (www.medibankprivateshareoffer.com.au) for more information. The FY12 and FY13 Audited Financial Statements did not include a segment information note.

As the Offer does not involve the issuance of new capital or establishment of debt, and the Commonwealth will be receiving the net proceeds of the IPO, a pro forma historical consolidated balance sheet has not been presented.

Investors should note that past results are not a guarantee of future performance.

4.2.3. Basis of preparation of the Forecast Financial Information

The Forecast Financial Information has been prepared by the Directors solely for inclusion in this Prospectus, based on an assessment of current economic and operating conditions and the Directors' best estimate of general and specific assumptions regarding future events and actions as set out in Sections 4.8.1 and 4.8.2.

The Directors have prepared the Forecast Financial Information with due care and attention, and consider the best estimate assumptions, when taken as a whole, to be reasonable at the time of preparing this Prospectus. However, this information is not fact and investors are cautioned not to place undue reliance on the Forecast Financial Information.

The Forecast Financial Information has been prepared on the basis of numerous assumptions, including the Directors' best estimate of general and specific assumptions set out in Sections 4.8.1 and 4.8.2, respectively. The information regarding the Directors' assumptions is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur. Investors should be aware that the timing of actual events and the magnitude of their impact may differ from that assumed in preparing the Forecast Financial Information, and that this may have a material positive or negative effect on Medibank Private's actual financial performance, cash flows or financial position. Accordingly, neither Medibank Private nor any other person can give investors any assurance that the outcomes presented in the Forecast Financial Information will arise.

Investors are advised to review the Directors' best estimate of the general and specific assumptions set out in Sections 4.8.1 and 4.8.2, in conjunction with the Significant Accounting Policies set out in Appendix B, the sensitivity analysis set out in Section 4.9, the key risks set out in Section 4.13 and Section 5, the Independent Limited Assurance Report on Forecast Financial Information set out in Section 8, and other information set out in this Prospectus.

The Forecast Financial Information has been presented on both a statutory and pro forma basis:

- The statutory forecast consolidated income statement and cash flows of Medibank Private for FY15 reflect the Directors' best estimate of financial performance and cash flows which the Directors expect to report in Medibank Private's consolidated financial statements for FY15, based on the actual results for the three-month period to 30 September 2014 and the forecast results for the remaining nine months to 30 June 2015. The statutory forecast for FY15 assumes Completion of the Offer will occur on 1 December 2014, and hence reflect seven months of costs associated with being a publicly listed entity.
- The pro forma forecast consolidated income statement and cash flows for FY15 are derived from the statutory forecast consolidated income statement and cash flows adjusted to reflect the full year of incremental corporate costs as a publicly listed entity and the exclusion of the one-off costs of the Offer and certain significant items. A reconciliation of the pro forma forecast consolidated income statement and the statutory forecast consolidated income statement is set out in Section 4.3 and a reconciliation of the pro forma forecast cash flows and the statutory forecast cash flows is set out in Section 4.6.

- The basis of preparation and presentation of the Pro Forma Forecast Financial Information, to the extent relevant, is consistent with the basis of preparation and presentation of the Pro Forma Historical Financial Information.

The Directors have no intention to update or revise the Forecast Financial Information or other forward-looking statements following the issue of this Prospectus, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.

4.2.4. Explanation of certain non-IFRS and other financial measures

Medibank Private uses certain measures to manage and report on its business that are not recognised under AASB. These measures are referred to as 'non-IFRS financial measures'. Non-IFRS financial measures are intended to supplement the measures calculated in accordance with the AAS and not as a substitute for those measures. As non-IFRS financial measures are not defined by the recognised body of accounting standards, they do not have a prescribed meaning and the way that Medibank Private calculates them may be different to the way that other companies calculate similarly titled measures.

The principal non-IFRS financial measures used in this Prospectus are described below, together with certain other measures that management uses to assess the business and to communicate with investors regarding its performance and financial condition.

In the disclosures in this Prospectus, Medibank Private uses the following non-IFRS measures of performance to assist prospective investors with understanding the relative profitability of the Health Insurance and Complementary Services segments and trends in their performance.

Income statement

- **Gross profit:** calculated as the revenue earned less direct expenses of each segment, which comprise:
 - **Health Insurance:** premium revenue less net claims expense, which primarily represents the cost of reimbursing direct health service costs claimed by Policyholders, and OVHC and OSHC customers, net of the risk equalisation adjustment via the Risk Equalisation Trust Fund; and
 - **Complementary Services:** revenue from the provision of healthcare services or from the distribution of travel, life and pet insurance products on behalf of other insurers, less amounts payable to third parties providing services on Medibank Private's behalf, as well as direct labour and operational costs related to the delivery of services by Medibank Private.
- **Gross margin:** calculated as gross profit divided by revenue for Health Insurance, Complementary Services or total (as applicable).
- **Management Expenses:** Medibank Private's operating expenses other than claims expenses and cost of sales. It includes employee expenses (e.g. salaries and training costs for customer service, claims processing, and other administrative and management personnel), and sales and marketing expenses (e.g. direct media and advertising expenditure, commissions paid to intermediaries and the amortisation of deferred customer acquisition costs). This also includes occupancy costs, IT expenditure, depreciation and amortisation, medical services, professional services and impairment expenses. Management Expenses not directly incurred by a segment are, where appropriate, allocated to a segment based on management's assessment of utilisation, in accordance with a methodology that takes into account factors such as the nature of the expense and the number of FTEs working for that segment.
- **Management Expense Ratio (MER):** the Management Expenses of the Health Insurance business divided by Health Insurance premium revenue. This is a key industry measure used to assess operational efficiency of the Health Insurance business.
- **Operating profit:** calculated as gross profit less Management Expenses.

Net realised investment income

Reflects the realised cash element of changes in net investment income (i.e. excludes unrealised gains or losses and income reinvested into non-cash investments).

Immigration Contract

Medibank Private has prepared financial data showing the impact on the Financial Information of the non-renewal of the Immigration Contract in order to illustrate the historical and forecast performance of the ongoing businesses excluding the revenue and expenses arising from this contract (see Section 4.3.2).

Working capital

Medibank Private defines working capital as the total of current assets less current liabilities, excluding interest-bearing assets and liabilities, dividends payable and income tax-related balances.

Capital expenditure

Medibank Private classifies capital expenditure as:

- **Business-as-usual:** ongoing capital expenditure to maintain the existing asset base within Medibank Private; and
- **Projects:** larger capital investments that are underpinned by approved business cases supporting further business growth.

Return on equity

ROE for FY15 is calculated by dividing forecast FY15 NPAT by the average of the total equity as at 30 June 2014 and 30 June 2015. The forecast total equity as at 30 June 2015 is calculated by taking the total equity as at 30 June 2014, adding the pro forma or statutory forecast FY15 NPAT (as applicable) and deducting the dividends to be paid in FY15.

Segments

In accordance with AASB8 *Operating Segments*, Medibank Private has one reportable segment, Health Insurance. For the purpose of this Prospectus, Medibank Private's primary activities are presented as comprising two segments; namely, Health Insurance and Complementary Services (see Section 4.4 for more information).

4.3. HISTORICAL AND FORECAST CONSOLIDATED INCOME STATEMENTS

Table 4.2 below presents the pro forma historical consolidated income statements for FY12, FY13 and FY14, and the pro forma and statutory forecast consolidated income statements of Medibank Private for FY15.

Table 4.2: Historical and forecast consolidated income statements

(\$M)	Note	Pro forma historical			Pro forma forecast FY15	Statutory forecast FY15
		FY12	FY13	FY14		
Health Insurance premium revenue	a	5,062.3	5,344.1	5,648.7	5,996.7	5,996.7
Complementary Services revenue	a	287.5	507.6	718.4	638.8	638.8
Total revenue		5,349.8	5,851.6	6,367.1	6,635.5	6,635.5
Claims expense (incl. risk equalisation)	a, b	(4,342.3)	(4,630.9)	(4,884.3)	(5,183.5)	(5,183.5)
Other cost of sales	a	(146.0)	(337.9)	(533.8)	(500.6)	(500.6)
Gross profit		861.5	882.9	949.0	951.4	951.4
Management Expenses	c	(687.3)	(686.3)	(693.7)	(669.3)	(679.8)
Operating profit		174.1	196.5	255.3	282.1	271.6
Net investment income	d	43.4	144.4	113.9	89.7	89.7
Other income/(expenses)	e	(9.0)	(9.9)	(8.1)	(8.9)	(8.9)
Profit before tax		208.6	330.9	361.1	362.9	352.5
Income tax expense		(58.7)	(87.1)	(102.6)	(104.7)	(101.6)
NPAT		149.9	243.9	258.5	258.2	250.9

(\$M)	Note	Audited statutory historical		
		FY12	FY13	FY14
Total revenue	f	5,357.0	5,860.6	6,371.8
NPAT	f	126.6	232.7	130.8

- See Section 4.4 for more detailed segment information. The reported revenue and expense results for the segments down to the gross profit line are presented net of intersegment eliminations, which are reported within the results of Complementary Services.
- The net risk equalisation amount was \$83.1 million for FY12, \$98.2 million for FY13 and \$116.8 million for FY14, and is forecast to be \$78.7 million for the pro forma forecast FY15 and statutory forecast FY15.
- Included within Management Expenses are the annual expenses attributed to the Medibank Community Fund, which invests approximately 1% of Medibank Private's pre-tax profits in communities through partnerships, education, community funding grants, research projects and investment in Indigenous health and wellbeing.
- The sum of net unrealised investment portfolio gains/(losses) and realised investment portfolio gains/(losses) for the year net of costs.
- These expenses mainly comprise the amortisation of acquired customer contracts and relationships (\$7.1 million in FY12, FY13, FY14 and FY15), as well as acquired software (\$1.8 million in FY12, \$3.6 million in FY13, \$2.5 million in FY14 and \$1.3 million in FY15).
- See Appendix A for a reconciliation between the audited statutory consolidated income statements and pro forma consolidated income statements for FY12, FY13 and FY14.

4.3.1. Key financial metrics

Table 4.3 below provides a summary of Medibank Private's key financial metrics for FY12, FY13, FY14 on a pro forma basis, and forecast FY15 on a pro forma and statutory basis derived from the Financial Information.

Table 4.3: Key financial metrics

		Pro forma historical			Pro forma forecast FY15	Statutory forecast FY15 ⁱ
	Note	FY12	FY13	FY14		
Group financial metrics						
Total revenue growth p.a. (%)			9.4%	8.8%	4.2%	4.2%
Gross margin (%)	a	16.1%	15.1%	14.9%	14.3%	14.3%
Operating profit growth p.a. (%)			12.9%	29.9%	10.5%	6.4%
Operating profit margin (%)	b	3.3%	3.4%	4.0%	4.3%	4.1%
Investment yield (%)	c	2.1%	6.1%	5.5%	4.5%	4.5%
Effective tax rate (%)	d	28.1%	26.3%	28.4%	28.9%	28.8%
NPAT growth p.a. (%)			62.7%	6.0%	(0.1%)	(2.9%)
NPAT margin (%)	e	2.8%	4.2%	4.1%	3.9%	3.8%
ROE (%)	f				18.4%	17.9%
Segment metrics						
– Health Insurance	g					
Revenue growth p.a. (%)			5.6%	5.7%	6.2%	6.2%
Gross margin (%)	a	14.2%	13.3%	13.5%	13.6%	13.6%
MER (%)	h	10.6%	9.6%	9.2%	8.7%	8.6%
Operating profit (\$M)		183.5	198.4	246.2	293.3	296.1
Operating profit growth p.a. (%)			8.1%	24.1%	19.1%	20.3%
Operating profit margin (%)	b	3.6%	3.7%	4.4%	4.9%	4.9%
– Complementary Services	g					
Total revenue growth p.a. (%)			76.6%	41.5%	(11.1%)	(11.1%)
Operating profit (\$M)		2.7	17.7	33.6	21.1	21.1
Operating profit growth p.a. (%)			555.6%	89.8%	(37.2%)	(37.2%)
Operating profit margin (%)	b	0.9%	3.5%	4.7%	3.3%	3.3%

a. Calculated as gross profit divided by revenue.

b. Calculated as operating profit divided by revenue. Health Insurance operating margin for Australian residents only was 3.6% in FY12, 3.6% in FY13 and 4.4% in FY14. This compares to 5.5%, 4.6% and 4.0% for the respective years for the rest of the industry (Australian residents only) as per PHIAC 2014, *The Operations of Private Health Insurers Annual Report 2012–13*, and *Quarterly Statistics June 2014*, PHIAC, Canberra.

c. Represents the net investment return calculated as net income for the relevant period divided by the average of the month-end investment balances over the relevant period.

d. Calculated as income tax expense divided by profit before tax.

e. Calculated as NPAT divided by total revenue.

f. Calculated by dividing pro forma forecast FY15 NPAT by the average of the total equity as at 30 June 2014 and 30 June 2015. The forecast total equity as at 30 June 2015 is calculated by taking the total statutory equity as at 30 June 2014, adding the pro forma or statutory forecast FY15 NPAT (as applicable) and deducting the targeted dividends to be paid in FY15.

g. See Table 4.7 in Section 4.4 for the summary segment financial information. Intersegment eliminations between Complementary Services and Health Insurance are accounted for within the segment results of Complementary Services.

h. Calculated as Management Expenses attributable to Health Insurance divided by premium revenue.

i. Year-on-year growth metrics for FY15 statutory results are calculated from the FY14 pro forma results.

4.3.2. Immigration Contract

Investors should note that the Financial Information includes Complementary Services revenue and expenses associated with the Immigration Contract which, following a competitive tender, was not renewed with effect from July 2014 (with a transition period to November 2014, but with no revenue being received between August 2014 and November 2014). Following the announcement that it had not been awarded the re-tendered Immigration Contract, Medibank Private reorganised Medibank Health Solutions into what is now the Complementary Services segment and incurred significant reorganisation and impairment charges. The cost of these reorganisation and impairment charges have been adjusted in arriving at the FY14 pro forma historical consolidated operating profit and NPAT given their one-off nature. The pro forma adjustments are described in Tables 4.5 and 4.6 below. Table 4.4 shows selected key financial data and metrics, presented on a non-IFRS basis, excluding the impact of the Immigration Contract in order to illustrate the historical and forecast performance of the ongoing business of Medibank Private.

Table 4.4: Impact of the Immigration Contract on selected financial data and metrics

	Note	Pro forma historical			Pro forma forecast	Statutory forecast
		FY12	FY13	FY14	FY15	FY15 ^c
Total revenue (\$M)		5,349.8	5,851.6	6,367.1	6,635.5	6,635.5
– excluding Immigration Contract (\$M)		5,279.9	5,778.4	6,297.6	6,630.7	6,630.7
Total revenue growth p.a. (%)			9.4%	8.8%	4.2%	4.2%
– excluding Immigration Contract p.a. (%)			9.4%	9.0%	5.3%	5.3%
Total operating profit (\$M)		174.1	196.5	255.3	282.1	271.6
– excluding Immigration Contract (\$M)	a	144.1	170.1	233.2	280.0	269.5
Operating profit growth p.a. (%)			12.9%	29.9%	10.5%	6.4%
– excluding Immigration Contract p.a. (%)			18.0%	37.1%	20.1%	15.6%
Total NPAT (\$M)		149.9	243.9	258.5	258.2	250.9
– excluding Immigration Contract (\$M)	a, b	128.9	225.4	243.0	256.7	249.4
NPAT growth p.a. (%)			62.7%	6.0%	(0.1%)	(2.9%)
– excluding Immigration Contract p.a. (%)			74.9%	7.8%	5.6%	2.6%

a. Operating profit contribution from the Immigration Contract excluding fixed overheads that are assumed to remain within the business.

b. Assumes an effective tax rate of 30%.

c. Year-on-year growth metrics for FY15 statutory results are calculated based on the FY14 pro forma results.

4.3.3. Reconciliation of the adjusted statutory operating profit and statutory consolidated NPAT to pro forma historical and forecast consolidated income statements

Table 4.5 sets out a reconciliation of the adjusted statutory operating profit extracted from the Adjusted Statutory Historical Financial Information (see Appendix A, Table 2) to the Pro Forma Historical Financial Information and Pro Forma Forecast Financial Information, respectively. Refer to Appendix A (Tables 4 to 6) for a reconciliation of adjusted statutory operating profit for FY12, FY13 and FY14 to the audited statutory historical consolidated income statements for FY12, FY13 and FY14.

Table 4.5: Reconciliation of the adjusted statutory operating profit to the pro forma operating profit

(\$M)	Note	Historical			Forecast FY15
		FY12	FY13	FY14	
Adjusted statutory operating profit	a	162.8	186.3	111.1	271.6
Significant items:					
Reorganisation expenses	b	–	–	35.1	–
Impairment expenses	c	7.2	2.2	99.6	–
Executive retention payments	d	–	2.0	–	–
IPO transaction costs	e	–	–	3.4	11.7
Melbourne premises establishment costs	f	1.8	13.2	12.4	5.3
Total significant items		9.0	17.4	150.5	17.0
Accounting policy change in deferred acquisition costs	g	3.4	(5.9)	(4.6)	(2.8)
Public company costs	h	(5.4)	(5.4)	(5.4)	(3.7)
Removal of dental and eyecare loss	i	4.3	4.1	3.7	–
Pro forma operating profit		174.1	196.5	255.3	282.1

- a. Refer to Appendix A for a reconciliation of the operating profit per the audited statutory income statements for the period relating to the Historical Financial Information and the adjusted statutory operating profit presented in this table (for that period). The key adjustments relate to reclassifications made by management to better understand and assess the performance of the business as if it comprised two segments (see Section 4.2.2 for more information on the basis of preparation of the Historical Financial Information and Section 4.4 for further segment information).
- b. The \$35.1 million adjustment in FY14 reflects the removal of the costs incurred in relation to the reorganisation within Complementary Services primarily due to the non-renewal of the Immigration Contract.
- c. Significant software development costs of \$7.2 million were incurred in FY12 within the Anywhere Healthcare video Telehealth business. These costs were expensed in that financial year following a strategic review of Anywhere Healthcare's underlying business model.
The \$2.2 million adjustment in FY13 reflects the impairment of software, acquired as part of the McKesson Asia-Pacific acquisition in 2010, following a subsequent review of the business.
The FY14 impairment adjustment of \$99.6 million includes a write-down of goodwill attributable to Medibank Private's Workplace Health and Telehealth businesses of \$8.9 million and \$80.0 million, respectively. The Workplace Health impairment charge arose following the non-renewal of the Immigration Contract which significantly impacted the future cash flow prospects of this business. The impairment charge relating to the Telehealth business arose from a reassessment of the longer-term prospects of the business with regard to increased market competition through the continued emergence of new entrants and ongoing technological developments. In addition, a \$9.5 million write-down was recorded by the Workplace Health business against a software asset under construction and associated licences as part of the impairment testing of the abovementioned goodwill. A further \$1.2 million impairment against software acquired as part of McKesson Asia-Pacific was also recognised in FY14.
- d. The \$2.0 million adjustment in FY13 reflects the reversal of contractual retention payments that were made to certain individuals as a result of the acquisition of McKesson Asia-Pacific in 2010. These payments were linked to the terms of the acquisition and are not ongoing costs of the business.
- e. The \$3.4 million adjustment in FY14 and \$11.7 million adjustment in FY15 reflect the removal of costs directly associated with the IPO, fees for consultants and other professional services, training and project management-related costs and expenses incurred in relation to registry establishment, net of reimbursements agreed to by the Commonwealth, in addition to a one-off payment to Comcare in FY15 as part of Medibank Private's exit from the Comcare scheme prior to the IPO. These costs are not expected to be incurred in future accounting periods.
- f. The \$1.8 million adjustment in FY12, \$13.2 million adjustment in FY13, \$12.4 million adjustment in FY14 and \$5.3 million adjustment in FY15 reflect the removal of Melbourne premises establishment costs incurred in preparing for the rationalisation of Medibank Private's Melbourne-based premises and consolidation into a single location in FY15. In addition to the engagement of directly appointed personnel, Medibank Private also incurred expenses such as planning, development, project management, pilot fit-outs, training sessions, research studies and planning submissions costs. Medibank Private moved into its new location in August 2014 which has a lease term of 10 years. These expenses are not considered to be of an ongoing nature.
- g. Effective from 1 July 2012, Medibank Private changed its accounting policy related to the acquisition costs incurred in selling Health Insurance contracts through intermediaries and comparison websites. Previously such costs were fully expensed in the year in which they arose. From 1 July 2012, these acquisition costs have been 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 income statement in subsequent reporting periods. These deferred acquisition costs are amortised over four years. Accordingly, adjustments have been made to recognise the capitalisation and amortisation of deferred acquisition costs consistently across the periods of the Historical Financial Information and Forecast Financial Information, by recognising a proportion of the annual amortisation of deferred acquisition costs that would be recognised had the current policy existed throughout the period of the Historical Financial Information. It should be noted that the cash outflow related to these commissions primarily occurs at the date the customer is acquired, thereby causing the cash cost of these acquisitions to be higher than the amortised expense recognised in that same year.

- h. The \$5.4 million adjustment in each of FY12, FY13 and FY14 for public company costs relates to Medibank Private's estimate of the incremental costs it will incur as a listed public company. These incremental costs include additional costs in relation to Medibank Private's ongoing Listing on the ASX, as well as audit and tax compliance, share registry and other listed entity-related compliance costs. The \$3.7 million adjustment in FY15 relates to the Directors' estimate of the incremental costs of being a listed company for a further five months of the financial year, as if it was listed from 1 July 2014, together with the incremental salary and management performance incentives that will be in place following the Listing.
- i. On 14 June 2014, Medibank Private disposed of its dental and eyecare practice. The operating losses of \$4.3 million in FY12, \$4.1 million in FY13 and \$3.7 million in FY14 from this business have been excluded as they do not form part of the ongoing operations of Medibank Private.

Table 4.6 sets out a reconciliation of NPAT from the Statutory Historical Financial Information and the Statutory Forecast Financial Information to the Pro Forma Historical Financial Information and Pro Forma Forecast Financial Information, respectively. Refer to Appendix A (Tables 4 to 6) for a full reconciliation of audited statutory historical NPAT for FY12, FY13 and FY14 to the pro forma historical consolidated income statements for FY12, FY13 and FY14.

Table 4.6: Reconciliation of statutory consolidated NPAT to pro forma consolidated NPAT

(\$M)	Note	Historical			Forecast FY15
		FY12	FY13	FY14	
Statutory NPAT		126.6	232.7	130.8	250.9
Significant items:					
Reorganisation expenses	a	–	–	24.6	–
Impairment expenses	b	5.0	5.6	96.4	–
Executive retention payments	c	–	1.4	–	–
IPO transaction costs	d	–	–	2.4	8.2
Melbourne premises establishment costs	e	1.3	9.2	8.7	3.7
Total significant items		6.3	16.2	132.1	11.9
Accounting policy change in deferred acquisition costs	f	2.4	(4.1)	(3.2)	(1.9)
Public company costs	g	(3.8)	(3.8)	(3.8)	(2.6)
Removal of dental and eyecare loss	h	3.0	2.9	2.6	–
Rights to future income tax	i	15.4	–	–	–
Pro forma NPAT		149.9	243.9	258.5	258.2

- a. The FY14 costs associated with the reorganisation of Medibank Health Solutions into Complementary Services (described in Section 4.3.2) included a combination of non-cash write-downs, in addition to restructuring and redundancy costs. These adjustments have different tax impacts. See Table 4.5 for a description of the pre-tax costs related to the Complementary Services reorganisation.
- b. The tax-effected FY14 impairment charges of \$96.4 million comprise \$88.9 million of goodwill impairment that is not tax-effected and a \$7.5 million post-tax impairment charge against software assets. The impairment charges reversed in FY13 and FY12 have been tax-effected at the corporate tax rate of 30%.
- c. to h. See Table 4.5 for the details on the nature of these pro forma adjustments. The income tax effect of the above adjustments assumes an effective corporate tax rate of 30%.
- i. The tax expense has been adjusted for the impact arising from the legislative change to rights to future income tax legislation in FY12, which impacted the way a tax consolidated group could deduct costs allocated to some assets following a corporate acquisition.

4.4. Segment information

In accordance with AASB8 *Operating Segments*, which became applicable to Medibank Private for the annual reporting period commencing on 1 July 2013, Medibank Private had one reportable segment (Health Insurance) and the results of non-reportable segments (including the businesses referred to in this Prospectus as Complementary Services) were aggregated within the 'all other segments' category in its Audited Financial Statements for FY14. This is because the business activities within the Complementary Services segment do not satisfy the quantitative thresholds and aggregation criteria specified by AASB8 *Operating Segments* in that they represent a small portion of Medibank Private's total revenue, profit and assets and they do not have sufficiently similar economic characteristics to constitute an additional reportable segment. In order to assist investors with an enhanced understanding of the Financial Information, Medibank Private's business has been presented in this Prospectus as comprising two segments: namely, Health Insurance and Complementary Services (see Section 3.5 for more information). Overheads not allocated to the two segments are presented as corporate overheads.

Table 4.7 contains a summary of Medibank Private's pro forma consolidated revenue and operating profit by segment for FY12, FY13 and FY14, as well as pro forma and statutory forecast consolidated revenue and operating profit by segment for FY15.

Table 4.7: Revenue and operating profit by segment^a

		Pro forma historical			Pro forma forecast	Statutory forecast
(\$M)	Note	FY12	FY13	FY14	FY15	FY15
Revenue						
Health Insurance premium revenue		5,062.3	5,344.1	5,648.7	5,996.7	5,996.7
Complementary Services revenue		287.5	507.6	718.4	638.8	638.8
Total revenue		5,349.8	5,851.6	6,367.1	6,635.5	6,635.5
Gross profit						
Health Insurance		720.0	713.2	764.4	813.2	813.2
Complementary Services		141.5	169.7	184.6	138.3	138.3
Total gross profit		861.5	882.9	949.0	951.4	951.4
Operating profit						
Health Insurance		183.5	198.4	246.2	293.3	296.1
Complementary Services		2.7	17.7	33.6	21.1	21.1
Segment operating profit		186.2	216.1	279.8	314.4	317.2
Corporate overheads		(12.0)	(19.6)	(24.5)	(32.4)	(45.6)
Total operating profit		174.1	196.5	255.3	282.1	271.6
Operating profit margin (%)		3.3%	3.4%	4.0%	4.3%	4.1%
Health Insurance metrics						
Premium revenue growth p.a. (%)			5.6%	5.7%	6.2%	6.2%
Gross margin (%)	b	14.2%	13.3%	13.5%	13.6%	13.6%
Operating profit growth p.a. (%)			8.1%	24.1%	19.1%	20.3%
Operating profit margin (%)		3.6%	3.7%	4.4%	4.9%	4.9%
Average PSEUs (millions)	c	4.72	4.78	4.83	4.86	4.86
Average revenue per PSEU (\$)	c	1,073	1,118	1,169	1,234	1,234
Net claims expense per PSEU (\$)	c	920	969	1,011	1,067	1,067
MER (%)	d	10.6%	9.6%	9.2%	8.7%	8.6%
Complementary Services metrics						
Revenue growth (%)			76.6%	41.5%	(11.1%)	(11.1%)
Operating profit growth (%)			555.6%	89.8%	(37.2%)	(37.2%)
Operating profit margin (%)		0.9%	3.5%	4.7%	3.3%	3.3%

- a. The segment-based results for Health Insurance and Complementary Services are presented net of intersegment eliminations that are accounted for within the segment results of Complementary Services.
- b. Calculated as gross profit for the Health Insurance segment divided by Health Insurance premium revenue. Medibank Private's gross margin for Australian residents only was 13.8% for FY12, 12.8% for FY13 and 13.1% for FY14. The rest of the industry's gross margin for Australian residents only was 14.4% for FY12, 13.3% for FY13 and 12.4% for FY14 (per PHIAC 2012-13 Report and *Quarterly Statistics June 2014*, PHIAC, Canberra).
- c. Medibank Private measures Policyholders in terms of the number of Policy Single Equivalent Units (**PSEUs**). PSEUs are used by Medibank Private as a standard measure of income units. They take into account the number of adults on a policy, and whether they have Hospital Cover or Extras Cover or both. A PHI policy for singles counts as one PSEU per cover. Non-singles PHI policies (e.g. for couples or families) count as two PSEUs per cover. For example, a couple or family with both Extras Cover and Hospital Cover counts as four PSEUs. The average number of PSEUs over a period (e.g. financial year), the average revenue per PSEU and net claims expense per PSEU are key operating metrics that Medibank Private uses to monitor business performance.
- d. Calculated as the aggregate of Health Insurance Management Expenses divided by Health Insurance premium revenue. Medibank Private's MER for Australian residents only was 10.2% for FY12, 9.2% for FY13 and 8.7% for FY14. The rest of the industry's MER for Australian residents only was 8.9% for FY12, 8.6% for FY13 and 8.4% for FY14 (per PHIAC 2012-13 Report and *Quarterly Statistics June 2014*, PHIAC, Canberra).

An explanation of the general factors impacting Medibank Private's pro forma historical consolidated results is provided in Section 4.7.

4.5. HISTORICAL BALANCE SHEET

Table 4.8 sets out the audited statutory historical consolidated balance sheet of Medibank Private as at 30 June 2014. As the Offer does not involve the issuance of new capital or establishment of debt, and the Commonwealth will be receiving the net proceeds of the IPO, a pro forma historical consolidated balance sheet has not been presented.

Table 4.8: Audited statutory historical consolidated balance sheet as at 30 June 2014

(\$M)	FY14
Cash and cash equivalents	708.0
Financial assets at fair value through profit or loss	1,490.6
Trade and other receivables	338.6
Deferred acquisition costs	11.3
Other assets	9.0
Total current assets	2,557.5
Property, plant and equipment	138.0
Deferred tax assets	8.3
Intangible assets	243.5
Deferred acquisition costs	26.7
Other assets	0.3
Total non-current assets	416.8
Total assets	2,974.3
Trade and other payables	345.1
Financial liabilities at fair value through profit or loss	0.3
Claims liabilities	380.6
Unearned premium liability	621.4
Tax liability	26.8
Provisions	89.7
Total current liabilities	1,463.9
Trade and other payables	1.3
Claims liabilities	26.5
Unearned premium liability	43.5
Provisions	45.2
Total non-current liabilities	116.5
Total liabilities	1,580.4
Net assets	1,393.9
Contributed equity	85.0
Reserves	20.9
Retained earnings	1,288.0
Total equity	1,393.9

It should be noted that subsequent to 30 June 2014, MPL declared \$238.8 million of dividends payable to the Commonwealth that will be paid prior to Completion of the Offer. These dividends comprise a \$42.0 million final dividend for FY14, and a \$196.8 million special dividend, comprising \$138.0 million from retained earnings as at 30 June 2014 and a further \$58.8 million from earnings for the five months to 30 November 2014.

See Section 4.11 for details of Medibank Private's capital position, capital management and dividend policies.

4.5.1. Liquidity

Following Completion of the Offer, Medibank Private's principal sources of funds will be cash flows from its Health Insurance operations and investment income. Medibank Private's ability to generate sufficient cash depends on its future performance which, to a certain extent, is subject to a number of factors beyond its control including general economic, financial and competitive conditions.

After allowing for minimum reserve requirements as part of Medibank Private's Capital Management Policy and Liquidity Management Plan (see Section 4.11 for more information), Medibank Private's consolidated cash position (as outlined in Table 4.8) and anticipated cash flows from operations are expected to provide sufficient liquidity to meet Medibank Private's currently anticipated operational and business needs during the Forecast Period.

4.5.2. Indebtedness

Medibank Private currently has no debt funding, but may over time seek debt funding from a range of sources to finance organic and inorganic growth opportunities as and when required. The Board does not currently anticipate external debt funding being required over the Forecast Period, subject to presently unforeseen opportunities or events occurring.

4.5.3. Working capital

Medibank Private's consolidated working capital requirements vary throughout the course of the year. Seasonality typically leads to a decrease in working capital requirements toward the end of each financial year as some customers pre-pay their policies before the 1 April annual premium increase, resulting in an increase in the unearned premium liability balance that reduces net working capital.

4.5.4. Capital expenditure

All key capital projects are subject to pre-approval protocols and financial parameters around the targeted rate of return. Table 4.9 summarises Medibank Private's historical and forecast consolidated capital expenditure.

Table 4.9: Historical and forecast consolidated capital expenditure

(\$M)	Historical			Forecast FY15
	FY12	FY13	FY14	
Property, plant and equipment	14.5	27.9	69.2	12.0
Software intangibles	38.7	34.6	42.5	62.0
Total	53.2	62.5	111.7	74.0
Business-as-usual	14.5	19.4	10.7	11.6
Project-related	38.7	43.1	101.0	62.4
Total	53.2	62.5	111.7	74.0

The two largest initiatives requiring capital expenditure over the period of the Financial Information relate to the consolidation of Melbourne premises and the IT Renewal Program as follows:

- Medibank Private has consolidated six Melbourne premises into a single new Melbourne head office. Capital expenditure relating to this project is expected to total \$74.9 million (with \$8.4 million incurred in FY13, \$58.8 million incurred in FY14 and \$7.7 million forecast for FY15). The majority of capital expenditure associated with the relocation is expected to be depreciated over a 10-year period, in line with the term of the lease on the new premises.
- Medibank Private is undertaking the IT Renewal Program which comprises decommissioning Medibank Private's legacy mainframe, upgrading its digital sale and services systems, improving data warehouse and business intelligence systems, and undertaking Project DelPHI. This program is expected to be completed during calendar year 2016.

Medibank Private expects to incur up to \$150.0 million of capital expenditure in relation to the IT Renewal Program. Of this capital expenditure, \$30.5 million was incurred in FY14, all of which related to Project DelPHI. A further \$62.0 million is forecast to be incurred in FY15 in connection with the IT Renewal Program, including \$58.7 million for Project DelPHI and upgrading its digital sale and services systems.

In addition, Medibank Private is investing in its data analytics capability to enable the development of tailored products as well as the management of benefits. Additional projects have been earmarked for FY15, including projects relating to reducing improper claims, transitioning toward more digital solutions and a number of smaller business-as-usual IT projects. See Section 3.7 for more information.

4.6. HISTORICAL AND FORECAST CASH FLOWS

4.6.1. Basis of preparation of the pro forma cash flows

Table 4.10 presents the pro forma historical consolidated cash flows (before dividend payments) for FY12, FY13 and FY14, and the pro forma and statutory forecast consolidated cash flows for FY15. The pro forma historical consolidated cash flows have been presented before dividends because the historical dividends paid to the Commonwealth are not representative of Medibank Private's proposed future dividend policy.

The pro forma forecast consolidated cash flows for FY15 are based on the statutory forecast consolidated cash flows, adjusted for the pro forma adjustments set out in Table 4.11, and reflect the full year effect of certain operating costs described in Section 4.3.3 that will be in place on Completion of the Offer as if the operating costs had been incurred from 1 July 2014. The statutory forecast consolidated cash flows for FY15 are the best estimate of the cash flows that the Directors expect to report in Medibank Private's statutory financial report for FY15. See Section 4.6.2 for a reconciliation between the statutory forecast consolidated cash flows and pro forma forecast consolidated cash flows for FY15.

Table 4.10: Summary pro forma historical consolidated cash flows for FY12, FY13 and FY14, and pro forma and statutory forecast consolidated cash flows for FY15

(\$M)	Note	Pro forma historical			Pro forma forecast	Statutory forecast
		FY12	FY13	FY14	FY15	FY15
Operating profit		174.1	196.5	255.3	282.1	271.6
Changes in working capital	a	106.6	11.4	84.5	(26.3)	(32.4)
Customer acquisition costs	b	(3.4)	(6.6)	(20.9)	(9.7)	(12.5)
Changes in other operating assets and liabilities		100.3	(75.4)	28.0	(18.9)	(18.9)
Depreciation and amortisation		43.6	43.4	46.7	43.9	43.9
Net cash flows from operations		421.3	169.4	393.5	271.1	251.7
Income tax		(196.7)	(55.9)	(64.1)	(96.9)	(94.7)
Capital expenditure		(53.2)	(62.2)	(111.7)	(74.0)	(74.0)
Proceeds from sale of assets		0.6	1.1	4.5	–	–
Fit-out reimbursement	c	–	–	–	30.9	30.9
Net realised investment income		67.7	72.3	48.8	40.2	40.2
(Purchase)/sale of investments	d	(163.0)	316.0	0.2	(140.8)	(140.8)
Net cash flows before dividends		76.8	440.7	271.3	30.5	13.3
Ordinary and special dividends	e					(238.8)
Net cash flows	f					(225.5)

- Medibank Private defines working capital as the total of current assets less current liabilities, excluding interest-bearing assets and liabilities, dividends payable and income tax-related balances.
- Relates to the cash-based commissions paid to comparison websites, brokers and other sales channels net of pro forma amortisation.
- Under the lease arrangement related to the new Melbourne premises, Medibank Private is entitled to a partial reimbursement of \$30.9 million from the lessor in relation to fit-out costs incurred. These funds are expected to be received in the first half of FY15.
- (Purchase)/sale of investments represents the net movement in the balance of financial assets arising from the purchase or sale of those investments during the period as determined by Medibank Private's investment policy.
- It should be noted that \$238.8 million of dividends payable to the Commonwealth were declared after 30 June 2014, comprising a \$42.0 million final dividend for the FY14 year and \$196.8 million special dividend, comprising \$138.0 million from retained earnings as at 30 June 2014 and a further \$58.8 million from earnings for the five months to 30 November 2014.
- The forecast cash outflow for FY15 is not expected to have a significant impact on the cash required for operational purposes, and \$180.0 million of the \$238.8 million in ordinary and special dividends has already been taken into account in the pro forma capital position as at 30 June 2014 (see Table 4.20 for further information).

4.6.2. Pro forma adjustments to the statutory cash flows

In presenting the pro forma historical consolidated cash flows in this Prospectus, adjustments to the audited statutory historical consolidated cash flows have been made for certain pro forma adjustments and significant items as summarised in Table 4.11 below.

Table 4.11 also sets out the pro forma adjustments to the statutory forecast consolidated cash flows for FY15 to reflect the full-year impact of being a listed company. These include the removal of certain one-off transaction costs incurred in respect of the Offer and other significant items which have a cash effect, as detailed in the notes to Table 4.5 in Section 4.3.3.

Table 4.11: Pro forma adjustments to the statutory historical and forecast consolidated cash flows

(\$M)	Note	Historical			Forecast FY15
		FY12	FY13	FY14	
Reported net cash flows from operating activities		205.5	104.5	312.8	157.0
Income tax	a	208.0	51.0	61.0	94.7
Public company costs	b	(5.4)	(5.4)	(5.4)	(3.7)
Dental and eyecare earnings loss	c	4.3	4.1	3.7	–
Executive retention payments	d	–	2.0	–	–
Melbourne premises establishment costs	e	1.8	13.2	12.4	5.3
IPO transaction costs	f	–	–	8.4	1.7
Cash impact of Medibank Health Solutions restructure provision	g	–	–	0.6	16.1
Software development costs	h	7.2	–	–	–
Pro forma net cash flows from operating activities before tax		421.3	169.4	393.5	271.1

a. Reported income tax paid is added back in order to present cash flows from operating activities before income tax.

b. to e. See footnotes to Table 4.5 in Section 4.3.3 for details regarding these adjustments.

f. IPO transaction cost adjustments per Table 4.5 in Section 4.3.3 have been adjusted for the reimbursements agreed to by the Commonwealth and anticipated to be received in FY15.

g. Of the reorganisation costs that were provided for in FY14 following the non-renewal of the Immigration Contract, \$16.1 million of cash costs are forecast in FY15. Approximately \$0.6 million of cash costs related to the organisation were incurred in FY14.

h. The \$7.2 million adjustment in FY12 concerns cash-related software development costs that were incurred in relation to the Anywhere Healthcare video Telehealth business following a strategic review of Anywhere Healthcare's underlying business model.

4.7. MANAGEMENT DISCUSSION AND ANALYSIS OF THE PRO FORMA HISTORICAL FINANCIAL INFORMATION

4.7.1. General factors affecting the operating and financial performance, including key measures and their drivers

Set out below is a discussion of the general factors which have affected Medibank Private's operations and relative financial performance in FY12, FY13 and FY14, and which the Directors expect may continue to affect its operating and financial performance in the period of the Forecast Financial Information.

The discussion of these general factors is intended to provide a brief summary to assist investors in understanding the Financial Information and does not detail all the factors that affected Medibank Private's historical operating and financial performance, nor everything which may affect its operations and financial performance in the future.

Health Insurance

Premium revenue

Medibank Private's revenue from its Health Insurance segment is generated through the provision of PHI cover to individuals in Australia, as well as OSHC and OVHC. In addition to general economic conditions and the impact of the competitive environment on consumer behaviour and Medibank Private's pricing strategies, Medibank Private's premium income is primarily impacted by three main drivers, namely:

- approved annual increases in the premiums Medibank Private is able to charge for its PHI policies;
- the number of Policyholders or PSEUs; and
- changes in the mix of policies (e.g. Medibank brand or ahm brand, level of cover selected and number of people included in the policy).

Premium increases

Premium increases for PHI currently occur annually through a submission and approval process, with approval ultimately required from the Minister for Health (see Section 2.3.3 for more information). In determining its premium increase submission, Medibank Private, like other private health insurers, considers the following:

- forecast costs (including claims expenses, risk equalisation transfers from Medibank Private and Management Expenses) during the premium year;
- Policyholder retention and attraction, which is affected by the expected competitive landscape during the premium year;
- the requirement to obtain approval for premium increases from the Minister for Health – advised by PHIAC, who applies a public interest test; and
- other expected financial requirements of the Health Insurance business, including Medibank Private's capital position.

The approved average premium rate increases in Medibank Private's PHI premiums over recent historical periods were 4.7% with effect from 1 April 2012 (compared to a 5.1% industry average), 6.2% with effect from 1 April 2013 (compared to a 5.6% industry average) and 6.5% with effect from 1 April 2014 (compared to a 6.2% industry average) and the rate increase has been assumed to be consistent with the FY14 increase from 1 April 2015. Any premium rate increase is subject to the annual premium application process and ultimate approval by the Minister for Health in accordance with Section 66-10 of the PHI Act. As at the Prospectus Date, Medibank Private has not yet finalised its 2015 premium increase submission, but will do so consistent with practice in prior years (having regard to all information relevant at the time of submission). See Section 2.3.3 for more information.

In April 2012, the lower premium rate increase submission (relative to the industry average) was an intentional decision following a profitable year in FY11 and was intended to drive PSEU growth by offering a better value proposition relative to the market. The higher premium increases from April 2013 reflect the need to cover ongoing growth in claims expenses and realign Medibank Private's strategic priorities towards driving more profitable and sustainable PSEU growth.

Number of Policyholders or PSEUs

Medibank Private measures Policyholders in terms of the number of PSEUs. PSEUs are used by Medibank Private as a standard measure of income units. They take into account the number of adults on a policy, and whether they have Hospital Cover or Extras Cover or both. A PHI policy for singles counts as one PSEU per cover. Non-singles PHI policies (e.g. for couples or families) count as two PSEUs per cover. For example, a couple or family with both Extras Cover and Hospital Cover counts as four PSEUs. The average number of PSEUs over a period (e.g. financial year), the average revenue per PSEU and net claims expense per PSEU are key operating metrics that Medibank Private uses to monitor business performance.

Over time, the number of people taking up and retaining PHI in Australia has also been influenced by Australian Government policy initiatives, including the PHI rebate, MLS and the LHC loading, as well as perceptions about the quality and availability of healthcare options under the public hospital system. The cost of PHI also influences the number and type of policies purchased. Medibank Private competes for potential Policyholders with both large, national competitors and smaller niche providers, and both for-profit and not-for-profit PHI providers. See Section 2.3.9 for an overview of competition in the PHI industry.

Over the historical period, Medibank Private's number of PSEUs increased at a cumulative average annual rate of 1.1% from 4.72 million in FY12 to 4.83 million in FY14, and is expected to grow 0.6% from FY14 to FY15 to 4.86 million. Historically, the Medibank brand has been the largest driver of PSEU growth; however, the increase in PSEUs in the Forecast Period is expected to be driven by the ahm brand, and includes some assumed migration of Policyholders from the Medibank brand.

Medibank Private's growth in the number of Policyholders/PSEUs and associated mix (see below) over the historical period have been affected by the acquisition of new Policyholders offset by increased lapse rates. Lapse rates can be calculated by reference to any measure of volume (including PSEUs or Principal Policyholders) and are generally calculated as the percentage of PSEUs that have ceased Medibank or ahm membership in a particular period relative to the start of that period. The recent rise in lapse rates across the industry has been driven by increased competition, including the growing presence of online comparison websites and brokers, the impact on affordability of the introduction of PHI rebate on income testing by the Australian Government and a greater focus on price by Policyholders. In order to maintain volume growth, as lapse rates increase, it is necessary to attract more new Policyholders. This has led to upward pressures in the cost of acquiring new Policyholders, in particular through increased media and advertising spend. Medibank Private has sought to respond to these trends through its two brands, repositioning the ahm brand in 2013 with a focus on affordability, coupled with a different product design, and distribution through online channels and comparison websites. Growth in the number of ahm Policyholders resulted in additional revenue of \$72.4 million in FY14. See Section 3.4.3 for more information on the differences between the Medibank and ahm brands and their lapse and acquisition trends.

Policy mix

The average revenue per PSEU is impacted by the change in Medibank Private's mix of policies (e.g. Medibank- or ahm-branded, the level of cover selected and number of people covered by each policy). In recent years, the PHI industry has experienced a trend towards lower premium policies that provide a reduced level of cover. Medibank Private's two-brand strategy and rollout of a new range of service offerings since FY13 seeks to respond to these recent trends.

ahm increased Policyholder volumes in FY13 and FY14 due to its competitively priced products. After allowing for up-front commission costs which are incurred on ahm sales through certain intermediary and comparison websites, as discussed below, ahm's margins have reduced year-on-year over the period of the Historical Financial Information.

Claims expenses

Claims expenses relate to payments by Medibank Private's health benefits fund to health service providers on behalf of Policyholders for qualifying Hospital or Extras services they have received (e.g. charged by a hospital, anaesthetist and surgeon following a surgical procedure, or charges by a dentist) and the direct reimbursement of benefits to Policyholders. The amount and nature of expenses payable in relation to a claim differ depending on the type of cover the Policyholder has, the treatment received, the location of the treatment and whether Medibank Private has any agreement with the service providers.

Claims expenses are affected by the number of people claiming and the cost of treatment received. Claims expenses have steadily increased over recent years, due to factors such as increased use (from ageing, product design, higher chronic disease rates in the population), the shift in the mix to higher-cost procedures, increased cost of services (inflation, technological advances) and new product design costs. Hospital claims expenses for Australian residents per PSEU increased from \$1,480 per PSEU in FY12 to \$1,567 per PSEU in FY13 (prior to risk equalisation), a growth of 5.9%. Of this growth, 70% was attributable to the increasing benefits utilisation (i.e. Medibank Private Policyholders attending hospital more frequently). The balance of claims growth is accounted for through the increase in costs attached to each hospital treatment.

Medibank Private seeks to manage the escalation of these costs through:

- more effectively negotiating with private hospital operators and other health service providers to realise greater overall value for its Policyholders, to limit cost increases, and improve performance standards and data reporting;
- developing a variety of techniques to detect fraud and over-claiming, including identifying payments that should have been made by another funder, such as a workers' compensation scheme; and
- seeking alternatives to costly hospitalisation, such as preventative health initiatives, the provision of more integrated care solutions and increased engagement at the primary care stage.

Claims expenses are incurred as a result of claims processed; changes in claims liabilities, changes in amounts receivable from or payable to the Risk Equalisation Trust Fund, and other related operating costs. Changes in these factors may lead to an increase or decrease in claims expenses for each subsequent reporting period. Claims liabilities comprise an outstanding claims liability, risk margin, claims-handling costs and bonus provision. The claims liability and risk margin represents an estimate of the claims incurred prior to the reporting date but not received and processed. The claims liability takes into account historical claims incidences, processing patterns (including the timing of claims lodgement by Policyholders and service providers) and a risk margin that is intended to account for the uncertainty inherent in the estimation process. Further detail on the application of accounting policies with respect to Medibank Private's claims liabilities and the impact of changes in key variables on the outstanding claims provision is set out in Section (ee)(i) of Appendix B and in the Audited Financial Statements. The impact of over (or under) provisioning of the outstanding claims provision and changes to the risk margin on profit before tax for FY12 and FY13 was less than \$7 million in each year. In FY14, the net impact was \$26.5 million, which was partly offset by a change in the measurement of the bonus provision, contributing to an overall movement in the outstanding claims liability of \$0.5 million for FY14. See Section 4.7.3.1 for more information about the impact of over (or under) provisioning of the claims expense for FY13 and FY14.

Due to the reporting obligations as a publicly listed entity after the IPO, for the first time Medibank Private will be required to prepare an interim financial report for the six months to 31 December 2014. This will include the results for the prior comparative period. As the interim financial report is due to be completed within 60 days from 31 December 2014, the claims liability will include a risk margin. This risk margin in the claims liability is not required for the prior comparative period due to the time elapsed and the absence of the requirement to prepare an interim financial report for the six months ended 31 December 2013. While these factors will limit the ability to meaningfully compare the movement in claims expense between these two half-year financial periods, they do not impact the comparability of the year-on-year movements from FY14 to FY15 presented in this Prospectus.

Risk equalisation

As discussed in more detail in Section 2.3.3, private health insurers in Australia are subject to Community Rating, which prohibits discriminating between actual and prospective Policyholders within a particular state or territory. In essence, each person in a jurisdiction is entitled to pay the same premium for the same coverage from the same private health insurer, subject to any applicable LHC loading, PHI rebate and/or state and territory premium differences.

Risk equalisation exists to support Community Rating and ensure the industry functions in the manner desired by the Australian Government. It does this by pooling and redistributing private health insurers' population of eligible claims expenses, so that each individual private health insurer's exposure to those expenses is adjusted to match its general hospital market share in the relevant state or territory.

Risk equalisation results in private health insurers with lower-claiming Policyholders – typically those who are younger and healthier – usually being net contributors to the scheme while private health insurers with higher-claiming Policyholders – typically those with older, less health Policyholders – tend to be net receivers from the scheme.

The redistribution is calculated based on the average benefit paid by private health insurers (per state) to Policyholders in their age-based pool (Policyholders over the age of 55) and the high-cost claimants pool (accumulated claims exceeding \$50,000 per claimant over four rolling quarters). Private health insurers pay or receive a levy into or out of the Risk Equalisation Trust Fund on a quarterly basis, so a private health insurer that paid a higher proportion of risk equalised benefits than its overall market share average will have an amount receivable from the Risk Equalisation Trust Fund, whereas a private health insurer that paid a lower proportion than its overall market share will have an amount payable to the Risk Equalisation Trust Fund.

Medibank Private is a net recipient of payments under the Risk Equalisation Trust Fund. The corresponding net Risk Equalisation Trust Fund levies and rebates totalled \$83.1 million, \$98.2 million and \$116.8 million in FY12, FY13 and FY14, respectively, and are forecast to be \$78.7 million in FY15. If, as Medibank Private expects, policies issued under the ahm brand will in future represent a larger proportion of its total policies, Medibank Private expects its net receipts under the Risk Equalisation Trust Fund to reduce over time, reflecting the expected younger average age of ahm Policyholders compared to Medibank Policyholders.

Management Expenses

The majority of Management Expenses for Health Insurance comprise employee expenses and sales and marketing expenses.

Employee expenses include salaries, training expenses and related employee on-costs for customer service, claims processing, and other administrative and management personnel.

Sales and marketing includes direct media and advertising expenditure, commissions paid to intermediaries and the amortisation of deferred customer acquisition costs pursuant to contractual arrangements that are linked to the volume of sales. The cash elements of these costs are greatest around the April premium increases, when Policyholders consider switching private health insurers due to publicity around relative rates rises, and around the financial year-end period, when individuals tend to renew or take out PHI cover to avoid the MLS. Increased competition in recent years and increased commissions payable to intermediaries and comparison websites have significantly increased advertising and marketing expenses.

Other expenses recorded within Management Expenses include occupancy costs, IT expenditure, depreciation and amortisation, impairment charges and the annual expenses attributed to the Medibank Community Fund. The Medibank Community Fund invests approximately 1% of Medibank Private's pre-tax profits in communities through partnerships, education, community funding grants, research projects and investment in indigenous health and wellbeing. The associated expenses for FY12, FY13 and FY14 were \$2.7 million, \$2.8 million and \$2.7 million, respectively. Management Expenses not directly incurred by a segment are, where appropriate, allocated based on management's assessment of the utilisation, in accordance with a methodology that takes into account factors such as the nature of the expense and the number of FTEs working for that segment.

At each reporting period Medibank Private undertakes a review of its assets to ascertain the need for any impairment, as required under AAS. To the extent impairment charges are necessary they could impact Medibank Private's Management Expenses as was the case in FY13 and FY14.

During FY13, Medibank Private embarked on an organisation-wide cost rationalisation program, known as Fit For Purpose, in order to identify sustainable cost savings. Programs to identify further cost savings and efficiencies are ongoing.

The MER for the Health Insurance business has decreased from 10.6% in FY12 to 9.2% in FY14 and is forecast to decrease to 8.7% in FY15 as a result of the ongoing initiatives to manage costs combined with Health Insurance premium revenue growth in excess of Health Insurance-related Management Expenses growth.

Complementary Services

Revenue

The Complementary Services segment consists of a series of business lines in the broader healthcare industry. The key business lines are as follows:

- **Population Health Management:** which involves Medibank Private contracting with a healthcare funder to coordinate health services;
- **Telehealth:** which generally involves Medibank Private contracting with government to supply healthcare services over the phone and online;
- **Corporate Health Services:** under which Medibank Private contracts with companies, government departments and other organisations to provide face-to-face health services through a network of clinics; and

- **Diversified Consumer Business:** which distributes travel, life and pet insurance as an agent on behalf of other insurers, and provides onsite and in-store medical consultations, advice and vaccinations to both corporate customers and, increasingly, to the public.

Apart from the Diversified Consumer Business, which earns commission on sales to individuals, these services are generally delivered under contracts with corporations and governments. As a result, the most significant driver of the results of these businesses is contract wins and losses. Because these contracts are on a fee-for-service basis, revenue is also affected by the volume of services provided under the contract. By far the most significant Complementary Services contract is the four-year ADF Health Services Contract with the Commonwealth (as represented by the Department of Defence) providing Population Health Management services. See Sections 3.5.1 and 10.4.2 for more information about this contract.

The Complementary Services segment included the Immigration Contract throughout the historical period. This contract expired in July 2014, having not been renewed following a competitive tender. See Section 4.3.2 for more information on the financial impact of this contract. Following the non-renewal of the contract, Medibank Private reorganised this segment, formerly known as Medibank Health Solutions, into its current form.

Other cost of sales

Other cost of sales comprise the direct costs associated with providing Complementary Services. These costs include amounts payable to third parties for services provided by them on behalf of Medibank Private, employee remuneration and consumables (e.g. vaccines and medical supplies used in providing the services). The primary component of other cost of sales is payments to third-party subcontractors to Medibank Private in relation to the services they provide on Medibank Private's behalf with respect to the ADF Health Services Contract as well as employee remuneration, with the number of employees required primarily dependent on current and anticipated service volumes, which are also the key driver of costs incurred for consumables.

Medibank Private has recently performed a review of its direct cost base which has led to the reorganisation of certain lines of business and headcount reductions within the Complementary Services businesses to improve profitability. The portfolio is assessed regularly to identify profit improvement opportunities.

Corporate overheads

Corporate overheads are administration-related centrally incurred costs (e.g. those relating to the group financial control and reporting function). These costs are allocated to a segment based on management's assessment of their utilisation, in accordance with a methodology that takes into account factors such as the nature of the expense and the number of FTEs working for that segment.

Net investment income

Net investment income is determined by the value of income-generating investments and the associated realised and unrealised returns achieved, net of administration costs. The investment return (or yield) earned by Medibank Private in each period is a function of prevailing investment market conditions and the underlying mix of investment assets.

The PHI Act requires private health insurers to hold an appropriate level of capital to provide sufficient capital and liquidity in the event of unforeseen claims trends. Subject to prudential regulations and internal policies, which are discussed in Sections 2.3.11 and 4.11.1, Medibank Private is able to invest this capital to generate returns.

Medibank Private's Capital Management Policy is to maintain a mix of conservative and growth assets within its portfolio of investment assets. Medibank Private has maintained a ratio of investments that is geared more toward conservative asset classes such as cash, debt securities and loans relative to growth investments such as domestic and international equities. This mix is subject to change within the parameters of Medibank Private's Capital Management Policy and perspectives on prevailing economic conditions. At 30 June 2014, Medibank Private's investments totalled \$2.2 billion, with 18% of this portfolio comprising growth investments and the balance represented by conservative asset classes. In July 2014, the Board approved a change in the asset allocation to a target of 75% conservative assets and 25% growth assets, following a period of higher than usual (i.e. special) dividend payments during which a greater allocation to fixed income securities (from cash) was considered appropriate. This change in asset allocation is expected to be implemented by 31 December 2014.

(Purchase)/sale of investments

(Purchase)/sale of investments represents the net movement in the balance of financial assets arising from the purchase or sale of those investments during the period as determined by Medibank Private's investment policy.

Variability in claims expenses

Medibank Private's business is subject to variability in claims expenses, which are generally lower from December to February due to Christmas and the summer holiday period when less procedures and claims typically occur.

4.7.2. Pro forma historical FY13 compared to pro forma historical FY12

4.7.2.1. Pro forma consolidated income statements

Table 4.12: Pro forma historical consolidated income statements – FY13 compared to FY12

(\$M)	Note	Pro forma historical FY12	Pro forma historical FY13	Variance	Variance %
Health Insurance premium revenue	a	5,062.3	5,344.1	281.8	5.6%
Complementary Services revenue	a	287.5	507.6	220.1	76.6%
Total revenue		5,349.8	5,851.6	501.8	9.4%
Claims expense (incl. risk equalisation)	a	(4,342.3)	(4,630.9)	(288.6)	(6.6%)
Other cost of sales	a	(146.0)	(337.9)	(191.9)	(131.4%)
Gross profit		861.5	882.9	21.4	2.5%
Management Expenses	a	(687.3)	(686.3)	1.0	0.1%
Operating profit		174.1	196.5	22.4	12.9%
Net investment income	b	43.4	144.4	101.0	232.7%
Other income/(expenses)		(9.0)	(9.9)	(0.9)	(10.0%)
Net profit before tax		208.6	330.9	122.3	58.6%
Income tax expense		(58.7)	(87.1)	(28.4)	(48.4%)
NPAT		149.9	243.9	94.0	62.7%
<i>Gross profit by segment</i>					
Health Insurance		720.0	713.2	(6.8)	(0.9%)
Complementary Services		141.5	169.7	28.2	19.9%
Total gross profit		861.5	882.9	21.4	2.5%
<i>Management Expenses by segment</i>					
Health Insurance		(536.5)	(514.8)	21.7	4.0%
Complementary Services		(138.8)	(151.9)	(13.1)	(9.4%)
Corporate overheads		(12.0)	(19.6)	(7.6)	(63.3%)
Total Management Expenses		(687.3)	(686.3)	1.0	0.1%
<i>Operating profit by segment</i>					
Health Insurance		183.5	198.4	14.9	8.1%
Complementary Services		2.7	17.7	15.0	555.6%
Corporate overheads		(12.0)	(19.6)	(7.6)	(63.3%)
Total operating profit		174.1	196.5	22.4	12.9%
Health Insurance-specific metrics					
Average PSEUs (millions)		4.72	4.78	0.06	1.3%
Average revenue per PSEU (\$)		1,073	1,118	45	4.2%
Net claims expense per PSEU (\$)		920	969	49	5.3%
Gross margin (%)		14.2%	13.3%	–90 bps	n/m
MER (%)		10.6%	9.6%	–100 bps	n/m
Operating profit margin (%)		3.6%	3.7%	+10 bps	n/m

a. See Section 4.4 for more detailed segment information. The segment-based results for Health Insurance and Complementary Services are presented net of intersegment eliminations that are accounted for within the segment results of Complementary Services.

b. The sum of net unrealised investment portfolio gains/(losses) and realised investment portfolio gains/(losses) for the year net of costs.

Note: bps above means 'basis points' and n/m means 'not meaningful'.

Group overview

Medibank Private's revenue grew \$501.8 million (9.4%) from \$5,349.8 million in FY12 to \$5,851.6 million in FY13. This comprised an increase in Health Insurance revenue of \$281.8 million (5.6%) and an increase in Complementary Services revenue of \$220.1 million (76.6%), the latter in part reflecting the operational commencement of the ADF Health Services Contract in November 2012.

Gross profit increased by \$21.4 million (2.5%) from \$861.5 million in FY12 to \$882.9 million in FY13. This comprised an increase in Complementary Services gross profit of \$28.2 million (19.9%), partly offset by a decrease in Health Insurance gross profit of \$6.8 million (0.9%).

Operating profit increased by \$22.4 million (12.9%) from \$174.1 million in FY12 to \$196.5 million in FY13. This comprised an increase in Health Insurance operating profit of \$14.9 million (8.1%) and an increase in Complementary Services operating profit of \$15.0 million (555.6%), partially offset by an increase in corporate overheads of \$7.6 million (63.3%).

NPAT increased by \$94.0 million (62.7%) from \$149.9 million in FY12 to \$243.9 million in FY13, reflecting the abovementioned factors and a pre-tax increase in net investment income of \$101.0 million (232.7%).

Health Insurance

Health Insurance revenue

Health Insurance premium revenue increased by \$281.8 million (5.6%) from \$5,062.3 million in FY12 to \$5,344.1 million in FY13, primarily as a result of a 4.2% increase in average revenue per PSEU and a 1.3% increase in average PSEUs.

The 4.7% annual PHI premium increase from 1 April 2012 and 6.2% increase from 1 April 2013 resulted in a weighted premium increase of 5.1% for FY13, compared to 5.3% for FY12. In April 2012, the lower premium increase submission (relative to the industry average of 5.1%) was intended to drive PSEU growth by offering a better value proposition relative to the market. The higher premium increase in April 2013 (relative to the industry average of 5.6%) reflected the need to cover ongoing growth in claims expenses and realign Medibank Private's strategic priorities towards driving more profitable and sustainable PSEU growth. Policyholders downgrading cover levels partially offset the premium increases, which led to an average revenue increase of 4.5% per PSEU from FY12 to FY13.

Average PSEUs increased by 59,000 (1.3%) from 4.72 million in FY12 to 4.78 million in FY13, primarily in the Medibank brand.

Claims expense (net of risk equalisation) and gross margin

Claims expense (net of risk equalisation) increased by \$288.6 million (6.6%) from \$4,342.3 million in FY12 to \$4,630.9 million in FY13, reflecting a 5.3% increase in net claims per average PSEU and the 1.3% increase in average PSEUs.

The gross margin decreased from 14.2% to 13.3%, mainly due to the lower than industry rate increase in April 2012, which did not fully cover the impact of increased utilisation and general health cost inflation on claims expense.

Management Expenses and MER

Management Expenses for Health Insurance decreased by \$21.7 million (4.0%) from \$536.5 million in FY12 to \$514.8 million in FY13 as a result of organisation-wide cost-reduction initiatives. The majority of savings related to streamlining sales and customer service costs, IT expenditure and general improvements in procurement. Some of the savings were reinvested into increased sales and marketing support for both the Medibank and ahm brands.

This resulted in an improvement in the MER from 10.6% in FY12 to 9.6% in FY13.

Operating profit and operating margin

Operating profit increased by \$14.9 million (8.1%) from \$183.5 million in FY12 to \$198.4 million in FY13. This primarily reflected premium revenue growth and the improvement in the MER, and resulted in a small increase in the operating margin from 3.6% in FY12 to 3.7% FY13.

Complementary Services

Complementary Services revenue increased by \$220.1 million (76.6%) from \$287.5 million in FY12 to \$507.6 million in FY13. This growth was primarily due to \$204.5 million of revenue from the ADF Health Services Contract, which commenced operating in November 2012, and \$12.8 million from Telehealth, primarily due to the commencement of a new contract from September 2012.

Complementary Services cost of sales increased by \$191.9 million (131.4%) from \$146.0 million in FY12 to \$337.9 million in FY13. This growth was primarily due to \$200.2 million of expenses related to the new ADF Health Services Contract and the Telehealth contract.

Management Expenses for Complementary Services increased by \$13.1 million (9.4%) from \$138.8 million in FY12 to \$151.9 million in FY13, reflecting implementation costs for the ADF Health Services Contract.

Operating profit increased by \$15.0 million (555.6%) from \$2.7 million in FY12 to \$17.7 million in FY13 as a result of the \$28.2 million increase in gross profit that was partly offset by the \$13.1 million increase in Management Expenses, which led to the increase in the operating profit margin from 0.9% in FY12 to 3.5% in FY13. The main contributor to the \$15.0 million improvement in operating profit was the ADF Health Services business which reported a \$5.2 million increase in operating profit from an operating loss of \$3.6 million in FY12 to an operating profit of \$1.6 million in FY13. The Telehealth and Diversified Insurance services also contributed to the increase in operating profit due in part to improved transaction volumes from FY12 to FY13.

Corporate overheads

Corporate overheads increased by \$7.6 million (63.3%) from \$12.0 million in FY12 to \$19.6 million in FY13, primarily due to strategy and business development costs related to potential business expansion opportunities in Australia and overseas.

Net investment income

Net investment income increased by \$101.0 million (232.7%) from \$43.4 million in FY12 to \$144.4 million in FY13. This was primarily attributable to an increase in net investment yields and, to a lesser extent, higher average monthly balances.

The investment portfolio returned a yield of 6.1% in FY13 compared to 2.1% in FY12, driven primarily by a significant turnaround in equity markets – the return on growth assets was a gain of 13.0% in FY13 compared to a loss of 4.8% in FY12. The proportion of growth assets decreased from an average of 27.6% in FY12 to an average of 17.6% in FY13 as a result of a change in Medibank Private's Capital Management Policy, partly in response to a change in expected dividend payments. The combined effect was an increase in investment income from growth assets of \$81.4 million, from a loss of \$27.5 million in FY12 to a gain of \$53.9 million in FY13.

The average month-end balance of investment assets increased by 12.5% from \$2,091.4 million in FY12 to \$2,352.1 million in FY13, as a result of a significantly increased proportion of Policyholders prepaying their PHI premiums in the lead-up to the change in income testing of the PHI rebate from 1 July 2012, and the strong investment yield achieved.

4.7.2.2. Pro forma historical consolidated cash flows

Medibank Private has a history of strong cash flows. The operating cash conversion reflects the fact that the majority of PHI policies are paid in advance (referred to as unearned premium income), with the cash then being invested to generate a return within Medibank Private's capital management framework and the regulatory requirements of the health benefits fund.

Table 4.13: Pro forma historical consolidated cash flows – FY13 compared to FY12

(\$M)	Pro forma historical FY12	Pro forma historical FY13	Variance	Variance %
Operating profit	174.1	196.5	22.4	12.9%
Changes in working capital	106.6	11.4	(95.2)	(89.3%)
Customer acquisition costs	(3.4)	(6.6)	(3.2)	(94.1%)
Change in other operating assets and liabilities	100.3	(75.4)	(175.7)	(175.2%)
Depreciation and amortisation	43.6	43.4	(0.2)	(0.5%)
Net cash flows from operations	421.3	169.4	(251.9)	(59.8%)
Income tax	(196.7)	(55.9)	140.8	71.6%
Capital expenditure	(53.2)	(62.2)	(9.0)	(16.9%)
Proceeds from sale of assets	0.6	1.1	0.5	83.3%
Fit-out reimbursement	–	–	–	–
Net realised investment income	67.7	72.3	4.6	6.8%
(Purchase)/sale of investments	(163.0)	316.0	479.0	293.9%
Cash flow before dividends	76.8	440.7	363.9	473.8%

Changes in working capital

Net cash inflows from changes in working capital decreased by \$95.2 million (89.3%), from a cash inflow of \$106.6 million in FY12 to a cash inflow of \$11.4 million in FY13. This was primarily due to an abnormally high unearned premium liability as at 30 June 2012 as a result of Policyholders electing to prepay their PHI premiums, for periods of up to 18 months, in the lead-up to the change in income testing of the PHI rebate from 1 July 2012.

Customer acquisition costs

The net cash outflow from customer acquisition costs increased by \$3.2 million (94.1%) from \$3.4 million in FY12 to \$6.6 million in FY13, primarily due to the repositioning of the ahm brand in FY13 and an additional 24,000 PSEUs being acquired through comparison websites and brokers relative to FY12.

Other operating assets and liabilities

The net cash impact of changes in other operating assets and liabilities decreased by \$175.7 million (175.2%) from a net cash inflow of \$100.3 million in FY12 to a net cash outflow of \$75.4 million in FY13. This was primarily due to a significant increase in non-current unearned premium liabilities as a result of the change in the income testing of the PHI rebate from 1 July 2012, which resulted in a significant increase in premiums being prepaid by Policyholders.

Income tax

Net cash outflows from income tax decreased by \$140.8 million (71.6%) from an outflow of \$196.7 million in FY12 to an outflow of \$55.9 million in FY13. The lower value of tax payments reported in FY13 primarily arose due to timing in the payment of corporate taxes between the two financial years.

Capital expenditure

Capital expenditure increased by \$9.0 million (16.9%) from \$53.2 million in FY12 to \$62.2 million in FY13, primarily due to \$8.0 million of additional capitalised development costs in FY13 related to a new Extras Cover claims management system. Capital expenditure in relation to the claims management system in FY13 amounted to \$23.0 million, with a mixture of smaller initiatives comprising the remainder of capital expenditure.

Net realised investment income

Cash from net realised investment income increased by \$4.6 million (6.8%) from \$67.7 million in FY12 to \$72.3 million in FY13. This was primarily due to the \$101.0 million increase in net investment income, which was largely offset by a change in unrealised gains/losses of \$64.2 million (from an unrealised loss of \$4.9 million for FY12 to an unrealised gain of \$59.3 million for FY13), and a \$32.9 million increase in income from non-cash related investments (e.g. reinvested dividend income and derivatives).

Purchase/sale of investments

Net purchase/sale of investments increased by \$479.0 million (293.9%) following net cash outflows from purchases of \$163.0 million in FY12 and net cash inflows from sales of \$316.0 million in FY13. This change reflects the net realisation of investments in FY13 primarily to pay dividends, in comparison to an investment in cash balances in FY12, which were higher than usual due to the increased prepayment of policies during that period.

4.7.3. Pro forma historical FY14 compared to pro forma historical FY13

4.7.3.1. Pro forma historical consolidated income statements

Table 4.14: Pro forma historical consolidated income statements – FY14 compared to FY13

(\$M)	Note	Pro forma historical FY13	Pro forma historical FY14	Variance	Variance %
Health Insurance premium revenue	a	5,344.1	5,648.7	304.6	5.7%
Complementary Services revenue	a	507.6	718.4	210.8	41.5%
Total revenue		5,851.6	6,367.1	515.5	8.8%
Claims expense (incl. risk equalisation)	a	(4,630.9)	(4,884.3)	(253.4)	(5.5%)
Other cost of sales	a	(337.9)	(533.8)	(195.9)	(58.0%)
Gross profit		882.9	949.0	66.1	7.5%
Management Expenses	a	(686.3)	(693.7)	(7.4)	(1.1%)
Operating profit		196.5	255.3	58.8	29.9%
Net investment income	b	144.4	113.9	(30.5)	(21.1%)
Other income/(expenses)		(9.9)	(8.1)	1.8	18.2%
Net profit before tax		330.9	361.1	30.2	9.1%
Income tax expense		(87.1)	(102.6)	(15.5)	(17.8%)
NPAT		243.9	258.5	14.6	6.0%
<i>Gross profit by segment</i>					
Health Insurance		713.2	764.4	51.2	7.2%
Complementary Services		169.7	184.6	14.9	8.8%
Total gross profit		882.9	949.0	66.1	7.5%
<i>Management Expenses by segment</i>					
Health Insurance		(514.8)	(518.2)	(3.4)	(0.7%)
Complementary Services		(151.9)	(151.0)	0.9	0.6%
Corporate overheads		(19.6)	(24.5)	(4.9)	(25.0%)
Total Management Expenses		(686.3)	(693.7)	(7.4)	(1.1%)
<i>Operating profit by segment</i>					
Health Insurance		198.4	246.2	47.8	24.1%
Complementary Services		17.7	33.6	15.9	89.8%
Corporate overheads		(19.6)	(24.5)	(4.9)	(25.0%)
Total operating profit		196.5	255.3	58.8	29.9%
Health Insurance-specific metrics					
Average PSEUs (millions)		4.78	4.83	0.05	1.1%
Average revenue per PSEU (\$)		1,118	1,169	51	4.6%
Net claims expense per PSEU (\$)		969	1,011	42	4.4%
Gross margin (%)		13.3%	13.5%	+20 bps	n/m
MER (%)		9.6%	9.2%	-40 bps	n/m
Operating profit margin (%)		3.7%	4.4%	+70 bps	n/m

a. See Section 4.4 for more detailed segment information. The reported revenue and expense results are presented net of intersegment eliminations. These relate to services provided and procured by each respective segment and include corporate allocations.

b. The sum of net unrealised investment portfolio gains/(losses) and realised investment portfolio gains/(losses) for the year net of costs.

Note: bps above means 'basis points' and n/m means 'not meaningful'.

Group overview

Medibank Private's revenue grew \$515.5 million (8.8%) from \$5,851.6 million in FY13 to \$6,367.1 million in FY14. This comprised an increase in Health Insurance premium revenue of \$304.6 million (5.7%) and an increase in Complementary Services revenue of \$210.8 million (41.5%), the latter reflecting a full year of the ADF Health Services Contract.

Gross profit increased by \$66.1 million (7.5%) from \$882.9 million in FY13 to \$949.0 million in FY14. This comprised an increase in Health Insurance gross profit of \$51.2 million (7.2%) and an increase in Complementary Services gross profit of \$14.9 million (8.8%).

Operating profit increased by \$58.8 million (29.9%) from \$196.5 million in FY13 to \$255.3 million in FY14. This comprised an increase in Health Insurance operating profit of \$47.8 million (24.1%) and an increase in Complementary Services operating profit of \$15.9 million (89.8%), partially offset by an increase in corporate overheads of \$4.9 million (25.0%).

NPAT increased by \$14.6 million (6.0%) from \$243.9 million in FY13 to \$258.5 million in FY14, reflecting the abovementioned factors and a pre-tax decrease in net investment income of \$30.5 million (21.1%).

Health Insurance

Premium revenue

Health Insurance premium revenue increased by \$304.6 million (5.7%) from \$5,344.1 million in FY13 to \$5,648.7 million in FY14, primarily as a result of a 4.6% increase in average revenue per PSEU and a 1.1% increase in average PSEUs.

The 6.2% annual PHI premium rate adjustment from 1 April 2013 and the 6.5% increase from 1 April 2014 resulted in a weighted premium increase of 6.3% for FY14 compared to 5.1% for FY13. Average revenue per PSEU increased by 4.6% from FY13 to FY14 which was lower than the average premium rate increase due to Policyholders downgrading cover levels, and new volume acquired on lower-cover products particularly through the ahm brand.

Average PSEUs increased by 53,000 (1.1%) from 4.78 million in FY13 to 4.83 million in FY14, primarily as a result of domestic Policyholder growth, which was partially offset by a reduction in OSHC and OVHC policies. The latter followed an initiative to rationalise the international networks through which overseas referrals are sourced with a view to improving the profitability of this customer segment.

Claims expense (net of risk equalisation) and gross margin

The claims expense (net of risk equalisation) increased by \$253.4 million (5.5%) from \$4,630.9 million in FY13 to \$4,884.3 million in FY14, primarily due to an increase in net claims per average PSEU of 4.4% and the 1.1% increase in average PSEUs. The FY13 and FY14 claims expense (net of risk equalisation) were both impacted by movements in the components of the outstanding claims liability provision (comprising the central estimate, risk margin, claims-handling costs and the bonus provision) between 30 June 2013 and 30 June 2014, the net impact of which was largely offset in FY14 as discussed below.

As at 30 June 2013, the central estimate component of the outstanding claims liability was overestimated, with the benefit of hindsight, by \$33.5 million. This overestimate arose due to an industry issue that resulted in a higher proportion of Medibank Private's hospital claims being received from a major hospital group in mid-2013 than was historically the case. This was interpreted by Medibank Private as being indicative of higher hospital service levels, rather than a difference in the timing of processing, which led to the establishment of a higher central estimate. As the claims for these service months were finalised during FY14, this over-estimation was released, which reduced the FY14 claims expense.

This \$33.5 million reduction in the FY14 claims expense was partly offset by a \$9.0 million increase in the outstanding claims liability arising from a change in the risk margin percentage applied in the financial year to account for a change in the timing of the calculation of the outstanding claims liability. Previously, the liability was determined using data as at 31 July. However, in order to meet the financial reporting time lines expected of a listed company, Medibank Private calculated the FY14 liability based on data as at 30 June 2014. This change increases the uncertainty associated with the estimate, as Medibank Private does not have detailed access to the actual payments made in July. To reflect this uncertainty, the risk margin was correspondingly increased from 5.0% to 7.7%, resulting in a \$9.0 million increase in the outstanding claims liability (assuming that other variables impacting the liability had been held constant). In FY14 the measurement of the bonus provision was also changed whereby 100% of the year's entitlement was provided after taking into account historical utilisations and current balances. This change contributed to the \$23.9 million increase in the bonus provision from FY13 to FY14. The revisions made to the risk margin and bonus provision in FY14 are expected to be one-off changes and increased the claims expense in FY14 by \$32.9 million, largely offsetting the \$33.5 million reduction described above.

The gross margin rose from 13.3% in FY13 to 13.5% in FY14, with the weighted impact of the premium increase partially offset by increased utilisation and general health cost inflation.

Management Expenses and MER

Management Expenses for Health Insurance increased by \$3.4 million (0.7%) from \$514.8 million in FY13 to \$518.2 million in FY14, primarily due to \$49 million of savings from ongoing cost containment initiatives that commenced in FY13, substantially offsetting cost increases such as employee costs (salary increases and an increase in the number of employees), and an increase in advertising and marketing expenditure. This, coupled with premium increases, resulted in an improvement in the MER from 9.6% in FY13 to 9.2% in FY14.

Operating profit and operating margin

Operating profit increased by \$47.8 million (24.1%) from \$198.4 million in FY13 to \$246.2 million in FY14, primarily due to premium revenue growth, the reduction in the MER, and a consequent improvement in the operating margin of 70 basis points from 3.7% in FY13 to 4.4% in FY14.

Complementary Services

Complementary Services revenue increased by \$210.8 million (41.5%) from \$507.6 million in FY13 to \$718.4 million in FY14, primarily due to the full-year impact of the ADF Health Services Contract which commenced in November 2012 and contributed \$186.5 million of this increase.

Cost of sales increased by \$195.9 million (58.0%) from \$337.9 million in FY13 to \$533.8 million in FY14, primarily due to the full-year impact of the costs of providing the services required by the ADF Health Services Contract.

Operating profit increased by \$15.9 million (89.8%) from \$17.7 million in FY13 to \$33.6 million in FY14, primarily due to the full-year impact of the ADF Health Services Contract.

Corporate overheads

Corporate overheads increased by \$4.9 million (25.0%) from \$19.6 million in FY13 to \$24.5 million in FY14, primarily due to an onerous lease provision relating to the terms of a sub-lease arrangement in the new Melbourne head office, an increase in marketing spend related to group marketing initiatives and an increase in strategy-related external consulting costs. Centralised business development costs remained at broadly comparable levels to the prior year.

Net investment income

Net investment income declined by \$30.5 million (21.1%) from \$144.4 million in FY13 to \$113.9 million in FY14, primarily due to the decline in average asset balances and a decline in the investment yield.

Average asset balances declined as a result of \$442 million of dividends being paid in the first quarter of FY14, and a lower level of prepaid PHI policies compared to the beginning of FY13. The average monthly balance of investments correspondingly decreased from \$2,352.1 million in FY13 to \$2,053.1 million in FY14.

The investment yield decreased from 6.1% in FY13 to 5.5% in FY14. This was attributable to a reduction in the yield on conservative assets, which fell from 5.0% in FY13 to 4.1% in FY14 due to a general reduction in interest rates.

Table 4.15: Pro forma historical consolidated cash flows – FY14 compared to FY13

(\$M)	Pro forma historical FY13	Pro forma historical FY14	Variance	Variance %
Operating profit	196.5	255.3	58.8	29.9%
Changes in working capital	11.4	84.5	73.1	641.2%
Customer acquisition costs	(6.6)	(20.9)	(14.3)	(216.7%)
Change in other operating assets and liabilities	(75.4)	28.0	103.4	137.1%
Depreciation and amortisation	43.4	46.7	3.3	7.6%
Net cash flows from operations	169.4	393.5	224.1	132.3%
Income tax	(55.9)	(64.1)	(8.2)	(14.7%)
Capital expenditure	(62.2)	(111.7)	(49.5)	(79.6%)
Proceeds from sale of assets	1.1	4.5	3.4	309.1%
Fit-out reimbursement	–	–	–	–
Net realised investment income	72.3	48.8	(23.5)	(32.5%)
(Purchase)/sale of investments	316.0	0.2	(315.8)	(99.9%)
Net cash flow before dividends	440.7	271.3	(169.4)	(38.4%)

Changes in working capital

Net cash inflows from changes in working capital increased by \$73.1 million (641.2%) from a cash inflow of \$11.4 million in FY13 to a cash inflow of \$84.5 million in FY14. The increase was primarily due to the \$61.9 million increase in the current unearned premium liability, from \$559.5 million at 30 June 2013 to \$621.4 million at 30 June 2014. This was due to the impact of the annual rate rise, as well as a net increase in prepaid policies (despite the unwinding of prepaid policies that arose in the prior period) as a result of a December 2013 marketing campaign directed toward those tenured customers who previously prepaid as part of the change in PHI rebate legislation, together with additional marketing activity from comparison websites in March and April 2014.

Customer acquisition costs

Net outflows from customer acquisition costs increased by \$14.3 million (216.7%) from \$6.6 million in FY13 to \$20.9 million in FY14, primarily as a result of an additional 47,000 PSEU sales of ahm-branded PHI policies through intermediaries and comparison websites, to which sales commissions are payable, in addition to a marketing initiative that was undertaken only in FY14.

Other operating assets and liabilities

The net cash inflow from changes in other operating assets and liabilities increased by \$103.4 million (137.1%) from a net outflow of \$75.4 million in FY13 to a net cash inflow of \$28.0 million in FY14. This change was primarily due to a lower level of non-current unearned premium liabilities as the impact of the change in the income testing of the PHI rebate from 1 July 2012 continued to dissipate.

Capital expenditure

Capital expenditure increased by \$49.5 million (79.6%) from \$62.2 million in FY13 to \$111.7 million in FY14. The majority of capital expenditure in FY14 related to costs associated with the Melbourne office relocation (\$58.8 million) and the commencement of the major IT investment program (\$33.1 million). See Sections 3.7 and 3.8 for more information about these projects.

Net realised investment income

Cash from net realised investment income decreased by \$23.5 million (32.5%) from \$72.3 million in FY13 to \$48.8 million in FY14, due to the \$30.5 million decrease in net investment income, which was partially offset by a decrease in unrealised income from non-cash related investments (e.g. reinvested dividend income).

Purchase/sale of investments

Net purchase/sale of investments decreased by \$315.8 million (99.9%) from \$316.0 million in net cash inflows from sales in FY13 to \$0.2 million in net cash inflows from sales in FY14, following the unusually high level of investment sales in FY13, and some additional sales continuing after 30 June 2013 in advance of the dividend payment in August 2013, offset by the ongoing investment of cash balances.

4.8. FORECAST FINANCIAL INFORMATION

The basis of preparation of the Forecast Financial Information is detailed in Section 4.2.3. This section details the Directors' best estimate of the general and specific assumptions adopted in preparing the Forecast Financial Information. The assumptions set out below should be read in conjunction with the sensitivity analysis set out in Section 4.9 and the risk factors set out in Section 5.

4.8.1. General assumptions

In preparing the Forecast Financial Information, the following general assumptions have been adopted:

- There is no material change in the competitive and operating environments in which Medibank Private operates.
- There is no change in applicable AAS and IFRS that would have a material impact on Medibank Private's accounting policies, financial reporting or disclosure requirements.
- There is no significant deviation from current market expectations of the broader economic conditions including unemployment levels and disposable incomes within Australia.
- There is no material change in the legislative regimes (including taxation) and regulatory environment in which Medibank Private and its customers operate other than as disclosed in this Prospectus.
- There are no material amendments to any material agreements relating to Medibank Private's business other than as disclosed in this Prospectus.
- There are no material losses of Policyholders or contracts beyond those incorporated in the forecasts.
- There are no significant disruptions to the continuity of Medibank Private's operations and there are no other material changes in Medibank Private's business.
- There are no material changes to Medibank Private's corporate and funding structure other than as set out in, or contemplated by, this Prospectus.

- There is no loss of key management personnel and Medibank Private will maintain the ongoing ability to recruit and retain required personnel.
- There is no material litigation that will arise or be settled to the benefit or detriment of Medibank Private.
- There are no contingent liabilities that will arise or be realised to the detriment of Medibank Private.
- There are no material acquisitions or disposals, restructuring or investments.
- None of the key risks set out in Section 5 occur or, if they do, none has a material adverse impact on Medibank Private's operations.

4.8.2. Specific assumptions

The following presents a summary of specific assumptions applied when preparing the Forecast Financial Information for Medibank Private.

Health Insurance

Premium revenue

Medibank Private has forecast the FY15 revenue from PHI premiums based on the following:

- the annual premium increase of 6.5% effective from 1 April 2014 and an FY15 premium increase from 1 April 2015 (assumed to be consistent with the FY14 increase), based on the premium increases that were approved in the preceding two years and recent claims experience. Any premium rate increase is subject to the annual premium application process and ultimate approval by the Minister for Health in accordance with Section 66-10 of the PHI Act. As at the Prospectus Date, Medibank Private has not yet finalised its 2015 premium increase submission, but will do so consistent with practice in prior years (having regard to all information relevant at the time of submission). See Section 2.3.3 for more information;
- an increase in the average number of PSEUs in FY15 taking into account market and company-specific trends and initiatives. The market-based assumptions include general population growth, the net number of PSEUs entering the PHI industry and the level of migration activity between health funds. Company-specific initiatives that address these trends include the continuation of Medibank Private's two-brand strategy, the rationalisation of its product suite toward changing consumer trends and refreshed marketing and channel strategies; and
- an increase in average revenue per PSEU (as a consequence of premium increases) and after taking into account prevailing macroeconomic conditions and recent trends, which include existing Policyholders seeking to change their level of cover and the mix of Policyholders that are new to Medibank Private taking out Medibank or ahm-branded policies. These factors impact the mix of policies and the corresponding average revenue per PSEU.

Claims expenses

Claims expenses for FY15 are driven by the forecast number of PSEUs, their utilisation levels (the number of treatments per PSEU) and the type of treatments undertaken (impacting the average cost per treatment), in addition to the type of policies underwritten. The forecast number of PSEUs is driven by the factors referred to above (i.e. population growth, participation levels and switching) that have been assumed based on historical trends. The FY15 forecast utilisation and average cost per claim have similarly been forecast based on historical trends including an assumption that product downgrades among Policyholders will continue, while utilisation growth will continue but at a lower rate.

Risk equalisation

Gross contributions into the Risk Equalisation Trust Fund have been forecast based on Medibank Private's estimated gross claims costs by state and product, the proportion of Medibank Private's gross claims cost estimated to qualify for risk equalisation by state and product, and estimates of the corresponding qualifying claims costs for the industry. The forecast assumes that Medibank Private's two-brand strategy will continue to result in an increasing proportion of younger and lower-claiming Policyholders, and the net receipt from the Risk Equalisation Trust Fund is forecast to decrease from \$116.8 million in FY14 to \$78.7 million in FY15.

Management Expenses

The forecast Management Expenses are based on:

- employee costs, based on the projected volume of indirect staff and expected increases in labour rates for employees, partially offset by the assumed effect of labour cost-saving initiatives that are currently being implemented or which have been planned and are expected to be implemented during FY15;
- advertising and media expenditure, based on Medibank Private's current marketing strategy;
- commissions expenses payable to intermediaries and amortisation of deferred acquisition costs, assuming a continuation of recent sales trends and contractual terms that will apply during FY15;
- anticipated occupancy costs, based on projected rent under current rental agreements, expected changes in rents where leases are due for renewal in the Forecast Period, the consolidation of the Melbourne facilities and rationalisation of several Workplace Health clinics;
- anticipated other costs, which include general administrative expenses, utilities and cleaning and waste costs, many of which are covered by agreements with various suppliers; and
- listed public company costs that take into consideration such items as share registry expenses, ASX fees, general meetings, publications, financial reporting requirements and additional directors and officers liability insurance, in addition to incremental remuneration adjustments, which are based on underlying contracts, publicly available information or advice from applicable experts.

Complementary Services

Revenue

Medibank Private has forecast FY15 revenue from the Complementary Services segment based on:

- the impact of the non-renewal of the Immigration Contract effective from July 2014 (with a transition period to November 2014, but with no revenue being received between August 2014 and November 2014), as well as the impact of the corresponding reorganisation within Complementary Services;
- a marginal reduction in off-base revenue related to the ADF Health Services Contract due to higher than anticipated treatment volumes in late FY14 that are not forecast to re-occur during the same period in FY15, and the implementation of improved processing efficiencies that favourably impacted FY14 results. Treatment volumes relevant to on-base ADF Health Services revenues are forecast to remain comparable with FY14 levels;
- revenue for the balance of Complementary Services (comprising Diversified Insurance, Telehealth, Corporate Health Services and Travel Doctor), which is forecast to decrease. The forecast for FY15 reflects assumptions regarding consultation volumes and average prices per interaction that are based on contracts, panel arrangements and historical trends by consultation type;
- the forecast decrease in Telehealth revenues, which is based on average rates taking into account current service contracts and an assumption that recent trends in call volumes will continue; and
- revenue from Diversified Insurance, which has been forecast using the commission rates in the underlying agency agreements and the assumption that recent trends in underlying policy numbers will continue.

Other cost of sales

The forecast decrease in other cost of sales is based on the volumes forecast for Complementary Services revenue, together with assumptions regarding expenses based primarily on historical trends and the terms of existing contracts that will be in place through the Forecast Period. The forecast also reflects the assumed impact of the recent restructure of certain businesses within Complementary Services.

Depreciation and amortisation

Depreciation and amortisation charges are forecast based on the existing asset base and depreciation and amortisation rates, and forecast additional depreciation on capital expenditure expected to be incurred in the Forecast Period. The increases are offset by reductions in depreciation following the non-renewal of the Immigration Contract.

Net investment income

Net investment returns in FY15 have been forecast based on risk-free rates from, or implied by, publicly traded markets. In addition, a risk premium range of between 0.0% and 5.5% over the risk-free rate has been applied to the base investment returns across the various asset classes.

The forecast also takes into account the available investments over the Forecast Period with regard to the pre-IPO dividends, Medibank Private's Capital Management Policy and the anticipated asset allocation for FY15. The average proportion of growth-based investments is forecast to increase from 18.4% in FY14 to 23.0% during FY15.

For the first quarter of FY15, actual investment returns in FY15 were \$4.4 million lower before tax than expected, which was offset by operating profit. Further investment weakness was experienced from the end of September 2014 up to the Prospectus Date. However, the Directors believe the net investment income forecast and the FY15 forecast are reasonable, despite volatility in investment markets.

Changes in working capital assumptions

The forecast change in working capital balances generally reflects the growth of Medibank Private's business.

Following Completion of the Offer, the Directors believe Medibank Private will have sufficient working capital to carry out its stated objectives.

Capital expenditure assumptions

The investment mix in capital expenditure is forecast to remain predominantly weighted towards project-related capital expenditure, of which less is forecast for FY15 following the consolidation of the Melbourne offices, and progress on a major IT investment project, with the total amount of business-as-usual capital expenditure forecast to remain the same as for FY14.

Regulatory capital assumptions

Based on currently available information, there is no forecast change in Medibank Private's regulatory capital requirements or business or market conditions that necessitate a change in Medibank Private's Capital Management Policy. See Section 4.11.2 for details of Medibank Private's Capital Management Policy.

4.8.3. Comparison of pro forma forecast consolidated income statement for FY15 to pro forma historical consolidated income statement for FY14

Table 4.16 sets out the pro forma historical consolidated income statement and the pro forma forecast consolidated income statement for FY14 and FY15, respectively.

Table 4.16: Pro forma historical and pro forma forecast consolidated income statements: FY14 and FY15

(\$M)	Note	Pro forma historical FY14	Pro forma forecast FY15	Variance	Variance %
Health Insurance premium revenue	a	5,648.7	5,996.7	348.0	6.2%
Complementary Services revenue	a	718.4	638.8	(79.6)	(11.1%)
Total revenue		6,367.1	6,635.5	268.4	4.2%
Claims expense (incl. risk equalisation)	a	(4,884.3)	(5,183.5)	(299.2)	(6.1%)
Other cost of sales	a	(533.8)	(500.6)	33.2	6.2%
Gross profit		949.0	951.4	2.4	0.3%
Management Expenses	a, b	(693.7)	(669.3)	24.4	3.5%
Operating profit		255.3	282.1	26.8	10.5%
Net investment income	c	113.9	89.7	(24.2)	(21.2%)
Other income/(expenses)		(8.1)	(8.9)	(0.8)	(9.9%)
Net profit before tax		361.1	362.9	1.8	0.5%
Income tax expense		(102.6)	(104.7)	(2.1)	(2.0%)
NPAT		258.5	258.2	(0.3)	(0.1%)
<i>Gross profit by segment</i>					
Health Insurance		764.4	813.2	48.8	6.4%
Complementary Services		184.6	138.3	(46.3)	(25.1%)
Total gross profit		949.0	951.4	2.4	0.3%
<i>Management Expenses by segment</i>					
Health Insurance		(518.2)	(519.8)	(1.6)	(0.3%)
Complementary Services		(151.0)	(117.1)	33.9	22.5%
Corporate overheads		(24.5)	(32.4)	(7.9)	(32.2%)
Total Management Expenses		(693.7)	(669.3)	24.4	3.5%
<i>Operating profit by segment</i>					
Health Insurance		246.2	293.3	47.1	19.1%
Complementary Services		33.6	21.1	(12.5)	(37.2%)
Corporate overheads		(24.5)	(32.4)	(7.9)	(32.2%)
Total operating profit		255.3	282.1	26.8	10.5%
Health Insurance-specific metrics					
Average PSEUs (millions)		4.83	4.86	0.03	0.6%
Average revenue per PSEU (\$)		1,169	1,234	65	5.6%
Net claims expense per PSEU (\$)		1,011	1,067	56	5.5%
Gross margin (%)		13.5%	13.6%	10 bps	n/m
MER (%)		9.2%	8.7%	-50 bps	n/m
Operating profit margin (%)		4.4%	4.9%	+50 bps	n/m

- a. See Section 4.4 for more detailed segment information. The reported revenue and expense results are presented net of intersegment eliminations. These relate to services provided and procured by each respective segment and include corporate allocations.
- b. Management Expenses comprise media and advertising costs, commissions to intermediaries and comparison websites, salaries for customer service and claims processing and other administrative and management personnel, occupancy costs, IT expenditure, depreciation and amortisation, in addition to unallocated indirect and administrative corporate overheads.
- c. The sum of net unrealised investment portfolio gains/(losses) and realised investment portfolio gains/(losses) for the year net of costs.

Note: bps above means 'basis points' and n/m means 'not meaningful'.

Group overview

Medibank Private is forecast to achieve revenue growth of \$268.4 million (4.2%) from \$6,367.1 million in FY14 to \$6,635.5 million in FY15. This is forecast to comprise an increase in Health Insurance revenue of \$348.0 million (6.2%) which is expected to be partially offset by a decrease in Complementary Services revenue of \$79.6 million (11.1%), the latter due primarily to the non-renewal of the Immigration Contract.

Gross profit is forecast to increase by \$2.4 million (0.3%) from \$949.0 million in FY14 to \$951.4 million in FY15. This is expected to comprise a forecast increase in Health Insurance gross profit of \$48.8 million (6.4%), partially offset by a forecast decrease in Complementary Services gross profit of \$46.3 million (25.1%).

Operating profit is forecast to increase by \$26.8 million (10.5%) from \$255.3 million in FY14 to \$282.1 million in FY15. This is forecast to comprise an increase in Health Insurance operating profit of \$47.1 million (19.1%), partially offset by a decrease in Complementary Services operating profit of \$12.5 million (37.2%) and an increase in corporate overheads of \$7.9 million (32.2%).

NPAT is forecast to decrease by \$0.3 million (0.1%) from \$258.5 million in FY14 to \$258.2 million in FY15, reflecting the abovementioned factors and a pre-tax decrease in net investment income of \$24.2 million (21.2%). Excluding the impact of the Immigration Contract from both periods, forecast NPAT growth would be 5.6%.

Table 4.17 has been presented, on a non-IFRS basis, excluding the impact of the Immigration Contract in order to illustrate the historical and forecast performance of the ongoing businesses.

Table 4.17: Headline results including and excluding the Immigration Contract

(\$M)	Note	FY14	FY15	Variance	Variance %
Total revenue		6,367.1	6,635.5	268.4	4.2%
– excluding Immigration Contract		6,297.6	6,630.7	333.1	5.3%
Operating profit		255.3	282.1	26.8	10.5%
– excluding Immigration Contract	a	233.2	280.0	46.8	20.1%
NPAT	a, b	258.5	258.2	(0.3)	(0.1%)
– excluding Immigration Contract		243.0	256.7	13.7	5.6%

a. Operating profit and NPAT contribution from the Immigration Contract exclude fixed overheads that are assumed to remain within the business.

b. Assuming an effective tax rate of 30%.

Health Insurance

Premium revenue

Health Insurance premium revenue is forecast to increase by \$348.0 million (6.2%) from \$5,648.7 million in FY14 to \$5,996.7 million in FY15, primarily as a result of the 6.5% annual PHI premium rate adjustments from 1 April 2014 and a forecast increase projected for 1 April 2015, combined with continued net volume growth in PSEUs predominantly through the ahm brand.

Policyholders are forecast to downgrade cover levels and new sales are forecast to have lower cover policies. This partially offsets the premium rate increase and results in revenue growth of 5.6% per PSEU.

The forecast 28,000 (0.6%) net increase in Medibank Private average PSEUs from 4.83 million in FY14 to 4.86 million in FY15 is represented by a 67,000 increase in Australian resident PSEUs offset by a forecast decrease in OSHC and OVHC policies. These trends reflect a continuation of historical trends in FY14 in line with Medibank Private's two-brand strategy and a reduction in unprofitable non-Australian resident customers.

Health Insurance premium revenue growth of 6.6% in FY15 due to Australian residents only is forecast to comprise 5.0% due to premium increases and changes in the product mix, and 1.5% due to volume growth.

Claims expense (net of risk equalisation) and gross margin

Claims expense (net of risk equalisation) is forecast to increase by \$299.2 million (6.1%) from \$4,884.3 million in FY14 to \$5,183.5 million in FY15, primarily due to an increase in net claims per average PSEU by 5.5% and the 0.6% net increase in average PSEUs.

Gross margin is forecast to increase from 13.5% to 13.6% in FY15. This increase reflects Medibank Private's expectations of utilisation growth across both Hospital Cover and Extras Cover services, the impact of lower-cover policies and the continued impact of product downgrading.

Savings from cost containment initiatives instituted in FY13 and FY14 (e.g. HPPA negotiations and improper claim prevention activities) are forecast to continue into FY15. These forecasts take into account recent historical trends, the future number of hospital beds expected to be available and anticipated changes in the mix of policies which impact average claim size.

Management Expenses and MER

Management Expenses for Health Insurance are forecast to increase by \$1.6 million from \$518.2 million in FY14 to \$519.8 million in FY15, reflecting a forecast improvement in the MER from 9.2% in FY14 to 8.7% in FY15.

Indirect employee costs are forecast to decrease by 5.1% principally due to a 3% reduction in average FTEs and lower utilisation of contractors.

Advertising and marketing expenditure is forecast to decrease by \$3.9 million (6.1%) from \$64.6 million in FY14 to \$60.7 million in FY15. Following a period of aggressive advertising and media spend across the PHI industry in recent years, Medibank Private has seen the spend rates begin to stabilise. FY15 media spend is comparable on a per-revenue and per-PSEU basis to historical trends.

Operating profit and operating margin

Operating profit is forecast to increase by \$47.1 million (19.1%) from \$246.2 million in FY14 to \$293.3 million in FY15. This primarily reflects the forecast premium revenue growth and the improvement in the MER, which results in an improvement in the forecast operating margin of 50 basis points from 4.4% in FY14 to 4.9% in FY15.

Complementary Services

Revenue from Complementary Services is forecast to decrease by \$79.6 million (11.1%) from \$718.4 million in FY14 to \$638.8 million in FY15, primarily due to the Immigration Contract not being renewed with effect from July 2014 (with a transition period to November 2014, but with no revenue being received between August 2014 and November 2014). ADF Health Services revenues are also forecast to decline marginally from FY14 levels, primarily due to higher than anticipated off-base treatment volumes in late FY14 that are not forecast to re-occur during the same period in FY15, and the implementation of improved processing efficiencies that favourably impacted FY14 results.

Costs of sales are forecast to decrease by \$33.2 million (6.2%) from \$533.8 million in FY14 to \$500.6 million in FY15, primarily due to a combination of costs no longer being incurred following the Immigration Contract not being renewed and cost savings associated with the reorganisation of Medibank Health Solutions into Complementary Services.

Operating profit from Complementary Services is forecast to decrease by \$12.5 million (37.2%) from \$33.6 million in FY14 to \$21.1 million in FY15, primarily due to the non-renewal of the Immigration Contract.

Corporate overheads

Corporate overheads are forecast to increase by \$7.9 million (32.2%) from \$24.5 million in FY14 to \$32.4 million in FY15. This is primarily due to additional rental costs during the transition to Medibank Private's new head office, which include \$4.8 million in occupancy costs associated with what is currently excess space at the new head office, and the forecast increase in remuneration-related costs, partially offset by savings in business development and strategy-related expenses compared to FY14. After allowing for normal inflationary factors, management expects corporate overheads to remain comparable to those forecast for FY15.

Net investment income

Net investment income is forecast to decrease by \$24.2 million (21.2%) from \$113.9 million in FY14 to \$89.7 million in FY15, primarily due to a lower forecast investment yield and a lower forecast average monthly investment balance.

The investment yield is forecast to decrease from 5.5% in FY14 to 4.5% in FY15, mainly due to a forecast 7.2% return on growth assets in FY15 compared to the 13.0% achieved in FY14. Yields on conservative assets are forecast to be broadly in line with those achieved in FY14.

The average monthly investment balance is forecast to decrease from \$2,053.1 million in FY14 to \$1,995.4 million in FY15 with the allocation to growth investments increasing from an average of 18.4% in FY14 to 23.0% in FY15.

4.8.4. Comparison of pro forma forecast consolidated cash flows for FY15 with pro forma historical consolidated cash flows for FY14

Table 4.18 sets out the summary pro forma historical consolidated cash flows and pro forma forecast cash flows for FY14 and FY15 that accompany the following commentary.

Table 4.18: Pro forma historical and forecast consolidated cash flows: FY14 and FY15

(\$M)	Pro forma historical FY14	Pro forma forecast FY15	Variance	Variance %
Operating profit	255.3	282.1	26.8	10.5%
Changes in working capital	84.5	(26.3)	(110.8)	(131.1%)
Customer acquisition costs	(20.9)	(9.7)	11.2	53.6%
Change in other operating assets and liabilities	28.0	(18.9)	(46.9)	(167.5%)
Depreciation and amortisation	46.7	43.9	(2.8)	(6.0%)
Net cash flows from operations	393.5	271.1	(122.4)	(31.1%)
Income tax	(64.1)	(96.9)	(32.8)	(51.2%)
Capital expenditure	(111.7)	(74.0)	37.7	33.8%
Proceeds from sale of assets	4.5	–	(4.5)	n/m
Fit-out reimbursement	–	30.9	30.9	n/m
Net realised investment income	48.8	40.2	(8.6)	(17.6%)
(Purchase)/sale of investments	0.2	(140.8)	(141.0)	n/m
Net cash flow before dividends	271.3	30.5	(240.8)	(88.8%)

Changes in working capital

The net cash impact of changes in working capital is forecast to decrease by \$110.8 million (131.1%) from a net cash inflow of \$84.5 million in FY14 to a net cash outflow of \$26.3 million in FY15. This is primarily due to a \$54.6 million forecast decrease in net current unearned premium liability, from \$621.4 million at 30 June 2014 to \$566.8 million at 30 June 2015, which is expected to arise from lower prepaid premiums as a result of product-mix downgrades and projected lower overseas student volumes (which pay a number of years in advance).

Customer acquisition costs

The net cash outflow from customer acquisition costs is forecast to decrease by \$11.2 million (53.6%) from \$20.9 million in FY14 to \$9.7 million in FY15, primarily due to higher costs associated with a marketing initiative in FY14 not recurring and the number of Policyholders acquired through comparison websites and brokers being forecast to remain broadly consistent with that of FY14, coupled with incremental amortisation from prior-year Policyholder acquisitions.

Other operating assets and liabilities

The net cash impact of changes in other operating assets and liabilities is forecast to decrease by \$46.9 million (167.5%) from a net cash inflow of \$28.0 million in FY14 to a net cash outflow of \$18.9 million in FY15. This is primarily due to a \$24.6 million decrease in the non-current unearned premium liability, due to an April 2014 marketing campaign assumed not to be repeated and the impact of projected lower overseas student volumes (which pay a number of years in advance).

Capital expenditure

Capital expenditure is forecast to decrease by \$37.7 million (33.8%) from \$111.7 million in FY14 to \$74.0 million in FY15. This primarily reflects the \$58.1 million reduction in capital expenditure associated with the Melbourne office relocation in FY14, offset by \$28.0 million of additional capital expenditure related to the major IT investment program in FY15.

Fit-out reimbursement

Under the terms of the new Melbourne office lease, a reimbursement of \$30.9 million for fit-out costs is expected to be received in FY15.

Net realised investment income

Net realised investment income is forecast to decrease by \$8.6 million (17.6%) from \$48.8 million in FY14 to \$40.2 million in FY15, primarily due to the \$24.2 million forecast reduction in net investment income, which is forecast to be partially offset by a decrease in unrealised income from non-cash related investments (e.g. reinvested dividend income).

Purchase/sale of investments

Net purchase/sale of investments is forecast to decrease by \$141.0 million from a net cash inflow of \$0.2 million in FY14 to a net cash outflow of \$140.8 million in FY15. This is primarily due to an expected return to the ongoing investment of cash balances following investment sales in the prior period related to dividend payments.

4.9. SENSITIVITY ANALYSIS

The Forecast Financial Information is based on a number of estimates and assumptions that are subject to business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Medibank Private, its Directors and management, and depends upon assumptions with respect to future business developments, which may be subject to change.

Investors should be aware that future events cannot be predicted with certainty and as a result, deviations from the figures forecast in this Prospectus are to be expected. To assist investors in assessing the impact of these assumptions on the forecasts, set out below is a summary of the sensitivity of certain Forecast Financial Information to changes in a number of key variables. The changes in the key variables as set out in the sensitivity analysis are not intended to be indicative of the complete range of variations that may be experienced. Care should be taken in interpreting these sensitivities. The sensitivity analysis is intended as a guide only and variations in actual performance could exceed the ranges shown.

For the purposes of the analysis below, the effect of changes in key assumptions on the FY15 pro forma forecast NPAT of \$258.2 million is presented. The estimated impact of changes in each of the variables has been calculated in isolation from changes in other variables, in order to illustrate the likely impact on Medibank Private's pro forma forecast consolidated NPAT for FY15. In practice, changes in variables may offset each other or may be additive. In addition, the sensitivities set out in Table 4.19 do not reflect any action that management might take to manage the impact of changes.

Table 4.19: FY15 sensitivity analysis

Assumption	Note	FY15 metric	Increase/Decrease	FY15 NPAT impact (+/- \$M)
Premium increase	a	6.5%	+/- 50 bps	+5.4/(5.4)
Average PSEUs	b	4.86M	+/- 1%	+5.7/(5.7)
Net claims expense per PSEU (\$)	c	\$1,067	+/- 1%	(36.3)/+36.3
Health Insurance gross margin (%)	d	13.6%	+/- 10 bps	+4.2/(4.2)
Health Insurance MER (%)	e	8.7%	+/- 10 bps	(4.2)/+4.2
Operating profit margin (%)	f	4.3%	+/- 10 bps	+4.6/(4.6)
Investment return – average annual official cash rate (%)	g	2.6%	+/- 25 bps	+3.1/(3.1)
Investment return – average annual equities return (%)	g	8.0%	+/- 100 bps	+2.2/(2.2)
Investment return – average annual equities return (%)	g	8.0%	+/- 1,000 bps	+22.0/(22.0)

- FY15 increase assumed to be consistent with the FY14 increase, and fully applied across Medibank Private's product suite. Given the premium increase from 1 July 2014 to 31 March 2015 has already been determined (the FY14 premium increase), the sensitivity relates to the FY15 premium increase which only impacts the period from 1 April 2015 to 30 June 2015 in FY15. If applied for the full 12 months, the impact on NPAT would be +/- \$21 million. Any premium rate increase is subject to the annual premium application process and ultimate approval by the Minister for Health in accordance with Section 66-10 of the PHI Act. As at the Prospectus Date, Medibank Private has not yet finalised its 2015 premium increase submission, but will do so consistent with practice in prior years (having regard to all information relevant at the time of submission). See Section 2.3.3 for more information.
- Impact of an increase or decrease in the FY15 average number of PSEUs assuming that the average contribution per PSEU (representing the gross profit less aggregator and broker commission expenses) remains constant on a change in volume.
- Impact on FY15 NPAT of a full-year change in the FY15 average net claims expense per PSEU that may arise from a change in Policyholder utilisation, mix in treatment or average cost per treatment.
- Impact on FY15 NPAT of a full-year of an increase or decrease in the gross profit generated by the Health Insurance segment arising from changes in average revenues and net claims costs per average PSEU, assuming that PSEU volumes and Management Expenses remain constant.
- Impact on FY15 NPAT of a change in the MER within the Health Insurance segment by +/- 10 basis points. This assumes that revenue remains constant.
- Impact on FY15 NPAT of an increase or decrease in the operating profit margin assuming that other items of expense and revenue (such as income) remain constant.
- Impact from a change in investment returns assumes that the average value of investments remains constant for FY15.

4.10. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Preparing financial statements in accordance with the AAS requires management to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. These estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the current and future periods. Judgements made by management in the application of the AAS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the Audited Financial Statements. Refer also to the Significant Accounting Policies outlined in Appendix B of this Prospectus.

4.11. CAPITAL MANAGEMENT

4.11.1. Capital adequacy and solvency requirements

Australian private health insurers are subject to minimum capital adequacy and solvency requirements that are determined by PHIAC. These requirements impose on insurers obligations to hold minimum levels of capital (assets in excess of liabilities) and minimum levels of liquid assets. The Board is also required to approve and comply with a Capital Management Policy and Liquidity Management Plan, and Medibank Private's overall approach to capital management and liquidity is primarily governed by these documents.

PHIAC recently revised the applicable standards. Changes to minimum capital requirements under the Capital Adequacy Standard came into effect on 31 March 2014. On 1 July 2014, changes to the Solvency Standard and the introduction of Capital Management Policy requirements came into effect. These standards, made under the PHI Act, are designed to ensure that the business of the fund can continue as a going concern and Policyholder claims will continue to be met.

Capital adequacy requirements

The Capital Adequacy Standard, set out as Schedule 3 of the *Private Health Insurance (Health Benefits Fund Administration) Rules 2007 (Rules)*, sets out two tests to assess the financial strength of an insurer's health benefits fund. The tests are designed to provide a high degree of assurance that Policyholder claims and other liabilities of the fund would be met, including where the insurer encounters adverse circumstances impacting on profitability, such as revenue reduction, increased claims and poor investment performance, or where it experiences investment losses due to exposure in a single asset and/or counterparty. The financial strength of the fund is measured by assessing the adequacy of the value of the assets in the fund (the 'quantum of assets test') and by looking at the spread of investments and other assets (the 'concentration of assets test').

The quantum of assets test compares the value of the assets of the fund (measured in accordance with accounting standards) against the combined value of the following:

- **the prudent liabilities of the fund:** some liabilities, including outstanding claims, rely on estimates. These, and some other liabilities, cannot be determined with certainty, as their true value will only emerge in the future. For the purpose of the quantum of assets test, any liability estimate must be determined in such a way as to significantly reduce the risk that they are undervalued (e.g. the outstanding claims liabilities must be estimated to ensure they are sufficient in 75% of the outcomes (with an additional risk margin added) to increase this to a 98% level of sufficiency);
- **the 'operational risk amount':** identifies an amount of money to cover the cost of a potential major disruption to the business so that, were a disruption to arise, it would not compromise the insurer's ability to continue to operate and provide benefits and services to Policyholders;
- **the 'stress test amount':** an amount of capital intended to be sufficient to cover potential losses over the next 12 months up to that arising from the 2nd percentile of the distribution of profit outcomes (i.e. a 1-in-50-year loss) associated with the health insurance business, investment activity and other business activity of the fund; and
- **an additional amount:** PHIAC can require this to be held in certain circumstances (but Medibank Private does not anticipate this being relevant).

A health benefits fund satisfies the quantum of assets test if its assets have a value greater than the sum of the four elements identified above.

Debt included in the calculation of the prudent liabilities can be offset in some circumstances – the criteria applying to the debt that must be met for it to be offset are specified in the Rules. The criteria relate to subordination of the debt (i.e. Policyholder claims and other liabilities would rank in priority to such debt), loss absorption capability and approval by PHIAC. Medibank Private does not currently have any debt.

The concentration of assets test principally looks at the potential effect on the fund of the loss of any one asset or loss relating to the failure of the largest counterparty exposure (e.g. a single large investment). The test is satisfied if that loss (together with any supervisory adjustments and subordinated debt offset) would not cause the remaining value of fund assets to fall below the sum of the prudent liabilities of the fund.

In addition to the two tests outlined above, the Capital Adequacy Standard requires insurers to have and maintain a Capital Management Policy. A private health insurer's Capital Management Policy deals with matters such as acceptable risk thresholds, the target amount of capital to be held in the fund, the pricing philosophy of the insurer and its rules for investing fund assets. The Capital Management Policy must be reviewed at least every two years and can be updated and adapted by the Board as required to deal with changes in circumstances.

PHI is relatively less capital intensive than general and life insurance in Australia. This is primarily due to the short-term nature of the underlying risk exposure, given claims are usually known and settled within 12 months (PHI claims are generally settled within three months) and the impact risk equalisation has on reducing any high claims expenses from Policyholders.

Solvency requirements

The Solvency Standard, set out as Schedule 2 of the Rules, is designed to test whether the health benefits fund has enough cash or liquid assets to pay Policyholder claims and other creditor claims even if its cash flow is 'stressed' (e.g. by a sudden decrease in investment income).

The Solvency Standard requires that each fund holds a cash balance equal to:

- 1% of expected health business revenue over the next 12 months; plus
- when greater than zero, an amount calculated in accordance with the standard (called the 'stressed net cash outflow amount') which is the 98th percentile estimate of the net cash outflows over the 30 day period from the date of the estimation (i.e. the amount by which the cash paid out by the fund would exceed the cash coming into the fund under a 1-in-50 bad cash flow 30 day period), which could occur due to, but not limited to, poor profitability, a worse than expected risk equalisation payment or cash flow timing challenges.

PHIAC can require a particular health insurer to hold additional cash reserves in certain circumstances. In addition, each private health insurer must have and comply with a Liquidity Management Plan.

Specifically in relation to Medibank Private, the Board's solvency risk appetite is low and the Board-approved Liquidity Management Policy requires a buffer in excess of the solvency regulatory requirements be maintained at all times. This buffer was in place as at 30 June 2014 and is forecast to be maintained over the period of the Forecast Financial Information. Solvency risk is also inherently mitigated by the up-front receipt of premiums from Policyholders, as well as the investment assets being primarily liquid equities and fixed-income securities as well as cash and cash equivalents.

PHIAC supervision

PHIAC maintains prudential oversight of health benefits funds through information submitted to it by private health insurers on a quarterly or annual basis, and by reviews of practices and procedures employed by insurers, including assessment of the robustness of the insurer's approach to capital management and liquidity. PHIAC maintains a focus on early identification of potential weaknesses and has a range of potential interventions open to it to work to ensure that each health benefits fund remains prudentially sound.

On 13 May 2014, the Australian Government announced that the functions of PHIAC will be transferred to other Australian Government agencies by 1 July 2015 (see Section 2.3.11 for more information).

4.11.2. Medibank Private's Capital Management Policy

Medibank Private's objective is balanced capital management to maintain a strong financial risk profile and capacity to meet financial commitments. The Board-approved Capital Management Policy has been developed in accordance with PHIAC regulatory requirements, and reflects the desire to retain an appropriate capital strength to maintain financial flexibility as well as protect against the impact of potential adverse scenarios. The balanced approach maintains a strong focus on generating a solid return on capital and operating in accordance with the Board's risk appetite.

Medibank Private's Capital Management Policy encompasses the aggregate of Health Insurance business-related capital, which is held at the regulated health benefits fund level within MPL and is subject to PHIAC's prudential oversight, and other capital, which relates to the Complementary Services segment and corporate activities described in this Prospectus.

Health Insurance business-related capital is determined by the Board-approved Capital Management Policy, and comprises three risk appetite layers: namely, the base 'regulatory coverage layer', a middle 'corrective action layer', and a top 'financial flexibility layer'. The base regulatory coverage layer includes the quantified regulatory capital requirement and a buffer to account for movements in the regulatory requirement over time. The corrective action layer is set by the Board and requires specific action plans to be implemented to achieve a return to a capitalisation level in the financial flexibility layer within a defined period, with actions that could include adjusting pricing and growth plans or dividend declarations if necessary. As an indicator, the financial flexibility layer sits above the corrective action layer and covers the 2% range between approximately 12% to 14% of total projected Health Insurance premiums for the next 12 months after allowing for any dividends declared but not paid. Medibank Private's risk-based capital objective is accordingly for the total Health Insurance business-related capital to exceed the 12% level and to target a level sufficient to meet dividends and other business development needs as required.

Medibank Private uses multiple data sources and modelling tools to estimate risk-based capital including, but not limited to, financial risk

profiling, regulatory capital modelling and stress scenarios to estimate potential capital needs. The Board's Capital Management Policy seeks to ensure strong capacity to meet financial commitments including the ability to meet regulatory capital requirements under stressed conditions. Specifically, the policy aims to continue to meet the regulatory requirements in the event of a 1-in-200-year financial stress across the business, and the full impairment of all intangible and illiquid assets, both occurring at the same time.

Medibank Private also retains capital outside of the health benefits fund to allow for projected working capital and any incremental capital requirements of the Complementary Services and corporate overheads segments.

4.11.3. Medibank Private's capital position

Medibank Private applies internal capital models as part of determining the appropriate level of Health Insurance business-related and other capital to hold. The internal capital models have been developed under the supervision of Medibank Private's Chief Actuary.

Table 4.20 summarises the composition of Medibank Private's capital position as at 30 June 2014.

Table 4.20: Medibank Private's capital position as at 30 June 2014

(\$M)	Note	FY14
Total equity		1,393.9
Total qualifying subordinated debt		–
Total capital		1,393.9
Less: Intangible and illiquid assets	a	(356.0)
Total tangible and liquid capital		1,037.9
Less: Allowance for declared but unpaid dividends	b	(180.0)
Total tangible and liquid capital after allowance for declared but unpaid dividends		857.9
Comprises:		
Health Insurance business-related capital	c, d	745.0
Other capital	e	112.9
Health Insurance business-related capital metric (post allowance for declared but unpaid dividends)	f	12.4%

- Comprises intangible assets, and plant and equipment.
- Subsequent to 30 June 2014, MPL declared \$238.8 million of dividends (a \$42.0 million final dividend for FY14 and a \$196.8 million special dividend) payable to the Commonwealth prior to Completion of the Offer. The \$238.8 million comprises \$180.0 million in respect of retained earnings as at 30 June 2014 and \$58.8 million from interim FY15 earnings.
- The aggregate of the minimum target tangible capital amount at the Health Insurance business-related level and additional Health Insurance business-related capital held, less dividends declared post the balance sheet date expected to be funded from the Health Insurance business-related capital.
- After allowance for group capital needs currently held within the health benefits fund, namely \$27 million of Medibank Health Solutions restructure costs and \$30 million of risk-based capital in respect of non-fund activities.
- Capital in relation to activities outside MPL's health benefits fund held by Medibank Private for the Complementary Services segment and corporate overheads business segments. This includes working capital, property, plant and equipment, as well as risk-based capital for non-fund requirements.
- Calculated as \$745.0 million of Health Insurance business-related capital (post the declared but unpaid dividends) divided by FY15 forecast Health Insurance premium revenue of \$5,996.7 million.

4.11.4. Dividends

It is the Board's current intention for Medibank Private to pay dividends in arrears for the six-month periods ended 31 December (interim dividend) and 30 June (final dividend) each year. It is anticipated that interim dividends will be paid in or around March and final dividends will be paid in or around September, following the relevant financial period.

Subject to the forecasts in the Forecast Financial Information being achieved and other relevant factors, the inaugural dividend of 4.9 cents per Share that Shareholders are expected to receive is the final dividend for FY15 (expected to be paid in September 2015). This dividend will be calculated with reference to Medibank Private's earnings for the seven-month period ending 30 June 2015. These earnings are expected to be stronger than those in the first five months given forecast lower claims expenses in December and January.

The Board's policy is to target a payout ratio of between 70% and 80% of annual Underlying NPAT. Medibank Private's FY16 dividend payout ratio is expected to be in the range of 70% to 75% of FY16 Underlying NPAT. Underlying NPAT is not a measure that Medibank Private has historically reported and accordingly is not represented in the Financial Information. It is currently expected that dividends will be fully franked.

MPL's Constitution (**Constitution**) authorises the Board to adopt and implement a dividend reinvestment plan on such terms as it thinks appropriate and the Board will determine if and when it may be appropriate to adopt and implement a dividend reinvestment plan.

The payment of a dividend is at the discretion of the Board and will be a function of a number of factors the Board may consider relevant, including the general business environment; the operating and financial condition of Medibank Private; future funding requirements; capital management initiatives; tax considerations (including the level of franking credits available); any contractual, legal or regulatory restrictions on the payment of dividends by Medibank Private; and any other factors the Directors may consider relevant. No assurance can be given about the payment of future dividends, the level of franking of such dividends (if any) or the payout ratios for any future periods as these matters will depend upon future events, as well as the key risks set out in Section 5. Medibank Private cannot pass on to Australian resident Shareholders the benefit of any franking credits accrued prior to the date of Listing.

4.12. COMMITMENTS AND CONTINGENCIES

4.12.1. Commitments

Table 4.21 summarises Medibank Private's contractual obligations and commitments (following Completion of the Offer) as at 30 June 2014.

Table 4.21: Commitments

Contractual obligations and commitments (\$M)	Note	< 1 Year	1–3 Years	3–5 Years	>5 Years
Capital commitments	a	25.1	3.7	–	–
Operating lease commitments	b	45.7	127.0	30.2	136.8

a. Capital commitments relate mainly to committed expenditure in respect of the development of new software.

b. Operating leases relate mainly to premises and office equipment.

4.12.2. Off balance sheet arrangements

From time to time Medibank Private has in place various parent and bank guarantees as off balance sheet arrangements. Historically, Medibank Private has not used special purpose vehicles or similar financing arrangements. Medibank Private does not have any off balance sheet financing arrangements with any unconsolidated related entities or other related entities.

4.12.3. Contingent liabilities

From time to time Medibank Private may be involved in litigation relating to claims arising out of its operations. Neither Medibank Private nor any of its controlled entities are a party to any legal proceedings that are expected, individually or in aggregate, to have a material adverse effect on its business, financial conditions or operating results in the current year.

4.13. FINANCIAL RISK MANAGEMENT FRAMEWORK

4.13.1. Quantitative and qualitative disclosures about instruments sensitive to market risk

Medibank Private's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, liquidity risk and insurance risk. Medibank Private's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance. Medibank Private uses derivative financial instruments to manage its exposure in these areas.

Risk management is carried out under policies approved by the Board. Financial risks are identified, evaluated and hedged in close cooperation with Medibank Private's operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

4.13.2. Interest rate risk

Interest rate risk is a key risk factor affecting returns from cash and other conservative investment assets, as lower interest rates reduce interest income.

There is also an interest-bearing element of valuing fixed-rate financial assets at fair value through the profit and loss account. However, as Medibank Private's interest-bearing portfolios are predominantly floating rate, this interest rate risk is minimal.

4.13.3. Credit risk

Credit risk arises from cash and cash equivalents, investment in debt securities, derivative financial instruments, deposits with banks and financial institutions, credit exposures to corporate and consumer customers, including outstanding receivables and committed transactions. Medibank Private has no significant concentrations of credit risk and has policies in place to manage this risk.

4.13.4. Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate ability to close out market positions. Due to the dynamic nature of the underlying businesses, Medibank Private's Treasury aims to maintain flexibility in funding by keeping sufficient capital available.

4.13.5. Foreign exchange risk

Medibank Private's operating revenue is earned and operating costs are incurred almost exclusively in Australian dollars.

Medibank Private does have some exposure to foreign currency risk through its investment portfolio in that some of the managed funds in which it invests hold foreign currency-denominated assets. Apart from having approximately half of its investment in overseas equities, all of Medibank Private's foreign exchange investment risk exposure is hedged by the relevant fund manager as part of the investment product offering.

4.13.6. Insurance risk

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

SECTION 5

KEY RISKS



5.1. INTRODUCTION

Medibank Private is subject to various risks. Some of these are specific to its business activities. Others could impact the whole PHI industry or are of a more general nature. Individually or in combination, these risks may affect the future operating and financial performance of Medibank Private, its investment returns and the value of an investment in the Shares. There can be no guarantee that Medibank Private will achieve its stated objectives, or that any forward-looking statements or forecasts will eventuate.

Section 5 describes potential risks associated with Medibank Private's business and risks associated with an investment in the Shares. It does not purport to list every risk that may be associated with Medibank Private's business or an investment in the Shares now or in the future. The occurrence or consequences of some of the risks described in Section 5 are partially or completely outside the control of the Commonwealth and Medibank Private, its Directors and senior management.

The risks described in Section 5 have been grouped into:

- risks that relate specifically to Medibank Private and the way it operates its businesses (Section 5.2);
- risks that relate to the industry in which Medibank Private operates (Section 5.3); and
- general risks that relate to investing in MPL Shares (Section 5.4).

Before applying for the Shares, investors should satisfy themselves that they have sufficient understanding of the risks of investing in Medibank Private, of investing in the Australian PHI industry and of investing in shares generally, with regard to their own investment objectives, financial circumstances and taxation position. Investors should read this Prospectus in its entirety and should consider consulting their professional advisers before deciding whether to apply for the Shares.

5.2. SPECIFIC RISKS RELATING TO AN INVESTMENT IN MEDIBANK PRIVATE

5.2.1. Medibank Private's strategy may not be effective

Medibank Private has embarked on a number of relatively new strategies (see Section 3.3 for more information) to grow its business. These strategies may, in time, prove to be misguided, or may be implemented ineffectively and result in an outcome that is detrimental to the performance of Medibank Private. For example:

- Medibank Private's two-brand strategy (Medibank and ahm) may not be effective in delivering profitable revenue growth. If policies sold under the ahm brand are less profitable on average compared to the traditional Medibank-brand product offerings, growth in the ahm brand (to the detriment of the Medibank-brand offering) may result in Medibank Private's profitability being reduced rather than increased.
- Medibank Private's strategies to cost-effectively acquire customers may not be effective, resulting in lost market share if customers are not gained or reduced profitability if higher spend is required on advertising and promotion or channels to market (e.g. aggregator and corporate broker commissions; refresh of the digital offer; or increased operational costs for the call centres, retail branch network, or corporate and institutional sales teams).
- Medibank Private's strategies to retain existing customers through a combination of attractive pricing, product features and customer service may not be effective, resulting in customer lapses and lost market share, or, if higher spend is required on customer retention incentives, reduced profitability.
- Medibank Private's strategies to manage claims cost inflation may be ineffective, with the result that Medibank Private is unable to enhance its underwriting margins and may experience increased margin pressure if it is unable to increase premiums to cover increases in claims costs and due to the competitive environment. Medibank Private's strategy in contracting, or choosing not to contract, with healthcare providers is intended to drive improved value for money and Policyholder outcomes. If this strategy is ineffective, it may lead to reputational damage and loss of Policyholder goodwill without a corresponding commercial benefit. Further risks may arise from the implementation of this strategy, including poor implementation of new processes and procedures or potential adverse responses to the implementation of those processes from industry groups, service providers, Policyholders, government and media, which may result in adverse publicity, reputation risk, regulatory action or regulatory change.
- Medibank Private's cost-reduction programs may be ineffective, resulting in higher than expected Management Expenses. Medibank Private incurs Management Expenses associated with the operations of its Health Insurance business including occupancy costs, staff costs and other operating expenses. Management Expenses are one of the key components in calculating Medibank Private's MER. MER is a measure of operational efficiency used in the PHI industry and is calculated as the Management Expenses of a PHI business divided by premium revenue. An inability to reduce its Management Expenses may affect Medibank Private's financial position by increasing overall operating expenses and reducing operational efficiency.
- Medibank Private may not be successful in attracting and retaining the best people to drive the execution of its strategies. Key individuals may be lost, including to competitors. This may result in disruption and decreased performance.

- Medibank Private's Complementary Services strategy may not provide the benefits envisaged for Medibank Private's Health Insurance business, including that the strategy may not have a beneficial impact on Policyholder loyalty and the control of claims expenses. Complementary Services offerings may not be profitable and the sale or discontinuation of one or more underperforming Complementary Services businesses may be costly.

Ineffective implementation of these and other strategies adopted by the Board and management may adversely impact the performance and growth of Medibank Private.

5.2.2. PHI products may be mispriced or incorrectly designed

Premiums for Medibank Private's PHI products, which comprised 89% of Medibank Private's total consolidated revenues for FY14, are priced in advance of each 12-month premium period (which generally runs from each 1 April to the following 31 March), based on Medibank Private's forecasts for the 12-month premium period. These forecasts are typically developed several months before the fixed premium period begins based on historical data and anticipated future trends, and involve a significant degree of judgement.

Medibank Private, like other private health insurers, sets its PHI product premiums primarily with regard to:

- forecast costs (including claims expenses, risk equalisation distributions and Management Expenses) for the coming premium year;
- Policyholder retention and attraction, which is affected by the expected competitive landscape during the coming premium year;
- the requirement to obtain approval of premium increases from the Minister for Health advised by PHIAC, which must approve a premium increase unless it is deemed contrary to the public interest; and
- other expected financial metrics of the Health Insurance business, such as meeting the requirements of Medibank Private's Capital Management Policy.

If Medibank Private misprices the premium for a PHI product by pricing the product too low, the product may be less profitable, unprofitable or loss-making until or unless the mispricing is corrected or the product design or features are changed. Although the PHI Act allows insurers to apply to the Minister for Health for PHI product premium increases at any time, the current practice is for insurers to apply once annually (in November), with the approved premiums then applying for a full 12-month period (generally from each 1 April). If PHI product premiums are too high, this may result in Medibank Private losing Policyholders. Alternatively, Policyholders may stay with Medibank Private but downgrade the level of their PHI cover to lower-margin PHI products. An inadequate increase in PHI premiums in one year may require a higher catch-up increase in PHI premiums in the subsequent year which may result in a loss of Policyholders, spreading the effect of a mispricing decision over more than one premium year.

Possible sources of PHI product mispricing risk include:

- forecasting errors (including errors in the actuarial assumptions adopted, data or modelling errors, incorrect or inadequate analysis being performed, and judgements about observed features or trends in the analysis subsequently being proven to be incorrect);
- unexpected events occurring during a premium year which materially increase claims costs (e.g. a change in the public healthcare system offering that increases PHI utilisation (see Section 5.3.3) or, benefit costs may increase in a year due to an epidemic or pandemic, to the extent affected Policyholders receive hospital treatment as private patients in public hospitals or in private hospitals);
- adopting unsuccessful strategies, such as defending or pursuing market share at the expense of profitability, or underestimating the price competitiveness of the PHI industry during the premium year, resulting in loss of profitable Policyholders to competitors;
- applying to the Minister for Health for a lower annual increase than otherwise preferred by Medibank Private to avoid the risk of the increase not being approved; or
- premium increases applied for by Medibank Private not being approved in accordance with the regulatory premium-setting process.

The risk of PHI products being mispriced may be greater for newly designed PHI products, given they are untested in the market and historical data relevant to these new products may be more limited, increasing the risk of forecasting errors. Furthermore, these new PHI products may also have unintended adverse implications for Medibank Private's broader PHI product suite. For example, new PHI products may encourage more than the expected number of existing Medibank Private Policyholders to switch to the new PHI product, reflecting relative mispricing between some or all of Medibank Private's existing and new PHI products. Mispricing of PHI products by Medibank Private's competitors may have similar implications for Medibank Private's existing product suite and Policyholders. This may result in an underpriced product attaining a higher level of demand than was anticipated, which may in turn adversely affect the margin generated on that product as a result of higher than anticipated claims expenses.

If the premium approval process is deregulated in the future (which would require legislative change), risks relating to actual or anticipated non-approval by the Minister for Health would reduce or cease to apply. However, the competitive tactics of private health insurers in relation to both the quantum and timing of premium changes may become more variable and less predictable.

5.2.3. Failure to reach satisfactory agreements with healthcare providers may adversely affect Medibank Private

The value proposition offered by a private health insurer is affected by whether it can ensure that Policyholders will experience a satisfactory financial outcome (an acceptable out-of-pocket expense) when they receive hospital services or other healthcare services from their preferred private hospital or other healthcare provider (e.g. the Policyholder's preferred dentist).

Private health insurers affect this financial outcome by entering into contractual agreements with private hospitals and other healthcare providers (known as 'provider agreements' or HPPAs in the case of private hospitals or medical purchaser provider agreements in the case of medical services providers – see Section 2.3.7 for more information). Contracting under unfavourable terms and conditions, such as agreeing to higher than market rate costs for medical procedures, could adversely affect operating results.

There is a risk that if a private health insurer does not have in place satisfactory agreements with its Policyholders' preferred private hospitals or other healthcare providers, Policyholders may seek alternative PHI. This is because the portability principle of the Australian PHI system enables the Policyholder to switch to a private health insurer that has a more satisfactory arrangement, with no detriment to the Policyholder. This is possible even immediately prior to receiving treatment (provided that the affected Policyholder had already served any relevant waiting periods with its existing private health insurer). Therefore, a provider that is out of contract with a particular private health insurer could have an interest in encouraging that private health insurer's Policyholders to switch to another private health insurer.

If Medibank Private fails to attract sufficient healthcare providers to such arrangements, or is less successful at implementing such arrangements than its competitors, its product offerings may not be competitive and claims expenses may be higher than it projects, the attractiveness of its policies to Policyholders may be reduced, it may lose or be unable to grow market share and its ability to profitably grow its business and its operating results may be adversely affected. In addition, the actual or possible failure to come to a satisfactory agreement with a healthcare provider may be played out in the public domain, including through advertising and media coverage, creating a risk of reputational damage for Medibank Private. The risk of a negative public campaign also potentially arises if Medibank Private voluntarily withdraws from offering provider agreements for particular healthcare services.

5.2.4. Lower than expected investment returns may affect Medibank Private's financial performance

Medibank Private is required to hold a level of capital sufficient to comply with a Capital Management Policy as approved by the Medibank Private Board, and the regulatory requirements relating to capital adequacy in PHI.

Medibank Private holds this capital in the form of an investment portfolio, generally in cash, cash equivalents and fixed income products and, to a lesser extent, domestic and international equities and property. The investment portfolio is constructed based on a strategic asset allocation of growth and conservative asset classes and is subject to general economic and market conditions as well as normal market risks (such as interest rates, credit ratings, exchange rates and equities pricing), which may impact the value of Medibank Private's investments and create volatility in investment income from period to period. In most years, a significant portion of Medibank Private's net profit is generated from its investment portfolio. As a result, lower than expected investment returns may affect Medibank Private's financial performance in any given year. If capital adequacy is threatened, Shareholders may be adversely affected.

5.2.5. Medibank Private may not be effective in detecting and rejecting improper claims

Improper claims can represent a material source of cost for private health insurers, including Medibank Private. Such claims can result from, among other things, fraudulent or erroneous claims being made by providers and Policyholders, from instances of over-servicing, and from mis-coding of claims. If Medibank Private's systems and processes are not effective in detecting, preventing and recovering improper claims, the cost of Medibank Private's claims expense will potentially increase above forecasts.

5.2.6. Actuarial assumptions may be materially incorrect

Private health insurers, including Medibank Private, maintain a balance sheet provision for the future cost of claims that have been incurred before the balance date but will be paid after the balance date and the risk equalisation transfers associated with these future payments. The amount of the provision is generally set based on actuarial analysis of past claims experience and assumptions regarding future payment patterns. Payment patterns are heavily influenced by the timing of claims processing by hospitals and other healthcare providers. The risk equalisation component can also be impacted by the timing of the claims processing performed by other private health insurers. Changes to payment processing, by hospitals in particular, can create significant variations in the actual payment pattern and can affect the accuracy of the actuarial estimates.

The significant majority of eligible PHI claims are settled within three months. Nevertheless, material changes in the provision can occur and these can impact the reported profit, particularly where the dates of service and settlement occur in different years. That is, if the actual cost of claims by Medibank Private exceeds the provisions made at the start of the financial year, this may adversely impact future Medibank Private reported profit.

5.2.7. Medibank Private depends on effective IT systems

Effective IT systems, and the integrity and timeliness of the systems and data Medibank Private uses to run its business, are critical to its operations and require an ongoing commitment of time and resources. To the extent any disruption or security breach results in a loss of, or damage to, Medibank Private's systems or data, it could significantly damage Medibank Private's reputation, affect its relationships with suppliers and Policyholders and ultimately harm its business.

Medibank Private is dependent upon and may be affected by a failure or breakdown in data, processes, systems, and external events to its business and service providers. Medibank Private operates a range of proprietary systems and software, and some critical components of these information systems are managed, delivered and supported by third-party service providers. Certain Medibank Private technology systems (including software) are older, legacy systems that are less flexible, less efficient and a significant ongoing commitment of capital and human resources is required to maintain, protect and enhance them and to integrate them with Medibank Private's other systems.

Medibank Private is reliant on effective, secure Policyholder processing, claims management, payment, communications, program management and reporting systems, as well as the secure management of the personal and financial information of its customers in order to maintain the trust and confidence of its customers. The use, disclosure and secure handling of personal information is also subject to law and regulations, any breach of which could result in additional costs, litigation and reputational impact. Medibank Private manages and mitigates the risks of ineffective IT systems and functions within its risk management framework, but may nevertheless experience disruption events and outages. In addition, compliance with privacy and data security laws and regulations may, from time to time, require Medibank Private to invest in, and implement, changes to its programs and systems.

Medibank Private is potentially vulnerable to cyber security attacks that bypass its IT security systems. If a security breach was to occur, it could result in the loss, misappropriation or release of confidential data or intellectual property, disrupt Medibank Private's information systems and business more generally and cause negative publicity and reputational damage.

5.2.8. Medibank Private may not complete its IT Renewal Project on time and budget

Medibank Private is undertaking the IT Renewal Program, including a major IT project with IBM Australia Limited and SAP Australia Pty Limited, known as Project DelPHI. Project DelPHI is designed to replace the core policy and customer relationship management systems for the Medibank brand, and is intended to deliver a transformation in the ongoing operational management of key customer-related transactions and back-office processes and functions for that brand. The IT Renewal Program also includes decommissioning Medibank Private's legacy mainframe, upgrading its digital sale and services systems, and improving data warehouse and business intelligence systems associated with Project DelPHI. A failure to complete the IT Renewal Program on time, within budget and with the required level of functionality (including successfully managing the required extensive change in existing business processes and migration of existing systems and data to the new platform) may result in a write-off of the associated capital costs and have an adverse impact on customer service, financial performance, regulatory compliance and future competitiveness. A failure to complete the IT Renewal Program would result in a write-off of the associated capital costs and delays in replacing the existing systems, potentially adversely affecting financial performance and future competitiveness.

5.2.9. Loss of a major Complementary Services contract may result in significant costs and loss of profits

In its Complementary Services segment, Medibank Private has a range of government and corporate contracts to manage and deliver healthcare services. All or part of these contracts may not be re-tendered when the contracts expire. If re-tendered, Medibank Private may not successfully retain the contract or only succeed in retaining the contract at a reduced margin. Some of these contracts, including the ADF Health Services Contract, also contain customer rights of termination by notice without cause. For some government contracts, the customer's re-tendering of contracts, or rolling them over when they expire, is in part dependent upon the continuation of the customer's own program funding, which may be outside the control of both Medibank Private and the customer. A loss of one or more of these contracts could result in the impairment of Medibank Private's assets, or otherwise have a material adverse effect on Medibank Private's financial performance in terms of forgone revenue and costs to exit or transfer the set-up or activities associated with those contracts and reorganise its business.

5.2.10. Adverse clinical outcomes and clinical failures may impact Medibank Private

Medibank Private employs more than 800 medical health professionals in its Complementary Services segment, as well as contracting with a very wide array of providers on behalf of its members and customers. An adverse clinical outcome or failure to meet the clinical standards set by community expectation, contractual requirement or other duty of care obligation could result in reputational damage, litigation, additional costs (to the extent not met by Medibank Private's professional indemnity insurance) and loss of key contracts and market share.

5.2.11. Medibank Private may suffer damage to its brand or reputation

Medibank Private may suffer damage to its brand or reputation resulting from the impact of negative stakeholder opinion of Medibank Private's actions, behaviour, performance and position. This may expose Medibank Private to litigation, financial loss, a decline in Policyholder satisfaction and Policyholder numbers, and overall loss of competitiveness or loss of key personnel.

This risk may arise through the actions of Medibank Private or other private health insurers, as well as Medibank Private's employees, suppliers, contractors, affiliates and customers, and may adversely affect perceptions of Medibank Private held by the public, Shareholders, investors, customers, regulators and/or rating agencies. Lobby groups or other stakeholders may seek to influence the broader healthcare policy agenda by campaigning against certain Medibank Private initiatives (e.g. by accusing Medibank Private of seeking to exercise inappropriate influence over clinical decisions). A negative public campaign or adverse event affecting Medibank Private's reputation and brand, whether true or not, may adversely impact its financial performance and position.

Among other things, damage to Medibank Private's reputation may arise as a consequence of:

- harm caused to customers through the provision of healthcare services funded by Medibank Private or provided or arranged through Medibank Private's Complementary Services segment;
- regulatory action resulting from failure to comply with law or regulation;
- systems failures resulting in delays in claims processing or a failure to pay claims, or resulting in an accidental release of sensitive data;
- performance of subcontractors providing services on Medibank Private's behalf; and
- Medibank Private not maintaining a sufficient network of healthcare providers to satisfy customer preferences and needs.

5.2.12. If capital adequacy is threatened, Shareholders may be adversely affected

Medibank Private's capital management strategy plays a key role in managing risk and in meeting the critical objective of providing an appropriate level of capital to protect Policyholders' and other relevant stakeholders' interests. Further information about Medibank Private's Capital Management Policy is set out in Section 4.11.

In certain circumstances, to maintain appropriate capital levels Medibank Private may be required to reduce, or cease, dividend payments in respect for a financial period or periods. Medibank Private may also be required to raise further equity in future to ensure it holds sufficient capital, as set out in its Capital Management Policy. Depending on the structure of the capital raising, this may result in Shareholders' interests in Medibank Private being diluted and would have an adverse impact on Medibank Private's share price and financial performance.

5.2.13. Medibank Private may fail to comply with regulation

Medibank Private and other private health insurers are subject to regulation concerning how their PHI business is conducted. Private health insurers must be registered and must comply with a variety of obligations in relation to the conduct of their business including a requirement to offer products which comply with the requirements of the PHI Act, have appointed actuaries, compliance with prudential, solvency and capital adequacy requirements, exclusion of disqualified persons from management, and a number of reporting and notification obligations. The healthcare sector generally is regulated more than some other sectors of the Australian economy, which impacts both the Health Insurance business and the Complementary Services segment.

A failure to comply with all relevant regulation may result in Medibank Private incurring a penalty (such as a fine), censure which restricts the normal conduct of business, an obligation to pay compensation, the need to give a written undertaking to comply, or receiving a direction to comply with a capital or prudential standard. In some cases, a regulator may appoint an external manager of Medibank Private, cancel or suspend Medibank Private's authority to conduct business or undertake civil or criminal proceedings against Medibank Private. A significant failure to comply with regulatory requirements, including in relation to privacy and health information management, may also give rise to adverse comment by the press and other commentators, negatively affecting Medibank Private's financial performance.

Medibank Private is subject to laws and regulations with respect to workplace health and safety in the jurisdictions in which it operates. Employees or contractors who perform professional health services as part of Medibank Private's businesses are also subject to accreditation and other requirements under health practitioner laws and regulations. Additional or amended laws and regulations may increase the cost of compliance, adversely impact Medibank Private's ability to comply, or expose Medibank Private to greater potential liabilities where, for example, changes to the regulatory framework result in higher or more onerous regulatory standards. In the event Medibank Private breaches these laws and regulations, including, for example, where Medibank Private is held responsible for an injury or death, Medibank Private and its Directors and officers could be subject to sanctions and penalties.

5.2.14. Medibank Private may be subject to litigation, claims and disputes

Medibank Private may from time to time be involved in legal proceedings arising from the conduct of its businesses, including from customers, past and present employees, regulators, other insurers or suppliers, including as a consequence of unintentionally causing harm to Policyholders or others, misrepresenting to Policyholders their rights and entitlements under their PHI policies and/or failing to comply with Commonwealth or state regulations. The loss arising from such litigation may not be covered by insurance. The aggregate potential liability in respect of possible legal proceedings cannot be accurately assessed. Any material legal proceedings could have a material adverse impact on Medibank Private's financial performance and position and may also impact the pricing of premiums. Even if Medibank Private was to ultimately prevail in the litigation, regulatory action or investigation, it could suffer significant reputational damage, which could have an adverse effect on Medibank Private's business.

If future litigation, or threatened litigation, against Medibank Private was to result in damages being awarded or a commercial settlement being reached, it could have a material adverse effect on the financial performance and position of Medibank Private. Litigation may also arise in relation to disputes in respect of payments for claims under policies issued or distributed by Medibank Private, including diversified insurance products.

As part of the public discussion about the sale of Medibank Private, there have been suggestions that Medibank Private Policyholders hold, or once held, proprietary, contractual, equitable or other rights against or in respect of Medibank Private or its assets in addition to their rights to be insured under their PHI policies, or to compensation for the historical extinguishment of such rights. There have also been suggestions that Policyholders should be entitled to some form of participation in the sale or the proceeds of the sale. The Commonwealth has considered these suggestions and has concluded that there are no such rights or entitlements. No legal action alleging such rights or entitlements has been brought or formally threatened against the Commonwealth or Medibank Private. It is possible that legal action may be brought or threatened simultaneously with or after the IPO alleging the existence of such rights or entitlements. Any such claim is unlikely to have merit however it may adversely affect market certainty and confidence until it is finally determined.

5.2.15. Medibank Private may fail to attract and retain senior management and other key personnel

Medibank Private relies on the continued service of its senior management and other key personnel. Consequently, its future success will depend on its ability to identify, attract and retain people in key areas. Competitors may in the future attempt to recruit its senior management and other key employees, and Medibank Private's efforts to retain and develop personnel may also result in significant additional expenses, which could adversely affect its profitability. Medibank Private cannot guarantee that key personnel will continue to be employed in its business or that it will be able to attract and retain qualified personnel in the future. Failure to retain or attract key personnel could have a material adverse effect on Medibank Private's business, financial performance and results of operations.

5.2.16. If the Commonwealth retains a residual shareholding, it may have a voting interest for any Shareholder resolutions

Although the Commonwealth's objective in undertaking the Offer is to sell 100% of its shareholding in MPL, it may retain a shareholding following the Offer. MPL will cease to be Commonwealth controlled on Completion of the Offer. If the Commonwealth retains a shareholding following the Offer, the Commonwealth will have a voting interest in respect of all matters that require approval by Shareholders, including the election and removal of Directors (which requires a 50% resolution) and approval of significant corporate transactions which, depending on the transaction, may require a 50% or 75% resolution (unless the Commonwealth is prevented from voting under the Corporations Act or ASX Listing Rules). Any Commonwealth shareholding may limit the ability of other Shareholders to influence corporate matters, and as a result, actions may be taken by the Commonwealth in its capacity as a Shareholder that some Shareholders may not view as beneficial. If the Commonwealth retains any shares in MPL after Completion of the Offer, the Commonwealth intends to sell those Shares at a later time not being earlier than the announcement of Medibank Private's FY15 results and in a manner of its choosing.

5.3. RISKS RELATING TO THE PHI INDUSTRY

5.3.1. Rising healthcare costs may threaten the affordability of PHI

The sustainability of the PHI industry partly depends on low-risk Policyholders (typically younger, healthier Policyholders) perceiving value in holding PHI even though they are less likely to make large claims. The value of PHI as a product category may be lower for these Policyholders, such that low-risk Policyholders may be more sensitive to premium increases than higher-risk Policyholders. If premium increases cause low-risk Policyholders to discontinue their level of PHI cover, the private health insurer's income will decrease and the remaining Policyholders will tend to be higher-claiming Policyholders. These factors place additional upward pressure on premiums, which may in turn cause further low-risk Policyholders to question the value of their PHI. If PHI as a product category becomes unaffordable or unattractive for low-risk Policyholders, the industry as a whole may potentially become subject to an adverse cycle of increasing Policyholder lapses and increasingly high premium rate rises. In the absence of increased government incentives to take out and maintain PHI, this cycle could adversely affect the profitability of all private health insurers, including Medibank Private.

It is therefore important that private health insurers, including Medibank Private, are able to maintain the affordability of premiums to a broad Policyholder base, and thereby ensure a sustainable PHI participation rate. Private health insurers can implement strategies to control claims expenses, but some of the causes of upward pressure on claims expenses (such as Australia's ageing population) are largely outside the control of private health insurers. The affordability and attractiveness of PHI can also be affected by factors such as a worsening economic climate and increasing cost of living pressures. Accordingly, if there is a general shift away from holding PHI or towards downgrading PHI coverage, particularly by low-risk Policyholders, there may be an adverse effect on the financial performance of the industry as a whole, including Medibank Private.

The current Australian Government incentives to take out and maintain PHI are discussed in Section 2.3.3.

5.3.2. Government policy and regulation may change

PHI is regulated and is therefore sensitive to government policy and regulatory change. Policy or regulatory change may be adverse for the PHI industry and for Medibank Private. Alternatively, a policy or regulatory change may be neutral or positive for the PHI industry overall, but may impact Medibank Private differently according to:

- the characteristics of Medibank Private (e.g. because it is a large private health insurer or because of the particular demographics of Medibank Private's Policyholders); or
- how effective Medibank Private is in responding to the policy or regulatory change.

Medibank Private does not control the enactment or content of new legislation and regulations, or the effect they will have on its business operations or financial results, which could be materially adverse. If Medibank Private fails to adequately respond to such changes, including by implementing effective operational and strategic initiatives, or does not do so as effectively as its competitors, its business, operations and financial results may be materially adversely affected.

The Australian Government's current policy priorities for PHI are described in Section 2.3.13. As described in the following subsections, some areas of Australian PHI policy and regulation are, of their nature, particularly financially significant for private health insurers including Medibank Private. This means that any change in one of these areas may be material for Medibank Private. State and territory governments also have the potential to influence PHI participation rates through the introduction of, or changes to, policies and regulations that impact the provision of and access to public hospital services. This may increase the desirability of being treated in the public health system over the private system (e.g. reduced or similar waiting times) making PHI less attractive.

This is not an exhaustive description of all potential types of regulatory or policy change which may affect the PHI industry and Medibank Private.

Changes that reduce the effectiveness of Government PHI incentives

The PHI industry benefits significantly from the combination of Australian Government incentives designed to encourage Australians to obtain and maintain appropriate PHI policies, namely LHC, the PHI rebate and the MLS. In recent years, a number of changes have been made to the PHI rebate to seek to achieve savings in healthcare expenditure by the Australian Government – see Section 2.3.3 for more information.

Changes that reduce the effectiveness of incentives for some Policyholders to retain PHI could result in those Policyholders discontinuing their PHI policies. Alternatively, Policyholders may choose to downgrade their level of PHI cover in order to access policies with lower PHI premiums, which may be associated with lower-margin PHI products. In either case, the operating margin and net profit of the PHI industry and Medibank Private may be adversely affected.

For example, the introduction of income testing of the PHI rebate from 1 July 2012 reduced or removed the PHI rebate for a number of Policyholders. Although the overall Australian participation rate in PHI has not decreased since the introduction of income testing, in Medibank Private's experience the removal or reduction of the PHI rebate has resulted in some Policyholders downgrading their level of PHI cover. Medibank Private considers that further adverse changes to the PHI rebate would likely continue this trend or could result in affected Policyholders discontinuing their policies completely. Given that the PHI rebate and the MLS vary by income, movements in income levels in Australia may also have similar implications. In addition, the combined impacts of rising healthcare costs and the income testing of the PHI rebate may over time affect the affordability of PHI, and may also result in Policyholders downgrading or discontinuing their cover.

In the 2014–15 Federal Budget, the Australian Government announced its intention to freeze the income test thresholds for the PHI rebate for three years from 1 July 2014, which will increase the cost of holding PHI for some Australians as their income levels increase across various tier thresholds. This proposal has not yet been passed into law. If this proposal is implemented, affected Policyholders may discontinue their PHI policies or downgrade their cover.

Changes to Community Rating and risk equalisation measures

The principle of Community Rating requires that the availability of each PHI product, its features and the premium payable do not differ based on the health or demographic characteristics of the Policyholder (with some exceptions such as state- and territory-based pricing and LHC) – see Section 2.3.3 for more information. Private health insurers are thus prohibited from improperly discriminating against intending or current Policyholders on the basis of past or likely future health or risk factors such as age, lifestyle, race and gender.

To support the principle of Community Rating, risk equalisation arrangements through the Risk Equalisation Trust Fund apply to the PHI industry. Under these arrangements, all private health insurers contribute funds to or receive funds from the Risk Equalisation Trust Fund so that the industry as a whole partially shares the hospital and chronic disease management program costs of certain older and high-cost Policyholders.

Even changes to these arrangements that result in a neutral impact for the PHI industry as a whole may impact some individual private health insurers negatively. For instance, changes that reduce the redistribution of the cost of servicing high-cost Policyholders may negatively impact the financial performance of Medibank Private, given that Medibank Private has historically been a net recipient from the Risk Equalisation Trust Fund (reflective of its Policyholder base having an average age above the PHI industry average).

In FY15, it is estimated that Medibank Private's net receipts from the scheme will be around \$80 million. If the scheme is changed in a way which reduces the amount that Medibank Private receives from the Risk Equalisation Trust Fund (other than where this is matched by a saving in the claims expenses of high-cost Policyholders previously subsidised by the scheme), this could impact Medibank Private's profit.

Other possible changes to government policy and regulation

In its 2014–15 Budget, the Australian Government announced the transfer of the functions of PHIAC and PHIO to other departments or agencies by 1 July 2015, subject to the passage of the required legislation. This will see the prudential regulation functions of PHIAC transferred to APRA, the prudential regulator for general insurers as well as banks, credit unions, building societies, reinsurance companies, life insurers, friendly societies and most members of the superannuation industry. As at the Prospectus Date, APRA has not determined its approach to prudential regulation of the PHI industry except that it does not intend to make any changes to the existing capital and solvency standards for private health insurers before 1 July 2016. If the prudential settings for PHI were to be reviewed and a decision made to enhance them, this may require an increase in the amount, or a change in the nature, of the capital Medibank Private is required to hold. To meet any amended requirements, Medibank Private may need to change or take action under its Capital Management Policy, which may impact future dividends and product pricing and potentially require Medibank Private to raise additional capital. Any such change in regulation that APRA may decide to introduce to the capital adequacy standards would have an industry-wide impact. Enhancements to PHI prudential requirements may also require Medibank Private to establish new policies, processes and systems in relation to management of prudential risks.

Policy and regulatory changes in the broader healthcare industry may also impact the PHI industry and Medibank Private. This would include any changes to the Medicare regime or public hospital policy, which could require changes to Medibank Private's business model and lead to additional costs for Medibank Private (see Section 5.2.13 for more information).

Changes may also occur that impact Medibank Private's Complementary Services businesses, such as Telehealth services. These activities are not regulated to the same extent as Medibank Private's Health Insurance business. The imposition of additional regulation on these activities may lead to additional compliance costs for Medibank Private.

The cost base of Medibank Private's overall business could also potentially be impacted by changes relating to the regulation of personal privacy and health information management. Medibank Private collects, processes, maintains, retains and distributes large amounts of personal (including health-related) and financial information and other confidential and sensitive data about its Policyholders and customers in the ordinary course of its business. Any changes in the regulations governing the use and disclosure of such information, such as changes which require Medibank Private to obtain extra privacy consents from customers, or which prohibit data gathering from existing sources so that such data must instead be obtained directly from customers, could increase costs for Medibank Private or reduce opportunities for cross-selling non-PHI product lines.

Di Natale Bill

As at the Prospectus Date, a private member's Bill, the Private Health Insurance (GP Services) Bill 2014, is before the Australian Senate. If passed, this Bill would prohibit private health insurers from entering into arrangements that provide for GP services to be rendered to Policyholders, or that result in Policyholders having preferential access to GP services, unless authorised by rules made under the PHI Act. The Bill was referred to the Senate Community Affairs Legislation Committee on 17 June 2014, and on 4 September 2014 a majority of the members of the Committee recommended that the Bill should not be passed.

5.3.3. Changes in the public healthcare system may increase claims costs and have other implications

The regulatory settings for PHI are designed to complement the public healthcare system and changes in one system are likely to affect the other. In recent years, public hospitals have become more focused on maximising their revenue from private health insurers such as Medibank Private by increasing the rate at which privately insured patients at public hospitals are admitted as private (rather than public) patients and increasing certain private patient fees, including accommodation fees for single rooms. The 'conversion' of a PHI Policyholder from a potentially public patient (who would not have made a PHI claim for hospitalisation) into a private patient results in increased costs for the Policyholder's private health insurer (which could be Medibank Private). In addition, if health services that are currently provided free of charge under the public healthcare system become more constrained (e.g. because the waiting lists are longer), individuals who have PHI are more likely to use their PHI to access the service in the private sector, which again results in increased claims costs for the PHI industry including Medibank Private.

In the future, should regulatory change result in PHI products extending into segments of the healthcare system where private health insurers have not previously been active (e.g. general practice), this could result in additional risks associated with designing products in an area where Medibank Private may have limited direct experience.

5.3.4. Competitor actions and changes in the competitive landscape may disadvantage Medibank Private

The market for PHI in Australia is competitive. Private health insurers compete to attract and retain Policyholders principally on price, product features and service. Medibank Private's competitors include a division of a large multinational not-for-profit company, other for-profit insurers, mutual entities that are owned by their members and not-for-profit organisations that may operate at lower margins (see Section 2.3.9 for more information about Medibank Private's competitors).

Competition in the Australian PHI industry is rising due to:

- increasing use of the internet. By selling policies over the internet, smaller local or regional private health insurers have the opportunity to compete nationally;
- increasing use of comparison websites. Comparison websites allow customers to access information that enables them to compare the price and features of many PHI policies at once. Some of the comparison websites also enable customers to buy policies through the site, with the comparison website taking a commission on the sale; and
- increasing consumer awareness linked to use of the internet and the marketing activities of comparison websites.

Competition could also increase in the future through further consolidation and the entry of new participants. Failure to compete successfully could result in Medibank Private experiencing lower than expected Policyholder numbers, revenue and net profit. Competition within the PHI industry can also put downward pressure on premium rates and therefore margins.

The rise of online sales may also reduce the barriers to entry to new entrants seeking to establish a national presence or compete nationally and diminish the competitive advantage that Medibank Private has historically enjoyed as a result of its scale, including its national retail branch network and higher marketing spend. The ability to sell through the internet may enable new entrants to compete more effectively, without requiring the same investment in retail branches, call centres and other retailing infrastructure that Medibank Private maintains, resulting in some competitors having a lower cost base than Medibank Private.

Furthermore, specific competitor actions may target Medibank Private's Policyholders through promotions, discounts and campaigns. In particular, there is a risk that competitors will target Medibank Private Policyholders in conjunction with its transition to private ownership.

5.4. GENERAL RISKS RELATING TO INVESTMENTS IN SHARES

5.4.1. Medibank Private's share price may fluctuate

There are risks associated with any investment in a company listed on the ASX. The market price for the Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the control of the Commonwealth and Medibank Private, including the following:

- actual or anticipated fluctuations in Medibank Private's results and recommendations by securities research analysts;
- fluctuations in the domestic and international market for listed securities;
- general operational and business risks, including significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving Medibank Private or its competitors;
- the inclusion of Medibank Private in (or removal from) market indices;
- the addition or departure of Medibank Private's executive officers and other key personnel;
- changes in the economic performance or market valuations of other PHI businesses or other companies that investors deem comparable to Medibank Private; and
- general economic conditions, including interest rates, inflation rates, exchange rates, commodity prices or changes to government fiscal, monetary or regulatory policies, legislation or regulation.

Financial markets have at times experienced significant price and volume fluctuations that have particularly affected the market price of equity securities of companies, and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Shares may decline even if Medibank Private's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be permanent, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur and that Medibank Private's operations will not be adversely impacted, or that the trading price of the Shares will not be adversely affected.

5.4.2. No prior public market for the Shares

The offering price of the Shares will be determined by the Commonwealth and may not be indicative of the price at which the Shares will trade following Completion of the Offer. There is no guarantee that the market price of the Shares will not materially decline below the price paid for the Shares.

Before the Offer, no public market existed for the Shares. An active and liquid market for the Shares may not develop following Completion of the Offer or, if developed, may not be maintained. If a liquid market does not develop or is not maintained, investors may have difficulty selling their Shares. If there are relatively few buyers or sellers of the Shares on the ASX at any time, this may increase the volatility of the market price of the Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares. This may result in Shareholders receiving a market price for their Shares that is less than the price they paid for the Shares.

5.4.3. Future debt or equity offerings may adversely affect Shareholders, including through dilution

In the future, Medibank Private may attempt to increase its capital resources by making offerings of debt securities or additional offerings of equity securities. Upon any bankruptcy or liquidation, holders of Medibank Private debt securities, preferential securities and lenders with respect to other borrowings will receive a distribution of the available assets prior to Shareholders. Medibank Private preferential securities, if issued, could have a preference on distributions or a preference on dividend payments or both that could limit Medibank Private's ability to pay a dividend or other distribution to Shareholders. As Medibank Private's decision to issue securities in any future offering will depend on market conditions and other factors beyond its control, Medibank Private cannot predict or estimate the amount, timing or nature of future offerings. Thus, Shareholders bear the risk of future offerings reducing the market price of the Shares and diluting their shareholdings in Medibank Private.

5.4.4. General economic and market conditions may adversely affect Medibank Private

General economic conditions (both domestically and internationally) may adversely impact Medibank Private's business, the price of the Shares, and Medibank Private's ability to pay dividends. A prolonged downturn in general economic conditions may impact the demand for Medibank Private's products or services or make it difficult to win or renew contracts. Economic conditions in Australia may also encourage increased competition, either from domestic or overseas competitors. These factors may in turn have a material adverse effect on Medibank Private's financial performance and growth prospects.

Medibank Private's ability to access capital markets to obtain funding on acceptable terms will be dependent on prevailing economic and market conditions.

5.4.5. Taxation changes may adversely impact Shareholder returns

Potential tax law changes may apply either on a prospective or retrospective basis. Such changes may affect Shareholder returns. Any change to the current rates of tax imposed on Medibank Private (including in foreign jurisdictions in which Medibank Private operates) is likely to affect returns to Shareholders (e.g. the changes relating to the Australian Government's announced proposals to reduce the company tax rate from 30% to 28.5% and the introduction of a paid parental leave levy of 1.5% from 1 July 2015).

An interpretation of taxation laws by the relevant tax authority that is contrary to Medibank Private's view of those laws may increase the amount of tax to be paid or cause changes in the carrying value of tax assets in Medibank Private's financial statements. In addition, any change in tax rules and tax arrangements could have an adverse effect on the level of dividend franking and Shareholder returns.

5.4.6. Changes to accounting standards may adversely affect Medibank Private

Changes to the AAS are determined by the AASB. The AASB may, from time to time, introduce new or refined AAS, which may affect the future measurement and recognition of key income statement and balance sheet items, including revenue and receivables. There is also a risk that interpretations of existing AAS, including those relating to the measurement and recognition of key statements of profit and loss and balance sheet items, including revenue and receivables, may differ. Changes to AAS issued by the AASB or changes to the commonly held views on the application of those standards could materially and adversely affect the financial performance and position reported in Medibank Private's financial statements.

5.4.7. Force majeure events may adversely affect Medibank Private

Acts of terrorism, an outbreak or escalation of international hostilities, fires, floods, earthquakes, labour strikes, civil wars and other natural disasters may cause a material adverse change in investor sentiment towards Medibank Private specifically or the stock market more generally, which could have a negative impact on the value of an investment in the Shares.





SECTION 6





KEY PEOPLE, INTERESTS AND BENEFITS



6.1. BOARD OF DIRECTORS





The Directors bring to the Board extensive relevant experience and skills, including industry and business knowledge, financial management and corporate governance experience.





Name and title	Biography
 Elizabeth Alexander AM Non-executive Chairman <i>BCom, FAICD, FCA, FCPA</i>	<p>Elizabeth was appointed as a Director in October 2008 and appointed as Non-executive Chairman of the Board in March 2013.</p> <p>As a former partner at PricewaterhouseCoopers (1977–2002), Elizabeth specialised in the area of risk management and corporate governance issues.</p> <p>Elizabeth is currently Non-executive Chairman of DEXUS Wholesale Property, a Non-executive Director of DEXUS Property Group and the IOOF Foundation, Chancellor of the University of Melbourne, and a member of the McKeon Review, the <i>Strategic Review of Health and Medical Research</i>.</p> <p>Elizabeth was previously Chairman of CSL and a Director of Boral and Amcor. 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 in Australia.</p>
 George Savvides Managing Director <i>BE (Hons), MBA, FAICD</i>	<p>George was appointed to the Board in September 2001 and appointed Managing Director of Medibank Private in April 2002.</p> <p>Trained as an industrial engineer, George has 25 years experience in the Australian healthcare industry. George also holds an MBA.</p> <p>George is currently a member of the Business Council of Australia, represents Australia as the Vice President on the Council of the International Federation of Health Plans, is a Non-executive Director of Ryman Healthcare NZ, and is Chairman of World Vision Australia.</p> <p>George is a former Managing Director of Healthpoint Technologies and Smith & Nephew Australasia, Managing Director and Chief Executive Officer of Sigma Pharmaceuticals, General Manager of CIG Healthcare Australia, and Chairman of Medicines Partnerships of Australia.</p>
 Anna Bligh Non-executive Director <i>BA (QLD)</i>	<p>Anna was appointed to the Board in December 2012 as a Non-executive Director.</p> <p>Anna has extensive experience in leadership and public policy, including in the fields of healthcare, finance, infrastructure and project management.</p> <p>Anna is currently the Chief Executive Officer of YWCA NSW and a Non-executive Director of Bangarra Dance Theatre.</p> <p>Anna has 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.</p>
 David Fagan Non-executive Director <i>LLB, LLM, GAICD</i>	<p>David was appointed to the Board in March 2014 as a Non-executive Director and is Chairman of the Privatisation Committee.</p> <p>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.</p> <p>David is a Director and Chair of the Audit Committee of The Global Foundation, a Director of Hilco Merchant Australia, Hilco Oz and UBS Grocon Real Estate Investment Management, and a member of the Law Institute of Victoria, the Law Society of New South Wales and the International Bar Association.</p>



Name and title	Biography
 <p>Dr Cherrell Hirst AO Non-executive Director <i>FTSE, MBBS, BEdSt D</i> <i>Univ (Hon), FAICD</i></p>	<p>Cherrell was appointed to the Board in December 2009 as a Non-executive Director.</p> <p>Cherrell practised medicine for 30 years and is a highly experienced company director.</p> <p>Cherrell is the Chairman of ImpediMed and a Non-executive Director of the Gold Coast Hospital and Health Service and Tissue Therapies. In addition, she sits on the boards of two unlisted biotechnology companies (Hatchtech and Verva Pharmaceuticals) and on the advisory boards of two research entities.</p> <p>Cherrell was formerly a Director of Suncorp Group and Avant Group, Chair of Peplin, and, until very recently, the part-time CEO of QIC BioVentures. She was Chancellor of the Queensland University of Technology from 1994 to 2004.</p>
 <p>Peter Hodgett Non-executive Director <i>BSc (Hons), FIAA, FAHRI,</i> <i>FAICD</i></p>	<p>Peter was appointed to the Board in June 2013 as a Non-executive Director and is Chairman of the Investment and Capital Committee.</p> <p>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. Prior to that, Peter spent 10 years in the United Kingdom working for the UK Government Actuary and Hill Samuel.</p> <p>Peter is currently a Non-executive Director of Colonial First State Investments, Colonial Mutual Superannuation and Avanteos Investments. He is also a member of the Compliance Committee for CFS Managed Property.</p>
 <p>Linda Bardo Nicholls AO Non-executive Director <i>BA, MBA (Harvard), FAICD</i></p>	<p>Linda was appointed to the Board in March 2014 as a Non-executive Director.</p> <p>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.</p> <p>Linda is currently a Director of Pacific Brands, Fairfax Media and Sigma Pharmaceuticals. She is also Chairman of Japara Healthcare and KD Australia.</p> <p>Linda was previously a director of a number of companies, including Healthscope (a former chair), St.George Bank, Australia Post (a former chair) and Insurance Manufacturers of Australia.</p>
 <p>Christine O'Reilly Non-executive Director <i>BBus</i></p>	<p>Christine was appointed to the Board in March 2014 as a Non-executive Director.</p> <p>Christine has more than 30 years of financial and infrastructure experience both in Australia and internationally.</p> <p>Christine is currently a Director of CSL, Transurban, EnergyAustralia and Baker IDI, and is Deputy Chair of Care Australia.</p> <p>Christine was formerly Co-head of Unlisted Infrastructure at Colonial First State Global Asset Management, and prior to that was CEO and a Director of GasNet Australia Group.</p>

6.2. SENIOR MANAGEMENT TEAM

The senior management team has been assembled to incorporate a wide range of expertise and skills to foster Medibank Private's development.

Name and title	Biography
 George Savvides Managing Director <i>BE (Hons), MBA, FAICD</i>	Refer to the biography in Section 6.1.
 Paul Koppelman Chief Financial Officer <i>BBus, CA, Grad Dip Investment Management</i>	<p>Paul was appointed Chief Financial Officer in May 2012.</p> <p>Paul has responsibility for the finance, legal and company secretariat divisions across Medibank Private, as well as its actuarial, Treasury, investor relations, planning, risk management and assurance, property and corporate services functions.</p> <p>Paul has 25 years experience in the finance industry, including as General Manager of Corporate Finance for Pacific Brands, CFO for the Aluminium and Commercial divisions of BHP Billiton, and CFO of AXA Australia and New Zealand.</p>
 Laz Cotsios Chief Customer Officer <i>BSc (Ma), Grad Dip Accounting</i>	<p>Laz was appointed Chief Customer Officer in March 2014 and was previously Group Executive of the Private Health Insurance Division, a position he took up in August 2011.</p> <p>Laz is responsible for product, marketing, sales and service to consumers, as well as corporate and Government customers.</p> <p>Laz has 20 years experience in financial services and prior to joining Medibank Private, held senior executive roles in financial services with well-known international and Australian companies, including Managing Director and Chief Operating Officer of UBS Wealth Management Australia, as well as General Manager of Westpac Customer Service. Laz has extensive experience in driving business strategy and developing new business, as well as improving operational efficiency and customer service for large organisations. Laz is also a board member of Private Healthcare Australia.</p>
 David Koczkar Chief Operating Officer <i>BCom, PG Dip Finance</i>	<p>David was appointed Chief Operating Officer in March 2014.</p> <p>David is responsible for strategy, business development, M&A, IT and business operations.</p> <p>David has 20 years experience in commercial management, strategy and business development, including experience in consulting and financial services. Most recently, David was the Group Chief Commercial Officer of Jetstar, where he was responsible for all revenue generation activities, business development and commercial operations for the Jetstar group of airlines, including as a Director of Jetstar Pacific (Vietnam), Jetstar Hong Kong and Newstar (Singapore). David was part of the core team that developed the business case for Jetstar and built it into a successful Pan-Asian business.</p>

Name and title	Biography
 <p>Dr Andrew Wilson Executive General Manager, PNIC <i>MBBS, MM,</i> <i>FRANZCP, FACHSE</i></p>	<p>Andrew was appointed Executive General Manager of PNIC in April 2013 and is responsible for managing claims expenses, provider contracting, claims auditing and improved model of care initiatives encompassing Medibank Private's relationships with hospitals and medical professionals.</p> <p>Andrew has 25 years experience in the health sector, and remains a practising psychiatrist and lecturer.</p> <p>Andrew was Co-founder and Co-president of McKesson Asia-Pacific, which was acquired by Medibank Private in 2010.</p>
 <p>Kylie Bishop Executive General Manager, People & Culture <i>BA (Hons), MA (Org Psych)</i></p>	<p>Kylie was appointed Executive General Manager, People & Culture in July 2013 and is responsible for leading the key people functions across Medibank Private. Kylie was responsible for overseeing the recent premises consolidation in Melbourne. Kylie is leading the business in its activity-based work transformation program.</p> <p>Kylie is a registered psychologist, has significant experience in the finance industry, and formerly held the position of General Manager of Culture, Capability & Communications at Medibank Private.</p> <p>Prior to joining Medibank Private in 2010, Kylie held senior global positions with National Australia Bank and also led a number of human resources consulting teams.</p>
 <p>Mei Ramsay Group General Counsel and Company Secretary <i>BA, LLB, LLM</i></p>	<p>Mei was appointed Group General Counsel in March 2011 and Company Secretary in October 2014. Mei is responsible for the legal and company secretarial functions, advising the Managing Director and Board on legal and governance issues, as well as all areas of the business in relation to regulatory, compliance and commercial legal matters.</p> <p>Mei has more than 20 years experience in the legal profession, both as internal counsel and in private practice.</p> <p>Prior to joining Medibank Private, Mei was the General Counsel and Company Secretary for the Asia-Pacific Distribution division of Cummins Inc. and held various legal positions at Coles Myer, Southcorp, Minter Ellison and Arnold Bloch Leibler.</p>
 <p>Andrew Matthews Chief Actuary <i>BCom, MSc (Org Dev), FIAA</i></p>	<p>Andrew was appointed Chief Actuary in April 2013.</p> <p>Andrew is responsible for the actuarial function, prudential governance and regulatory requirements.</p> <p>Andrew brings more than 20 years experience leading actuarial practice, capital management, and pricing in financial services and insurance. Prior to joining Medibank Private, Andrew was a Partner at Ernst & Young. He has served as Head of Insurance Risk at Insurance Australia Group (IAG) and in a range of leadership roles in actuarial practice across IAG and CGU Insurance. He also held positions at National Mutual, Trowbridge Consulting and the Transport Accident Commission.</p>

Name and title	Biography
 <p>Chris Richardson General Manager, Treasury & Investor Relations <i>BCom (Hons), SA Fin, FTP</i></p>	<p>Chris was appointed General Manager, Treasury & Investor Relations in January 2014.</p> <p>Chris is responsible for Treasury, including managing Medibank Private's investment portfolio and all aspects of investor relations.</p> <p>Chris has 25 years experience across investment banking, corporate finance, valuations, due diligence, risk management, investor relations, Treasury and investment management. Prior to joining Medibank Private, Chris worked in a variety of advisory and corporate roles, including with UBS, PricewaterhouseCoopers and, most recently, Pacific Brands, where he held the role of General Manager, Treasury & Investor Relations.</p>
 <p>Muir Watson Chief Risk Officer <i>BAcc (Hons), CA, MBA (Exec)</i></p>	<p>Muir was appointed Chief Risk Officer in August 2011.</p> <p>Muir is responsible for the enterprise risk management, business continuity, regulatory compliance and insurance functions.</p> <p>Muir has 24 years experience in risk management, both in advisory and corporate. Prior to joining Medibank Private, he was the Principal of Risk & Audit Advisory Services, a boutique risk, audit and insurance consulting firm. Muir has also been Head of Group Risk & Audit at Brambles, Second in Charge in Risk Management & Audit at BHP and held various positions in Australia and the United Kingdom with Ernst & Young. Muir is a founding member of the Corporate Risk Management Roundtable and is a regular speaker on risk and compliance management issues.</p>

6.3. INTERESTS AND BENEFITS

This section sets out the nature and extent of the interests and fees of certain persons involved in the Offer. Other than as set out below or elsewhere in this Prospectus, no:

- Director or proposed Director of MPL;
- person named in this Prospectus who has performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- promoter of MPL; or
- financial services licensee named in this Prospectus as a financial services licensee involved in the Offer,

holds, as at the time of lodgement of this Prospectus with ASIC, or held in the two years before lodgement, an interest in:

- the formation or promotion of MPL;
- property acquired or proposed to be acquired by MPL in connection with its formation or promotion or the Offer; or
- the Offer,

and no amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given to any such person for services in connection with the formation or promotion of MPL or the Offer, or to any Director or proposed Director to induce them to become, or qualify as, a Director.

6.3.1. Interests of advisers

The Commonwealth and/or MPL have engaged the following professional advisers in relation to the Offer:

- Deutsche Bank AG, Sydney Branch, Goldman Sachs Australia Pty Ltd and Macquarie Capital (Australia) Limited have acted as JLMs to the Offer, and will receive the fees payable to the JLMs described in Section 10.8.
- Bell Potter Securities Limited, Commonwealth Bank of Australia, Morgans Financial Limited and UBS Wealth Management Australia Limited have acted as Co-Lead Managers to the Offer and will be paid fees payable to Brokers described in Section 10.8 payable by the JLMs on behalf of the Commonwealth.
- Evans and Partners Pty Limited and Ord Minnett Limited have acted as Co-Managers to the Offer and will be paid fees payable to Brokers described in Section 10.8 payable by the JLMs on behalf of the Commonwealth.
- Craigs Investment Partners Limited, JBWere Limited, JBWere (NZ) Pty Limited, Macquarie Equities Limited, Macquarie Equities New Zealand Limited and Wilson HTM Corporate Finance Limited have acted as retail affiliates of the JLMs to the Offer and will be paid fees payable to Brokers described in Section 10.8 payable by the JLMs on behalf of the Commonwealth.

- Lazard Pty Limited has acted as Business Adviser to the Commonwealth in relation to the Offer. The Commonwealth has paid or agreed to pay a fee of \$3.5 million (inclusive of GST) for these services.
- Herbert Smith Freehills has acted as Australian Legal Adviser to the Commonwealth in connection with the Offer. The Commonwealth has paid or agreed to pay \$3.0 million (inclusive of GST) for these services to the Prospectus Date. Further amounts may be paid to Herbert Smith Freehills in accordance with its normal time-based charges.
- Ernst & Young has acted as the accounting and tax adviser to the Commonwealth in relation to the Offer. The Commonwealth has paid or agreed to pay \$1.9 million (inclusive of GST) for these services.
- Ernst & Young Transaction Advisory Services Limited has acted as Investigating Accountant to the Commonwealth in relation to the Offer. The Commonwealth has paid or agreed to pay \$0.2 million (inclusive of GST) for these services.
- Ernst & Young ABC Pty Limited has acted as Consulting Actuary to the Commonwealth in relation to the Offer. The Commonwealth has paid or agreed to pay \$0.1 million (inclusive of GST) for these services.
- King & Wood Mallesons has acted as Australian Legal Adviser to MPL in relation to the Offer and associated preparation for Listing. MPL has paid or agreed to pay \$4.0 million (inclusive of GST) for these services to the Prospectus Date. Further amounts may be paid to King & Wood Mallesons in accordance with its normal time-based charges.
- Deloitte Touche Tohmatsu has acted as Business and Accounting Adviser to MPL in relation to the Offer. MPL has paid or agreed to pay \$3.8 million (inclusive of GST) for these services.
- Reunion Capital Partners Pty Limited has acted as Capital Markets Adviser to MPL in relation to the Offer. MPL has paid or agreed to pay up to \$0.6 million (inclusive of GST) for these services to the Prospectus Date.

These amounts, and other expenses of the Offer, will be paid by the Commonwealth and MPL out of available cash (subject to the reimbursement of Medibank Private's expenses by the Commonwealth as described in Section 10.20). Further information on the use of the proceeds of the Offer is set out in Section 7.2.

6.3.2. Directors' and senior management's interests and remuneration

Payments in connection with the Offer

No Directors or members of senior management will receive any payments in connection with the Offer.

Directors' interests in Shares and other securities

As at the Prospectus Date, the Commonwealth is the sole Shareholder in MPL and no Directors or members of senior management hold Shares or options. Directors are not required under the Constitution to hold any Shares. In accordance with the Commonwealth's probity requirements for the IPO, the Directors may only apply for Shares under the General Public Offer or the Policyholder Offer. The Non-executive Directors will seek to ensure that over a period of three to five years the Non-executive Directors acquire Shares with a value equal to one year's base fee after tax.

Non-executive Directors' remuneration

Prior to the Completion of the Offer, Non-executive Directors' fees, including committee fees, have been set by the Commonwealth Remuneration Tribunal. Following Completion of the Offer, under the Constitution, the Board is responsible for determining the total amount paid to each Non-executive Director as remuneration for their services as a Director of MPL.

The Board, following an extensive review and recommendations from KPMG, has decided the total amount to be paid to each Non-executive Director upon Completion of the Offer. In making this determination, the Board has taken into account the level of work required for the role and has had regard to the median remuneration paid to Non-executive Directors of companies with a market capitalisation positioned within the ASX 50 to 100 (excluding certain energy and mining companies) and certain ASX-listed insurance companies.

In any financial year, the total fees paid to all Directors for their services (excluding, for these purposes, the salary of any executive Director) must not exceed, in aggregate, the amount fixed by MPL in general meeting. This aggregate amount has been set by MPL at \$2,000,000 per annum. Any increase to this amount needs to be approved by Shareholders. The aggregate sum does not include any special or additional remuneration for special exertions or additional services performed by a Director as determined appropriate by the Board. Non-executive Directors are eligible for life, death and permanent disability insurance cover and may purchase subsidised PHI and other insurance products on the same terms as Employees.

The annual Directors' fees to be paid by MPL following Completion of the Offer are \$390,000 to the Chairman, Elizabeth Alexander, and \$140,000 to each of the other Non-executive Directors.

The chair of the Audit and Risk Management Committee will be paid an additional \$35,000 annually, and all members of the committee will be paid an additional \$17,000 annually. The chair of the People and Remuneration Committee and Investment and Capital Committee will be paid an additional \$25,000 annually, and all members of both committees will be paid an additional \$12,000 annually. MPL will not pay any additional fees in relation to membership of the Nomination Committee.

All Directors' fees include superannuation.

Directors may also be reimbursed for all reasonable travel and other expenses incurred by the Directors in attending to Medibank Private's affairs, including Board and other meetings. Directors may also be paid additional remuneration if they, at the request of the Board, perform any extra services. There are no retirement benefit schemes for Non-executive Directors, other than statutory superannuation contributions.

Managing Director's remuneration

Prior to the Completion of the Offer, George Savvides' total remuneration has been determined by the Board in compliance with the terms and conditions determined by the Commonwealth Remuneration Tribunal to be applicable to the office of Managing Director of MPL. Following Completion of the Offer, the Board will continue to determine the remuneration paid to the Managing Director but will not need to have regard to those terms and conditions.

At the Board's request, KPMG has conducted an extensive review of executive remuneration for companies with a market capitalisation positioned within the ASX 50 to 100 (excluding certain companies in the metals and mining or energy sectors) and with regard to certain ASX-listed insurance companies, with fixed remuneration for the Managing Director benchmarked around the median of the relevant market. Following this, Medibank Private has entered into a fixed term employment contract with George Savvides to govern his employment with Medibank Private as its Managing Director. George Savvides will, on Completion of the Offer, be entitled to receive annual fixed remuneration of \$1.2 million (inclusive of superannuation).

George Savvides will be entitled to participate in Medibank Private's STI Plan. George Savvides' target participation under the STI Plan will be 70% of his annual fixed remuneration and will depend on meeting various financial hurdles. In FY15, an additional STI opportunity linked to the achievement of operating profit as set out in the Forecast Financial Information will be included in the STI Plan (see Section 10.6.1 for further details on the STI Plan, including the additional one-off component for FY15).

On or shortly after Completion of the Offer, Medibank Private intends to grant George Savvides performance rights with an underlying face value of \$1.2 million under the Performance Rights Plan as the long-term incentive component of his remuneration for FY15. These performance rights will require specific performance hurdles to be met over the performance period in order for vesting to occur (see Section 10.6.3 for further details).

George Savvides' employment contract will continue until 31 July 2017, unless terminated earlier. Either party may terminate the contract by giving:

- in the case of George Savvides, six months' written notice to Medibank Private; or
- in the case of Medibank Private, 12 months' written notice to George Savvides or payment in lieu of notice.

Medibank Private may direct George Savvides to take enforced leave during any notice period of termination, during which time he will remain an employee and remain entitled to receive remuneration and all other contractual benefits.

Medibank Private may terminate George Savvides' employment without notice or payment in lieu of notice in certain circumstances, including for serious misconduct. Medibank Private also has this right in the event George Savvides is, in the opinion of the Board, negligent or persistently incompetent in the performance of his duties.

On termination of George Savvides' employment contract, he will be subject to a restraint of trade period of six months. Medibank Private may elect to reduce the restraint of trade period, or eliminate the period in its entirety. The enforceability of the restraint clause is subject to all usual legal requirements.

Senior management remuneration

Medibank Private's other members of senior management, including the Executive Committee, are employed under individual employment agreements. These establish:

- annual fixed remuneration, which includes superannuation contributions to a complying fund of the individual's election;
- termination notice provisions of three to six months by either party;
- eligibility to participate in Medibank Private's STI Plan at a specified target level based on annual fixed remuneration; and
- for members of the Executive Committee:
 - a one-off additional opportunity in FY15 under the STI Plan (capped at \$750,000 for George Savvides and capped at \$1,580,458 in aggregate for the other members of the Executive Committee) linked to the achievement of operating profit as set out in the Forecast Financial Information (see Section 10.6.1 for more information); and
 - eligibility to receive offers of long-term incentives under the Performance Rights Plan. Together, members of the Executive Committee (excluding George Savvides) will receive performance rights with an underlying face value of \$1,896,549 in aggregate on or shortly after Completion of the Offer as the long-term incentive component of their remuneration for FY15 (see Section 10.6.3 for further details).

The senior management remuneration policy is designed to focus senior management on achieving Medibank Private's strategy and business objectives. The philosophy links remuneration directly to the performance and behaviour of individuals and Medibank Private's results. The reward framework is designed to:

- reward senior management for corporate financial and operational performance against targets set by reference to appropriate benchmarks;
- align the interests of senior management to reward growth in Shareholder value;
- link reward with the strategic goals and the performance of Medibank Private; and
- provide competitive levels of remuneration to attract and retain key talent.

6.3.3. Deeds of indemnity, insurance and access

MPL has entered into a deed of indemnity, insurance and access with each Director that confirms and extends the Director's general law rights of access to Board papers and other records of Medibank Private. Under the deed, MPL agrees to indemnify each Director, to the maximum extent permitted by law, against any liability the Director incurs in connection with their role as a Director of MPL, a subsidiary of MPL or any other body corporate to whom the Director is appointed at the request of MPL (an 'outside entity').

The deed also requires MPL to maintain a directors and officers insurance policy that insures each Director against certain liabilities incurred as a Director of MPL (or a subsidiary or outside entity) until seven years after they cease to hold office as a Director of MPL (or a subsidiary or outside entity), or the date any action commenced during that seven-year period is finally resolved.

6.3.4. Related party arrangements

As set out in Section 6.1, certain Directors hold Director positions with other entities. These entities may transact with Medibank Private from time to time. Any such transactions occur in the normal course of business, and the terms and conditions of the transactions are no more favourable than those available, or which might reasonably be expected to be available, for similar transactions with unrelated entities on an arm's-length basis.

6.4. Corporate governance

This section explains how the Board oversees the management of Medibank Private. The Board is responsible for the overall corporate governance of Medibank Private, including establishing and monitoring key performance goals. The Board monitors the operational performance and financial position of Medibank Private, as well as overseeing the business strategy, including approving strategic goals. The Board is committed to maximising performance, generating appropriate levels of Shareholder value and financial returns, and sustaining the growth and success of Medibank Private. In conducting business in accordance with these objectives, the Board seeks to ensure that Medibank Private is properly managed to protect and enhance Shareholder interests, and that MPL, its Directors, officers and personnel operate in an appropriate environment of corporate governance.

The Board has created a framework for managing Medibank Private. This includes adopting relevant internal controls, risk management processes and corporate governance policies and practices, which are designed to promote responsible management and conduct.

The ASX Corporate Governance Council has developed and released its *Corporate Governance Principles and Recommendations* (3rd edition) (**ASX Recommendations**) for ASX-listed entities in order to promote investor confidence and to assist companies in meeting stakeholder expectations. The ASX Recommendations are not prescriptions, but guidelines. However, under the ASX Listing Rules, MPL will be required to provide a statement in its annual report disclosing the extent to which it has followed the ASX Recommendations in the reporting period. Where MPL does not follow a recommendation, it must identify the recommendation that has not been followed and give reasons for not following it. MPL currently intends to follow all of the ASX Recommendations from the time of its Listing.

Medibank Private has approved new policies and charters to reflect the ASX Recommendations and relevant PHIAC Governance Standards which will be effective upon Listing. Copies of Medibank Private's key governance policies and the charters for the Board and each of its committees to apply upon Listing will be available at www.medibank.com.au/about/company/overview/privatisation during the Offer Period.

6.4.1. Board of Directors

The Board of Directors comprises the seven independent Non-executive Directors and the Managing Director, namely:

- Elizabeth Alexander AM – Non-executive Chairman;
- George Savvides – Managing Director;
- Anna Bligh – Non-executive Director;
- David Fagan – Non-executive Director;
- Dr Cherrell Hirst AO – Non-executive Director;
- Peter Hodgett – Non-executive Director;
- Linda Bardo Nicholls AO – Non-executive Director; and
- Christine O'Reilly – Non-executive Director.

Detailed biographies are provided in Section 6.1.

Each Director has confirmed to MPL that he or she anticipates being available to perform his or her duties as a Non-executive Director or Executive Director without constraint from other commitments.

The Board considers an independent Director to be a Non-executive Director who is not a member of Medibank Private's management and who is free of any business or other relationship that could materially interfere with or reasonably be perceived to interfere with the unfettered and independent exercise of their judgement. The Board regularly reviews the independence of each Director in light of interests disclosed to the Board.

The Board Charter sets out factors relevant to assessing the independence of Directors in accordance with the ASX Recommendations.

The Board considers qualitative principles of materiality for the purpose of determining 'independence' on a case-by-case basis. The Board considers that Elizabeth Alexander, Anna Bligh, David Fagan, Dr Cherrell Hirst, Peter Hodgett, Linda Bardo Nicholls and Christine O'Reilly are all free from any business or any other relationship that could materially interfere with, or reasonably be perceived to interfere with, exercising their judgement, and are able to fulfil the role of independent Director for the purpose of the ASX Recommendations. The Board does not consider George Savvides to be independent as he is the Managing Director of MPL.

On this basis, the Board will consist of a majority of independent Directors. The Board considers that each of the Non-executive Directors brings an objective and independent judgement to the Board's deliberations and that each of the Non-executive Directors makes a valuable contribution through the skills they bring to the Board and their understanding of Medibank Private.

As a registered private health insurer, MPL must also comply with the PHIAC Governance Standard. PHIAC requires that the Board include at least five Directors, with a majority being Non-executive Directors. Boards of five to seven Directors must have a minimum of three independent Directors, and Boards of more than seven Directors must have a minimum of four independent Directors.

6.4.2. Board Charter

MPL has approved a revised Board Charter to apply upon Listing. The Board Charter sets out:

- the role and responsibilities of the Board, committees and management;
- the membership and operation of the Board;
- which responsibilities may be delegated to committees of the Board or to management;
- a structure for determining how Board decisions are to be made; and
- details regarding the Board's interaction with the broader group.

The Board Charter provides that Medibank Private will seek to ensure that the Board continues to comprise Directors with the range of skills, knowledge and experience required to collectively understand the risks to Medibank Private, understand Medibank Private's legal and prudential obligations, effectively oversee the management of Medibank Private, and bring independent thinking and judgement to contribute effectively to the Board's deliberations and processes.

MPL will review the performance of its Board, its committees, its Directors and its senior executives annually in accordance with processes established by the Board, including processes to ensure that all Directors are 'fit and proper' persons to hold that office.

6.4.3. Board committees

The Board may from time to time establish appropriate committees to assist in performing its responsibilities. The Board has established a number of committees that will continue to operate post-Listing, being:

- the Audit and Risk Management Committee;
- the People and Remuneration Committee;
- the Investment and Capital Committee; and
- the Nomination Committee.

A Privatisation Committee was also established in preparation for the proposed Listing. This committee will continue to exist for an interim period following Completion of the Offer.

Other committees may be established by the Board as and when required. Membership of Board committees will be based on the needs of Medibank Private, relevant legislative and other requirements and the skills and experience of individual Directors. Under the Board Charter, Board committee performance evaluations will occur annually.

Audit and Risk Management Committee

The Audit and Risk Management Committee's role is to provide an objective, non-executive review of the effectiveness of Medibank Private's financial reporting and risk management framework, and to assist the Board in carrying out its accounting, auditing, risk management, regulatory compliance and financial reporting responsibilities, including overseeing and reviewing:

- the integrity of MPL's external financial reporting and financial statements;
- the appointment, remuneration, independence and competence of MPL's external auditors;
- the overall policy direction of the audit, compliance and risk management functions;
- systems to ensure effective management of financial and non-financial risks;
- Medibank Private's systems and procedures for compliance with relevant laws, regulations and codes including the PHI Act;
- the internal and external audit processes; and
- Medibank Private's internal control framework.

As required under the Committee Charter, the Audit and Risk Management Committee comprises at least three members, all of whom are Non-executive Directors and a majority of whom are independent Directors. The Chair is an independent Director who is not the Chair of the Board. The committee comprises Christine O'Reilly (Chair), Elizabeth Alexander, Dr Cherrell Hirst and Peter Hodgett.

MPL will comply with all of the ASX Recommendations set by the ASX Corporate Governance Council in relation to the composition and operation of the Audit and Risk Management Committee.

People and Remuneration Committee

The People and Remuneration Committee's role is to assist and advise the Board on remuneration and other human resources policies and practices, including:

- the remuneration framework and packages for the Board, the Managing Director and senior executives;
- remuneration, recruitment, retention and termination policies for the Managing Director, senior executives and other employees of Medibank Private;
- Medibank Private's executive management succession plan;
- Medibank Private's training, education and development programs and policies;
- organisational engagement and cultural matters;
- incentive schemes and equity-based remuneration plans;
- superannuation arrangements for the Board, senior executives and other employees;
- Shareholder and other stakeholder engagement in relation to Medibank Private's remuneration policies and practices;
- measurable objectives for diversity across various levels of Medibank Private, including annual assessment of the Board's diversity objectives and reviewing the effectiveness of Medibank Private's Diversity and Inclusion Policy; and
- Medibank Private's performance in relation to health and safety matters.

As required under the Committee Charter, the People and Remuneration Committee comprises at least three members, all of whom are Non-executive Directors, and a majority of whom are independent Directors. The committee is chaired by an independent Non-executive Director. The committee comprises Linda Bardo Nicholls (Chair), Elizabeth Alexander, Anna Bligh, David Fagan, Dr Cherrell Hirst and Peter Hodgett.

Investment and Capital Committee

The Investment and Capital Committee's role is to assist the Board in overseeing the investment and capital management activities of Medibank Private by:

- overseeing the implementation and monitoring of the investment strategy and Capital Management Policy approved by the Board;
- monitoring and reviewing the effectiveness of Medibank Private's investment process in achieving optimum return relative to risk; and
- authorising investment decisions in areas where investment powers have been delegated to the Investment and Capital Committee.

As required under the Committee Charter, the Investment and Capital Committee comprises at least three Non-executive Directors and the Managing Director. The committee comprises Peter Hodgett (Chair), George Savvides, Anna Bligh and Dr Cherrell Hirst.

Nomination Committee

The Nomination Committee's primary role is to assist and advise the Board regarding:

- Director selection and appointment;
- induction and continuing professional development programs for Directors;
- Director performance evaluation processes and criteria;
- Board composition; and
- succession planning for the Board and senior executives to ensure that the Board is of a size and composition conducive to making appropriate decisions, with the benefit of a variety of perspectives and skills and in the best interests of Medibank Private as a whole.

As required under the Committee Charter, the Nomination Committee comprises at least three members, the majority of whom are independent Non-executive Directors. The committee comprises Elizabeth Alexander (Chair), Peter Hodgett, Linda Bardo Nicholls and Christine O'Reilly.

Privatisation Committee

The Privatisation Committee's primary role is to act as a conduit between the Board and management in relation to the Australian Government's sale process. This includes assisting with due diligence and Prospectus preparation, and managing and coordinating the privatisation process. The committee comprises David Fagan (Chair), Dr Cherrell Hirst and Christine O'Reilly.

6.4.4. Risk Management Policy

The Board has approved a risk management framework based on the International Standard for Risk Management (ISO 31000:2009). Overseen by the Chief Risk Officer, the framework includes a Board-approved risk appetite policy, risk management strategy and risk profile, as well as comprehensive procedures to identify, measure, monitor and manage risk, including control effectiveness and related mitigation plans. Material risks are assessed on a regular basis, and the Audit and Risk Management Committee and the Board receive and consider regular reports on their status.

6.4.5. Diversity and Inclusion Policy

Medibank Private's workforce is made up of individuals with diverse skills, backgrounds, perspectives and experiences, and this diversity is recognised, valued and respected. Medibank Private acknowledges the positive outcomes that can be achieved through a diverse workforce. It recognises and uses its workforce's diverse skills and talents, and has approved a revised Diversity and Inclusion Policy, to apply upon Listing. For the purposes of the policy, 'diversity' encompasses (without limitation) diversity of gender, age, ethnicity, religious or cultural background, disability, marital or family status, sexual orientation and gender identity. In its annual report, MPL will disclose its measurable objectives for achieving gender diversity and its progress towards achieving them, and either:

- the proportion of female employees in the organisation, in senior executive positions and on the Board; or
- Medibank Private's most recent 'Gender Equality Indicators' as defined in and published under the *Workplace Gender Equality Act 2012* (Cth).

6.4.6. Disclosure and Communication Policy

Once Listed, MPL will be required to comply with the continuous disclosure requirements of the ASX Listing Rules and the Corporations Act. MPL will be required to disclose immediately to the ASX any information concerning MPL that a reasonable person would expect to have a material effect on the price or value of MPL's securities, unless an exception applies at that time.

MPL has adopted a Disclosure and Communication Policy and a Disclosure and Communication Procedure (to apply from Listing), which together aim to establish procedures to ensure that Directors, officers, employees and consultants of Medibank Private are aware of, and fulfil, their obligations to provide timely, full and accurate disclosure of material information to Medibank Private's stakeholders and comply with MPL's disclosure obligations under the Corporations Act and ASX Listing Rules. The policy documents also contain procedures for communicating with Shareholders, the media and the market.

Medibank Private has established a Disclosure Committee that is responsible for considering disclosures of potentially market-sensitive information to be made by Medibank Private, and providing assurance to the Board that all potentially market-sensitive information has been assessed for compliance with MPL's continuous disclosure obligations.

MPL is committed to observing its disclosure obligations under the ASX Listing Rules and the Corporations Act. Information will be communicated to Shareholders through the lodgement of all relevant financial and other information with the ASX and continuous disclosure announcements will be made available on Medibank Private's website at www.medibank.com.au.

The PHI Act and PHIAC's prudential standards contain a disclosure regime for private health insurers. Insurers are required to disclose various matters to the Department of Health and PHIAC, including changes to Directors and any civil or criminal proceedings or investigations involving its Directors.

6.4.7. Share Trading Policy

MPL has adopted a Share Trading Policy that will, upon Listing, apply to MPL and its Directors, officers, employees, contractors and any other person nominated by the Company Secretary (**Employees**) and, in some instances, associates of Employees.

The Share Trading Policy summarises the law in relation to insider trading and sets out MPL's policy on buying and selling MPL securities including Shares, options, derivatives, managed investments products, superannuation products and any other financial products of MPL that are able to be traded on a financial market.

The Share Trading Policy defines certain 'closed periods' during which trading in Shares by Employees is prohibited. Those closed periods are currently defined as any of the following periods:

- from 1 January to the close of trading on the business day after MPL's half-yearly results are announced to the ASX;
- from 1 July to the close of trading on the business day after MPL's annual results are announced to the ASX; and
- any extension to closed periods, and any additional period, as specified by the Board.

In all instances, buying or selling Shares is not permitted at any time by any person who possesses price-sensitive information in a manner contrary to the Corporations Act.

The Share Trading Policy requires Employees who acquire shares (including under the Offer) to hold their Shares for a minimum period of 90 days.

6.4.8. Fit and Proper Policy

Medibank Private has adopted a revised Fit and Proper Policy to apply upon Listing that is based on the APRA's Fit and Proper Prudential Standard (CPS 520). The Fit and Proper Policy requires people who are responsible for the management and oversight of Medibank Private to have appropriate skills, experience and knowledge, as well as the requisite character, diligence, honesty, integrity and judgement.

6.4.9. Code of Conduct

Medibank Private employees are required to conduct their activities ethically and with integrity, acting only in ways that reflect well on Medibank Private in compliance with any applicable laws, standards and internal policies that are relevant to Medibank Private's roles and guide conduct at work.

Medibank Private has approved a revised Code of Conduct to apply upon Listing. The document outlines Medibank Private employees' obligations of compliance with the Code of Conduct, and explains how the Code of Conduct interacts with Medibank Private's other corporate governance policies.

Responsibilities include behaving in a manner to promote health, safety and wellbeing, fostering relationships of trust and respect, avoiding conflicts of interest, not offering or accepting secret commissions or bribes to further Medibank Private's business interests, promoting investor confidence and rights of Shareholders and other stakeholders, protecting confidential information, and avoiding insider trading.

6.4.10. Communication with Shareholders

The Board's aim is to ensure that Shareholders are provided with sufficient information to assess the performance of MPL and that they are informed of all major developments affecting Medibank Private's state of affairs that are relevant to Shareholders, in accordance with all applicable laws. Information will be communicated to Shareholders by lodging information required by MPL's continuous disclosure obligations with the ASX and publishing information on Medibank Private's website.

In particular, the website will contain information about Medibank Private, including media releases, key policies and the terms of reference of its Board committees. Key announcements made to the market and any other relevant information will be posted on Medibank Private's website at www.medibank.com.au.

SECTION 7

DETAILS OF THE OFFER



7.1. DESCRIPTION OF THE OFFER

The Commonwealth is the sole Shareholder in MPL. The Commonwealth is offering to sell 100% of the Shares in MPL, but it reserves the right to sell a lesser amount of Shares under the Offer, taking into consideration the objective of a successful Listing, market conditions and other factors. The Offer is expected to raise \$4,269 million to \$5,508 million based on a sale of 100% of MPL and the Indicative Price Range of \$1.55 to \$2.00 per Share. The Offer is not underwritten.

Successful Applicants under the Institutional Offer will pay the Final Price, which will be determined at the conclusion of the Bookbuild and may be set at a price below, within or above the Indicative Price Range. A Retail Price Cap of \$2.00 per Share will apply to the Retail Price¹ payable by Applicants who are allocated Shares in the Retail Offer. This means that the Retail Price payable by Retail Offer Applicants will be no more than \$2.00 per Share, even if the Final Price determined by the Commonwealth (and payable by participants in the Institutional Offer) is higher.

Table 7.1: Some examples of what the Retail Price would be, based on different Final Prices

Final Price	Retail Price
\$1.55 per Share	\$1.55 per Share
\$1.80 per Share	\$1.80 per Share
\$2.00 or more per Share	\$2.00 per Share

7.2. PURPOSE OF THE OFFER AND USE OF PROCEEDS

The purpose of the Offer is to:

- provide an opportunity for the Commonwealth to sell down its entire shareholding in MPL;
- provide Medibank Private with full commercial independence and access to capital markets; and
- remove the Commonwealth as owner of a market participant in the PHI industry while retaining its role as a regulator.

The Commonwealth will receive the proceeds of the Offer. The Australian Government has announced that the proceeds from the sale of Medibank Private will be re-invested into productivity enhancing infrastructure through the Australian Government's Asset Recycling Initiative. None of the proceeds of the Offer will be received by Medibank Private.

7.3. COMPONENTS OF THE OFFER

The Offer comprises the Retail Offer and the Institutional Offer. The Retail Offer and the Institutional Offer are conditional on each other. If one does not proceed, the other will not proceed.

- The Retail Offer being made under this Prospectus consists of:
 - the Policyholder Offer, which is open to Eligible Policyholders to apply for Shares at the Retail Price¹;
 - the Employee Offer, which is open to Eligible Employees to apply for Shares at the Retail Price¹;
 - the Broker Firm Offer, which is open to Australian and New Zealand resident retail clients of a participating Broker who are offered a firm allocation of Shares by their Broker at the Retail Price¹; and
 - the General Public Offer, which is open to Australian resident retail investors and consists of an invitation to apply for Shares at the Retail Price.¹
- The Institutional Offer consists of an invitation to bid for Shares made to Institutional Investors including:
 - Institutions in Australia and New Zealand under this Prospectus;
 - Institutions in a number of selected international jurisdictions under the Institutional Offering Memorandum; and
 - Brokers who elect to bid for Shares under the Institutional Offer on behalf of their Australian and New Zealand resident retail clients under this Prospectus as Broker-sponsored bids.

1. The Retail Price will only apply to the first \$250,000 worth of Shares (rounded down to the nearest Share) allocated to you under the Retail Offer. If you are allocated Shares above \$250,000, you will pay the Final Price for those Shares.

Details of each component of the Retail Offer and the allocation policy under the Retail Offer are set out in Sections 7.4.3 and 7.6.1, respectively. Details of the Institutional Offer and the allocation policy under the Institutional Offer are set out in Sections 7.5 and 7.6.2, respectively.

The allocation of Shares between the Retail Offer and the Institutional Offer will be determined by the Commonwealth, with regard to the allocation policy outlined in Sections 7.6.1 and 7.6.2.

7.4. RETAIL OFFER

7.4.1. Key dates

Table 7.2: Key dates relevant for the Retail Offer

Important dates	
Record Date for Policyholder Offer and Employee Offer	11.59 pm (AEST), Saturday, 27 September 2014
Prospectus Date	Monday, 20 October 2014
Retail Offer opens ^a	Tuesday, 28 October 2014
Retail Offer closes and Applications due by 11.59 pm	Friday, 14 November 2014
Institutional Offer and Bookbuild opens	7.00 am, Tuesday, 18 November 2014
Institutional Offer and Bookbuild closes	12 noon, Thursday, 20 November 2014
Final pricing and basis of allocations announced	Tuesday, 25 November 2014
Expected commencement of trading on ASX (on a conditional and deferred settlement basis) ^b	Tuesday, 25 November 2014
Settlement of the Offer	Friday, 28 November 2014
Transfer of Shares under the Offer (trading on an unconditional and deferred settlement basis commences) ^c	Monday, 1 December 2014
Expected despatch of transaction confirmation statements	Thursday, 4 December 2014
Shares expected to begin trading on a normal settlement basis	Friday, 5 December 2014
First settlement date of all ASX trades	Wednesday, 10 December 2014
Expected first dividend payment	September 2015

Note:

The above dates are indicative only. All times are references to AEDT, except where stated otherwise. The Commonwealth, in consultation with the JLMs and its Advisers, reserves the right to vary the dates and times of the Offer, which includes closing the Offer early, extending the close of the Offer, or accepting late Applications, either generally or in particular cases, without notifying any recipients of this Prospectus or any Applicants. Investors are encouraged to submit their Applications as soon as possible after the Offer opens. See Section 7 for more information.

- a. The Corporations Act prohibits the Commonwealth from processing applications to purchase Shares under this Prospectus in the seven-day period after the Prospectus Date. This period may be extended by ASIC by up to a further seven days.
- b. See Section 7.8.2 for more information on conditional and deferred settlement trading.
- c. See Section 7.8.2 for more information.

7.4.2. Dates may change

If you wish to apply for Shares, you are encouraged to do so as soon as possible. The Commonwealth reserves the right to amend the dates above without notice including, subject to the Corporations Act and the ASX Listing Rules, to close the Offer early, to extend the Closing Date, to accept late Applications or to cancel the Offer before settlement of the Offer. If the Offer is cancelled before settlement of the Offer (scheduled on or about 28 November 2014), all Application Payments will be refunded in full (without interest) to Applicants as soon as practicable.

7.4.3. Components of the Retail Offer

Table 7.3: Components of the Retail Offer

Who can apply for Shares in the Retail Offer? ²	How many Shares can you apply for? ³	Will you be allocated all the Shares that you apply for if the Offer is over-subscribed?
Policyholder Offer		
<ul style="list-style-type: none"> Open to Eligible Policyholders on the Record Date. Eligible Policyholders are persons covered under PHI policies issued under either the Medibank or ahm brands who are permanent residents of Australia and are over the age of 18. The Policyholder Offer is only open for one application for each such policy. Holders of Overseas Student Health Cover policies and Overseas Visitors Health Cover policies are not eligible. 	The minimum Application size is \$2,000 and multiples of \$100 thereafter.	<p><i>If you pre-registered?</i></p> <p>You can be allocated an amount of Shares which is up to 30% higher than Applicants who apply for Shares as part of the General Public Offer and did not pre-register.</p> <hr/> <p><i>If you did not pre-register?</i></p> <p>You can be allocated an amount of Shares which is up to 15% higher than Applicants who apply for Shares as part of the General Public Offer and did not pre-register.</p>
Employee Offer		
<ul style="list-style-type: none"> Open to Eligible Employees on the Record Date. Eligible Employees are employees of MPL and its controlled entities and who are Australian or New Zealand residents. Directors, senior management and independent contractors are not eligible to apply under the Employee Offer. 	The minimum Application size is \$2,000 and multiples of \$100 thereafter.	<p>Eligible Employees will receive a guaranteed minimum allocation of \$2,000 worth of Shares. In other words, Applications up to \$2,000 worth of Shares will not be scaled.</p> <p>In addition, you can be allocated an amount of Shares which is up to 30% higher than Applicants who apply for Shares as part of the General Public Offer and did not pre-register.</p>
Broker Firm Offer		
<ul style="list-style-type: none"> Retail clients of a participating Broker, who are Australian or New Zealand residents and are offered a firm allocation by their Broker. 	<p>Your Broker will inform you of your broker firm allocation.</p> <p>The minimum Application size is \$2,000 and multiples of \$100 thereafter.</p>	<p>Your Broker will advise you of your firm allocation.</p> <p>Neither the Commonwealth nor the JLMs will be responsible for the allocation of Shares to Broker Firm Applicants under the Broker Firm Offer.</p> <p>The Commonwealth will retain the ability to Clawback broker firm allocations by up to 20% following completion of the Bookbuild.</p>
General Public Offer		
<ul style="list-style-type: none"> Retail investors who are Australian residents. Clients of Brokers can apply for Shares through the General Public Offer in addition to their broker firm allocation. 	The minimum Application size is \$2,000 and multiples of \$100 thereafter	<p><i>If you pre-registered?</i></p> <p>You can be allocated an amount of Shares which is up to 15% higher than Applicants who apply for Shares as part of the General Public Offer and who did not pre-register.</p> <hr/> <p><i>If you did not pre-register?</i></p> <p>You will not receive any allocation preference.</p>

Additional detailed application instructions are provided immediately prior to the **red** Application Form at the end of this Prospectus.

- The Retail Offer is not available to any person who is in the United States or acting on behalf of a person in the United States.
- Applicants applying under the Retail Offer will be treated as applying for the number of Shares their cleared Application Payment will pay for at the Retail Price. See also footnote 4 below.
- The Retail Price will only apply to the first \$250,000 worth of Shares (rounded down to the nearest Share) allocated to you under the Retail Offer. If you are allocated Shares above \$250,000, you will pay the Final Price for those Shares.

How do I apply?

Does the
Retail Price
Cap apply?⁴

Policyholder Offer

If you pre-registered?

Online? You can apply online by visiting www.medibankprivateshareoffer.com.au. If you are applying online, you can only pay for Shares using BPAY® or Direct Debit. You must quote your Application Reference Number.

Using a personalised paper form? Complete the **green** personalised Application Form. Paper Application Forms must be accompanied by cheque/money order.

Yes

If you did not pre-register?

Online? You can apply online by visiting www.medibankprivateshareoffer.com.au. If you are applying online, you can only pay for Shares using BPAY® or Direct Debit.

Using a personalised paper form? Complete the **blue** personalised Application Form if you requested a Prospectus after the pre-registration period.

Using a non-personalised paper form? Complete the **red** Application Form and ensure that you provide your policy details in the space provided on the back of the form.

Paper Application Forms must be accompanied by cheque/money order.

Yes

Employee Offer

Online? You can apply online by visiting <https://www.medibankprivateshareoffer.com.au/> employee. If you are applying online, you can only pay for Shares using BPAY® or Direct Debit. You must quote your Application Reference Number.

Using a personalised paper form? Complete the **teal** personalised Application Form. Paper Application Forms must be accompanied by cheque/money order.

Yes

Broker Firm Offer

You should apply in accordance with instructions provided by your Broker.

Yes

General Public Offer

If you pre-registered?

Online? You can apply online by visiting www.medibankprivateshareoffer.com.au. If you are applying online, you can only pay for Shares using BPAY® or Direct Debit. You must quote your Application Reference Number.

Using a personalised paper form? Complete the **pink** personalised Application Form. Paper Application Forms must be accompanied by cheque/money order.

Yes

If you did not pre-register?

Online? You can apply online by visiting www.medibankprivateshareoffer.com.au. If you are applying online, you can only pay for Shares using BPAY® or Direct Debit.

Using a personalised paper form? Complete the **orange** personalised Application Form if you requested a Prospectus after the pre-registration period.

Using the non-personalised paper form? Complete the **red** Application Form.

Paper Application Forms must be accompanied by cheque/money order.

Yes

7.4.4. Insufficient Application Payment and excess Application Payment

You should ensure that sufficient funds are held in the relevant account(s) to cover the amount of your cheque(s), money order(s), Direct Debit or BPAY® payment. If the amount of your Application Payment is less than the amount set out in your Application Form, you will be taken to have applied for such lower number of Shares as your cleared Application Payment will pay for (and to have specified that amount in your Application Form), or your Application Form will be rejected. Conversely, if the amount of your Application Payment is greater than the amount set out in your Application Form, you will be taken to have applied for such higher number of Shares as your cleared Application Payment will pay for (and to have specified that amount in your Application Form), or your Application Form will be rejected. Your Application Payment will be taken to be the total amount of your Direct Debit or BPAY® payment, cheque(s) or money order(s) received by the Commonwealth in cleared funds.

7.4.5. Refunds

You will receive a refund if:

- you have applied and paid for more Shares than you are allocated; or
- if your Application Payment is rejected for any reason, including late receipt of your Application; or
- if you received a firm allocation from your Broker and broker firm Clawback is executed by the Commonwealth.

You will receive any refund by either cheque or direct credit, as instructed by you in your Application Form or by your Broker. No interest will be paid to you on any Application Payment that is refunded, and any interest earned on Application Payments pending the allocation or refund will be retained by the Commonwealth. Any refunds will be returned as soon as practicable following the close of the Offer.

7.4.6. Terms and conditions of Applications

Your Application represents an offer to acquire Shares from the Commonwealth on the terms and conditions set out in this Prospectus and the relevant Application Form. In particular, you will be deemed to have made the representations set out in Section 10.13, and represented that you are eligible to participate in the Offer under the selling restrictions set out in Section 10.13. A contract will be formed when the Commonwealth accepts your Application on the allocation of Shares. You will be taken to have applied for the number of Shares that your cleared Application Payment will pay for at the Retail Price (subject to footnote 4 on page 118). Applications received under the Offer are irrevocable and may not be varied or withdrawn except as required by law. This contract is conditional on the ASX agreeing to quote the Shares and on settlement of the Offer under the proposed Settlement Underwriting Agreement. The Commonwealth may accept your offer without further notice to you. If Shares are allocated to you, you will receive a transaction confirmation statement. Transaction confirmation statements are expected to be despatched on or around 4 December 2014.

7.4.7. Discretion over Applications

If the Commonwealth determines or is advised by the JLMs that entities generally regarded as being institutions by the JLMs or the Commonwealth have applied under the Retail Offer, the Commonwealth reserves the right to treat such Applications as Applications under the Institutional Offer.

The Commonwealth reserves the right to aggregate or reject Applications that appear to be multiple Applications from the same person. However, Broker Firm Applicants may also lodge an Application under the Policyholder Offer, Employee Offer and the General Public Offer. Applications by Applicants acting in another legal capacity (such as a trustee of a trust) will not be treated as a multiple Application. In completing your Application, you must not use fictitious names or aliases.

See Section 7.9 for other matters over which the Commonwealth has discretion regarding the Offer.

7.5. INSTITUTIONAL OFFER

7.5.1. Overview

The Institutional Offer consists of an invitation to bid for Shares made to Institutional Investors including:

- Institutions in Australia and New Zealand under this Prospectus;
- Institutions in a number of selected international jurisdictions under the Institutional Offering Memorandum; and
- Brokers who elect to bid for Shares under the Institutional Offer on behalf of their Australian and New Zealand resident retail clients under this Prospectus as Broker-sponsored bids.

7.5.2. Invitations to bid

The Commonwealth invites certain eligible Institutional Investors and Brokers who elect to bid for Shares on behalf of their Australian and New Zealand resident retail clients to bid for Shares in the Institutional Offer. The Institutional Offer will open on Tuesday, 18 November 2014 and close on Thursday, 20 November 2014, unless varied by the Commonwealth. Bids may be submitted, amended or withdrawn by Institutional Investors up until the close of the Institutional Offer. Any bid not withdrawn by this time (or such other time as varied by the Commonwealth) will be a binding and irrevocable offer by the relevant Institutional Investor to purchase the Shares bid for (or such a lesser number as may be allocated) at or below the price bid per Share, under the terms and conditions of any bidding instructions provided by the JLMs to participants and subject to the conditions regarding ASX quotations described in Section 7.8.1.

7.5.3. Institutional Offer process and Indicative Price Range

The Institutional Offer will be conducted using a Bookbuild process managed by the JLMs on behalf of the Commonwealth as Bookrunner. Full details of how to participate, including bidding instructions, will be provided to eligible participants by the JLMs.

Participants can only bid into the Bookbuild for Shares through the JLMs. They may bid for Shares at specific prices or at the Final Price. Participants may bid above or within the Indicative Price Range, which is \$1.55 to \$2.00 per Share. The Indicative Price Range may be varied at any time by the Commonwealth.

Eligible Institutional Investors (including Brokers who elect to bid for Shares on behalf of their Australian and New Zealand resident retail clients) submitting a bid will, by doing so, have represented that they, and each person on behalf of whom the Applicant is acting, are eligible to participate in the Offer under the selling restrictions set out in Section 10.13. Bids can be accepted or rejected in whole or in part by the Commonwealth, in its absolute discretion, without further notice to the Institutional Investor.

Details of arrangements for bidding and the settlement of the Offer of allocations of Shares will be provided to participants in the Institutional Offer by the JLMs.

7.5.4. Final Price

The Bookbuild will be used to determine the Final Price. The Final Price will be determined by the Commonwealth. In determining the Final Price, the Commonwealth will consider:

- the overall demand for Shares;
- the demand for Shares in the Bookbuild at various prices;
- prevailing market conditions;
- the desire for an orderly aftermarket; and
- the desire for an ownership base of long-term shareholders.

All Successful Applicants in the Institutional Offer will pay the Final Price which may be set within, above or below the Indicative Price Range, but will not necessarily be the highest price at which Shares could be sold. Participants in the Institutional Offer will not be entitled to the Retail Price Cap.

7.6. ALLOCATION POLICY

7.6.1. Allocation policy for the Retail Offer

Under the Retail Offer, a proportion of Shares will be allocated to Broker Firm Applicants as part of the Broker Firm Offer. The allocation of Shares to the Broker Firm Offer will be determined by the Commonwealth, having regard to the level of demand in the Broker Firm Offer and any other factors that the Commonwealth considers appropriate. The Commonwealth will retain the ability to Clawback broker firm allocations by up to 20% following the completion of the Bookbuild.

A proportion of Shares will also be reserved for Applications by Eligible Employees, who will receive a minimum guaranteed allocation of \$2,000 worth of Shares per Eligible Employee.

If the Offer is over-subscribed and scaling of Retail Offer Applications is required:

- Eligible Employees who apply for Shares as part of the Employee Offer can be allocated an amount of Shares up to 30% higher than Applicants who apply for Shares as part of the General Public Offer and did not pre-register (this benefit does not apply to the first \$2,000 worth of Shares applied for, which is guaranteed).
- Eligible Policyholders who pre-registered and apply for Shares as part of the Policyholder Offer can be allocated an amount of Shares up to 30% higher than Applicants who apply for Shares as part of the General Public Offer and did not pre-register.
- Eligible Policyholders who did not pre-register and apply for Shares as part of the Policyholder Offer can be allocated an amount of Shares up to 15% higher than Applicants who apply for Shares as part of the General Public Offer and did not pre-register.
- Applicants who pre-registered and apply for Shares as part of the General Public Offer can be allocated an amount of Shares up to 15% higher than Applicants who apply for shares as part of the General Public Offer and did not pre-register.

If an Applicant is an Eligible Employee and also an Eligible Policyholder and applies through the Employee Offer, the total allocation preference received will be no greater than 30% higher than General Public Offer Applicants who apply for Shares as part of the General Public Offer and do not pre-register. In other words, the allocation preference is not cumulative.

If an Applicant is an Eligible Employee and also an Eligible Policyholder and applies through the Policyholder Offer, the Applicant will not receive a minimum guaranteed allocation of \$2,000 worth of Shares. That Applicant will receive the allocation preferences in accordance with the Policyholder Offer.

In the event that the Offer is over-subscribed and scaling of Applications is required, the allocation preferences for some Applicants in the Retail Offer may be less than those described in this section.

7.6.2. Allocation policy for the Institutional Offer

The Commonwealth as Bookrunner will determine the allocation of Shares among Institutional Investors (including Broker Sponsored Bids) in the Institutional Offer. There is no assurance that any particular participant in the Institutional Offer will be allocated any Shares or the number of Shares for which it has bid.

The first determinant of the allocation of shares in the Institutional Offer will be the level of the Final Price. Bids lodged at prices lower than the Final Price will receive no allocation of shares. After disregarding bids at prices lower than the Final Price, the institutional allocation policy will be influenced, but not constrained, by a number of allocation criteria that will reflect the factors set out below.

Factors that will be considered include, but are not limited to, the following:

- Price leadership, including provision of bids indicating demand at different price levels
- Early lodgment/timeliness of bids
- Consistency of bids
- Quality of investor
- Participation in marketing activities and provision of timely feedback
- Any other factors deemed appropriate for consideration.

In assessing price leadership, timeliness and consistency of bids, the Commonwealth as Bookrunner, intends to make preferential allocations in respect of the amount of any bid lodged **within the first 24 hours** of the bookbuild that:

- demonstrates price leadership, to the extent that it is at or above the ultimate Final Price; and
- is not subsequently reduced in price or volume.

For the avoidance of doubt, eligible bids can be lodged at prices within or above the Indicative Price Range, however, bids that are specified as 'clearing price' bids will not be given a preferential allocation. The size of this preferential allocation will be determined by the Commonwealth as Bookrunner in its sole discretion.

7.7. ANNOUNCEMENT OF PRICING AND BASIS OF ALLOCATION

Shortly after the close of the Institutional Offer, the Commonwealth will announce (by placing advertisements in major national and metropolitan newspapers in Australia):

- the Final Price and the Retail Price; and
- the basis of the allocation of Shares to all successful Applicants.

This is expected to take place by Tuesday, 25 November 2014. From that date, if you are a Broker Firm Applicant and wish to find out if your Application was successful, you should contact your Broker. Retail investors who have been allocated Shares may visit the Medibank Private Share Offer website (www.medibankprivateshareoffer.com.au), call 1800 998 778 (within Australia) or +61 3 9415 4011 (outside Australia), with their Application Reference Number to obtain information on their allocation of Shares. You will need to quote your Application Reference Number.

Investors who sell Shares before confirming their allocation do so at their own risk.

7.8. LISTING AND QUOTATION

7.8.1. Quotation on ASX

MPL will apply for Shares to be quoted on the ASX. Quotation of Shares is not guaranteed or automatic. If the ASX does not grant permission for Shares to be quoted, Shares will not be allocated and all Application Payments will be refunded in full (without interest) to Applicants as soon as practicable.

7.8.2. Conditional and deferred settlement trading

It is expected that Shares will be quoted on the ASX on or around Tuesday, 25 November 2014, initially on a conditional and deferred settlement basis. The contracts formed on the acceptance of Applications in the Retail Offer and bids in the Institutional Offer will be conditional on the ASX agreeing to quote Shares and on settlement of the Offer under the proposed Settlement Underwriting Agreement.

Although the Settlement Underwriting Agreement has not yet been executed, it is expected to include rights of termination. These would include the right of the JLMs to terminate the agreement upon, among other things, materially defective disclosure in or material omissions from this Prospectus or the Institutional Offering Memorandum, or certain adverse material developments relating to Medibank Private, hostilities, stock markets or banking systems. The Settlement Underwriting Agreement is expected to be signed on or around 21 November 2014.

Conditional trading will continue until MPL has advised the ASX that settlement of the Offer under the Settlement Underwriting Agreement has occurred, which is expected to be on or around Friday, 28 November 2014. Trading will then be on an unconditional but deferred settlement basis until MPL has advised the ASX that transaction confirmation statements have been dispatched to successful Applicants. Normal settlement trading is expected to commence on or around Friday, 5 December 2014.

If settlement of the Offer under the Settlement Underwriting Agreement has not occurred within 14 days (or such longer period as the ASX allows) after the day Shares are first quoted on the ASX, the Offer and all contracts arising on acceptance of Applications under the Retail Offer and bids under the Institutional Offer will be cancelled and be of no further effect, and all Application Payments will be refunded in full (without interest) as soon as practicable. In these circumstances, all purchases and sales made through ASX-participating organisations during the conditional trading period will be cancelled and be of no effect.

It is the responsibility of each person who trades in Shares to confirm their holding before trading. Persons who sell Shares before receiving a transaction confirmation statement do so at their own risk. The Commonwealth, Medibank Private, Share Registry and the JLMs disclaim all liability, whether in negligence or otherwise, if a person sells Shares before receiving a transaction confirmation statement, even if the person obtained details of their holding from the Medibank Private Share Offer Information Line or the Offer website, or confirmed their firm allocation through a Broker.

7.8.3. CHES and issuer-sponsored shareholdings

MPL will apply to participate in the ASX's Clearing House Electronic Subregister System (**CHES**), in accordance with the ASX Listing Rules and ASX Settlement Operating Rules. CHES is an electronic transfer and settlement system for transactions in securities quoted on the ASX under which transfers are affected in an electronic form.

When the Shares become approved financial products (as defined in the ASX Settlement Operating Rules), holdings will be registered in one of two subregisters; an electronic CHES subregister or MPL's issuer-sponsored subregister. If you nominate a CHES Holder Identification Number as part of your application and are either a CHES participant or sponsored by a CHES participant, your Shares will be registered on the CHES. All other Shares will be registered on the issuer-sponsored subregister.

Following Completion of the Offer, Shareholders will be sent a transaction confirmation statement that sets out the number of Shares they have been allocated. This statement will also provide details of a Shareholder's Holder Identification Number for CHESS holders or, where applicable, the Securityholder Reference Number of issuer-sponsored subregister holders. Shareholders will subsequently receive statements showing any changes to their shareholding. Certificates will not be issued.

Shareholders will receive subsequent statements during the first week of the following month if there has been a change to their holding on the register and as otherwise required under the ASX Listing Rules and the Corporations Act. Additional statements may be requested at any other time either directly through the Shareholder's sponsoring Broker in the case of CHESS holders, or through the Share Registry in the case of a holding on the issuer-sponsored subregister holders. MPL and the Share Registry may charge a fee for these additional issuer-sponsored statements.

7.9. DISCRETION REGARDING THE OFFER

The Commonwealth reserves the right not to proceed with the Offer, or any part of it, at any time before settlement of the Offer. If the Offer or any part of it is cancelled, all Application Payments, or the relevant Application Payments, will be refunded in full (without interest) as soon as practicable. The Commonwealth reserves the right to close the Offer or any part of it early, extend the Offer or any part of it, accept late Applications or bids either generally or in particular cases, reject any Application or bid, waive or correct any errors made by any Applicant in completing an Application Form, or allocate to any Applicant or bidder fewer Shares than applied or bid for.

SECTION 8

**INDEPENDENT
LIMITED ASSURANCE
REPORTS**





Ernst & Young Transaction Advisory
Services Limited
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

20 October 2014

Minister for Finance
Commonwealth of Australia as represented by the
Department of Finance
John Gorton Building,
King Edward Terrace
Parkes, ACT 2006

The Directors
Medibank Private Limited
720 Bourke Street
Docklands, VIC 3008

Dear Minister and Directors

PART 1 – INDEPENDENT LIMITED ASSURANCE REPORT ON THE HISTORICAL FINANCIAL INFORMATION

1. Introduction

We have been engaged by the Commonwealth of Australia as represented by the Department of Finance (“the Commonwealth”) to report on the statutory historical financial information, the adjusted statutory historical financial information and pro forma historical financial information of Medibank Private Limited (“Medibank Private”) for inclusion in the Initial Public Offering Prospectus (“Prospectus”) to be dated on or about 20 October 2014, and to be issued by the Commonwealth, in respect of the Initial Public Offering of ordinary shares in Medibank Private (“the Offer”).

Expressions and terms defined in the Prospectus have the same meaning in this report.

The nature of this report is such that it can only be issued by an entity which holds an Australian Financial Services Licence under the *Corporations Act 2001*. Ernst & Young Transaction Advisory Services Limited (“Ernst & Young Transaction Advisory Services”) holds an appropriate Australian Financial Services Licence (AFS Licence Number 240585). Stephen Lomas is a Director and Representative of Ernst & Young Transaction Advisory Services. We have included our Financial Services Guide as Part 3 of this report.

2. Scope

Statutory Historical Financial Information and Adjusted Statutory Historical Financial Information

You have requested Ernst & Young Transaction Advisory Services to review the following statutory historical financial information of Medibank Private:

- the audited statutory historical consolidated income statements for the years ended 30 June 2012, 30 June 2013 and 30 June 2014 as set out in Table 1 in Appendix A of the Prospectus;
- the audited statutory historical consolidated cash flows for the years ended 30 June 2012, 30 June 2013 and 30 June 2014 as set out in Table 3 in Appendix A of the Prospectus;
- the statutory historical consolidated balance sheet as at 30 June 2014 as set out in Table 4.8 in Section 4.5 of the Prospectus,

(hereafter the ‘Statutory Historical Financial Information’); and

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Ernst & Young Transaction Advisory Services Limited, ABN 87 003 599 844
Australian Financial Services Licence No. 240585



- the adjusted statutory historical consolidated income statement for the years ended 30 June 2012, 30 June 2013 and 30 June 2014 (hereafter the 'Adjusted Statutory Historical Financial Information') as set out in Table 2 of Appendix A of the Prospectus.

The Statutory Historical Financial Information and the Adjusted Statutory Historical Financial Information have been prepared in accordance with the recognition and measurement principles of Australian Accounting Standards (including the Australian Accounting Interpretations), issued by the Australian Accounting Standards Board which are consistent with International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board.

The Statutory Historical Financial Information and the Adjusted Statutory Historical Financial Information have been extracted or derived, as outlined in Section 4.2.2, from the financial reports of Medibank Private for the years ended 30 June 2012, 30 June 2013 and 30 June 2014, which were audited by the Commonwealth Auditor-General's delegate in accordance with Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. The Auditor-General's delegate issued unqualified audit opinions of these financial reports.

Pro Forma Historical Financial Information

You have requested Ernst & Young Transaction Advisory Services to review the following pro forma historical financial information of Medibank Private:

- the pro forma historical consolidated income statements for the years ended 30 June 2012, 30 June 2013 and 30 June 2014 as set out in Table 4.2 in Section 4.3 of the Prospectus; and
- the pro forma historical consolidated cash flows for the years ended 30 June 2012, 30 June 2013 and 30 June 2014 as set out in Table 4.10 in Section 4.6.1 of the Prospectus,

(Hereafter the 'Pro Forma Historical Financial Information').

The Pro Forma Historical Financial Information has been derived from the Statutory Historical Financial Information of Medibank Private, and as relevant, adjusted for the effects of pro forma adjustments described in Sections 4.3.3 and 4.6.2 of the Prospectus.

The Pro Forma Historical Financial Information has been prepared in accordance with the recognition and measurement requirements of Australian Accounting Standards other than that it includes adjustments which have been prepared in a manner consistent with the Australian Accounting Standards, that reflect (i) the recognition of certain items in periods different from the applicable period under Australian Accounting Standards, (ii) the exclusion of certain transactions that occurred in the relevant periods, and (iii) the impact of certain transactions as if they occurred on or before 1 July 2011.

Due to its nature, the Pro Forma Historical Financial Information does not represent the company's actual or prospective financial performance, or cash flows.

The Statutory Historical Financial Information, the Adjusted Statutory Historical Financial Information and Pro Forma Historical Financial Information are presented in the Prospectus in an abbreviated form, insofar as they do not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001.

3. Directors' Responsibility

The directors of Medibank Private are responsible for the preparation and presentation of the Statutory Historical Financial Information, the Adjusted Statutory Historical Financial Information and Pro Forma Historical Financial Information, including the basis of preparation, the selection and determination of pro forma adjustments made to the Statutory Historical Financial Information and the Adjusted Statutory Historical Financial Information and included in the Pro Forma Historical Financial Information. This includes responsibility for such internal controls as the directors determine are necessary to enable the preparation of



Statutory Historical Financial Information, Adjusted Statutory Historical Financial Information and Pro Forma Historical Financial Information that are free from material misstatement, whether due to fraud or error.

4. Our Responsibility

Our responsibility is to express limited assurance conclusions on the Statutory Historical Financial Information, the Adjusted Statutory Historical Financial Information and Pro Forma Historical Financial Information based on the procedures performed and the evidence we have obtained.

We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

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

Our engagement did not involve updating or re-issuing any previously issued audit or limited assurance reports on any financial information used as a source of the Statutory Historical Financial Information, the Adjusted Statutory Historical Financial Information or Pro Forma Historical Financial Information.

5. Conclusions

Statutory Historical Financial Information and Adjusted Statutory Historical Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Statutory Historical Financial Information and the Adjusted Statutory Historical Financial Information and comprising:

- the audited statutory historical consolidated income statements for the years ended 30 June 2012, 30 June 2013 and 30 June 2014 as set out in Table 1 in Appendix A of the Prospectus;
- The audited statutory historical consolidated cash flows for the years ended 30 June 2012, 30 June 2013 and 30 June 2014 as set out in Table 3 in Appendix A of the Prospectus;
- the statutory historical consolidated balance sheet as at 30 June 2014 as set out in Table 4.8 in Section 4.5 of the Prospectus; and
- The adjusted statutory historical consolidated income statement for the years ended 30 June 2012, 30 June 2013 and 30 June 2014 as set out in Table 2 of Appendix A of the Prospectus,

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 4.2.1 and 4.2.2 of the Prospectus.

Pro Forma Historical Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information and comprising:

- the pro forma historical consolidated income statements for the years ended 30 June 2012, 30 June 2013 and 30 June 2014 as set out in Table 4.2 in Section 4.3 of the Prospectus; and
- the pro forma historical consolidated cash flows for the years ended 30 June 2012, 30 June 2013 and 30 June 2014 as set out in Table 4.10 in Section 4.6.1 of the Prospectus,

is not presented fairly, in all material respects, in accordance with the stated basis of preparation as described in Section 4.2.1 and 4.2.2 of the Prospectus.



6. Restriction on Use

Without modifying our conclusions, we draw attention to Section 4.2.1 of the Prospectus, which describes the purpose of the financial information which specifically includes the Statutory Historical Financial Information, the Adjusted Statutory Historical Financial Information and the Pro Forma Historical Financial Information. As a result, the Statutory Historical Financial Information, the Adjusted Statutory Historical Financial Information and Pro Forma Historical Financial Information may not be suitable for use for another purpose.

7. Consent

Ernst & Young Transaction Advisory Services has consented to the inclusion of this limited assurance report in the Prospectus in the form and context in which it is included.

8. Independence or Disclosure of Interest

Ernst & Young Transaction Advisory Services does not have any interests in the outcome of the Offer other than in the preparation of this report for which normal professional fees will be received.

Yours faithfully
Ernst & Young Transaction Advisory Services Limited

Stephen Lomas
Director and Representative



Ernst & Young Transaction Advisory
Services Limited
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

20 October 2014

Minister for Finance
Commonwealth of Australia as represented by the
Department of Finance
John Gorton Building,
King Edward Terrace
Parkes, ACT 2006

The Directors
Medibank Private Limited
720 Bourke Street
Docklands, VIC 3008

Dear Minister

PART 2 – INDEPENDENT LIMITED ASSURANCE REPORT ON FORECAST FINANCIAL INFORMATION

1. Introduction

We have been engaged by the Commonwealth of Australia as represented by the Department of Finance (“the Commonwealth”) to report on the statutory forecast financial information and pro forma forecast financial information of Medibank Private Limited (“Medibank Private”) for inclusion in the Initial Public Offering Prospectus (“Prospectus”) to be dated on or about 20 October 2014, and to be issued by the Commonwealth, in respect of the Initial Public Offering of ordinary shares in Medibank Private (“the Offer”).

Expressions and terms defined in the Prospectus have the same meaning in this report.

The nature of this report is such that it can only be issued by an entity which holds an Australian Financial Services Licence under the *Corporations Act 2001*. Ernst & Young Transaction Advisory Services Limited (“Ernst & Young Transaction Advisory Services”) holds an appropriate Australian Financial Services Licence (AFS Licence Number 240585). Stephen Lomas is a Director and Representative of Ernst & Young Transaction Advisory Services. We have included our Financial Services Guide as Part 3 of this report.

2. Scope

Statutory Forecast Financial Information

You have requested Ernst & Young Transaction Advisory Services review the following statutory forecast financial information of Medibank Private:

- statutory forecast consolidated income statement for the year ending 30 June 2015 as set out in Table 4.2 in Section 4.3 of the Prospectus; and
- statutory forecast consolidated cash flows for the year ending 30 June 2015 as set out in Table 4.10 in Section 4.6.1 of the Prospectus.

(Hereafter ‘the Statutory Forecast Financial Information’).

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Australian Financial Services Licence No. 240585



The directors' of Medibank Private best-estimate assumptions underlying the Statutory Forecast Financial Information are described in Sections 4.8.1 and 4.8.2 of the Prospectus. The stated basis of preparation used in the preparation of the Statutory Forecast Financial Information is in accordance with the recognition and measurement principles of Australian Accounting Standards (including the Australian Accounting Interpretations), issued by the Australian Accounting Standards Board which are consistent with International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board.

Pro Forma Forecast Financial Information

You have requested Ernst & Young Transaction Advisory Services review the following pro forma forecast financial information of Medibank Private:

- pro forma forecast consolidated income statement for the year ending 30 June 2015 as set out in Table 4.2 in Section 4.3 of the Prospectus; and
- pro forma forecast consolidated cash flows of Medibank Private for the year ending 30 June 2015 as set out in Table 4.10 in Section 4.6.1 of the Prospectus.

(Hereafter 'the Pro Forma Forecast Financial Information').

(The Statutory Forecast Financial Information and the Pro Forma Forecast Financial Information taken together are "the Forecast Financial Information").

The Pro Forma Forecast Financial Information has been derived from Medibank Private's Statutory Forecast Financial Information, after adjusting for the effects of the pro forma adjustments described in Sections 4.3.3 and 4.6.2 of the Prospectus.

The Pro Forma Forecast Financial Information has been prepared in accordance with the recognition and measurement requirements of Australian Accounting Standards other than it includes adjustments which have been prepared in a manner consistent with the Australian Accounting Standards, that reflect (i) the recognition of certain items in periods different from the applicable period under Australian Accounting Standards, (ii) the exclusion of certain transactions that occurred in the relevant periods, and (iii) the impact of certain transactions as if they occurred on or after 1 July 2014. Due to its nature, the Pro Forma Forecast Financial Information does not represent the company's actual prospective financial performance and cash flows for the year ending 30 June 2015.

The Forecast Financial Information presented in the Prospectus is in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001.

3. Directors' Responsibility

The directors of Medibank Private are responsible for the preparation and presentation of the Statutory Forecast Financial Information for the year ending 30 June 2015, including the basis of preparation and best-estimate assumptions underlying the Statutory Forecast Financial Information. They are also responsible for the preparation and presentation of the Pro Forma Forecast Financial Information for the year ending 30 June 2015, including the selection and determination of the pro forma adjustments made to the Statutory Forecast Financial Information and included in the Pro Forma Forecast Financial Information. This includes responsibility for such internal controls as the directors determine are necessary to enable the preparation of the Forecast Financial Information that is free from material misstatement, whether due to fraud or error.

4. Our Responsibility

Our responsibility is to express limited assurance conclusions on the Statutory Forecast Financial Information and Pro Forma Forecast Financial Information, the best-estimate assumptions underlying the Statutory Forecast Financial Information and Pro Forma Forecast Financial Information, and the reasonableness of the Statutory



Forecast Financial Information and Pro Forma Forecast Financial Information themselves, based on our limited assurance engagement.

We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements Involving Corporate Fundraisings and/or Prospective Financial Information*.

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

Our engagement did not involve updating or re-issuing any previously issued audit or limited assurance reports on any financial information used as a source of the Forecast Financial Information.

5. Conclusions

Statutory Forecast Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that:

- the directors' best-estimate assumptions used in the preparation of the statutory forecast consolidated income statement and statutory forecast consolidated cash flows of Medibank Private for the year ending 30 June 2015 do not provide reasonable grounds for the Statutory Forecast Financial Information; and
- in all material respects, the Statutory Forecast Financial Information as set out in Table 4.2 in Section 4.3 and Table 4.10 in Section 4.6.1 of the Prospectus:
 - is not prepared on the basis of the directors' best estimate assumptions as described in Sections 4.8.1 and 4.8.2 of the Prospectus; and
 - is not presented fairly in accordance with the stated basis of preparation, as described in Sections 4.2.1 and 4.2.3 of the Prospectus; and
- the Statutory Forecast Financial Information itself is unreasonable.

Pro Forma Forecast Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that:

- the directors' best-estimate assumptions used in the preparation of the pro forma forecast consolidated income statement and pro forma forecast consolidated cash flows of Medibank Private for the year ending 30 June 2015 do not provide reasonable grounds for the Pro Forma Forecast Financial Information; and
- in all material respects, the Pro Forma Forecast Financial Information as set out in Table 4.2 of Section 4.3 and Table 4.10 in Section 4.6.1 of the Prospectus:
 - is not prepared on the basis of the directors' best estimate assumptions as described in Sections 4.8.1 and 4.8.2 of the Prospectus; and
 - is not presented fairly in accordance with the stated basis of preparation, as described in Sections 4.2.1 and 4.2.3 of the Prospectus; and
- the Pro Forma Forecast Financial Information itself is unreasonable.

Forecast Financial Information

The Forecast Financial Information has been prepared by management and adopted by the directors of Medibank Private in order to provide prospective investors with a guide to the potential financial performance



of Medibank Private for the year ending 30 June 2015. There is a considerable degree of subjective judgement involved in preparing forecasts since they relate to events and transactions that have not yet occurred and may not occur. Actual results are likely to be different from the Forecast Financial Information since anticipated events or transactions frequently do not occur as expected and the variation may be material. The directors' best-estimate assumptions on which the Forecast Financial Information is based relate to future events and transactions that management expect to occur and actions that management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of Medibank Private. Evidence may be available to support the directors' best-estimate assumptions on which the Forecast Financial Information is based however such evidence is generally future-oriented and therefore speculative in nature. We are therefore not in a position to express a reasonable assurance conclusion on those best-estimate assumptions, and accordingly, provide a lesser level of assurance on the reasonableness of the directors' best-estimate assumptions. The limited assurance conclusions expressed in this report have been formed on the above basis.

Prospective investors should be aware of the material risks and uncertainties in relation to an investment in Medibank Private, which are detailed in the Prospectus and the inherent uncertainty relating to the Forecast Financial Information. Accordingly, prospective investors should have regard to the sensitivities and investment risks as described in Sections 4.9 and 5 of the Prospectus. The sensitivity analysis described in Section 4.9 of the Prospectus demonstrates the impact on the Forecast Financial Information of changes in key best-estimate assumptions. We express no opinion as to whether the statutory forecast or pro forma forecast will be achieved.

We disclaim any assumption of responsibility for any reliance on this report, or on the Forecast Financial Information to which it relates, for any purpose other than that for which it was prepared. We have assumed, and relied on representations from certain members of management of Medibank Private, that all material information concerning the prospects and proposed operations of Medibank Private has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

6. Restriction on Use

Without modifying our conclusions, we draw attention to Section 4.2.1 of the Prospectus, which describes the purpose of the financial information, which specifically includes the Forecast Financial Information. As a result, the Forecast Financial Information may not be suitable for use for another purpose.

7. Consent

Ernst & Young Transaction Advisory Services has consented to the inclusion of this limited assurance report in the Prospectus in the form and context in which it is included.

8. Independence or Disclosure of Interest

Ernst & Young Transaction Advisory Services does not have any interests in the outcome of this Offer other than in the preparation of this report for which normal professional fees will be received.

Yours faithfully
Ernst & Young Transaction Advisory Services Limited

Stephen Lomas
Director and Representative

A member firm of Ernst & Young Global Limited
Ernst & Young Transaction Advisory Services Limited, ABN 87 003 599 844
Australian Financial Services Licence No. 240585



Ernst & Young Transaction Advisory
Services Limited
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

20 October 2014

THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE TWO INDEPENDENT LIMITED ASSURANCE REPORTS

PART 3 – FINANCIAL SERVICES GUIDE

1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited (“Ernst & Young Transaction Advisory Services” or “we,” or “us” or “our”) has been engaged to provide general financial product advice in the form of two Independent Limited Assurance Reports (“Report”) in connection with a financial product of another person. The Report is to be included in documentation being sent to you by that person.

2. Financial Services Guide

This Financial Services Guide (“FSG”) provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority. The estimated fee for this Report is \$200,000 (inclusive of GST).

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

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Ernst & Young Transaction Advisory Services Limited, ABN 87 003 599 844
Australian Financial Services Licence No. 240585



Except for the fees and benefits referred to above, Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Transaction Advisory Services is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or the Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited.

9. Compensation Arrangements

The Company and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Company's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Company satisfy the requirements of section 912B of the Corporations Act 2001.

Contacting Ernst & Young Transaction Advisory Services	Contacting the Independent Dispute Resolution Scheme:
AFS Compliance Manager Ernst & Young 680 George Street Sydney NSW 2000 Telephone: (02) 9248 5555	Financial Ombudsman Service Limited PO Box 3 Melbourne VIC 3001 Telephone: 1300 78 08 08

This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572.

SECTION 9

CONSULTING ACTUARY'S REPORT





Ernst & Young ABC Pty Limited
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

20 October 2014

Minister of Finance
Commonwealth of Australia as represented by the
Department of Finance
John Gorton Building,
King Edward Terrace
Parkes, ACT 2006

The Directors
Medibank Private Limited
720 Bourke Street
Docklands, VIC 3008

Consulting Actuary's Report and Financial Services Guide

Part 1 - Consulting Actuary's Report

Dear Minister and Directors

1. Introduction

We have been engaged by the Commonwealth of Australia as represented by the Department of Finance ("the Commonwealth") to report on the insurance liabilities methodologies and capital of Medibank Private Limited ("Medibank Private") for inclusion in the Initial Public Offering Prospectus ("Prospectus") to be dated on or about 20 October 2014, and to be issued by the Commonwealth, in respect of the Initial Public Offering of ordinary shares in Medibank Private ("the Offer").

Expressions and terms defined in the Prospectus have the same meaning in this report.

The nature of this report is such that it can only be issued by an entity which holds an Australian Financial Services Licence under the Corporations Act 2001. Ernst & Young ABC Pty Limited ("Ernst & Young ABC") holds an appropriate Australian Financial Services Licence (AFS Licence Number 238167). Warrick Gard is a Director and Representative of Ernst & Young ABC and Bevan Damm is a Representative of Ernst & Young ABC. We have included our Financial Services Guide as Part 2 of this report.

2. Scope

You have requested Ernst & Young ABC review the following with respect to Medibank Private as at 30 June 2014:

1) Actuarially determined balance sheet liabilities

- a. Whether the outstanding claims liabilities, other policy liabilities and unexpired risk provision calculation methodologies have been consistently applied as for the prior year end, being 30 June 2013; and are reasonably in line with industry accepted approaches



2) Capital¹

- a. Whether Medibank Private has a capital management policy in accordance with regulatory requirements
- b. Whether capital is held in accordance with that policy
- c. Whether the capital held by Medibank Private exceeds the calculated regulatory requirements

and form an opinion for inclusion in the Prospectus.

3. Actuarially determined Balance Sheet liabilities

The balance sheet estimates for the outstanding claims liabilities, other policy liabilities and unexpired risk reserve if required under the liability adequacy test are the responsibility of the directors of Medibank Private. The directors would typically set these amounts based on actuarial advice.

Outstanding claim liabilities are liabilities in respect of services incurred before the balance date that Medibank Private will pay for after the balance date. The provision for outstanding claim liabilities includes an estimate of the expected cost of these payments, and an estimate of the associated Risk Equalisation impact, the claims handling costs associated with administering these payments and a risk margin to allow for the estimation of the uncertainty associated with these payments.

Other policy liabilities provided for in Medibank Private's balance sheet is the provision for the package bonus, a form of loyalty bonus provided to Medibank Private's policyholders who hold certain products.

The unexpired risk reserve refers to the combined amounts that may be required following an accounting test of profit for premium already received (unexpired risk) and premium expected to be received before the next rate rise (constructive obligation).

In providing an opinion on the methodologies adopted to estimate these amounts, we assessed whether the methodologies adopted were similar to the prior year end methodologies and whether those methodologies were reasonable to use and in line with typical industry methodologies and comply with the relevant standards. We received all of the data and explanations that were sought from Medibank Private in determining our opinion.

In our opinion, the methodologies adopted were:

- Consistent with the prior year methodologies, except for the package bonus, which has changed from an accrual entitlement methodology to a full entitlement approach reflecting policyholder balances, expected future utilisation and discount rate
- Consistent with methodologies adopted by the industry for similar types of portfolios

¹ Capital in this context refers to the management of the net assets with respect to regulatory requirements

4. Capital

a. Capital Management Policy is in accordance with regulatory requirements

Medibank Private is required to have, and comply with, a written, board endorsed, capital management policy for each health benefits fund it conducts. The policy must include as a minimum a range of legislated requirements. Medibank Private must provide the Private Health Insurance Administration Council ("PHIAC") with a copy of the Board endorsed policy. The particular requirements are derived from the Private Health Insurance (Health Benefits Fund Administration) Rules 2007, Schedule 3 - Capital adequacy standard, Part 3 - Capital management policy.

We have performed procedures that included review of the Board approved policy, verification that it meets each of the requirements of the regulation, or that any omission does not materially impede Medibank Private's performance with the regulations.

In our opinion, the Capital Management Policy meets the regulatory requirements.

b. Capital held that meets Capital Management Policy

Medibank Private is required to hold capital in accordance with its Capital Management Policy.

We have performed procedures that examined the specified levels of required capital, checked the calculations applied by Medibank Private in operating under its Capital Management Policy and verified that the capital held meets the policy requirements.

In our opinion, Medibank Private holds its capital, being net assets, in accordance with the Board endorsed Capital Management Policy.

c. Capital held exceeds calculated regulatory requirements

Medibank Private is required to hold capital in excess of the calculated regulatory requirements. The calculated regulatory requirements represent the requirements set out in the Capital Adequacy Standard, which has several risk related components. Medibank Private is required to report on its underlying data and calculations to PHIAC on a periodic basis. The particular requirements are derived from Private Health Insurance (Health Benefits Fund Administration) Rules 2007, Schedule 3 - Capital adequacy standard, Part 2 - Complying with the capital adequacy standard.

We have performed procedures that confirm that the regulatory requirements were calculated in accordance with the Capital Adequacy Standard. We have also confirmed that Medibank Private holds capital that exceeds this calculated amount.

In our opinion, the capital held by Medibank Private exceeds the required amount as calculated by Medibank Private under the Capital Adequacy Standard.

5. Restriction on Use

Without modifying our conclusions, this report is only suitable for the purpose of inclusion in the prospectus and may not be suitable for use for another purpose.



6. Reliance and Limitations

In preparing this report, we have relied upon the information provided by Medibank Private. In general, reliance was placed on but not limited to the information provided. We have used the information without independent verification, but, where possible it was reviewed for reasonableness and consistency.

7. Consent

Ernst & Young ABC has consented to the inclusion of this Consulting Actuary's report in the Prospectus in the form and context in which it is included.

8 Independence or Disclosure of Interest

Ernst & Young ABC does not have any interests in the outcome of the Offer other than in the preparation of this report for which normal professional fees will be received. Warrick Gard and Bevan Damm are also part of the Investigating Accountants team and are responsible for assessing the reasonableness of the forecasts prepared by Medibank Private and presented in the Prospectus.

Yours sincerely

Ernst & Young ABC Pty Limited

Warrick Gard
Director and Representative

Bevan Damm
Representative

THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE CONSULTING ACTUARY'S REPORT

20 October 2014

PART 2 - FINANCIAL SERVICES GUIDE

1. Ernst & Young ABC Pty Limited

Ernst & Young ABC Pty Limited ("Ernst & Young ABC" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of a Consulting Actuary's Report ("Report") in connection with a financial product of another person. The Report is set out in Part 1.

2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority. The estimated fee for this Report is \$100,000 (inclusive of GST).

Ernst & Young ABC is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.



Except for the fees and benefits referred to above, Ernst & Young ABC, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young ABC and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young ABC, if any, is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited.

9. Compensation Arrangements

The Company and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Company's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Company satisfy the requirements of section 912B of the Corporations Act 2001.

<p>Contacting Ernst & Young ABC Pty Limited</p> <p>AFS Compliance Manager Ernst & Young 680 George Street Sydney NSW 2000</p> <p>Telephone: (02) 9248 5555</p>	<p>Contacting the Independent Dispute Resolution Scheme:</p> <p>Financial Ombudsman Service Limited PO Box 3 Melbourne VIC 3001 Telephone: 1300 78 08 08</p>
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This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572.

SECTION 10

**ADDITIONAL
INFORMATION**



10.1. REGISTRATION

Medibank Private’s health benefits fund was founded in 1976 as part of the Health Insurance Commission. MPL was registered as a public company in the ACT on 1 December 1997. The health benefits fund was transferred to MPL in 1998.

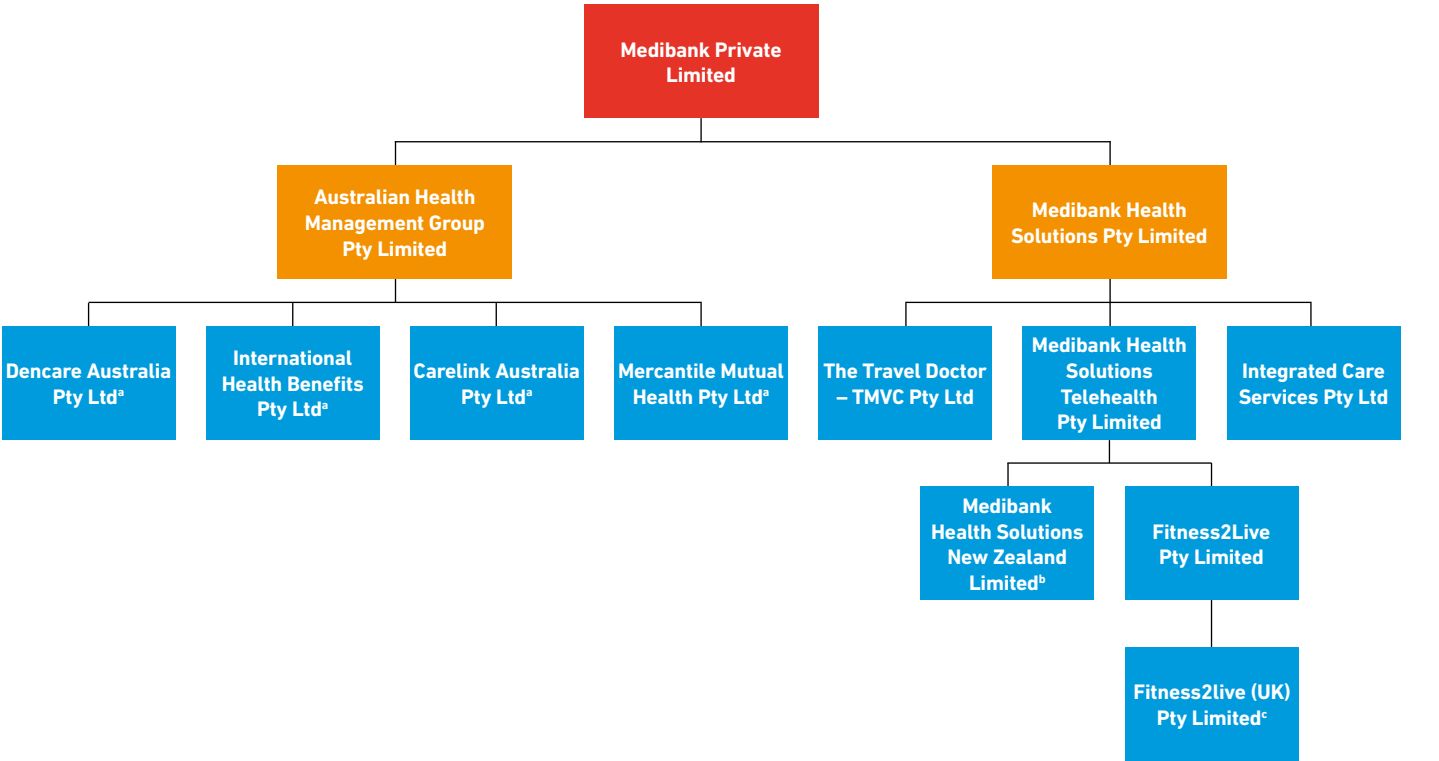
10.2. MEDIBANK PRIVATE TAX STATUS

Medibank Private is and will be subject to tax at the Australian corporate tax rate. Medibank Private’s financial year ends on 30 June annually. International subsidiaries will be subject to tax in relevant jurisdictions.

10.3. CORPORATE STRUCTURE

Figure 10.1 reflects Medibank Private’s corporate structure.

Figure 10.1: Medibank Private’s corporate structure



Note: The above are Australian registered companies unless otherwise indicated. Each of these companies is 100% owned by MPL and, unless it is a non-operating company, operates within either the Health Insurance or Complementary Services segments.

- a. Non-operating company.
- b. New Zealand-registered company.
- c. UK-registered company in voluntary liquidation.

10.4. MATERIAL CONTRACTS

The Directors consider that there are a number of contracts that are significant or material to Medibank Private or are of such a nature that an investor may wish to have details of them when assessing whether to apply for Shares. The main provisions of these contracts are summarised below.

10.4.1. Hospital Purchaser Provider Agreements

As noted above in Section 3.4.5, Medibank Private and private hospitals enter into HPPAs that set out the parties' respective obligations on matters such as pricing, Policyholders' access to the hospital and the amount of out-of-pocket expenses payable by a Policyholder.

Medibank Private is party to a number of HPPAs with private hospital groups, including Ramsay Health Care, Healthscope, UnitingCare Health and Cabrini Health Australia. Medibank Private's largest two HPPAs are with Ramsay Health Care and Healthscope. The current term of the Ramsay Health Care HPPA extends until 31 August 2016, and the current term of the Healthscope HPPA extends until 28 February 2016.

Medibank Private believes a number of key terms contained in HPPAs are relatively standard across the industry, including in the HPPAs entered into by Medibank Private. Some of the key terms of the HPPAs to which Medibank Private is currently a party are described below:

- **Overview:** HPPAs provide for the supply of healthcare services to Policyholders by a private hospital operator (the provider) in private hospitals. Following the provision of healthcare services to Policyholders, the private health insurer (e.g. Medibank Private) agrees to pay benefits to the relevant provider.
- **Benefits, treatments and services:** The HPPA prescribes the maximum benefit payable by Medibank Private for particular provider treatments or services. The treatments and services generally covered by a HPPA include goods and services provided as part of a 'hospital treatment' as defined in the PHI Act. Each provider must provide treatments that comply with quality assurance requirements under the PHI Act, and must have a clinical governance framework in place in respect of each treatment location (i.e. private hospital) covered by the HPPA.
- **Termination:** Generally, the HPPA may be terminated for convenience by either party where applicable notice is given. In addition, Medibank Private has the right to terminate HPPAs for breaches of the agreement by the other party, or upon certain events occurring that affect the other party (including a party ceasing to conduct business, being unable to pay its debts as they fall due, entering into an arrangement with its creditors or being affected by specified insolvency events). In some cases, the counterparty may also have similar termination rights.
- **Indemnities:** The hospital provider indemnifies Medibank Private and its Directors, officers, Employees or agents against any losses incurred by those persons arising from any negligent act or omission by the provider in respect of the HPPA, except to the extent those losses were caused by an act or error, the negligence of, or the breach of any law by Medibank Private or its directors, officers, employees or agents. Medibank Private also indemnifies the hospital provider and its directors, officers, employees or agents against any losses incurred by those persons arising from any negligent act or omission by Medibank Private in respect of the HPPA, except to the extent those losses were caused by an act or error, the negligence of, or the breach of any law by the provider or its directors, officers, employees or agents.
- **Term/renewal:** HPPAs are generally entered into for one-, two- or three-year terms. Generally, there are no express options to renew the HPPA under the agreement, but the parties must commence negotiations for a new agreement at least three months before the expiry date.

Each HPPA to which Medibank Private is a party has distinct commercial arrangements in relation to a number of matters that are specific to each hospital provider. These matters include the benefits payable by Medibank Private for treatments, the locations covered by the HPPA and the number of hospital beds for which Medibank Private will provide benefits at any location covered by the HPPA.

10.4.2. Australian Defence Force Health Services Contract

In 2012, Medibank Health Solutions Pty Ltd (a subsidiary of MPL) entered into a four-year contract with the Commonwealth (represented by the Department of Defence) to provide a national integrated healthcare service to the ADF (**ADF Health Services Contract**).

The Commonwealth has engaged Medibank Private to provide and manage a variety of healthcare services, including on-base and off-base services, comprising pathology, imaging and radiology, and a health hotline.

Medibank Private is required to meet certain key performance indicators (**KPIs**) relating to the quality and availability of services provided under the ADF Health Services Contract, as well as comply with other terms and conditions. If Medibank Private does not meet those KPIs, the Commonwealth may claim service rebates from Medibank Private.

Under the contract, Medibank Private may subcontract the provision of services, provided the written approval of the Commonwealth is obtained before doing so. Medibank Private has subcontracted the provision of on-base medical services to Aspen Medical Services, as well as a number of off-base services to others. Medibank Private retains responsibility and liability for providing the services under the ADF Health Services Contract, including the health outcomes of ADF personnel arising from providing the services. This applies to any part of the services that are performed by subcontractors engaged by Medibank Private.

The ADF Health Services Contract expires in October 2016 and may be extended by the Commonwealth for two further periods of one year each by giving notice to Medibank Private at least six months before the end of the current contract period. The Commonwealth may terminate the ADF Health Services Contract at any time, in whole or in part, or reduce the scope of the services provided under the contract, by giving Medibank Private 60 days notice in writing. The Commonwealth may also terminate or suspend the contract, in whole or in part, in a number of other circumstances, including unremedied breach of a material provision by Medibank Private, where Medibank Private fails to meet certain KPIs under the contract, or in the event of a change of control. The Commonwealth (represented by the Department of Defence) will not exercise its termination and suspension rights under the ADF Health Services Contract in respect of the change in control arising from Completion of the Offer.

Medibank Private is required to indemnify the Commonwealth, its officers, employees and agents from and against all claims, action, losses or liabilities, including:

- the loss of, or damage to, property of the Commonwealth;
- claims by any person in respect of personal loss, damage, injury or death;
- claims by any person in respect of the loss of, or damage to, any property; and
- costs and expenses, including the costs of defending or settling any claim referred to above.

This includes claims, action, losses or liabilities arising from, among other things, the performance of the services under the contract, and any actual, likely or threatened breach of Medibank Private's or any subcontractor's obligations relating to confidential or personal information.

10.5. INDEMNITIES PROVIDED BY THE COMMONWEALTH

The Commonwealth has provided certain indemnities to Medibank Private, MPL's Directors and certain MPL executives in connection with the Offer. A summary, in general terms, of these indemnities is set out below.

The indemnity in favour of MPL's Directors indemnifies them against certain civil liabilities arising from their acts or omissions in connection with the Offer, other than liabilities arising from acts or omissions that are inconsistent with any requests by the Minister for Finance (or authorised nominee) in relation to the Offer. However, the indemnity will apply where the act or omission by the Director occurs because of an inadvertent act, matter or thing, or where reasonable efforts have been made by the Director to comply with the Minister for Finance's request for assistance.

The indemnity in favour of certain executives indemnifies those persons against certain civil liabilities arising from their signing or involvement in the preparation of Offer documentation, or their participation in roadshows in connection with the Offer, other than liabilities arising from acts or omissions that are inconsistent with any requests by the Minister for Finance (or authorised nominee) for assistance in relation to the Offer. However, the indemnity will apply where the act or omission by the executive occurs because of an inadvertent act, matter or thing, or where reasonable efforts have been made by the executive to comply with the Minister for Finance's request for assistance.

The indemnity in Medibank Private's favour indemnifies Medibank Private against liabilities arising from its acts or omissions in connection with the Offer, other than liabilities arising from acts or omissions that are inconsistent with any requests by the Minister for Finance (or authorised nominee) for assistance in relation to the Offer. However, the indemnity will apply where the act or omission by Medibank Private occurs because of an inadvertent act, matter or thing, or where reasonable efforts have been made by Medibank Private to comply with the Minister for Finance's request for assistance.

The above indemnities prevent the Commonwealth from taking certain actions against an indemnified party in circumstances in which the party is entitled to be indemnified.

The above indemnities will not apply in certain circumstances, including where the indemnified party has not acted in good faith, has committed fraud, or has acted with malice or recklessness.

10.6. EMPLOYEE INCENTIVE SCHEMES

10.6.1 STI Plan

The Managing Director, members of senior management and other selected employees of Medibank Private are eligible to participate in Medibank Private's STI Plan.

Under the STI Plan, participants have an opportunity to receive an incentive payment calculated as a percentage of their annual fixed remuneration each year, conditional on achievement of financial and non-financial performance measures (**Annual STI**). The performance measures against which each participant's Annual STI is assessed and their relative weightings are tailored to a participant's role and are set by the Board each year. For FY15, those performance measures will be linked to operating profit (excluding investment income), profitable PSEU net change, improvement in Medibank Private's cost-to-income ratio and role-specific measures tied directly to Medibank Private's business plan. No Annual STI for FY15 will be provided unless Medibank Private achieves forecast operating profit as set out in the Forecast Financial Information.

The target and maximum Annual STI that may be awarded to members of the Executive Committee, including the Managing Director, for FY15 has been set out below, expressed as a percentage of applicable annual fixed remuneration.

Table 10.1: Annual STI

Position	Annual STI	
	Target	Maximum
Managing Director	70%	100%
Other Executive Committee members	50%	100%

The maximum Annual STI for other employees eligible to participate in the STI Plan will be as determined by the Board.

Under the STI Plan, it is intended that 50% of the Annual STI awarded to the Managing Director and members of the Executive Committee will be deferred for a period of 12 months (**Deferred STI**). It is intended that the Deferred STI will be provided in the form of performance rights under the Performance Rights Plan (see Section 10.6.2 for more information on the Performance Rights Plan). Any grant of performance rights as part of the Deferred STI will be consistent with the terms outlined in Section 10.6.2.

The number of performance rights that the Managing Director will receive under the Annual STI component of the STI Plan for FY15 will be determined by dividing the Deferred STI by the volume weighted average price of the Shares during the 10 trading days before grant of the performance rights, which is expected to occur following the release of Medibank Private's audited results for FY15.

Vesting of the performance rights will be conditional on the participant remaining employed by Medibank Private until the end of the deferral period, being 12 months from the date of grant of the performance rights. Subject to applicable law, if a participant ceases employment with Medibank Private for a reason other than death, serious disability, permanent incapacity, retirement, redundancy or with Board approval, before the end of the deferral period, the performance rights held by that participant on cessation of employment will lapse.

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 Private during the deferral period.

The remaining Annual STI (i.e. the component that is not deferred) will be paid in cash.

For FY15 only, certain participants (including the Managing Director) will have the opportunity to receive an additional short-term incentive calculated as a percentage of their annual fixed remuneration, conditional on Medibank Private achieving forecast operating profit as set out in the Forecast Financial Information of this Prospectus. The additional opportunity is capped at 70% of applicable annual fixed remuneration for the Managing Director and 50% of applicable annual fixed remuneration for other Executive Committee members. As the Managing Director's annual fixed remuneration will change from the date of Listing, the annual fixed remuneration used to calculate the additional opportunity will be pro-rated to reflect the annual fixed remuneration in FY15 both pre and post Listing. The number of performance rights that participants will receive under this additional opportunity will be determined by dividing the value of the additional opportunity by the Final Price (rounded to the nearest whole Share). This ensures any amount received by participants is aligned with Shareholders from the date of Listing. The additional incentive is being provided to recognise the assistance those participants have provided in connection with the Completion of the Offer process, to focus the participants on achievement of the forecasts in the Forecast Financial Information within this Prospectus and to act as a retention mechanism in the period following Completion of the Offer. Any amounts received under this component will be provided wholly in performance rights with vesting occurring approximately 18–24 months following Completion of the Offer, subject to achievement of the operating profit hurdle and the participant's continued employment. The additional component of the STI Plan will not be provided in subsequent years.

10.6.2. Performance Rights Plan

Medibank Private has established a Performance Rights Plan which is designed to:

- assist in the motivation, retention and reward of employees, including the Managing Director and members of senior management; and
- 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 Private through the granting of performance rights.

The following offers will be, or are intended to be, made under the Performance Rights Plan:

- offers of performance rights to the Managing Director and other members of the Executive Committee on or shortly after Completion of the Offer and thereafter on an annual basis as the long-term incentive component of their remuneration (**LTI Offer**);
- offers of performance rights to selected senior employees, identified as exceptional performers, who are critical to the business (excluding members of the Executive Committee) on an annual basis, beginning in FY16 as an incentive to promote continued employment with Medibank Private (**Retention Offer**); and
- offers of performance rights to the Managing Director and Executive Committee that they may become entitled to as part of the deferred element of their annual STI Plan (see Section 10.6.1 for more information on the STI Plan as well as the additional short-term incentive for FY15 only).

The key terms of the Performance Rights Plan are as follows:

Table 10.2: Performance Rights Plan key terms

Key terms	Definitions
Eligibility	Offers may be made at the Board's discretion to employees of Medibank Private or its controlled entities.
Vesting conditions	<p>A performance right will vest and become exercisable to the extent that the applicable performance, service, or other vesting conditions specified at the time of the grant are satisfied. The vesting conditions may include conditions relating to continuous employment or service, the individual performance of the participant or Medibank Private's performance.</p> <p>The Board has the discretion to set the terms and conditions on which it will offer performance rights under the Performance Rights Plan, including the vesting conditions and different terms and conditions which apply to different participants in the Performance Rights Plan.</p>
Performance rights	<p>On satisfaction of any vesting conditions, each performance right will convert into the number of Shares specified at the time of grant.</p> <p>Performance rights do not carry any voting rights.</p>
Shares	<p>Shares provided to a participant on vesting of performance rights may initially be acquired by a trustee and subsequently transferred to participants in the Performance Rights Plan.</p> <p>Shares provided on vesting of a performance right carry dividend and voting rights.</p> <p>Depending on the terms of grant of the performance rights, the Shares provided on vesting may be subject to disposal restrictions, which means they may not be disposed of or dealt with for a period of time.</p>
Approval	Grants of performance rights under the Performance Rights Plan to the Managing Director may be subject to the approval of Shareholders, to the extent required under the ASX Listing Rules.
Transfer	<p>Performance rights may not be sold, transferred, encumbered or otherwise dealt with without the prior written approval of the Board, or unless required by law.</p> <p>A holder of performance rights may not enter into any arrangement for the purpose of hedging, or otherwise affecting their economic exposure to their performance rights.</p>
Quotation	Performance rights will not be quoted on the ASX. MPL will apply for official quotation of any Shares issued under the Performance Rights Plan on vesting of the performance rights, in accordance with the ASX Listing Rules.
Change of control	In the event of certain extraordinary events such as a change of control or winding-up of MPL, the Board will have the discretion to determine an appropriate treatment for participants, including accelerating the vesting of performance rights.
Clawback	<p>The Board has broad clawback powers if, among other things:</p> <ul style="list-style-type: none"> • the participant has acted fraudulently or dishonestly or has engaged in gross misconduct; or • there is a material misstatement in Medibank Private's audited financial statements. <p>The clawback powers can be invoked if the Board becomes aware of any of these matters for any of the preceding five financial years. If a performance right has not vested, then the clawback may result in forfeiture, whereas if the performance right has vested, then the participant may be required to repay all or a part of the award represented by the performance rights.</p>

Key terms	Definitions
Amendments	To the extent permitted by the ASX Listing Rules, the Board retains the discretion to vary the terms and conditions of the Performance Rights Plan.
Costs and administration	Medibank Private must bear any costs incurred in the administration of the Performance Rights Plan.

10.6.3. LTI Offer

Medibank Private will grant performance rights with an underlying face value of \$3,096,549 under the Performance Rights Plan to the Managing Director and other members of the Executive Committee on or shortly after Completion of the Offer as the long-term incentive component of their remuneration for FY15, of which performance rights with a face value of \$1,200,000 will be granted to the Managing Director.

The maximum number of performance rights that the Managing Director will receive under the LTI Offer for FY15 will be determined by dividing the \$1,200,000 by the Final Price (rounded to the nearest whole Share).

Each grant to be made by Medibank Private on or shortly after Completion of the Offer will be consistent with the terms outlined in Section 10.6.2, with the following vesting conditions:

- 50% of the performance rights will be subject to a vesting condition based on Medibank Private's absolute EPS CAGR over the performance period (**EPS Performance Rights**); and
- 50% 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 Private's relative TSR will be compared to a comparator group comprising companies with a market capitalisation positioned within the ASX 50 to 100, excluding certain companies in the metals and mining or energy sectors, and with regard to certain ASX-listed insurance companies.

The vesting conditions for the first grant of performance rights will be tested over a performance period of approximately three years, commencing on the Completion of the Offer and ending on 30 June 2017. The vesting conditions must be satisfied for the performance rights to vest.

EPS Performance Rights

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

Table 10.3: EPS Performance Rights vesting schedule

Medibank Private's EPS CAGR over the performance period	% of EPS Performance Rights that vest
Less than the EPS target performance	Nil
Equal to the EPS target performance	50%
Between target and maximum EPS performance	Straight-line pro rata vesting between 50% and 100%
At or above maximum EPS performance	100%

The maximum EPS performance over the performance period will also be determined by the Board.

TSR Performance Rights

For any of the TSR Performance Rights to vest, Medibank Private must achieve the target TSR ranking over the performance period. The percentage of the TSR Performance Rights that vest, if any, will be based on Medibank Private's TSR ranking over the performance period, as set out in the following vesting schedule:

Table 10.4: TSR Performance Rights vesting schedule

Medibank Private's TSR rank in the relevant comparator group	% of TSR Performance Rights that vest
Less than 50%	Nil
Equal to 50%	50%
Greater than 50% up to 75%	Straight-line pro rata vesting between 50% and 100%
At or above 75%	100%

Cessation of employment

If a participant is a ‘good leaver’ (e.g. they cease employment with Medibank Private by reason of death, serious disability, permanent incapacity, retirement, redundancy or with Board approval):

- in the case of the Managing Director, the performance rights held by the Managing Director on cessation of employment will remain on foot 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 a participant other than the Managing Director, a portion of the performance rights held by that participant on cessation of employment will lapse according to a formula which takes into account the length of time the participant has held the performance right and the performance period for the performance right. The remaining performance rights will remain on foot and will be tested at the end of the performance period against the existing vesting conditions.

If a participant is a ‘bad leaver’ (e.g. they cease employment with Medibank Private for any reason other than death, serious disability, permanent incapacity, retirement, redundancy or with Board approval), the performance rights held by that participant on cessation of employment will automatically lapse.

Any performance right that remains unvested at the end of the performance period will lapse immediately. There will be no retesting.

ASX waiver

Medibank Private has sought and obtained from ASX an in-principle decision to grant a waiver from the requirement under the ASX Listing Rules to obtain Shareholder approval in relation to:

- the offer of performance rights to George Savvides, Managing Director, under the LTI Plan on or shortly after Listing; and
- the possible grant of performance rights to George Savvides under the STI Plan in FY16.

This waiver is conditional on:

- the performance rights being issued to George Savvides, Managing Director, no later than 12 months from Listing;
- the information required by ASX Listing Rule 10.15 being disclosed in this Prospectus; and
- details of any performance rights granted to George Savvides, Managing Director, under the LTI Plan or STI Plan being published in each annual report of Medibank Private relating to a period in which the performance rights were granted.

10.6.4. Retention Offer

From FY16 onwards, Medibank Private intends to grant performance rights to selected senior employees (excluding members of the Executive Committee) who do not participate in the LTI Plan. Grants will only be made to individuals who have been identified as exceptional performers who are critical to the business, and will be subject to a vesting period of two years following the grant. The number of participants and level of grant will be determined annually by the Board and the Managing Director.

Subject to applicable law, if a participant ceases employment with Medibank Private for a reason other than death, serious disability, permanent incapacity, retirement, redundancy or with Board approval, before the end of the deferral period, the performance rights held by that participant on cessation of employment will lapse.

On vesting of the performance rights, each performance right will convert into Shares 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 Private during the performance period.

10.6.5. Minimum shareholding

The Board intends to implement a policy that will require the Managing Director and other members of the Executive Committee to hold Shares to a prescribed value (equivalent to 100% of their annual fixed remuneration) within five years after Completion of the Offer.

10.7. DESCRIPTION OF THE SYNDICATE**10.7.1. Syndicate members**

The JLMs of the Offer are Deutsche Bank AG, Sydney Branch, Goldman Sachs Australia Pty Ltd and Macquarie Capital (Australia) Limited.

The Co-Lead Managers to the Offer are Bell Potter Securities Limited, Commonwealth Bank of Australia, Morgans Financial Limited and UBS Wealth Management Australia Limited.

The Co-Managers to the Offer are Evans and Partners Pty Limited and Ord Minnett Limited.

10.7.2. Settlement Underwriting Agreement

It is expected that the JLMs, the Commonwealth and MPL will enter into a Settlement Underwriting Agreement on or around 21 November 2014.

Although the Settlement Underwriting Agreement has not yet been executed, it is expected to include rights of the JLMs to terminate the agreement upon, among other things, materially defective disclosure in or material omission from this Prospectus or the Institutional Offering Memorandum, or certain adverse material developments relating to Medibank Private, hostilities, stock markets or banking systems. The Settlement Underwriting Agreement is also expected to include an indemnity in favour of the JLMs in relation to any materially defective disclosure in this Prospectus or the Institutional Offering Memorandum.

It is also expected that MPL will in the Settlement Underwriting Agreement agree it will not, for the period of 180 days after the date of the agreement, among other things, offer, sell or otherwise dispose of any Shares, or publicly disclose the intention to do so, without the prior consent of the JLMs, subject to certain permitted exceptions in relation to employee, executive director or agent share option or purchase plans, or any dividend reinvestment plan of MPL.

10.8. FEES AND COMMISSIONS

The Commonwealth has agreed to pay the JLMs the following fees in respect of the Offer:

- a base management fee of \$5 million multiplied by the percentage of Shares transferred by the Commonwealth pursuant to the Offer, for providing project management services in connection with the Offer (along with reimbursement of certain direct expenses);
- an incentive management fee of up to \$5 million multiplied by the percentage of Shares transferred by the Commonwealth pursuant to the Offer, based on certain agreed performance criteria relating to the achievement of demand and value targets;
- institutional selling fees of 0.3% of the value of the Shares sold to Australian Institutional Investors (including on Shares allocated into the Bookbuild against Broker-sponsored bids) and 0.6% of the value of the Shares allocated to Institutional Investors outside Australia; and
- retail selling fees of 1.0% of the value of the Shares sold in the Broker Firm Offer after allowing for any Clawback by the Commonwealth and 0.6% of the value of Shares sold outside the Broker Firm Offer in response to an Application Form bearing a Broker stamp.

The JLMs are required to distribute the retail selling fees to the relevant Brokers. Subject to Commonwealth approval, the JLMs shall pay an amount no greater than \$500,000 to Co-Lead Managers and/or Co-Managers out of the incentive management fee described above.

10.9. MEDIBANK PRIVATE'S CURRENT RELATIONSHIP WITH THE COMMONWEALTH

10.9.1. Commonwealth as Shareholder

As MPL is currently wholly owned by the Commonwealth, it must comply with the following statutory obligations:

- As a Government Business Enterprise prescribed under the *Public Governance, Performance and Accountability Act 2013* (Cth) (**PGPA Act**) MPL must, in accordance with its Constitution, comply with the *Commonwealth Government Business Enterprise Governance and Oversight Guidelines 2011* (Cth) (**GBE Guidelines**). The GBE Guidelines apply to MPL, and must be applied by MPL to all its subsidiaries, except to the extent notified or modified by the Minister for Finance. The GBE Guidelines provide guidance to Government Business Enterprises on various corporate governance issues, including responsibilities and conduct of directors, composition of boards of directors, planning and reporting requirements, disclosure to the relevant Minister, financial governance and other governance matters.
- As a Commonwealth company under the PGPA Act (being a company controlled by the Commonwealth), the Board must prepare a corporate plan, prepare budget estimates covering MPL's activities for each financial year and give the Minister for Finance a copy of MPL's financial statements. These financial statements must be audited, reported on by the Auditor-General and tabled in Parliament.
- As a wholly owned Commonwealth company under the PGPA Act, the Directors of MPL must keep the Minister for Finance informed of the activities and developments in relation to MPL and its subsidiaries, ensure that MPL has a constituted and functioning audit committee and ensure that MPL complies with any government policy specified to apply to it by an order of the Minister for Finance.

The Sale Act facilitates the sale of MPL. Under the Sale Act, the Minister for Finance has the power to request MPL and the Board to assist the Commonwealth in formulating, entering into and carrying out transactions, the objective of which is to transfer all Commonwealth Shares in MPL to one or more persons. MPL and the Board must comply with such requests and provide assistance in the form and manner specified in the requests. MPL and the Board may also, on their own initiative, assist the Commonwealth in this respect. The Minister for Finance may give directions to MPL and the Board about exercising their powers, with which they must comply. MPL and the Board are provided with certain statutory immunities in giving assistance to the Commonwealth, in accordance with the Sale Act. Further details about the provisions of the Sale Act are provided in Section 10.11.2.

The statutory obligations referenced in Section 10.9.1 will apply differently, or will not apply at all, to MPL after Completion of the Offer, as described in Section 10.10.

10.9.2. Commonwealth as regulator

The Commonwealth is responsible for regulating the PHI industry and contributes to the funding and regulation of the health management industry.

The PHI regulatory regime is designed to ensure that the Australian PHI industry is efficient and competitive, that the interests of customers are protected, and that individual private health insurers are prudentially safe.

The Australian Government's policy priorities for PHI are set out in Section 2.3.13.

10.9.3. Commonwealth as customer

The Commonwealth, through a number of departments and agencies is a customer of the Complementary Services segment, including under the ADF Health Services Contract described in Section 10.4.2.

10.10. MEDIBANK PRIVATE'S RELATIONSHIP WITH THE COMMONWEALTH AFTER COMPLETION OF THE OFFER

The sale of the Commonwealth's Shares in MPL will affect Medibank Private's statutory obligations as described in Section 10.9.1. Certain provisions in the PGPA Act and other Commonwealth legislation will cease to apply to Medibank Private once MPL ceases to be Commonwealth controlled.

MPL will cease to be Commonwealth controlled on Completion of the Offer, which is expected to be on or around 1 December 2014.

Some of the legislative consequences of MPL ceasing to be Commonwealth controlled include the following:

- MPL will cease to be subject to regulation under the PGPA Act or the GBE Guidelines, so the requirements in Section 10.9.1 will no longer apply to Medibank Private.
- MPL's current auditor, the Commonwealth Auditor-General, will cease to be MPL's auditor. It is proposed that PricewaterhouseCoopers will be adopted as MPL's external auditor after Completion of the Offer.
- MPL and MPL Employees who are members of the Commonwealth Superannuation Scheme (**CSS**) and the Public Sector Superannuation Scheme (**PSS**) will cease to be entitled to contribute to those relevant funds.

If the Commonwealth ceases to hold any Shares in MPL as a consequence of Completion of the Offer, then:

- the five-year period, for the ownership limitations and Australian identity requirements for MPL described in Section 10.11.2, will commence;
- amendments to certain Commonwealth statutes, recognising that the Commonwealth no longer holds Shares in MPL, will take effect so that MPL is no longer subject to those statutes; and
- the powers of the Minister for Finance to request assistance from MPL and the Board under the Sale Act, as described in Section 10.9.1, will cease.

If the Commonwealth retains any Shares in MPL after Completion of the Offer as contemplated in Section 7.1, then:

- the end date of the five-year period for the ownership limitations and Australian identity requirements for MPL described in Section 10.11.2 will be delayed. The period will end on the fifth anniversary of the date on which the Commonwealth ceases to hold any Shares in MPL. If the Commonwealth retains Shares in MPL, the 15% ownership limit discussed in Section 10.11.2 will apply based on the proportion of Shares not held by the Commonwealth;
- the amendments to certain Commonwealth statutes will not take effect and MPL will remain subject to those statutes; and
- the powers of the Minister for Finance to request assistance from MPL and the Board under the Sale Act as described in Section 10.9.1 will remain in relation to the sale of those remaining Shares in MPL.

If the Commonwealth retains any Shares in MPL after Completion of the Offer, the Commonwealth intends to sell those Shares at a later time not being earlier than the announcement of Medibank Private's FY15 results and in a manner of its choosing.

10.11. OWNERSHIP RESTRICTIONS

The sale and purchase of Shares in MPL is regulated by Australian laws that restrict the level of ownership or control by any one person (either alone or in combination with others).

This section contains a general description of these laws.

10.11.1. Corporations Act

The takeover provisions in Chapter 6 of the Corporations Act restrict acquisitions of shares in listed companies (including MPL, following successful Completion of the Offer), as well as unlisted companies with more than 50 members, if the acquirer's (or another party's) voting power would increase to above 20%, or would increase from a starting point that is above 20% and below 90%, unless certain exceptions apply.

The Corporations Act also imposes notification requirements on persons having voting power of 5% or more in MPL.

10.11.2. Medibank Private Sale Act

Under the Sale Act there are provisions to the effect that an 'unacceptable ownership situation' will arise if any one person (aggregated with their associates) holds more than a 15% stake in MPL.¹ A person must not enter into a transaction that would cause an unacceptable ownership situation.

The Sale Act also imposes Australian identity restrictions on MPL. The Australian identity provisions require MPL to retain its incorporation, central management and control in Australia, and continue to have a substantial business and operational presence in Australia. The majority of the Directors of MPL must be Australian citizens.

The ownership and domicile restrictions under the Sale Act cease to apply five years after the Commonwealth sells all its equity in MPL. Breach of these provisions is not an offence, but if a person has engaged, is engaging or is proposing to engage in conduct that contravenes the Sale Act, the Federal Court of Australia may, on the application of the Minister for Finance, grant an injunction restraining the person from engaging in this conduct.

Under the Sale Act and the *Medibank Private Sale (Interests in Shares) Regulation 2014* (Cth), certain interests in Shares are disregarded in calculating a person's stake in MPL. These include temporary interests that may arise in carrying out the Offer. They also include interests arising in the ordinary activities of depositaries, custodians, nominees and brokers who do not have any substantive ownership interest in MPL Shares, as well as interests under a loan security of a person whose ordinary business includes the lending of money. The regulation is in effect but is presently subject to disallowance by either House of Parliament. The disallowance period will end on 30 October 2014.

10.11.3. Foreign Acquisitions and Takeovers Act

Under Australia's foreign investment review framework, which comprises the *Foreign Acquisitions and Takeovers Act 1975* (Cth), its associated regulations, and Australia's Foreign Investment Policy, the Treasurer has the power to block foreign investment proposals or apply conditions to the way proposals are implemented to ensure that they are not contrary to the national interest.

In general, proposals by a single foreign person (and their associates) to acquire an interest of 15% or more in any business valued at more than \$248 million (or \$1,078 million for United States and New Zealand investors) must be reported to Australia's Foreign Investment Review Board for examination by the Treasurer. This also applies to proposals by two or more foreign persons (and their associates) to acquire an interest of 40% or more. Foreign government investors require approval from the Treasurer before making any direct investment in Australia, regardless of the value. Further information on the Australian Government's foreign investment screening requirements is detailed in Australia's Foreign Investment Policy, available at www.firb.gov.au.

10.12. LICENCES

MPL has been registered as an open-access, for-profit, private health insurer in accordance with Part 4-3 of the PHI Act since 1 October 2009.

10.13. SELLING RESTRICTIONS

No action has been taken to register or qualify this Prospectus, the Shares or the Offer, or to permit a public offering of the Shares in any jurisdiction outside Australia and New Zealand.

In particular, the Shares have not been, and will not be, registered under the US Securities Act, or the securities laws of any state or other jurisdiction in the United States, and may not be offered or sold, directly or indirectly, in the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and applicable securities laws of states and other jurisdictions in the United States.

This Prospectus does not constitute an offer or invitation to apply for Shares in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or invitation.

1. 'Stake' is defined in the Sale Act.

This Prospectus may not be released or distributed in the United States or elsewhere outside Australia and New Zealand unless it is attached to, or constitutes part of, the Institutional Offering Memorandum that describes selling restrictions applicable in the United States and other jurisdictions outside Australia and New Zealand. In addition, it may only be distributed to persons to whom the Institutional Offer may lawfully be made, in accordance with the laws of any applicable jurisdiction.

Each Applicant in the Retail Offer and each person in Australia or New Zealand to whom the Institutional Offer is made under this Prospectus and each person on behalf of whom the Applicant is acting will be taken to have represented, warranted and agreed as follows:

- they understand that the Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered, sold or resold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and applicable securities laws of states or other jurisdictions in the United States;
- they are not in the United States and are not acting on behalf of a person in the United States;
- they have not sent and will not send this Prospectus or any other material relating to the Offer to any person in the United States; and
- they will not offer or sell the Shares in the United States or in any other jurisdiction outside Australia and New Zealand, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with all applicable laws in the jurisdiction in which the Shares are offered and sold.

Each Applicant under the Institutional Offer will also be required to make certain representations, warranties and covenants including as set out in the confirmation of allocation letter.

10.14. SUMMARY OF THE RIGHTS AND LIABILITIES ATTACHED TO THE SHARES AND OTHER MATERIAL PROVISIONS OF THE CONSTITUTION

10.14.1. Introduction

The rights and liabilities attached to the ownership of the Shares arise from a combination of the Constitution, statute, ASX Listing Rules, ASX Settlement Operating Rules and general law.

A summary of the significant rights attached to the Shares and a description of the other material provisions of the Constitution are set out below. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders. The summary assumes that MPL is admitted to the official list of the ASX.

10.14.2. Rights attached to the Shares

The rights attached to the Shares are set out in the Constitution, and are, in certain circumstances, regulated by the Corporations Act, ASX Listing Rules, ASX Settlement Operating Rules and general law.

The principal rights, liabilities and obligations of the Shareholders are summarised below.

10.14.3. Ownership restrictions

The Sale Act stipulates that no single person (aggregated with their associates) may hold more than a 15% stake in MPL² (an 'unacceptable ownership situation'). These restrictions cease to apply five years after the Commonwealth has sold all its equity in MPL. Under the Sale Act, MPL 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 MPL 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 exists.

10.14.4. Voting at a general meeting

At a general meeting of MPL, 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.

10.14.5. Meetings of members

Each Shareholder is entitled to receive notice of, attend and vote at general meetings of MPL and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, Corporations Act or ASX Listing Rules. MPL must give at least 28 days written notice of a general meeting.

2. 'Stake' is defined in the Sale Act.

10.14.6. Dividends

The Board may determine that a dividend is payable, fix the amount and time for payment, and authorise payment or crediting by MPL to each Shareholder entitled to that dividend.

10.14.7. Transfer of Shares

As set out in the Constitution, Shares may be transferred in accordance with the ASX Settlement Operating Rules or by any other method permitted by the Corporations Act and the ASX. The Board may refuse to register a transfer of Shares where permitted to do so under the ASX Listing Rules. The Board must refuse to register a transfer of Shares if required by the ASX Listing Rules or to prevent a breach of the ASX Listing Rules or the Sale Act.

10.14.8. Issue of further Shares

Subject to the Corporations Act, ASX Listing Rules and any rights and restrictions attached to a class of Shares, MPL may issue, or grant options in respect of, further Shares on terms and conditions as resolved by the Board.

10.14.9. Winding up

If MPL is wound up, then subject to the Constitution, any rights or restrictions attached to any class of Shares and a special resolution of the Shareholders, the liquidator may divide MPL's property among the Shareholders, in whole or in part.

10.14.10. Unmarketable parcels

In accordance with the ASX Listing Rules, Medibank Private may sell Shares that constitute less than a marketable parcel by following the procedures set out in the Constitution.

10.14.11. Variation of class rights

The variation of class rights is subject to the Corporations Act and the terms of issue of a class of Shares. The Corporations Act specifies that rights attached to any class of Shares may be varied or cancelled only by special resolution of the company and:

- with the written consent of the holders of at least three-quarters of the votes included in that class; or
- by a special resolution passed at a separate meeting of the holders of Shares in that class.

In either case, the holders of not less than 10% of the votes in the class of Shares, the rights of which have been varied or cancelled, may apply to a court of competent jurisdiction to exercise its discretion to set aside such variation or cancellation.

10.14.12. Dividend reinvestment

The Constitution authorises the Board, on any terms and conditions at its discretion, to grant to Shareholders the right to elect to reinvest cash dividends paid by MPL by subscribing for Shares in MPL.

10.14.13. Authority to capitalise profits

The Constitution authorises the Board to resolve to capitalise any part of MPL's profit. If this occurs, it may apply the sum to benefit those Shareholders who are entitled to dividends in the proportions to which those Shareholders would have been entitled in a distribution of that sum by way of dividend. The benefit may be given in the following ways:

- paying up the amounts unpaid on the Shareholder's Shares; and/or
- issuing Shares or debentures of MPL to the Shareholder.

10.14.14. Directors – appointment and removal

Under the Constitution, the minimum number of Directors that may comprise the Board is five and the maximum is eight (subject to any changes made in accordance with the Corporations Act). MPL may pass a resolution varying that number. Directors are elected at annual general meetings of MPL. Retirement will occur on a rotational basis so that no Director (excluding the Managing Director) holds office without re-election beyond the third annual general meeting following the meeting at which the Director was last elected, or for more than three years from the date MPL is listed on the ASX (whichever is longer). The Directors may also appoint a Director to fill a casual vacancy on the Board or in addition to the existing Directors (provided that the total number of Directors does not exceed the maximum), who will then hold office until the end of the next annual general meeting of MPL.

10.14.15. Directors – voting

Questions arising at a meeting of the Board will be decided by a majority of votes from the Directors who are present at the meeting and entitled to vote on the matter. In the case of an equal number of votes on a resolution, the Chairman of the meeting has a casting vote unless only two Directors are present and entitled to vote on the resolution.

10.14.16. Directors – remuneration

The remuneration of a Managing Director or other Executive Director may be fixed by the Board and may be by way of salary, commission, participation in profits, or all or any of those modes, but may not be by commission or percentage of operating revenue. See Section 6.3.2 for more information.

In relation to the remuneration of the Non-executive Directors, please see Section 6.3.2.

10.14.17. Amendments to the Constitution

The Constitution can only be amended in accordance with the Corporations Act, which requires a special resolution passed by at least 75% of the Shareholders present (in person or by proxy) and entitled to vote on the resolution at a general meeting of MPL.

10.15. LEGAL PROCEEDINGS

Medibank Private is from time to time party to various disputes and legal proceedings arising from the conduct of its business. As at the Prospectus Date, there are no legal proceedings to which Medibank Private is a party that it believes are likely to have a material adverse impact on its future financial results, and Medibank Private is not aware of any such legal proceedings that are pending or threatened.

10.16. TAXATION CONSIDERATIONS FOR AUSTRALIAN TAX RESIDENT INVESTORS

The comments in this section provide a general outline of Australian tax issues for Australian tax resident Shareholders who acquire Shares under this Prospectus and that hold Shares in MPL on capital account for Australian income tax purposes. The categories of Shareholders considered in this summary are limited to individuals, companies (other than life insurance companies), trusts, partnerships and complying superannuation funds that hold their Shares on capital account.

This summary does not consider the consequences for foreign resident Shareholders, insurance companies, banks and Shareholders that hold their Shares on revenue account or carry on a business of trading in shares, or Shareholders who are exempt from Australian tax. This summary also does not cover the consequences for Shareholders who are subject to the Taxation of Financial Arrangement rules contained in Division 230 of the *Income Tax Assessment Act 1997*.

The summary in this section is general in nature and is not exhaustive of all income tax consequences that could apply in all circumstances of any given Shareholder. The individual circumstances of each Shareholder may affect the taxation implications of the investment of the Shareholder.

It is recommended that all Shareholders consult their own independent tax advisers regarding the income tax consequences, including capital gains tax (CGT), stamp duty and Australian goods and services tax (GST) of acquiring, owning and disposing of Shares, having regard to their specific circumstances.

The summary in this section is based on the relevant Australian tax law in force, established interpretations of that law and understanding of the practice of the relevant tax authority at the time of issue of this Prospectus. The summary does not take into account the tax law of countries other than Australia.

Tax laws are complex and subject to ongoing change. The tax consequences discussed in these summaries does not take into account or anticipate any changes in law (by legislation or judicial decision) or any changes in the administrative practice or interpretation by the relevant tax authorities. If there is a change, including a change having retrospective effect, the tax, stamp duty and GST consequences should be reconsidered by Shareholders in light of the changes. The precise implications of ownership or disposal of the Shares will depend upon each Shareholder's specific circumstances.

This summary does not constitute financial product advice as defined in the Corporations Act. This summary is confined to Australian taxation issues and is only one of the matters which need to be considered by Shareholders before making a decision about their investments. Shareholders should consider taking advice from a licensed adviser, before making a decision about their investment to acquire Shares under this Prospectus.

10.16.1. Income tax treatment of dividends received by Australian tax resident Shareholders

Australian resident individuals and complying superannuation entities

Where dividends on a Share are paid by MPL, those dividends should constitute assessable income of an Australian tax resident Shareholder. Australian tax resident Shareholders who are individuals or complying superannuation entities should include the dividend in their assessable income in the year the dividend is paid, together with any franking credits attached to that dividend.

The rate of tax payable by each Australian Shareholder that is an individual will depend on the individual circumstances of the Shareholder and his or her prevailing marginal rate of income tax.

Shareholders who are individuals or complying superannuation entities should be entitled to a 'tax offset' equal to the franking credits attached to the dividend, subject to being a 'qualified person' (refer further comments below). The tax offset can be applied to reduce the tax payable on the Shareholder's taxable income. Where the tax offset exceeds the tax payable on the Shareholder's taxable income, such Shareholders should be entitled to a tax refund.

Where a dividend paid by MPL is unfranked, the Shareholder should generally be taxed at his or her prevailing marginal rate on the dividend received, with no tax offset.

Corporate Shareholders

Corporate Shareholders are also required to include both the dividend and associated franking credits in their assessable income. A tax offset should then be allowed up to the amount of the franking credits on the dividend.

An Australian resident corporate Shareholder should be entitled to a credit in its own franking account to the extent of the franking credits attached to the dividend received. Such corporate Shareholders can then pass on the benefit of the franking credits to their own shareholder(s) on the payment of franked dividends.

Excess franking credits received by a corporate Shareholder cannot give rise to a refund, but may in certain circumstances be converted into carry-forward tax losses.

Trusts and partnerships

Australian tax resident Shareholders who are trustees (other than trustees of 'complying superannuation entities') or partnerships should include the dividend and franking credits in determining the net income of the trust or partnership. A beneficiary, trustee or partner may be entitled to a tax offset equal to the beneficiary's or partner's share of the net income of the trust or partnership as the case may be.

10.16.2. Shares held at risk

To be eligible for the benefit of franking credits and tax offsets, a Shareholder must satisfy both the 'holding period' and 'related payment' rules. This requires that a Shareholder holds the Shares in MPL 'at risk' for more than 45 days continuously (not including the date of acquisition and disposal).

Any day on which a Shareholder has a materially diminished risk of loss or opportunity for gain in respect of the Shares (e.g. through transactions such as granting options or warrants over Shares, or entering into a contract to sell the Shares) will not be counted as a day on which the Shareholder held the Shares 'at risk'. In addition, a Shareholder must not be obliged to make a 'related payment' in respect of any dividend, unless they hold the Shares 'at risk' for the required holding period around the dividend dates.

Where these rules are not satisfied, the Shareholder will not be able to include an amount for the franking credits in their assessable income and will not be entitled to a tax offset.

This holding period rule is subject to certain exceptions, including where the total franking offsets of an individual in a year of income do not exceed \$5,000. Special rules apply to trusts and beneficiaries.

Shareholders should obtain their own professional tax advice to determine if these requirements, as they apply to them, have been satisfied.

On 30 June 2014, legislation to implement previously announced changes by the Australian Government relating to the denial of franking tax offsets to certain 'distribution washing' arrangements received Royal Assent. Shareholders should consider the impact of these integrity measures which apply to distributions, including dividends, paid on or after 1 July 2013. Shareholders should have regard to these 'distribution washing' changes together with the broader integrity provisions that apply to the claiming of tax offsets, having regard to their own facts and circumstances.

10.16.3. CGT implications for Australian tax resident Shareholders on disposal of Shares

The disposal of a Share by a Shareholder will be a CGT event. A capital gain should arise where the 'capital proceeds' on disposal exceed the 'cost base' of the Share (broadly, the amount paid to acquire the Share plus any transaction costs incurred in relation to the acquisition or disposal of the Share). In the case of an 'arm's-length' on-market sale, the capital proceeds should generally be the cash proceeds received from the sale of the Share.

A CGT discount may be applied against the net capital gain where the Shareholder is an individual, complying superannuation entity or Trustee, and the Shares have been held for at least 12 months prior to the CGT event. Where the CGT discount applies, any capital gain arising to individuals and entities acting as Trustees (other than a trust that is a complying superannuation entity) may be halved after offsetting current-year or prior-year capital losses. For a complying superannuation entity, any capital gain may be reduced by one-third after offsetting current-year or prior-year capital losses.

Where the Shareholder is the trustee of a trust that has held the Shares for at least 12 months before disposal, the CGT discount may flow through to the beneficiaries of the trust if those beneficiaries are not companies. Shareholders who are trustees should seek specific advice regarding the tax consequences of distributions to beneficiaries who may qualify for discounted capital gains.

A capital loss will be realised where the reduced cost base of the Share exceeds the capital proceeds from disposal. Capital losses may only be offset against capital gains realised by the Shareholder in the same income year or future income years, subject to certain loss recoupment tests being satisfied. Capital losses cannot be offset against other forms of assessable income.

10.16.4. Tax File Numbers

Shareholders are not required to quote their Tax File Number (TFN) or, where relevant, Australian Business Number (ABN) to MPL. However, if a valid TFN, a valid ABN or exemption details are not provided, Australian tax may be required to be deducted by MPL from distributions and/or unfranked dividends at the maximum marginal tax rate plus any relevant levy (e.g. the Medicare levy). Australian tax should not be required to be deducted by MPL in respect of fully franked dividends.

A Shareholder that holds Shares as part of an enterprise may quote their ABN instead of their TFN. Non-residents are exempt from this requirement.

10.16.5. GST implications

No GST should be payable by Shareholders in respect of the acquisition or disposal of their Shares in MPL, regardless of whether or not the Shareholder is registered for GST.

Shareholders may not be entitled to claim full input tax credits in respect of any GST included in the costs they have incurred in connection with their acquisition of the Shares. Separate GST advice should be sought by Shareholders in this respect, relevant to their particular circumstances.

No GST should be payable by Shareholders on receiving dividends distributed by MPL.

10.16.6. Stamp duty

Shareholders should not be liable for stamp duty in respect of the acquisition of their Shares, unless they acquire – either alone or with an associated/related person, an interest of 90% or more in MPL. Under current stamp duty legislation, no stamp duty would ordinarily be payable by Shareholders on any subsequent transfer of their Shares while MPL remains listed.

10.17. TAXATION CONSIDERATIONS FOR NEW ZEALAND TAX RESIDENT INVESTORS

10.17.1. New Zealand income tax treatment of dividends received by New Zealand tax resident Shareholders

New Zealand Shareholders that are individuals, trustees of a trust or portfolio corporate Shareholders (those holding less than 10% shareholding interests in MPL) will generally be required to include in their assessable income the gross dividend actually received, which includes, any New Zealand imputation credits attached to that dividend (as noted at Section 10.17.4) and withholding taxes. New Zealand tax resident Shareholders would then be subject to New Zealand tax at their applicable tax rate on the gross dividend amount (which includes the imputation credit and any applicable withholding taxes amount).

New Zealand tax resident Shareholders should be entitled to a tax offset against their New Zealand tax liability, equal to the New Zealand imputation credits attached to the dividend. The tax offset can be applied to reduce the tax payable on the New Zealand tax resident Shareholder's taxable income. Where the offset exceeds the tax payable on the New Zealand tax resident Shareholder's taxable income, excess imputation credits can be carried forward by the Shareholder for utilisation in future income years (in the form of tax credits for individuals, or losses for companies and trustees other than a Maori trustee).

New Zealand tax resident Shareholders should also be entitled to a foreign tax credit in relation to any Australian withholding tax applied to the dividend. Please see Section 10.17.2 for more information.

Non-portfolio New Zealand corporate Shareholders (holding 10% or greater shareholding interests in MPL) should not be subject to income tax on any dividends received from MPL.

10.17.2. Franking credits and withholding tax

Australian withholding tax will apply for any unfranked dividends (but not for fully franked dividends). Should MPL be required to deduct Australian withholding tax on any dividend it pays, New Zealand tax legislation allows a foreign tax credit to be claimed by New Zealand tax resident Shareholders in respect of that amount of overseas tax paid. However, the amount of the credit for the foreign tax is restricted to the amount of the New Zealand tax payable, calculated under certain rules.

Foreign tax credits are non-refundable credits and, if not utilised in the income year to which they relate, will be forfeited.

New Zealand tax resident Shareholders are not entitled to a New Zealand tax credit for any Australian franking credits attached to dividends, but likewise are not taxed on the amount of any franking credits attached to dividends.

10.17.3. Triangular (Trans-Tasman) tax regime and dividend imputation

The Triangular (Trans-Tasman) tax regime allows an Australian tax resident company, such as MPL, to elect to maintain a New Zealand imputation credit account. Consequently, New Zealand taxes paid by the MPL's New Zealand subsidiary could then result in New Zealand imputation credits being attached to dividends paid on the Shares. The imputation credits must be attached pro rata to all dividends, regardless of the tax residence of the Shareholders.

MPL intends to investigate the option to elect to enter into this regime, and whether they will seek to maintain a New Zealand imputation credit account with respect to New Zealand taxes paid. If so elected, and MPL declares dividends with New Zealand imputation credits attached, all Shareholders would receive New Zealand imputation credits. New Zealand tax resident Shareholders may then be entitled to use these imputation credits under New Zealand tax law to offset against their New Zealand income tax liability (refer above). The level of New Zealand imputation credits available to be attached to a dividend will depend on the amount of New Zealand taxes paid. No decision to enter the Triangular (Trans-Tasman) tax regime has been made.

10.17.4. New Zealand income tax treatment of shareholding

New Zealand tax resident Shareholders may be subject to New Zealand tax in respect of foreign shareholdings, including their Shares, under either:

- ordinary tax rules applying to share investments; or
- New Zealand's Foreign Investment Fund (FIF) regime.

The FIF regime should not apply to the Shares on the basis that MPL meets certain exemption criteria, including (but not limited to) it is:

- listed on the All Ordinaries in Australia, or another ASX-approved index; and
- required by Australian tax law to maintain a franking account.

If, for any reason, MPL does not meet the Listing requirements in any income year, New Zealand tax resident Shareholders may be subject to the FIF regime in respect of their holding of the Shares. In the event that the FIF regime applies, then Shareholders should obtain professional tax advice.

It is therefore anticipated that New Zealand's ordinary tax rules will apply to Shares held by New Zealand tax resident Shareholders, in which case only dividends received (see above) or gains on disposal of the Shares, in limited circumstances (see below), may be taxable.

10.17.5. Disposal of Shares

Amounts derived by New Zealand tax resident Shareholders from the sale or disposal of the Shares should not be included in assessable income for New Zealand tax purposes if the Shares are held on capital account. For completeness, Shareholders will be subject to tax on gains realised on the sale or disposal of Shares where:

- the Shareholder is in the business of dealing in Shares; or
- the Shares were acquired for the purpose of resale; or
- the Shares were acquired as part of a profit-making undertaking or scheme; or
- the Shares are otherwise held on revenue account.

New Zealand tax resident Shareholders should seek their own tax advice about whether the proceeds from the sale of the Shares will be taxable in New Zealand.

10.17.6. Stamp duty

As there is no stamp duty in New Zealand, neither the acquisition nor disposal of the Shares will attract stamp duty in New Zealand.

10.17.7. Goods and services tax

Under current New Zealand law, no New Zealand goods and services tax liability will arise on either the issue of the Shares pursuant to the Offer or on the subsequent transfer of the Shares.

10.18. CONSENT TO BE NAMED BY MPL

For the purposes of the Corporations Act, this Prospectus is issued by the Commonwealth, as sole Shareholder in MPL. For the purposes of the Securities Act 1978 (New Zealand), both the Commonwealth and MPL are 'issuers'. MPL has neither authorised nor caused the issue of this Prospectus, and only takes responsibility for the following information regarding MPL, which has been included in this Prospectus with the consent of MPL, including:

- Letter from the Chairman
- Sections 1.1, 1.2, 1.4, 1.5, 1.6, 1.7 and 1.8;
- Sections 2.3.9 and 2.3.10;

- Section 3 (Business Overview);
- Section 4 (Financial Information) (except Section 4.11.1);
- Sections 5.1, 5.2, 5.3 and 5.4.3 (other than statements in relation to the Commonwealth, its intentions, policies and priorities);
- Section 6 (Key People, Interests and Benefits) (other than the parts of Section 6.3.1 that relate to the Commonwealth and its advisers);
- Sections 10.1–10.6, 10.12, 10.14, 10.15, 10.18 and 10.20;
- Appendix A (Additional Historical Financial Information);
- Appendix B (Significant Accounting Policies); and
- The components of the other sections of this Prospectus (excluding those sections containing the independent reports prepared by Ernst & Young Transaction Advisory Services Limited and Ernst & Young ABC Pty Limited) that relate to the business, finances and prospects of Medibank Private (including information or statements relating to the financial information of Medibank Private in the 'Important Notices' and 'Important Dates and Key Offer Statistics' sections).

10.19. CONSENTS TO BE NAMED AND STATEMENT OF DISCLAIMERS OF RESPONSIBILITY

Each of the parties referred to below (each a consenting party), to the maximum extent permitted by law, expressly disclaims all liabilities in respect of, makes no representations regarding and takes no responsibility for any statements in or omissions from this Prospectus, other than the reference to its name in the form and context in which it is named and a statement or report included in this Prospectus with its consent as specified below.

Each of the consenting parties has given and has not, before the lodgement of this Prospectus with the ASIC, withdrawn its written consent to be named in this Prospectus in the form and context in which it is named. None of the consenting parties referred to below have made any statement that is included in this Prospectus or any statement on which a statement made in this Prospectus is based, other than as specified below:

- Each of Deutsche Bank AG, Sydney Branch, Goldman Sachs Australia Pty Ltd and Macquarie Capital (Australia) Limited has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as JLMs to the Offer in the form and context in which it is named.
- Each of Craigs Investment Partners Limited, JBWere Limited, JBWere (NZ) Pty Limited, Macquarie Equities Limited, Macquarie Equities New Zealand Limited and Wilson HTM Corporate Finance Limited has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as a retail affiliate of the JLMs to the Offer in the form and context in which it is named.
- Each of Bell Potter Securities Limited, Commonwealth Bank of Australia, Morgans Financial Limited and UBS Wealth Management Australia Limited has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Co-Lead Manager to the Offer in the form and context in which it is named.
- Each of Evans and Partners Pty Limited and Ord Minnett Limited has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Co-Manager to the Offer in the form and context in which it is named.
- Lazard Pty Limited has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Business Adviser to the Commonwealth in the form and context in which it is named.
- Herbert Smith Freehills has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Australian Legal Adviser to the Commonwealth in relation to the Offer in the form and context in which it is named.
- Ernst & Young has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Accounting and Tax Adviser to the Commonwealth in relation to the Offer in the form and context in which it is named.
- Ernst & Young Transaction Advisory Services Limited has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Investigating Accountant in relation to the Financial Information in the form and context in which it is named, and has not withdrawn its consent to include its Independent Limited Assurance Reports in this Prospectus in the form and context in which they are included.
- Ernst & Young ABC Pty Limited has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Consulting Actuary in relation to the Consulting Actuary's Report in the form and context in which it is named, and has not withdrawn its consent to include its Consulting Actuary Report in this Prospectus in the form and context in which it is included.
- King & Wood Mallesons has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Australian Legal Adviser to MPL in relation to the Offer in the form and context in which it is named.
- Deloitte Touche Tohmatsu has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Business and Accounting Adviser to MPL in relation to the Offer in the form and context in which it is named.
- Reunion Capital Partners Pty Limited has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Capital Markets Adviser to MPL in relation to the Offer in the form and context in which it is named.

- Computershare Investor Services Pty Limited has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its consent to be named as the Share Registry in the form and context in which it is named. Computershare Investor Services Pty Limited has not taken part in the preparation of any part of this Prospectus other than the recording of its name as Share Registry to MPL. Computershare Investor Services Pty Limited has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of this Prospectus.
- The Commonwealth Auditor-General has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, his written consent to be named as the statutory auditor of MPL in the form and context in which he is named.
- APRA has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to the inclusion of statements relating to its policy regarding prudential regulation of the PHI industry, in the form and context in which such statements are included.
- KPMG has given, and not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named as having provided remuneration advice to MPL in the form and context in which it is named.

10.20. MEDIBANK PRIVATE'S EXPENSES IN RELATION TO THE OFFER

As at the Prospectus Date, Medibank Private's expenses in relation to the Offer are expected to be approximately \$13.8 million. These expenses are in the nature of legal, advisory, Listing, share registry, directors and officers liability insurance, and administrative costs. The Commonwealth has agreed to reimburse \$10.0 million of these expenses.

10.21. ASIC RELIEF AND ASX CONFIRMATIONS AND WAIVERS

10.21.1. ASIC relief

ASIC has granted or has indicated that it is likely to grant confirmations, modifications and exemptions from the Corporations Act in relation to the Offer. The principal instruments of relief granted or likely to be granted have the effect that:

- significant new developments in relation to the Offer may be disclosed in newspaper advertisements and a copy of any supplementary prospectus will be made available during the Offer on the Medibank Private Share Offer website;
- this Prospectus may be issued in suitable alternative braille and audio formats for print disabled individuals;
- advertising of the Offer may occur prior to lodgement of this Prospectus (in some cases in a manner different from that required by the Corporations Act) and a telephone information centre and website may be operated;
- the Commonwealth may undertake market research in relation to the Offer prior to lodgement of this Prospectus;
- MPL is able to communicate limited information about the Offer to employees of Medibank Private prior to lodgement of this Prospectus; and
- members of the Commonwealth Parliament, the Commonwealth, MPL, its directors and officers, and persons acting on behalf of MPL or the Commonwealth may contribute to public discussion or understanding of the private health insurance industry, MPL, the Offer and related matters.

10.21.2. ASX waivers

Medibank Private has sought and obtained from ASX an in-principle decision to grant the following waivers and confirmations to MPL in relation to the Medibank Private Share Offer:

- a waiver from the requirement of ASX Listing Rule 10.14 to obtain Shareholder approval in respect of the issue of performance rights to the Managing Director that are issued under the STI Plan or LTI Plan within 12 months of Listing and which are disclosed in this Prospectus;
- ASX Listing Rules 8.10 and 8.11: waivers and confirmations to permit MPL to refuse to register a transfer of Shares where the transfer will or is likely to result in an unacceptable ownership situation under the Sale Act (as described in Section 10.11.2), or to require a person to provide a statutory declaration or other document in connection with the proposed transfer of Shares; and
- confirmation that MPL may undertake conditional and deferred settlement trading of Shares subject to certain conditions to be approved by the ASX.

10.22. STATEMENT OF THE MINISTER

This Prospectus is authorised by the Minister for Finance who consents to its lodgement with ASIC and its issue.

10.23. GOVERNING LAW

This Prospectus and the contracts that arise from the acceptance of the Applications and bids under this Prospectus are governed by the laws applicable in the ACT, and each Applicant under this Prospectus submits to the exclusive jurisdiction of the ACT's courts.

APPENDIX A

ADDITIONAL HISTORICAL FINANCIAL INFORMATION



The following financial information extracted or derived, as applicable, from the Audited Financial Statements is presented in this Appendix A:

- audited statutory historical consolidated income statements for FY12, FY13 and FY14;
- audited statutory historical consolidated cash flows for FY12, FY13 and FY14;
- adjusted statutory consolidated income statements for FY12, FY13 and FY14; and
- segment data for FY12, FY13 and FY14 after certain reclassifications for management reporting purposes, as described further below.

The statutory historical consolidated balance sheet is presented in Section 4.5 of the Prospectus.

Investors should note that Medibank Private changed the presentation of certain line items in the audited statutory consolidated income statements and audited statutory consolidated statements of cash flows in the Audited Financial Statements in each period of the Historical Financial Information to reflect the changes in the business activities of Medibank Private over that period, as described in Section 3.5 of the Prospectus. Consequently, the presentation of the comparative information for FY12 was changed in the Audited Financial Statements for FY13 to be consistent with the presentation of the FY13 financial information and the presentation of the comparative information for FY13 was changed in the Audited Financial Statements for FY14 to be consistent with the presentation of the FY14 financial statements. In this Appendix A, the audited statutory consolidated income statement information for FY12 and FY13 and the audited statutory statement of cash flows for FY12 and FY13 have been presented on a basis consistent with the presentation of that information in Audited Financial Statements for FY14 in order that all periods are presented on the same basis. Investors should note that the Audited Financial Statements for FY12 and FY13 available on the Medibank Private Share Offer website have not been changed and therefore each are presented in a format that differs from the one used in the Prospectus and in this Appendix A. Investors should refer to Note 1a in the Audited Financial Statements for FY13 for further information on changes in the presentation of the audited statutory consolidated income statements and audited statutory consolidated statements of cash flow in that period. Investors should also note that the Audited Financial Statements for FY14 included changes in the presentation of the audited statutory consolidated income statement to remove the operating profit subtotal and provide improved disclosure of amortisation and impairment. In prior periods, certain amortisation and impairment amounts were presented outside of operating profit. Operating profit was presented in Note 4 relating to segment information in the Audited Financial Statements for FY14.

The audited statutory historical consolidated income statements and statements of cash flows for FY14 included in this Appendix A have been extracted from the Audited Financial Statements for FY14. The audited statutory historical consolidated income statements and statements of cash flows for FY13 included in this Appendix A have been extracted from the restated comparative information for FY13 included in the Audited Financial Information for FY14 (as described above). The audited statutory historical consolidated income statements and statements of cash flows for FY12 included in this Appendix A have been derived from the comparative information for FY12 included in the Audited Financial Statements for FY13 and presented on a basis consistent with FY14. The Audited Financial Statements are available on the Medibank Private Share Offer website at www.medibankprivateshareoffer.com.au.

The audited statutory consolidated income statements and segment data for FY12, FY13 and FY14, which have been derived from the Audited Financial Statements for these periods, have been adjusted to reflect the manner in which Medibank Private classifies certain revenues and expenses for management reporting purposes differently to that presented in the Audited Financial Statements in order to better understand and assess the performance of the business as if it comprised two segments, as described above and in Section 4.4 of the Prospectus (**Adjusted Statutory Historical Financial Information**). The reclassifications have been applied to the audited statutory historical consolidated income statements of Medibank Private for FY12, FY13 and FY14 in order to derive the Adjusted Statutory Historical Financial Information and relate to:

- the reclassification of revenue generated from the sale of diversified insurance products (travel, life, pet) from 'other revenue' to 'Complementary Services revenue';
- the recognition of intersegment eliminations in the results of the Complementary Services segment in order to present the segment results of Health Insurance in a manner that is consistent with Medibank Private's management of this segment and submissions made to PHIAC, which primarily relate to the claims expense reclassifications between 'claims expense' and 'other cost of sales'; and
- the aggregation and allocation of total expenses reported in the Audited Financial Statements to the Health Insurance and Complementary Services segments in order to assess the overall profitability of each segment.

This Appendix A includes a reconciliation of the audited statutory historical consolidated income statements of Medibank Private for FY12, FY13 and FY14 to the adjusted statutory historical consolidated income statements and pro forma consolidated income statements of Medibank Private for these periods. See Section 4.4. of the Prospectus for further information on the basis of preparation of the adjusted statutory historical consolidated income statements. The Pro Forma Historical Financial Information has been prepared solely for inclusion in this Prospectus and has been derived from the Adjusted Statutory Historical Financial Information, adjusted for certain significant items and pro forma adjustments. See Section 4.2.2 of the Prospectus for further information on the basis of preparation of the pro forma financial information included in the Prospectus and in this Appendix A.

Medibank Private's activities are presented in the Prospectus as comprising two segments, namely Health Insurance and Complementary Services, with overheads that are not allocated to these segments presented separately as corporate overheads. In contrast, Medibank Private's Audited Financial Statements for FY14 were reported in accordance with AASB8 *Operating Segments*, which became applicable to Medibank Private for the annual reporting period commencing on 1 July 2013. Under that accounting standard, Medibank Private has one reportable segment (Health Insurance) and the results of non-reportable segments, including Complementary Services, are aggregated within the 'all other segments' category in the Audited Financial Statements for FY14. See Section 4.4 and Note 4 to the Audited Financial Statements for FY14 for

more information. Health Insurance premium revenue and Complementary Services revenue as presented in the reconciliation tables in this Appendix are presented in the Audited Financial Statements as 'Private health insurance premium revenue', 'Health solutions revenue' and 'Other', respectively. The FY12 and FY13 Audited Financial Statements did not include a segment information note.

Table 1: Audited statutory historical consolidated income statement¹

(\$M)	Note	FY12	FY13	FY14
Revenue				
Private health insurance premium revenue		5,062.3	5,344.1	5,648.7
Health solutions revenue		278.9	498.4	703.1
Other		15.8	18.2	20.0
		5,357.0	5,860.6	6,371.8
Other income	a	0.9	2.3	10.3
Expenses				
Claims expense		(4,305.2)	(4,594.3)	(4,854.2)
Employee benefits expense		(445.9)	(461.9)	(463.9)
Medical services expense		(21.0)	(220.2)	(403.4)
Office and administration expense		(119.2)	(111.1)	(111.7)
Marketing expense		(91.6)	(80.8)	(90.4)
IT expense		(70.7)	(72.8)	(82.4)
Professional service expense		(50.9)	(41.2)	(36.2)
Lease expense		(33.3)	(35.2)	(50.9)
Depreciation and amortisation expense		(52.6)	(55.1)	(62.9)
Impairment expense		–	(7.9)	(100.2)
Other expenses		(13.7)	(11.8)	(23.0)
	b	(5,204.0)	(5,692.3)	(6,279.1)
Profit before net investment income and income tax		153.9	170.7	103.0
Net investment income		43.4	144.4	113.9
Profit for the year before income tax		197.3	315.0	216.9
Income tax expense		(70.7)	(82.3)	(86.1)
Profit for the year		126.6	232.7	130.8

1. Medibank Private's revenue and expenses in each period of the Historical Financial Information have been presented differently in its Audited Financial Statements primarily as a result of changes in the activities of Medibank Private. Table 1 presents Medibank Private's revenue and expenses for FY12, FY13 and FY14 in the format of the FY14 Audited Financial Statements. The format in Table 1 also differs to the presentation of revenue and expenses in Tables 4, 5 and 6 (that have been used as the basis of the presentation in the Prospectus and which include reclassifications of certain items of revenue and expense in order to assist management in the assessment and monitoring of the business).

The other income and expenses reported in Tables 4, 5 and 6 reconcile to this Table 1 as follows:

(\$M)	FY12	FY13	FY14
Other income per note a above (for FY12 only)	0.9	–	–
Operating expenses per note b above	(5,204.0)	(5,692.3)	(6,279.1)
Net expenses per Table 1 above	(5,203.1)	(5,692.3)	(6,279.1)
Represented by Tables 4, 5 and 6 net expense classifications:			
Claims expense (inc. risk equalisation)	(4,305.2)	(4,594.3)	(4,854.2)
Other income/(expense)	(8.1)	(14.2)	(9.6)
Management Expenses	(889.8)	(1,083.8)	(1,415.3)
Net expenses per Tables 4, 5, 6	(5,203.1)	(5,692.3)	(6,279.1)

Table 2: Adjusted statutory historical consolidated income statement

(\$M)	FY12	FY13	FY14
Health Insurance premium revenue	5,062.3	5,344.1	5,648.7
Complementary Services revenue	295.6	516.6	726.9
Other revenue	–	–	–
Total revenue	5,357.9	5,860.6	6,375.6
Other income	–	–	–
Claims expense (incl. risk equalisation)	(4,342.3)	(4,630.9)	(4,884.3)
Other cost of sales	(151.9)	(344.5)	(539.8)
Gross profit	863.7	885.3	951.5
Management Expenses	(700.8)	(699.0)	(840.4)
Operating profit	162.8	186.3	111.1
Other income/(expense)	(9.0)	(15.6)	(8.1)
Net profit before investment income and tax	153.9	170.7	103.0
Net investment income	43.4	144.4	113.9
Net profit before tax	197.3	315.0	216.9
Income tax expense	(70.7)	(82.3)	(86.1)
NPAT	126.6	232.7	130.8

Table 3: Audited statutory historical consolidated cash flows

(\$M)	FY12	FY13	FY14
Cash flows from operating activities			
Premium receipts	5,270.4	5,256.5	5,718.8
Health solutions receipts	282.6	456.1	742.3
Other receipts	18.0	20.6	24.3
Payments for claims and levies	(4,311.6)	(4,562.3)	(4,816.6)
Payments to suppliers and employees	(846.0)	(1,015.5)	(1,294.9)
Income taxes paid	(208.0)	(51.0)	(61.0)
Net cash inflow from operating activities	205.5	104.5	312.8
Cash flows from investing activities			
Interest received	73.7	78.0	53.5
Investment expenses	(6.0)	(5.7)	(4.7)
Proceeds from sale of financial assets	956.6	1,247.1	1,159.3
Purchase of financial assets	(1,119.5)	(931.2)	(1,159.1)
Proceeds from sale of plant and equipment	0.6	1.1	4.5
Purchase of plant and equipment	(14.5)	(27.5)	(69.2)
Purchase of intangible assets	(38.7)	(34.6)	(42.5)
Net cash (outflow)/inflow from investing activities	(147.9)	327.2	(58.2)
Cash flows from financing activities			
Dividends paid	(91.2)	(150.3)	(441.7)
Net cash outflow from financing activities	(91.2)	(150.3)	(441.7)
Net (decrease)/increase in cash and cash equivalents	(33.6)	281.3	(187.1)
Cash and cash equivalents at beginning of period	647.4	613.7	895.1
Cash and cash equivalents at end of period	613.7	895.1	708.0

Table 4: Reconciliation of audited statutory historical consolidated income statement to adjusted statutory income statement and to pro forma historical consolidated income statement – FY12

(\$M)	Audited statutory FY12	Reclass-ification ^k	Adjusted statutory FY12	Reorganisation expenses ^b	Impairment expenses ^c	Executive retention payments ^d
Health Insurance premium revenue ^a	5,062.3		5,062.3	–	–	–
Complementary Services revenue ^a	278.9	16.7	295.6	–	–	–
Other revenue	15.8	(15.8)	–	–	–	–
Total revenue	5,357.0	0.9	5,357.9	–	–	–
Other income	–	–	–	–	–	–
Claims expense (incl. risk equalisation) ^l	(4,305.2)	(37.1)	(4,342.3)	–	–	–
Other cost of sales		(151.9)	(151.9)	–	–	–
Gross profit			863.7	–	–	–
Management Expenses ^l	(889.8)	189.0	(700.8)	–	7.2	–
Operating profit	161.9	0.9	162.8	–	7.2	–
Other income/(expenses) ^l	(8.1)	(0.9)	(9.0)	–	–	–
Net profit before investment income and tax	153.9	–	153.9	–	7.2	–
Net investment income	43.4	–	43.4	–	–	–
Net profit before tax	197.3	–	197.3	–	7.2	–
Income tax expense	(70.7)	–	(70.7)	–	(2.2)	–
NPAT	126.6	–	126.6	–	5.0	–
<i>Gross profit by segment</i>						
Health Insurance			720.0	–	–	–
Complementary Services			143.7	–	–	–
Total gross profit			863.7	–	–	–
<i>Management Expenses by segment</i>						
Health Insurance			(539.9)	–	–	–
Complementary Services			(152.5)	–	7.2	–
Corporate overheads			(8.4)	–	–	–
Total Management Expenses			(700.8)	–	7.2	–
<i>Operating profit by segment</i>						
Health Insurance			180.1	–	–	–
Complementary Services			(8.8)	–	7.2	–
Corporate overheads			(8.4)	–	–	–
Total operating profit			162.8	–	7.2	–

Pro forma adjustments							Pro forma historical FY12
IPO transaction costs ^e	Melbourne premises establishment costs ^f	Acc. policy change in def. acq. costs ^g	Public company costs ^h	Removal of dental and eyecare earnings contribution ⁱ	Tax adjustments ^j		
-	-	-	-	-	-	-	5,062.3
-	-	-	-	-	(8.1)	-	287.5
-	-	-	-	-	-	-	-
-	-	-	-	-	(8.1)	-	5,349.8
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	(4,342.3)
-	-	-	-	-	5.9	-	(146.0)
-	-	-	-	-	(2.2)	-	861.5
-	1.8	3.4	(5.4)	6.5	-	-	(687.3)
-	1.8	3.4	(5.4)	4.3	-	-	174.1
-	-	-	-	-	-	-	(9.0)
-	1.8	3.4	(5.4)	4.3	-	-	165.2
-	-	-	-	-	-	-	43.4
-	1.8	3.4	(5.4)	4.3	-	-	208.6
-	(0.5)	(1.0)	1.6	(1.3)	15.4	-	(58.7)
-	1.3	2.4	(3.8)	3.0	15.4	-	149.9
-	-	-	-	-	-	-	720.0
-	-	-	-	(2.2)	-	-	141.5
-	-	-	-	(2.2)	-	-	861.5
-	-	3.4	-	-	-	-	(536.5)
-	-	-	-	6.5	-	-	(138.8)
-	1.8	-	(5.4)	-	-	-	(12.0)
-	1.8	3.4	(5.4)	6.5	-	-	(687.3)
-	-	3.4	-	-	-	-	183.5
-	-	-	-	4.3	-	-	2.7
-	1.8	-	(5.4)	-	-	-	(12.0)
-	1.8	3.4	(5.4)	4.3	-	-	174.1

Table 5: Reconciliation of audited statutory historical consolidated income statement to adjusted statutory income statement and to pro forma historical consolidated income statement – FY13

(\$M)	Audited statutory FY13	Reclass-ification ^k	Adjusted statutory FY13	Reorganisation expenses ^b	Impairment expenses ^c	Executive retention payments ^d
Health Insurance premium revenue ^a	5,344.1	–	5,344.1	–	–	–
Complementary Services revenue ^a	498.4	18.2	516.6	–	–	–
Other revenue	18.2	(18.2)	–	–	–	–
Total revenue	5,860.6	–	5,860.6	–	–	–
Other income	2.3	(2.3)	–	–	–	–
Claims expense (incl. risk equalisation) ^l	(4,594.3)	(36.6)	(4,630.9)	–	–	–
Other cost of sales		(344.5)	(344.5)	–	–	–
Gross profit			885.3	–	–	–
Management Expenses ^l	(1,083.8)	384.8	(699.0)	–	2.2	2.0
Operating profit	184.9	1.4	186.3	–	2.2	2.0
Other income/(expenses) ^l	(14.2)	(1.4)	(15.6)	–	5.7	–
Net profit before investment income and tax	170.7	–	170.7	–	7.9	2.0
Net investment income	144.4	–	144.4	–	–	–
Net profit before tax	315.0	–	315.0	–	7.9	2.0
Income tax expense	(82.3)	–	(82.3)	–	(2.4)	(0.6)
NPAT	232.7	–	232.7	–	5.6	1.4
<i>Gross profit by segment</i>						
Health Insurance			713.2	–	–	–
Complementary Services			172.1	–	–	–
Total gross profit			885.3	–	–	–
<i>Management Expenses by segment</i>						
Health Insurance			(508.9)	–	–	–
Complementary Services			(162.7)	–	2.2	2.0
Corporate overheads			(27.4)	–	–	–
Total Management Expenses			(699.0)	–	2.2	2.0
<i>Operating profit by segment</i>						
Health Insurance			204.3	–	–	–
Complementary Services			9.4	–	2.2	2.0
Corporate overheads			(27.4)	–	–	–
Total operating profit			186.3	–	2.2	2.0

Pro forma adjustments							Pro forma historical FY13
IPO transaction costs ^e	Melbourne premises establishment costs ^f	Acc. policy change in def. acq. costs ^g	Public company costs ^h	Removal of dental and eyecare earnings contribution ⁱ	Tax adjustments ^j		
–	–	–	–	–	–	–	5,344.1
–	–	–	–	(9.0)	–	–	507.6
–	–	–	–	–	–	–	–
–	–	–	–	(9.0)	–	–	5,851.6
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	(4,630.9)
–	–	–	–	6.6	–	–	(337.9)
–	–	–	–	(2.4)	–	–	882.9
–	13.2	(5.9)	(5.4)	6.6	–	–	(686.3)
–	13.2	(5.9)	(5.4)	4.1	–	–	196.5
–	–	–	–	–	–	–	(9.9)
–	13.2	(5.9)	(5.4)	4.1	–	–	186.6
–	–	–	–	–	–	–	144.4
–	13.2	(5.9)	(5.4)	4.1	–	–	330.9
–	(4.0)	1.8	1.6	(1.2)	–	–	(87.1)
–	9.2	(4.1)	(3.8)	2.9	–	–	243.9
–	–	–	–	–	–	–	713.2
–	–	–	–	(2.4)	–	–	169.7
–	–	–	–	(2.4)	–	–	882.9
–	–	(5.9)	–	–	–	–	(514.8)
–	–	–	–	6.6	–	–	(151.9)
–	13.2	–	(5.4)	–	–	–	(19.6)
–	13.2	(5.9)	(5.4)	6.6	–	–	(686.3)
–	–	(5.9)	–	–	–	–	198.4
–	–	–	–	4.1	–	–	17.7
–	13.2	–	(5.4)	–	–	–	(19.6)
–	13.2	(5.9)	(5.4)	4.1	–	–	196.5

Table 6: Reconciliation of audited statutory historical consolidated income statement to adjusted statutory income statement and to pro forma historical consolidated income statement – FY14

(\$M)	Audited statutory FY14	Reclass-ification ^k	Adjusted statutory FY14	Reorganisation expenses ^b	Impairment expenses ^c	Executive retention payments ^d
Health Insurance premium revenue ^a	5,648.7	–	5,648.7	–	–	–
Complementary Services revenue ^a	703.1	23.8	726.9	–	–	–
Other revenue	20.0	(20.0)	–	–	–	–
Total revenue	6,371.8	3.8	6,375.6	–	–	–
Other income	10.3	(10.3)	–	–	–	–
Claims expense (incl. risk equalisation) ^l	(4,854.2)	(30.1)	(4,884.3)	–	–	–
Other cost of sales		(539.8)	(539.8)	–	–	–
Gross profit			951.5	–	–	–
Management Expenses ^l	(1,415.3)	574.9	(840.4)	35.1	99.6	–
Operating profit^m		(1.5)	111.1	35.1	99.6	–
Other income/(expenses) ^l	(9.6)	1.5	(8.1)	–	–	–
Net profit before investment income and tax	103.0	–	103.0	35.1	99.6	–
Net investment income	113.9	–	113.9	–	–	–
Net profit before tax	216.9	–	216.9	35.1	99.6	–
Income tax expense	(86.1)	–	(86.1)	(10.5)	(3.2)	–
NPAT	130.8	–	130.8	24.6	96.4	–
<i>Gross profit by segment</i>						
Health Insurance			764.4	–	–	–
Complementary Services			187.1	–	–	–
Total gross profit			951.5	–	–	–
<i>Management Expenses by segment</i>						
Health Insurance			(513.6)	–	–	–
Complementary Services			(211.9)	35.1	19.6	–
Corporate overheads			(114.9)	–	80.0	–
Total Management Expenses			(840.4)	35.1	99.6	–
<i>Operating profit by segment</i>						
Health Insurance			250.8	–	–	–
Complementary Services			(24.8)	35.1	19.6	–
Corporate overheads			(114.9)	–	80.0	–
Total operating profit			111.1	35.1	99.6	–

Pro forma adjustments							Pro forma historical FY14
IPO transaction costs ^e	Melbourne premises establishment costs ^f	Acc. policy change in def. acq. costs ^g	Public company costs ^h	Removal of dental and eyecare earnings contribution ⁱ	Tax adjustments ^j		
–	–	–	–	–	–	–	5,648.7
–	–	–	–	–	(8.5)	–	718.4
–	–	–	–	–	–	–	–
–	–	–	–	–	(8.5)	–	6,367.1
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	(4,884.3)
–	–	–	–	–	6.0	–	(533.8)
–	–	–	–	–	(2.5)	–	949.0
3.4	12.4	(4.6)	(5.4)	6.2	–	–	(693.7)
3.4	12.4	(4.6)	(5.4)	3.7	–	–	255.3
–	–	–	–	–	–	–	(8.1)
3.4	12.4	(4.6)	(5.4)	3.7	–	–	247.2
–	–	–	–	–	–	–	113.9
3.4	12.4	(4.6)	(5.4)	3.7	–	–	361.1
(1.0)	(3.7)	1.4	1.6	(1.1)	–	–	(102.6)
2.4	8.7	(3.2)	(3.8)	2.6	–	–	258.5
–	–	–	–	–	–	–	764.4
–	–	–	–	(2.5)	–	–	184.6
–	–	–	–	(2.5)	–	–	949.0
–	–	(4.6)	–	–	–	–	(518.2)
–	–	–	–	6.2	–	–	(151.0)
3.4	12.4	–	(5.4)	–	–	–	(24.5)
3.4	12.4	(4.6)	(5.4)	6.2	–	–	(693.7)
–	–	(4.6)	–	–	–	–	246.2
–	–	–	–	3.7	–	–	33.6
3.4	12.4	–	(5.4)	–	–	–	(24.5)
3.4	12.4	(4.6)	(5.4)	3.7	–	–	255.3

- a. Medibank Private's activities are presented in this Prospectus as comprising two segments, namely Health Insurance and Complementary Services, with overheads that are not allocated to these segments presented as corporate overheads. By contrast, Medibank Private's statutory financial statements for FY14 were reported in accordance with AASB8 *Operating Segments*, which became applicable to Medibank Private for the annual reporting period commencing on 1 July 2013. Under that accounting standard, Medibank Private has one reportable segment (Health Insurance) and the results of non-reportable segments are aggregated within the 'all other segments' category (referred to as Complementary Services in this Prospectus). See Section 4.4 and Note 4 to the Audited Financial Statements for FY14 for more information. In addition, Health Insurance premium revenue and Complementary Services revenue as presented in these reconciliation tables are presented in the Audited Financial Statements as 'Private health insurance premium revenue', 'Health solutions revenue', and 'Other' respectively.
- b. The \$35.1 million adjustment in FY14 reflects the removal of the costs incurred in relation to the reorganisation within Complementary Services primarily due to the non-renewal of the Immigration Contract.
- c. Significant software development expenses of \$7.2 million were incurred in FY12 within the Anywhere Healthcare video Telehealth business following a strategic review of its underlying business model.

The \$7.9 million adjustment in FY13 reflects the impairment of software, acquired as part of the McKesson Asia-Pacific acquisition in 2010, following a subsequent review of the business. Of this adjustment, \$5.7 million was originally reported below operating profit. The impairment adjustment of \$99.6 million in FY14 includes a write-down of goodwill attributable to Medibank Private's Workplace Health and Telehealth businesses of \$8.9 million and \$80.0 million, respectively. The Workplace Health impairment charge arose following the non-renewal of the Immigration Contract, which significantly impacted the future cash flow prospects of this business. The impairment charge relating to the Telehealth business arose from a reassessment of the longer-term prospects of the business having regard to increased market competition through the continued emergence of new entrants and ongoing technological developments. In addition, a \$9.5 million write-down was recorded by the Workplace Health businesses against a software asset under construction and associated licences as part of the impairment testing of the abovementioned goodwill. A further \$1.2 million impairment charge against software acquired as part of McKesson Asia-Pacific was also recognised in FY14.
- d. The \$2.0 million adjustment in FY13 reflects the reversal of contractual retention payments that were made to certain individuals as a result of the acquisition of McKesson Asia-Pacific in 2010. These payments were linked to the terms of the acquisition and are not ongoing costs of the business.
- e. The \$3.4 million adjustment in FY14 reflects the removal of costs directly associated with the IPO, namely IPO-related bonuses, fees for consultants and other professional services, training and project management-related costs and expenses incurred in relation to registry establishment, net of reimbursements agreed to by the Commonwealth. These costs are not expected to be incurred in future accounting periods.
- f. The \$1.8 million adjustment in FY12, \$13.2 million adjustment in FY13 and \$12.4 million adjustment in FY14 reflect the removal of Melbourne premises establishment costs that were incurred in preparation for the rationalisation of Medibank Private's Melbourne-based premises and consolidation into a single location in FY15. In addition to the engagement of directly appointed personnel, Medibank Private also incurred expenses such as planning, development, project management, pilot fit-outs, training sessions, research studies and planning submissions costs. Medibank Private moved into its new location in August 2014 and has a lease term of 10 years. These expenses are not considered to be of an ongoing nature.
- g. Effective from 1 July 2012, Medibank Private changed its accounting policy related to the acquisition costs incurred in selling Health Insurance contracts through intermediaries and comparison websites. Previously, such costs were fully expensed in the year in which they arose. From 1 July 2012, these acquisition costs have been 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 income statement in subsequent reporting periods. These deferred acquisition costs are amortised over four years. Accordingly, adjustments have been made to recognise the capitalisation and amortisation of deferred acquisition costs consistently across the periods of the Historical Financial Information and Forecast Financial Information, by recognising a proportion of the annual amortisation of deferred acquisition costs that would have been recognised had the current policy existed throughout the period of the Historical Financial Information. It should be noted that the cash outflow related to these commissions primarily occurs at the date the customer is acquired, thereby causing the cash cost of these acquisitions to be higher than the amortised expense recognised in that same year.
- h. The \$5.4 million adjustment in each of FY12, FY13 and FY14 for public company costs relate to Medibank Private's estimate of the incremental costs that it will incur as a listed public company. These incremental costs include additional costs in relation to Medibank Private's ongoing Listing on the ASX, as well as audit and tax compliance, share registry and other listed entity-related compliance costs.
- i. On 14 June 2014, Medibank Private disposed of its dental and eyecare practices. The losses of \$4.3 million in FY12, \$4.1 million in FY13 and \$3.7 million in FY14 from this business have been excluded as they do not form part of the ongoing operations of Medibank Private.
- j. The tax expense has been adjusted for the impact arising from the legislative change to rights to future income tax legislation in FY12.
- k. For management reporting purposes, certain revenues and expenses are classified differently to that presented in the Audited Financial Statements in order to better understand and assess the performance of the business as if it comprised two segments, as described in Section 4.4. The reclassification column summarises the net impact of those changes, the main entries of which relate to:
 - i. the reclassification of revenue generated from the sale of diversified insurance products (travel, life, pet) from 'other revenue' to 'Complementary Services revenue', which is consistent with the basis on which revenue from the Complementary Services segment is presented in this Prospectus;
 - ii. the recognition of intersegment eliminations against the results of the Complementary Services segment in order to present the segment results of Health Insurance in a manner that is consistent with Medibank Private's management of this segment and submissions made to PHIAC. This particularly relates to the claims expense reclassifications between 'claims expense' and 'other cost of sales'; and
 - iii. the aggregation and allocation of total expenses reported in the Audited Financial Statements to the Health Insurance and Complementary Services segments in order to assess the overall profitability of each segment.
- l. Management Expenses as presented in the statutory audited income statements above have been derived by deducting claims expenses and other expenses from the total expenses as reported in the Audited Financial Statements for each financial year.
- m. \$112.6 million not reflected for FY14 audited statutory as operating profits did not form part of the FY14 audited statutory results.

APPENDIX B

SIGNIFICANT ACCOUNTING POLICIES



The principal accounting policies adopted in the preparation of the consolidated Financial Information in this Prospectus are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a. Basis of preparation

See Section 4.2 for details regarding the basis on which the Financial Information has been prepared. The Historical Financial Information has been extracted or derived, as applicable, from the Audited Financial Statements of Medibank Private. These general-purpose financial statements have been prepared in accordance with the AAS, other authoritative pronouncements of the AASB and the Corporations Act. Medibank Private is a for-profit entity for the purpose of preparing the financial statements. The Audited Financial Statements also comply with the IFRS as issued by the IASB.

The Audited Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss, land and buildings, and claims liabilities. The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying Medibank Private's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the FY14 Audited Financial Statements, are disclosed below.

i. New and amended standards adopted

AASB 8 *Operating Segments* became applicable for Medibank Private for the annual reporting period commencing 1 July 2013. Although Medibank Private's equity instruments are not currently traded in a public market, application of AASB 8 is required for those entities that file, or are in the process of filing, financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

In addition, the following standards became effective for the financial year ended 30 June 2014:

AASB 10 Consolidated Financial Statements and AASB 12 Disclosure of Interests in Other Entities

AASB 10 replaces the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*. Under the new principles, MPL controls an entity when MPL 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. AASB 12 sets out the disclosure requirements for entities reporting under the new standard, including information about the composition of MPL and any significant judgements made in determining whether MPL has control, joint control or significant influence over another entity.

As MPL holds 100% of the shares in its subsidiaries and does not hold any other types of investments which require equity accounting, there is no difference to the consolidation conclusion of MPL subsidiaries under AASB 10 than under AASB 127. No adjustments to the consolidated financial statements and no changes to Medibank Private's 'principles of consolidation' accounting policy are required as a result of the new standard. No significant judgements were made in determining MPL's control and no additional disclosures are included in Medibank Private's FY14 Audited Financial Statements as a result of the adoption of AASB 12.

AASB 13 Fair Value Measurement

AASB 13 *Fair Value Measurement* combines and further expands the fair value measurement guidance previously set out in other standards, for both financial and non-financial assets, and introduces additional related disclosure requirements. There is no change to the circumstances under which an entity is required or permitted to use fair value measurement under the new standard.

The standard introduced new disclosure requirements for Medibank Private's FY14 Audited Financial Statements but did not affect Medibank Private's accounting policies or the amounts recognised in the consolidated financial statements, as the fair value measurement techniques used by Medibank Private are in line with the guidance of the new standard.

AASB 2012-2 Amendments to AAS – Disclosures – Offsetting Financial Assets and Financial Liabilities

AASB 2012-2 clarifies some of the requirements for offsetting financial assets and financial liabilities in the statement of financial position and introduces additional disclosure requirements for entities that do so, or have a legally enforceable right to do so, under master netting or similar arrangements.

As Medibank Private does not offset its financial assets and financial liabilities, and has no legally enforceable right to do so, the amendments have no impact on the measurement and classification of these balances and do not require any additional disclosures in Medibank Private's consolidated financial statements.

Revised AASB 119 *Employee Benefits*

The revised AASB 119 introduced changes relating to accounting for defined benefit plans. Management does not consider the net obligation in respect of defined benefit funds to be material to Medibank Private, therefore these changes have had no material impact on Medibank Private's financial statements.

The revised standard also clarifies the distinction between short-term and long-term employee entitlements for measurement purposes, requiring entities to measure employee entitlement liabilities as long-term liabilities where they are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. Obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement of the Offer for at least 12 months after the reporting date, regardless of when the actual settlement of the Offer is expected to occur. The application of the revised standard has not had a material impact on the classification and measurement of Medibank Private's employee entitlement provisions.

ii. Early adoption of standards

In the current financial year, Medibank Private elected to adopt AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets* early. The adoption had a minor impact on the impairment disclosures set out in Note 14 of the Audited Financial Statements for FY14, as the standard removes the requirement of AASB 136 to disclose the recoverable amount of cash-generating units to which goodwill is allocated, when no impairment loss on that goodwill has been recognised.

Medibank Private has not elected to apply any other pronouncements before their operative date in the annual reporting period beginning 1 July 2013. Section dd provides details of new standards and interpretations which have been published but are not mandatory for 30 June 2014 reporting periods.

iii. Basis of measurement for claims liability – bonus provisions

During the current financial year, Medibank Private revised the measurement basis for its bonus provision liability, which is included within claims liabilities in the balance sheet. The revised methodology altered the recognition pattern of the bonus provision, by recognising it when a constructive obligation is met.

iv. Changes to presentation and comparative information

When the presentation or classification of items in the financial statements is amended, comparative amounts have been reclassified.

b. Principles of consolidation

The Financial Statements incorporate the assets and liabilities of all subsidiaries of MPL (the 'parent entity') as at 30 June 2014 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities (including special purpose entities) over which MPL has control. MPL 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 MPL. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by MPL. 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 transferred and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired, is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between Medibank Private companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by Medibank Private.

c. Segment reporting

Operating segments are identified based on the separate financial information that is regularly reviewed by the Chief Operating Decision Maker. The term Chief Operating Decision Maker refers to the function performed by the Managing Director in assessing performance and determining the allocation of resources across Medibank Private. Operating segments are aggregated where applicable and reported in accordance with the quantitative and qualitative criteria of AASB 8 *Operating Segments*.

d. Foreign currency translation

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

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

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

Medibank Private entered into derivative contracts in the financial year including foreign exchange forward and swap contracts. These transactions are used to minimise exposure as per the protection strategy on financial assets at fair value through profit or loss as outlined in Section m.

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

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

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

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

e. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Medibank Private recognises revenue when the amount of revenue can be reliably measured. It is probable that future economic benefits will flow to the entity and specific criteria have been met for each of Medibank Private's activities as described below.

Revenue is recognised for the major business activities as follows:

i. *Health Insurance premium revenue (premium revenue)*

Premium revenue comprises premiums received inclusive of any PHI rebate.

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

The Australian Government provides a rebate in respect of the premium paid for resident PHI. Policyholders can elect to receive this entitlement by paying the net amount of the premium, with the rebate being paid directly by the Australian Government to Medibank Private. This rebate is recognised in the income statement as premium revenue. Rebates due from the Australian Government but not received at balance date are recognised as receivables.

ii. *Health solutions revenue associated with Complementary Services*

Health solutions revenue includes the provision of face-to-face injury management, rehabilitation, allied health and specialist clinical services (including travel health and dental and eyecare products and services); telephone triage; chronic disease management; web-based health and wellness advice; the provision of clinical decision support software to companies, government and consumers; and the management and co-ordination of healthcare services delivered by third-party providers. Revenue from these services is recognised in the period in which the service is provided, with regard to the proportion of completion of the service at the end of each reporting period. Medibank Private recognises as a liability any amounts received for which it has not provided the service at reporting date.

iii. Investment income

Unit trust distribution income and income arising from investments in direct mandates is recognised when the right to receive is established. Interest income accrues using the effective interest method. See Section m for details on the measurement of gains and losses on financial assets measured at fair value through profit or loss and derivative financial instruments. Dividends are recognised as revenue when the right to receive payment is established.

iv. Sale of non-current assets

The gain or loss on disposal of non-current assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

v. Travel, life and pet insurance commission (within Complementary Services)

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

f. Claims expense

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

g. Income tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where MPL and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of each reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to use those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

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

h. Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to Medibank Private 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

Medibank Private recognises a provision for losses on lease contracts when Medibank Private'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 least 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.

i. Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

j. Cash and cash equivalents

Cash and cash equivalents in the balance sheet are stated at fair value and include cash on hand, short-term bank bills and term deposits, commercial paper, negotiable certificate of deposit and other short-term highly liquid investments with maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant change in value.

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes all cash assets as described above, net of outstanding bank overdrafts.

k. Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 7 to 30 days, except for premiums in arrears as outlined below. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

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

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance has been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is credited against other expenses in the income statement.

l. Inventories

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

m. Investments and other financial assets

Classification

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

i. Assets Backing Insurance Liabilities

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

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

ii. Trade and other receivables

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

Recognition and derecognition

Purchases and sales of financial assets are recognised on trade date – the date on which Medibank Private 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 Medibank Private has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, Medibank Private measures a financial asset at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

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

Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within net investment income in the period in which they arise. Dividend income derived from financial assets at fair value through profit or loss is recognised in profit or loss as part of net investment income when Medibank Private's right to receive payments is established. Interest income from these financial assets is also included in net investment income.

n. Deferred acquisition costs

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 income statement in subsequent reporting periods.

Deferred acquisition costs are amortised systematically over four years. This pattern of amortisation corresponds to the earning pattern of the corresponding actual and expected premium revenue and is subject to the results of liability adequacy testing performed on the unearned premium liability.

The appropriateness of the average expected duration of the insurance contracts is reassessed annually.

o. Property, plant and equipment

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 Medibank Private 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 income statement during the reporting period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land and buildings are recognised, net of tax, in other comprehensive income and accumulated in reserves in equity. To the extent that the increase reverses a decrease previously recognised in the income statement, the increase is first recognised in the income statement. 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 income statement.

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	Lease term
Buildings	40 years
Plant and equipment	3 to 15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Section i).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, it is Medibank Private policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

p. Intangibles

i. Goodwill

Goodwill is measured as described in Section i. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

ii. Software

Costs incurred in acquiring software and 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 (see Section i).

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 seven years. Amortisation relating to acquired software is recognised in depreciation and amortisation intangible expenses in the income statement.

iii. Customer contracts and relationships

Customer contracts and relationships acquired as part of a business combination are recognised separately from goodwill. The customer contracts and relationships are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses (see Section i). Amortisation of customer contracts and relationships is calculated on a straight-line basis over the expected useful lives, which for assets currently owned by Medibank Private is 10 to 12 years and is recognised in depreciation and amortisation intangible expenses in the income statement.

q. Net Risk Equalisation Trust Fund levies and rebates

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

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

r. Claims liabilities and provisions

The liability for outstanding claims provides for claims received but not assessed and claims incurred but not received. The liability is based on an actuarial assessment taking into account historical patterns of claim incidence and processing. It is measured as the central estimate of the present value of expected future payments arising from claims incurred at the end of each reporting period under insurance cover issued by Medibank Private, plus a risk margin reflecting the inherent uncertainty in the central estimate. The expected future payments are discounted to present value using a risk-free rate.

The liability also allows for an estimate of claims handling costs, which include internal and external costs incurred in connection with the negotiation and settlement of claims. Claims handling costs comprise all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

s. Trade and other payables

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

t. Unearned premium liability

The proportion of premium received that has not been earned at the end of each reporting period is recognised in the balance sheet as unearned premium liability. The liability for unearned premiums is released to the income statement as revenue in accordance with Section e (i) over the term of the insurance cover.

u. Unexpired risk liability

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

The liability adequacy test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs, the unearned premium liability is deemed to be deficient, with the entire deficiency being recorded immediately in the income statement. 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 balance sheet as an unexpired risk liability.

v. Provisions

Provisions are recognised when Medibank Private 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 of the Offer 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 Commonwealth Government 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.

w. Employee entitlements**i. 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. These short-term employee benefit obligations are presented as payables.

ii. Other long-term employee benefit obligations

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

The obligations are presented as current liabilities in the balance sheet if Medibank Private does not have an unconditional right to defer settlement of the Offer for at least 12 months after the reporting date, regardless of when the actual settlement of the Offer is expected to occur.

iii. Bonus plans

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

iv. Termination benefits

Termination benefits are payable when employment is terminated by Medibank Private before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. Medibank Private recognises termination benefits at the earlier of the following dates: (a) when Medibank Private can no longer withdraw the offer of those benefits; and (b) when Medibank Private recognises costs for a restructuring that is within the scope of AASB 137 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.

v. Retirement benefit obligations

All employees of Medibank Private are entitled to benefits from either of the Australian Government superannuation schemes, that is the CSS or the PSS, or other funds as nominated by the individual employees. The CSS and PSS are defined benefit schemes and provide defined lump sum benefits based on years of service and average salary. All other funds are defined contribution schemes, which receive fixed contributions from Medibank Private companies, and Medibank Private's legal or constructive obligation is limited to these contributions.

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

One of Medibank Private's subsidiaries, ahm, makes contributions to two defined benefit superannuation funds that provide defined benefit amounts for employees on retirement. These funds are now closed to new members. The net obligation in respect of these defined benefit funds is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. The benefit is discounted in order to determine its present value and the fair value of each plan's assets is deducted. The net obligation is presented within trade and other payables in the balance sheet. All actuarial gains and losses are recognised directly in retained earnings through other comprehensive income. Management does not consider the net obligation in respect of these defined benefit funds to be material to Medibank Private as at 30 June 2014.

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

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

x. Contributed equity

Fully paid ordinary Shares are classified as contributed equity.

y. Dividends

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

z. Goods and services tax

Revenues, expenses and assets are recognised net of the amount of associated goods and services tax (GST), unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST component of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

aa. Equity reserve

The parent entity previously 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 Limited (formerly Health Services Australia Pty Limited) and the total purchase consideration.

bb. Rounding of amounts

Medibank Private is of a kind referred to in Class Order 98/100, issued by ASIC, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars unless otherwise stated.

cc. Insurance contracts

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

Once insurance cover has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period. Medibank Private has determined that all insurance cover provided (excluding those insurance contracts for travel, life and pet insurance where Medibank Private does not act as underwriter) are insurance contracts. The insurance risk assumptions are detailed in Section ee (i).

dd. New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods. Medibank Private's assessment of the impact of these new standards and interpretations is set out below.

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard ^a	Application date for Medibank Private
AASB 9, AASB 2010-7 and AASB 2012-6	Financial Instruments, Amendments to AAS arising from AASB 9, and Amendments to AAS – Mandatory Effective Date of AASB 9 and Transition Disclosures. The IASB issued newly revised IFRS 9 on 24 July 2014, which provides further amendments, but has not yet been endorsed by the AASB	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 Medibank Private currently classifies its investments at fair value through profit or loss, Medibank Private does not expect this to have a material impact. The derecognition rules have been transferred from AASB 139 and have not been changed. IFRS 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. The impairment requirements of IFRS 9 do not apply to the financial assets at fair value through profit or loss, so no significant impact is expected for Medibank Private's investments. Medibank Private 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 Medibank Private, but based on the ageing profile of the amounts currently past due but not impaired. Medibank Private does not expect a significant impact on the financial statements	1 January 2018 (based on newly revised IFRS 9)	1 July 2018 (based on newly revised IFRS 9)
AASB 2012-3	Amendments to AAS – Offsetting Financial Assets and Financial Liabilities	This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities, including whether entities have a current legally enforceable right of set-off which is not contingent on a future event and the criteria which show evidence that the entity intends to settle on a net basis. Medibank Private does not offset its financial assets and liabilities, or have a legally enforceable right to do so, therefore the application of this amendment is not expected to have an impact on the Group's financial statements.	1 January 2014	1 July 2014
Interpretation 21	Accounting for levies	The interpretation clarifies the circumstances under which a liability to pay a levy imposed by a government should be recognised. Due to the nature of Medibank Private's operations, the interpretation is not expected to have a material impact on the financial statements.	1 January 2014	1 July 2014

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

ee. Critical accounting estimates and judgements

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

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

i. Ultimate liability arising from claims made under insurance coverage

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

Insurance risk assumptions

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

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

Central estimate

The outstanding claims liability comprises the central estimate and a risk margin. The central estimate is an estimate of the level of claims liability that is intended to contain no intentional under- or over-estimation. The risk margin is added to the central estimate of outstanding claims to achieve a desired probability of adequacy.

The central estimate is determined based on 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 the results and qualitative information. Medibank Private's objective is to achieve at least a 95% probability of adequacy.

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

Financial assumptions used to determine outstanding claims provision

The outstanding claims central estimate is discounted to the net present value using a risk-free rate of return. The risk-free rate applied to Medibank Private's outstanding claims central estimate at 30 June 2014 is 2.71%, which equates to a reduction in the central estimate of \$1,477,000 (2013: 2.82%, \$1,491,000).

Bonus provisions

Certain PHI products of Medibank Private include benefit categories – Package Bonus, Ultra Bonus and Membership Bonus (the latter of which was introduced in the current financial year), covering additional health-related services. A feature of these benefit entitlements is that any unused portion in a calendar year is carried forward to future calendar years, subject to a limit of five years for Package Bonus and 10 years for Membership Bonus. Ultra Bonus is carried forward without limit.

Medibank Private's claims liabilities include a provision to cover expected future utilisation of these benefit entitlements in respect of current membership. The true cost of these entitlements cannot be known with certainty until any unclaimed entitlements vest.

Risk margins

An overall risk margin is determined after consideration of the uncertainty surrounding the outstanding claims liability. The objective for Medibank Private is to achieve at least a 95% probability of adequacy (2013: 95%). The calculation of the risk margin has been based on an analysis of the past experience. This analysis examined the volatility of past payments in comparison to the central estimate.

The risk margin applied to Medibank Private's outstanding claims central estimate at 30 June 2014 is 7.7%, which equates to \$25,546,000 (2013: 5.0%, equated to \$18,534,000).

The impact of changes in key variables on the outstanding claims provision

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

		Financial impact			
		Consolidated			
		2014		2013	
	Movement in variable	Profit/(loss) after tax \$000	Equity \$000	Profit/(loss) after tax \$000	Equity \$000
Central estimate	+5%	(14,244)	(14,244)	(14,075)	(14,075)
Central estimate	-5%	14,244	14,244	14,075	14,075
Discount rate	+1%	408	408	354	354
Discount rate	-1%	(414)	(414)	(359)	(359)
Risk margin	+1%	(2,381)	(2,381)	(2,595)	(2,595)
Risk margin	-1%	2,381	2,381	2,595	2,595
Weighted average term to settlement ^a	+1 month	569	569	569	569
Weighted average term to settlement	-1 month	(570)	(570)	(570)	(570)

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

ii. Classification and valuation of investments

Medibank Private classifies investments in listed and unlisted securities as financial assets that back insurance liabilities and are therefore designated at initial recognition as at fair value through profit or loss. In determining the fair value of investments, if quoted market prices are not available, fair values are estimated on the basis of pricing models or other recognised valuation techniques. The assumptions used as inputs into these models include the value of variables such as risk-free rates, volatility, strike rates, time to expiry, credit default swap levels, and correlations. Investments for which valuation is based on significant unobservable inputs as described above are those classified as level 3 in the fair value measurement hierarchy.

iii. Estimated impairment of goodwill and customer contracts and relationships

Recoverable amount – 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 covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated growth rates stated below.

A key assumption in testing customer contracts and relationships for impairment is the retention of the underlying contracts.

Recoverable amount – Medibank Health Solutions Workplace Health CGU

The recoverable amount of the Medibank Health Solutions Workplace Health CGU is determined based on a fair value less costs of disposal calculation. Management has determined the fair value less costs of disposal of the CGU by assessing the fair value less costs of disposal of the underlying assets. This is a change in valuation technique, from value-in-use in the prior year, as a result of the fair value less costs of disposal valuation generating a higher recoverable amount and better reflecting the recoverable amount of the Medibank Health Solutions Workplace Health CGU.

Recoverable amount – Medibank Health Solutions Telehealth CGU

Following the goodwill impairment in the Medibank Health Solutions Workplace Health CGU, and having considered the developments in the market in which the Medibank Health Solutions Telehealth CGU operates, management has concluded that the period over which the cash flows can be reliably estimated has decreased and that it is no longer appropriate to assume a terminal value for this CGU.

The recoverable amount of the CGU continues to be based on a value-in-use calculation, which uses the three-year cash flow projections per Medibank Private's corporate plan. Cash flows that are beyond this period, but within the period that management can reliably estimate, are extrapolated using the estimated growth rates stated below.

Key assumptions used for recoverable amount calculations

In order to calculate the recoverable amounts of Medibank Private's CGUs, management is required to make a number of assumptions. The following key assumptions have been made in determining the recoverable amounts:

Growth rates and discount rates

The growth rate disclosed below 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.

	Growth rate (%)	Discount rate (%)
2014		
Health Insurance	2.5%	15.4%
Medibank Health Solutions Telehealth	2.5%	17.9%
2013		
Australian Health Management	2.5%	15.6%
Medibank Health Solutions Workplace Health	2.5%	14.7%
Medibank Health Solutions Telehealth	2.5%	14.3%

In performing the recoverable amount calculations for each CGU, Medibank Private has applied post-tax discount rates to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax discount rates are disclosed above.

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

Other key assumptions made by management in determining the three-year corporate plan estimates include:

Health Insurance CGU

- forecast revenue comprising estimated change in the number of policyholders and future premium revenue rate rises; and
- forecast claims and operating expenses.

Medibank Health Solutions Telehealth CGU

- forecast revenue for the market sector and specific forecasts for key customer contracts; and
- forecast direct expenses and corporate costs.

iv. Long service leave provision

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

v. Useful lives of software

Medibank Private's management determines the estimated useful lives and related amortisation charges for its software and technology. This estimate is based on projected product lifecycles for its high-tech segment. It could change significantly as a result of technical innovations and competitor actions. Where software and technology is purchased or developed to enter new or uncertain but strategically important markets it is expensed as incurred. The useful lives of Medibank Private's software are outlined in Section p (ii).

vi. Provision for medical services and accrued revenue

Provision is made for the estimated cost of subcontracted medical services incurred but not settled or processed at balance date. Accrued revenue comprises unbilled amounts and estimated revenue accrued in relation to subcontracted medical services provided. The provision and accrued revenue calculation use 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.

APPENDIX C

GLOSSARY



Term	Definition
\$	Australian dollars
AAS	Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board
AASB	Australian Accounting Standards Board
ABN	Australian Business Number
ABS	Australian Bureau of Statistics
ACT	Australian Capital Territory
ADF	Australian Defence Force
ADF Health Services Contract	The contract between the Commonwealth and Medibank Private for the provision of a national integrated healthcare service to the ADF
Adjusted Statutory Historical Financial Information	Statutory Financial Information comprising adjusted statutory historical consolidated income statements and segment data for FY12, FY13 and FY14
AEDT	Australian Eastern Daylight Time
AEST	Australian Eastern Standard Time
ahm	As the context requires, either Australian Health Management Group Pty Limited, or a brand used by Medibank Private for underwriting PHI policies
AIHW 2012-13 Report	Australian Institute of Health and Welfare 2014, <i>Health Expenditure Australia 2012–13</i> , Health and welfare expenditure series no. 52, cat. no. HWE 61, AIHW, Canberra
AM	Member of the Order of Australia
Annual STI	An incentive under the STI Plan calculated as a percentage of the participant's annual fixed remuneration each year, conditional on achievement of financial and non-financial performance measures
AO	Officer of the Order of Australia
Applicant(s)	A person, persons or Institutions making an Application
Application	An application for Shares offered under this Prospectus
Application Form(s)	An Application Form(s) either attached to or accompanying this Prospectus (including any online Application Form(s))
Application Payment	The total dollar value amount submitted by an Applicant with their Application
APRA	Australian Prudential Regulation Authority
Application Reference Number	The ten-digit number found at the top right corner of any Application Form or on your pre-registration/registration confirmation email (if you have received one) or as advised by the Medibank Private Share Offer Line (if applicable)
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited or, where the context requires, the Australian Securities Exchange which it operates
ASX Listing Rules	Listing rules of the ASX
ASX Recommendations	Corporate Governance Principles and Recommendations developed and released by the ASX Corporate Governance Council
ASX Settlement Operating Rules	The operating rules of the settlement facility provided by ASX Settlement Pty Limited
Audited Financial Statements	Audited consolidated financial statements of Medibank Private for FY12, FY13 and FY14
Australian Government	The administrative authority of the Commonwealth
B	Billion
Board/Board of Directors	The Board of Directors of MPL
Board Charter	The charter adopted by the Board that sets out the responsibilities of the Board in detail
Bookbuild	The process of creating and documenting investor demand for Shares during an IPO to determine the Final Price, as described in Section 7
Broker	A JLM, JLM Retail Affiliate, Co-Lead Manager, Co-Manager, or ASX participating organisation selected by the JLMs and the Commonwealth to act as a broker to the Offer

Term	Definition
Broker Firm Applicant	An Australian or New Zealand resident client of a Broker who is offered a firm allocation of Shares under the Broker Firm Offer
Broker Firm Offer	The offer of Shares under this Prospectus to Australian and New Zealand resident retail clients of Brokers who have received a firm allocation from their Broker and are not in the United States or acting on behalf of a person in the United States
CAGR	Compound annual growth rate
Capital Adequacy Standard	The capital adequacy standard set out as Schedule 3 of the Rules
Capital Management Policy	The capital management policy approved by the Board as required by the Capital Adequacy Standard, as described in Section 4.11.2
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGT	Capital gains tax
CHESS	Clearing House Electronic Subregister System
Clawback	The mechanism by which the Commonwealth has the right to reclaim up to 20% of those Shares allocated to successful Applicants in the Broker Firm Offer. Clawback will be executed on a pro rata basis after the Bookbuild
Closing Date	The date on which the Retail Offer is expected to close, being Friday 14 November 2014 (which date may be varied without notice)
Co-Lead Managers	Bell Potter Securities Limited, Commonwealth Bank of Australia, Morgans Financial Limited and UBS Wealth Management Australia Limited
Co-Managers	Evans and Partners Pty Limited and Ord Minnett Limited
Commonwealth	The Commonwealth of Australia and where the context so permits, the Australian Government
Commonwealth controlled	Controlled by the Commonwealth for the purposes of the PGPA Act or, where relevant, the rules for the CSS and PSS
Community Rating	The principle of community rating is to ensure that everybody who so chooses has access to PHI and prevents private health insurers from discriminating between people on the basis of their health or for any other reason described in the PHI Act
Complementary Services	A range of additional services provided by Medibank Private, comprising Population Health Management, Telehealth, Corporate Health Services and Diversified Consumer businesses
Completion of the Offer	Completion of the transfer of Shares pursuant to the Offer
Constitution	The constitution of MPL
COO	Chief Operating Officer
Co-Payment	A set amount, which a Policyholder agrees to pay directly to a hospital for each day in the hospital, in exchange for lower premiums
Corporate Health Services	A component of the Complementary Services segment that currently comprises Workplace Health activities
Corporations Act	<i>Corporations Act 2001</i> (Cth)
Corporations Regulations	<i>Corporations Regulations 2001</i> (Cth)
CPI	Consumer Price Index
CSS	Commonwealth Superannuation Scheme
Deferred STI	The portion of the Annual STI awarded to the Managing Director and members of the Executive Committee under the STI Plan which is intended to be deferred for a period of 12 months
Department of Finance	The Australian Government Department of Finance
Department of Health	The Australian Government Department of Health
Direct Debit	Electronic direct debit, a banking facility which allows the Department of Finance through the Medibank Private Share Offer bank account to initiate an authorised drawing on an Applicant's nominated savings or cheque account with any financial institution within Australia. This is processed through the Bulk Electronic Clearing System managed by the Australian Payments Clearing Association
Director	A member of the Board
Diversified Consumer Businesses	A component of the Complementary Services segment that currently comprises the Diversified Insurance business and Travel Doctor brand subsegments

Term	Definition
Diversified Insurance	A component of the Complementary Services segment that distributes travel, life and pet insurance as agent for other underwriting insurers
DVA	The Australian Government Department of Veterans' Affairs
Eligible Employees	Employees of MPL and its controlled entities (but excluding Directors, senior management and independent contractors) on the Record Date who are Australian or New Zealand residents and are not in the United States or acting on behalf of a person in the United States
Eligible Persons	An Australian resident or an eligible overseas representative or a person or class of persons declared eligible by the Minister for Health or a person who is visiting Australia from a country which has an agreement for reciprocal treatment with the Commonwealth
Eligible Policyholders	Persons covered under PHI policies, issued under either the Medibank or ahm brands on the Record Date, who are permanent residents of Australia, are over the age of 18 and are not in the United States or acting on behalf of a person in the United States. The Policyholder Offer is only open for one application for each such policy
Eligible US Fund Manager	A dealer or other professional fiduciary organised, incorporated or (if individual) residing in the United States that is acting for an account (other than an estate or trust) held for the benefit of persons who are not US Persons for which it has, and is exercising, investment discretion, within the meaning of Rule 902(k)(2)(i) of Regulation S under the US Securities Act
Employee Offer	The offer under this Prospectus to Eligible Employees to apply for Shares
Employees	Any person employed by a company within Medibank Private
EPS	Earnings per share
EPS Performance Rights	Those performance rights granted to participants in the LTI Offer which are subject to a vesting condition based on MPL's absolute EPS CAGR over the performance period
Excess	The amount that a Policyholder agrees to pay towards the cost of hospital treatment, in exchange for lower premiums. The Policyholder may be required to pay an excess every time they go to hospital (up to an annual amount), or only the first time (each calendar year), depending on the PHI policy
Executive Committee	As at the Prospectus Date, comprises George Savvides (Managing Director), Paul Koppelman (Chief Financial Officer), Laz Cotsios (Chief Customer Officer), David Koczkar (Chief Operating Officer), Dr Andrew Wilson (Executive General Manager, PNIC) and Kylie Bishop (Executive General Manager, People & Culture)
Expiry Date	The date 13 months after the Prospectus Date
Exposure Period	The seven-day period after the date of lodgement of this Prospectus which may be extended by ASIC for a further seven days
Extras Cover	PHI cover for eligible treatments and services that are typically not provided in a hospital, such as dental, optical and physiotherapy
FIF	Foreign Investment Fund
Final Price	The price per Share, as determined by the Bookbuild, that a successful Applicant under: <ul style="list-style-type: none"> a. the Institutional Offer will pay for a Share; b. the Retail Offer, who is allocated Shares with a total value above \$250,000, will pay for each Share above the first \$250,000 worth of Shares; or c. the Retail Offer will pay for a Share if: <ul style="list-style-type: none"> — the Applicant is allocated Shares with a total value equal to or less than \$250,000; and — the price is below the Retail Price Cap
Financial Information	Historical Financial Information and Forecast Financial Information
Financial Statements	General-purpose financial statements issued by Medibank Private
Forecast Financial Information	Statutory Forecast Financial Information and Pro Forma Forecast Financial Information
Forecast Period	FY15
Front-end deductible	See Excess
FTE	Full-time equivalent Employees
FY	Financial year ended/ending 30 June
GBE Guidelines	Commonwealth Government Business Enterprise Governance and Oversight Guidelines 2011
GDP	Gross domestic product

Term	Definition
General Public Offer	The Offer under this Prospectus to apply for Shares made to retail investors in Australia who are not Broker Firm Applicants
GP	General practitioner
GST	Australian goods and services tax
Health Insurance	Comprises Medibank Private's regulated health insurance business (as defined under the PHI Act) which comprises PHI cover provided under both the Medibank and ahm brands by Medibank Private's health benefits fund, and other health insurance cover provided under Medibank Private's OVHC and OSHC products
Historical Financial Information	Statutory Historical Financial Information, Pro Forma Historical Financial Information and Adjusted Statutory Historical Financial Information
Hospital Cover	PHI cover for eligible treatments in private hospitals or as a private patient in public hospitals
HPPA	A Hospital Purchaser Provider Agreement, which is a contract between a private health insurer and a private hospital
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
Immigration Contract	The contract between the Commonwealth and Medibank Private for the provision of pre-migration visa health screening services to prospective Australian migrants on behalf of the Commonwealth which expired with effect from July 2014 (with a transition period to November 2014)
Indicative Price Range	The indicative price range for the Offer of \$1.55 to \$2.00 per Share
Institutional Investor	<p>a. An investor:</p> <ul style="list-style-type: none"> in Australia who is a 'professional investor' or 'sophisticated investor' under sections 708(11) and 708(8) of the Corporations Act; or in certain other jurisdictions, as agreed between Medibank Private and the JLMs, to whom offers or invitations in respect of securities can be made without the need for a lodged or registered prospectus or other disclosure document or filing with, or approval by, any governmental agency (except one with which Medibank Private is willing, in its absolute discretion, to comply), <p>in either case, provided that if such person is in the United States, they are reasonably believed to be a 'qualified institutional buyer' (as defined in Rule 144A of the US Securities Act) or an Eligible US Fund Manager (together Institutions), and</p> <p>b. a retail investor in Australia or New Zealand who elects to bid for Shares under the Institutional Offer via their Broker through a Broker-sponsored bid.</p>
Institutional Offer	The invitation to Institutional Investors in Australia and New Zealand to apply for Shares under this Prospectus, and an invitation to Institutional Investors in a number of selected international jurisdictions to apply for Shares under the Institutional Offering Memorandum
Institutional Offering Memorandum	The offering memorandum under which the Institutional Offer will be made in certain overseas jurisdictions, which consists of this Prospectus, a Prospectus wrap and the historical financial statements of Medibank Private
Investigating Accountant	Ernst & Young Transaction Advisory Services Limited
IPO	Initial public offering
IT	Information technology
IT Renewal Program	The IT renewal program which comprises decommissioning Medibank Private's legacy mainframe, upgrading its digital sale and services systems, improving data warehouse and business intelligence systems, and undertaking Project DelPHI (see Section 3.7)
JLM Retail Affiliates	Craigs Investment Partners Limited, JBWere Limited, JBWere (NZ) Pty Limited, Macquarie Equities Limited, Macquarie Equities New Zealand Limited and Wilson HTM Corporate Finance Limited
JLMs	Joint Lead Managers being Deutsche Bank AG, Sydney Branch, Goldman Sachs Australia Pty Ltd and Macquarie Capital (Australia) Limited
KPIs	Key performance indicators
LHC	Lifetime Health Cover
Liquidity Management Plan	The liquidity management plan approved by the Board as required by the Solvency Standard
Listing	Admission of MPL to the official list of the ASX

Term	Definition
LTI Offer	Offers of performance rights under the Performance Rights Plan to the Managing Director and other members of the Executive Committee on or shortly after Completion of the Offer and thereafter on an annual basis as the long-term incentive component of their remuneration
M	Millions
Management Expenses	Operating expenses other than claims expenses and cost of sales. See Section 4.2.4 for more information
MBS	The Medicare Benefits Schedule, which is a Department of Health publication that lists services that are subsidised by the Australian Government under Medicare and the rebate for which each is eligible
Medibank	A brand used by Medibank Private for underwriting PHI policies
Medibank Private	As the context requires, either refers to MPL, MPL and its controlled entities or the businesses owned and operated by MPL (and previously by the Health Insurance Commission, a statutory authority of the Australian Government) and its controlled entities or any one of MPL's controlled entities
Medicare	The program of Australian Government benefits available to Eligible Persons in respect of the cost of medical services (and a limited number of healthcare services) rendered in Australia established under the <i>Health Insurance Act 1973</i> (Cth)
MER	Management Expense Ratio, calculated as Management Expenses of the Health Insurance fund divided by premium revenue
Minister for Finance	The Australian Government Minister for Finance
Minister for Health	The Australian Government Minister for Health
MLS	Medicare Levy Surcharge
MPL	Medibank Private Limited (ABN 47 080 890 259)
NPAT	Net profit after tax
NSW	New South Wales
NT	Northern Territory
NZ	New Zealand
OECD	Organisation for Economic Co-operation and Development
Offer	The offer by the Commonwealth of 2,754 million Shares in MPL
Offer Date	The date on which the Retail Offer is expected to open, being Tuesday, 28 October 2014 (which date may be varied without notice)
Offer Period	The period commencing on the Offer Date and ending on the Closing Date
OSHC	Overseas Student Health Cover, being health insurance provided under a deed of agreement with the Commonwealth to overseas students studying in Australia and their families
OSR	Office of State Revenue
OVHC	Overseas Visitors Health Cover, being health insurance provided to overseas visitors temporarily in Australia other than students
p.a.	Per annum
PBS	Pharmaceutical Benefits Scheme
Performance Rights Plan	An incentive plan offered by Medibank Private under which performance rights may be offered to the Managing Director and other senior employees of Medibank Private
PGPA Act	<i>Public Governance, Performance and Accountability Act 2013</i> (Cth)
PHI	Private health insurance provided to Eligible Persons and excluding OSHC and OVHC
PHI Act	<i>Private Health Insurance Act 2007</i> (Cth)
PHI policy	An insurance contract between a Principal Policyholder and private health insurer describing the term, PHI cover, PHI premiums and Excesses/Co-Payments
PHI premium	The amount payable by the Policyholder to obtain PHI cover in accordance with the terms of a PHI policy
PHI rebate	The income-tested rebate payable to Australian residents who have a complying PHI product
PHIAC	Private Health Insurance Administration Council
PHIAC 2012-13 Report	<i>The Operations of Private Health Insurers Annual Report 2012-13</i> , PHIAC, Canberra
PHIO	Private Health Insurance Ombudsman

Term	Definition
PNIC	Provider Network and Integrated Care, a part of Medibank Private's Health Insurance segment focused on managing claims as well as Medibank Private's relationships and contracts with private hospitals and ancillary providers
Policyholder Offer	The offer under this Prospectus to Eligible Policyholders to apply for Shares. The Policyholder Offer is only open for one Application for each PHI policy issued under either the Medibank or ahm brands on the Record Date
Policyholders	A Principal Policyholder and any other individuals covered under the same PHI policy (e.g. the Principal Policyholder's family members)
Population Health Management	A component of the Complementary Services segment that currently comprises the ADF Health Services contract
Principal Policyholder	The primary person who is insured under a PHI policy, who is not a dependent child, and who is responsible for paying the premium
Project DelPHI	The major IT project designed to replace the customer, policy, premium and product management systems for the Medibank brand with a single, integrated commercial insurance software suite
Pro Forma Financial Information	Pro Forma Historical Financial Information and Pro Forma Forecast Financial Information
Pro Forma Forecast Financial Information	Financial information comprising: <ul style="list-style-type: none"> i. the Directors' pro forma forecast consolidated income statement of Medibank Private for the year ending 30 June 2015 (FY15); and ii. the Directors' pro forma forecast consolidated cash flow statement of Medibank Private for FY15.
Pro Forma Historical Financial Information	Financial information comprising: <ul style="list-style-type: none"> i. pro forma historical consolidated income statements of Medibank Private for the financial years ended 30 June 2012 (FY12), 30 June 2013 (FY13) and 30 June 2014 (FY14); and ii. pro forma historical consolidated cash flow statements of Medibank Private for FY12, FY13 and FY14
Prospectus	This document (including the electronic form of this Prospectus) and any supplementary or replacement prospectus in relation to this document
Prospectus Date	The date on which a copy of this Prospectus was lodged with ASIC, being 20 October 2014
PSEU	Medibank Private measures Policyholders in terms of the number of Policy Single Equivalent Units. PSEUs are used by Medibank Private as a standard measure of income units. They take into account the number of adults on a policy, and whether they have Hospital Cover or Extras Cover or both. A PHI policy for singles counts as one PSEU per cover type. Non-singles PHI policies (e.g. for couples or families) count as two PSEUs per cover. For example, a couple or family with both Extras Cover and Hospital Cover counts as four PSEUs. The average number of PSEUs over a period (e.g. financial year), the average revenue per PSEU and net claims expense per PSEU are key operating metrics that Medibank Private uses to monitor business performance
PSS	Public Sector Superannuation Scheme
Qld	Queensland
Record Date	The record date for determining eligibility to participate in the Employee Offer and the Policyholder Offer, being 11:59 pm (AEST) on Saturday, 27 September 2014
Retail Offer	The Policyholder Offer, the Employee Offer, the Broker Firm Offer and the General Public Offer
Retail Price	The price per Share, which will be the lower of the Retail Price Cap and the Final Price, that all successful Applicants under the Retail Offer will pay on the first \$250,000 worth of Shares allocated to such Applicants
Retail Price Cap	The maximum price that successful Applicants will pay for Shares under the Retail Offer. This is \$2.00 per share, the top of the Indicative Price Range
Retention Offer	Offers of performance rights under the Performance Rights Plan to certain senior employees on an annual basis beginning in FY16 as an incentive to promote continued employment with Medibank Private
ROE	Return on equity
Rules	<i>Private Health Insurance (Health Benefits Fund Administration) Rules 2007</i> (Cth)
SA	South Australia
Sale Act	<i>Medibank Private Sale Act 2006</i> (Cth)
Schedule Fee	A fee for a medical service prescribed in the MBS

Term	Definition
Settlement Underwriting Agreement	An agreement between the Commonwealth, MPL and the JLMs, expected to be executed on or around 21 November 2014 under which the JLMs will provide settlement support to the sale of the Shares to Applicants within paragraph (a) of the definition of Institutional Investors
Share Registry	Computershare Investor Services Pty Limited
Shareholder	The legal owner of the Shares
Shares	Fully paid ordinary shares in MPL
Solvency Standard	The solvency standard set out as Schedule 2 of the Rules
Statutory Financial Information	The Statutory Forecast Financial Information, the Statutory Historical Financial Information and the Adjusted Statutory Historical Financial Information collectively comprise the Statutory Financial Information
Statutory Forecast Financial Information	Statutory Financial Information comprising: <ul style="list-style-type: none"> i. the Directors' statutory forecast consolidated income statement of Medibank Private for FY15; and ii. the Directors' statutory forecast consolidated cash flow statement of Medibank Private for FY15
Statutory Historical Financial Information	Statutory Financial Information comprising: <ul style="list-style-type: none"> i. the audited statutory historical consolidated income statements of Medibank Private for FY12, FY13 and FY14; ii. the audited statutory consolidated balance sheet of Medibank Private as at 30 June 2014; and iii. the audited statutory historical consolidated cash flows of Medibank Private for FY12, FY13 and FY14
STI	Short-term incentive
STI Plan	An incentive plan offered by Medibank Private which the Managing Director, members of senior management and other selected employees of Medibank Private are eligible to participate in
Tas	Tasmania
Telehealth	A business within the Complementary Services segment that provides call-centre-based healthcare services to customers
TFN	Tax File Number
Travel Doctor	Travel Doctor-TMVC, the travel health business of Medibank Private
TSR	Total shareholder return
TSR Performance Rights	Those performance rights granted to participants in the LTI Offer which are subject to a relative total shareholder return vesting condition, measured over the performance period
UK	United Kingdom
Underlying NPAT	Underlying NPAT will be calculated based on statutory 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. Pro forma forecast NPAT has been used as a proxy for Underlying NPAT for the Forecast Period
US or United States	United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
US Person	Has the meaning given to it in Rule 902(k) under Regulation S of the US Securities Act
US Securities Act	US Securities Act of 1933
USD	United States dollar
Vic	Victoria
WA	Western Australia
Workplace Health	A business within Corporate Health Services (a sub-segment of the Complementary Services segment), that provides health services via a national network of clinics to a broad range of primarily government and corporate customers

CORPORATE DIRECTORY

COMMONWEALTH'S REGISTERED OFFICE

Department of Finance
Treasury Building
8 Parkes Place
Parkes ACT 2600

MEDIBANK PRIVATE'S REGISTERED OFFICE

Medibank Private Limited
720 Bourke Street
Docklands Vic 3008

JOINT LEAD MANAGERS

Deutsche Bank AG, Sydney Branch
Level 16, Deutsche Bank Place
Corner Hunter and Phillip Streets
Sydney NSW 2000

Goldman Sachs Australia Pty Ltd
Level 46, Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

Macquarie Capital (Australia) Limited
50 Martin Place
Sydney NSW 2000

CO-LEAD MANAGERS

Bell Potter Securities Limited
Level 29, 101 Collins Street
Melbourne Vic 3000

Commonwealth Bank of Australia
Ground Floor, Tower 1
201 Sussex Street
Sydney NSW 2000

Morgans Financial Limited
Level 29, Riverside Centre
123 Eagle Street
Brisbane Qld 4000

UBS Wealth Management
Australia Limited
Level 16, The Chifley Tower
2 Chifley Street
Sydney NSW 2000

CO-MANAGERS

Evans and Partners Pty Limited
Mayfair Building
171 Collins Street
Melbourne Vic 3000

Ord Minnett Limited
Level 8, NAB House
255 George Street
Sydney NSW 2000

RETAIL AFFILIATES OF THE JOINT LEAD MANAGERS

JBWere Limited
Level 16, 101 Collins Street
Melbourne Vic 3000

Macquarie Equities Limited
1 Shelley Street
Sydney NSW 2000

Wilson HTM Corporate Finance Limited
Level 14, 99 Elizabeth Street
Sydney NSW 2000

NEW ZEALAND RETAIL AFFILIATES OF THE JOINT LEAD MANAGERS

Craigs Investment Partners Limited
Level 32, Vero Centre
48 Shortland Street
Auckland 1010

JBWere (NZ) Pty Limited
Level 38, Vero Centre
48 Shortland Street
Auckland 1010

Macquarie Equities New Zealand Limited
Level 17, Lumley Centre
88 Shortland Street
Auckland 1010

SHARE REGISTRY

Computershare Investor Services
Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford Vic 3067

MEDIBANK PRIVATE SHARE OFFER INFORMATION LINE

1800 998 778 (toll-free within Australia)
+61 3 9415 4011 (outside Australia)

MEDIBANK PRIVATE SHARE OFFER WEBSITE

www.medibankprivateshareoffer.com.au

AUSTRALIAN LEGAL ADVISER

To the Commonwealth
Herbert Smith Freehills
Level 34, 161 Castlereagh Street
Sydney NSW 2000

AUSTRALIAN LEGAL ADVISER

To Medibank Private
King & Wood Mallesons
Level 50, Bourke Place
600 Bourke Street
Melbourne Vic 3000

AUSTRALIAN LEGAL ADVISER

To the Joint Lead Managers
Clayton Utz
Level 15, 1 Bligh Street
Sydney NSW 2000

BUSINESS & ACCOUNTING ADVISER

To Medibank Private
Deloitte Touche Tohmatsu
550 Bourke Street
Melbourne Vic 3000

ACCOUNTING & TAX ADVISER

To the Commonwealth
Ernst & Young
8 Exhibition Street
Melbourne Vic 3000

INVESTIGATING ACCOUNTANT

Ernst & Young Transaction Advisory
Services Limited
8 Exhibition Street
Melbourne Vic 3000

CONSULTING ACTUARY

Ernst & Young ABC Pty Limited
680 George Street
Sydney NSW 2000

BUSINESS ADVISER

To the Commonwealth
Lazard Pty Limited
Level 33, 101 Collins Street
Melbourne Vic 3000

PROBITY ADVISER

To the Commonwealth
Australian Government Solicitor
4 National Circuit
Barton ACT 2600

CAPITAL MARKETS ADVISER

To Medibank Private
Reunion Capital Partners Pty Limited
Level 10, 56 Pitt Street
Sydney NSW 2000

medibank
PRIVATE
SHARE OFFER