

feeling better

Annual Report 2004



medibank
P R I V A T E

**To contact us or find
the location of your
nearest Retail Centre**

Phone

132 331

Email

ask_us@medibank.com.au

Visit us

www.medibank.com.au

Write to us

Medibank Private
GPO Box 9999
in your capital city

Medibank Private Limited
ABN 47 080 890 259
is a registered not-for-profit
health benefits organisation.

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Priyanka *(right)*
A Medibank Private Sales Consultant



Our vision

to be recognised as the leader in private health insurance in Australia

Our mission

building a **performance** organisation that unites, **engages**, empowers and recognises our people

delivering a great member **product** at affordable prices through consistent and excellent **service** experience

being **profitable** and sustainable, with the capacity to invest and **innovate** for the benefit of our members

being a growing and efficient business that improves **shareholder value**

giving life to the statement "I feel better now"

Our values

act with integrity : care about your needs : respect all people :
be innovative : steward of members' contributions

About Medibank Private

Performance Highlights 2003-04

Operating profit of **\$44.8 million**

Improvement in operating profit of **\$34.4 million**

Improvement in underwriting result of **\$30.9 million**

Solid investment income of **\$49.3 million**

Management expense ratio (MER) reduction to **8.7%**

% of member contributions returned as benefits **91.5%**

Member benefit claims growth of **\$156.4 million**

Market share (contributors) **29.1%***

Medibank Private has continued to build upon last year's improved financial position, with a strong performance in 2003-04, making a further contribution to building a sustainable business. Our improved financial position propels us to pursue our mission to provide the best value in the private health insurance industry by delivering great member products at affordable prices and with excellent service.

As Australia's largest, and only national, health fund, Medibank Private has approximately 30% of Australia's private health insurance market, covering almost three million people, or almost one in three of the country's privately insured population.

As a not-for-profit health fund, Medibank Private is committed to ensuring private health insurance remains sustainable by making it attractive and affordable for all Australians. Of every dollar contributed by members, 91.5 cents was spent on paying our members' health care services claims. Our operating profits are reinvested in the fund for the benefit of members.

Medibank Private has continued to contain its administration costs, with our 2004 management expense ratio reduced to 8.7%. On a membership basis, Medibank Private cost 22.0% less in management expenses than the industry average. The fund's net assets of \$437.5 million, grew by \$44.8 million in the 2004 financial year.

Ensuring quality and accessible service for members is paramount to Medibank Private. We serve our members through 104 Retail Centres, 89 cash-paying agents, over 250 staff within our Call Centres and through our popular website, www.medibank.com.au.

Medibank Private currently contracts with over 90% of private hospitals and day surgeries in Australia, and with over 3,150 ancillary health care providers.

The Federal Government established Medibank Private in 1976 as part of the Health Insurance Commission. It was incorporated as an autonomous not-for-profit Government Business Enterprise in 1998.

*Resident contributors (excludes non-residents)

Medibank Private at a Glance

General

Total contribution income	\$2,414.8 million
Total benefits paid	\$2,210.0 million
Total assets	\$1,052.5 million
Net assets	\$437.5 million
Standard & Poors rating	BBB + (Positive)
Contributions returned to members as benefits	91.5%
Underwriting loss	\$4.5 million
Investment and other income	\$49.3 million
MER (Management Expenses to Contribution Income)	8.7%
Market share (contributors)*	29.1%
Number of people covered (residents)	2.8 million
Number of people covered (non-residents)	0.2 million
Number of memberships (residents)	1.4 million
Number of memberships (non-residents)	0.2 million
Increase in contributors joining the fund	18%
Decrease in contributors leaving the fund	3%
Number of full-time equivalent staff at 30 June 2004	1,253

Servicing our Members

Number of Retail Centres	104
Number of new/refurbished stores completed to date	41
Member complaints reduced by	2%
Number of customer transactions**	5.9 million
Number of website visits	over 1.2 million
Number of calls answered	1.5 million
Calls answered within 20 seconds	61%
Average speed of call answer	57 seconds
Retail Centre wait time	4.43 minutes
Queries resolved during first contact	80.9%
Customer satisfaction level surveyed	78.9%

Health Services

Hospital episodes	552,158
Ancillary services	13.6 million
Hospital beds days	1.9 million
Private hospitals contracted	over 90%
Ancillary providers contracted	over 3,150

Total Benefits

Hospital	\$1,592.2 million
Ancillary	\$556.7 million
Overseas student/visitors	\$61.1 million
GapCover (in-hospital medical)	75% of total medical services
\$ Average overnight benefit per episode	\$5,096
\$ Highest claim paid	\$295,099



* Resident contributors (excludes non-residents)

**Retail and Customer Care Line only

Chairman's Report

I joined Medibank Private as Chairman in February 2004.

Medibank Private is a not-for-profit Government Business Enterprise, with the sole purpose of providing high quality, excellent value private health insurance to our almost three million members.

Medibank Private must earn sufficient returns to be financially sustainable, and build reserves to weather volatile, unforeseen circumstances that may adversely impact member claiming.

No dividends are paid and all of Medibank Private's financial resources are directed to member benefits.

The management team, led by Managing Director George Savvides, has driven the continued improvement of our financial position, as evidenced by the \$44.8 million profit that has been delivered this year. The major contributor to this was continued substantial reduction in management expenses to 8.7%, enabling Medibank Private to retain one of the lowest expense ratios in the industry, amongst the larger funds.

Medical benefit outlays in Australia are growing at a rate double that of the consumer price index, requiring Medibank Private and other funds to increase premiums accordingly. Part of these increases are required because of the greater use of medical technologies which, although more expensive, deliver better health outcomes for patients. Medibank Private members are the largest users and purchasers of private hospital and ancillary services in Australia.

Improving the professionalism and effectiveness of our purchasing of these services is a key management imperative, and is essential to improving quality and safety, and dampening the growth in future cost increases. This is balanced against maintaining member access to the best medical facilities in Australia.

We recognise there will be resistance to this purchasing strategy from some providers that have vested interests in seeking to radically improve their shareholder returns at the potential expense of our members. However, we are convinced that we must maintain membership affordability. To do otherwise would lead our members to question the value of their cover, and potentially exit the fund.

To strengthen management accountability to deliver better service and more consistent financial returns, substantial changes have been made to Medibank Private's organisational structure to build on the success of its financial performance and to satisfy its key objectives.

As a result, six strategic business units (four SBUs based on resident geographic markets and a further two on discrete member segments) have been created.

This new SBU structure is already delivering positive results throughout the entire business, and has established a clearly defined level of improved accountability built around market performance.

During the year, the Board sought an \$85 million equity injection from the Federal Government. This equity injection will ensure the fund's capital position is more consistent with industry practice, and will reduce our exposure to volatility in benefit outlay growth.

The year has demonstrated that continued innovation holds the key to Medibank Private's long-term success as the established market leader. The management team and staff have worked extremely hard in implementing our corporate objectives and key strategies.

On behalf of the Medibank Private Board of Directors, I thank our Shareholder Minister, Senator the Hon. Nick Minchin, the Minister for Finance and Administration, and his staff for their assistance and support during the year.



I would also like to thank my fellow directors, and Managing Director George Savvides, for their valuable contribution throughout the financial year.

It is particularly appropriate to acknowledge and thank retiring Chairman Allan Thomson, who presided over most of the financial year, as well as Director Penny Hutchinson, the Deputy Chair and Chair of the Audit and Compliance Committee. Allan and Penny retired from the Medibank Private Board in February, and we thank them for their distinguished contribution and service to the business over many years.

Finally, my thanks to everyone at Medibank Private for their hard work throughout the year, and for their dedication to building a successful company.

A handwritten signature in blue ink, reading "P M Kirby". The signature is fluid and cursive, written in a professional style.

Peter M Kirby
Chairman

Managing Director's Report

I am pleased to announce that Medibank Private's financial performance continued to improve during 2003-04, delivering a \$44.8 million profit for the fund, representing a four-fold improvement from the previous year. In the past two years, Medibank Private's profit performance has improved by over \$220 million.

As a not-for-profit organisation, every dollar of profit is retained within the fund for the benefit of members.

Our operating profit was driven in part through further containment of the fund's management expenses to 8.7%, some 22.0% below the industry average, on a membership basis. We have also seen a \$3.5 million improvement in our investment income which grew to \$49.3 million. In addition, the fund improved its underwriting profit by \$30.9 million, resulting in a significantly reduced underwriting loss of \$4.5 million.

Medibank Private has sustained its position as market leader, having almost 30% of the private health insurance market despite intense competition in every state and territory. Whilst some memberships were lost, the rate of net lapse has reduced significantly, with growth evident in some markets.

Member contributions in 2003-04 increased to \$2,414.8 million, while members' benefit claims rose to \$2,210.0 million, representing a \$156.4 million increase over the past financial year.

For this reason, Medibank Private increased its premiums by an average of 8.95% in April 2004. As a not-for-profit health fund we raise premiums only to cover the increasing cost of paying the health bills of our members. Our premiums reflect the increasing cost of providing quality health care and the increasing utilisation from factors such as the adoption of new medical technology and the ageing of our community.

Increases in benefit outlays are due to both volume growth of member claiming and the unit cost of the services levied by hospitals, medical and ancillary providers. For instance, in 2003-04 Medibank Private funded 552,158 individual hospital episodes, 5.1 million medical claims and 13.6 million ancillary services.

In the past year, Medibank Private has returned 91.5% of members' contributions as benefits paid, compared to the rest of the industry's 87.2%.

In October 2003 Medibank Private launched a new look, contemporary brand to complement our business renewal initiatives. Our previous brand served us well, however the new look reflects the fund's revitalised business processes and more confident outlook.

Our brand highlights the strength of Medibank Private's suite of health insurance products and services, and is a critical part of our strategy to improve our appeal with younger member segments, while sustaining membership contributions from traditional customer groups.

Medibank Private is also committed to delivering value to members through a simplified and transparent health insurance product suite, with clear pricing and excellent customer service through our national retail network, Customer Care Line and popular website.

We strive to improve our health insurance products to meet members' needs, and this year announced new benefits for members who suffer from diabetes and asthma, recognising the increasing prevalence of these diseases.

This year we also introduced a new product, Families With Adult Children, which allows parents to keep their adult children on their family cover until they turn 25 years old for an additional premium – an increase of four years from existing arrangements. This cover enhances the affordability and value of private health insurance for young adults who might otherwise not remain privately insured. This new offer has been well received by Medibank Private family policyholders.

In addition, members can now enjoy several new offers through our recently launched 'Feel Better' rewards loyalty program.

Medibank Private is continuing to review the way we purchase hospital services for our members with a goal of improving our provider purchasing performance for the benefit of our members.

In 2004, Medibank Private made significant changes to its Members' Choice network of dental providers to create a more consistent and efficient system, with greater accessibility for members.

In the past year, Medibank Private commissioned a tender process to replace its core IT legacy systems. We are very conscious that our core systems platform is critical in supporting our corporate strategies and improving our product and service offering. The first phase of core systems renewal will be completed in 2005 with the separation of our IT platform from the Health Insurance Commission.

This year we settled the long-running litigation with the ACCC. Through this settlement Medibank Private established a special purpose fund for resident members who can qualify for certain leading-edge clinical intervention procedures, such as new drug therapies and surgical procedures, and other treatments



not covered under Medibank Private's fund rules. Over a three-year period, we will contribute a total of \$5 million to the special purpose fund. Details of this fund are available on our website.

In conclusion, I would like to thank the Medibank Private Board of Directors who have provided strong governance oversight of the business during its continued performance improvement. The guidance and counsel of my fellow directors has been greatly valued.

I also wish to thank the Medibank Private employees throughout Australia, who have displayed great teamwork and worked towards continued improvement of the business.

Their commitment and dedication to servicing the needs of our members has been a critical success factor to the excellent performance of the fund in 2003-04.

George Savvides
Managing Director

Medibank Private's vision is to be recognised as the leader in private health insurance in Australia.

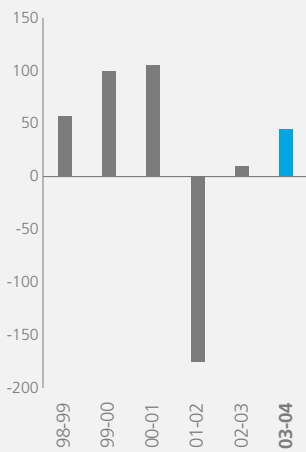


Chart 1
Operating Profit/(Loss) (\$m)

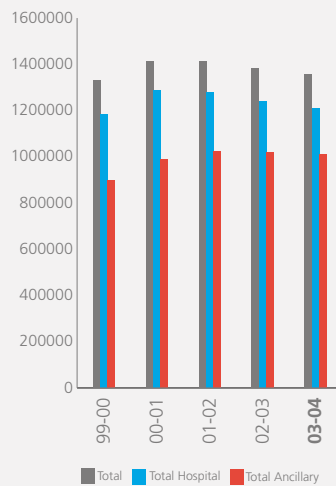


Chart 2
Membership cover at 30 June (resident contributors)

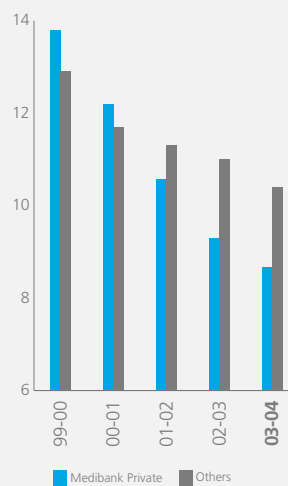


Chart 3
Management Expenses as a % of member contributions

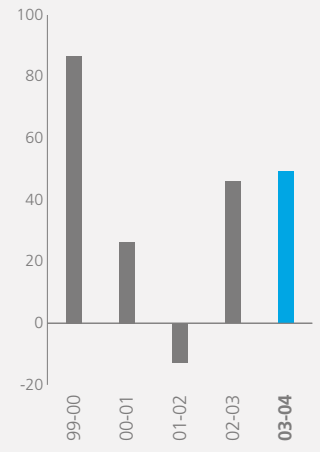


Chart 4
Investment and Other Income (\$m)

Over the 2003-04 year, Medibank Private has continued to improve its financial performance (Chart 1). Our profit has increased by \$34.4 million from the 2002-03 year to \$44.8 million.

We have built a sustainable business and membership base (Chart 2) with approximately 1.4 million resident contributors with hospital and/or ancillary cover.

Medibank Private has continued to reduce its management expense ratio (MER) to 8.7% (Chart 3). On a membership basis, Medibank Private cost 22.0% less in management expenses than the industry average.

The predominantly defensive cash and fixed interest investment portfolio (Chart 4) continues to record a solid investment income, returning \$49.3 million (equating to a +5.5% return).

In the past year we returned over 91.5% of members' contributions as benefits paid (Chart 5), compared to the rest of the industry's 87.2% return, highlighting our commitment to maintaining member value and operating efficiency.

Medibank Private's net assets have increased to \$437.5 million at 30 June 2004 (Chart 6).

Over the 2003-04 year, membership claims rose by \$156.4 million (Chart 7). As part of a long-term initiative to improve member value, Medibank Private is improving the way it purchases health services from private hospitals and ancillary providers for our members. Apart from cost competitiveness, Medibank Private is pursuing enhanced quality and safety criteria in its provider contracting.

Medibank Private's underwriting result improved by \$30.9 million (Chart 8), resulting in a \$4.5 million underwriting loss.

Charts 9, 10 and 11 compare Medibank Private's contribution income, benefits and management expenses with other funds on a per membership basis.

The average contributions paid by Medibank Private members has consistently been less than the average for other funds, while average benefits (net of reinsurance) per membership have been on par with other funds. Medibank Private's management expenses per membership are significantly less than other funds.

Our membership base has remained strong, with the fund continuing to hold the number one or two market position in each state and territory (Chart 12).

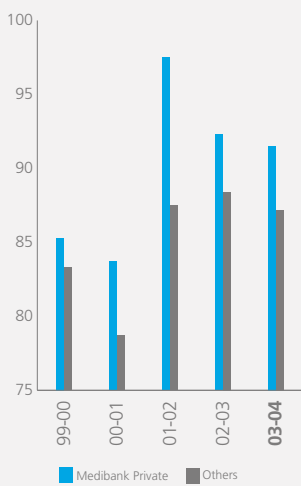


Chart 5
Payments for members as a % of contributions

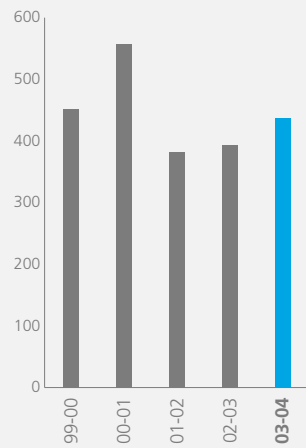


Chart 6
Net Assets (\$m)

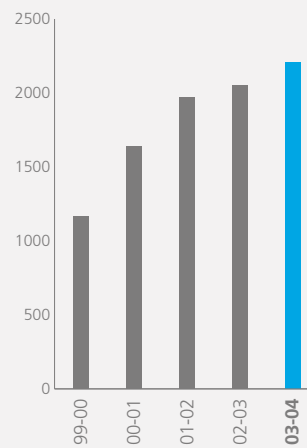


Chart 7
Membership Net Claims Incurred (\$m)

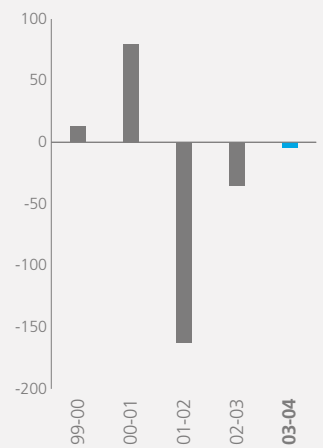


Chart 8
Underwriting Result (\$m)

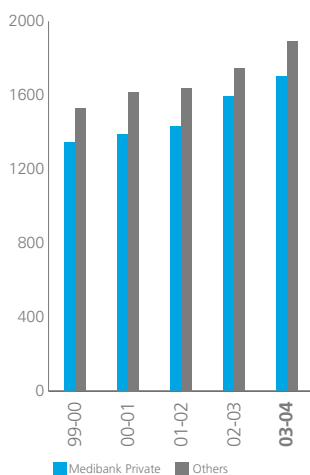


Chart 9
Contributions per resident membership \$ p.a.

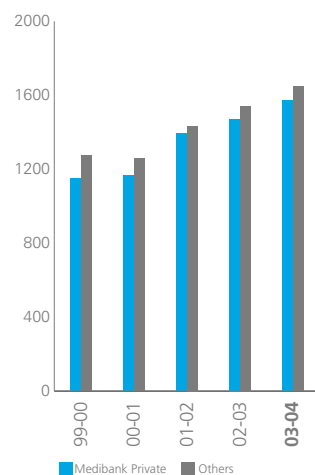


Chart 10
Benefits (net of reinsurance) per resident membership \$ p.a.

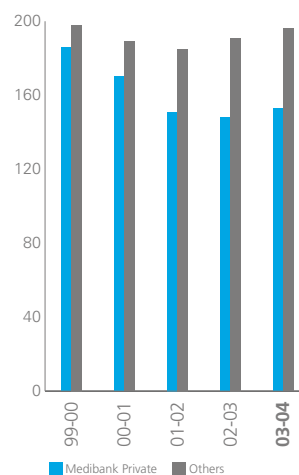


Chart 11
Management Expenses per resident membership \$ p.a.

Chart 12
Medibank Private member market share (by resident contributors) as at 30 June 2004 and market position

New South Wales / ACT	24.1%	1
Victoria	38.8%	1
Queensland	36.5%	2
Western Australia	17.5%	2
South Australia	22.0%	2
Tasmania	36.3%	2
Northern Territory	44.7%	1

In the past year, Medibank Private has delivered a number of initiatives that will benefit our members and health provider partners.

Medibank Private's Retail Centres

A further 14 Retail Centres have been refurbished in the past 12 months, offering customers enhanced service and greater access to Medibank Private's products, services and health information. This brings the number of store refurbishments to 41 over the past two years. Our Retail Centres' updated design offers a more consultative and private environment for more than 500,000 members who visit a Medibank Private Retail Centre each year.

An in-store 'Infopoint' health terminal also offers customers access to information about a range of health topics and services using touch screen technology. A new Q-matics feature also allows our staff to monitor customer waiting times and removes the need for members to wait in a queue for their service consultation.

Amie (right), A Medibank Private Sales Consultant



Building a 'Service Edge' Culture

One aspect of our performance organisation strategy is the building of a 'Service Edge' culture within Medibank Private. This is designed to create an industry-leading sales and service culture that will ensure a consistent and excellent service experience is delivered to our members.

Our members are our most important asset. We are committed to improving our member relationship through faster, more efficient and more individual service. We want our members to have more choice, an improved knowledge and appreciation of their private health insurance cover, and greater levels of satisfaction than ever before.

We are continuing to train and develop our staff at all levels across the business to build world-class sales and service teams and to ensure they have the capabilities to deliver such standards of service.

By conducting health cover reviews for members as a component of our service-oriented business, we will better match the right product cover to members' needs and, most importantly, show that Medibank Private service makes a difference in meeting member expectations.

Medibank Private's Customer Care Line

Our Customer Care Line has dedicated Call Centres across four states, with over 250 staff available to resolve a wide range of complex and sometimes emotive issues for members when they call us.

The Customer Care Line is a fundamental part of servicing our members, receiving around 1.5 million calls per year – around 28,000 calls per week – and processing 39% of Medibank Private's new-to-fund membership joins.

Our Call Centres have been upgraded throughout 2003-04 with a new PABX system and Computer Telephony Integration, which allows for universal and skill-based routing, thus delivering improved response time and enhanced consistency of member call handling, while reducing costs. We have seen marked improvements in our Customer Care Line, with 61% of calls responded to within 20 seconds and the abandonment call rate reduced by over 35% since the previous year.



A new look for Medibank Private

In October 2003, Medibank Private unveiled a 'refreshed' new look brand to reinforce our market leading position. The new brand is a more contemporary statement that aims to appeal to a broader market, and to make consumers think differently about private health insurance and Medibank Private.

Medibank Private's new logo and brand also highlight the strength of Medibank Private's suite of health insurance products and services, reminding members that insurance is about peace of mind, so that they can live their life to the full and feel confident and reassured about meeting their future healthcare needs. As part of the brand refresh, Medibank Private continues to use its well-known tagline 'I feel better now', which has become the industry's strongest marketing signature.

Market research has shown that the refreshed brand has captured interest from younger age markets, while retaining its appeal to existing and traditional markets.

The refreshed brand identity has been reinforced by our organisational commitment to our 'Service Edge' strategy, which is designed to deliver excellent and consistent member service through all points of contact with Medibank Private.



Business Online with Medibank Private

In keeping with our new brand, Medibank Private's website has also been redesigned. Recording over 1.2 million visits during 2003-04, www.medibank.com.au is proving to be a valuable tool for our members, and is Australia's most popular private health insurance website.

The website will continue to be expanded with a set of new capabilities that will offer greater value and accessibility for our members. Members will be able to log-on to a secure site to view and update their details or add or remove dependants online. The site will also allow members to change their level of cover, pay premiums and request new membership cards, statements, membership suspensions and much more.

Knowledge Management at Medibank Private

Medibank Private has recognised the need to implement a Quality Management technology solution for our staff. It will improve the access to the enormous volume of fund policy information that exists within the business and enable staff to more efficiently and professionally serve our members.

A Knowledge Management information system has been developed that provides front line staff with immediate access to the information they need when servicing member enquiries.

The Knowledge Management system will reduce Medibank Private costs and contribute to our 'Service Edge' objectives by:

- Reducing training costs through lower staff attrition and improved staff support;
- Enabling in-house training programs through the knowledge platform;
- Reducing dependency on help desk services;
- Reducing call handling time for Call Centre staff; and
- Improving the standard and consistency of information provided to members throughout Retail and Call Centres.



Lauren *(right)*
A Team Leader in our
Call Centre, servicing the
Customer Care Line.

Improving Value to Members

Medibank Private is committed to offering value-for-money products to members. As a not-for-profit health fund, we regularly review our products and benefits so we can ensure our members get access to quality health services and obtain genuine value for their private health cover.

We are always keen to conduct health cover reviews for our members to make sure they have the right cover for their life stage needs.



During the year we announced increased benefit levels, and new claimable benefits were added, including the ability for members to be able to claim benefits for insulin delivery pens, hip protectors and deep vein thrombosis stockings. Benefits are also now paid on an individual member basis for asthma and diabetes items, rather than per membership.

We no longer pay benefits for surgery when it is purely for cosmetic purposes, or for pharmaceuticals when prescribed for cosmetic purposes.

As a 24 year old, I always thought private health insurance was for more affluent or older people – then I realised this was a myth. Private health insurance is very affordable for the average Australian – and I never knew the benefits that I could get!

Medibank Private's information is very clear and easy to understand and I found their staff to be very friendly and helpful.

Claire Burton & Zena
Queensland

Medibank Private's 'Families With Adult Children' cover option was a big financial help for our daughter Jo when she finished studying.

Allowing her to stay on our cover until she's 25 not only has helped her get financially settled as she makes the transition to full-time work, but means that she can now continue to enjoy the peace of mind and security that private health insurance provides.

Jo, Joseph & Marianne Agnello
Victoria

I have been with Medibank Private since 1995 and when Amber and I married last year I had no hesitation in having her switch across.

We both now have the peace of mind in knowing we are covered and have found the Medibank Private staff to be both helpful and supportive.

Drew & Amber Banfield
Western Australia

** Drew Banfield is an AFL footballer for the West Coast Eagles which is sponsored by Medibank Private.*

Introducing Families With Adult Children

In April 2004, Medibank Private launched a new health insurance cover option, 'Families with Adult Children', which offers parents the opportunity of keeping their adult children on their family cover until the age of 25 – an extension of age by four years from existing arrangements at a more economical cost than taking out separate cover.

The cover option is available on most Medibank Private products catering for family and single parent memberships, enhancing the affordability and value of private health insurance to young adults who might otherwise not choose to take out private cover in their early 20s.

Overseas Students and Visitors Cover

Medibank Private remains one of the largest private health insurers of overseas students and visitors in Australia.

Our Overseas Student Health Cover product is one of the most popular health insurance products among overseas students who are studying in Australia. Almost 50% of overseas students are insured with Medibank Private.

Medibank Private remains the private health insurer of choice for close to 200,000 overseas students, expatriates and overseas visitors in Australia for business and extended holiday travel.

Medibank Private will continue to work with health care partners to create value and provide innovative health solutions.



As one of our major health fund partners, Medibank Private plays an important role in enabling Sydney Adventist Hospital to continue providing patients with a broad range of health care services tailored to their needs.

We work together with Medibank Private to develop relationships in all aspects of our business, whether this be in negotiations, payment processes, general communications or the provision of new services. We believe that through strengthening relationships, positive benefits can be achieved for both organisations and the customers we serve.

Dr Leon Clark, CEO
Sydney Adventist Hospital

Medibank Private Healthcare Partners

Medibank Private has contracts with over 90% of Australia's private hospitals, and over 3,150 ancillary providers, offering our members access to a comprehensive range of healthcare providers.

Medibank Private's contracted private hospital network is the most extensive in Australia. The growth in size and sophistication of Australia's private hospital sector now delivers 56% of all surgery with 39% of all patient separations, despite the fact that the private hospital sector, has just 32% of all hospital beds.

Private health care now performs the majority of key surgical procedures, such as:

- **77%** of all knee procedures;
- **71%** of all major wrist, hand, and thumb procedures;
- **69%** of all cataract operations;
- **64%** of all spinal procedures;
- **54%** of all malignant breast procedures;
- **55%** of all hip replacements; and
- **52%** of all chemotherapy treatments.

In 2003-04 Medibank Private paid out over \$2,210.0 million in benefits, a 7.6% increase from the previous year. Our benefit increases have been driven by growth of member claims and the unit cost of the services levied by hospitals. The growth in hospital benefit outlays in the past year was due mainly to increases in:

- Average overnight hospital benefit per episode – **7.9% increase to \$5,096;**
- Acute Private Overnight – **5.1% increase to \$925 million;**
- Sameday Episodes – **8.3% increase to \$149 million;**
- Medical Claims – **15.6% increase to \$232 million;** and
- Prostheses Claims – **15.7% increase to \$174 million.**

Medibank Private funded 552,158 individual hospital episodes in 2003-04, including our highest individual claim for the year of \$295,099.



When Medibank Private launched its Preventive Dental Care Plan for its members' bi-annual visits, this helped to reinforce our preventive philosophy with our patients.

Our Medibank Private patients also love the fact that they know what their out-of-pocket costs are going to be for their general dental treatment.

Our staff have been very impressed with the support and assistance we have been shown by the Medibank Private team.

**Drs William Rawlings BDS^c,
Ian Lupton BDS^c, Chris Raymont
BDS^c, Julia Tran BDS^c**

**Partners, Limestone
Dental Group**

(left) Dr Julia Tran, Limestone Dental Group

The growth in ancillaries payments was primarily driven by increases in:

- Dental – **3.0% increase to \$267 million;**
- Optical – **5.6% increase to \$102 million;**
- Physiotherapy – **5.3% increase to \$35 million;**
- Podiatry – **7.8% increase to \$14 million;** and
- Alternative Therapies – **4.5% increase to \$8 million.**

The rising cost of health is a major concern for Medibank Private. Over the past year we have worked with our healthcare providers to improve the way we purchase health services for our members. We continually review our agreements with healthcare providers so that we can offer our members high-quality levels of care at industry-competitive prices that are sustainable for the private health insurance sector.

In early 2004 Medibank Private made significant changes to our Members' Choice network of dental providers to create a more consistent and efficient system, with greater accessibility for members.

Our Members' Choice network of preferred ancillary providers has reverted to six modalities, covering the extras services most frequently used by our members: dental, optical, physiotherapy, chiropractic/osteopathy, naturopathy and acupuncture.

We will continue to work with healthcare partners over the coming year to create value and provide innovative healthcare solutions at a sustainable price for our members.

Medibank Private is committed to providing the best health and wellbeing solutions to our members.





Medibank Private Fun Run

As part of the Australia Day weekend activities, the inaugural Medibank Private Fun Run was held in Sydney and Melbourne, to support the Malcolm Sargeant Cancer Fund for Kids.

Victorian Premier Steve Bracks and Olympian Lauren Hewitt fired the starter's gun for the 750 Melburnians who took to the 'Tan' around Melbourne's Botanical Gardens. In Sydney, more than 1,200 participants attended the event at Centennial Parklands, with members of the Sydney Swans football team providing great support for the event.

Following the success of the event, Medibank Private is planning to expand its participation in 2005, encouraging the broader community to invest in a healthy lifestyle through regular exercise.

We encourage all our members to invest in the improvement of their personal health and wellbeing.

Member Wellbeing Pilot Program

To promote health and wellbeing among our members, Medibank Private undertook a pilot program, in partnership with CareLink, to deliver the Member Wellbeing program to 23,000 members in selected areas in Central Queensland, Brisbane, Gold Coast and Melbourne.

The program offered members the opportunity to participate in a health management program to encourage improvement to their health by engaging appropriate medical intervention through their GPs, and to maximise the value from their private health insurance and the health care system.

Almost 3,500 members, who were segmented according to prevalent health risks, participated in the pilot program. CareLink offered support to members, educating them on behavioural changes and preventative health measures to aid a reduction in avoidable hospitalisation claiming rates.

The Member Wellbeing program will continue with a strategic partnership with the International Diabetes Institute, which will focus on our members with Type 2 diabetes.

Juvenile Diabetes Research Foundation

As part of our ongoing partnership with the Juvenile Diabetes Research Foundation (JDRF), Medibank Private was a proud supporter of the annual Jelly Baby Appeal in May. JDRF merchandise was sold through Retail Centres and corporate offices nationally, whilst Medibank Private's advertising agency, DNA, created a television commercial to promote the appeal. Medibank Private also ran a major competition for a new Honda Jazz.

Medibank Private was an active participant in the 2003 'Walk to Cure Diabetes'. More than 200 participants walked for Medibank Private teams across the country, raising almost \$10,000.

National Heart Foundation

This year Medibank Private continued its alliance with the National Heart Foundation, to help promote wellbeing among our members.

Medibank Private, together with the National Heart Foundation, published a list of 'Healthy Heart Resolutions', offering Australians handy tips on heart health for 2004.

Medibank Private was also a corporate partner of the 2004 Heart Week by supporting the 'Healthy Eating and Activity Guide', distributed through all Medibank Private Retail Centres and the website. Staff also raised funds supporting the national 'Dress Red for Hearts Day'.

National Asthma Council

Medibank Private continued its work throughout the year with the National Asthma Council to promote 'good asthma management for everyone'. In December 2003, an 'Asthma Management Holiday Checklist' was produced and distributed through Medibank Private's website and Retail Centres to educate members about asthma so that they could enjoy a safe summer holiday.

depressionNet

Medibank Private also teamed up with depressionNet, a 24-hour online information, help and support service for people living with depression.

The partnership aims to raise awareness of depression in Australia and offers visitors to the Medibank Private website valuable consumer information supplied by depressionNet.

Medibank Private is an active member of our community.



Our Environment

Medibank Private is committed to ensuring minimal environmental impact through its business activities. We try to minimise the volume of waste we generate in the organisation and the amount of paper we consume, and we are conscious of minimising where we can the amount of energy we use.

We recycle paper, toner cartridges and other business equipment such as computers and office furniture where possible. Following Medibank Private's brand refresh, redundant paper and envelopes were donated to state schools around the country.

Medibank Private's new headquarters in Melbourne incorporates many best practice energy saving features, and has been given a four and a half star energy rating.

Medibank Forest

Medibank Private has embarked on an environmental health project, working with Grow West to plant trees in a part of Victoria that has been depleted of trees. Conscious of the paper we consume in our organisation, our staff came up with this renewable resource investment idea.

Over the next two years more than 80 staff, contributing their own time, will participate in the project, planting more than 5,000 trees. The project aims to plant between 50,000 –100,000 trees over the next 10 years.

Salvation Army

To help children who are in need over the festive season, Medibank Private supported the Salvation Army's Christmas Appeal. Gift donation bins were placed in all 104 Retail Centres across Australia and through corporate offices to collect toys for the appeal. We thank our members for their kind support for this community appeal.



Medibank Private is dedicated to building a Performance Organisation that unites, engages and empowers our people.

Employee Engagement and Empowerment

Medibank Private has continued to empower staff through their participation in Quality Action Teams (QATs) to find and implement continuous business improvements that will deliver cost savings or service enhancements for the organisation.

The organisation's QATs consist of groups of staff across the business, who identify where improvements can be made, or address areas where business process problems that lead to non value-adding activity may exist.

Over the past two years, more than 300 staff participating in QATs, have identified more than \$12 million in cost savings for the fund.

One of the key initiatives of the QATs in 2003-04 was the identification of the Knowledge Management opportunity for our front line staff which is currently being implemented.

The Service Edge Journey

Medibank Private's continued financial performance improvement has been management led. Integral to our definition of leadership is the active engagement and commitment of our employees.

Throughout 2003-04, we started to develop a culture that fosters consistent and excellent service at Medibank Private both externally and internally, under the banner of 'Service Edge'.

To deliver this service culture, our employees have commenced a comprehensive two-year learning program, 'The Service Edge Journey'. This program will develop our staff at all levels across the business to build world-class sales and service teams that are capable of delivering consistent, high-quality service to members.

During 2003-04, a number of initiatives were undertaken to complement the Service Edge culture to further develop and reward our employees.

All key customer service measures improved dramatically in 2003-04.



Leadership Development

Throughout 2003-04, Medibank Private's Retail Centre managers and Team Leaders participated in a Front Line Leadership Program with the Australian Institute of Management to complete a Diploma in Front Line Leadership.

In 2004-05 a leadership development program for executives, senior and middle management will commence, focusing on enhancing business acumen and behavioural development – consistent with a Service Edge culture.

Staff Communications

Medibank Private's Managing Director and Leadership Executive conducted Leadership Forums on a number of occasions throughout 2003-04, bringing Senior Leaders from across the business together to focus on current business results and future activities in a collegiate environment.

Staff Forums have been held regularly over the past year, and were used to communicate business updates to staff across the country, providing an open forum for dialogue with senior management.

Over 1,000 staff attend the staff forums, which take place at least twice a year.

Medibank Private's fortnightly e-newsletter, FYi, has continued to be a successful and effective communication tool to update staff on news from around the business. Our quarterly staff magazine, Private I, is also popular among staff, providing an insight into business initiatives and staff news.

Recognising Our Staff

In 2003, we launched the inaugural Medibank Private Achievement and Appreciation Awards, to recognise and celebrate the efforts of our staff in a range of areas across the organisation, including Leadership, Service Excellence, Local Hero, and Innovation and Continuous Improvement.

A range of staff retention initiatives have been implemented during the past year and will be further enhanced with Medibank Private's strong focus on its organisational performance culture.



Urban Seed City Walks and Green Collect

Staff members have been encouraged to participate in Urban Seed’s City Walks project, an educational tool that demonstrates the various factors influencing the number of homeless people around our country.

Medibank Private staff are also encouraged to participate in Green Collect, a program where staff assist by collecting cork for Urban Seed, which is then sold to manufacturing companies who recycle the cork for tiles or other products.

*(Left - Right)
Learning about Urban Seed, Medibank Private staff Ash, Sophie, Clea and Sally.*

Our staff across all divisions of our business, from our Retail Centres, our Customer Care Line to our Corporate Office, are all working to serve the needs of our members.

Denise
Agent Support Officer Tasmania

John
National Ancillary Health Services Manager

Angela
Customer Care Line Service Officer

Medibank Private Community Involvement Program

Consistent with our responsibility as a corporate citizen, we undertook to improve the health and wellbeing of the community. An initiative by one QAT was to develop the Medibank Private Community Involvement Program, as a stronger expression of our corporate citizenship responsibility.

The program aims to embrace the community-mindedness of Medibank Private staff, and encourage and support staff to use their collective skills, time and resources to make a positive impact on their local communities.

Medibank Private encourages staff to participate individually or in teams in their community, and at a national level through fundraising and promotion of health and wellbeing initiatives. The program supports staff who volunteer their time with a matching paid half-day a year for their involvement in community service with a registered charity.

While in its infancy, the program has been embraced by many employees, with participation in several initiatives such as Urban Seed.

Developing a Compliance Culture

Medibank Private is committed to complying with both the letter and the spirit of the law, and has implemented a comprehensive compliance program to ensure this occurs. Key to this program are both Trade Practices and Privacy compliance, which include the provision of training programs and materials to ensure that all staff are aware of the obligations placed upon them individually, and on the organisation. The training materials detail the key areas of the Trade Practices Act and Privacy Act applicable to our work environment.

All Medibank Private staff must complete online compliance training on an annual basis, so that we may achieve and maintain a best practice compliance program. Our Trade Practices compliance program has been audited in each of the past three years by an independent compliance auditor, with demonstrated improvement and clear achievement of a system compliant with the Australian Standard.

The monitoring and practice of a positive compliance culture is embraced by Medibank Private’s Board of Directors, senior executives, management and staff.

As industry leader, Medibank Private is a strong public advocate for the value of private health insurance within the Australian health system.

Your Private Health Insurance Rebate

To further our understanding of the economics that drive current health policy, Medibank Private commissioned independent research into the impact of the 30% Rebate. Leading economists, Chris Murphy of Econtech and Professor Ian Harper of the Melbourne Business School, conducted the research project titled, 'Easing the Pressure: The Intergenerational Report and Private Health Insurance'. The research was launched at the National Press Club in February, 2004.

A key finding of the research was that health insurance is an important source of health funding. For each 30% Rebate dollar spent by the Government, it saves \$2 of costs funded by private health insurers.

Medibank Private also conducted research among members and found that many members believe a strong private health system is vital for ensuring the public system can fulfil its role in the community. The research also found that many members would have to consider reducing their private health cover if the 30% Rebate was removed.

To educate our members about the impact of health policy on private health insurance, Medibank Private launched the 'Your Private Health Insurance Rebate' brochure, which summarised the findings of the academic and member research, and included member views on the importance of the 30% Rebate as far as affordability is concerned.

Sports Injuries Report

The second annual Sports Injuries Report was launched in June 2004, profiling the increasing cost of sport injuries in Australia and the most injury-prone sports.

This year's report comprised independent research by Professor Caroline Finch of the University of NSW, and commentary on preventative measures by high-profile sports physician Dr Peter Larkins.

As more older Australians choose to be actively involved in sport, this research provides valuable insight into injury prevention.

Industry Advocacy

As Australia's leading private health insurer, Medibank Private actively contributes to many industry forums to share knowledge and best practice across our industry.

Medibank Private was a major sponsor of the 2004 AHIA National Conference, which this year focused on the theme 'Sustaining our health system'.

Various representatives from Medibank Private addressed the conference, discussing key health care quality and safety issues, management of external risks to benefit outlays, future directions in purchasing of quality private health care, and challenges and opportunities for the industry.

Medibank Private addressed the annual Health Insurance Summit in June 2004. The Summit examined the changes and challenges ahead for the health insurance sector, and Medibank Private Managing Director George Sawides spoke on issues relating to maintaining a sustainable and efficient industry, and opportunities for innovation.

Medibank Private will continue to play an active role as an advocate of our industry, provide our members with best practice service standards and ensure future growth and sustainability.

Medibank Private supports broad participation in amateur sporting activity, promoting active and healthy lifestyles. We also promote enhanced awareness of sporting injuries, their causes and prevention. Medibank Private is committed to providing the best health and wellbeing solutions to our members, as well as fulfilling our community obligations as a corporate citizen.

Your



Private Health Insurance Rebate



Medibank Private Limited
ABN 47 580 580 220 is a registered
and licensed health service provider.



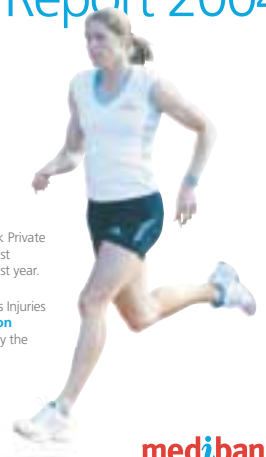
medibank

Sports

Injuries Report 2004

Independent research commissioned by Medibank Private has found sports injuries cost Australians **\$1.83 billion** last year.

The Medibank Private Sports Injuries Report found that **5.2 million** sports injuries are incurred by the community every year.



June 2004

medibank

Board of Directors



**P M Kirby BEc (Rhodes),
BEc (Hons) (Natal),
MA (Econ) (Manchester),
MBA (Witwatersrand),
AMP (Harv)**

Chairman

Appointed Director and Chairman from 8 February 2004. Current term expires 7 February 2007. Chairman of the Remuneration Committee.

Currently: Director Orica Limited, Macquarie Bank Limited and Beacon Foundation.

Formerly: Managing Director and Chief Executive Officer of CSR Limited (1998 to 2003) and a member of the Board of the Business Council of Australia (2001 to 2003). Prior to joining CSR, Mr Kirby was with Imperial Chemical Industries PLC group ("ICI") for 25 years in a variety of senior management positions around the world, including CEO of ICI Paints, responsible for the group's coatings businesses worldwide and a member of the Executive Board of ICI, with responsibility for ICI Americas and the western hemisphere.



**M D Bollen AM MB BS
(Adel), FRACGP D Obst
RCOG, FAICD**

Non-Executive Director

Director from 7 July 1998. Current term expires 27 August 2004. Chair of Health Innovations Committee.

Currently: Director, BMP Healthcare Consulting Pty Ltd; Chair, Victorian WorkCover Authority Independent Medical Examiner Selection & Quality Assurance Committee; and Member, Board of the Aged Care Standards & Accreditation Agency.

Formerly: Member, National Health and Medical Research Council; Foundation Chairman, Department of Primary and Emergency Care and Director of Primary Care, John Hunter Hospital; Secretary General, Royal Australian College of General Practitioners; part time Commissioner, South Australian Health Commission; Clinical lecturer in General Practice, University of Adelaide; Foundation Chair and Executive Director, Ingle Farm Community Health Centre; and General Practitioner.



J Bowen MAICD

Non-Executive Director

Director from 3 November 2003. Current term expires 2 November 2006. Chair of IT Sub-Committee.

Currently: Director, Consulting Services, Asia Pacific, Cerner Corporation.

Formerly: Director, Systems and Programmes, Cable & Wireless Optus; Foundation member of the Ernst & Young Worldwide Masters Program; Manager of business consulting group, Aspect Computing; and Support Program Manager for the Royal Navy Nuclear Submarine Weapons Systems.



A H Brien AM

Non-Executive Director

Appointed Director from 26 June 2002. Current term expires 28 June 2005. Chair of the Investment Committee.

Currently: Member, Pooled Development Funds Board (Venture Capital), Department of Australian Industry; Member, President's Advisory Board, Mitsubishi Motors Australia; Trustee, Les Favell Cricket Foundation; Life Governor, Flinders Medical Centre Research Foundation; Chairman and Director, Adrian Brien Pty Ltd; and Chairman and Director, Equitrade Ltd.

Formerly: CEO, Adrian Brien Automotive Group; National Chair, Australian Ford National Dealer Council; Member, Board of Governors, Flinders University, South Australia; Member, Board of Management, Flinders Medical Centre, South Australia; Member, Vehicle Licensing Board of South Australia; Chairman, Australian Ford Dealer Credit Dealer Council; and Governor, Fordstar Board of Governors.

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

Managing Director

Director from 6 September 2001. Current term expires 31 March 2006. Appointed as Managing Director 1 April 2003.

Currently: Non-Executive Director, World Vision Australia and World Vision International; Executive Member of AHIA (Australian Health Insurance Association); and Member, CSIRO Health Sector Advisory Council.

Formerly: Managing Director and CEO, Sigma Co Ltd; Managing Director, Smith+Nephew Pty Ltd, Australasia; General Manager, CIG Healthcare Australia; and Chairman, Medicines Partnerships of Australia.

J U Stoelwinder MD (Monash), MBBS (W.A.), FRACMA, FACHSE, FAFPHM

Non-Executive Director

Appointed Director from 26 June 2002. Current term expires 28 June 2005.

Currently: Professor, Chair of Health Services Management, Department of Epidemiology and Preventive Medicine, Monash University.

Formerly: CEO & Director of the Southern Health Care Network; Director, Kitaya Holdings Pty Ltd; CEO, Monash Medical Centre, Queen Victoria Medical Centre (Melbourne); Member, Private Health Insurance Administration Council (PHIAC); Professor and Head, Health Services Management Development Unit, Flinders University, School of Medicine; and Professorial Fellow, Institute of Public Health and Health Services Research, Monash University, Faculty of Medicine.

P B Wade BComm (Hons), MA, FCPA, FAICD

Non-Executive Director

Appointed Director from 26 June 2002. Current term expires 28 June 2005. Chair of the Audit & Compliance Committee from 8 February 2004.

Currently: Chairman, Open Learning Agency of Australia Pty Ltd; Director, CASS Foundation Limited; The Knox School Limited; and KPA Consulting Pty Ltd.

Formerly: General Manager, Monash University; Deputy Chairman, VicGrain Ltd; Director, Graincorp Ltd; and Director, Banksia Wines Limited.

Group Executive



George Savvides

Managing Director

Joined April 2002

George has over 16 years experience in the health care industry, including experience as Managing Director of Sigma, Regional Managing Director for Smith + Nephew and General Manager CIG Healthcare.



Simon Blair

Chief Operating Officer

Joined July 2002

Simon previously worked as Lead Health Specialist for the World Bank. Prior to that he was the CEO of Australia's largest public hospital group.



Steve Boomert

Group Manager – Strategy & Corporate Development

Joined June 2000

Steve played a lead role in the demutualisation, listing and repositioning of the Colonial Group. He brings to Medibank Private experience in strategic planning, business development and corporate affairs.



Bruce Levy

Group Manager - Health Services

Joined October 2002

With nearly 20 years of health and hospital industry experience prior to joining Medibank Private, Bruce was General Manager of The Alfred Hospital, where he drove a financial turnaround, redeveloped models of care delivery and managed community interest groups.



Cecil Piccinino

Chief Financial Officer

Joined July 2000

Appointed Chief Financial Officer November 2001

Having previously worked with KPMG and large financial institutions, Cecil brings financial, treasury, risk management and audit experience of public and private sector organisations to Medibank Private.

Corporate Executive



1. Derek Linsell

Innovation & Continuous Improvement Advocate

2. Sarah Bussey

General Counsel

3. Neil Greenaway

Company Secretary

4. Andrea Thislethwayte

Group Manager - Human Resources

5. Andrew Gale

Chief Actuary

6. Michael Sammells

National Hospital Manager

7. Surinder Singh

Chief Information Officer

8. Tony Dudley

Financial Controller

Strategic Business Unit Managers



1. John Belleville
National Manager
Non Resident Business

2. Anthony Goldman
National Manager
Corporates

3. Frank Levene
General Manager
NSW

4. Brian Loo
General Manager
QLD

5. Peter McNeil
General Manager
Southern States

6. Bob Payne
General Manager
WA, NT

Medibank Private has adopted a 'Performance Organisation' strategy that has resulted in changes to its organisational structure to build on the success of its improved financial performance and to further establish long-term sustainability.

As part of this strategy, in 2003-04 Medibank Private realigned the business around six market-focused strategic business units (SBUs).

Four are based on resident geographic markets and two on member segment markets, those of Overseas (non-residents) members, and the Corporate market.

The SBU structure is designed to deliver improved focus on performance for operational staff throughout the entire business by establishing clearly defined performance accountabilities at the SBU level.

Market performance goals will cover financial, member service, product innovation and competitive achievement, with an emphasis on employee recognition and reward.



Medibank Private Martin Place Retail Centre

financial statements





Mario
A Product Development Consultant

Corporate Governance Statement

Medibank Private is committed to implementing the highest standards of corporate governance. The governance practices derive principally from the provisions of the *Commonwealth Authorities and Companies (CAC) Act 1997 (Cth)* and requirements of the Governance Arrangements for Commonwealth Government Business Enterprises (1997).

The Company is also committed to reporting in accordance with the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations* (ASX Guidelines) in so far as they are applicable to a Government Business Enterprise (GBE) such as Medibank Private. Where the Company's practices do not correlate with the recommended practices, action is being taken to meet the requirements, where considered appropriate.

Shareholder Minister

The responsible Shareholder Minister for Medibank Private is the Minister for Finance and Administration, Senator the Hon. Nick Minchin. Prior to 25 September 2003, the then Minister for Health and Ageing, Senator the Hon. Kay Patterson, was also a Shareholder Minister.

Board of Directors and its Committees

Role of the Board

The Board of Directors is responsible for the overall corporate governance of Medibank Private and for the Company's performance, and is accountable to the Shareholder Minister. The Board sets the values, goals and strategic direction of the Company, approves the Company's financial plans, monitors the achievement of these goals, and oversees the implementation of the Corporate Plan.

In carrying out its governance role, a key task of the Board is to drive the performance of the Company. The Board must also ensure that the Company complies with all of its contractual, statutory and other legal obligations, including the requirements of all applicable regulatory bodies. The Board has the overall responsibility for the successful operations of the Company.

Principal functions of the Board include:

- determining goals and strategic direction and reviewing the performance of the business against those objectives;
- ensuring the Company is financially sound, meets prudential requirements and has appropriate financial reporting practices;

- ensuring a process is in place for the maintenance of the integrity of internal controls, and financial and management information systems;
- appointing, supporting, evaluating and rewarding the Managing Director;
- ratifying the appointment of, supporting, evaluating and rewarding key executives, and having in place an executive succession plan;
- reviewing, approving, submitting to the Shareholder Minister and monitoring the implementation of, the Corporate Plan;
- ensuring that the principal business and compliance risks have been identified and that an appropriate framework has been established to manage those risks;
- reviewing, approving and monitoring organisational policies;
- approving and monitoring major capital expenditure items;
- ensuring that appropriate ethical standards are maintained; and
- reporting to the Shareholder on the Board's stewardship of the Company.

The powers and duties of the Directors are specified in the Constitution of Medibank Private, the *Corporations Act 2001 (Cth)*, the *National Health Act 1953 (Cth)*, other relevant legislation, and general law.

Board processes

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

- Audit & Compliance Committee;
- IT Sub-Committee;
- Health Innovations Committee;
- Investment Committee; and
- Remuneration Committee.

Each Committee operates under a charter approved by the Board, which is reviewed periodically. Board Committees have no delegated authority, but make recommendations and report to the Board of Directors on appropriate and relevant issues. As required the Board can also establish special purpose committees for limited terms.

The Board currently schedules ten Board meetings each year, plus strategic planning workshops, and extraordinary meetings at such other times as may be requested by Directors. The Board met 12 times during the year.

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

The Company Secretary supports the effectiveness of the Board by monitoring adherence to Board policy and procedures, and co-ordinating the completion and despatch of Board agenda and briefing materials. The Company Secretary reports directly to the Chairman of the Board on all governance matters.

Composition of the Board

As specified by the Company's Constitution, the Board comprises up to seven non-executive Directors (including the Chairman), and an executive Managing Director. All current non-executive Directors are independent in accordance with the ASX Guidelines criteria for independence.

Medibank Private is a wholly-owned Commonwealth Company as defined in the *Commonwealth Authorities and Companies Act 1997 (Cth)*, a Government Business Enterprise, and a Company subject to the *Corporations Act 2001 (Cth)*. Directors are appointed by the responsible Shareholder Minister in accordance with the Company's Constitution.

Conflicts of interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. All Directors are required to disclose to the Board

details of transactions which may create a conflict of interest for them in the decisions placed before the Board, in accordance with the *Corporations Act 2001 (Cth)*. Directors do not participate in discussions, and abstain from voting on any decisions, in which they may be perceived to have a material personal interest.

Board effectiveness

The Board has adopted contemporary performance measures in assessing the performance of the Board.

A review of Board performance was conducted during the year. The aim was to undertake an objective assessment of the performance of the Board as a whole. An independent consultant facilitated the review. Confidential interviews were conducted with each Director and members of the executive management team. A report setting out a summary of the feedback from interviews, discussion of issues and suggestions for change was tabled and considered by the Board at its meeting in May 2004. The report outlined feedback on the role of the Board, the people, procedures, practices and behaviours. It concluded that the Board did not have any serious issues to address but made suggestions about how some procedures might be improved.

When the Chairman's performance is due for review, the Board as a whole will undertake the review, without the Chairman being present, and led by a Director nominated by the Board. The performance review of individual Directors is conducted by the Chairman and the Director by way of interview and confidential discussion.

Director induction and education

Medibank Private has an induction program for new Directors, which is reviewed periodically by the Board Remuneration Committee.

Directors are provided with detailed briefings by management on corporate strategy and current issues affecting Medibank Private and the private health insurance industry generally. All Directors are encouraged to visit Retail Centres, Call Centres and operational and support divisions, and to meet with employees across the business.

In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continual professional development. Specifically, Directors are provided with the resources and training to address skills gaps where they are identified.

Director dealings in Company shares

The Commonwealth of Australia holds all shares in Medibank Private. No trading in the shares of the Company is allowed.

Independent professional advice and access to Company information

Each Director has the right of access to all relevant Company information and to the Company's executives, and may, where appropriate, seek independent professional advice at Medibank Private's expense, subject to obtaining prior approval of the Chairman.

Assurance by Managing Director and Senior Executive

In accordance with the Board's policy, the Managing Director, Chief Financial Officer and other senior executives provide a self-assessment sign-off regarding the controls and activities within the Company, including assurance as to the Company's financial condition, prior to the Board signing this Annual Report.



Remuneration Committee

The Remuneration Committee comprises three non-executive Directors. The Managing Director also attends Remuneration Committee meetings by invitation. The primary role of the Committee is to review and make recommendations on Board composition and nomination, Board and senior executive remuneration, Board and senior executive succession planning, and insurance requirements as they relate to Directors and officers of the Company.

For further details of Committee membership please refer to the Directors' Report.

The Remuneration Committee Charter recommends that the Committee meet at least twice a year. The Committee met twice during the year.

The Commonwealth Remuneration Tribunal sets remuneration and travel allowances for non-executive Directors, including the Chairman. The Managing Director's remuneration package is set in accordance with the Principal Executive Office structure determined by the Remuneration Tribunal. No retirement benefits, other than statutory superannuation, are payable to Directors upon expiry of office.

The Remuneration Committee sets the policy and guidelines for the performance evaluation of the Managing Director and key executives, and reviews these guidelines regularly to ensure alignment with industry best practice. The remuneration of other employees is based on individual Australian Workplace Agreements or Certified Agreements.

Further details of Directors' remuneration are set out in the Directors' report and Note 18 to the financial statements.

Audit & Compliance Committee

All non-executive Directors are currently members of the Audit & Compliance Committee. The Managing Director also attends Audit & Compliance Committee meetings by invitation. The Chair of this Committee is an independent non-executive Director who is not the Chair of the Board. The Audit & Risk Management Manager reports directly to the Chair of the Audit & Compliance Committee. The Audit & Compliance Committee Charter recommends that the Committee meet at least four times per year. The Committee met five times during the year. The external auditor met with the Audit & Compliance Committee three times during the year and once without management being present.

The responsibilities of the Audit & Compliance Committee include:

- reviewing the annual financial report;
- monitoring the risk assessment processes;
- approving the annual risk assessment plan;
- monitoring the activities of the internal audit and compliance functions;
- reviewing the performance of the external auditor;
- monitoring the effectiveness of the internal control framework;
- monitoring the effectiveness of the Company's Fraud Control policies and procedures; and
- monitoring the procedures in place to ensure compliance with the legislation, regulations and codes.

The Audit & Compliance Committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year as follows:

- to discuss the external audit and internal audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements;

- prior to announcement of results:
 - to review the preliminary final report prior to sign-off, and any significant adjustments required as a result of the auditor's findings; and
 - to recommend Board approval of these documents;
- to finalise annual reporting:
 - review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made;
 - review the draft financial report and recommend Board approval of the financial report; and
- as required, to organise, review and report on any special reviews or investigations deemed necessary by the Board.

For further details of Committee membership please refer to the Directors' Report.

The Committee changed its name to "Audit and Risk Management Committee" in July 2004 to better reflect the role and focus of the Committee.

IT Sub-Committee

The IT Sub-Committee operates as a sub-committee of the Audit & Compliance Committee. Three non-executive Directors are currently members of the IT Sub-Committee. The Managing Director attends the meetings by invitation. The Chair of the Sub-Committee is an independent non-executive Director.

The purpose of the Sub-Committee is to:

- enable Board overview of IT strategy and implementation;
- enable Board overview of IT project management; and
- monitor the management of IT project risk, compliance, business cases and post implementation reviews.

For further details of Committee membership please refer to the Directors' Report.

The IT Sub-Committee Charter recommends that the Sub-Committee meet as deemed necessary. The Sub-Committee met three times during the year.

Health Innovations Committee

The Health Innovations Committee comprises a minimum of two non-executive Directors and the Managing Director. The primary purpose of the Committee is to monitor and review health industry issues and business strategies relating to members, health service providers and the private health insurance industry. Its objective is to ensure that members are provided with quality health insurance benefits and to promote innovation in member and provider initiatives.

For further details of Committee membership please refer to the Directors' Report.

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

Investment Committee

The Investment Committee comprises two non-executive Directors and the Managing Director. The primary role of the Committee is to set the investment strategy of the Company and to monitor the effectiveness of that investment strategy to achieve optimum return relative to risk whilst meeting the Company's prudential capital requirements.

For further details of Committee membership please refer to the Directors' Report.

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

Audit

In accordance with the *Commonwealth Authorities and Companies (CAC) Act 1997 (Cth)*, the Commonwealth Auditor-General audits the records and financial statements of the Company. The Australian National Audit Office (ANAO) has appointed Ernst & Young to conduct the audit on behalf of the Auditor-General.

Internal Control Framework

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

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

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

Internal Audit & Compliance

The Audit & Risk Management Unit (formerly the Management Assurance unit) conducts internal audits in accordance with a risk-based Internal Audit Plan. This Plan is reviewed and approved annually by the Audit & Compliance Committee. Its reports are reviewed by the Audit & Compliance Committee and approved by the Board. As a key component of strategic planning and operational reviews, potential business risks are identified and evaluated. Medibank Private's risk management methodology is based on Australian and New Zealand Risk Management Standards.

The Compliance Unit, which reports to the General Counsel, is responsible for designing, implementing and maintaining a comprehensive compliance reporting process within Medibank Private to mitigate legal risk. This includes the development of an Operational Compliance Plan, which is reviewed and approved by the Board on an annual basis. An independent organisation-wide review of the Trade Practices compliance program has been undertaken to ensure compliance with Trade Practices legislation, in accordance with the requirements of an undertaking provided to the ACCC in 2001 under section 87B of the *Trade Practices Act 1974 (Cth)* in relation to trade practices compliance.

Business Risk Management

The Board has in place a system of business risk management, which forms part of the business planning and monitoring process across all key business units. Each business unit is responsible for assessing and updating their risk profiles including related mitigation programs.

The Audit & Compliance Committee advises the Board and reports on the status of business risks. Each year a full risk assessment and mitigation plan is prepared and endorsed by the Board.

The Board regularly receives updates on the status of key business risks to Medibank Private.

Ethical Standards

The Board has approved and implemented a Code of Governance, to identify the key governance policies and procedures the Board has put in place. Included in the Code are the Company's Vision, Mission and core Values, as well as policy statements on conduct and ethical behaviour, the role of the Board and key executives, and details of compliance with statutory and stakeholder reporting obligations. The Board reviews and amends the Code of Governance regularly as required and ensures the Code is aligned to the Corporate Plan. All Directors, managers and employees sign their willingness to adhere to the Code of Conduct policy on commencement of employment and are at least annually reminded of their obligations.

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

Shareholder Communication

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

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

Medibank Private's Annual Report is submitted to the Commonwealth Parliament in accordance with section 9 of the *Commonwealth Authorities and Companies (CAC) Act 1997 (Cth)*.

Directors' Report

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

Board of Directors

The names and details of the Directors in office during the financial year and until the date of this report are as follows.

Current Directors:

P M Kirby BEc (Rhodes), BEc (Hons) (Natal), MA (Econ) (Manchester), MBA (Witwatersrand), AMP (Harv)

Chairman

Appointed Director and Chairman from 8 February 2004. Current term expires 7 February 2007. Chairman of the Remuneration Committee.

Currently: Director, Orica Limited, Macquarie Bank Limited and Beacon Foundation.

Formerly: Managing Director and Chief Executive Officer of CSR Limited (1998 to 2003) and a member of the Board of the Business Council of Australia (2001 to 2003). Prior to joining CSR, Mr Kirby was with the Imperial Chemical Industries PLC group ("ICI") for 25 years in a variety of senior management positions around the world, including CEO of ICI Paints, responsible for the group's coatings businesses worldwide and a member of the Executive Board of ICI, with responsibility for ICI Americas and the western hemisphere.

M D Bollen AM MB BS (Adel), FRACGP D Obst RCOG, FAICD

Non-Executive Director

Director from 7 July 1998. Current term expires 27 August 2004. Chair of Health Innovations Committee.

Currently: Director, BMP Healthcare Consulting Pty Ltd; Chair, Victorian WorkCover Authority Independent Medical Examiner Selection & Quality Assurance Committee; and Member, Board of the Aged Care Standards & Accreditation Agency.

Formerly: Member, National Health and Medical Research Council; Foundation Chairman, Department of Primary and Emergency Care and Director of Primary Care, John Hunter Hospital; Secretary General, Royal Australian College of General Practitioners; part time Commissioner, South Australian Health Commission; Clinical lecturer in General Practice, University of Adelaide; Foundation Chair and Executive Director, Ingle Farm Community Health Centre; and General Practitioner.

J Bowen MAICD

Non-Executive Director

Director from 3 November 2003. Current term expires 2 November 2006. Chair of IT Sub-Committee.

Currently: Director, Consulting Services, Asia Pacific, Cerner Corporation.

Formerly: Director, Systems and Programmes, Cable & Wireless Optus; Foundation member of the Ernst & Young Worldwide Masters Program; Manager of business consulting group, Aspect Computing; and Support Program Manager for the Royal Navy Nuclear Submarine Weapons Systems.

A H Brien AM

Non-Executive Director

Appointed Director from 26 June 2002. Current term expires 28 June 2005. Chair of the Investment Committee.

Currently: Member, Pooled Development Funds Board (Venture Capital), Department of Australian Industry; Member, President's Advisory Board, Mitsubishi Motors Australia; Trustee, Les Favell Cricket Foundation; Life Governor, Flinders Medical Centre Research Foundation; Chairman and Director, Adrian Brien Pty Ltd; and Chairman and Director, Equitrade Ltd.

Formerly: CEO, Adrian Brien Automotive Group; National Chair, Australian Ford National Dealer Council; Member, Board of Governors, Flinders University, South Australia; Member, Board of Management, Flinders Medical Centre, South Australia; Member, Vehicle Licensing Board of South Australia; Chairman, Australian Ford Dealer Credit Dealer Council; and Governor, Fordstar Board of Governors.

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

Managing Director

Director from 6 September 2001. Current term expires 31 March 2006. Appointed as Managing Director 1 April 2003.

Currently: Non-Executive Director, World Vision Australia and World Vision International; Executive Member of AHIA (Australian Health Insurance Association); and Member, CSIRO Health Sector Advisory Council.

Formerly: Managing Director and CEO, Sigma Co Ltd; Managing Director, Smith+Nephew Pty Ltd, Australasia; General Manager, CIG Healthcare Australia; and Chairman, Medicines Partnerships of Australia.

J U Stoelwinder MD (Monash), MBBS (W.A.), FRACMA, FACHSE, FAFPHM

Non-Executive Director

Appointed Director from 26 June 2002. Current term expires 28 June 2005.

Currently: Professor, Chair of Health Services Management, Department of Epidemiology and Preventive Medicine, Monash University.

Formerly: CEO & Director of the Southern Health Care Network; Director, Kitaya Holdings Pty Ltd; CEO, Monash Medical Centre, Queen Victoria Medical Centre (Melbourne); Member, Private Health Insurance Administration Council (PHIAC); Professor and Head, Health Services Management Development Unit, Flinders University, School of Medicine; and Professorial Fellow, Institute of Public Health and Health Services Research, Monash University, Faculty of Medicine.

P B Wade BComm (Hons), MA, FCPA, FAICD

Non-Executive Director

Appointed Director from 26 June 2002. Current term expires 28 June 2005. Chair of the Audit & Compliance Committee from 8 February 2004.

Currently: Chairman, Open Learning Agency of Australia Pty Ltd; Director, CASS Foundation Limited; The Knox School Limited; and KPA Consulting Pty Ltd.

Formerly: General Manager, Monash University; Deputy Chairman, VicGrain Ltd; Director, Graincorp Ltd; and Director, Banksia Wines Limited.

Company Secretary:

N K Greenaway FCIS, FCA, FCPA, MAICD

Company Secretary

Appointed Company Secretary on 2 April 2004.

Formerly: Held executive positions with St Vincent's Health, Tupperware International and KPMG.

S L Bussey MA (Cantab), Solicitor, MAICD

General Counsel

Appointed Company Secretary on 19 October 2001.

Formerly: Partner with Phillips Fox Lawyers.

Former Directors:

D A W Thomson AM, MAICD, FCPA

Appointed Chairman from 1 December 1997. Term expired 7 February 2004.

Formerly: Chairman, Australian Shipowners Association; Director, Australian Industry Development Corporation; and Director, Australian River Co Ltd (previously ANL Limited). Chairman, Health Insurance Commission to 29 July 1998; Director, Australian Submarine Corporation Pty Limited; National Executive Director, Royal Flying Doctor Service of Australia; Director and CEO, Howard Smith Ltd and Director of Howard Smith Ltd group of companies including Coal and Allied Industries Ltd and J Blackwood & Son Ltd.

P F E Hutchinson BA (Hons), MA, FCA, AMusA, MAICD

Director from 1 December 1997 and Chair of Audit Compliance Committee. Term expired 7 February 2004.

Currently: Director, Arts Victoria; Council Member, Victorian College of the Arts, Monash University; Fellow Institute of Chartered Accountants; and Fellow Institute of Public Administration.

Formerly: Partner, BDO Nelson Parkhill; Chair, Victorian Public Transport Forum, Victorian Rehabilitation Services Pty Ltd; Director, Swanston Trams; and Director, Federal Airports Corporation.

Directors' Interests

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

Directors' Meetings

The number of meetings of the Board of Directors and Board Committees during the year, and attendance by Directors at those meetings, are shown below.

Director	Board Meeting		Audit & Compliance Committee (a)		IT Sub-Committee (b)		Health Innovations Committee (c)		Investment Committee (d)		Remuneration Committee (e)	
	A	H	A	H	A	H	A	H	A	H	A	H
P M Kirby	5	5	2	2	1 ^(g)	3	1 ^(g)	2	1	1	-	-
G Savvides* (f)	12	12	5	5	3	3	6	7	2	2	2	2
M D Bollen	12	12	5	5	2	3	7	7	2 ^(g)	2	- ^(g)	-
J Bowen	8	8	3	3	3	3	4 ^(g)	4	- ^(g)	1	- ^(g)	-
A H Brien	9	12	4	5	- ^(g)	3	4 ^(g)	7	2	2	- ^(g)	-
J U Stoelwinder	12	12	5	5	1 ^(g)	3	7	7	2 ^(g)	2	- ^(g)	-
P B Wade	12	12	5	5	3	3	4 ^(g)	7	2 ^(g)	2	2	2
D A W Thomson	8	8	4	4	- ^(g)	-	4	5	1	1	2	2
P F E Hutchinson	7	8	3	4	- ^(g)	-	- ^(g)	5	- ^(g)	1	1	2

A – Number of meetings attended

H – Number of meetings held during the time the Director held office during the year

(a) Mr Wade is Chair of the Audit & Compliance Committee.

(b) Ms Bowen is Chair of the IT Sub-Committee.

(c) Dr Bollen is Chair of the Health Innovations Committee.

(d) Mr Brien is Chair of the Investment Committee.

(e) Mr Kirby is Chair of the Remuneration Committee.

(f) Mr Savvides attends the Audit & Compliance Committee, IT Sub-Committee and Remuneration Committee meetings by invitation.

(g) Director not a member of this Committee.

At the date of this report, the Company had an Audit & Compliance Committee (now titled Audit & Risk Management Committee), an IT Sub-Committee, a Health Innovations Committee, an Investment Committee and a Remuneration Committee. The role of these committees is outlined in the Corporate Governance section of the Annual Report. All non-executive Directors are members of the Audit & Compliance Committee. Not all Directors are members of each of the other committees, however all Directors are welcome to attend any meetings of these Committees.

Principal Activities

The principal activity of Medibank Private during the financial year was to operate a registered health benefits organisation in accordance with the *National Health Act 1953 (Cth)*. The Company provides a range of private health insurance services:

- hospital insurance for private patients;
- ancillary or extras cover;
- ambulance transport; and
- private health insurance for overseas students and visitors to Australia.

Results

Medibank Private's 2003-04 operating profit was \$44,801,000. The Fund operates on a not-for-profit basis and does not pay income tax.

Dividends

Medibank Private is a not-for-profit entity, and paid no dividends during the year. Any surplus the Company generates is transferred to its capital reserves.

Review of Operations

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

Significant Changes in the State of Affairs

Total equity increased \$44,801,000 during the year. Major contributing factors were the continued reduction in the management expense ratio, the impact of contribution rate increases, and the closure of several unprofitable products.

The litigation matter with the Australian Competition and Consumer Commission was settled during the year. The settlement requires payment of \$5 million to a special purpose fund to be paid over three years.

Significant Events After Balance Date

On 11 May 2004, the Federal Government announced that as part of the 2004-05 Federal Budget, Medibank Private would receive an \$85 million equity injection from its shareholder, the Commonwealth of Australia. The additional equity is to assist Medibank Private to consolidate a capital structure more consistent with industry practice. On 13 July 2004, the Commonwealth of Australia paid \$85 million to Medibank Private for the issue of 85 million \$1 shares.

Likely Developments and Future Results

Directors anticipate that the improvement in financial performance will be sustained in the 2005 financial year. Medibank Private will continue the rationalisation and simplification of its hospital product portfolio, the modernisation of its Retail Centre network and the investment in information technology capabilities. Government reforms covering reinsurance, prostheses purchasing and the recent second tier default contracting arrangements will have varying degrees of impact on the private health insurance market.

Directors' Remuneration and Benefits

As determined by the Commonwealth Remuneration Tribunal, remuneration for non-executive Directors is \$44,520 per annum. The Chairman received \$89,030 per annum. Members of the Audit & Compliance Committee received an additional committee fee of \$5,200 per annum other than the Chair of the Audit & Compliance Committee who received an additional fee of \$10,400 per annum. The Managing Director's remuneration package is set in accordance with the Principal Executive Office structure determined by the Remuneration Tribunal. Travel allowances, also set by the Remuneration Tribunal, are payable to Directors. Further details can be found on the internet at www.remtribunal.gov.au.

Directors are entitled to life insurance cover and may purchase private health insurance cover on the same discounted terms as employees. Directors do not receive any retirement benefits. Directors receive no benefits other than those stated above and detailed in Note 18 of the financial statements.

Indemnification of Directors and Officers

An indemnity agreement has been entered into between Medibank Private and each of the Directors of the Company. Under the agreement, to the fullest extent allowed by law, the Company has agreed to indemnify those officers against any claim or for any expenses or costs which may arise as a result of work performance in their respective capacities. There is no monetary limit to the extent of this indemnity. There have been no claims made pursuant to the above indemnity arrangements.

Medibank Private paid an insurance premium of \$156,510 in respect of a contract insuring each of the Directors of Medibank Private and each full-time executive and secretary of the Company, against liabilities and expenses arising as a result of work performed in their respective capacities to the extent permitted by law with a limit of \$25 million on any one claim and in aggregate.

Rounding of amounts to Nearest Thousand Dollars

Medibank Private is a Company of the kind specified in Australian Securities and Investment Commission class order 98/0100. In accordance with that class order, amounts in the financial statements and the Directors' Report have been rounded to the nearest thousand dollars unless specifically stated to be otherwise.

Auditor

Medibank Private is audited by the Auditor General. The Australian National Audit Office has contracted performance of this audit to Ernst & Young.

Resolution of Directors

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

P M Kirby
Chairman

Melbourne, 13 August 2004

G Savvides
Managing Director

Statement of Financial Performance

For the Financial Year ended 30 June 2004

	Note	2004 \$'000	2003 \$'000
Revenues from ordinary activities			
Member contributions	2	2,414,845	2,225,084
Proceeds from disposal of other financial assets	2	52,271	136,572
Other revenue	2	49,581	45,114
		2,516,697	2,406,770
Expenses from ordinary activities			
Member benefits		(2,210,014)	(2,053,614)
Employee benefits expense		(94,254)	(77,616)
Information and technology expense		(31,790)	(46,006)
Marketing expense		(16,759)	(18,135)
Office and administration expense		(46,866)	(46,907)
Depreciation expense	3 (a)	(6,811)	(3,235)
Investment administration expense		(187)	(626)
Other expenses from ordinary activities	3 (a)	(13,166)	(15,215)
Book value of other financial assets sold		(52,049)	(135,026)
Profit from ordinary activities		44,801	10,390
Decrease in retained profits on adoption of revised accounting standard: AASB 1028 "Employee Benefits"		-	(82)
Total Revenues, expenses and valuation adjustments attributable to members of Medibank Private Limited and recognised directly in equity		-	(82)
Total Changes in Equity Other than those Resulting from Transactions with Owners as Owners		44,801	10,308

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

Statement of Financial Position

As at 30 June 2004

	Note	2004 \$'000	2003 \$'000
Current Assets			
Cash assets		795,141	855,553
Receivables	4	86,213	71,474
Other financial assets	5	117,546	27,494
Other	6	16,122	21,215
Total Current Assets		1,015,022	975,736
Non-Current Assets			
Other financial assets	5	190	190
Plant and equipment	7	37,254	29,988
Total Non-Current Assets		37,444	30,178
Total Assets		1,052,466	1,005,914
Current Liabilities			
Payables	8	41,507	68,516
Provisions	9	284,030	272,314
Other	10	287,375	270,544
Total Current Liabilities		612,912	611,374
Non-Current Liabilities			
Provisions	9	2,025	1,842
Other	10	30	-
Total Non-Current Liabilities		2,055	1,842
Total Liabilities		614,967	613,216
Net Assets		437,499	392,698
Equity			
Contributed equity	11	-	-
Retained profits	12	437,499	392,698
Total Equity		437,499	392,698

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

Statement of Cash Flows

For the Financial Year ended 30 June 2004

	Note	2004 \$'000	2003 \$'000
Cash Flows from Operating Activities			
Receipts from customers		2,419,639	2,225,473
Interest received		1,213	689
Payments to suppliers and employees		(2,423,714)	(2,240,889)
Net cash flow used in operating activities	16(b)	(2,862)	(14,727)
Cash Flows from Investing Activities			
Proceeds from sale of other financial assets		52,271	136,572
Trust distributions received		188	-
Interest received		47,363	43,326
Proceeds from sale of plant and equipment		3	96
Purchase of other financial assets		(141,621)	(91,595)
Purchase of plant and equipment		(15,754)	(9,277)
Net cash flow (used in)/from investing activities		(57,550)	79,122
Net (decrease)/increase in cash held		(60,412)	64,395
Cash at the beginning of the financial year		855,553	791,158
Cash at the end of the financial year	16(a)	795,141	855,553

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

Notes to the Financial Statements

For the Financial Year ended 30 June 2004

Note 1: Summary of Significant Accounting Policies

a) Basis of accounting

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report has been prepared on the basis of historical cost convention and, except where stated, does not take into account changing money values or current valuations of non-current assets.

b) Change in accounting policies

The accounting policies adopted are consistent with those of the previous year.

c) Cash and cash equivalents

Cash assets include cash on hand, short term bank bills, commercial notes and restricted funds held in a special purpose fund account and are stated at nominal value (generally maturing within 90 days).

For the purposes of the Statement of Cash Flows, cash includes all cash assets as described above which are readily convertible to cash on hand and are subject to insignificant risk of changes in value, net of outstanding bank overdrafts. Further, cash includes restricted funds held in a special purpose fund for future settlement of claims under the Australian Competition and Consumer Commission "Principles of Settlement" agreement.

d) Receivables

Contribution in arrears

Contributions in arrears are assessed based on the likelihood of collection established from past experience.

Provisions

The collectability of all debts is assessed at balance date and specific provision is made for any doubtful accounts.

e) Investments

Current investments are recorded at market value and shown as other financial assets. This consists of externally managed equity trusts and an internally managed floating rate note portfolio (that has an average duration of 665 days) and an internally managed cash portfolio (that consists of 11am, bank bills and commercial paper

with an average duration of 43 days). Changes in net market value are recognised as revenue or expense in the Statement of Financial Performance for the period. Non-current investments are recorded at cost.

The gain or loss on disposal of all investments is calculated as the difference between the carrying amount of the investment at the time of disposal and the proceeds on disposal.

f) Recoverable amount

Non-current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount, the asset is written down. In determining the recoverable amount, the expected net cash flows have not been discounted to their present value.

g) Plant and equipment

Cost and valuation

All classes of plant and equipment are measured at cost.

Purchases of plant and equipment are recognised initially at cost, except for purchases costing less than \$1,000 which are expensed in the year of acquisition (other than where they form part of a group or similar items which are significant in total).

Depreciation

Depreciation is provided on a straight-line basis on all plant and equipment. The expected useful lives are as follows:

Leasehold improvements	5 years
Plant and equipment:	
- Software	3 - 5 years
- Plant and equipment	6 - 6.5 years

h) Acquisition of assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

i) Operating leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the lease item, are recognised as an expense on a straight-line basis.

Contingent rentals are recognised as an expense in the financial year in which they are incurred.

Notes to the Financial Statements

For the Financial Year ended 30 June 2004

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.

j) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to Medibank Private and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Member contributions

Contribution income comprises contributions received from members, inclusive of the 30% Government Rebate. Contribution income is recognised when earned over the period of the membership.

Sale of non-current assets

The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer. The gain or loss on disposal 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).

Other income

Unit trust distribution income is recognised when received. Interest income and rental income is recognised as it accrues.

k) Reinsurance trust fund

Under the provisions of the National Health Act 1953, some hospital benefits may be charged to the reinsurance account. All health insurers must participate in the Reinsurance Trust Fund, which shares a proportion of the hospital claims of all persons aged 65 years and over and those memberships with more than 35 days of hospitalisation in any one year between all health insurers.

The amount payable to or receivable from the Reinsurance Trust Fund is determined by the Private Health Insurance Administration Council after the end of each quarter. Estimated provisions for amounts payable or receivable are provided for periods for which determinations have not yet been made.

The net reinsurance revenue for 2003/04 was \$4,635,000 (\$2,603,000 was expensed during 2002/03) and is included as part of Member Benefits.

l) Provisions

Provisions are recognised when Medibank Private has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events; it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

The following provisions are recognised in the Statement of Financial Position:-

(i) Provision for unrepresented and outstanding claims

The provision for unrepresented and outstanding claims provides for claims received but not assessed and claims incurred but not received. The provision is based on an actuarial assessment taking into account historical patterns of claim incidence and processing. No discounting is applied to the provision due to the generally short time period between claim incidence and settlement. The provision also provides for the expected payment to or receipt from the Reinsurance Trust Fund in relation to the amount provided for unrepresented and outstanding claims.

The provision also allows for an estimate of operating expenses to cover the cost of processing outstanding claims. Medibank Private's policy is to reflect only the proportion of management expenses associated with the processing of benefits. The ratio at 30 June 2004 is 3.11% (30 June 2003: 3.09%).

In 2000, Medibank Private launched a new Package Plus product range which included a benefit category, Package Bonus, covering additional health related services. A feature of this benefit category is that any unused Package Bonus in a calendar year is carried forward to future calendar years subject to a maximum limit. Accordingly, 75% of the package bonus amount, less the amount paid, has been included in provisions to reflect the expected future utilisation of this benefit in respect of membership up to 30 June 2004.

Notes to the Financial Statements

For the Financial Year ended 30 June 2004

(ii) Restructuring provision

An internal management review has resulted in the consolidation and relocation of our processing sites and the Melbourne head office. This will improve service and processing efficiency for the benefit of our members and health care providers. As a result, a provision for restructuring has been established. The provision is based on the best estimate of the direct expenditures to be incurred which are both directly and necessarily caused by the restructuring and not associated with the ongoing activities of Medibank Private.

(iii) Taxes

Medibank Private pays all relevant taxes and charges, including goods and services tax, fringe benefits tax, and payroll tax. As Medibank Private is a not-for-profit health fund, it is exempt from income tax.

Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- (i) where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- (ii) receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

m) Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to Medibank Private.

These amounts represent liabilities for goods and services provided to Medibank Private prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

n) Employee benefits

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, and other employee benefits which are expected to be settled within 12 months of the reporting date, are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave; and
- other types of employee benefits

are recognised against profits on a net basis in their respective categories.

o) Comparatives

Where necessary, comparative information has been reclassified for consistency with current financial year disclosures.

p) Rounding of amounts

In accordance with Class Order 98/0100, all amounts are rounded to the nearest \$1,000.

Notes to the Financial Statements

For the Financial Year ended 30 June 2004

Note 2: Revenues from Ordinary Activities

	2004 \$'000	2003 \$'000
Revenue from operating activities		
Member contributions	2,414,845	2,225,084
Interest	1,213	689
	2,416,058	2,225,773
Revenue from non-operating activities		
Proceeds from disposal of other financial assets	52,271	136,572
Rent	311	119
Interest	47,363	43,326
Trust distributions	188	-
Unrealised gain on other financial assets	480	837
Proceeds from disposal of plant and equipment	3	96
Other	23	47
	100,639	180,997
Revenue from ordinary activities	2,516,697	2,406,770

Note 3: Expenses and Losses/(Gains)

(a) Expenses

Depreciation of non-current assets:		
- Plant and equipment	870	731
- Software	3,928	646
- Leasehold improvements	2,013	1,858
Total depreciation of non-current assets	6,811	3,235
Bad and doubtful debts	366	526
Operating lease rental expense	11,123	11,755
Plant and equipment assets written off	1,647	2,521
(b) Losses/(Gains)		
Net gain on disposal of other financial assets	(222)	(1,546)
Net loss on disposal of plant and equipment	27	317

Notes to the Financial Statements

For the Financial Year ended 30 June 2004

Note 4: Receivables

	Note	2004 \$'000	2003 \$'000
Contributions in arrears	(i)	14,072	10,907
Provision for groups in arrears		(528)	(528)
		13,544	10,379
Sundry debtors	(ii)	8,109	4,170
Provision for doubtful debts		(1,106)	(740)
		7,003	3,430
Goods and services tax		2,212	1,733
Government rebate scheme	(iii)	63,454	55,932
		86,213	71,474

Terms and conditions relating to the above financial instruments:

- (i) Contributions in arrears are non-interest bearing.
- (ii) Sundry debtors are non-interest bearing and generally on 30 day terms.
- (iii) Government rebate scheme is non-interest bearing and generally 15 day terms.

Note 5: Other Financial Assets

	2004 \$'000	2003 \$'000
Current		
At market value:		
Government securities	-	6,295
Unit trusts	5,669	-
Debentures, notes and bills	111,877	21,199
	117,546	27,494
<i>Current financial assets are valued at quoted market value (refer to Note 14 for more detailed information).</i>		
Non-Current		
At cost:		
Other	190	190
	190	190

Notes to the Financial Statements

For the Financial Year ended 30 June 2004

Note 6: Other Assets

	2004 \$'000	2003 \$'000
Advance payments to hospitals	13,616	18,852
Prepayments	2,506	2,363
	16,122	21,215

Note 7: Plant and Equipment

	Plant and Equipment \$'000	Leasehold Improvements \$'000	Software \$'000	Assets under Construction \$'000	Total \$'000
Gross Carrying Amount					
Carrying amount at beginning	4,945	12,700	14,220	9,178	41,043
Transfers in/(out)	156	858	5,002	(6,016)	-
Additions	2,448	4,369	1,754	7,183	15,754
Disposals	(17)	(1,409)	-	-	(1,426)
Recoverable amount writedowns	-	-	-	(1,647)	(1,647)
Balance at 30 June 2004	7,532	16,518	20,976	8,698	53,724
Accumulated Depreciation					
Carrying amount at beginning	(2,843)	(7,547)	(665)	-	(11,055)
Depreciation expense	(870)	(2,013)	(3,928)	-	(6,811)
Disposals	13	1,383	-	-	1,396
Recoverable amount writedowns	-	-	-	-	-
Balance at 30 June 2004	(3,700)	(8,177)	(4,593)	-	(16,470)
Net Book Value					
As at 30 June 2003	2,102	5,153	13,555	9,178	29,988
As at 30 June 2004	3,832	8,341	16,383	8,698	37,254

Notes to the Financial Statements

For the Financial Year ended 30 June 2004

Note 8: Payables

	Note	2004 \$'000	2003 \$'000
Trade creditors	(i)	15,915	38,062
Other creditors	(ii)	25,592	30,454
		41,507	68,516

Terms and conditions relating to the above financial instruments:

- (i) Trade creditors are non-interest bearing and are normally settled up to 30 days.
- (ii) Other creditors are non-interest bearing.

Note 9: Provisions

	Note	2004 \$'000	2003 \$'000
Current			
Unpresented and outstanding claims	(i)	270,582	258,469
Employee benefits		10,598	9,498
Restructuring	(ii)	1,619	4,347
Other	(iii)	1,231	-
		284,030	272,314
Non-Current			
Employee benefits		2,025	1,842

Notes to the Financial Statements

For the Financial Year ended 30 June 2004

Note 9: Provisions (continued)

Movement in Provisions

	2004 \$'000
(i) Unpresented and Outstanding Claims	
Carrying amount at beginning of the financial year	258,469
Additional provision	257,582
Amounts utilised during the year	(245,469)
Carrying amount at end of the financial year	270,582
(ii) Restructuring	
Carrying amount at beginning of the financial year	4,347
Additional provision	1,619
Amounts utilised during the year	(3,219)
Transfer to other provisions	(1,128)
Carrying amount at end of the financial year	1,619
(iii) Other (a)	
Carrying amount at beginning of the financial year	-
Additional provision	103
Amounts utilised during the year	-
Transfer from restructuring provision	1,128
Carrying amount at end of the financial year	1,231

(a) Other provisions include costs for legal services, consulting fees, disengagement costs, infrastructure services, independent quality assurance and strategy review associated with the termination of certain information technology contracts.

Notes to the Financial Statements

For the Financial Year ended 30 June 2004

Note 10: Other Liabilities

	2004 \$'000	2003 \$'000
Current		
Contributions in advance	287,338	270,544
Lease incentives	37	-
	287,375	270,544
Non-Current		
Lease incentives	30	-

Note 11: Contributed Equity

Medibank Private has paid up capital of 100 fully paid ordinary \$1 shares held by the Commonwealth of Australia. Due to rounding, this figure does not appear on the Statement of Financial Position.

Note 12: Retained Profits

	2004 \$'000	2003 \$'000
Balance at the beginning of the financial year	392,698	382,390
Profit for the financial year	44,801	10,390
Adjustment arising from adoption of revised accounting standard:		
AASB 1028 "Employee Benefits"	-	(82)
Balance at the end of the financial year	437,499	392,698

Note 13: Employee Benefits

	2004 \$'000	2003 \$'000
The aggregate employee benefits liability is comprised of:		
Provisions - Current (Note 9)	10,598	9,498
Provisions - Non-Current (Note 9)	2,025	1,842
	12,623	11,340
	2004 (number)	2003 (number)
Employee numbers		
Average number of full time equivalent employees during the financial year	1,251	1,153

Notes to the Financial Statements

For the Financial Year ended 30 June 2004

Note 14: Financial Instruments

(a) Interest rate risk exposure

Medibank Private's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the reporting date, are as follows:

	Floating Interest Rate ⁽ⁱⁱ⁾		Fixed Interest Maturing in:						Non Interest Bearing		Total	
	2004 \$'000	2003 \$'000	1 year or less 2004 \$'000	1 year or less 2003 \$'000	Over 1 to 5 years 2004 \$'000	Over 1 to 5 years 2003 \$'000	Over 5 years 2004 \$'000	Over 5 years 2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Financial assets												
Cash (i)	792,069	851,759	-	-	-	-	-	-	3,072	3,794	795,141	855,553
Receivables (Note 4)	-	-	-	-	-	-	-	-	86,213	71,474	86,213	71,474
Other financial assets (Note 5)	-	-	19,650	1,120	92,227	15,800	-	10,574	5,859	190	117,736	27,684
Total financial assets	792,069	851,759	19,650	1,120	92,227	15,800	-	10,574	95,144	75,458	999,090	954,711
Weighted average interest rate:	5.58%	4.86%	5.88%	4.72%	5.95%	5.24%	-	5.07%				
Financial liabilities												
Payables (Note 8)	-	-	-	-	-	-	-	-	41,507	68,516	41,507	68,516

(i) The cash figure includes monies at call and short dated discounted securities.

(ii) Floating interest rates represent the most recently determined rate applicable to the instrument at balance date.

(b) Credit risk exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

On-Balance Sheet Financial Instruments

The credit risk on financial assets, excluding investments, of Medibank Private which have been recognised on the Statement of Financial Position, is the carrying amount of receivables, net of any provision for doubtful debts. Medibank Private minimises concentrations of credit risk by undertaking transactions with a large number of customers and counterparties across Australia. Medibank Private is not materially exposed to any individual customer and counterparty.

Notes to the Financial Statements

For the Financial Year ended 30 June 2004

Note 14: Financial Instruments (continued)

(c) Net fair values of financial assets and liabilities

On-Balance Sheet

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of Medibank Private approximates their carrying amounts.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices prevailing at balance date, adjusted for transaction costs necessary to realise the investment.

The carrying amounts and net fair values of financial assets and liabilities at balance date are:

	2004		2003	
	Carrying amount \$'000	Net fair value \$'000	Carrying amount \$'000	Net fair value \$'000
On-Balance Sheet Financial Instruments				
Financial assets				
Cash	795,141	795,141	855,553	855,553
Receivables	86,213	86,213	71,474	71,474
Other financial assets	190	190	190	190
Government securities	-	-	6,295	6,295
Unit trusts	5,669	5,669	-	-
Debentures, notes and bills	111,877	111,877	21,199	21,199
	999,090	999,090	954,711	954,711
Financial liabilities				
Trade creditors	15,915	15,915	38,062	38,062
Other creditors	25,592	25,592	30,454	30,454
	41,507	41,507	68,516	68,516

The unit trusts and debentures, notes and bills are readily traded on organised markets in standardised form.

Notes to the Financial Statements

For the Financial Year ended 30 June 2004

Note 15: Commitments

	2004 \$'000	2003 \$'000
(a) Capital expenditure commitments		
Estimated capital expenditure contracted for at balance date, but not provided for, payable:		
Not later than one year	8,883	561
Later than one year and not later than five years	60	1,130
Later than five years	-	-
	8,943	1,691
(b) Operating lease commitments		
Future operating lease rentals not provided for, payable:		
Not later than one year	12,181	11,703
Later than one year and not later than five years	26,581	28,610
Later than five years	25,086	25,140
	63,848	65,453
(c) Other commitments		
Other commitments not provided for, payable:		
Not later than one year	27,715	31,719
Later than one year and not later than five years	11,806	36,723
Later than five years	1,123	1,751
	40,644	70,193
Other commitments consist of Australian Competition and Consumer Commission "Principles of Settlement" commitments, IT outsourcing, security and cleaning commitments.		
Total Commitments Payable	113,435	137,337

Notes to the Financial Statements

For the Financial Year ended 30 June 2004

Note 16: Notes to the Statement of Cash Flows

	2004 \$'000	2003 \$'000
(a) Reconciliation of Cash		
For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:		
Cash	793,541	855,553
Special purpose fund (restricted funds) (i)	1,600	-
Total cash	795,141	855,553
(b) Reconciliation of the net profit to the net cash flows from operations		
Profit	44,801	10,390
Non-cash items:		
Depreciation	6,811	3,235
Loss on disposal of plant and equipment	27	317
Unrealised gain on other financial assets	(480)	(837)
Realised gain on other financial assets	(222)	(1,546)
<i>Non-operating cash flows:</i>		
Interest income	(47,363)	(43,326)
Trust distribution	(188)	-
<i>Amounts written off:</i>		
- Plant and equipment	1,647	2,521
<i>Transfers to/(from) provisions:</i>		
Doubtful debts	366	526
(Increase)/decrease in assets:		
Current receivables	(15,105)	(2,427)
Other current assets	5,093	7,655
Increase/(decrease) in liabilities:		
Payables	(27,009)	27,570
Provisions	11,899	(21,574)
Other liabilities	16,861	2,769
Net cash flow used in operating activities	(2,862)	(14,727)

Notes to the Financial Statements

For the Financial Year ended 30 June 2004

Note 16: Notes to the Statement of Cash Flows (continued)

	2004 \$'000	2003 \$'000
(c) Financing Facilities		
Unsecured overdraft credit facility, reviewed annually:		
Amount used	-	-
Amount unused	16,000	5,150
	16,000	5,150

(i) On 20 February 2004, Medibank Private reached agreement on a "Principles of Settlement" with the Australian Competition and Consumer Commission regarding an Action in October 2000. The settlement requires payment of \$5 million to a special purpose fund account to be paid out over three years. These funds are classified as restricted funds by Medibank Private. The fund will continue to operate until the monies are fully expended through the payment of member settlement claims made against the fund.

Note 17: Subsequent Events

On 11 May 2004, the Federal Government announced that as part of the 2004-2005 Federal Budget, Medibank Private would receive an \$85 million equity injection from its shareholder, the Commonwealth of Australia. The additional equity is to assist Medibank Private to consolidate a capital structure more consistent with industry practice. On 13 July 2004, the Commonwealth of Australia paid \$85 million to Medibank Private for the issue of 85 million \$1 shares. This transaction has not been accounted for in the financial statements of Medibank Private at 30 June 2004.

Note 18: Remuneration of Directors

	2004 \$	2003 \$
Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of Medibank Private, directly or indirectly, by Medibank Private or by any related party	957,867	865,110
The number of directors of Medibank Private whose income (including superannuation contributions) falls within the following bands is:	No.	No.
\$30,000 - \$39,999	3	3
\$40,000 - \$49,999	4	2
\$50,000 - \$59,999	1	-
\$60,000 - \$69,999	-	1
\$590,000 - \$599,999	-	1
\$600,000 - \$609,999	1	-

Notes to the Financial Statements

For the Financial Year ended 30 June 2004

Note 19: Related Parties Disclosures

The directors of Medibank Private during the financial year were:

P M Kirby (appointed 8 February 2004)

J Bowen (appointed 3 November 2003)

M D Bollen

J U Stoelwinder

P B Wade

A H Brien

G Savvides

D A W Thomson (term expired 7 February 2004)

P F E Hutchinson (term expired 7 February 2004)

Note 20: Auditors' Remuneration

Amounts received or due and receivable by the auditor, Australian National Audit Office and its contractor, for:

	2004 \$	2003 \$
Auditing the financial report	154,500	151,000
Other services - regulatory reporting	62,200	57,000
Other services - assurance related	11,600	-
	228,300	208,000

Note 21: Solvency Requirement

Medibank Private's Solvency Requirement, as per the Health Benefits Organisations - Solvency Standard 2003, is \$794,668,000. Total Fund Assets are \$1,052,466,000 representing an excess of \$257,798,000 over the Solvency Requirement.

Note 22: Segment Reporting

Medibank Private operates in the business of providing private health insurance in Australia.

Note 23: Additional Company Information

Medibank Private is a registered not-for-profit health benefits organisation, incorporated and operating in Australia.

Registered Office and Principal Place of Business

Level 20

459 Collins Street

MELBOURNE VIC 3000

Tel: (03) 8622 5222

Notes to the Financial Statements

For the Financial Year ended 30 June 2004

Note 24: Impact of Adopting AASB Equivalents to IASB Standards

Medibank Private has commenced transitioning its accounting policies and financial reporting from current Australian Standards to Australian equivalents of International Financial Reporting Standards (IFRS). The company has allocated internal resources to conduct impact assessments to isolate key areas that will be impacted by the transition to IFRS. As a result of these procedures, Medibank Private has graded impact areas as either high, medium or low. As Medibank Private has a 30 June year end, priority has been given to consideration of an opening balance sheet in accordance with AASB equivalents to IFRS as at 1 July 2004. This will form the basis of accounting for Australian equivalents of IFRS in the future, and is required when Medibank Private prepares its first fully IFRS compliant financial report for the year ended 30 June 2006. Set out below are the key areas where accounting policies will change and may have an impact on the financial report of Medibank Private. At this stage the company has not been able to reliably quantify the impacts on the financial report.

General insurance contracts

Risk Margin

Under AASB 1023 *General Insurance Contracts*, the outstanding claims liability may require a risk margin to reflect the inherent uncertainty in the central estimate of the present value of the expected future payments. This may result in a change in the current accounting policy that does not include a risk margin.

Premium Revenue

Premium revenue shall be recognised in the income statement, from the attachment date, in accordance with the pattern of the incidence of risk expected under the contract. This may result in a change in the current accounting policy which determines the premium revenue is recognised when earned over the period of the contract. The future favourable or unfavourable financial effect of these changes in accounting policies is not yet known as the measurement process has not yet been fully completed.

Classification of financial instruments

Under AASB 1039 *Financial Instruments: Recognition and Measurement*, financial instruments will be required to be classified into one of five categories which will, in turn, determine the accounting treatment of the item. The categories are itemised below:

Category

- Measurement

Loans and receivables

- measured at amortised cost

Held to maturity

- measured at amortised cost

Non-trading liabilities

- measured at amortised cost

Available for sale

- measured at fair value with fair value changes taken to equity and non-trading liabilities

Held for trading

- measured at fair value with fair value changes charged to the profit and loss

This will result in a change in the current accounting policy that does not classify financial instruments. Current measurement is at market value. The future favourable or unfavourable financial effect of this change in accounting policy is not yet known as the classification and measurement process has not yet been fully completed.

Impairment of assets

Under the Australian equivalent to IAS 36 *Impairment of Assets* the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in a change in the current accounting policy which determines the recoverable amount of an asset on the basis of non-discounted cash flows. Under the new policy it is likely that impairment of assets will be recognised sooner and that the amount of write-downs will be greater. Reliable estimation of the future favourable or unfavourable financial effects of this change in accounting policy is impracticable because the conditions under which impairment will be assessed are not yet known.

Directors' Declaration

In accordance with a resolution of the directors of Medibank Private, we state that:

In the opinion of the directors:

- (a) the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2004 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



P M Kirby

Melbourne, 13 August 2004



G Savvides

Independent Audit Report



INDEPENDENT AUDIT REPORT

To the members of Medibank Private Limited

Scope

The financial report and directors' responsibility

The financial report comprises:

- Directors' Declaration;
- Statements of Financial Performance, Financial Position and Cash Flows; and
- Notes to and forming part of the Financial Statements,

for Medibank Private Limited for the year ended 30 June 2004.

The Directors of Medibank Private Limited are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

I have conducted an independent audit of the financial report in order to express an opinion on it to you. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

While the effectiveness of management's internal controls over financial reporting was considered when determining the nature and extent of my procedures, the audit was not designed to provide assurance on internal controls.

I performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is

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Centenary House 18 National Circuit
BARTON ACT
Phone (02) 4283 7888 Fax (02) 4283 7777

consistent with my understanding of Medibank Private Limited's financial position and its performance as represented by the Statements of Financial Performance and Cash Flows.

The audit opinion is formed on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Independence

In conducting the audit, I followed the independence requirements of the Australian National Audit Office (which incorporate Australian professional ethical pronouncements) and the *Corporations Act 2001*. In addition to the audit of the financial report, my contractor was engaged to undertake the services described in the notes to the financial statements. The provision of these services has not impaired my independence.

Audit Opinion

In my opinion, the financial report of Medibank Private Limited is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of Medibank Private Limited's financial position as at 30 June 2004 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

Australian National Audit Office



Michael J Watson
Group Executive Director

For the Auditor-General
Melbourne
13 August 2004

Retail Centres



NSW

Suburban

Bankstown
Blacktown
Bondi Junction
Brookvale
Burwood
Campbelltown
Castle Hill
Chatswood
Eastwood
Hornsby
Hurstville
Liverpool
Martin Place
Miranda
North Ryde
North Sydney
Pagewood
Parramatta
Penrith
Roselands
University of NSW
Warriewood

Regional

Albury
Armidale
Broken Hill
Charlestown
Coffs Harbour
Dubbo
Erina
Lismore
Orange
Tamworth
Wagga Wagga
Wollongong

QLD

Suburban

Brookside
Capalaba
Carindale
Chermside
Garden City
Indooroopilly
Ipswich
Kippa Ring
Loganholme
Wintergarden

Regional

Bundaberg
Cairns
Gladstone
Mackay
Maroochydore
Pacific Fair
Rockhampton
Southport
Toowoomba
Townsville
Tweed Heads

ACT

Suburban

Belconnen
Civic
Woden

Victoria

Suburban

Airport West
Bourke Street
Broadmeadows
Camberwell
Centrepoin
Chadstone
Chirnside Park
Coburg
Dandenong
Doncaster
Elsternwick
Forest Hill
Fountain Gate
Frankston
Glen Waverley
Greensborough
Highpoint
Knox
Northland
Prahran
Ringwood
Southland
Watergardens
Werribee

Regional

Ballarat
Bendigo
Geelong
Shepparton
Traralgon

Western Australia

Suburban

Booragoon
Cannington
Fremantle
Joondalup
Karrinyup
Midland Gate
Morley
Perth
Whitfords

South Australia

Suburban

Adelaide City
Marion
Modbury
Unley
West Lakes

Tasmania

Hobart
Launceston

Northern Territory

Casuarina

Medibank Private Limited

ABN 47 080 890 259 is a registered not-for-profit health benefits organisation.

National Headquarters is located at:

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Melbourne VIC 3001
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Medibank Private
GPO Box 9999
Melbourne VIC 3001
Tel: 03 8622 5160

Content

Public Affairs
Medibank Private

Design

Dunham Bremmer

Note

The photo content of this Annual Report is comprised mainly of Medibank Private employees, members and some contract providers.

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Visit us www.medibank.com.au

