

Annual Report 2003



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



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The Business

In the past year, Medibank Private has dramatically turned around its financial performance. From this secure financial position, we will confirm Medibank Private as Australia's health fund of choice. We will strive to give our members innovative private health insurance cover at a competitive, 'value for money' price. We will strive to lead the industry in offering quality service and health insurance product excellence.



Medibank Private was established by the Federal Government in 1976. It has been an autonomous Federal Government Business Enterprise since 1998.

As a not-for-profit health fund, it is committed to making private health insurance attractive and affordable for all Australians on a sustainable basis.

Of every dollar contributed by members, 92.3 cents is spent on paying health care services claims for members.

As Australia's largest and only comprehensive national health fund, Medibank Private covers almost three million people, or almost one in three of the country's privately insured. The fund holds net assets of over \$392 million.

On a membership basis, Medibank Private costs 22% less in management expenses than the rest of the industry.

Member service is a critical role of health insurers, and Medibank Private serves its members through 102 retail centres, over 1,300 cash-paying agents, contact centres and through its website, www.medibank.com.au, Australia's most popular private health insurance website.

Medibank Private contracts with over 90% of private hospitals and day surgeries in Australia, and with over 3,700 ancillary health care providers.

After the completion of a scoping study, the Federal Government in June 2003 announced its decision to maintain Medibank Private as a Commonwealth-owned Government Business Enterprise. The Commonwealth also announced that the Minister for Finance and Administration would be Medibank Private's single shareholder representative, moving from the previous dual shareholder representative structure with the Minister for Health and Ageing.

Medibank Private has approximately 30% of Australia's private health insurance market.

Medibank Private resident market share (by contributors) as at 30 June 2003

New South Wales / ACT	25%
Victoria	40%
Queensland	37%
Western Australia	17%
South Australia	22%
Tasmania	37%
Northern Territory	45%

Value for Money Health Insurance

		1998/1999	1999/2000	2000/2001	2001/2002	2002/2003
Contributions per resident membership \$ p.a.	Medibank Private	1,336	1,347	1,391	1,429	1,594
	Other Funds	1,445	1,530	1,617	1,639	1,745
Benefits (net of reinsurance) per resident membership \$ p.a.	Medibank Private	1,194	1,148	1,165	1,393	1,471
	Other Funds	1,254	1,275	1,258	1,434	1,543
Management expenses per resident membership \$ p.a.	Medibank Private	140	186	170	151	148
	Other Funds	181	198	189	185	190

(2002-03 Other Funds data based on Private Health Insurance Administration Council provisional data)

Performance Highlights 2002-03

Operating surplus of \$10.4 million

Improvement in operating surplus of \$185.9 million

Improvement in underwriting result of \$127.2 million

Solid investment income growth of \$58.7 million

Management Expense Ratio (MER) reduction to 9.3%

Market share 29.7%*

People covered 2.8 million residents

People covered 0.2 million non-residents

Member benefit claims growth of \$86.6 million

Standard & Poors rating BBB (Positive)

Member complaints reduced by 7.3%**

% of member contributions
returned as benefits 92.3%

* Excludes non-residents, consistent with industry reporting.

** Based on Private Health Insurance Ombudsman complaints data.



Medibank Private at a Glance

General

Total assets	\$1,011.5 million
Net assets	\$392.7 million
Total benefits	\$2,053.6 million
Total contribution income	\$2,225.1 million
% of contributions returned to members as benefits	92.3%
Number of memberships*	1.4 million
Number of people covered*	2.8 million
Underwriting loss	\$35.4 million
Investment and other income	\$45.8 million
Total management expenses	\$206.9 million
Number of full-time equivalent staff @ 30 June 2003	1,241
Market share* (contributors)	29.7%
MER (Management Expenses to Contribution Income)	9.3%
Number of retail outlets	102
Number of new/refurbished stores delivered	27
Number of service calls received	1.56 million

Health Services

Hospital Episodes*	534,124
Ancillary Services*	13.6 million
Hospital beds days*	1.9 million
% of Private Hospitals contracted	over 90%
Number of Ancillary Providers contracted	over 3,700

Total Benefits

Hospital	\$1,451.5 million
Ancillary	\$539.6 million
Overseas students/visitors	\$62.5 million
GapCover (in-hospital medical)	73% of total medical services
\$ Average Overnight benefit per episode	\$4,725
\$ Highest Claim Paid	\$299,125

* Excludes non-residents, consistent with industry reporting.

Key Performance Trends

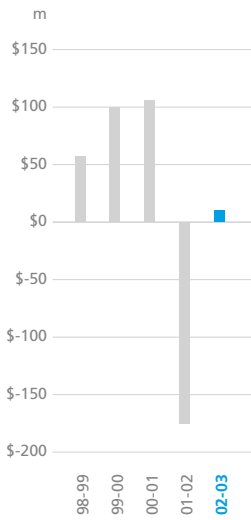


Chart 1
Operating profit/loss (\$m)

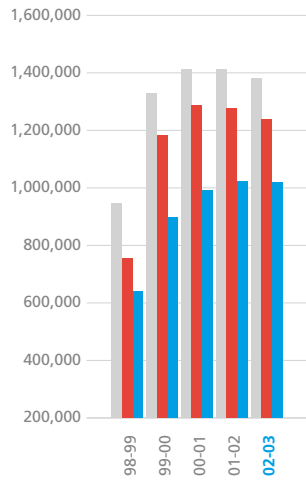


Chart 2
Membership cover at 30 June (resident contributors)
■ Total ■ Total Hospital ■ Total Ancillary

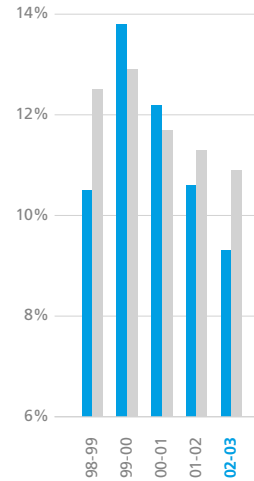


Chart 3
Management expenses as % of contributions
■ Medibank Private ■ Other Funds

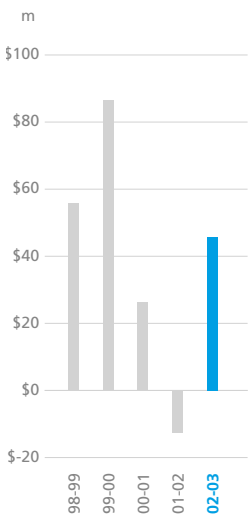


Chart 4
Investment and other income (\$m)

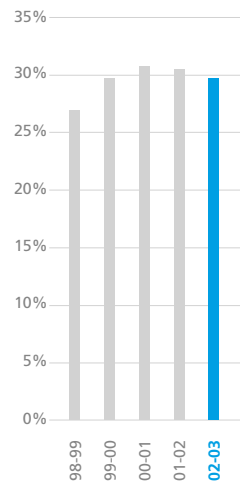


Chart 5
Market share % at 30 June (resident contributors)

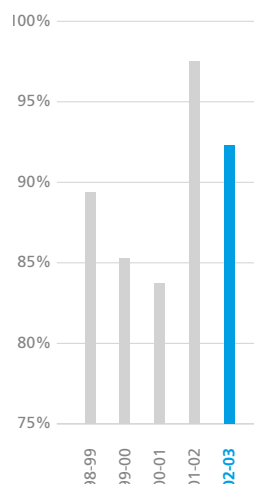


Chart 6
Claims payout as % of member contributions

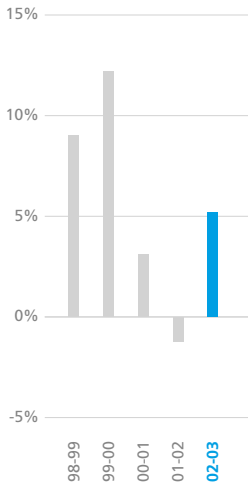


Chart 7
Average investment return (%)

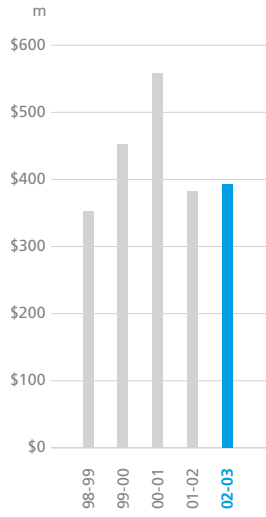


Chart 8
Net Assets (\$m)

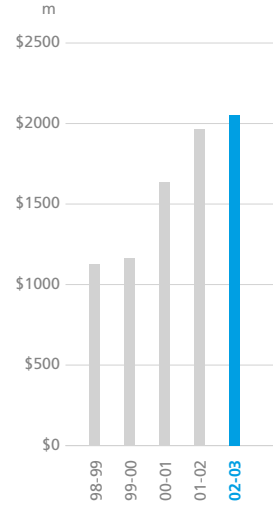


Chart 9
Membership Claims Incurred (\$m)

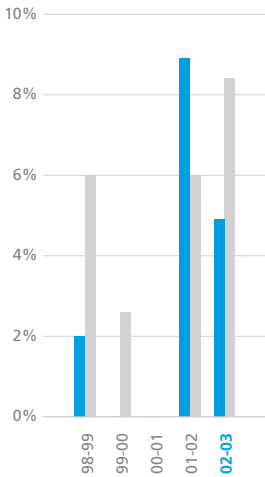


Chart 10
Weighted Average Premium Increase %, weighted by the number of contributors

■ Medibank Private ■ Other Funds

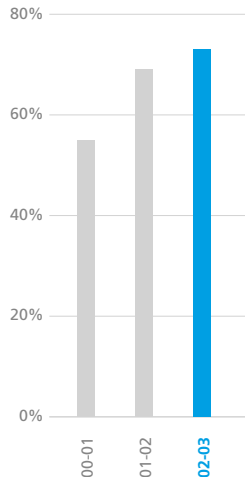


Chart 11
Services paid under GapCover Arrangements as a % of Total Medical Claim Services

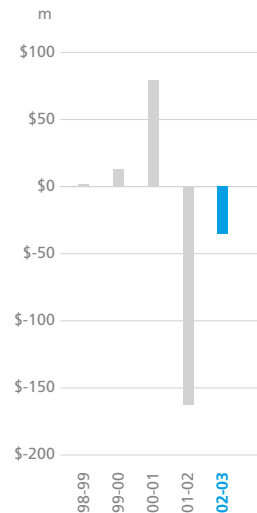


Chart 12
Underwriting Result (\$m)

Strategic Direction

- 1 Performance oriented health service purchasing
- 2 Membership growth through improved sales and product innovation to build member loyalty
- 3 Improved member servicing capabilities
- 4 Investment in technology, driving improved business efficiency in e-commerce claims processing, internet services and member support services
- 5 Employee engagement and retention empowered for continuous improvement and compliance



Medibank Private is committed to keeping private health insurance a valued and affordable healthcare choice for Australians.

With the fund's financial position in 2002-03 restored to surplus, Medibank Private is working in 2003-04 to give our members renewed products and services while ensuring management costs remain low and among the most efficient in the industry.

Medibank Private will stimulate membership growth by developing new products to meet identified member needs, improving member understanding of existing health insurance products and making health insurance simpler to buy and use.

The key to delivering member value is our commitment to be an expert purchaser of healthcare services on behalf of our almost three million members, which in turn will help to keep insurance policy premiums affordable.

During the year Medibank Private made considerable investments to improve the service experience for our members, as evidenced by our retail network modernisation and new customer service technology for our contact centre staff.

The past year has seen Medibank Private significantly lower management and operating costs, positioning the company at industry best practice levels of stewardship. Over the past three years our administrative costs as a percentage of income have reduced by 33%.

We will continue investing in e-commerce technologies to further cut our claims processing costs, improve quality and more effectively work with our health service suppliers to improve business efficiencies.

One of our organisational values promotes that each employee is a steward of member contributions. Medibank Private has been building a performance-based employee culture in which staff participate in quality management processes to find and implement business improvements that will deliver cost savings and service improvements for members.



I am delighted to report that Medibank Private has delivered a strong improvement in its financial performance for 2002-2003.

Chairman's Report

The fund's operating surplus of \$10.4 million represents a turnaround of \$185.9 million on our 2001-02 result.

While most health insurers were negatively impacted in 2001-02 financial year, this year's result indicated an outstanding return to positive financial performance by Medibank Private.

The Board recognised its major responsibility to address last year's (2001-02) adverse financial result, and put in place a strategy for restoring business value and performance in 2002-03.

Medibank Private's management team has worked hard to execute this business restoration strategy over the past 12 months, under the leadership of the new Managing Director George Savvides.

The strategy included:

- Reducing its management expense ratio to 9.3%, some 15% below the rest of the industry
- Returning 92.3% of contribution income as benefits paid to members
- Adopting a defensive cash and fixed interest investment portfolio that has returned 5.2% on invested funds.

I am pleased that, notwithstanding this often difficult recovery period, Medibank Private has maintained its comprehensive market leader status, with approximately 30% of the private health insurance market.

Medibank Private now has returned to a stable base and can direct more attention to enhancing member servicing and product value, keeping management expenses to industry leading efficiency levels, thus ensuring we deliver affordable private health insurance to Australians.

A highlight of the year has been the achievements presented to the Board by members of several Quality Action Teams. The Board recognises the significant business and service improvements that have emanated from the various Quality Teams across the country, and congratulate every team member for their valuable contribution to the Company's success over the last 12 months.

To remain a viable health insurer, the premiums paid by members must inevitably reflect the level of claims made and the costs of those claims.

The Board recognises that the most significant business challenge going forward is to ensure that benefit outlays remain at a level that members are prepared to fund through their premium contributions. However, I am confident Medibank Private has the management expertise and business strategies in place to achieve this goal.

With regard to the long-running litigation with the ACCC I remain hopeful that we can draw this matter to a conclusion in the near future. In the financial year 2003, Medibank Private was successful in its submissions to the Full Federal Court, a decision with which the High Court agreed in refusing the ACCC's application for special leave to appeal.

This is my final report as Chairman of Medibank Private. I am pleased to note the stabilisation of the fund's performance and the business commitment to deliver added member value in coming years. Over the past six years, I have been privileged to oversee a number of major developments for both Medibank Private and Australia's health insurance industry.

The fund's separation from the Health Insurance Commission in 1998 and establishment as an autonomous Government Business Enterprise gave Medibank Private the opportunity to develop a new and more business-related focus. This focus helped Medibank Private reinforce its market leadership position, becoming the largest fund in the eastern states.

Over the past six years, the Federal Government's private health insurance regulatory initiatives, including the Medicare Levy Surcharge, 30% member rebate and Lifetime Health Cover reform, have restored the balance to Australia's mixed health care system.

In my time as Chairman, I have been committed to ensuring that Medibank Private supported these health system reforms and helped give more Australians access to the benefits of private health insurance. I am delighted that these initiatives have served to encourage approximately 43% of Australians to be privately insured. This has laid a platform for sustainable quality health care in this country as well as helping alleviate pressure on our world class public health system.

I thank my fellow Board members for their contribution over the past year. In particular, I am grateful to our new directors who quickly adjusted to the busy governance schedule. I offer special thanks and congratulations to our new Managing Director George Savvides, who has effectively delivered the Board's restoration strategy and set Medibank Private on a path of confident and sustainable growth.

On behalf of the Board, I thank our Shareholder Ministers Senator the Hon Kay Patterson, the Minister for Health and Ageing, and Senator the Hon Nick Minchin, the Minister for Finance and Administration for their support throughout this challenging year. We recognise the contribution of Senator Patterson and her Department, as Medibank Private moves to a single shareholder representative in the new financial year.

And finally, but most importantly, I extend my thanks to Medibank Private's staff for their drive and enthusiasm in delivering the business restoration strategy and providing enhanced value to our members.



D A W Thomson AM
Chairman



Medibank Private's business restoration strategy has delivered a dramatic turnaround in the fund's performance for the reporting year.

Managing Director's Report

The strategy has resulted in a \$185.9 million improvement in bottom line profit for 2002-03 financial year, bringing the fund back to a modest surplus, with member contribution revenue lifting to \$2.23 billion.

This year's \$10.4 million operating surplus was achieved through a whole-of-business approach to turning the fund's performance around. While the adverse impact of the previous year (2001-02) affected the majority of health insurers, Medibank Private was impacted most severely.

The turnaround in performance resulted from a series of initiatives. The first involved the aggressive containment of business costs to keep the fund's management expense ratio to 9.3%, which is some 15% below the rest of the industry.

Due to the uncertainty associated with equity markets, the Board's Investment Committee maintained a defensive investment strategy that reversed the negative return of the prior year. The \$58.7 million improvement in our investment income substantially contributed to the fund's return to surplus in 2002-03.

Delivering a business turnaround of the magnitude achieved this year has been challenging.

However, throughout the process, we have continued to offer our members competitively priced health insurance, the security of quality private health care and a national member service network.

Our return to positive financial performance was not at the expense of our commitment to meet the payment of our members' benefit claims, which this year totalled \$2.05 billion.

Medibank Private's average premium increase of 4.9% in April 2003 was 42% lower than the rest of the industry. Importantly, we held increases to CPI and below for over 60% of our members, reflecting our commitment to deliver value for money private health insurance for Medibank Private policy holders. This is notwithstanding that health inflation for the year ended June 2003, was double the general cost of living index.

We returned over 92.3% of members' contributions as benefits paid, compared to the rest of the industry's 88.4% return, emphasising the fund's performance as an efficient not-for-profit enterprise.

Our benefit outlays for hospital, medical and ancillary claims increased \$86.6 million in the past financial year, following a \$330.6 million increase in 2001-02. We recognise the need to work with our hospital and ancillary provider partners to ensure that the cost of private health services, and therefore private health insurance premiums, remains within reach of most Australians, while working with our provider partners to continuously improve the quality of contracted health services for our members.

In the past year we have made significant investments to enhance our member servicing capabilities.

We have opened 27 new or refurbished retail outlets in the past 12 months, with a further 36 planned for the next financial year.

Our new Customer Relationship Management (CRM) system, which was implemented in April 2003, will now permit us to develop more tailored and higher quality contact service for our members. Over 700 Medibank Private staff were trained to operate the new CRM system.

The first months of the 2003-04 financial year saw Medibank Private introduce innovative new service initiatives to help achieve better health outcomes for our members. The launch of our Member Wellbeing trial, along with our simplified fund rules and our e-commerce initiatives, will improve our service offering to members and enhance business partnerships with providers.

As a supporter of the Federal Government's private health initiatives, Medibank Private will be working to gain broader support for private health insurance - and therefore private health care - that is attractive and sustainable for Australians. In doing so, we will lessen the load on public hospitals in a cost-effective manner and so improve access to health services for all Australians.

I extend my appreciation to the Medibank Private Board, which gave good counsel to the management team, resulting in the successful performance improvement turnaround of the past 12 months. I also thank them for their personal support throughout this challenging year. And in his final term, I especially would like to thank Chairman Allan Thomson for his steadfast commitment to Medibank Private, presiding over the organisation's most formative years.

Finally, my thanks and congratulations to Medibank Private's Leadership Executive and our dedicated employees for delivering this year's dramatic business turnaround. Their enthusiasm, innovative thinking and willingness to play a direct role in improving their company has been an outstanding achievement, and a credit to the tremendous teamwork within the company.



G Savvides
Managing Director

The Industry Leader



In the past year, Medibank Private has delivered a number of initiatives that will benefit our members and health provider partners. In coming years, we will continue to seek out innovative ways to improve our products and member services.

Simplified fund rules

All health funds are required by the *National Health Act 1953 (Cth)* to operate under a set of Fund Rules, which govern the structure of its products and membership conditions. In the past year, we have simplified our fund rules by redrafting them in "plain English".

Medibank Private is committed to making its products simpler and more transparent. Making our fund rules more concise, reader-friendly and jargon-free is an important step in this process.

Our simplified fund rules have won support and praise from regulators and will be available on our website: www.medibank.com.au.

www.medibank.com.au

Australia's most popular health fund website recorded a 32% increase in traffic over the past year, receiving over one million visitors. The site's services continued to improve and grow, with the on-line joining and member servicing functions redesigned for greater ease of use. Our extensive GapCover and Members' Choice provider lists were also upgraded for easier searching, with location maps also added for Members' Choice providers.

30% Rebate - the Members' Rebate

Nearly three million Medibank Private members enjoy the benefits of the Federal Government's 30% private health insurance rebate. To better understand the economic effects of the rebate, we commissioned an independent report from Professor Ian Harper from the Melbourne Business School.

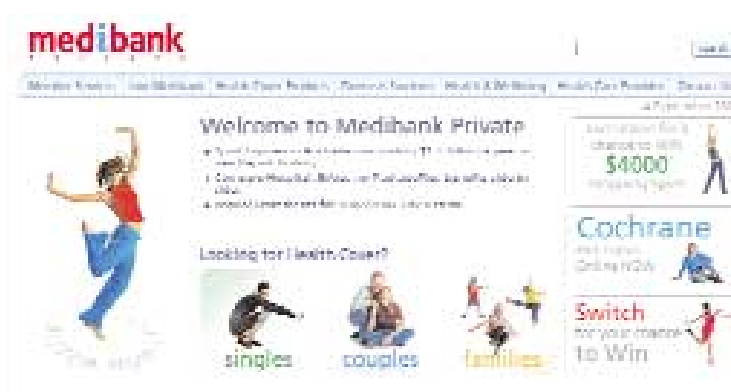
The report found that the rebate generates significant economic and consumer benefits for both the public and private health systems.

In encouraging Australians to take out private health cover and take the load off the public health system, the report found that the 30% rebate could be delivering health savings of at least \$2 billion annually, net of the cost of the rebate.

The 30% Private Health Insurance Rebate provides a \$462 p.a. reduction on the average policy premium for Medibank Private members.

Standard and Poors Rating BBB (Positive)

Medibank was rated by Standard and Poors in 2002-03 with an improving outlook at BBB (Positive), amongst the higher ratings in the sector.



From left to right:

Joe Rhine
Manager, Fund Policy
(Implemented Medibank Private's
simplified fund rules)

John Lang
Websites Manager
(Enhancing web services)

Kip McManamey
Project Manager
(Developing e-commerce
initiatives)

Julie Andrews
Health and Quality Manager
(Manager, Member
Wellbeing Program)

Ian Whitehead
National Manager
Distribution and
Channel Management
(Directing the store
renewal program)



New business efficiencies through e-commerce initiatives

We have embarked on a number of e-commerce initiatives to cut costs and boost efficiencies for both Medibank Private and our business partners.

In August 2002, we signed an agreement with ICSGlobal Limited to adopt their e-health system THELMA. The system lets hospitals automatically check the health insurance status of our members when they book for hospital admission - improving service efficiency for members, hospitals and Medibank Private. Going forward, we intend to deploy several business-to-business and e-commerce solutions including those offered by the Health Insurance Commission to further streamline business processes.

We have also replaced cumbersome paper trails with e-commerce technology to transfer hospital statements and casemix protocol data. Both Medibank Private and our hospital partners benefit from this initiative, which cuts processing time for these procedures by up to 80%.

Through a partnership with Health Communications Network (HCN), Medibank Private is now using "Medical Director", Australia's leading general practitioner (GPs) management software tool, to strengthen our relationship with GPs. Medical Director offers GPs access to a range of independent clinical decision and practice support tools, as well as providing information about our health insurance products.

Internally, we have used e-commerce technology to streamline many key business processes, including a reduction in the time taken to issue new membership cards and process member claims.

"Member Wellbeing" pilot program

We initiated a pilot program to test the benefits of offering members a coordinated, personalised approach to managing their health. The 12-month "Member Wellbeing" program will give participating members an individual health and wellbeing assessment. Based on these assessments, members can participate in tailored programs to help reduce their health risk factors, or manage a chronic condition.

We expect that the "Member Wellbeing" pilot will show evidence of giving members better health outcomes, and eventually, by reducing avoidable hospitalisation, lower claiming rates and reduce pressure on premiums.

Largest & most modern private health insurance retail network

In the past year, Medibank Private continued to enhance and improve its industry-leading retail network. A further 27 retail outlets were opened or refurbished in the past year. The new-look retail outlets have met with strong approval from members, who appreciate the improved service environment and new technology offered.

The store renewal program also resulted in the move to new locations with improved public access. Major flagship retail centres were opened in Sydney's Martin Place, Perth, Adelaide and Hobart.



Our Members

Key Statistics

People Covered*	2.8 million
Market share*	29.7%
% of contributions returned to members as benefits	92.3%

In a challenging financial recovery year, Medibank Private continued to work hard to give members competitively priced, quality health insurance cover.

Despite the difficult decision to remove discounts for direct debit or advance premium protection payment, our product premiums remained excellent value compared to competitor funds.

Accordingly, we experienced only a slight drop in national market share throughout the year, testimony to the inherent value of Medibank Private's product and service offering. National resident market share was 29.7% at 30 June 2003, with Medibank Private still the clear market leader, having grown by 857,962 people covered over the past 4 years.

Medibank Private worked hard to be Australia's value-for-money health fund during 2002-03.

During the April 2003 premium increases, Medibank Private's average 4.9% premium increase was well below the rest of the industry's average 8.4% increase. We also improved dental benefits for almost half of those members with ancillary cover, lifting the annual limits for general dental treatment.

Low management expenses and a steady stream of investment income helped us pay 92.3 cents in benefits for every member dollar contributed to the fund.

Over 90% of our members made claims under their hospital or ancillary cover during the year. The average overnight hospital benefit per episode was \$4,725. Our highest claim paid for the year stood at \$299,125.

Total benefits paid to members rose to \$2.05 billion, an increase of 4.4% from the previous year.

Members continued to reap the benefits of Medibank Private's GapCover protection arrangements, with payments totalling over \$161 million, covering over 73% of total medical services.

The past year saw Medibank Private continue its commitment to member service excellence with a further 27 retail outlets opened or refurbished across Australia.

Our national retail modernisation program has met with strong approval from members, who appreciate the improved service environment and new technology offered in the new retail outlets.

Members accessing Medibank Private's industry-leading website have also enjoyed enhanced service and functions, with a series of upgrades enhancing its ease of use. The site experienced a 32% jump in traffic from the previous year, with over one million visitors during the year. During 2002-03, www.medibank.com.au helped over 10,000 contributors to purchase or change their cover online, and \$8.5 million worth of premium payments were made using the website.

Our Customer Care Line responded to over 1.56 million phone calls in 2002-03. In the past year, all of our Customer Care Line staff had intensive customer service training, and have all received an industry-recognised accreditation in telecommunications. Coupled with this training is a planned technology upgrade in the coming year which will provide a new PABX and Computer Telephony Integration (CTI) platform designed to further improve member call handling and response times.

Medibank Private's new Customer Relationship Management system is also helping staff in both our retail centres and at our Customer Care Line to better understand and meet individual members' needs. The new service technology was installed in April 2003, and more than 250 Customer Care Line staff have been trained to use it, along with 400 retail staff.

Medibank Private will build on this year's member service initiatives in coming years. Going forward, we are committed to offering our members even more value from their private health insurance.

We will work to keep private health insurance affordable for members, whilst making our insurance products simpler and more transparent, ensuring Medibank Private remains Australia's health fund of choice.

* Excludes non-residents, consistent with industry reporting.

From left to right:
Camille Sheldrick
Senanie De Silva & Sunil De Silva
Daniel O'Shea



"I've been with Medibank Private since 1990 and they have given me the greatest support and insurance I could hope for."

Camille Sheldrick

(Hip Replacement Patient)



"The Medibank Private staff were exceptionally helpful and supportive during what was a particularly anxious and traumatic time for us. Their reassurance and cooperation greatly relieved our concerns."

Senanie De Silva & Sunil De Silva

(Sunil - Cardiac Patient)



"Being a Medibank Private member means peace of mind for my active lifestyle. I know that I'm covered for whatever I do, or wherever I go - and whenever I ever need to make a claim, it's such an easy process."

Daniel O'Shea

(Adventure Sport Enthusiast)

Our Healthcare Partners

Key statistics

% of Private Hospitals contracted	over 90%
Total member benefits	\$2.05 billion
GapCover protection payments	\$161 million

Medibank Private members are able to access a comprehensive, nation-wide network of healthcare providers. Medibank Private contracts with over 90% of Australia's private hospitals and has Members' Choice arrangements with over 3,700 ancillary providers.

Medibank Private's benefit payments rose to \$2.05 billion in 2002-03. This is equivalent to a \$417.2 million increase over the past two years.

The growth in hospital benefit outlays in 2002-03 was due mainly to increases in:

- Acute Private Overnight - 7.1% increase to \$890.3 million
- Psychiatric - 9.5% increase to \$46.4 million
- Rehabilitation - 13.4% increase to \$27.4 million
- Medical Claims - 6.2% increase to \$201.3 million

Over 6,500 healthcare specialists treated our members under a GapCover arrangement, with GapCover payments rising 11.5% to over \$161 million.

Ancillaries payment growth was primarily driven by increases in payments to:

- Dental - 5.8% increase to \$262.5 million
- Optical - 11% increase to \$98.9 million
- Physiotherapy - 8.6% increase to \$33.4 million
- Chiropractic - 4% increase to \$29.0 million

The rising cost of providing health services continues to be a concern for the private health industry. Our members tell us that increasing health insurance premiums - a direct result of growth in healthcare claim costs - is a major reason for leaving private health insurance.

Medibank Private will look to work with our healthcare partners to ensure that private health remains an attractive and sustainable option for Australians.

We will do this by continuing to seek out innovative ways to offer our members quality private health care at a sustainable price.

We have embarked on a major strategic review of how we purchase hospital services for our members. A large part of our total outlays (60%) relates to hospital treatment and we have identified that opportunities exist to improve our provider purchasing performance to best practice in the health system. Such changes will be challenging for ourselves and our provider partners, but it is important that our purchasing and contracting with our providers keep pace with the speed at which clinical practice and service delivery is changing.

We have embarked on a number of exciting initiatives with several of our provider partners to help drive cost savings for both parties and improve service delivery for our members.

We have also taken some important steps in building e-commerce partnerships with providers. We have successfully rolled out e-commerce connections to 50% of all pathology services, which is expected to increase to 70% in the near future.

We also introduced new on-line statements for hospital claims settlement, with 20% of our contracted hospitals participating in the first few months of the new service being announced.

Eight hospitals have taken advantage of Medibank Private's relationship with ICSGlobal Limited and their e-health system THELMA - and are reporting significant benefits from the new service. More hospitals are expected to join the system in the coming year.

Over the coming year, we will continue to work with our provider partners to look at other new and innovative ways to give our members the security of quality private healthcare at an affordable price.

From left to right:
Paul Ness & Ian McFarland
Dr Graham Irving
Colleen Bromwich



“Being part of Medibank Private’s Members’ Choice network has certainly been of great benefit - particularly for our Medibank Private patients, who are especially happy to be able to make their claim electronically and have no payment surprises.”

Paul Ness & Ian McFarland

Box Hill Physiotherapy



“Medibank Private offers excellent communication and service to its members and providers. Being a part of Medibank Private’s Members’ Choice network brings added value through word of mouth from satisfied Medibank Private members.”

Dr Graham Irving

Chadstone Dental Surgery



“Ramsay Health Care greatly values our relationship with Medibank Private. The fund adopts an innovative perspective on the delivery of private health care and values the role of hospital providers in providing quality service to Medibank Private members.”

Colleen Bromwich

State Operations Manager NSW
Ramsay Health Care

Our People

Medibank Private's management team recognised that our employees would play a crucial role in turning the business performance around.

Accordingly, a number of initiatives were created in 2002-03 to unlock the potential contribution our employees could make and to build a deeper sense of ownership toward their company. Creating a corporate focus on leadership competencies was seen as a critical step.

The resulting Leadership Development Program was applied to all levels of management within the company, with an emphasis on employee engagement and improved communication.

These competencies fed into the new Front Line Leadership Program, a formal program designed to give Medibank Private greater leadership capabilities at the point of member service.

Run in association with the Australian Institute of Management, the two-year Front Line Leadership Program offers successful participants a Diploma in Front Line Leadership.

Medibank Private has also continued to build a performance-driven workplace culture to help foster innovative thinking across all levels of the business.

This approach was most in evidence through Medibank Private's Continuous Improvement Program. This program tapped into the deep business knowledge of operational staff to improve processes and lift quality standards across the company.

Through specially-formed Quality Action Teams, over 200 Medibank Private staff identified over 90 business issues with scope for quality improvements and tangible cost savings. These included improving the processes for membership card fulfilment, payroll premium deductions and benefit claim processing.

The initiatives identified by the Quality Action Teams when fully implemented will realise business savings of over \$12 million.

The Continuous Improvement Program also sought to acknowledge the value of staff contribution to the business through a restructured Reward and Recognition program. The new-look program is designed to attract and retain participating staff, and better reward individual achievement and leadership.

Medibank Private continued to streamline its organisation structure to business objectives throughout the year. This process necessitated the closure of the Sydney claims processing centre and a consolidation of its business processing functions into Melbourne and Brisbane. Medibank Private worked with the Community and Public Sector Union (CPSU) to ensure that affected staff were offered the choice of either employment opportunities elsewhere in the business, or an appropriate redundancy package.

In the coming year, Medibank Private will continue to strengthen its evolving performance-based culture. New initiatives include an Innovative Leaders Program, designed to help senior business leaders take a bolder approach to business renewal and problem solving. The business will also develop a Medibank Private "cultural snapshot" as seen through the eyes of new employees, to help management better understand our business culture and improve upon shortcomings perceived by our new employees.

Our Most Valuable Asset

From left to right:
Varsha Pradhan
John Szakiel
Laura Broxholme
Sacha O'Brien
Rosie Burke
Con Konstantopoulos



Varsha's strong customer focus means she goes the extra mile for our members, making time to carefully listen and deliver a satisfactory outcome for each member.

Varsha Pradhan

(Customer Care Consultant)

John designed a secure Internet solution to transmit data between Medibank Private and its hospital partners, resulting in a better quality and faster information exchange.

John Szakiel

(Health Data Analysis Manager)

Laura takes customer service to new levels, thinking nothing of visiting a member at home if needed.

Laura Broxholme

(Sales Consultant)

Sacha has been instrumental in developing business solutions to assist staff and members, in addition to being a lead trainer in our new Customer Relationship Management system.

Sacha O'Brien

(Sales Consultant)

Rosie led a team dedicated to keeping our members' data and records accurate and up-to-date. Rosie and the team's efforts helped to ensure effective communication with our members.

Rosie Burke

(Service Development Officer)

Con demonstrates excellent customer service, making a point of taking ownership of each member's query that he receives and taking pride in delivering prompt service.

Con Konstantopoulos

(Customer Service Representative)

Medibank Private is committed to attaining excellence in our core business activity of giving members access to the best health solutions. As one of the country's top 100 companies, we recognise our broader responsibilities in the Australian community. Accordingly, we strive to take a leadership role in business ethics, our environmental impact, workplace values and practices, and corporate social responsibility.

Community Investment

In a recent survey, over 70% of our members said they expected us to support their health needs not just by paying their claims, but by also working to improve the broader health and wellbeing of the Australian community.

We are delivering on this expectation by supporting a number of key health and wellbeing organisations and initiatives.

We signed a three-year partnership with the Juvenile Diabetes Research Foundation (JDRF) which will see Medibank Private support JDRF's work to find a cure for Type 1 diabetes.

Through the partnership, Medibank Private supports the JDRF research symposiums, held around Australia to showcase the latest Type 1 diabetes management techniques. Medibank Private was also a major sponsor of the August 2003 "Kids in the House" promotion, which saw children with Type 1 diabetes visit Parliament House in Canberra to raise awareness and lobby for research funding for their illness.

Medibank Private staff will continue their fundraising support for the JDRF, including the "Walk to Cure Diabetes", for which staff last year raised \$12,000.

Medibank Private's support for diabetes research was furthered with a \$200,000 donation to the Paul Zimmet Diabetes Research Fund. The fund was established by the International Diabetes Institute to raise \$15 million for diabetes research.

Medibank Private has continued to work with its key health alliance partners, the National Asthma Council and the National Heart Foundation.

In May 2003, Medibank Private and the National Asthma Council jointly launched an asthma management booklet, designed to help asthma sufferers monitor and mitigate their condition in conjunction with their GP.

Medibank Private staff again raised funds for the National Heart Foundation, supporting the national "Dress Red for Hearts Day".

We should be active in helping better educate our members on important health issues.

Our website has health and wellbeing information, provided by healthcare alliance partners including the National Heart Foundation, National Asthma Council, and the Cochrane Consumer Network.

Environment

Medibank Private is committed to ensuring its business practices have minimal environmental impact. Environmental principles are always considered in the selection of office accommodation and suppliers. The company has an active recycling policy that encompasses office paper, printer toners and, where possible, other office equipment and business machinery.

Workplace Practices

Medibank Private has a company-wide health and safety policy. In the 2002-03 financial year, Medibank Private recorded a 35% reduction in workers' compensation claims. Key programs contributing to the reduction included:

- targeted hazard identification inspections
- improved case management of rehabilitation and return to work programs
- enhancements to the H&S Committee structure and operation
- ongoing training to increase awareness and understanding of OH&S obligations
- regular and comprehensive reporting and monitoring.



Medibank Private was proud to support the "Kids in the House" promotion at Parliament House. The event was held to raise awareness of Type 1 diabetes in Australia.

community

Vision When Australians think of *leadership* in health and wellbeing, they think Medibank Private

Mission We will strive to provide our members with access to the best health solutions

Values

Act with Integrity

- Do what we say
- Treat people fairly
- Conduct ourselves ethically
- Be a steward of members' contributions.

Respect All People

- Really listen, Really hear and Really respond
- Respect individuality and diversity
- Recognise and reward achievement
- Be a respected part of the community.

Care about Your Needs

- Understand members
- Are attuned to their needs and provide the right health solutions
- Go the extra mile to meet members' needs
- Communicate in a timely, clear, regular and honest way
- Provide the support and tools that our staff need to do their jobs.

Be Innovative

- Encourage creativity and initiative
- Make high quality decisions based on superior knowledge and experience
- Adapt to change and recognise opportunities
- Adopt leading-edge technology and processes.



y & values

Board of Directors



**D A W Thomson AM,
MAICD, FCPA**

Chairman

Appointed Chairman from 1 December 1997. Current term expires 7 November 2003. Chair of the Remuneration Committee.

Formerly Chairman of the Australian Shipowners Association, Director of Australian Industry Development Corporation, and Australian River Co Ltd (previously ANL Limited). Chairman of the Health Insurance Commission to 29 July 1998. Director Australian Submarine Corporation Pty Limited. National Executive Director Royal Flying Doctor Service of Australia.

Director and Chief Executive of 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**

Deputy Chairman

Non-Executive Director Director from 1 December 1997 and Chair of Audit and Compliance Committee. Current term expires 7 November 2003.

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

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



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

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

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

Formerly Director of Banksia Wines Limited.



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

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

Currently Director BMP
Healthcare Consulting Pty Ltd.
Chair, Victorian Workcover
Authority Independent Medical
Examiner Selection & Quality
Assurance Committee,
Member Australian Medical
Association.

Formerly General Practitioner,
Member of the National
Health and Medical Research
Council, Chairman Department
of Primary and Emergency
Care, John Hunter Hospital.
Secretary General (1993-1997)
and CEO (1997-1998), Royal
Australian College of General
Practitioners.



**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 Professorial Fellow
in the Department of
Epidemiology and Preventive
Medicine, Monash University.
Director of Birans Pty Ltd.

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



A H Brien AM

Non-Executive Director
Appointed Director from
26 June 2002. Current term
expires 28 June 2005. Chair
of the Investments Committee.

Currently Life Governor,
Flinders Medical Centre
Research Foundation.
Member, Pooled Development
Funds Board (Venture Capital) -
Dept Aus Industry and the
Advisory Board Mitsubishi
Motors Australia. Trustee,
Les Favell Cricket Foundation.
Director of The Liberal Club
Ltd. Director and Chairman,
Adrian Brien Pty Ltd.



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

Managing Director
Director from 6 September
2001. Appointed as Interim
Managing Director 19 April
2002. Appointed as Managing
Director 1 April 2003. Current
term expires 31 March 2006.

Currently Non-Executive
Director, World Vision Australia
and World Vision International.
Executive Member of AHIA
(Australian Health Insurance
Association). 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.
Chairman, Medicines
Partnerships of Australia.
CEO Healthpoint Technologies.

Group Leadership Executive



George Savvides
Managing Director

Joined April 2002

George has fifteen 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
General Manager - Corporate Development & Marketing

Joined June 2000

Previously with Colonial Group, Steve held a variety of positions during his time there. He brings to Medibank Private experience in strategic planning and development, and in mergers and acquisitions.



Sarah Bussey
General Counsel and Company Secretary

Joined October 2001

Sarah brings a range of legal experience to Medibank Private, having previously been a partner with Phillips Fox Lawyers, and a solicitor with Blake Dawson Waldron.



Jill FitzRoy
National Manager Customer Care

Joined March 2000

Jill's previous experience is with a number of New York based consulting and financial services companies. Her background is in business re-engineering, program management and IT.



Bruce Levy
General Manager Provider Relations

Joined October 2002

Prior to joining Medibank Private, Bruce was General Manager of the Alfred Hospital, for which he drove a financial turnaround, redeveloped models of care delivery and managed community interest groups.



Derek Linsell
Innovation & Continuous Improvement Advocate

Joined April 2002

Prior to joining Medibank Private, Derek worked with Burns Bridge developing and implementing change management programs. Derek's experience extends to large organisations in public, private and not-for-profit sectors.



Pat McKinney
General Manager, Sales & Retail

Joined February 1975

Pat is a long-serving employee with extensive operational experience and industry knowledge. His previous experience included roles as the QLD and SA State Manager for the Health Insurance Commission.



Peter McNeil
General Manager - Private Health Insurance Services

Joined January 2000

Peter joined Medibank Private after working with the Colonial Group, Australia Post, Coopers & Lybrand and Kraft Foods. He brings experience in services development, operational management and business re-engineering.



Cecil Piccinino
Chief Financial Officer

Joined July 2000

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



Surinder Singh
Group Manager - IT

Joined June 2002

Prior to joining Medibank Private, Surinder was responsible for general management of IT in the healthcare industry, and with distribution and software development organisations.



Andrea Thistlethwayte
Group Manager - Human Resources

Joined March 2002

From Andrea's roles at Laminex Industries, Containers Packaging and Kraft Foods, she brings experience across a variety of HR and management consulting activities including cultural change, organisation/people development and employee relations.

Our Investment Income

Investments

The 2002-03 investment performance was greatly enhanced by the decisions taken in 2001-02 to place 90% of investment holdings in short term money market holdings and 10% in fixed interest. These sectors were amongst the best performing asset classes over the course of the financial year and enabled Medibank Private to record a return well above market average. The full year result was a net gain on investments of \$45.8m (equating to a +5.21% return).

Investment Policy

Medibank Private manages its investment portfolio to balance risk and return, incorporating up to date information on the business strategy, financial circumstances and capital adequacy requirements.

fin
state

From left to right:

Julie Camilleri
Systems Development Analyst

Tony Dudley
Financial Controller

Andrew Gale
Chief Actuary

Graeme Sala
Treasury & Management
Accounting Manager

Brett Sullivan
Financial Accounting Manager

Sarah Sheard
Financial Accountant



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:

D A W Thomson AM, MAICD, FCPA

Chairman

Appointed Chairman from 1 December 1997. Current term expires 7 November 2003. Chair of the Remuneration Committee.

Formerly Chairman of the Australian Shipowners Association, Director of Australian Industry Development Corporation, and Australian River Co Ltd (previously ANL Limited). Chairman of the Health Insurance Commission to 29 July 1998. Director Australian Submarine Corporation Pty Limited. National Executive Director Royal Flying Doctor Service of Australia.

Director and Chief Executive of 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

Deputy Chairman

Non-Executive Director

Director from 1 December 1997 and Chair of Audit and Compliance Committee. Current term expires 7 November 2003.

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

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

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

Non-Executive Director

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

Currently Director BMP Healthcare Consulting Pty Ltd. Chair, Victorian Workcover Authority Independent Medical Examiner Selection & Quality Assurance Committee, Member Australian Medical Association.

Formerly General Practitioner, Member of the National Health and Medical Research Council, Chairman Department of Primary and Emergency Care, John Hunter Hospital. Secretary General (1993-1997) and CEO (1997-1998), Royal Australian College of General Practitioners.

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

Managing Director

Director from 6 September 2001. Appointed as Interim Managing Director 19 April 2002. Appointed as Managing Director 1 April 2003. Current term expires 31 March 2006.

Currently Non-Executive Director, World Vision Australia and World Vision International. Executive Member of AHIA (Australian Health Insurance Association). 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. Chairman, Medicines Partnerships of Australia. CEO Healthpoint Technologies.

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 Professorial Fellow in the Department of Epidemiology and Preventive Medicine, Monash University. Director of Birans Pty Ltd.

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

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

Formerly Director of Banksia Wines Limited.

A H Brien AM

Non-Executive Director

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

Currently Life Governor, Flinders Medical Centre Research Foundation. Member, Pooled Development Funds Board (Venture Capital) - Dept Aus Industry and the Advisory Board Mitsubishi Motors Australia. Trustee, Les Favell Cricket Foundation. Director of The Liberal Club Ltd. Director and Chairman, Adrian Brien Pty Ltd.

Company Secretary

S L Bussey MA(Cantab), Solicitor, MAICD

Appointed Company Secretary on 19 October 2001.

Formerly partner with Phillips Fox Lawyers.

Directors' Report continued

Directors' Interests

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

Directors' Meeting

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)		Health Innovations Committee (b)		Investment Committee (c)		Remuneration Committee (d)	
	A	B	A	B	A	B	A	B	A	B
D A W Thomson	11	11	5	5	9	- (f)	2	2	5	5
G Savvides (e)	11	11	5	5	9	9	2	2	5	5
M D Bollen	11	11	5	5	9	9	1	- (f)	-	- (f)
P F E Hutchinson	9	11	4	5	-	- (f)	-	- (f)	5	5
J U Stoelwinder	11	11	5	5	8	9	1	- (f)	-	- (f)
P B Wade	11	11	5	5	4	- (f)	1	- (f)	5	5
A H Brien	10	11	5	5	4	- (f)	2	2	-	- (f)

A Number of meetings attended

B Number of meetings held during the time the director held office during the year

(a) Ms Hutchinson is Chair of the Audit & Compliance Committee.

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

(c) Mr Brien is Chair of the Investments Committee.

(d) Mr Thomson is Chair of the Remuneration Committee.

(e) Mr Savvides attends both the Audit & Compliance Committee and Remuneration Committee meetings in an "ex officio" capacity.

(f) Director not a member of this Committee.

At the date of this report, the Company had an Audit & Compliance Committee, a Health Innovations Committee, an Investments 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 2002-03 operating profit was \$10,390,000. 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

Significant changes in the state of affairs of the Company that occurred during the financial year, and which are reported in the financial statements were:

- An operating performance improvement of \$185,864,000, driven by:
 - An average contribution rate increase of 4.92%, effective 31 March 2003
 - Removal of member discounts for direct debit or advance payment effective 2 December 2002
 - Closure of an unprofitable hospital product and migration of affected members to the nearest equivalent product, effective 2 December 2002
 - Investment and other income performance improvement of \$58,671,000
 - Reduction in management expense ratio of 1.28%
- Implemented a customer relationship management system in April 2003 to help deliver more tailored and higher quality member servicing
- In June 2003, The Commonwealth decided that the Minister for Finance and Administration, would be Medibank Private's single shareholder, moving from the previous dual shareholder structure with the Minister for Health and Ageing.

Matters Subsequent to the end of Financial Year

No matters or circumstances have arisen since the end of the financial year that will significantly affect the operations, the results of those operations, or the state of affairs of Medibank Private subsequent to 30 June 2003.

Likely Developments and Future Results

Directors anticipate that the improvement in financial performance will be sustained in the 2004 financial year. Medibank Private will continue the rationalisation and simplification of its product portfolio, the Medibank Private brand will be refreshed and the modernisation of our Retail Centre network will continue. Government reforms covering reinsurance, lifestyle benefit removal, second tier default contracting arrangements and prostheses purchasing 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 \$33,490 per annum. The Chairman receives \$57,410 per annum. Members of the Audit & Compliance Committee receive an additional committee fee of \$5,200 per annum other than the Chair of the Audit & Compliance Committee who receives an additional fee of \$10,400 per annum. The Managing Director's package is set in consultation with the Commonwealth Government Remuneration Tribunal under its advisory jurisdiction. 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 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 \$78,255 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 \$15 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.



D A W Thomson AM
Chairman



G Savvides
Managing Director

Melbourne, 15 August 2003

Corporate Governance

This statement outlines the Company's principal corporate governance practices in place throughout the financial year.

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.

The key functions of the Board include:

- 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
- reporting to the Shareholder on the Board's stewardship of the Company.

The powers and duties of the Directors are subject to the Constitution of Medibank Private, the *Corporations Act 2001 (Cth)*, the *National Health Act 1953 (Cth)*, and any other relevant legislation.

Board processes

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

- the Audit & Compliance Committee
- the Health Innovations Committee
- the Investments Committee
- the 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 reports to the Board of Directors on relevant issues.

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

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 non-executive Directors are independent. An independent Director is a Director who is not a member of management (a non-executive Director) and includes a Director who:

- is not a substantial shareholder of the Company or an officer of, or otherwise associated, directly or indirectly, with a substantial shareholder of the Company
- has not within the last three years been employed in an executive capacity by the Company, or been a Director after ceasing to hold any such employment
- within the last three years has not been a principal or employee of a material professional adviser or a material consultant to the Company
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

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 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 have a material personal interest.

Director 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 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.

Opportunities are provided for Directors and key executives to attend educational seminars to update their skills and knowledge. The Board regularly performs self-assessment of its effectiveness.

Director dealings in Company shares

No trading in these shares is allowed. All shares in Medibank Private are held by the Commonwealth of Australia, with the responsible Shareholder representative currently the Minister for Finance and Administration.

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.

Remuneration Committee

The Remuneration Committee comprises three non-executive Directors. The Managing Director also attends Remuneration Committee meetings in an "ex-officio" capacity. The primary role of the Committee is to review and make recommendations on Board composition, Board and senior executive remuneration, Board and senior management 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 five times 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 consultation with the Remuneration Tribunal under its advisory jurisdiction. 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.

Corporate Governance continued

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 in an "ex-officio" capacity. The Chair of this Committee is an independent non-executive Director who is not the Chair of the Board. The Management Assurance 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 responsibilities of the Audit & Compliance Committee include:

- reviewing the annual financial report
- monitoring corporate risk assessment processes
- 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
- monitoring the procedures to ensure compliance with the legislation, regulations and codes.

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

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
 - 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
- as required, to organise, review and report on any special reviews or investigations deemed necessary by the Board.

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 both members and health service providers. 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 nine times during the year.

Investments Committee

The Investments 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 and consideration of prudential capital requirements.

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

The Investments Committee agreed to meet at least twice a year. The Committee met twice during the year.

Internal Control Framework

The Board is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. The Board has instigated the following internal control framework:

- Financial reporting - Monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared regularly
- Investment appraisal - Guidelines for capital expenditure include annual budgets, detailed appraisal and review procedures and levels of authority
- Management verification that all policies and procedures, laws, regulations and codes applicable to Medibank Private have been complied with.

Internal Audit & Compliance

The Management Assurance Unit of Medibank Private conducts internal audits in accordance with a risk-based Internal Audit Plan, which 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 and Company Secretary, 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 organisation-wide review of the trade practices compliance program has been undertaken to ensure compliance with trade practices legislation, following Medibank Private providing an undertaking 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 Audit & Compliance Committee advises the Board and reports on the status of business risks through integrated risk management programs aimed at ensuring risks are identified, assessed and appropriately managed.

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 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 are expected to comply with the Code of Governance.

Role of Shareholders

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 Act 1997 (Cth)*.

Statement of Financial Performance

for the Financial Year ended 30 June 2003

	Note	2003 \$'000	2002 \$'000
Revenues from ordinary activities			
Member contributions	2	2,225,084	2,017,862
Proceeds from disposal of other financial assets	2	136,572	1,219,341
Other revenue	2	45,114	42,948
		2,406,770	3,280,151
Expenses from ordinary activities			
Member benefits		(2,053,614)	(1,967,018)
Employee benefits expense		(77,616)	(89,512)
Information and technology expense		(46,006)	(35,132)
Marketing expense		(18,135)	(15,706)
Office and administration expense		(46,907)	(52,114)
Depreciation expense	3 (a)	(3,235)	(3,754)
Investment administration expenses		(626)	(2,343)
Other expenses from ordinary activities	3 (a)	(15,215)	(17,337)
Book value of other financial assets sold		(135,026)	(1,272,709)
Profit/(Loss) from ordinary activities		10,390	(175,474)
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		10,308	(175,474)

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

Statement of Financial Position

as at 30 June 2003

	Note	2003 \$'000	2002 \$'000
Current Assets			
Cash assets		855,553	791,158
Receivables	4	77,029	75,128
Other financial assets	5	27,494	70,088
Other	6	21,215	28,869
Total Current Assets		981,291	965,243
Non-Current Assets			
Other financial assets	5	190	190
Plant and equipment	7	29,988	26,880
Total Non-Current Assets		30,178	27,070
Total Assets		1,011,469	992,313
Current Liabilities			
Payables	8	68,516	40,945
Provisions	9	272,314	294,063
Other	10	276,099	273,330
Total Current Liabilities		616,929	608,338
Non-Current Liabilities			
Provisions	9	1,842	1,585
Total Non-Current Liabilities		1,842	1,585
Total Liabilities		618,771	609,923
Net Assets		392,698	382,390
Equity			
Contributed equity	11	-	-
Retained profits	12	392,698	382,390
Total Equity		392,698	382,390

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

Statement of Cash Flows

for the Financial Year ended 30 June 2003

	Note	2003 \$'000	2002 \$'000
Cash Flows from Operating Activities			
Receipts from customers		2,225,473	2,024,642
Interest received		689	639
Payments to suppliers and employees		(2,240,889)	(2,164,551)
Net cash flow used in operating activities	16(b)	(14,727)	(139,270)
Cash Flows from Investing Activities			
Proceeds from sale of other financial assets		136,572	1,219,341
Dividends received		-	10,748
Interest received		43,326	30,963
Proceeds from sale of plant and equipment		96	-
Purchase of other financial assets		(91,595)	(426,284)
Purchase of plant and equipment		(9,277)	(25,005)
Net cash flow from investing activities		79,122	809,763
Net increase in cash held		64,395	670,493
Cash at the beginning of the financial year		791,158	120,665
Cash at the end of the financial year	16(a)	855,553	791,158

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

Notes to the Financial Statements

for the Financial Year ended 30 June 2003

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 accounting policies used are consistent with those adopted in the previous year, except where there is a change in accounting policy as set out in Note 1(b).

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

(i) Provisions, Contingent Liabilities and Contingent Assets

Medibank Private has adopted the new Accounting Standard AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets" which has had no impact in the current year.

(ii) Employee Benefits

Medibank Private has adopted the revised Accounting Standard AASB 1028 "Employee Benefits" which has resulted in a change in the accounting policy for the measurement of employee benefit liabilities. Previously, Medibank Private measured the provision for employee benefits based on remuneration rates at the date of recognition of the liability. In accordance with the requirements of the revised Standard, the provision for employee benefits is now measured based on the remuneration rates expected to be paid when the liability is settled. The effect of the revised policy has been to decrease retained profits and increase employee benefit liabilities at the beginning of the year by \$82,000. In addition, current year profits have decreased by \$165,000 due to an increase in the employee benefits expense. Current provisions at 30 June 2003 have also increased by \$165,000.

c) Cash and cash equivalents

Cash assets include cash on hand, short term bank bills and commercial notes and are stated at nominal value (generally maturing within 90 – 180 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.

d) Receivables

Contribution in Arrears

Contributions in arrears include contributions for groups and contributions for members that are less than 42 days in arrears.

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 includes government securities, debentures, commercial notes and bank bills with an average duration of 180 days to maturity. 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:

Notes to the Financial Statements

for the Financial Year ended 30 June 2003

Leasehold improvements	The lease term
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.

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

Dividend income and 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 amount expensed for 2002/03 was \$2,603,000 (\$18,391,000 was expensed during 2001/02) 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 2003 is 3.09% (30 June 2002: 3.21%).

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 2003.

Notes to the Financial Statements

for the Financial Year ended 30 June 2003

(ii) Restructuring provision

An internal management review has resulted in the consolidation and relocation of our processing sites and the relocation of 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 on-going activities of Medibank Private.

m) 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.

n) 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.

o) 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.

p) Comparatives

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

q) 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 2003

Note 2: Revenues from Ordinary Activities		
	2003	2002
	\$'000	\$'000
Revenue from operating activities		
Member contributions	2,225,084	2,017,862
Interest	689	639
	2,225,773	2,018,501
Revenue from non-operating activities		
Proceeds from disposal of other financial assets	136,572	1,219,341
Rent	119	128
Interest	43,326	30,963
Dividends	-	10,748
Unrealised gain on other financial assets	837	316
Proceeds from disposal of plant and equipment	96	-
Other	47	154
	180,997	1,261,650
Revenue from ordinary activities	2,406,770	3,280,151
Note 3: Expenses and Losses		
(a) Expenses		
Depreciation of non-current assets:		
- Plant and equipment	731	335
- Software	646	709
- Leasehold improvements	1,858	2,710
Total depreciation of non-current assets	3,235	3,754
Bad and doubtful debts	526	26
Operating lease rental expense	11,755	14,574
Plant and equipment asset written off	2,521	2,643
(b) (Gains)/Losses		
Net (gain)/loss on disposal of other financial assets	(1,546)	53,368
Net loss on disposal of plant and equipment	317	114

Notes to the Financial Statements

for the Financial Year ended 30 June 2003

Note 4: Receivables

	Note	2003 \$'000	2002 \$'000
Contributions in arrears	(i)	16,462	18,605
Provision for groups in arrears		(528)	(528)
		15,934	18,077
Sundry debtors	(ii)	4,170	3,463
Provision for doubtful debts		(740)	(450)
		3,430	3,013
Goods and service tax		1,733	1,124
Government rebate scheme	(iii)	55,932	52,914
		77,029	75,128

Terms and conditions relating to the above financial instruments

- (i) Contributions in arrears are non-interest bearing and generally up to 42 days.
- (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

	2003 \$'000	2002 \$'000
Current		
At market value:		
Government securities	6,295	50,419
Debentures, notes and bills	21,199	19,669
	27,494	70,088
Current financial assets are valued at quoted market value (refer to Note 14 for more detailed information).		
Non-Current		
At cost:		
Other	190	190
	190	190

Notes to the Financial Statements

for the Financial Year ended 30 June 2003

Note 6: Other Assets

	2003 \$'000	2002 \$'000
Advance payments to hospitals	18,852	27,274
Prepayments	2,363	1,595
	21,215	28,869

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	5,311	12,531	701	21,151	39,694
Transfers in/(out)	145	2,477	13,412	(16,034)	-
Additions	22	5,087	107	4,061	9,277
Disposals	(533)	(3,650)	-	-	(4,183)
Recoverable amount writedowns	-	(3,745)	-	-	(3,745)
Balance at 30 June 2003	4,945	12,700	14,220	9,178	41,043
Accumulated depreciation					
Carrying amount at beginning	(2,528)	(10,267)	(19)	-	(12,814)
Depreciation expense	(731)	(1,858)	(646)	-	(3,235)
Disposals	416	3,354	-	-	3,770
Recoverable amount writedowns	-	1,224	-	-	1,224
Balance at 30 June 2003	(2,843)	(7,547)	(665)	-	(11,055)
Net Book Value					
As at 30 June 2002	2,783	2,264	682	21,151	26,880
As at 30 June 2003	2,102	5,153	13,555	9,178	29,988

Note 8: Payables

	Note	2003 \$'000	2002 \$'000
Trade creditors	(i)	38,062	18,133
Other creditors	(ii)	30,454	22,812
		68,516	40,945

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.

Notes to the Financial Statements

for the Financial Year ended 30 June 2003

Note 9: Provisions			
	Note	2003 \$'000	2002 \$'000
Current			
Unpresented and outstanding claims	(i)	258,469	278,089
Employee benefits		9,498	9,547
Restructuring	(ii)	4,347	6,427
		272,314	294,063
Non-Current			
Employee benefits		1,842	1,585
Movement in Provisions			
			2003 \$'000
(i) Unpresented and Outstanding Claims			
Carrying amount at beginning of the financial year			278,089
Additional provision			254,376
Amounts utilised during the year			(273,996)
Carrying amount at end of the financial year			258,469
(ii) Restructuring			
Carrying amount at beginning of the financial year			6,427
Amounts utilised during the year			(4,871)
Reversal of unused provision			(1,556)
Additional provision			4,347
Carrying amount at end of the financial year			4,347

Notes to the Financial Statements

for the Financial Year ended 30 June 2003

Note 10: Other Liabilities

	2003 \$'000	2002 \$'000
Contributions in advance	276,099	273,330
	276,099	273,330

Note 11: Contributed Equity

Medibank Private has paid up capital of 100 \$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

	2003 \$'000	2002 \$'000
Balance at the beginning of the financial year	382,390	557,864
Net profit/(loss) for the financial year	10,390	(175,474)
Adjustment arising from adoption of revised accounting standard: AASB 1028 "Employee Benefits"	(82)	-
Balance at the end of the financial year	392,698	382,390

Note 13: Employee Benefits

	2003 \$'000	2002 \$'000
The aggregate employee benefit liability is comprised of:		
Provisions - Current (Note 9)	9,498	9,547
Provisions - Non-Current (Note 9)	1,842	1,585
	11,340	11,132

	2003 (number)	2002 (number)
Employee numbers		
Average number of employees during the financial year	1,217	1,156

Notes to the Financial Statements

for the Financial Year ended 30 June 2003

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 (b)		Fixed Interest Maturing in :						Non Interest Bearing		Total	
	2003 \$'000	2002 \$'000	1 year or less 2003 \$'000	2002 \$'000	Over 1 to 5 years 2003 \$'000	2002 \$'000	Over 5 years 2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Financial assets												
Cash (a)	851,739	788,329	-	-	-	-	-	-	3,814	2,829	855,553	791,158
Receivables (Note 4)	-	-	-	-	-	-	-	-	77,029	75,128	77,029	75,128
Other financial assets (Note 5)	-	1,729	1,120	510	15,800	32,900	10,574	34,949	190	190	27,684	70,278
Total financial assets	851,739	790,058	1,120	510	15,800	32,900	10,574	34,949	81,033	78,147	960,266	936,564
Weighted average interest rate:	4.86%	4.71%	4.72%	5.11%	5.24%	5.86%	5.07%	6.17%				
Financial liabilities												
Payables (Note 8)	-	-	-	-	-	-	-	-	68,516	40,945	68,516	40,945

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

(b) 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 2003

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:

	2003		2002	
	Carrying amount	Net fair value	Carrying amount	Net fair value
	\$'000	\$'000	\$'000	\$'000
On-balance sheet financial instruments				
Financial assets				
Cash	855,553	855,553	791,158	791,158
Receivables	77,029	77,029	75,128	75,128
Other financial assets	190	190	190	190
Government securities	6,295	6,295	50,419	50,419
Debentures, notes and bills	21,199	21,199	19,669	19,669
	960,266	960,266	936,564	936,564
Financial liabilities				
Trade creditors	38,062	38,062	18,133	18,133
Other creditors	30,454	30,454	22,812	22,812
	68,516	68,516	40,945	40,945

The 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 2003

Note 15: Commitments

	2003 \$'000	2002 \$'000
(a) Capital expenditure commitments		
Estimated capital expenditure contracted for at balance date, but not provided for, payable:		
Not later than one year	561	53
Later than one year and not later than five years	1,130	75
Later than five years	-	-
	1,691	128
(b) Operating lease commitments		
Future operating lease rentals not provided for, payable:		
Not later than one year	11,703	10,249
Later than one year and not later than five years	28,610	10,064
Later than five years	25,140	511
	65,453	20,824
(c) Other commitments		
Other commitments not provided for, payable:		
Not later than one year	31,719	26,720
Later than one year and not later than five years	36,723	57,237
Later than five years	1,751	-
	70,193	83,957
Other commitments consist of IT outsourcing, security and cleaning commitments.		
Total Commitments Payable	137,337	104,909

Notes to the Financial Statements

for the Financial Year ended 30 June 2003

Note 16: Notes to the Statement of Cash Flows

	2003 \$'000	2002 \$'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	855,553	791,158
(b) Reconciliation of the net profit/(loss) to the net cash flows from operations		
Profit/(loss)	10,390	(175,474)
Non-cash items:		
Depreciation	3,235	3,754
Loss on disposal of plant and equipment	317	114
Unrealised gain on other financial assets	(837)	(316)
Realised loss on other financial assets	-	53,368
Realised gain on other financial assets	(1,546)	-
Non-operating cash flows:		
Interest income	(43,326)	(30,963)
Dividends income	-	(10,748)
Amounts written off:		
Bad debts	-	26
Plant and equipment	2,521	2,643
Transfers to/(from) provisions:		
Doubtful debts	526	-
(Increase)/decrease in assets:		
Current receivables	(2,427)	2,926
Other current assets	7,654	(4,626)
Increase/(decrease) in liabilities:		
Payables	27,571	(22,578)
Provisions	(21,574)	36,600
Other liabilities	2,769	6,004
Net cash flow used in operating activities	(14,727)	(139,270)
(c) Financing Facilities		
Unsecured overdraft credit facility, reviewed annually:		
Amount used	-	-
Amount unused	5,150	5,150
	5,150	5,150

Notes to the Financial Statements

for the Financial Year ended 30 June 2003

Note 17: Contingent Liabilities

The Australian Competition and Consumer Commission (ACCC) commenced an Action in October 2000 against Medibank Private in the Federal Court of Australia, alleging breaches of the Australian Securities and Investments Commission Act arising from two advertising campaigns. Medibank Private is also defending an Action alleging defamation and a breach of the Trade Practices Act in relation to a publication on Medibank Private's website. These Actions are still in progress and it is currently not possible to predict an outcome in these matters. Consequently, no liability has been recognised in the financial statements in relation to these Actions.

In the Directors' opinion, disclosure of any further information about the above matters would be prejudicial to the interests of the company.

Note 18: Remuneration of Directors

	2003 \$	2002 \$
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	865,110	1,294,746

The number of directors of Medibank Private whose income (including superannuation contributions) falls within the following bands is:	No.	No.
\$0 - \$9,999	-	3
\$10,000 - \$19,999	-	1
\$30,000 - \$39,999	3	3
\$40,000 - \$49,999	2	1
\$60,000 - \$69,999	1	1
\$80,000 - \$89,999	-	1
\$590,000 - \$599,999 *	1	-
\$920,000 - \$929,999	-	1

* the total remuneration included within this income band includes an amount paid relating to the 2001/02 financial year.

Note 19: Related Parties Disclosures

The directors of Medibank Private during the financial year were:

D A W Thomson
M D Bollen
P F E Hutchinson
G Savvides
J U Stoelwinder
P B Wade
A H Brien

Notes to the Financial Statements

for the Financial Year ended 30 June 2003

Note 20: Auditors' Remuneration

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

	2003 \$	2002 \$
Auditing the financial report	151,000	145,000
Other services - regulatory reporting	40,000	25,000
	191,000	170,000

Note 21: Solvency Requirement

Medibank Private's Solvency Requirement, as per the Health Benefits Organisations - Solvency Standard 2000, is \$797,692,000. Total Fund Assets are \$1,011,469,000, representing an excess of \$213,777,000 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) 8605 2400

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 2003 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 Medibank Private will be able to pay its debts as and when they become due and payable.

On behalf of the Board



D A W Thomson AM



G Savvides

Melbourne, 15 August 2003



**Australian National
Audit Office**

INDEPENDENT AUDIT REPORT

To the members of Medibank Private Limited

Scope

I have audited the financial report of Medibank Private Limited for the financial year ended 30 June 2003. 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.

The Company's directors are responsible for the financial report. I have conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company.

The audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, to provide reasonable assurance whether the financial report is free of material misstatement. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with my understanding of the Company's financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

GPO Box 707 CANBERRA ACT 2801
Centenary House 19 National Circuit
BARTON ACT
Phone (02) 8203 7300 Fax (02) 8203 7777

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 the Company's financial position as at 30 June 2003 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 professional reporting requirements in Australia.



Michael J. Watson
Group Executive Director

Delegate for the Auditor-General

Canberra
15 August 2003

Our State Offices

Victoria

Corporate Headquarters:

459 Collins Street
Melbourne VIC 3000
Tel: 03 8605 2400
Fax: 03 8605 2518

Other CBD Offices:

460 Bourke Street
Melbourne VIC 3000

620 Bourke Street
Melbourne VIC 3000

Queensland

444 Queen Street
Brisbane QLD 4000

New South Wales

33 Erskine Street
Sydney NSW 2000

32 Martin Place
Sydney NSW 2000

South Australia

209 Greenhill Road
Eastwood SA 5063

Tasmania

115 Collins Street
Hobart TAS 7000

Western Australia

108 St Georges Terrace
Perth WA 6000



Our Retail Outlets

Victoria

Suburban

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

Regional

Ballarat
Bendigo
Geelong
Shepparton

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

Northern Territory

Casuarina

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

South Australia

Suburban

Adelaide City
Marion
Modbury
Unley
West Lakes

Tasmania

Hobart
Launceston

Western Australia

Suburban

Booragoon
Cannington
Fremantle
Joondalup
Karrinyup
Midland Gate
Morley
Perth
Whitfords

ACT

Suburban

Belconnen
Civic
Woden

General Member Enquiries

Customer Care Line

132 331

Visit us at

www.medibank.com.au



Package
Plus

Combined hospital and extras packages

The advertisement features the text "Package Plus" in large blue letters. A woman in a blue apron is in the foreground, holding a green apple. In the background, a man in a light shirt and jeans is pointing towards the text. The medibank logo is at the bottom left.

Hospitals &
Extras

The advertisement features the text "Hospitals & Extras" in large blue letters. A man in a blue and white plaid shirt and blue pants is in the foreground, sitting on the ground with his arms outstretched. In the background, a woman in a red top and black pants is sitting on the ground with her arms outstretched. The medibank logo is at the bottom left.

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

National Headquarters is located at:

459 Collins Street
Melbourne VIC 3000
GPO Box 9999
Melbourne VIC 3001
Tel: 03 8605 2400
International: +61 3 8605 2400

**Enquiries about the content of
this report should be directed to:**

Jim Cooper
Medibank Private
GPO Box 9999
Melbourne VIC 3001
Tel: 03 8605 2406

Design

Dunham Bremmer, Melbourne



