

# Financial results

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This concise Financial Report has been derived from the full financial report for the year ended 30 June 2005. The full financial report and Auditors' Report will be sent to members on request, free of charge. Please call 9323 9720 and a copy will be forwarded to you.

The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of MBF Australia Limited and its controlled entities as the full financial report.

# Directors' Report

Your Directors present their report on the consolidated financial statements of MBF Australia Limited consisting of the company and its controlled entities for the year ended 30 June 2005.

## Directors

The following persons were Directors of MBF Australia Limited at any time during the financial year and up to the date of this report.

Mr John Conde AO (Chairman)  
 Mr Eric Dodd (Managing Director)  
 Mr John Allpass  
 Mr Graham Bradley  
 Dr Brett Courtenay  
 Mr Richard Humphry (appointed 4 November 2004)  
 Mr Frank Martin  
 Ms Susan Oliver  
 Dr Ross Wilson (appointed 1 July 2004)

## Principal activities

The principal activities of MBF Australia Limited (the Company) and its controlled entities (the Group) during the financial year were the underwriting of private health insurance, life insurance and the provision of financial advice to customers.

These activities involve:

- the reimbursement of hospital, medical and ancillary related services;
- the provision of services which promote the health of our members;
- the provision of life insurance products which include death cover, trauma and accident insurance;
- financial and advisory services primarily to mature age customers; and
- the provision of superannuation and investment products including the operation of a suite of managed investment schemes.

## Operating results

The consolidated profit from ordinary activities after income tax expense amounted to \$123.522 million (2004: \$100.210 million).

## Review of operations and likely developments and expected results of operations

The Group recorded a strong profit in 2004-2005.

Growth in all facets of the Group's business contributed to solid underwriting results. The private health insurance businesses were impacted by higher hospital and prostheses claims during the year.

The Group expects to consolidate its position in the private health insurance sector in 2005-2006, with a focus on sustainable growth and retention of the current membership base and the provision of affordable products and services for our members.

During the year ended 30 June 2005 the ultimate parent entity disposed of its holdings in properties in Sydney and Brisbane consistent with the Group's strategic decision not to manage or own property directly.

Consistent with the strategy of growth and diversification, the Group continued to develop its presence in the financial advisory and life insurance markets during the year through the financial services businesses it acquired in 2004.

The Group continues to investigate new income streams to enable sustained growth and profitability and to enhance the product offering to members.

The organisation continues to transform and modernise its core systems. Major investment is being made in the core health administration systems. The first phase of implementation was completed in January 2005 and the project is expected to be substantially completed during the 2006 financial year.

During the year ended 30 June 2005, there was a net increase in total reserves from \$576.246 million to \$699.768 million, excluding outside equity interests.

Details of segment reporting can be found in note 3 in the concise report.

### Significant changes in the state of affairs

There have been no significant changes to the Group's state of affairs during the course of the year.

### Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2005 that has significantly affected or may significantly affect:

- (i) the operations in future financial periods subsequent to the financial period ended 30 June 2005, of the consolidated entity and the entities it controls from time to time; or
- (ii) the results of those operations in future financial periods; or
- (iii) the state of affairs, in future financial periods, of the consolidated entity.

### Transition to Australian equivalents to International Financial Reporting Standards

For the year ended 30 June 2006, MBF Australia Limited (the Company) and its controlled entities (the Group) will present its financial report under Australian equivalents to International Financial Reporting Standards (AIFRS).

The Group has identified the major financial impacts being:

- a) software development costs currently expensed will be capitalised and amortised over the useful life of the asset,
- b) balances of goodwill will no longer be amortised but will be subject to an annual impairment test;
- c) adoption of AASB 1023 General Insurance, by the health insurance operations; and
- d) acquisition costs for investment contracts within the Financial services operations will no longer be deferred, but will be expensed in the period in which they are incurred.

### Environmental regulation

The operations of MBF are not subject to any particular and significant environmental regulations, under Commonwealth, State or Territory legislation. MBF has implemented a process to identify its environmental impacts, and related particular and significant environmental regulations that the operations of MBF may be subject to. The Board of Directors is not aware of any breach of particular or significant environmental regulations as they may apply to MBF.

### Meetings of Directors

The following table sets out the number of meetings of the Company's Board of Directors and of the Audit Committee, Remuneration Committee and Nomination Committee held during the year ended 30 June 2005, and the number of meetings attended by each Director. Other additional Board committees were formed from time to time to deal with specific topics.

Number of meetings	Full Meeting of Directors		Audit Committee		Remuneration Committee		Nomination Committee	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
Mr John Allpass	10	10	6	6	*	*	*	*
Mr Graham Bradley	9	10	*	*	4	5	3	3
Mr John Conde AO	10	10	3	*	5	5	3	3
Dr Brett Courtenay	10	10	*	*	*	*	3	3
Mr Eric Dodd	10	10	4	**	5	**	3	**
Mr Richard Humphry AO	8	8	*	*	*	*	*	*
Mr Frank Martin	10	10	6	6	*	*	3	3
Ms Susan Oliver	9	10	6	6	5	5	*	*
Dr Ross Wilson	8	10	*	*	*	*	*	*

\* Not a member of the relevant committee

\*\* Mr Eric Dodd attended committee meetings by invitation in his capacity as Managing Director/CEO.

### Directors' remuneration

The Remuneration Committee, comprising of Non-Executive Directors as shown above, advises the Board on remuneration packages and other terms of employment for Directors.

Non-Executive Directors' fees are determined by the Board, within the aggregate amount (excluding retirement benefits and remuneration for special duties) and approved by the MBF Council. The current maximum aggregate amount, which may be paid in Directors' fees, as approved at the Annual General Meeting on 7 November 2004, is \$1,000,000 per annum. No Directors' fees are paid to executive Directors.

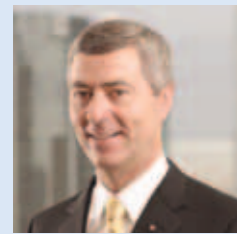
Details of remuneration for services provided to the Company are set out in the table below :

Non-executive Directors	Directors' fees \$	Superannuation \$	Other <sup>(1)</sup> \$	Total \$
Mr John Allpass	68,967	6,821	1,962	77,750
Mr Graham Bradley	57,076	5,645	1,181	63,902
Mr John Conde AO	145,946	10,857	1,369	158,172
Dr Brett Courtenay	57,076	5,645	1,403	64,124
Mr Richard Humphry AO	41,257	4,124	731	46,112
Mr Frank Martin	61,832	6,115	1,350	69,297
Ms Susan Oliver	61,832	6,115	2,366	70,313
Dr Ross Wilson	57,496	5,686	150	63,332
			<b>Total</b>	<b>613,002</b>

(1) Includes private health insurance subsidy and travel allowance to cover incidental travel costs on the Company.

In addition to the above, non-executive Directors who served on the Boards of MBF Life Limited and ClearView Financial Management Limited, received fees for their services to these Boards. Note 23 of the full financial report provides details of total remuneration paid to all Directors, both executive and non-executive, for services during the financial year.

## Information on Directors

**Mr John Conde AO**

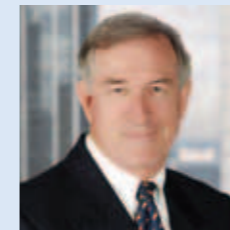
Director	MBF Australia Limited
MBF Committees	MBF Nomination Committee MBF Remuneration Committee
<b>Qualifications</b>	B.Sc., BE Hons (Electrical), MBA (Harv)
<b>Experience</b>	
President	Commonwealth Remuneration Tribunal Dermatology Research Foundation, University of Sydney
Chairman	EnergyAustralia DownTown Utilities Pty Limited NSW Corporate Fundraising Committee – Australian Olympic Games Team Fund Asthma (NSW) Corporate Advisory Committee
Director	Excel Coal Limited PowerTel Limited Sydney Symphony Orchestra The Australian Elizabethan Theatre Trust AETT (Management) Pty Limited
Member	Australian Scout Education and Training Fund Committee Art Gallery of NSW President's Council Grant Samuel Advisory Board
Former President	National Heart Foundation of Australia
Former Chairman	Pymble Ladies' College Council Australian Technology Park Sydney Limited Broadcast Investments Holding Pty Limited (2UE, 4BC, NWS:9 and other related interests)
Former Director	BHP Billiton Ltd Lumley General Insurance Limited Lumley Finance Limited Lumley Corporation Pty Limited ClearView Life Nominees Pty Limited
Former Member	Commonwealth Remuneration Tribunal (Acting President until June 2003)

**Mr Eric Dodd**

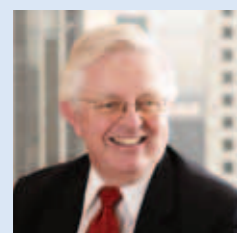
<b>MBF Managing Director/CEO</b>	
Director	MBF Australia Limited
<b>Qualifications</b>	B.Ec., FCA, FAICD
<b>Experience</b>	
Chairman	First American Title Insurance Company of Australia Pty Limited Odyssey House
Director	Mosman Church of England Preparatory School Board
Member	Business Council of Australia (BCA) Committee for Economic Development of Australia (CEDA)
Former President	Insurance Council of Australia (ICA)
Former Director	The Australian Banking Industry Ombudsman Ltd Australian Health Insurance Association (AHIA)
Former Member	Executive Committee Australian Bankers' Association

**Mr John Allpass**

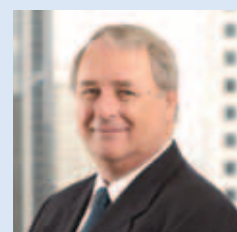
Director	MBF Australia Limited
MBF Committees	Chairman, MBF Group Audit Committee Chairman, MBF Financial Services Audit Committee
<b>Qualifications</b>	FCA, FCPA, FAICD
<b>Experience</b>	
Chairman	Envestra Limited National Trust St John's Cathedral Completion Fund
Director	Macquarie Bank Limited Queensland Investment Corporation
Member	Salvation Army Advisory Board (Brisbane)
Councillor	St John's College, University of Queensland
Former Chairman	Macquarie Life Limited
Former Director	Wesley Hospital Group
Former Partner	KPMG (1971-1993)
Former Managing Partner	KPMG (Qld) (1984-1993)
Former Member	KPMG National Board (1984-1993)

**Mr Graham Bradley**

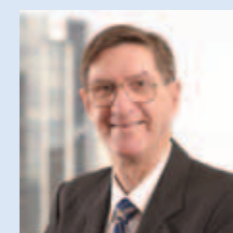
Director	MBF Australia Limited
MBF Committees	MBF Nomination Committee MBF Remuneration Committee
<b>Qualifications</b>	BA, LLB, LLM
<b>Experience</b>	
Chairman	Anglo American Australia Limited Film Finance Corporation Australia Limited Proteome Systems Limited Garvan Research Foundation Sydney Community Foundation HSBC Bank Australia Limited
Director	Stockland Corporation Limited Singapore Telecommunications Limited Queensland Investment Corporation O'Connell Street Associated Pty Limited Garvan Institute of Medical Research Brandenburg Ensemble Limited National Gallery of Australia Foundation The Marvin Bower Institute
Former Director	Perpetual Trustees Australia Limited (and subsidiary companies) ASX Perpetual Registrars Limited The Perpetual Foundation
Fellow	Australian Institute of Company Directors

**Dr Brett Courtenay**

Director	MBF Australia Limited
MBF Committees	MBF Nomination Committee
<b>Qualifications</b>	MB, BS, FRACS, FAOrthA
<b>Experience</b>	
Chairman	St Vincent's Clinic Orthopaedic Reference Group of the South Eastern Sydney Area Health Board
Director	Muwesi Pty Limited St Vincent's Clinic
Member	MBF Nomination Committee Australian Orthopaedic Association Australian Knee Society Australian Medical Association American Academy Orthopaedic Surgeons International Cartilage Repair Society Osteoarthritis Research Society Army Reserve International Society
Former Chairman	Orthopaedics, St Vincent's General Hospital Medical Records Committee, St Vincent's Private Hospital Medical Staff Council, St Vincent's Clinic
Former Member	Surgical Advisory Committee, St Vincent's Private Hospital Medical Council, St Vincent's DSU Advisory Committee, St Vincent's

**Mr Richard Humphry AO**

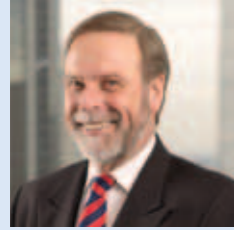
Director	MBF Australia Limited
<b>Qualifications</b>	FCA, FCPA, FAICD, AAIB, MACS
<b>Experience</b>	
Chairman	Business Council of Australia Regulatory Task Force
Director	United Group Limited Australian Clearing House Pty Ltd ASX Settlement and Transfer Corporation Pty Ltd Zoological Parks Board of New South Wales
Consultant	Advisory Director to Morgan Stanley
Member	Administrative Review Council, Attorney General's Department Foreign Affairs Council Financial Reporting Council, Treasury International Accounting Standards Foundation Board
Former Chairman	ASX Operations Pty Limited
Former Managing Director	Australian Stock Exchange
Former Director	Garvan Medical Research Foundation

**Mr Frank Martin**

Director	MBF Australia Limited
MBF Committees	MBF Group Audit Committee MBF Financial Services Audit Committee MBF Nomination Committee
<b>Qualifications</b>	AAUQ, FAIM, FAICD
<b>Experience</b>	
Chairman	Credit Union Financial Support System Limited
Acting Chairman/Member	Community Services Commission - Anglican Church of Australia, Diocese of Brisbane
Director	Fresh Plus Convenience Stores Pty Limited Everhard Industries Pty Limited Sibad Investments Pty Limited
Member of Board Audit Committee	Australian Institute of Management (QLD)
Life Member	Australian Institute of Management (Old)
Former Chairman	Queensland Office of Financial Supervision Medical and Commercial Finance Corporation Limited Funds Transfer Services Queensland Limited
Former Director and General Manager Former General Manager	Suncorp Building Society Limited, and Suncorp Finance Limited
Former President	Motel Corporation Australia Limited
Former State President	Queensland Association of Permanent Building Societies Limited Australian Institute of Management - QLD/NT
Former Councillor	Mortgage Industry Association of Australia (QLD) Enterprise Australia (QLD)
Former Member	Advisory Board, Centre for Australian Financial Institutions Committee of Management

**Ms Susan Oliver**

Director	MBF Australia Limited
MBF Committees	Chairman, MBF Remuneration Committee MBF Group Audit Committee MBF Financial Services Audit Committee
<b>Qualifications</b>	B Building (Quantity Surveying) (now Degree of Property and Construction), University of Melbourne, FAICD
<b>Experience</b>	
Director	Transurban Group Limited Programmed Maintenance Services Limited Methodist Ladies' College Limited, Melbourne Australian Business Foundation Limited
Governor	The Smith Family
Former Chairman	Screen Sound Australia
Former Managing Director	Australian Commission for the Future Ltd
Former Director	The Swish Group Ltd The Smith Family

**Dr Ross Wilson**

Director MBF Australia Limited

**Qualifications** MB BS, Fellow Royal Australian College of Physicians, ECFMG (USA), VQE (USA), FLEX (USA)

**Experience**

Chairman National Medication Safety Taskforce

Director Northern Centre for Healthcare Improvement NSH  
QaRNS (Hospital wide quality improvement program)

Member Australia and New Zealand Intensive Care Society  
Australian Council for Safety and Quality in Healthcare  
Editorial Board Member, British Medical Journal  
International Expert Advisory Panel on Patient Safety, World Health Organisation  
International Society for Quality Improvement in Health Care  
Northern Sydney Area Health Service Quality Council

Former Chairman Medical Advisory Committee, NSW Ambulance Service  
Ministerial Advisory Committee on the Quality of Healthcare, NSW Minister for Health

Former Deputy Chairman Division of Medicine, RNSH  
Institute for Clinical Excellence  
NSW Ambulance Service

**Company secretary**

The following persons were Company Secretaries of MBF Australia Limited during the financial year:

Allison Jane Smart (BCom / LLB, Masters of Health Law, Grad Dip in Company Secretarial Practice, FCIS) was appointed General Counsel in May 2001 and Company Secretary in September 2002. She resigned as Company Secretary on 17 June 2005 (for maternity leave).

José Antonio Fernicola (B.Bus (Accy) / LLB) joined MBF Australia Limited as a Senior Lawyer in January 2004 and was appointed Company Secretary and General Counsel on 10 June 2005.

**Indemnification and insurance of Directors and Officers**

During the period, the ultimate parent entity, MBF Australia Limited, incurred a premium for a "Directors and Officers Liability Policy" covering all past, present and future Directors and executive officers of the MBF Group. This policy covers these persons against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct whilst acting in the capacity of officer of the company, other than conduct involving a wilful breach of duty in relation to the company.

**Rounding of amounts**

The company is of a kind referred to in Australian Securities and Investments Commission Class Order 98/0100 dated 10 July 1998 pursuant to section 341(1) of the Corporations Act 2001, relating to the 'rounding off' of amounts in the Financial Report and the Director's Report. In accordance with that Class order, amounts therein have been rounded off to the nearest thousand dollars, except where otherwise indicated.

**Auditor**

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

A copy of the auditor's independence declaration, as required under section 307C of the Corporations Act 2001 is set out on page 42. This report is made in accordance with a resolution of the Directors of the Company.

**JOHN CONDE AO**

Chairman

Sydney, 2 September 2005

PricewaterhouseCoopers  
ABN 52 780 433 757

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## Auditors' Independence Declaration

As lead auditor for the audit of MBF Australia Limited for the year ended 30 June 2005, I declare that to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of MBF Australia Limited and the entities it controlled during the period.



Peter Merrett  
Partner  
PricewaterhouseCoopers

Sydney  
2 September 2005

# Consolidated Statement of Financial Performance

For the year ended 30 June 2005

	2005 \$'000	2004 \$'000
<b>Non-life insurance operating activities</b>		
Contribution income	1,833,720	1,699,702
Investment income	263,686	153,627
Other income from operating activities	11,038	9,095
Revenue from non-life insurance operating activities	2,108,444	1,862,424
Proceeds from sale of non-current assets	66,948	1,857
<b>Life insurance operating revenue</b>		
Insurance premium revenue	29,066	14,026
Reinsurance recoveries	1,201	949
<b>Revenue from ordinary activities</b>	<b>2,205,659</b>	<b>1,879,256</b>
Net cost of member benefits	(1,613,925)	(1,469,329)
Employee benefits expense	(109,817)	(91,001)
Depreciation and amortisation expense	(22,310)	(17,389)
Carrying amount of non-current assets sold	(56,625)	(2,458)
Other expenses from ordinary activities	(107,675)	(115,155)
Outward reinsurance expense - life business	(2,621)	(1,410)
Life insurance claims expense	(13,695)	(4,927)
Life insurance administration expense	(13,439)	(5,006)
Increase in net policy liabilities	(106,025)	(52,886)
<b>Profit from ordinary activities before income tax expense</b>	<b>159,527</b>	<b>119,695</b>
Income tax expense	(13,024)	(6,258)
<b>Profit from ordinary activities after income tax expense</b>	<b>146,503</b>	<b>113,437</b>
Net profit attributable to outside equity interest	(22,981)	(13,227)
<b>Net profit attributable to members of MBF Australia Limited</b>	<b>123,522</b>	<b>100,210</b>
Net increase/(decrease) in reserves	-	(3,719)
<b>Total revenues, expenses and valuation adjustments recognised directly in reserves</b>	<b>-</b>	<b>(3,719)</b>
<b>Total changes in equity attributable to members of MBF Australia Limited</b>	<b>123,522</b>	<b>96,491</b>

The above consolidated statement of financial performance should be read in conjunction with the accompanying notes and discussion and analysis.

# Discussion and Analysis of Consolidated Statement of Financial Performance

For the year ended 30 June 2005

## Basis of consolidated financial information

The 2005 consolidated net profit after tax attributable to the members of MBF Australia Limited is \$123.522 million, representing an increase of \$23.312 million from 2004. This increase is the result of continued growth in all areas of the Group's businesses and strong investment results.

The consolidated result for 2005 also includes the first full year result from the acquisition of our Financial Services businesses. As these businesses were acquired on 21st January 2004, the comparative figures only include the results of these operations from this date.

The Statement of Financial Performance includes amounts in respect of both shareholder and policyholders of the Group's life insurance operations.

## Premium and related revenue

Contribution income increased by \$134.018 million during the year due to increases in average premium rates compared with the previous year and the growth in the membership base.

## Investment income

Investment income comprises the net gains and losses on all investments held by the MBF Group.

A significant proportion of these investment earnings accrue to the benefit of policyholders in the financial services business.

Investment income has increased by \$110.059 million to \$263.686 million for the year. This substantial increase is due to favourable investment markets, increased net inflow into investment products and full year results for the Financial Services businesses.

## Insurance premium revenue

Direct life insurance risk premium increased to \$29.066 million for the year. The increase in premium reflects both a full year of operations and the result of increased direct mail activity during the year, consistent with the Group's commitment to growing the scale of MBF Life Limited.

## Net cost of member benefits

The net cost of member benefits increased by \$144.596 million from the prior year, primarily due to increased hospital, medical and prosthesis payments for our members.

## Carrying amount of net asset sold

The carrying amount of net assets sold includes the Sydney and Brisbane CBD properties, which had a carrying value of \$55.301 million.

## Life insurance claims expense

The increase in the life insurance claims expense reflects a full year of operations and a decision to strengthen the claims reserves for incurred but not reported claims.

## Life insurance administration expense

The life insurance administration expense reflects a full year of operations and has increased in line with the increase in the scale of the business.

## Increase in net policy liabilities

The movement in net policy liabilities includes the revenues and expenses attributable to MBF Life Limited's life insurance funds. The value of policyholder liabilities has increased during the year due to increased sales and investment growth, and a decrease in redemptions.

## Net profit attributable to outside equity interest

Net profit attributable to outside equity interests amounts to \$22.981 million and reflects the portion of MBF Life Limited's net profit from investment in controlled unit trusts, that are held directly or indirectly by entities outside the consolidated entity.

# Consolidated Statement of Financial Position

As at 30 June 2005

	2005 \$'000	2004 \$'000
<b>Current assets</b>		
Cash assets	242,072	512,761
Receivables	88,275	89,447
Investments	589,219	438,968
Other	1,006	1,418
<b>Total current assets</b>	<b>920,572</b>	<b>1,042,594</b>
<b>Non-current assets</b>		
Property, plant and equipment	21,856	68,299
Deferred tax assets	2,530	7,391
Intangible assets	90,217	105,531
Other	414	339
<b>Total non-current assets</b>	<b>115,017</b>	<b>181,560</b>
Life insurance investment assets	1,410,514	1,093,228
Gross life insurance policy liabilities ceded under reinsurance	(11,898)	(14,349)
<b>Total assets</b>	<b>2,434,205</b>	<b>2,303,033</b>
<b>Current liabilities</b>		
Payables	62,864	75,853
Current tax liabilities	9,725	3,696
Provisions	199,027	168,437
Contributions paid in advance	215,772	195,910
Premiums in advance	113	42
<b>Total current liabilities</b>	<b>487,501</b>	<b>443,938</b>
<b>Non-current liabilities</b>		
Deferred tax liabilities	5,115	4,258
Provisions	1,469	1,540
<b>Total non-current liabilities</b>	<b>6,584</b>	<b>5,798</b>
Gross policyholder liabilities	1,203,193	1,010,388
<b>Total liabilities</b>	<b>1,697,278</b>	<b>1,460,124</b>
<b>Net assets</b>	<b>736,927</b>	<b>842,909</b>
<b>Equity</b>		
Members' subscribed capital	28	28
Reserves	-	8,265
Retained profits	699,740	567,953
<b>Total parent entity interest</b>	<b>699,768</b>	<b>576,246</b>
Outside equity interest in controlled entities	37,159	266,663
<b>Total Equity</b>	<b>736,927</b>	<b>842,909</b>

The above consolidated financial position should be read in conjunction with the accompanying notes and discussion and analysis.

# Discussion and Analysis of Consolidated Statement of Financial Position

As at 30 June 2005

## Basis of consolidated financial position

The consolidated financial position incorporates the assets and liabilities of MBF Australia Limited and its controlled entities. The assets and liabilities include both the shareholder and policyholder's interests of Group's life insurance operations.

## Cash assets

The Group completed the sale of its direct property holdings in Brisbane and Sydney during the year for a total consideration of \$64.611 million which added to the cash held within the group.

Despite this increase there was an overall reduction in cash assets at 30 June 2005 of \$270.689 million primarily due to a transfer of cash to investments and to life insurance investment assets.

## Investments

The value of the investment portfolio has increased primarily due to the improved Australian and International equities markets and the transfer from cash as noted above. The Group now also holds all its exposure to property via unit trusts.

## Property plant and equipment

The reduction in property plant and equipment during the year reflects the sale of the Sydney and Brisbane CBD properties which had a carrying value of \$55.301 million.

## Deferred tax balances

The deferred tax assets comprise Future Income Tax Benefits relating primarily to timing differences

## Intangible assets

The net reduction of \$15.314 million is attributable to a \$0.412 million adjustment in the value of acquired goodwill and the amortisation of goodwill being \$15.726 million.

## Life insurance investment assets

Life insurance investment assets increased by \$317.286 million during the year resulting from improved investment markets, a transfer from cash as noted above and strong net inflows into our Financial Services business.

## Provisions

The primary increase in provisions relates to an increase of \$28.323 million in the provision for unrepresented claims.

## Contributions paid in advance

Private health insurance contributions paid in advance have increased by \$19.862 million which can largely be attributed to the increase in average premium over the prior year and the growth in the membership bases.

## Gross policyholder liabilities

The movement in policy liabilities relates to the increase in the value of investment policies maintained on behalf of MBF Life Limited policyholders. This increase is the result of increases in the policyholder base as well as investment earnings on policies.

## Reserves

The revaluation reserves relating to the Brisbane and the Sydney properties, were transferred to retained earnings during the year as these properties have now been disposed of.

## Outside equity interest

This is the conventional accounting approach to adjust for net assets that are attributable to the minority interests in controlled entities. During the year, this value decreased as a result of the disposal of two previously controlled entities.

# Consolidated Statement of Cash Flows

For the year ended 30 June 2005

	2005 \$'000	2004 \$'000
<b>Cash flows from operating activities</b>		
Contributions from members	1,851,707	1,720,763
Fees and commissions	10,344	7,551
Premiums and deposits received	190,355	160,003
Policy and withdrawal payments	(102,143)	(136,113)
Income tax paid	(3,883)	(2,324)
Receipts from reinsurance recoveries	64,316	74,394
Benefits and levies paid	(1,674,686)	(1,541,576)
Payments to suppliers and employees	(231,287)	(201,502)
Interest received	106,712	20,296
Dividends received	28,788	6,597
Interest and other costs of finance paid	-	(45)
Rent received	694	3,062
<b>Net cash inflow from operating activities</b>	<b>240,917</b>	<b>111,106</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(16,578)	(9,492)
Payments for acquisition of controlled entities	-	(316,646)
Inflow of cash on acquisition of controlled entities	-	364,766
Proceeds from sale of property, plant and equipment	66,948	1,853
Purchase of investments	(2,204,928)	(1,634,591)
Proceeds from sale of investments	1,872,456	1,824,131
<b>Net cash (outflow)/inflow from investing activities</b>	<b>(282,102)</b>	<b>230,025</b>
<b>Cash flows from financing activities</b>		
Proceeds from the issue of units	753,625	250,867
Redemption of units	(983,129)	(180,442)
<b>Net cash (outflow)/inflow from financing activities</b>	<b>(229,504)</b>	<b>70,425</b>
<b>Net (decrease)/increase in cash held</b>	<b>(270,689)</b>	<b>411,556</b>
Cash at the beginning of the financial year	512,761	101,205
<b>Cash at the end of the financial year</b>	<b>242,072</b>	<b>512,761</b>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes and discussion and analysis.

# Discussion and Analysis of Consolidated Statement of Cash Flows

For the year ended 30 June 2005

## Total cash flow

Total cash decreased by \$270.689 million to \$242.072 million primarily due to a transfer of cash to investment assets and to life insurance investment assets.

## Cash flows from operating activities

Net cash inflows from operating activities increased by \$129.811 million to \$240.917 million with the following significant movements:

- Contributions from members increased by \$130.944 million, which can largely be attributed to the increase in average premium over the prior year and the growth in the membership base.
- Benefits and levies paid increased by \$133.110 million driven by growth in hospital benefits, ancillary and medical benefits paid.

## Cash flows from investing activities

Net cash outflows from investing activities of \$282.102 million predominantly represents a net purchase of investment assets.

## Cash flows from financing activities

Net cash flows from financing activities decreased by \$299.929 million.

- Cashflows from financing activities relate to the investment activities of the trusts in which the business invests. During the year the financial services businesses restructured their investment holdings resulting in funds being transferred out of externally managed unit trusts into trust managed by the Group.

# Notes to the Consolidated Financial Statements

30 June 2005

## Note 1 - Basis of preparation of the Consolidated Financial Statements

This concise financial report relates to the consolidated entity consisting of MBF Australia Limited and the entities it controlled at the end of, or during, the year ended 30 June 2005. It has been derived from the full financial report for the financial year. The concise financial report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities of MBF Australia Limited as the full financial report.

The consolidated financial statements have been prepared in accordance with Accounting Standard AASB 1039: Concise Financial Reports. They have been prepared in accordance with the historical cost convention, except for traded investments and certain non-current assets that are at valuation. The accounting policies adopted are consistent with those of the previous year.

The company is a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in financial reports. Amounts in the concise report have been rounded off in accordance with that Class Order to the nearest thousand dollars.

## Note 2 - Full financial report

A copy of the MBF Australia Limited full financial report for the year ended 30 June 2005 including the independent audit report, is available to members upon request, free of charge. Please call (02) 9323 9720 and a copy will be forwarded to you.

## Note 3 - Segment reporting

The group operates solely in Australia in two key business segments:

- private health insurance: representing health and medical insurance cover
- financial services: representing life insurance, wealth management, and superannuation businesses.

2005 Statement of financial performance	Private Health Insurance \$000	Financial Services \$000	Eliminations \$000	Consolidated \$000
Total revenue	1,998,082	248,008	(40,431)	2,205,659
<b>Result</b>				
Profit/(loss) from ordinary activities before income tax	145,930	43,787	(30,190)	159,527
Income tax Expense	4,054	6,606	(2,378)	8,282
Deferred income tax expense	-	1,157	-	1,157
Contribution tax expense	-	3,585	-	3,585
	4,054	11,348	(2,378)	13,024
Profit/(loss) from ordinary activities after income tax	141,876	32,439	(27,812)	146,503
Net profit attributable to outside shareholder interests		(22,981)		(22,981)
Net profit (loss) from ordinary activities after income tax and outside shareholders interest	141,876	9,458	(27,812)	123,522
<b>Statement of financial position</b>				
Total assets	1,532,926	1,450,014	(548,735)	2,434,205
Total liabilities	(757,001)	(1,254,658)	314,383	(1,697,278)



We also performed an independent audit of the full financial report of the company for the financial year ended 30 June 2005. Our audit report on the full financial report was signed on 2 September 2005, and was not subject to any qualification.

In conducting our audit of the concise financial report, we performed procedures to assess whether in all material respects the concise financial report is presented fairly in accordance with Australian Accounting Standard AASB 1039: *Concise Financial Reports*.

We formed our audit opinion on the basis of these procedures, which included:

- testing that the information included in the concise financial report is consistent with the information in the full financial report, and
- examining, on a test basis, information to provide evidence supporting the amounts, discussion and analysis, and other disclosures in the concise financial report which were not directly derived from the full financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the concise financial report.

## Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.



PricewaterhouseCoopers



Peter Merrett  
Partner

Sydney  
2 September 2005