

6 May 2020

Letter from the Chairman and CEO

Medibank attaches a joint letter to shareholders from its Chairman Elizabeth Alexander AO and CEO Craig Drummond.

This document has been authorised for release by the Board.

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Medibank letter to shareholders

Dear shareholders,

As your Chairman and CEO, we write to you during what is a challenging time.

There is nothing normal about the way we have all been living and working throughout the COVID-19 pandemic – it has significantly affected us all and the health and economic impacts have been severe.

Our focus has been on supporting our people, customers and the community during this time, and as shareholders of this company we wanted to update you on how we have responded to COVID-19 and reiterate that we remain strongly positioned within the broader healthcare industry.

We are supporting our customers

Among our customers, we have seen the majority hold onto their insurance for the peace of mind that it provides.

But we understand that our customers have been confronted with enormous uncertainty and profound stress, with many Australians already facing the stark reality of losing their jobs. Nothing could have prepared Australian households for this.

That's why we have introduced a number of measures to assist our customers, which include:



Initial customer support package valued at more than \$50 million

Regardless of an existing customer's level of hospital cover, Medibank and ahm are paying benefits towards chest, heart, lung and kidney hospital admissions, including those related to COVID-19, benefiting 1 million customers. Eligible customers also have the option to suspend their cover or access some relief on their premiums. We have seen just over 1% of customers suspend their policies which is well within our expectations.



Premium increases postponed

Medibank and ahm postponed premium increases for 6 months for all customers, until October 2020. This is approximately a \$120 million saving for customers.



Extended access to telehealth

Medibank and ahm customers can now claim for a range of consultations delivered by phone or video (otherwise known as telehealth) as part of their Extras cover. We've added 7 additional Extras services such as psychology, physiotherapy and dietetics to telehealth during COVID-19.



COVID-19 Health Assist

Medibank has brought together its broad range of health services to develop COVID-19 Health Assist, a program of customised health and wellbeing support for customers throughout the COVID-19 pandemic.

We are committed to returning any permanent COVID-19 related benefits, in excess of the current package outlined above, to our customers once they are known savings.

We've also been focused on supporting the broader community during this time. That's why we donated \$5 million to Beyond Blue for their new COVID-19 mental wellbeing and support service and we also launched a free online program for all Australians offering work out videos, cooking demonstrations and guided meditations for people to do from the comfort of their own home.

Our long-term strategy is unchanged

Medibank's strategy is the right strategy to navigate through this health and economic crisis. The Executive Leadership Team remains focused on differentiating our private health insurance business through leveraging our dual brand strategy while also transforming into a broader healthcare company.

The health sector in particular has undergone enormous change and its response to COVID-19 has been extraordinary. The sector has shown that it can adapt, change and collaborate where needed.

That said, reform is just as important as it ever was and we will continue to advocate for our customers, particularly in the area of affordability.

Outlook and dividends

You may be asking yourselves what impact COVID-19 will have on Medibank's performance and shareholder dividends.

What we've told the market today in an update, is that despite the challenging market conditions, there is no overall change to our FY20 financial outlook. Medibank's FY20 dividend, as per usual, will be determined by the board in mid-August when it is announced as part of our financial results. You can read more about our update on our [investor centre](#).

And you'll be pleased to know that when it comes to our costs, we remain focused on our productivity program, with our management expenses expected to be approximately \$545 million (comfortably below last year's \$560.1 million).

Looking ahead

The longer-term impacts of COVID-19 are less certain. The affordability of private health insurance has been a challenge for many Australians over recent years and uncertainty over the speed at which the economy can recover from COVID-19 will likely keep affordability at the forefront of issues we face.

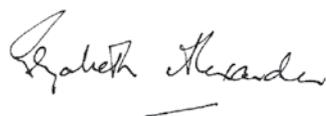
However, private health insurance will continue to offer customers choice in who, how, when and where their healthcare is provided and will arguably be even more important as the public healthcare system seeks to recover post COVID-19.

Rest assured, Medibank remains strongly positioned in the broader health industry. Our capital position remains strong and our balance sheet is debt free.

We extend our thanks to the Executive Leadership Team and Medibank's 4,000 employees who have done an extraordinary job in helping your company navigate COVID-19.

And lastly, we thank you as shareholders for your ongoing support and hope that you are proud of how your company has responded to COVID-19.

Best wishes and stay safe,



Elizabeth Alexander AO
Chairman



Craig Drummond
CEO

FY20 outlook update

	Full year outlook at 1H20 result	Current outlook
Policyholder growth	On the current trajectory, we continue to expect Medibank brand volumes to stabilise by the end of FY20 and grow during FY21	Underlying policyholder growth since March modestly below expectations, with lower acquisition (closed stores) offset in part by improved retention Policyholder suspensions associated with customer support package expected to be largely temporary
Utilisation and claims	We expect hospital and ancillary utilisation to remain around current levels for the remainder of FY20 We also expect approximately 3% underlying claims growth per policy unit for FY20	No change, excluding impact of COVID-19
Management expenses	Management expenses are expected to be approximately \$540 million for FY20 We will provide an update on our productivity program with our FY20 result	Management expenses are expected to be approximately \$545 million for FY20 which includes \$5 million donation to Beyond Blue which offsets the previous savings expected from lower incentives No change to productivity program
Health Insurance earnings	As a result of the combination of factors above, we are confident that Health Insurance earnings will be higher in the second half of FY20	No change. We commit that any permanent COVID-19 related benefits in excess of the current package will be assessed when they are known and returned to our customers
Capital	Targeted inorganic growth for Medibank Health and Health Insurance remain areas of focus Dividend payout ratio expected to be at or above the top end of our revised target range of 75%-85% We will review our capital management options with our FY20 result	No change