

CHIEF EXECUTIVE OFFICER'S REPORT



Danie Meintjes
Chief Executive Officer

THE GROUP CONTINUES TO EVALUATE INVESTMENT OPPORTUNITIES TO GROW OUR FOOTPRINT BEYOND THE EXISTING OPERATING PLATFORMS AND REGIONS THAT WILL ADD LONG-TERM VALUE TO THE SHAREHOLDERS

PATIENT SATISFACTION

81%

MEDICLINIC
SOUTHERN AFRICA

92%

HIRSLANDEN

81%

MEDICLINIC
MIDDLE EAST

We are pleased to report that Mediclinic International continued to deliver good revenue growth in business for the financial year under review. Our three operating platforms in Southern Africa, the Middle East and Switzerland have all achieved good growth in patient attendances, which translated into good earnings growth for the Group. The Group's earnings, which are reported in South African rand, were positively impacted by the further depreciation of the South African rand to the Swiss franc and the UAE dirham for the period under review. Our offshore platforms contributed 68% of the Group's earnings in 2015.

BUSINESS AND POLITICAL ENVIRONMENT

According to the World Bank's latest Global Economic Prospects report, issued in January 2015, the growth in the global economy is still struggling to gain momentum. International trade slowed down in recent years. Oil prices fell sharply in the second half of 2014, which had significant macroeconomic implications. If sustained, it will support activity and reduce inflationary and fiscal pressures in oil-importing countries while adversely affecting oil-exporting countries. The world GDP is forecasted to grow by an estimated 3% in 2015.

South Africa is expected to experience slow but steady economic growth of 2.2%¹ for 2015. The persistent high unemployment rates, inadequate infrastructure and electricity generation capacity and the volatility of the rand continue to impact the South African economy. On the regulatory front, the South African Competition Commission has commenced with a market inquiry into the private healthcare sector in South Africa. Mediclinic Southern Africa is actively participating in the market inquiry and has engaged an experienced team of economists and legal experts to guide it through the process. The South African regulatory environment has also seen the publication of new draft legislation relating to the establishment of the Office of Health Standards Compliance and its functions dealing with the norms and standards

applicable to health establishments, as well as regulations relating to the licensing of hospital facilities. We continued to experience good growth in the demand for our services within the Mediclinic Southern Africa operations.

Switzerland's economy has performed well in the aftermath of the global financial crisis. Growth reached 2%² in 2014, but is expected to slow down to around 0.8%³ in 2015. The exchange rate appreciation in early 2015, which followed the removal of the peg of 1.20 francs per euro, has weakened the near-term economic outlook, mainly due to weaker exports. The strong franc, together with lower oil prices, is likely to drive inflation down to around -1.5%³ by late 2015. Notwithstanding a low population growth, the ageing population continues to support growth in the demand for medical services. In Switzerland, 17.5% of the population is older than 65 years compared to the 6.3% in South Africa and 1% in the UAE (Source: *CIA World Factbook*). On the regulatory front, Switzerland implemented changes to the TARMED price catalogue (TARMED is a standardised fee schedule that covers all clinical outpatient clinical services). The changes reduced remuneration for specialist technical services while increasing the amount primary care doctors and paediatricians will receive per visit. The projected impact of these changes, which came into effect on 1 October 2014, on the revenue of Hirslanden is a reduction of approximately CHF5m for the financial year. Since the introduction of the new hospital financing system in Switzerland, Hirslanden continues to experience a shift in the mix of insurance towards general insurance supporting volume growth but at a lower margin.

Despite the continued political instability in some areas in the Middle East, the United Arab Emirates offers a safe haven for many people in the region. There is a noticeable increase in population leading to an increased demand for medical services. In the United Arab Emirates, a real GDP growth of around 3.5%² is expected in 2015. The Dubai Health Authority ("DHA") has begun initiating healthcare

¹ World Bank's Global Economic Prospects report – January 2015

² International Monetary Fund's World Economic Outlook report – April 2015

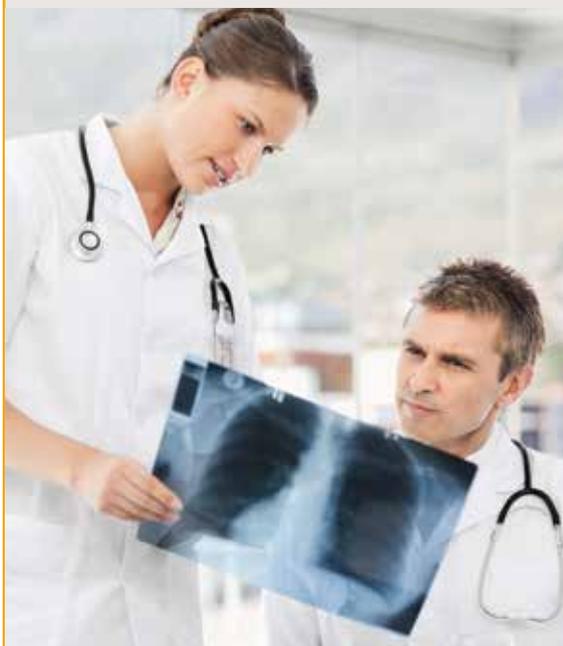
³ IMF: Concluding Statement of the 2015 Article IV Mission

STRATEGIC PRIORITIES

With the objective to create long-term shareholder value, the Group has set the following strategic focus areas for the year under review:

- Patients first
- Integrated healthcare systems provider
- Employee engagement
- Unlocking the benefits of an international group
- Financial performance
- Growth

We are pleased to report the following progress on these focus areas.



reform across Dubai. These changes are intended to ensure that all individuals have a health insurance plan and to change the way healthcare is managed. Dubai's new Health Insurance Law requires employers to provide medical insurance coverage for their staff. The introduction of mandatory health insurance in Dubai is not expected to have a significant impact on the results of the Group.

Notwithstanding the ongoing changes in the world and regional economies and the continued regulatory changes impacting the healthcare environments in which we operate, we continue to see a strong demand for quality private healthcare services in all three operating platforms.

PATIENTS FIRST

The Group continued to focus on various patients first initiatives across all three platforms with the aim of further improving the patient experience. We are re-focusing our efforts to deliver coordinated and integrated patient-centred care in all our facilities. The objective is to provide superior clinical outcomes in a safe clinical environment, while we continuously improve the patient's general service experience.

Ensuring patient safety remains the number one priority for our Group. We successfully launched various initiatives during the year in support of this goal. For comprehensive feedback on patient safety you are referred to the **Clinical Services Report**.

The Group further embarked on a process to implement a single, standardised patient experience measurement index that would contribute to operational excellence and patient safety across all our platforms. The world-renowned Press Ganey group was engaged to assist Mediclinic, through its surveying approach, to objectively evaluate and analyse the patient experience at our facilities. The first surveys were successfully implemented and the data will provide improved insights to assist management in developing targeted action plans for improvement, specific to each of the facilities.



INTEGRATED HEALTHCARE SYSTEMS PROVIDER

Due to unique country-specific, historical and regulatory circumstances our three operating platforms follow different clinical healthcare delivery models. These vary from a more fragmented model in Mediclinic Southern Africa to a more coordinated healthcare model in Hirslanden and an integrated model at Mediclinic Middle East.

With the aim to ensure that Mediclinic deliver consistent cost-effective care and superior clinical outcomes at every facility, we have embarked on a number of projects to gradually move towards a better integrated clinical healthcare delivery model. The key focus area is to put the patient first through improved collaboration and coordination between the various clinical care providers in the clinical care process. We believe that closer alignment and cooperation with our doctors and a redefining of the ownership of the care process will add significant value to our patients, doctors and other stakeholders. Medical specialists, irrespective of the clinical model, represent the core of the Group's clinical delivery capacity. We recognise the importance to identify, attract and retain leading specialists at our facilities. We also realise that the transformation towards becoming a more integrated healthcare provider will need the buy-in and support of our specialists. Effective and open communication with our supporting clinicians will be a key success factor to support this initiative.

During the year we have further invested in the capacity of our clinical structures and clinical information systems across the Group. These initiatives have improved our collaboration on clinical governance processes, sharing of clinical best practices and the measurement of clinical outcomes.

EMPLOYEE ENGAGEMENT

Human capital management across the Group has been strengthened through the establishment of a Global Reward Centre of Excellence to optimise reward practices across the Group. In addition, an international consulting group, Gallup, was appointed to implement a standardised staff engagement management system across all the operating platforms of the Group. Based on the Gallup engagement management system we will conduct annual surveys and implement monitored improvement plans to measure the positive impact of employee engagement. Later iterations of the survey results will be integrated with the Press Ganey patient satisfaction survey, which will enable us to evaluate the impact of our employee engagement improvement plans on service levels and patient satisfaction levels.

Mediclinic Southern Africa launched the Mediclinic Leadership Academy in 2013 with the aim to further strengthen and align leadership behaviour with the Mediclinic values and thereby entrenching a values-based culture. To date, 654 members of management have attended the academy.

UNLOCKING THE BENEFITS OF AN INTERNATIONAL GROUP

We are continuously looking for opportunities to leverage our combined international capacity and resources to unlock synergies and value for our Group. Following the realignment with the Group's organisation structure, Mediclinic Southern Africa successfully implemented its organisational realignment programme in 2014. The Hirslanden 2020 project was initiated to transform the operating model in Hirslanden in order to drive operational efficiency by implementing a number of projects aimed to standardise and centralise business processes, to improve collaboration and to align and reinforce the Group's culture.

Various formal cross-platform workgroups for all the key support functions are in place to promote collaboration, share intellectual capital and resources and to identify opportunities for improved efficiencies through standardisation and centralisation of selective support processes. Significant progress reported from some of the workgroups includes the following:

- Mediclinic Southern Africa and Mediclinic Middle East have both successfully replaced legacy financial and procurement systems in 2014 with SAP as the ERP solution, while Hirslanden is following a phased approach to standardise the existing stand-alone SAP solutions deployed at all its hospitals. The key objectives were to standardise data elements, simplify solutions, reduce cost and share resources in the Group.
- Mediclinic's international procurement office successfully leveraged our scale to unlock value. Encouraging savings have already been realised on the procurement of major capital items as well as surgical and consumable products.
- The Group has successfully implemented master data management and international data warehouse projects during the year.

These projects improved the quality of data as well as enhanced our ability to better analyse transactional data across the Group. The insights gained from the data analysis strengthen our ability to better negotiate costs with suppliers and are valuable in tariff negotiations with funders.

- During the year, the Group continued to benefit from the transfer of clinical skills between our platforms. Training of doctors and staff included cross-platform cooperation in the fields of bariatric surgery, oncology and visceral surgery.

FINANCIAL PERFORMANCE

We are pleased with the continued strong growth in patient attendance and revenue growth at our three operating platforms.

On a year-to-year comparison, Mediclinic Southern Africa had a 4.4% increase in bed days sold. Mediclinic Southern Africa contributed 35% (2014: 37%) of the Group's normalised revenue and 37% (2014: 37%) of the normalised EDITDA.

Hirslanden achieved an increase of 7.8% in inpatient admissions and contributed 53% (2014: 52%) of the Group's normalised revenue and 50% (2014: 51%) of the normalised EDITDA.

In Mediclinic Middle East inpatient admissions at the hospitals increased by 6.2% and outpatient clinic attendance increased by 14%. Mediclinic Middle East contributed 12% (2014: 11%) to the Group's normalised revenue and 13% (2014: 12%) to the normalised EDITDA.

More details on the financial performance of the Group and the operating platforms are provided in the **Chief Financial Officer's Report** and the **Operational Reviews** of the platforms.



GROW THE COMPANY

We continued to make significant investments to grow the capacity and our footprint at each of the operating platforms. These investments were supported by the successful raising of capital and the refinancing of Hirslanden debt as referred to in more detail in the **Chief Financial Officer's Report**.



New facilities, which increased our geographical footprint during the year, included the opening of the 176-bed multi-disciplinary Mediclinic Midstream hospital in Centurion, Southern Africa. Mediclinic Middle East expanded into the Emirate of Abu Dhabi with the opening of Mediclinic Corniche clinic in the city of Abu Dhabi as well as Mediclinic Al Hili clinic in Al Ain. Hirslanden acquired the 67-bed Hirslanden Clinique La Colline in Geneva as well as the 20-bed Hirslanden Klinik Meggen in Lucerne. Further details of the projects to increase capacity are included in **Operational Reviews**.



The Group continues to evaluate investment opportunities to grow our footprint beyond the existing operating platforms and regions that will add long-term value to the shareholders.

OUTLOOK

Despite the somewhat bleak economic outlook we are positive that there is a growing demand for quality medical services. We acknowledge that affordability is a challenge and for that reason need to ensure that we offer value to our patients at all times. Our diversified international footprint, pooled experience, knowledge and skills will be used to continuously improve our service offering to our patients and to ensure a sustainable business for the years to come.

The development of the North Wing at Mediclinic City Hospital in Dubai is progressing well and is expected to be commissioned in the 2016/17 financial year. In addition, Mediclinic Middle East has started with the planning and development of a third hospital on the southern side of Dubai, estimated to open at the end of 2018.

I would like to thank all our supporting doctors, management, nursing and supporting staff for their dedication and hard work during the past year. You make it possible for us to meet the needs of our growing number of patients whose loyal support and trust in Mediclinic ensure the continued growth and success of our Group.

Danie Meintjes
Chief Executive Officer