CHIEF FINANCIAL OFFICER'S REPORT

Craig Tingle
Chief Financial Officer

WE CONTINUE TO INVEST FOR GROWTH ACROSS OUR PLATFORMS IN ANTICIPATION OF THE CONTINUING INCREASE IN DEMAND FOR COST-EFFECTIVE QUALITY HEALTHCARE

HIGHLIGHTS

+9%
BASIC NORMALISED HEADLINE EARNINGS PER SHARE

+16%
NORMALISED REVENUE

+11%
NORMALISED EBITDA

FIGURE 1: EBITDA RECONCILIATION (R'M)

	2015	2014
EBITDA	**7 235**	6 744
Adjusted for:		
Past-service cost	**–**	(241)
Impairment of property and equipment	**31**	8
Insurance proceeds	**–**	(40)
Profit on sale of property, equipment and vehicles	**(87)**	(4)
Normalised EBITDA	**7 179**	6 467

INTRODUCTION

For the period under review, the Group delivered satisfying financial results despite continuing challenging global economic conditions.

GROUP OVERVIEW

GROUP FINANCIAL PERFORMANCE

The Group uses normalised revenue, normalised EBITDA, normalised headline earnings and normalised basic headline earnings per share as non-IFRS measures in evaluating performance and as a method to provide shareholders with clear and consistent reporting. These non-IFRS measures are defined as reportable EBITDA, headline earnings and basic headline earnings per share in terms of accounting standards, excluding one-off and exceptional items, as detailed above.

RESULTS OVERVIEW

Group normalised revenue increased by 16% to R35 238m (2014: R30 495m) for the period under review. Normalised EBITDA is 11% higher at R7 179m (2014: R6 467m) and basic normalised headline earnings per share was 9% higher at 408.2 cents (2014: 375.8 cents). The Group's normalised EBITDA margin decreased from 21.2% to 20.4% for the period under review.

The results included a number of one-off and exceptional items of R613m (R638m after tax) which were excluded in determining normalised headline earnings. The one-off items are:

- positive Swiss prior year tax adjustments amounting to R712m;
- a charge of R342m (R276m after tax) to account for the six-month (1 October 2014 to 31 March 2015) mark-to-market fair value adjustment relating to the Swiss interest rate swaps, which became ineffective during this period with the introduction of negative Swiss interest rates;
- a discount of R211m (R170m after tax) on the repayment of the third lien Swiss loan; and
- realised gain on forward contracts of R32m.

The comparative results included one-off items of R352m (R303m after tax) relating to a past-service cost credit of R241m (R192m after tax) and positive prior year tax adjustments amounting to R111m.

Including these one-off items, headline earnings increased by 22% to R4 081m (2014: R3 355m) and basic headline earnings per ordinary share increased by 17% to 483.9 cents (2014: 413.1 cents).

The total dividend relating to the year under review increased by 11% to 106.5 cents (2014: 96.0 cents).

FIGURE 2: NORMALISED REVENUE (R'M)

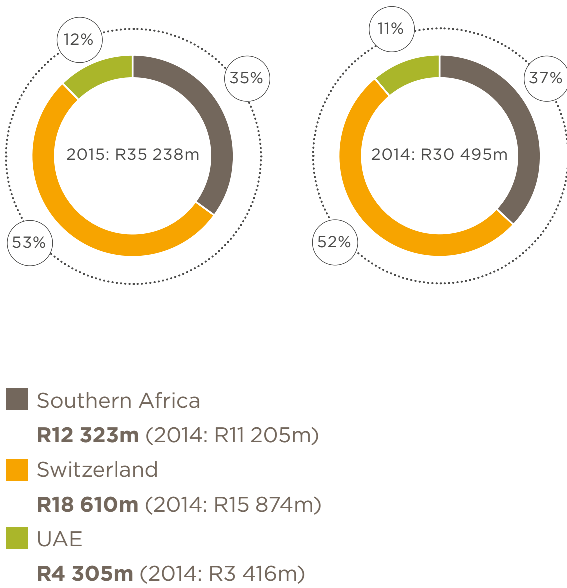
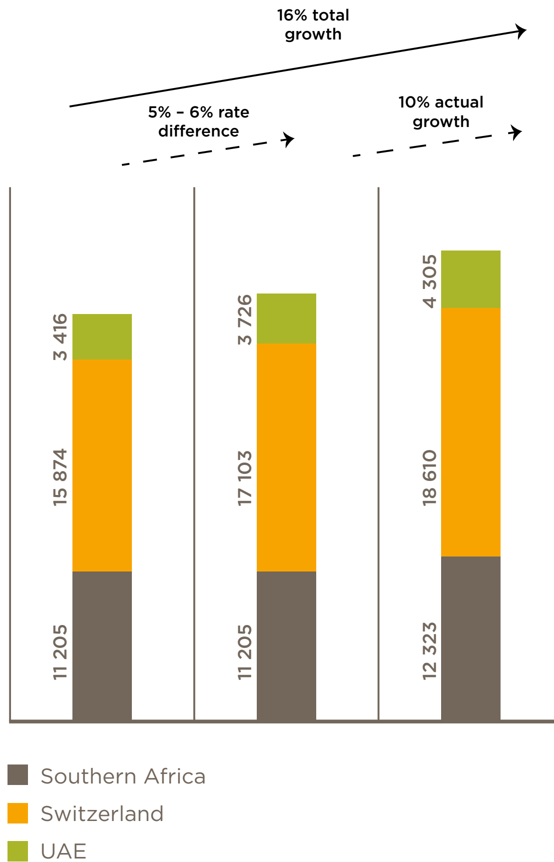


FIGURE 3: NORMALISED REVENUE GROWTH (R'M)



REVENUE

The geographical composition of the Group's revenue for 2015 and 2014 is shown in **Figure 2**.

As shown in **Figure 3**, normalised revenue increased by 16% to R35 238m (2014: R30 495m).

NORMALISED EBITDA

The Group's normalised EBITDA margin decreased from 21.2% to 20.4% for the period under review.

The geographical composition of the Group's normalised EBITDA for 2015 and 2014 is shown in **Figure 4**.

As shown in **Figure 5**, normalised EBITDA increased 11% to R7 179m (2014: R6 467m).

FIGURE 4: NORMALISED EBITDA (R'M)

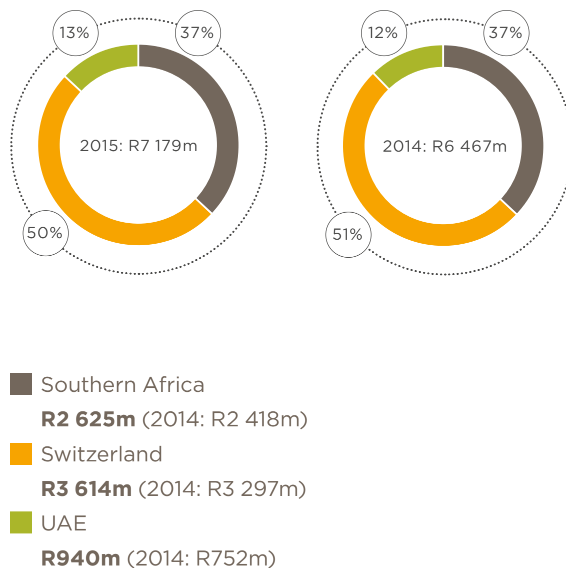
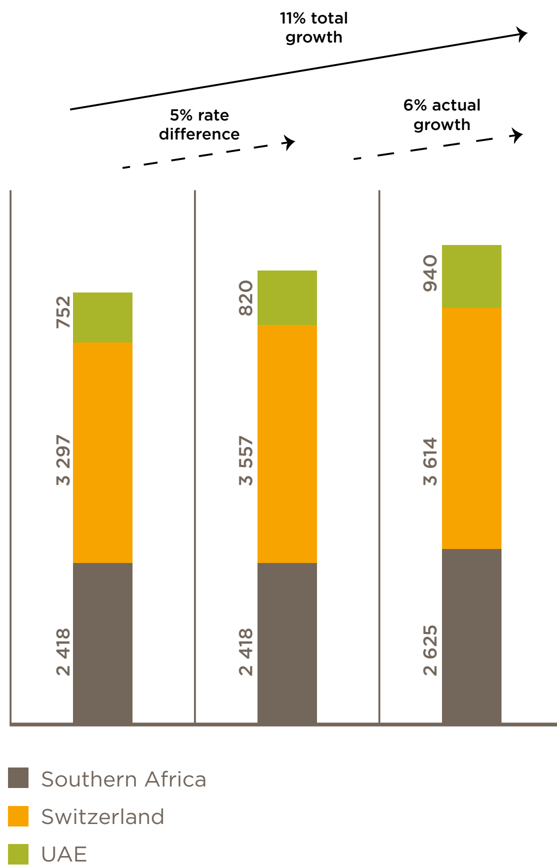
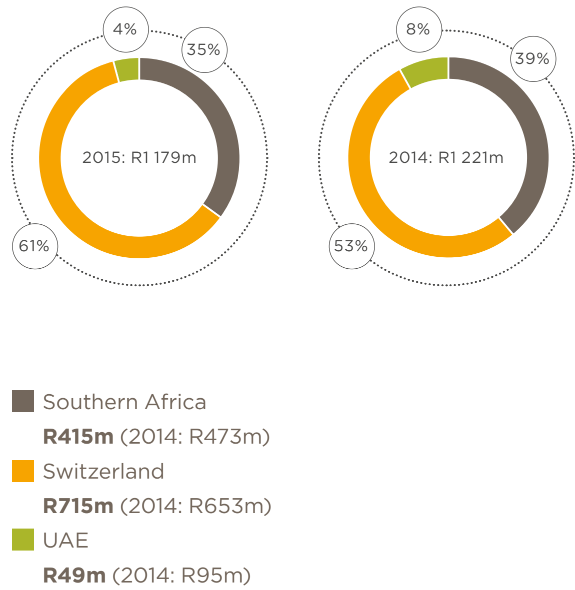


FIGURE 5: NORMALISED EBITDA GROWTH (R'M)



Southern Africa
Switzerland
UAE

FIGURE 6: NORMALISED FINANCE COST (R'M)



Southern Africa
R415m (2014: R473m)
Switzerland
R715m (2014: R653m)
UAE
R49m (2014: R95m)

FINANCE COST

Finance cost includes amortisation of capitalised financing costs of R147m (2014: R133m). The capitalised financing costs are amortised over the term of the relevant loans in accordance with IAS 39 Financial Instruments.

The geographical composition of the Group's finance cost for 2015 is shown in **Figure 6**.

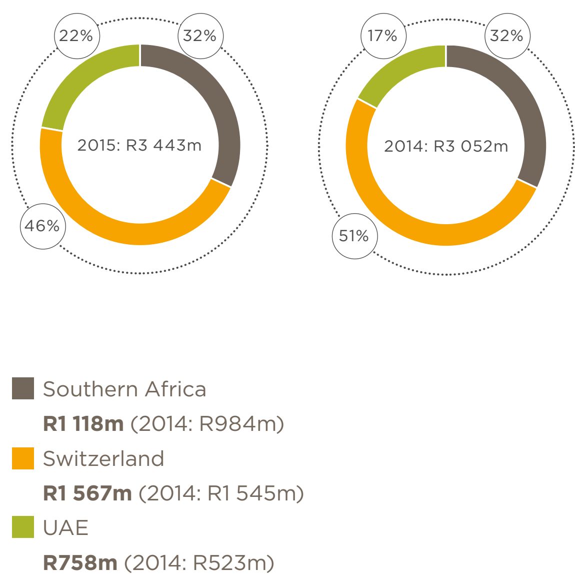
CONTRIBUTION TO GROUP NORMALISED HEADLINE EARNINGS

The geographical composition of the Group normalised headline earnings for 2015 and 2014 is shown in **Figure 7**.

CASH FLOW

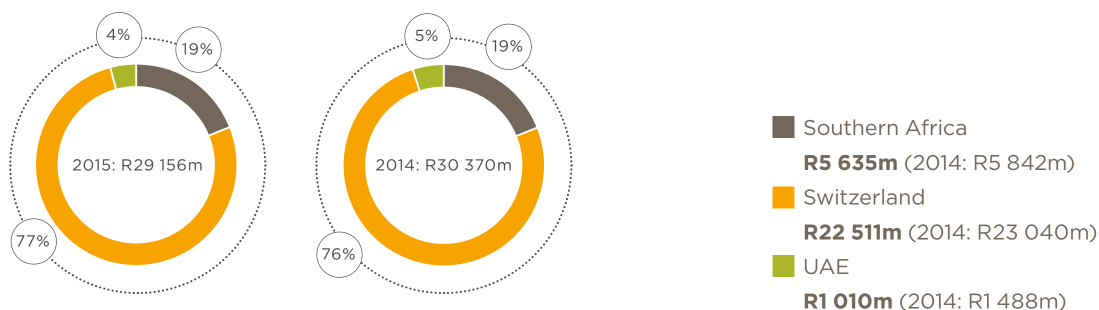
The Group's cash flow continued to be strong. The Group converted 109% (2014: 98%) of normalised EBITDA into cash generated from operations. Cash and cash equivalents increased from R3 521m at 31 March 2014 to R4 779m at 31 March 2015.

FIGURE 7: NORMALISED HEADLINE EARNINGS (R'M)



Southern Africa
R1 118m (2014: R984m)
Switzerland
R1 567m (2014: R1 545m)
UAE
R758m (2014: R523m)

FIGURE 8: DEBT (R'M)



INTEREST-BEARING BORROWINGS

Interest-bearing borrowings decreased from R30 370m at 31 March 2014 to R29 156m at 31 March 2015. The decrease is mainly as a result of debt amortisation. Foreign debt of the Group's Swiss and Middle Eastern operations, amounting to R23 522m, is matched with foreign assets in the same currencies. The foreign debt has no recourse to the Southern African operations' assets.

The geographical composition of the Group's debt at 31 March 2015 is shown in **Figure 8**.

ASSETS

Property, equipment and vehicles increased from R49 597m at 31 March 2014 to R53 776m at 31 March 2015, and intangible assets increased from R9 210m at 31 March 2014 to R11 565m at 31 March 2015. These increases are mainly as a result of additions as well as the change in the closing ZAR/CHF and ZAR/AED exchange rates.

FOREIGN EXCHANGE RATES

The rand experienced substantial volatility during the year against both the Swiss franc (CHF) and the United States dollar, to which the UAE dirham is pegged at AED3.6725.

The average rand/Swiss franc (CHF) exchange rate was R11.91 compared to R11.05 for the comparative period, and the average UAE dirham (AED) was R3.01 compared to R2.76 for the comparative period. These movements in the exchange rates had a positive effect on the reported results, as detailed under Hirslanden's and Mediclinic Middle East's financial performance sections.

Accounting convention requires the Group to convert its offshore balance sheets at the year-end spot rate, while its offshore income statements are converted at the average rate for the year. The difference between the spot rates and the average rates results in distortions, when ratios between the statement of financial position and the income statement items are calculated in rand. The spot rate should therefore also be used for translating, for example, EBITDA, when calculating such ratios.

Exchange rate movements also had a significant impact on the statement of financial position. The resulting currency translation difference, which is the amount by which the Group's interest (including non-controlling interests) in the equity of the two foreign platforms increased as a result of the spot rate's movement, amounted to R1 643m (2014: R4 371m) and was credited to the statement of comprehensive income.

EQUITY CAPITAL RAISING AND REFINANCING

The Group successfully raised R3 114m after expenses through an accelerated bookbuild offering to fund acquisitions. Details of the equity capital raising were released on SENS on 11 June 2014 and 12 June 2014.

The Group took advantage of strong capital markets in Switzerland and refinanced its existing debt facilities with a new CHF1.885bn package. The refinancing simplifies the existing structure, reduces financing costs and diversifies the funding base and maturity dates.

During the reporting period, the Group embarked on an elective early refinancing process. The new facilities comprise:

- Swiss bonds amounting to CHF235m was raised in a dual tranche bond issue comprising CHF145m of a six-year unsecured bond at a coupon of 1.625% and CHF90m of a 10-year unsecured bond at a coupon of 2.0%;
- a further increase of the first lien facility back to CHF1.5bn, maturing on 31 July 2020, with an annual amortisation of CHF50m and priced at Swiss Libor plus a margin of 1.5%;
- a new second lien facility of CHF100m with a bullet maturity on 31 July 2020 and priced at Swiss Libor plus 2.85%; and
- a revolving credit facility of CHF50m with a bullet maturity on 31 July 2020 and priced at Swiss Libor plus a margin of 1.5%.

The existing swaps on a notional amount of CHF1.62bn are being kept in place. These swaps expire in December 2017 and June 2018 in line with the maturities of the 2012 first and second lien facilities. The revised structure results in an annual reduction in interest charges of c. CHF12.5m per annum, and the estimated total blended cost of the new package is c. 2.39% per annum excluding upfront expenses at current Libor levels and the estimated total blended cost of the new package at a zero Libor rate is c. 1.7% per annum excluding upfront costs.

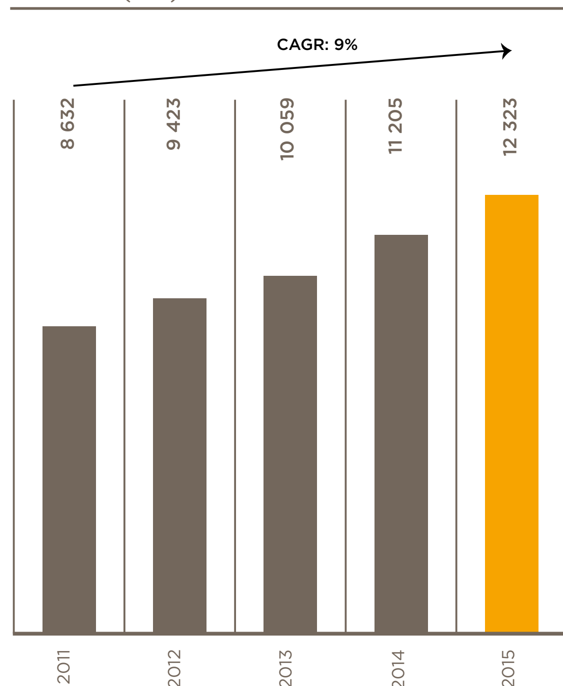
HIRSLANDEN PENSION FUNDS

Hirslanden provides defined contribution pension plans in terms of Swiss law to employees, the assets of which are held in separate trustee-administered funds. These plans are funded by payments from employees and Hirslanden, taking into account the recommendations of independent qualified actuaries. Because of the strict definition of defined contribution plans in IAS 19, in terms of IFRS, these plans are classified as defined benefit plans, since the funds are obliged to take some investment and longevity risk in terms of Swiss law.

The IAS 19 pension liability was valued by the actuaries at the end of the year and amounted to R822m (CHF56m) (2014: R48m (CHF4m)), included under "Retirement benefit obligations" in the Group's statement of financial position. However, the pension funds were, for Swiss statutory purposes, estimated to be 115% (2014: 112%) funded at 31 March 2015. From an economic and legal point of view, this amount as calculated in terms of IAS 19 does not lead to a liability for Hirslanden at 31 March 2015.

The pension liability resulted in an amount of R530m (CHF44m) being charged (2014: R150m credited (CHF14m)) to the consolidated statement of comprehensive income for the year.

FIGURE 9: MEDICLINIC SOUTHERN AFRICA REVENUE (R'M)



DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses floating-to-fixed interest rate swaps to hedge against interest movements which have the economic effect of converting the interest-bearing borrowings to fixed interest rate borrowings. The Group applies hedge accounting and therefore fair value movements are booked to the consolidated statement of comprehensive income.

With the removal of the Swiss franc/euro peg during January 2015 and the introduction of negative interest rates in Switzerland, the Swiss interest rate hedges become ineffective once Libor is below zero as bank funding at Libor plus relevant margins is always subject to a zero rate Libor floor. Effective from 1 October 2014, the mark-to-market of the ineffective Swiss interest rate swap was charged through the income statement. The amount charged to the income statement was R342m (R276m after tax) (CHF29m (CHF23m after tax)) for the current year. The total Swiss balance sheet derivative liability as at 31 March 2015 is R460m (CHF37m) (2014: asset of R38m (CHF3m)).

The net fair value movements of the effective interest rate swaps for the year under review resulted in a charge of R94m (2014: credit R29m) being booked at year end to the consolidated statement of comprehensive income.

OPERATIONS IN SOUTHERN AFRICA

MEDICLINIC SOUTHERN AFRICA

Mediclinic Southern Africa's normalised revenue increased by 10% to R12 323m (2014: R11 205m) for the period under review. Normalised EBITDA was 9% higher at R2 625m (2014: R2 418m), as illustrated in **Figure 9**.

The Southern African operations contributed R1 118m (2014: R984m) to the normalised attributable income of the Group after:

- depreciation charges of R394m (2014: R302m);
- net finance charges of R322m (2014: R403m);
- loss from joint venture of R1m (2014: Rnil);
- taxation of R552m (2014: R528m); and
- non-controlling interests amounting to R238m (2014: R201m).

Figure 10 shows Mediclinic Southern Africa's EBITDA performance over recent years.

The normalised EBITDA margin of the Southern African operations decreased from 21.6% to 21.3%, mainly due to pre-opening costs of Mediclinic Midstream.

Mediclinic Southern Africa's cash flow continued to be strong as it converted 106% (2014: 105%)

FIGURE 10: MEDICLINIC SOUTHERN AFRICA NORMALISED EBITDA GROWTH AND MARGIN (R'M)

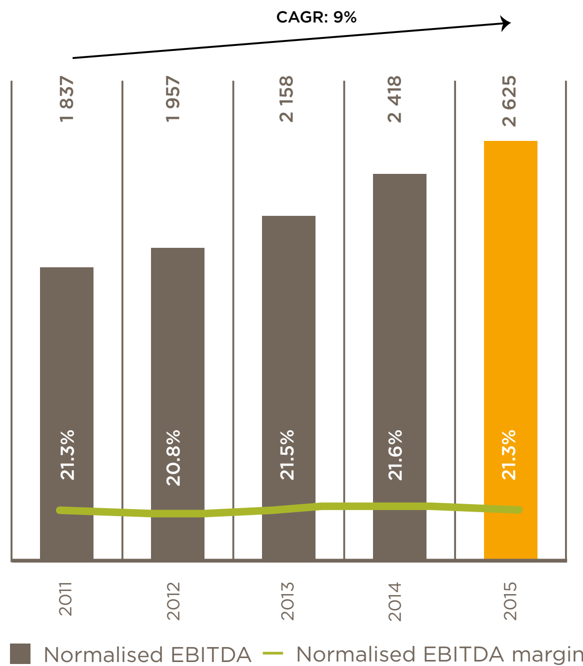
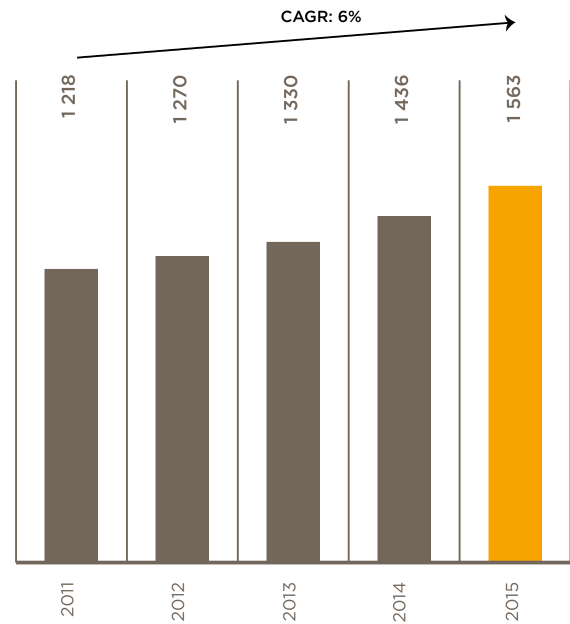


FIGURE 11: HIRSLANDEN NORMALISED REVENUE (CHF'M)



of normalised EBITDA into cash generated from operations.

Cash and cash equivalents increased from R1 359m at 31 March 2014 to R1 498m at 31 March 2015.

Interest-bearing borrowings decreased from R5 842m at 31 March 2014 to R5 635m at 31 March 2015.

OPERATIONS IN SWITZERLAND

HIRSLANDEN

Hirslanden's reported results for 2015 were affected by exchange rate movements. The average ZAR/CHF exchange rate for the year increased from R11.05 in 2014 to R11.91 in 2015.

Hirslanden's normalised revenue increased by 17% to R18 610m (2014: R15 874m) for the period under review. Normalised EBITDA was 10% higher at R3 614m (2014: R3 297m). In Swiss francs, normalised revenue increased by 9% to CHF1 563m (2014: CHF1 436m) and normalised EBITDA increased by 2% to CHF303m (2014: CHF298m).

Hirslanden contributed R1 567m (2014: R1 545m) to the attributable income of the Group after:

- depreciation charges of R982m (2014: R801m);
- net external finance charges of R708m (2014: R651m);
- normalised tax of R359m (2014: R303m); and
- income from an associate of R2m (2014: R3m).

In Swiss francs, Hirslanden contributed CHF132m (2014: CHF140m) to the attributable income of the Group after:

- depreciation charges of CHF82m (2014: CHF73m);
- net external finance charges of CHF59m (2014: CHF59m);
- normalised tax of CHF30m (2014: CHF27m); and
- income from an associate of CHF0.2m (2014: CHF0.3m).

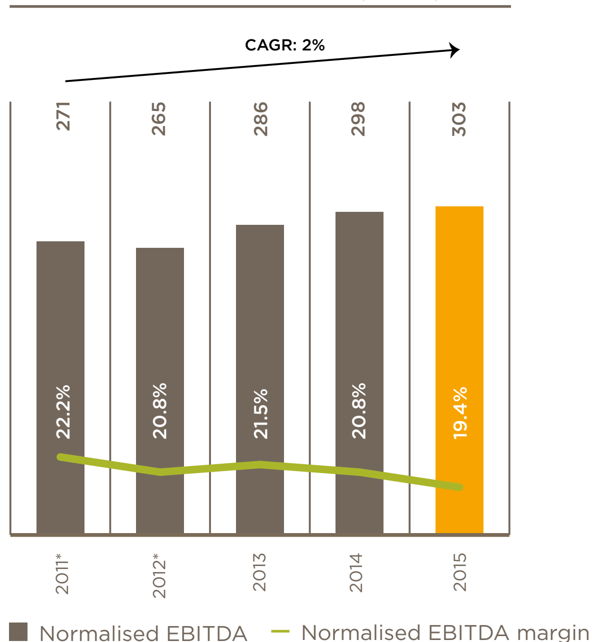
Hirslanden's revenue performance is set out in **Figure 11**.

The normalised EBITDA margin of Hirslanden decreased from 20.8% to 19.4%, influenced by an adjustment of the national outpatient tariff in October 2014 and increased number of generally insured patients.

Hirslanden converted 114% (2014: 92%) of normalised EBITDA into cash generated from operations.

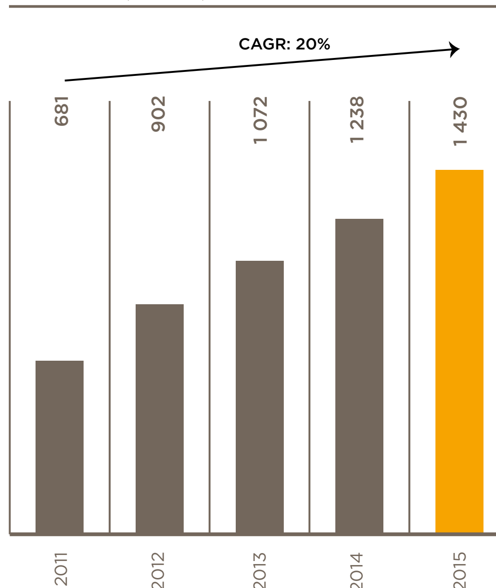
Cash and cash equivalents increased from R1 138m (CHF95m) at 31 March 2014 to R2 497m (CHF199m) at 31 March 2015.

FIGURE 12: HIRSLANDEN NORMALISED EBITDA GROWTH AND MARGIN (CHF'M)



* *2011 and 2012 have been adjusted to be comparable with the adoption of the revised IAS 19 standard.*

FIGURE 13: MEDICLINIC MIDDLE EAST REVENUE (AED'M)



Interest-bearing borrowings reported in ZAR decreased from R23 040m (CHF1 926m) at 31 March 2014 to R22 511m (CHF1 794m) at 31 March 2015, mainly as a result of debt amortisation.

Hirslanden's historical normalised EBITDA performance, excluding one-off items, is set out in **Figure 12**.

OPERATIONS IN UNITED ARAB EMIRATES

MEDICLINIC MIDDLE EAST

Mediclinic Middle East's reported results for 2015 were affected by exchange rate movements. The average ZAR/AED exchange rate for the year increased from R2.76 in 2014 to R3.01 in 2015.

Mediclinic Middle East's normalised revenue increased by 26% to R4 305m (2014: R3 416m) for the period under review. Normalised EBITDA increased by 25% to R940m (2014: R752m). In UAE dirhams, normalised revenue increased by 16% to AED1 430m (2014: AED1 238m) and normalised EBITDA increased by 15% to AED312m (2014: AED272m).

Mediclinic Middle East contributed R758m (2014: R523m) to the attributable income of the Group after:

- depreciation charges of R135m (2014: R136m); and
- net finance charges of R47m (2014: R93m).
- In UAE dirhams, Mediclinic Middle East contributed AED252m (2014: AED189m) to the attributable income of the Group after:
- depreciation charges of AED45m (2014: AED49m); and
- net finance charges of AED15m (2014: AED34m).

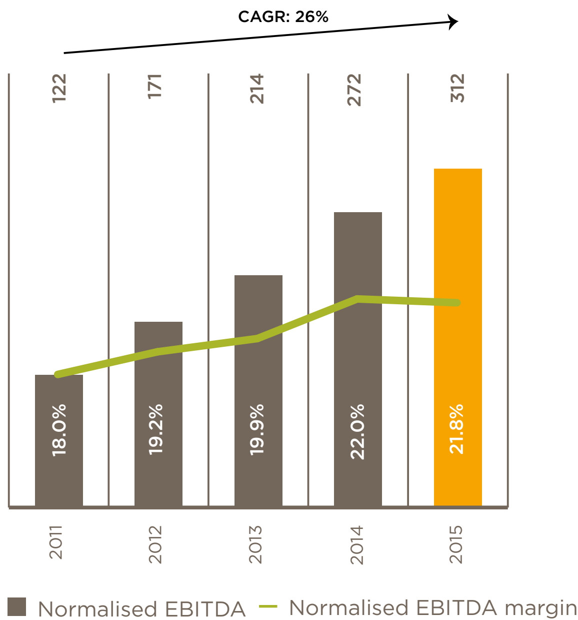
Mediclinic Middle East's revenue performance is set out in **Figure 13**.

The normalised EBITDA margin of Mediclinic Middle East decreased from 22.0% to 21.8%, mainly due to start-up losses in the two new clinics in Abu Dhabi.

Mediclinic Middle East converted 102% (2014: 102%) of normalised EBITDA into cash generated from operations.

Cash and cash equivalents increased from R724m (AED251m) at 31 March 2014 to R779m (AED235m) at 31 March 2015. Interest-bearing borrowings decreased from R1 488m (AED517m) at 31 March 2014 to R1 010m (AED304m) at 31 March 2015, mainly because of loan repayments.

FIGURE 14: MEDICLINIC MIDDLE EAST NORMALISED EBITDA GROWTH AND MARGIN (AED'M)



Mediclinic Middle East's historical EBITDA performance is set out in **Figure 14**.

GROUP DIVIDEND POLICY

The Board has adopted a dividend policy to reflect the underlying earnings and growth of the business while retaining sufficient capital to fund ongoing operations and to invest in the Company's long-term growth.

The Company currently targets a pay-out ratio of between 25% and 30% of normalised headline earnings per share.

The Board may revise the dividend policy from time to time.

RISK MANAGEMENT

Risk management receives top priority throughout the Group. The Group-wide risk management policy is benchmarked against the international Committee of Sponsoring Organisations of the Treadway Commission framework and complies with the recommendations of the King III report.

The Group's risk management process is summarised in the Risk Management Report and the abridged Sustainable Development Report included in this integrated annual report, and notes 3.1 and 3.3 to the annual financial statements published on the Company's website.

ACCOUNTING POLICIES

The annual financial statements have been prepared in accordance with IFRS. The accounting policies are based on reasonable judgements and estimates, are in accordance with International Financial Reporting Standards (IFRS) and are consistent with those applied in the prior year.

Craig Tingle
Chief Financial Officer