REMUNERATION REPORT

INTRODUCTION

The remuneration report provides an overview of the Group's remuneration approach, with specific reference to executive and non-executive directors of Mediclinic, as well as senior managers across the Group. The role of the Company's Remuneration and Nominations Committee with regard to the Group's remuneration approach is also highlighted.

The Board approved changes to its governance structure at the end of March 2015. These changes included splitting the Remuneration and Nominations Committee into separate committees. The Remuneration Committee will be chaired by the current committee chairman and the Nominations Committee will be chaired by the Lead Independent Director, as required in terms of the JSE Listings Requirements.

The information contained in this report has been approved by the Board on recommendation by the Remuneration Committee.

REMUNERATION AND NOMINATIONS COMMITTEE AND KEY ACTIVITIES

Mediclinic's Remuneration and Nominations Committee is responsible for, inter alia, determining the governance of remuneration matters, the Group's remuneration policy and the remuneration of executive directors and other senior managers, as well as the compensation of non-executive directors, which is ultimately approved by the shareholders.

Details on the mandate, composition of and attendance at meetings held by the Remuneration and Nominations Committee are set out from page 96 to page 97 of the **Corporate Governance Report**, included in this integrated annual report.

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Key activities during the year under review include:

- review of global and local remuneration best practices;
- approval of the remuneration increases and adjustments for executive directors and senior management;
- approval of the general remuneration increase principles, guidelines and percentages for all employees;
- review of and recommendation to the Board of the performance criteria for short-term incentives for the year under review;
- review of and recommendation to the Board of the short-term incentive values for executive directors and eligible members of management, as per the rules of the short-term incentive scheme;
- review of and recommendation to the Board of the performance criteria of the long-term incentive scheme for the year under review;
- review of and recommendation to the Board of long-term incentive awards issued to Mediclinic International executive management, as per the rules of the long-term incentive scheme; and
- recommendation of the fees payable to non-executive directors for final approval by the shareholders at the annual general meeting of the Company in July 2015.

REMUNERATION POLICY

Mediclinic's remuneration policy aims to ensure that the Group remunerates executives and senior management in a manner that supports the achievement of the vision, mission and strategic objectives of the Group, while attracting and retaining scarce skills and rewarding high levels of performance. This is accomplished by means of establishing remuneration practices that are fair, reasonable and market-related while at the same time maintaining an appropriate balance between employee and shareholder interest.

Mediclinic's remuneration philosophy is based on the following principles:

- internal fairness;
- external fairness; and
- affordability.

The remuneration approach that guides the salary levels of all executives and senior management is furthermore aimed at:

- achieving the strategic objectives of the Group;
- ensuring that no unfair discrimination occurs;
- ensuring a direct correlation with growth objectives, financial performance targets and actual achievements of the Group;
- recognising exceptional and value-adding performance;
- encouraging effective team performance; and
- promoting cost-effectiveness.

To balance external equity with affordability and to ensure that market-related salaries are offered to staff, the Group participates in several salary surveys for benchmarking purposes.

The Group's management remuneration structures consist of fixed and variable components:

- fixed: guaranteed base salary and benefits; and
- variable: short-term cash incentives for all management staff and a long-term share scheme where current eligibility includes all Mediclinic International executives.

GUARANTEED REMUNERATION

Guaranteed remuneration generally consists of a base salary, fixed allowances plus company contributions towards retirement funding and health benefits. Regular benchmark exercises are conducted to compare the guaranteed remuneration of all employees with selected comparator groups. Annual guaranteed remuneration is determined by considering the following factors:

- the size of the job based on the Paterson job evaluation methodology;
- market-related levels of remuneration applicable to each operating platform, including any market premiums for scarce and critical skills;
- individual performance as assessed during the performance review process; and
- affordability to the respective operating platform.

Base salary – Market data is used to benchmark salary levels for directors, senior managers and general staff. This information, combined with the individual's performance assessment, is the key consideration for the annual salary review.

Retirement benefits – The Group offers membership to a defined contribution fund for its Mediclinic Southern Africa and a defined benefit fund for its Hirslanden employees. Retirement benefits are provided to employees of Mediclinic Middle East according to the labour laws of the UAE.

Other benefits – These include benefits such as medical insurance, death and disability insurance, leave and long-service awards, as applicable in the different operating platforms of the Group.

Retention bonus – Mediclinic Southern Africa's nursing and pharmacy staff participate in a retention bonus scheme, which has contributed favourably towards the staff turnover reduction of nursing and pharmacy.

VARIABLE REMUNERATION

Variable remuneration is earned based on the achievement of pre-determined performance targets. This component is therefore an important part of executives' total remuneration as the performance targets are selected to support the Group's strategic objectives and to align executive's remuneration with shareholders' interest.

Short-term incentives – Executive directors and senior managers of the Group participate in cash-based short-term incentive schemes per operating platform. Payments in terms of short-term incentives to management are dependent upon achievement against the annual business performance targets and remain subject to the final discretionary approval of the Board.

The purpose of the short-term incentive is to drive business and team, financial and operational performance in order to deliver sustained shareholder value.

The key business performance criteria for the period under review in respect of the short-term incentive schemes was normalised operating income before interest, taxation, depreciation and amortisation ("EBITDA") with a minimum weighting of 60%, together with additional subset indicators per operating platform as set out in **Figure 1**.

FIGURE 1: BUSINESS PERFORMANCE CRITERIA

	Weighting
Mediclinic Southern Africa	
• EBITDA	75%
• Group EBITDAR margin	5%
• EBITDA converted into cash	10%
• Employment equity	5%
• Leave management	5%
Hirslanden	
• EBITDA	90%
• EBITDA converted into cash	4%
• Patient satisfaction (overall)	3%
• Patient satisfaction (recommendation rate)	3%
Mediclinic Middle East	
• EBITDA	60%
• Increase in turnover	15%
• Outstanding debtors days	15%
• Salaries as percentage of turnover	10%

The weighting per business performance criteria differs per operating platform to allow flexibility to local platform management to drive certain behaviours which they believe are important for success.

In respect of the year under review the bonuses, expressed as a percentage of the maximum bonus, as set out in **Figure 2**, were achieved.

FIGURE 2: PERCENTAGE OF MAXIMUM BONUSES ACHIEVED

	2015	2014
Mediclinic International[1]	**72%**	82%
Mediclinic Southern Africa	**94%**	100%
Hirslanden	**52%**	65%
Mediclinic Middle East	**85%**	85%

[1] *The bonuses of Mediclinic International management are determined by a weighted average of the platform bonuses achieved.*

Long-term incentives – Mediclinic International executives participate in a long-term incentive, namely a Forfeitable Share Plan ("FSP"). Awards in terms of the FSP to executives are dependent upon achievement of challenging pre-determined Company performance conditions and remain subject to the final discretionary approval of the Board. The purpose of the FSP is to provide executives with the opportunity to acquire shares in Mediclinic, ensuring that participants' interests are strategically aligned with shareholder interests. It further serves as a retention mechanism for strategic talent and a tool to attract prospective employees.

Participation in the scheme is at the discretion of the Remuneration Committee and is generally limited to employees whose role or contribution could directly influence the performance of the Group.

The following forfeitable shares may be awarded in terms of the FSP:

Performance shares – Forfeitable, restricted performance shares, which are subject to pre-determined performance conditions, may be awarded. The quantum of awards is determined by a conservative interpretation of long-term incentive market benchmarks, obtained from independent remuneration consultants. The performance conditions are set to support the Group's business strategy and the performance or value creation it seeks to create. The performance period is a minimum of three years, but is determined and confirmed in terms of the award letter, with a further condition of continued employment for vesting. The percentage of performance shares that vest is based on the extent of the performance conditions met over the performance period.

Bonus shares – Bonus shares may be used where the Remuneration Committee recognises a need for retaining key employees required to deliver the Group's business strategy. Bonus shares are forfeitable, restricted shares with a pre-determined vesting period subject to continued employment only. It is also the Group's policy to only use bonus share awards for ad hoc retention purposes and that such awards will not form part of annual long-term incentive awards.

Both performance and bonus shares are forfeitable prior to vesting should participants terminate employment with the Group. However, in line with King III recommendations, events such as death, disability and retrenchment may allow some *pro rata* vesting upon early termination of employment (based on the extent to which the performance conditions have been met). The FSP rules provide that retiring employees may retain their share-based awards after retirement, including early retirement.

Performance shares are subject to restrictions and a risk of forfeiture during a three-year vesting period. Vesting of the FSP award is subject to the satisfaction of challenging performance conditions. To the extent that the performance targets are not achieved, those shares subject to the targets will be forfeited and there will be no re-testing of the performance targets.

Country-specific arrangement – The FSP rules provide that the Remuneration Committee may adopt an arrangement governing participation in long-term incentives for employees employed by the Group in jurisdictions other than South Africa. This is provided for as foreign jurisdictions could have country-specific requirements (for example tax and legal requirements), which make the delivery of forfeitable shares inefficient.

In terms of this arrangement, participants in foreign jurisdictions can be awarded a right to receive a number of Mediclinic shares after the vesting date. This award is referred to as an award of conditional shares. The vesting of the conditional shares is subject to continued employment by the participants, and the number of shares that will be delivered depends on the extent to which pre-determined performance conditions were met. The performance conditions are the same as those set for performance shares. In terms of this arrangement, participants will become shareholders of Mediclinic, with dividend and voting rights, upon delivery of the shares. The shares to be settled to participants will be acquired by Mediclinic in the open market on, or shortly after, the vesting date.

The consequences of early termination of employment, change of control and variation of share capital for unvested conditional shares are similar to what is provided for in the FSP rules for performance shares. Conditional shares therefore have largely the same characteristics as performance shares.

The performance targets applicable to the FSP are determined and set by the Remuneration Committee annually. These performance targets are elected to support the business strategy of the Group. The performance conditions for the year under review constitute a combination of:

- absolute total shareholder return ("TSR") (40% weighting); and
- normalised diluted headline earnings per share ("HEPS") (60% weighting).

Vesting of the award to the participant occurs on a sliding scale, with partial vesting at threshold performance and full vesting at stretch performance, in line with the principles of King III. Such linear vesting avoids an "all or nothing" vesting profile, which detracts from the effectiveness of the FSP. Performance conditions will not be re-tested in the event that they are not met at the end of the specified performance period, and where performance periods are not met the award will lapse.

The performance shares that were awarded to executive management during the year under review are set out in **Figure 3**. The performance shares were awarded on 31 July 2014 for the performance period 1 April 2014 to 31 March 2017.

FIGURE 3: PERFORMANCE SHARES AWARDED TO EXECUTIVE MANAGEMENT

	Performance shares awarded	**Balance at 31 March 2015**
Executive directors		
DP Meintjes	79 077	**79 077**
CI Tingle	44 320	**44 320**
CA van der Merwe	26 411	**26 411**
KHS Pretorius	31 690	**31 690**
TO Wiesinger*	28 010	**28 010**
Total	209 508	**209 508**
Prescribed officers		
GC Hattingh	23 575	**23 575**
DJ Hadley	15 644	**15 644**
Total	39 219	**39 219**

* *TO Wiesinger received a right to conditional shares to be delivered at the vesting date. This arrangement is provided for in terms of the FSP rules due to country-specific requirements.*

Broad-based employee share plan – All Mediclinic Southern Africa employees up to, and including, first line management level participate in an employee ownership scheme through the Mpilo trusts, which is set out in more detail in the Sustainable Development Report, available on the Company's website at **www.mediclinic.com**.

PAYMENTS TO EXECUTIVE DIRECTORS AND PRESCRIBED OFFICERS

Remuneration of executive directors is compared to the 60th percentile of the market for comparable roles in companies of similar size.

The remuneration of executive directors and prescribed officers for the period under review is set out in **Figure 4**.

Executive directors have standard service contracts with a notice period of a maximum of three months and have no restraint of trade agreements or severance benefits (apart from those provided by labour law legislation).

FIGURE 4: REMUNERATION OF EXECUTIVE DIRECTORS AND PRESCRIBED OFFICERS

R'000	Salaries	Retirement funding	Other benefits[1]	Bonus[2]	Total 2015	Total 2014
Executive directors						
DP Meintjes	5 600	504	69	3 710	**9 883**	9 504
CI Tingle	4 359	392	29	2 887	**7 667**	7 360
CA van der Merwe	2 964	267	64	1 519	**4 814**	4 630
KHS Pretorius	3 495	315	36	2 269	**6 115**	5 829
TO Wiesinger[3]	8 524	1 108	480	2 683	**12 795**	12 340
Total	24 942	2 586	678	13 068	**41 274**	39 663
Prescribed officers						
GC Hattingh	2 664	240	34	1 380	**4 318**	4 153
DJ Hadley[4]	5 201	238	27	2 211	**7 677**	6 601
DC le Roux[5]	1 538	139	53	666	**2 396**	–
TC Pauw[6]	1 215	–	90	–	**1 305**	3 232
Total	10 618	617	204	4 257	**15 696**	13 986

1 *Other benefits include medical aid, UIF, fringe benefits and payments for accumulated leave.*
2 *Bonuses consist of the short-term incentive and a 13th cheque.*
3 *Remuneration in local currency: CHF1 074 332 (2014: CHF1 116 680).*
4 *Remuneration in local currency: AED2 550 600 (2014: AED2 391 562). Remuneration in Dubai is not subject to income tax.*
5 *Appointed 11 August 2014.*
6 *Retired 31 July 2013 and appointed on contract as from 1 August 2013 till 31 August 2014.*

FIGURE 5: REMUNERATION OF NON-EXECUTIVE DIRECTORS

R'000	Board fees	Lead director fees	Audit and Risk Committee	Remuneration and Nominations Committee	Social and Ethics Committee	Investment Sub-committee	**Total 2015**	Total 2014
E de la H Hertzog	431	–	–	86	–	146	**663**	377
JJ Durand[1]	215	–	–	86	–	86	**388**	336
JA Grieve[2]	1 397	–	–	–	–	–	**1 397**	1 271
RE Leu[2]	1 397	–	–	–	–	–	**1 397**	1 271
MK Makaba	215	–	–	–	–	–	**215**	196
N Mandela	215	–	–	–	69	–	**284**	253
TD Petersen	215	–	133	138	–	–	**486**	428
AA Raath[3]	215	–	133	86	–	86	**520**	452
DK Smith	215	29	226	86	–	–	**556**	377
PJ Uys[1]	215	–	–	–	43	–	**258**	234
Total	4 731	29	492	482	112	318	**6 164**	5 195

All figures have been rounded off to the nearest one thousand rand (R'000).

1 *Fees paid to employer companies.*
2 *Remuneration in local currency: CHF117 300 (2014: CHF115 000). The annual fee payable to the directors based in Switzerland is in respect of their Board and committee fees.*
3 *Component of fees paid to employer company.*

PAYMENTS TO NON-EXECUTIVE DIRECTORS

The fees paid in respect of non-executive directors are reviewed on an annual basis taking into account the findings and recommendations of the Remuneration Committee. Non-executive director fees are benchmarked against the remuneration of non-executive directors serving on the boards of comparable companies in terms of size and industry.

Non-executive directors received fixed remuneration for services to the Board and its committees. These fees reward directors fairly for the time, service and expertise provided to the Group as well as legal obligations and risk.

Non-executive directors do not receive any benefits or share options from the Company apart from directors' fees. The remuneration of non-executive directors for the period under review is set out in **Figure 5.**

No non-executive director is elected for a period longer than three years. In terms of the Company's Memorandum of Incorporation, one third of the non-executive directors retire from office at each annual general meeting and are eligible for re-election at such meeting. The directors to retire shall be those who have been longest in office since their last election. A director who has already held his office for a period of three years since his last election shall retire at such meeting.

SHAREHOLDING BY DIRECTORS

The number of shares held by each director and prescribed officer of the Company is set out on page 146 of this integrated annual report.

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