

SOUTHERN AFRICA



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MANY ATTRACTIVE GROWTH OPPORTUNITIES REMAIN IN SOUTHERN AFRICA, INCLUDING THE EXPANSION OF EXISTING HOSPITALS, THE ESTABLISHMENT OF NEW HOSPITALS AND DAY CLINICS, AND OPPORTUNITIES RELATING TO MENTAL HEALTH

HIGHLIGHTS

+4.4%
BED DAYS SOLD

+5.8%
AVERAGE INCOME
PER BED DAY

+10%
REVENUE

81%
PATIENT
SATISFACTION
LEVEL

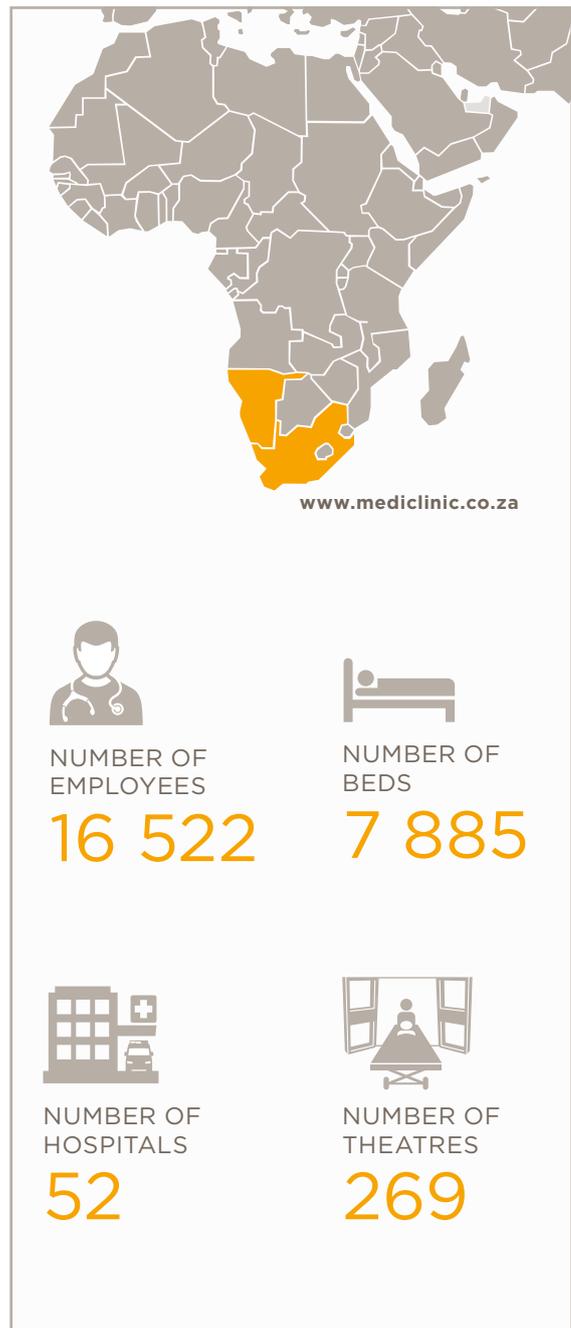
BUSINESS ENVIRONMENT

South Africa's economic performance remained weak in recent years, with the annual gross domestic product growth rate decelerating to 1.5% for 2014 from 2.2% in 2013. In contrast, the South African private healthcare sector has maintained a positive, gradual, long-term growth trajectory.

Private healthcare funding in South Africa and Namibia is principally provided by medical schemes, with approximately 92% of Mediclinic Southern Africa's hospital admissions and revenue funded by medical schemes. The number of beneficiaries insured by the funding market in South Africa was approximately 8.8 million at 30 September 2014, representing a marginal growth of about 31 650 beneficiaries from 30 September 2013. The Council for Medical Schemes ("CMS") also issued statistics detailing "the prevalence of chronic diseases in the population covered by medical schemes in South Africa" in January 2015, wherein it was reported that there was an upward trend in the diagnosis and treatment of many conditions on the prescribed list of chronic diseases (which by law all medical schemes are obliged to fund), for the period 2008 to 2013. This report therefore indicates deterioration in the disease profile of the medical scheme population, and by implication more members require treatment at a greater frequency and intensity of care than before.

Consolidation in the funder market continued in the period under review and it is expected that this will continue for the foreseeable future. The result of the consolidation is further concentration in the funding market whereby the larger medical schemes, and the administrators, continue increasing their proportion of the privately insured beneficiaries. For example, based on the latest (2013) CMS annual report, Discovery Administration and the Government Employee Medical Scheme now represent 32% and 21% of beneficiaries respectively. This has a significant impact in terms of annual tariff negotiations resulting in robust engagement.

The medical scheme industry continues to be financially viable. Solvency ratios, as monitored by the CMS, increased from 32.6% in December 2012 to 33.3% in December 2013. The legal requirement for solvency ratios is 25%. The total accumulated reserves for all medical schemes increased from R38.3bn to R43.2bn over this period.



Mediclinic Southern Africa continues to support the underlying principle of universal coverage through the creation of a National Health Insurance (“NHI”) system in South Africa. Mediclinic Southern Africa continues to monitor all available information pertaining to the planned implementation of NHI closely. The publication of Government’s White Paper on the NHI, a more detailed discussion document including details regarding the financing options, is still expected during the year ahead. Mediclinic Southern Africa will continue to engage with both government and other relevant stakeholders on the most appropriate design and mechanisms to pursue universal coverage within the South African context.

The shortage of human resources in healthcare remains a critical challenge for the sector. This has been acknowledged by the Minister of Health. The Minister has proposed various initiatives to address this problem, such as expanding the capacity of medical schools and the reopening of nursing colleges.

The Competition Commission is currently undertaking a market inquiry into the private healthcare sector in South Africa. In line with the Commission’s published *Terms of Reference and Administrative Guidelines*, Mediclinic Southern Africa prepared and delivered a comprehensive submission. Mediclinic Southern Africa has also submitted comments on the submissions of other stakeholders. Mediclinic Southern Africa has the assistance of expert legal and economic advisers and we believe that we are well prepared to participate fully in the inquiry.

BUSINESS PERFORMANCE

The 10% revenue growth was achieved through a 4.4% increase in bed days sold and a 5.8% increase in the average income per bed day. The number of patients admitted increased by 2.3%, while the average length of stay increased by 2.1%.

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

During the period under review the Southern African operations invested the following amounts:

- R1 131m (2014: R577m) in capital projects and new equipment to enhance its business;
- R306m (2014: R308m) to replace existing equipment; and
- R305m (2014: R289m) to repair and maintain property and equipment, which was charged through the income statement.

For the next financial year the budget is:

- R813m for capital projects and new equipment;
- R333m for replacing existing equipment; and
- R316m for repairs and maintenance.

Incremental EBITDA resulting from capital projects in progress or approved is budgeted to amount to R56m and R55m in 2016 and 2017 respectively.

The number of licensed hospital beds increased from 7 614 to 7 885 during the year under review.

BUILDING PROJECTS

During the past year a number of building projects were completed at various hospitals, creating 271 additional beds. The development of Mediclinic Midstream (176 beds), which opened on 2 March 2015, was the most significant. Other building projects included new consulting rooms, the relocation of a hospital, Mediclinic Gariiep, in Kimberley and a number of facility upgrades.

Building projects in progress, which should be completed during the next financial year, will add 159 additional beds.

The number of licensed beds is expected to increase from 7 885 to 8 044 during the next financial year.

Several building projects in progress should be completed during the 2017 financial year, which will add 308 additional beds.

SYSTEM IMPROVEMENTS

Mediclinic Southern Africa is in the process of improving a number of its core systems.

The SAP implementation was successfully continued during the year, focusing on embedding the financial and central procurement processes at the corporate office. The roll-out to all hospitals will commence during the coming financial year.

The implementation of Kronos Workforce Management Software (“Kronos”) – to improve employee time-and-attendance and scheduling processes – progressed well. Kronos was implemented at the corporate office and successfully piloted at hospital level during the previous financial year. Kronos has since been implemented successfully at more than half of the group’s hospitals during the current financial year, with implementation at the balance of the hospitals planned for the next financial year.

SUSTAINABILITY

People

The attraction and retention of high-quality medical professionals is fundamental to Mediclinic Southern Africa’s sustainability. There remains an ongoing shortage of nurses in South Africa. Integrated talent strategies have been deployed to ensure the proactive attraction of scarce skills in the areas of need as well as the retention of scarce skills in areas that have been identified as higher risk.

In the short term, Mediclinic Southern Africa addresses the above by recruiting nurses from India. The longer-term solution is to increase local training. To this end, the group plans to double its training capacity over the next number of years. Correspondingly, to increase training capacity, two of the existing Learning Centres in the Cape Town and Tshwane areas were expanded, a new Learning Centre was commissioned in Kimberley and the Learning Centre Limpopo will relocate into a larger facility during April 2015.

Mediclinic Southern Africa’s training and development function is registered as a Private Higher Education Institution and offers a Diploma in General Nursing Science and a Diploma in Operating Department Assistance to promote training of skilled healthcare personnel and thus sustain quality outcomes in providing healthcare. An Advanced Diploma in Health Services Management and Leadership to equip managers with the relevant skills to manage health facilities and departments is also offered. The first cohort of eleven learners completed the Advanced Diploma in Health Services Management and Leadership at the end of 2014. Mediclinic Southern Africa also provides Enrolled Nursing programmes accredited by the South African Nursing Council.

A total of 572 learners completed undergraduate programmes and 79 learners completed postgraduate programmes during the 2014 academic year. A further 808 learners completed in-house structured programmes.

Mediclinic Southern Africa introduced a Mediclinic Leadership Academy in 2013, which focuses on the organisation’s culture and values to ensure sustainability. This academy has already been attended by about 650 senior management delegates.

The formal succession planning process for key positions is well established in Mediclinic Southern Africa, and the talent review committee has made great progress in establishing talent pools for relevant key positions. This provides an important foundation for development initiatives that will continue during 2015 to ensure tailored development of our talent pools.



Society

As previously reported, a strategic decision was made that Mediclinic Southern Africa would assist the National Department of Health with the Public Health Enhancement Fund (“PHEF”). The PHEF is a joint initiative between the National Department of Health and the private healthcare sector aimed at producing more medical personnel for South Africa and focuses on public sector management training and equipping, so as to strengthen the public sector for the benefit of the people of South Africa. Mediclinic Southern Africa contributes 0.75% of its net profit after tax to this fund annually. The funds raised by the PHEF will be used to assist government to:

- expand the intake of medical students;
- support postgraduate students pursuing health related studies;
- build additional capacity in the management of tuberculosis (“TB”), HIV and AIDS; and
- provide support to the Leadership and Management Academy for Health.

The significant contribution of R9.0m (2014: R8.4m) to the fund during the year has to a large extent replaced the group’s funding of other corporate social investment contributions.

Environment

Mediclinic Southern Africa is committed to minimising its environmental impact and ensuring that its environmental management systems and practices are aligned with international best practice, based on the ISO 14001:2004 Specification for Environmental Management Systems. Its performance is assessed by National Quality Assurance London.

Forty of Mediclinic Southern Africa’s fifty two hospitals are ISO 14001 certified. Fifty one hospitals have been ISO 14001-trained to follow the same environmental management practices and are also subject to annual internal audits. The new Mediclinic Midstream will be trained in September 2015 and externally certified in the 2017 financial year.

Mediclinic Southern Africa achieved joint second place ranking in the Climate Disclosure Leadership Index of the CDP 2014 for the Top 100 companies on the JSE. The Climate Disclosure Leadership Index focuses on climate change governance, risk management, performance, transparency and data management.



OUTLOOK

As in the past, there remain many attractive growth opportunities in Southern Africa. Opportunities include the expansion of Mediclinic Southern Africa's existing hospitals, the establishment of new hospitals and day clinics, as well as opportunities relating to mental health.

At the same time, Mediclinic Southern Africa is continuing to focus on the value that it delivers to its patients, by continuing to improve the safety and quality of its clinical care, the quality of patients' experience and opportunities to improve operational efficiency. The group will also focus on opportunities to integrate the Southern African private healthcare delivery model in the future.

Mediclinic Southern Africa further believes that it is well positioned to address various other challenges in the business environment, for example challenges relating to the regulatory environment and the continuing skills shortages.

Overall, the group remains optimistic about the future of Mediclinic Southern Africa.