AUDIT AND RISK COMMITTEE REPORT

Desmond Smith

Chairman of the Audit and Risk Committee

Dear Shareholder,

Following the completion of the Combination of Al Noor Hospitals Group plc ("Al Noor") and Mediclinic International Limited on 15 February 2016, it is my pleasure to report on the activities of the Audit and Risk Committee (the "**Committee**") for the reporting period ended 31 March 2016. The Committee has remained focused on routine items such as its review of the financialr esults and ensuring the ongoing effectiv eness of the Company's internal control and risk management arrangements. The Committee's main focus up to 15 February 2016 was the Combination. In the time following the Combination, the Committee has undertaken financialr eviews of each Mediclinic platform, discussed accounting, tax and audit issues, the viability statement and conferred on the integration of the Al Noor Hospitals Group with the Group, as a result of the Combination. Other activities and areas of focus of the Committee for the year are explained in more detail in the remainder of this report.

During the year, the Committee has been focused on meeting the viability statement requirements of the Financial Reporting Council's ("**FRC**") UK Corporate Governance Code (the "**Code**"). The Committee has, in conjunction with this, reviewed the stress testing undertaken by management of the Group's principal risks and uncertainties which support the viability statement.

The Committee has accordingly recommended to the Board a viability statement, which seeks to examine the Company's longer term solvency and viability, and which is detailed on page 29. It was agreed that three years would be an appropriate timeframe to base the long-term viability statement as it takes into account the strategy, principal risks and uncertainties of the wider Group. The Committee has reviewed the stress testing undertaken by management and recommended that the Board confirm they can reasonably expect the Group to continue to be in operation and meet its liabilities as they fall due, over the course of the three-year assessment period. The Committee will remain focused on evaluating the internal control, risk management and internal audit arrangements for the Group and the integration of Al Noor Hospitals Group.

The internal audit function was historically outsourced to Remgro Internal Audit. The Committee benchmarked itself against best practice of the FTSE 100 companies, and concluded that the Group will exit the outsourced Remgro Internal Audit arrangement and will bring more internal audit resource in-house, including a Head of Internal Audit.

Finally, the Committee has considered the UK implementation of the EU Audit Directive and Regulation and has considered and updated its non-audit services policy. This is explained in more detail on page 114.

AUDIT AND RISK COMMITTEE REPORT (continued)

COMMITTEE COMPOSITION AND MEETING ATTENDANCE

The composition of the Committee remains in compliance with the Code, which provides that all members should be independent non-executive Directors. Details on the composition of the Committee are explained and shown in the table and charts below. The appointments of all the Directors to the Board and this Committee (other than Ian Tyler and Seamus Keating, who were appointed in 2013) took place on 15 February 2016, following the Combination.

The Directors consider that each member of the Committee has recent and relevant financial experience for the purposes of the Code and the FRC's Guidance on Audit Committees. The Board is also satisfied that the combined knowledge and experience of its members is such that the Committee exercises its duties in an effective, informed and responsible manner.

The composition and attendance of Committee meetings during the period under review are set out in the table below.

AUDIT AND RISK COMMITTEE MEETING ATTENDANCE

NAME	QUALIFICATIONS	NUMBER OF COMMITTEE MEETINGS ATTENDED PRIOR TO THE COMBINATION	NUMBER OF COMMITTEE MEETINGS ATTENDED AFTER THE COMBINATION[3]
Desmond Smith[1] (Committee Chairman)	B.Sc., FASSA	n/a	–
Alan Grieve[1]	B.A. (Hons), CA	n/a	–
Seamus Keating[1]	FCMA	2 of 2	–
Trevor Petersen[1]	B.Comm. (Hons), CA(SA)	n/a	–
Ian Tyler	ACA, B.Comm	2 of 2	–
William Ward[2]	B.A., M.B.A.	2 of 2	n/a

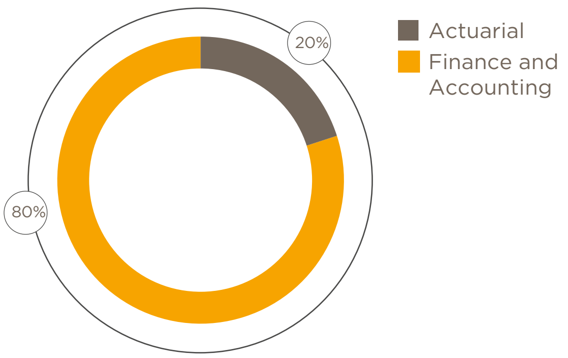
AR

[1] *Appointed following the Combination on 15 February 2016. Their biographies can be found on pages 60 to 61 of the report.*
[2] *Retired as a member of the Board and the Committee on 15 February 2016, being the completion date of the Combination.*
[3] *Two Committee meetings were held since the Company's financial year end.*

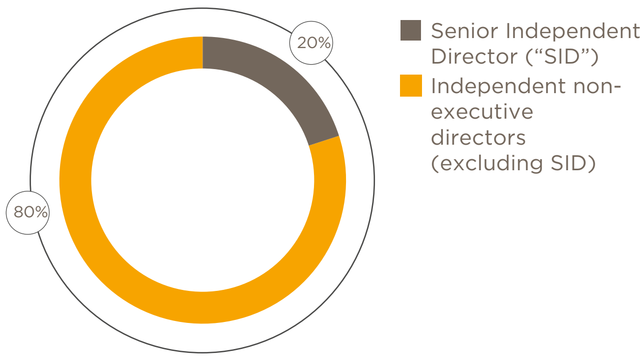
The Company Secretary is Secretary to the Committee and attends all meetings. Other attendees at Committee meetings may differ from time to time, and upon invitation from the Committee include Danie Meintjes (Chief Executive Officer), Craig Tingle (Chief Financial Officer), Edwin Hertzog (Company Chairman), Pieter Uys (alternate Director to Jannie Durand), and relevant management members. The Committee may also invite representatives from the internal auditors (Remgro Internal Audit) and the external auditors (PricewaterhouseCoopers LLP and PricewaterhouseCoopers Inc.).

The composition and professional experience of the Committee is shown below.

COMMITTEE EXPERIENCE



COMMITTEE COMPOSITION



ROLE AND RESPONSIBILITIES

The Committee assists the Board with its responsibility regarding financial reporting, internal controls and risk management systems, compliance, whistleblowing and fraud, as well as internal audit and external audit. The Committee's responsibilities include but are not limited to:

- reviewing and monitoring the integrity of the Company's financial statements and announcements including: a review of the significant financial reporting judgements contained therein, assessing the basis on which the Company has been determined a going concern, ensuring a robust assessment of the principal risks facing the Company and the prospects of the Company when considering the viability statement reported to shareholders, and a judgement on whether the financial reports are fair, balanced and understandable;
- reviewing accounting policies, accounting treatments and disclosures in financial reports;
- assessing the Group's systems of internal financial and accounting control;
- assessing and reviewing the effectiveness of the Company's internal financial and accounting control;
- overseeing and assessing the Group's management of all principal risks including: financial reporting risks, internal financial controls, fraud risks as they relate to financial reporting and ICT risks as they relate to financial reporting;
- ensuring Group-wide standards are set for achieving compliance with relevant laws and regulations;
- reviewing the adequacy and security of the Company's arrangements for its employees regarding possible wrongdoing in financial reporting or other matters, fraud detecting procedures and bribery prevention systems and controls;
- monitoring and reviewing the effectiveness of the Group's internal audit function in the context of the Group's overall risk management system;
- overseeing the Company's relationship with its external auditors;
- making recommendations to the Board as to the appointment or reappointment of the external auditors, reviewing their terms of engagement and engagement for non-audit services, and monitoring the external auditors' independence, objectivity and effectiveness;
- reviewing the scope of the external audit, its findings and the effectiveness of the audit process;
- reviewing the overall relationship with the external audit firm including the provision of non-audit services to ensure that independence and objectivity are maintained;
- ensuring and confirming compliance with the CMA order;
- reviewing, monitoring and approving the Company's policy in respect of tax planning; and
- reviewing, monitoring and approving the Company's policy in respect of the financing of the Company.

Further details on the Committee's duties can be found in its terms of reference which are available on the Company's website **www.mediclinic.com**.

MAIN ACTIVITIES

The Committee, in its current form, met twice in the period following the Combination and up to the publication of this report. A summary of the Committee's principal activities during the financial year are detailed below and include the position prior to and following the Combination.

PRIOR TO COMBINATION: AL NOOR HOSPITALS GROUP PLC ("**Al Noor**")

During the year, (and prior to the Combination), the Committee was predominantly focused on the Combination. Other areas of the Committee's focus included a review of the Group's half yearly financial statements, the considerations in respect of the viability statement, principal risks and uncertainties, risk management and internal controls framework, goodwill and impairment, non-audit services policy, Committee terms of reference, business ethics, Code of Conduct, internal audit plan and key priorities. The Committee also instructed management to implement the SAP accounting system and discussed rejection provisions in respect of payer relations.

MEDICLINIC INTERNATIONAL LIMITED

The predominant focus of the Audit and Risk Committee of the South African entity known as Mediclinic International Limited, was on the Combination. Other areas of the Committee's focus included reviewing the categories and thresholds of non-audit services that the external auditors may provide, assessing the effectiveness of the Group's internal control, accounting function and policies, and evaluating the risk and control procedures, reviewing the interim financial statements and going concern status of Mediclinic International Limited and its three operating platform companies. The Committee also considered matters relating to the external and internal audit, tax issues and fraud and ethics.

FOLLOWING THE COMBINATION: MEDICLINIC INTERNATIONAL PLC (FORMERLY AL NOOR HOSPITALS GROUP PLC)

Since the Combination, the Committee has been principally focused on the following: i) monitoring the risk management process and systems of internal control for the Group through the review of the activities of its operating platforms in Southern Africa, Switzerland and the Middle East, the Group's internal and external auditors, and the Group's risk management function; ii) approval of the external audit engagement and fees; iii) review of the internal audit reports and approval of the internal audit engagement and fees for the 2016/17 financial year; iv) considering and making recommendations to the Board relating to the Group's Annual Report, the financial statements and any other reports (with reference to the financial affairs of the Group) for external distribution or publication, including those required by any regulatory or statutory body; v) review of the Committee's terms of reference, as well as policies regarding Enterprise-wide Risk management, external auditor independence and non-audit services.

The Committee has continued to monitor and keep abreast of regulatory developments across all jurisdictions throughout the year. Amongst those considered, it has discussed its additional responsibilities in respect of the Code and EU Audit reform.

SIGNIFICANT ISSUES

The Committee, through a process of consultation with both management and the external auditor, considered the following significant issues relating to the presentation of the Group's financial statements. The principal accounting policies applied in the preparation of the annual financial statements are detailed on pages 141 to 152. If applicable, further detail in the notes to the financial statements relating to the below issues are referenced as indicated.

SIGNIFICANT ISSUES CONSIDERED	STEPS TAKEN BY THE COMMITTEE
The disclosure and accounting of the Al Noor reverse acquisition in the financial statements	The Committee reviewed the purchase price allocation including: • determining of the acquisition date; • identifying the acquirer and acquiree; • the allocation of tangible and intangible assets at fair value; and • the recognition of goodwill. The Committee considered the alignment of Al Noor's accounting policies and the reasonableness of the adjustments made to the opening balance sheet and considered legal and any other contingent liabilities. The Committee was satisfied with the disclosure of the reverse acquisition in the financial statements. The acquisition of Al Noor for a total consideration of £1.3bn led to the recognition of goodwill to the value of £1 189m and intangible assets of £57m. Refer to notes 6 and 28 to the financial statements on pages 159 and 191 to 195. The Committee also reviewed management's approach to the full retrospective application of the Group's change in its presentation currency from rand (ZAR) to pound sterling (GBP) following the transaction.
The disclosure and accounting of a 29.9% associate interest in Spire in the financial statements	The Committee was satisfied that the Group is able to exert sufficient influence over the financial and operating decisions of Spire to support management's judgement that the investment should be equity accounted, with Spire being treated as an associate of the Group. The Committee considered the carrying value of the Group's investment at 31 March 2016, including an assessment of share price movements since year end, concurring with management's judgement that there is no indication of a significant or prolonged decline in value which might require an impairment charge. In addition, the Committee reviewed the disclosures relating to the Group's acquisition of its stake in Spire, determining these disclosures to be balanced and understandable. The Investment in Associate balance as at 31 March 2016 amounted to £451m, and the Income from Associate for the period under review amounted to £6m. Please also refer to note 7 to the financial statements on pages 161 to 162.

SIGNIFICANT ISSUES CONSIDERED	STEPS TAKEN BY THE COMMITTEE
Revenue recognition and provisions impacting on accounts receivable	The Committee reviewed the Group's accounting policies as well as the basis for the calculations in respect of revenue recognition and provisions impacting accounts receivable, specifically the following: • tariff risk provisions relating to billing in accordance with provisional health insurance base rates, where these rates have not yet been finalised between providers and funders, and also to historical tariff disputes at certain of the Group's Swiss hospitals. The Committee considered and was satisfied with management's judgement and best estimate based on available information; and • insurance claim rejections by the health insurance companies and the resulting provision for unrecoverable sales. The Committee assessed and was satisfied with management's judgement, which was based on historic events, to determine the rejection provision. Please also refer to note 2.20 to the financial statements on page 151.
Impairment of intangible assets, goodwill and certain Swiss properties	The Committee reviewed the annual impairment testing of recognised goodwill and the indefinite life intangible asset. The Committee considered the reasonableness of the cash flow projections which were based on the most recent budget approved by the Board and reflected management's expectations of revenue growth, operating costs and margins based on past experience and knowledge of the industry. Long-term growth rates for periods not covered by the annual budget were challenged to ensure they were appropriate in the countries in which the relevant operating platforms operate. The Committee also reviewed and challenged the key assumptions made in deriving these projections: discount rates, growth rates, and expected changes in tariffs, admissions and patient mix. The Committee also considered the adequacy of the disclosures in respect of the key assumptions and sensitivities. Refer to note 6 to the financial statements for more details of these assumptions. The Committee was satisfied that the discount rates assumptions appropriately reflected current market assessments of the time value of money and the risks associated with the particular assets. The other key assumptions were all considered to be reasonable. The external auditor explained the results of their own review of the estimate of value in use, including their challenge of management's underlying cash flow projections, as well as the long-term growth assumptions and discount rates. On the basis of their audit work, and their challenge of the key assumptions and associated sensitivities, they concurred with management's conclusion that no impairments were required. Please also refer to note 6 to the financial statements on pages 159 to 160.
Capital expenditure relating to buildings	The Committee considered the appropriateness of the capitalisation of capital expenditure incurred in respect of hospital buildings as well as the depreciation thereof. The Committee evaluated management's judgement applied in respect of the residual value and useful lives of buildings and also considered whether management's estimate for deprecation rates were appropriate. The Committee was satisfied with the capitalisation and depreciation policies of buildings that were applied. Please also refer to note 5 to the financial statements on page 157.
Viability assessment	The Committee has reviewed the Company's new viability statement and, in particular, understanding the analysis which was prepared by management and supports the Board's view that the Company will be able to continue in operation and meet its liabilities as they fall due over the longer period assessed.

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board believes that effective risk management underpins the running of a successful business and is integral to the objective of constantly adding value to the Group. It has adopted an integrated and effective risk management framework, at both an operational and strategic level; identifying, quantifying and managing principal risks in order to achieve an optimal risk/reward profile. This has been incorporated into the daily operational management processes, allowing management to focus on core activities. The Board has a clear process for identifying, evaluating and managing the principal risks faced by the Group for the period under review and up to the date of the report. The process is reviewed annually by the Board and is in accordance with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and the requirements of the Code.

The Group's Enterprise-wide Risk Management Policy is benchmarked against the international Committee of Sponsoring Organisations of the Treadway Commission framework, which defines the risk management objectives, methodology, process and the responsibilities of the various risk management role-players for the Group. This policy provides structure within which directors and management can operate in order to reinforce a strong risk management culture throughout the Group. It sets the tone and acts as a starting point for all other components of risk management and control in providing the necessary discipline and structure.

The Board retains full and effective control over the Company and is responsible for monitoring management's implementation of board decisions and strategies. The Board ensures that the Group complies with all the relevant laws, regulations and codes of business practice. The Committee assists the Board, by routinely reviewing and monitoring the risk management process and Group internal control systems.

INTERNAL AUDIT

The Board is ultimately responsible for overseeing the establishment of effective internal control systems which are reviewed by the Committee, and which facilitate the delivery of and sustain the Group's financial, operational and strategic objectives.

During the year, the Committee of Al Noor received regular reports on the control environment from its Internal Audit Director who was supported by an internal audit team, as well as outsourcing certain internal audit reviews to Deloitte LLP. This Committee reviewed and considered the key improvement themes and areas for focus, and assessed the responsiveness of management in addressing internal audit actions.

The internal audit function in relation to Mediclinic International Limited was outsourced to Remgro Internal Audit who regularly attended Committee meetings and reported on the findings of their investigations. They were responsible for measuring the effectiveness of the system of internal financial control in respect of each operating platform within the Group.

Since the Combination, the Committee has considered and discussed with Remgro Internal Audit, the effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.

While the Committee continues to believe that Remgro Internal Audit is effective in its provision of internal audit and compliance services to the Group, it has taken the opportunity, following the completion of the Al Noor transaction and the Group's entry into the FTSE 100, to consider what internal audit arrangement would be most appropriate for the Group going forward. As part of this consideration, the Committee has evaluated the various internal audit arrangements in place across the FTSE 100. As a result of this exercise, the Committee has concluded that the Group will exit the outsourced Remgro Internal Audit arrangement and will bring more internal audit resource in-house, including a Head of Internal Audit. This change in the Group's internal audit arrangements will be made in a phased manner to avoid any disruption to the Group's internal audit and compliance activities during the hand-over process. The Committee will provide an update about the progress being made in effecting this change in its future reports to shareholders.

EXTERNAL AUDIT

During the year, KPMG LLP resigned and PricewaterhouseCoopers LLP ("PwC UK") was appointed auditor of the Company, following shareholder approval granted at the 15 December 2015 general meeting in respect of the change of auditor.

The Committee is responsible for overseeing the external auditors on behalf of the Board, including approving the annual audit work plan and approving the audit fee.

EXTERNAL AUDITOR INDEPENDENCE, EFFECTIVENESS AND RE-APPOINTMENT

The Committee is committed to ensuring that the Group receives a high-quality and effective statutory audit. It is responsible for monitoring the performance, objectivity and independence of the external auditor (PwC) and undertakes a formal evaluation process each year. This process involves an examination of five main performance criteria including robustness of the audit process, independence and objectivity, quality of delivery, quality of people and service, and value-added advice.

The Committee has evaluated the effectiveness of PwC South Africa as auditors of Mediclinic International Limited for the period up to the Combination, 15 February 2016, and PwC UK as auditors post-Combination of the newly formed Group, Mediclinic International plc (formerly Al Noor Hospitals Group plc).

As this is PwC UK's first year with the Group, the Committee was only able to assess their work as from the Combination up to the financial year-end. The assessment resulted in the following observations:

- PwC UK demonstrated a good understanding of the business and its values;
- The team was challenging, but supportive on technical matters; and
- The establishment of a combined approach towards the significant issues debated.

The external auditor receives copies of all relevant Committee papers and minutes of all Committee meetings. As part of the Committee's assessment of the external auditor, separate meetings have been held between the non-executive directors and the external auditor, without management being present.

The Committee is satisfied that the services provided by the auditor have been of high quality and has concluded that the auditor remains objective and independent. Accordingly, it has recommended to the Board the re-appointment of PwC UK as the Company's external auditor is proposed to shareholders at the 2016 AGM.

AUDIT TENDER

This is the first year that the UK current lead audit partner, Giles Hannam, has been involved in the audit of the Group. As a result of the UK's implementation of the EU's mandatory firm rotation requirements, and in accordance with the Committee's terms of reference, the Company is required to ensure that the external auditor's contract is put out to tender at least every 10 years, with the proviso that no single firm may serve as the Company's auditor for a period exceeding 20 years. Under these arrangements, the external audit must be put out to tender no later than for the financial year commencing 1 April 2023.

NON-AUDIT SERVICES

The Committee believes that it may be appropriate in certain circumstances for the Company to engage its external auditor to provide non-audit services. It has established a policy which seeks to ensure the independence and objectivity of the external auditor is not compromised.

Examples of prohibited non-audit services are bookkeeping services, valuation services, payroll services, legal services, designing risk management systems or management in the audited entity. For other services, it can be more efficient or prudent to engage the external auditor rather than another party, on the basis that the service will not compromise independence or objectivity, is a natural extension of the audit or if there are overriding business, efficiency or confidentiality reasons which make the external auditors most suited to provide the service.

The Committee determines the pre-approved monetary thresholds for each category of non-audit services in the beginning of each financial year. When determining this, the nature of the non-audit services, the individual fee levels of each category and the aggregate fee amount relative to the external audit fee are taken into account. Feedback on non-audit services performed is given at each meeting and when necessary further approvals for increased fees are discussed.

During the year, fees for the non-audit service work carried out by PwC were abnormally high. This exceptional level reflects the considerable services PwC has provided relating to the Al Noor Combination, particularly in relation to the Class 1 Circular. The Committee considered that hiring PwC to undertake these non-audit services was in the best interests of shareholders because:

- PwC possessed the type of expertise, experience, size and international scope to handle such a complex transaction.
- The Company benefited specifically from PwC's in-depth knowledge and understanding of our business.

AUDIT AND RISK COMMITTEE REPORT (continued)

To maintain the external auditor's independence and objectivity, the Committee requires that an independent partner is appointed to lead any non-audit services. We anticipate that non-audit fees payable to PwC will return to more normalised levels in 2017 following the completion of any services related to the Al Noor Combination.

Looking forward, the Committee has considered the UK implementation of the EU Audit Directive including the introduction of prohibitions for certain types of non-audit service. In response to these new requirements, the Committee has asked management to update the Group's non-audit services policy in order to ensure compliance from the application date for the Group, namely 1 April 2017. The Committee will provide an update about the new non-audit services policy in its future reports to shareholders, including an overview of the additional non-audit services, which will be prohibited in 2017, and the cap which will be imposed on the level of non-audit fees payable to PwC by comparison to its audit fees.

FEES

Refer to note 21 to the Consolidated Financial Statements on page 186 for detail on the remuneration of the auditor.

In addition to the non-audit services described above, PwC South Africa also provided audit and non-audit services to Remgro Limited and tax services to two directors on the Board during the year. The Committee is satisfied and comfortable that the tax services provided to the directors did not compromise the independence of the auditor, as the directors (Dr Edwin Hertzog and Mr Jannie Durand) were not involved in financial reporting oversight, nor did they sit on the Committee. In addition, the services which were provided to them are not prohibited under regulations.

COMPETITION AND MARKETS AUTHORITY STATUTORY AUDIT SERVICES ORDER 2014 ("CMA Order")

During the year, the Company has complied with the mandatory audit processes and the Committee has complied with the responsibility provisions required by it in connection with the CMA Order. The work of the Committee in discharging its responsibilities is explained in more detail in this report on page 113.

FAIR, BALANCED AND UNDERSTANDABLE

The Committee is satisfied that one of the key compliance requirements of the Group's financial statements, for the Annual Report to be fair, balanced and understandable has been met, having reviewed a summary of the approach taken by management in the preparation of the report to ensure that it met the requirements of the Code. Accordingly, the Committee has recommended that the Board confirm the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable.

ETHICAL CONDUCT

The Group remains focused on conducting its business in an honest, fair and ethical manner, a principle which is actively endorsed by the Board and management. The Committee oversees the Group's processes for handling the business ethics code and anti-bribery policy. This includes receiving regular feedback from the risk manager regarding incidents reported on the ethics lines and the effectiveness of the lines. The Board has also established a Clinical Performance and Sustainability Committee, the details of which can be found on page 70 of the Corporate Governance Statement.

The Group's Code of Business Conduct and Ethics provides a framework for directors and employees within the Group of the standards of business conduct and ethics that is required of them, and which applies to all business divisions within the Group. It serves to ensure that the highest ethical standards are maintained in all dealings with the Group's stakeholders. It is available to all staff and communicated to new employees during their induction. The code contains the Group's whisteblowing arrangements, setting out the details of the Group's ethics lines. Any employee or external stakeholder is able to report any wrongdoing throughout the Group on a confidential and anonymous basis to the ethics lines. All complaints are investigated in accordance with the code.

The Group adopts a no-tolerance policy with regard to unethical business conduct, in particular also fraud and corruption, which is addressed in the Code of Business Conduct and Ethics. Also in place is an Anti-bribery Policy which supports its commitment to ensure compliance with all anti-bribery and corruption laws and regulations. The Group has strict policies relating to any invitations, gifts or donations received from suppliers or any other party, and employees throughout the Group are compelled to declare these to management for approval. Staff members involved in the contracting, negotiating and purchasing of equipment or consumables are also bound to strict ethical principles, ensuring that an impeccable standard of integrity is maintained in the Group's business relationships.

Copies of the Code of Business Conduct and Ethics and the Anti-bribery Policy can be found on the governance section of the Company's website at **www.mediclinic.com**.

Signed on behalf of the Audit and Risk Committee.

Desmond Smith
Chairman of the Audit and Risk Committee
25 May 2016