

DIVISIONAL REVIEW - SOUTHERN AFRICA



Koert Pretorius

Chief Executive Officer: Mediclinic Southern Africa

CEO's statement

"We are pleased to report that Mediclinic Southern Africa achieved good operational and financial results for the period under review. We made significant progress towards improving patient safety, the quality of clinical care, and the quality of the patient experience. We further embedded our new operational structure and continued to focus on operational efficiency, whilst, at the same time, growing the business at existing hospitals as well as through an acquisition. The operating platform (the platform) also continued to address a number of matters in the wider business environment. For example, the South African Competition Commission's market inquiry into the private healthcare sector."

Koert Pretorius

Chief Executive Officer, Mediclinic Southern Africa

KEY STATISTICS

52

NUMBER OF
HOSPITALS

2

NUMBER OF
DAY CLINICS

8 017

NUMBER OF
LICENSED
BEDS

270

NUMBER OF
THEATRES

16 832

NUMBER OF
EMPLOYEES

KEY FINANCIAL HIGHLIGHTS

During the period under review, Mediclinic Southern Africa delivered revenue growth of 9%. This was achieved through a 2.9% increase in bed days sold and a 6.3% increase in the average revenue per bed day. The number of patients admitted increased by 1.3%, while the average length of stay increased by 1.6%. Underlying EBITDA margin increased to 21.4%.

Mediclinic Southern Africa continued to invest in the business. During the period under review, the Southern African operations spent R758m (2015: R1 131m) on expansion capital projects and new equipment and R317m (2015: R306m) on the replacement of existing equipment.

KEY OPERATIONAL HIGHLIGHTS

The number of licensed hospital and day clinic beds increased from 7 885 to 8 017 during the period under review.

ACQUISITIONS

During the period under review, Mediclinic Southern Africa commenced with the acquisition of a controlling share in Matlosana Medical Health Services Proprietary Limited ("MMHS"), based in Klerksdorp in the North-West Province. Although substantially completed, this transaction remains subject to a number of conditions precedent.

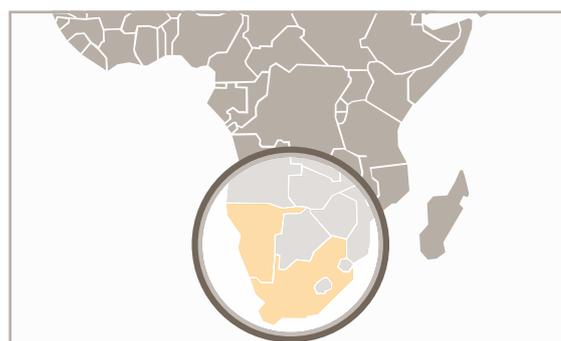
MMHS owns two multi-disciplinary hospitals, Wilmed Park Hospital (144 licensed beds) and Sunningdale Hospital (62 licensed beds), as well as a 51% share in Parkmed Neuro Clinic, a psychiatric hospital with 50 licensed beds. This proposed acquisition, pending final approval by the MMHS shareholders and the Competition Commission, supports Mediclinic's core focus of providing acute care, multi-disciplinary specialist hospital services.

BUILDING PROJECTS

Other highlights during the year include the completion of building projects at several hospitals and the commissioning of two day clinics in Polokwane and Durbanville. Altogether, this added 132 new beds. A new training centre was also commissioned in Polokwane during January 2016. Other building projects included various expansion and upgrade projects.

Building projects in progress, which should be completed during 2016/17, should add 97 additional beds. The number of licensed beds across the platform is therefore set to increase from 8 017 to 8 114 during the coming financial year.

Finally, several additional building projects are due for completion in 2017/18, which are set to add a further 402 beds.



R13 450m

+9%

REVENUE

R2 877m

+10%

UNDERLYING EBITDA

1 954 365

+2.9%

BED DAYS SOLD

+6.3%

AVERAGE REVENUE PER BED DAY

81.9%

PATIENT EXPERIENCE INDEX

3.67

EMPLOYEE ENGAGEMENT

(grand mean score based on a 1 to 5 rating scale)

DIVISIONAL REVIEW - SOUTHERN AFRICA (continued)

EFFICIENCY AND PATIENT CARE DEVELOPMENTS

Mediclinic Southern Africa progressed with several improvements to its core processes during the period under review.

For example, a new SAP solution for financial and central procurement processes was successfully embedded at the corporate offices, and the rollout to all Mediclinic Southern Africa hospitals will commence during 2016/17. In addition, a new Workforce Management solution was rolled out throughout Mediclinic Southern Africa, which is intended to improve employee time and attendance and scheduling processes, and is fully integrated with the platform's payroll and nursing forecasting systems.

The Press Ganey patient experience measurement index was also implemented across the platform, which allows us to objectively survey, evaluate and manage the improvement of the patient experience at all Mediclinic Southern Africa facilities. During the period under review, targeted action plans for improvement, specific to each of the facilities, were successful in improving the patient experience index steadily from 81.1% for 2014/15 to 81.9%.

In addition, the platform commenced with the implementation of the Gallup employee engagement management system. Based on the results of the first survey, Mediclinic Southern Africa is in the process of developing detailed plans to improve employee engagement at all levels throughout the Group.

MARKET OVERVIEW

The South African private healthcare market is well-established, well-equipped and has been growing steadily, although recently at a declining rate. The market offers incremental growth opportunities to expand existing hospitals, and establish new hospitals and day clinics. Challenges include lowering healthcare costs across the value chain in a fragmented market, whilst at the same time improving outcomes for patients, attracting and retaining qualified staff and investing in infrastructure and medical technology. Furthermore, the government is seeking to address the shortcomings of the public health system through the phased introduction of a National Health Insurance system.

Refer to the Market Overview section on pages 16 to 17 for more details.



SUSTAINABILITY

PEOPLE

The attraction and retention of high-quality medical professionals is fundamental to Mediclinic Southern Africa's sustainability. The platform therefore deploys integrated talent strategies to ensure that scarce skills can be attracted and retained, particularly in those areas with the highest demand and/or risk.

Mediclinic Southern Africa and the industry as a whole faces a shortage of trained nurses and, as a short-term measure, has been recruiting nurses from India. The longer-term solution is to increase local training; to this end, the platform plans to significantly increase its training capacity over the coming few years. Related achievements during the year include the relocation to a bigger site for the Learning Centre Limpopo, and the commissioning of a satellite campus in Pietermaritzburg for the Learning Centre Central Region.

Our training and development function is registered as a Private Higher Education Institution. It offers a Diploma in General Nursing Science and a Diploma in Operating Department Assistance (to deliver training of skilled healthcare personnel and sustain quality outcomes), and an Advanced Diploma in Health Services Management and Leadership (to equip managers with the relevant skills). More recently, we have obtained registration to offer a Diploma in Emergency Medical Care (aimed at providing skilled healthcare personnel for Emergency Medical Services), and the first cohort of learners commenced training in January 2016. Mediclinic Southern Africa also provides Enrolled Nursing programmes accredited by the South African Nursing Council.

A total of 776 learners completed undergraduate programmes and 34 learners completed postgraduate programmes during the 2015 academic year. A further 799 learners completed in-house structured training programmes.

We introduced a Mediclinic Leadership Academy in 2013, which focuses on the Group's culture and values to ensure sustainability. During the 2015 academic year, this academy has already been attended by 750 delegates.

Formal succession planning is a well-established process for Mediclinic Southern Africa, and the Talent Review Committee has established talent pools for relevant key positions. This provides an important foundation for development initiatives that will continue during the year ahead to ensure tailored development of our talent pools.

SOCIETY

To demonstrate its commitment to local society, the platform supports South Africa's National Department of Health with its Public Health Enhancement Fund. This joint initiative between the public and private sectors, aims to increase the availability and the skills of public sector medical personnel 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, which helps the country's government to expand the intake of medical students, support postgraduate students pursuing health-related studies, build additional capacity in the management of tuberculosis, HIV and AIDS, and provide support to the Leadership and Management Academy for Health.

The significant contribution made to this fund during the year (amounting to £0.5m) has, to a large extent, replaced the platform'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 14001:2015 Specification for Environmental Management Systems. Its performance is assessed by the British Standards Institute.

As of the end of the period under review, 41 of Mediclinic Southern Africa's 52 hospitals were ISO 14001 certified. At the same time, all 52 hospitals had been ISO 14001-trained to follow consistent environmental management practices and were subject to annual internal audits. The new Mediclinic Midstream will be externally certified during the course of 2016/17.

In 2015, Mediclinic Southern Africa achieved joint first place ranking in the most recent Climate Disclosure Project's Leadership Index of the Top 100 companies on the JSE. This index focuses on climate change governance, risk management, performance, transparency, and data management.

OUTLOOK

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

At the same time, we are continuing to focus strategically on the value that we deliver to patients, by continuing to improve the safety and quality of its clinical care, the quality of the patient experience, and opportunities to improve operational efficiency. The platform will also continue to focus on opportunities to develop an integrated Southern African private healthcare delivery model for the future.

We believe that we are well-positioned to address various other challenges in the business environment, for example those relating to the regulatory environment and the continuing skills shortages.

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