FINANCIAL REVIEW

Group revenue increased by 7% to £2 107m (2015: £1 977m) for the period under review.

Underlying operating profit before interest, tax, depreciation and amortisation ("underlying EBITDA") was 6% higher at £428m (2015: £403m) and basic underlying earnings per share were 3% higher at 36.7 pence (2015: 35.8 pence).

Effective from 24 August 2015, the Group acquired a 29.9% shareholding in Spire. As Spire's financial year end is 31 December, the income from associate was not recognised for the three months from January 2016 to March 2016. Underlying *pro forma* earnings were adjusted to include the income from associate for that period. Basic underlying *pro forma* earnings per share were 5% higher at 37.5 pence (2015: 35.8 pence).

Underlying margins remained stable at 20.4%.

EARNINGS RECONCILIATION

	Total £'m	Corporate £'m	Switzerland £'m	Southern Africa £'m	Middle East £'m	United Kingdom £'m
2016 STATUTORY RESULTS						
Revenue	**2 107**	–	1 130	649	328	–
Operating profit	**288**	(44)	165	109	58	–
Profit attributable to equity holders	**177**	(50)	113	53	55	6
RECONCILIATIONS						
Operating profit	**288**	(44)	165	109	58	–
Add back:						
- Other gains and losses	**1**	1	–	–	–	–
- Depreciation	**93**	–	63	20	10	–
EBITDA	**382**	(43)	228	129	68	–
One-off and exceptional items:						
Transaction cost (Al Noor acquisition)	**41**	41	–	–	–	–
Accelerated share-based payment charges	**10**	–	–	10	–	–
Pre-acquisition Swiss tariff provision release	**(7)**	–	(7)	–	–	–
Restructuring cost	**2**	–	–	–	2	–
Underlying EBITDA	**428**	(2)	221	139	70	–
Profit attributable to equity holders	**177**	(50)	113	53	55	6
One-off and exceptional items:						
Transaction cost (Al Noor acquisition)	**41**	41	–	–	–	–
Tax	**–**	–	–	–	–	–
Accelerated share-based payment charges	**10**	–	–	10	–	–
Tax	**–**	–	–	–	–	–
Pre-acquisition Swiss tariff provision release	**(7)**	–	(7)	–	–	–
Tax	**2**	–	2	–	–	–
Restructuring cost	**2**	–	–	–	2	–
Tax	**–**	–	–	–	–	–
Fair value gains on ineffective cash flow hedges	**(8)**	–	(8)	–	–	–
Tax	**1**	–	1	–	–	–
Other gains and losses	**1**	1	–	–	–	–
Tax	**–**	–	–	–	–	–
Underlying earnings	**219**	(8)	101	63	57	6
Weighted average number of shares (millions)	**598.4**					
Underlying earnings per share (pence)	**36.7**					

FINANCIAL REVIEW (continued)

	Total £'m	Corporate £'m	Switzerland £'m	Southern Africa £'m	Middle East £'m	United Kingdom £'m
2015 STATUTORY RESULTS						
Revenue	**1 977**	–	1 044	691	242	–
Operating profit	**345**	2	161	137	45	–
Profit attributable to equity holders	**241**	2	124	73	42	–
RECONCILIATIONS						–
Operating profit	**345**	2	161	137	45	–
Add back:						–
- Other gains and losses	**(24)**	(2)	(13)	(9)	–	–
- Depreciation	**85**	–	55	22	8	–
EBITDA	**406**	–	203	150	53	–
One-off and exceptional items:						–
Impairment of property and equipment	**2**	–	–	2	–	–
Profit on sale of property, equipment and vehicles	**(5)**	–	–	(5)	–	–
Underlying EBITDA	**403**	–	203	147	53	–
Profit attributable to equity holders	**241**	2	124	73	42	–
One-off and exceptional items:						–
Impairment of property	**2**	–	–	2	–	–
Tax	**–**	–	–	–	–	–
Insurance proceeds	**(9)**	–	–	(9)	–	–
Tax	**1**	–	–	1	–	–
Gain on disposal of subsidiary	**(2)**	–	(2)	–	–	–
Tax	**–**	–	–	–	–	–
Profit on disposal of property, equipment and vehicles	**(5)**	–	–	(5)	–	–
Tax	**1**	–	–	1	–	–
Realised gain on foreign currency forward contract	**(2)**	(2)	–	–	–	–
Tax	**–**	–	–	–	–	–
Ineffective cash flow hedges	**19**	–	19	–	–	–
Tax	**(4)**	–	(4)	–	–	–
Swiss tax rate charges relating to prior years	**(40)**	–	(40)	–	–	–
Tax	**–**	–	–	–	–	–
Discount on loan repayment	**(11)**	–	(11)	–	–	–
Tax	**2**	–	2	–	–	–
Underlying earnings	**193**	–	88	63	42	–
Weighted average number of shares (millions)	**540.3**					
Underlying earnings per share (pence)	**35.8**					

The current Group results include the following exceptional and one-off items which were adjusted to determine underlying earnings:

- One-off transaction costs of £41m (£41m after tax) relating to the Al Noor acquisition. The transaction cost is mainly comprised of advisor fees and South African securities transfer tax.
- A one-off non-cash IFRS 2 accelerated share-based payment charge of £10m (£10m after tax) relating to employee share trusts for Southern African employees.

  After the announcement of the proposed Mediclinic/Al Noor Combination, the trustees of the employee trusts and the relevant participating employer companies agreed to accelerate the vesting of the underlying assets of the trusts to the beneficiaries and to close down the trusts. The underlying shares were sold in two book building exercises previously announced in December 2015 and January 2016.
- £7m (£5m after tax) was released in respect of a pre-acquisition Swiss tariff provision. When Mediclinic acquired the Hirslanden business in 2007, a provision relating to a specific tariff dispute was included in the opening accounts. After lengthy judicial processes and a court ruling in the 2013 financial year an increased provision was made which was excluded in the measurement of underlying performance for the year. The dispute has now been finally settled and the balance of the provision released. Given that the exceptional charge was adjusted from underlying earnings in 2013, its release has been treated consistently by being excluded from underlying earnings in 2016.
- £8m (£7m after tax) mark-to-market fair value gain, relating to the ineffective Swiss interest rate swaps. The Group uses floating-to-fixed interest rate swaps on certain loan agreements to hedge against interest movements which have the economic effect of converting floating rate borrowings to fixed rate borrowings. The Group applies hedge accounting and therefore fair value adjustments 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 became ineffective once Libor is below zero as bank funding at Libor plus relevant margins is subject to a zero rate Libor floor. Effective from 1 October 2014, the mark-to –market movements are charged to the income statement. As these are non-cash flow items and to provide balanced operational reporting the Group excluded the charge in the measurement of underlying performance in the 2015 financial year and consistently excludes the gain arising this year. The swaps expire in 2017 and 2018.
- Al Noor post-acquisition restructuring costs of £2m.
- Loss of £1m on foreign currency forward contracts.

FOREIGN EXCHANGE RATES

Although the Group reports its results in pound sterling, the underlying operation segments earnings are generated in Swiss franc, UAE dirham and the South African rand. Consequently, movement in exchange rates affected the reported earnings and reported balances in the statement of financial position. The impact of a 10% change in the GBP/South African rand exchange rates for a sustained period of one year is: profit for the year would increase/decrease by £7m (2015: increase/decrease by £10m) due to exposure to the GBP/South African rand exchange rate.

The following exchange rates were applicable during the period:

	2016	Variance	2015
Average rates:			
Swiss franc	**1.47**	(2.0%)	1.50
UAE dirham	**5.54**	(6.4%)	5.92
South African rand	**20.73**	16.3%	17.82
Period-end rates:			
Swiss franc	**1.38**	(4.2%)	1.44
UAE dirham	**5.28**	(2.8%)	5.43
South African rand	**21.21**	17.7%	18.02

FINANCIAL REVIEW (continued)

MEDICLINIC/AL NOOR COMBINATION

The Combination became effective on 15 February 2016. The results of Al Noor have been consolidated from that date. The integration of Al Noor is ongoing and the performance until now is in line with expectations.

The fair value exercise over the opening balance sheet of Al Noor remains provisional at 31 March 2016 as permitted by IFRS 3. Since the Group is in discussions with UAE medical insurance funders and other third parties about conforming Al Noor's commercial practices with the rest of the Group, there is still a degree of uncertainty about the fair value of certain acquired assets and liabilities. This is expected to be finalised during the next year.

CASH FLOW

The Group continued to deliver strong cash flow. The Group converted 96% (2015: 109%) of underlying EBITDA into cash generated from operations. Cash and cash equivalents increased from £265m to £305m.

INTEREST-BEARING BORROWINGS

Interest-bearing borrowings increased from £1 618m to £1 841m. The increase is mainly because of the bridge facility which was utilised to fund the tender offer to Al Noor Hospitals Group plc shareholders. The refinancing of the bridge is underway and details will be provided on conclusion thereof.

	2016 £'m	2015 £'m
Interest-bearing	**1 841**	1 618
Less: cash and cash equivalents	**(305)**	(265)
Net debt	**1 536**	1 353
Total equity	**3 570**	1 840
Debt-to-equity capital ratio	**0.4**	0.7

ASSETS

Intangible assets increased from £642m at 31 March 2015 to £1 927m at 31 March 2016 mainly because of the goodwill recognised in respect of the Al Noor acquisition.

TAX

The Group's effective tax rate was increased from 4.3% to 22.4%. In the prior year, the tax rate was impacted by the release of £43m Swiss income tax liabilities in relation to historic uncertain tax positions. For the period under review, the transaction cost relating to the Al Noor Combination was non-deductible for tax purposes and this had a tax effect of £10m. Furthermore, the non-deductibility of the accelerated IFRS 2 charges affected the tax charge by £3m.

WEIGHTED AVERAGE NUMBER OF SHARES ADJUSTMENT

During the period under review, shares were issued at a discount. As required by the accounting standards (IAS 33 paragraph 26), an adjustment was made to the weighted average number of shares in issue for the current and the prior year. Basic earnings per share for the prior year was adjusted and decreased by 1.1 pence from 45.7 pence to 44.6 pence and basic underlying earnings per share for the prior year decreased by 0.8 pence from 36.6 to 35.8 pence.

UNDERLYING NON-IFRS FINANCIAL MEASURES

The Group uses underlying income statement reporting as non-IFRS measures in evaluating performance and as a method to provide shareholders with clear and consistent reporting.

The Group's non-IFRS measures are intended to remove from reported earnings volatility associated with the following types of one-off income and charges:

- restructuring provisions;
- profit/loss on sale of significant assets;
- past service cost charges/credits in relation to pension fund conversion rate changes;
- significant prior year tax and deferred tax adjustments;
- accelerated IFRS 2 charges;
- significant tariff provision charges/releases;
- mark-to-market fair value gains/losses, relating to ineffective interest rate swaps;
- significant impairment charges;
- significant insurance proceeds; and
- significant transaction costs incurred during acquisitions.

The Group has consistently applied this definition of underlying measures as it has reported on its financial performance in the past as the directors believe this additional information is important to allow shareholders to better understand the Group's trading performance for the year. It is the Group's intention to continue to consistently apply this definition in the future.

INVESTMENT IN ASSOCIATE AND CORPORATE EXPENDITURE

On 24 August 2015, the Group acquired a 29.9% shareholding in Spire for £447m. The investment in Spire contributed £6m to the Group's underlying earnings.

In addition, corporate expenditure was incurred amounting to £8m, of which £6m relates to the finance charges in respect of the bridge facility.

DIVIDEND POLICY AND DIVIDEND

Following the completion of the Combination of Mediclinic International Limited and Al Noor, the Board has reviewed and amended the dividend policy to target a pay-out ratio of between 25% and 30% of underlying earnings. The Board may revise the policy from time to time.

The Board proposes a final dividend of 5.24 pence per ordinary share for the year ended 31 March 2016. Together with the interim dividend of 1.66 pence per share for the six months ended 30 September 2015 (paid on 7 December 2015), the total final proposed dividend reflects a 25% distribution of underlying Group earnings attributable to ordinary shareholders.

Shareholders on the South African register will be paid the ZAR cash equivalent of 119.5244 cents (101.5957 cents net of dividend withholding tax) per share. The ZAR cash equivalent has been calculated using the following exchange rate: £1:ZAR22.81, being the 5 day average ZAR/GBP exchange rate on Friday, 20 May 2016 at 3:00pm GMT Bloomberg.

The Strategic Report, comprising pages 2 to 59, was approved by the Board and signed on its behalf by:

Edwin Hertzog
Non-executive Chairman